



**Small Cap Portfolio Fund (Standard Life)**  
**Manulife Small Cap Portfolio Fund (Multi-Manager)**  
**Portfolio of Funds**

**December 31, 2016**

<b>Lead manager(s):</b>	Portfolio of Funds	<b>Investment style:</b>	Small Cap
<b>Investment objective:</b>	The Fund invests contributions received equally and primarily in units of the Standard Life Canadian Small-Cap Equity Fund (BMO Asset Management) and the Standard Life Canadian Small-Cap Equity Fund (Manulife Asset Management).		
<b>Last meeting date:</b>	Q1 2017	<b>Next estimated meeting date:</b>	Q1 2018
<b>Current rating:</b>	<b>IN GOOD STANDING</b>		

**Annual fund performance (%)**

	2012	2013	2014	2015	2016	5 yrs
<b>Small Cap Portfolio Fund (Standard Life)</b>	9.20	36.65	12.56	-1.56	11.83	13.08
S&P/TSX SmallCap TR Index	-0.77	7.60	-2.34	-13.32	38.47	4.59
Value added (+) / lost (-)	9.97	29.05	14.9	11.76	-26.64	8.49
Quartile ranking <sup>(1)</sup>	2nd	1st	1st	2nd	4th	2nd

**Short-term performance analysis**

- The Fund significantly underperformed its benchmark in 2016 and ranks in the fourth quartile within the Canadian Small Cap Equity peer group.
- Both the BMO and MAM sub-funds lagged meaningfully over the calendar year, mainly driven by a very strong rally in the Materials sector led by junior gold and other precious metals producers – in which these two component funds did not significantly participate. Both component funds also saw a drag on performance from their security selection decisions within the Industrial and Energy sectors.
- Also weighing on the MAM strategy over the period was its notable allocation to mid cap names, as well as its large overweight to the poor-performing Information Technology sector.
- With a relatively greater emphasis on company quality, it is not surprising to see many of the high-flying small cap names of 2016 were left out of these portfolios.

**Long-term performance analysis**

- The Fund has outperformed its benchmark in four of the last five calendar years and has added significant value over the benchmark on a five-year annualized basis.
- Portfolio management responsibility of the Canadian Small Cap Equity Fund (SLI) was transferred to Ted Whitehead of the MAM Small Cap Equity Team in May of 2015. Therefore long-term performance for this sub-fund prior to mid 2015 is attributable to the previous management team.
- The BMO sub-fund favours quality small cap names and has shown a tendency to be underweight in resource names considered to be of lower quality and more speculative. This has at times caused periods of underperformance when these stocks rally, and conversely favourable relative results when they decline or lag the broader index.

## Significant corporate events

### Corporate

- In September 2014, Manulife Financial Corp. announced the acquisition of Standard Life PLC's Canadian operations. This transaction was closed on January 30, 2015, and the company is now part of Manulife.

### Fund specific

- SLI: In May 2015, MAM announced that the Canadian Small Cap strategy formerly managed by Mark Pugsley of SLI Canada would be moved under the leadership of Ted Whitehead of MAM.

## IMS commentary

- The Manulife Small Cap Portfolio Fund (Multi-Manager) is a fund of funds offering an equal combination of two small cap managers. The Canadian Small-Cap Equity Fund (BMO Asset Management) is a bottom-up, core Canadian equity mandate that invests with the belief that a diversified portfolio of well-managed, smaller companies will, over the long time periods, provide superior returns. The Canadian Small-Cap Equity Fund (Manulife Asset Management) utilizes in-depth quantitative screening along with bottom-up, fundamental analysis.
- Based on our due diligence, we are confident that the managers have remained within their stated investment philosophy and style.
- IMS has deep familiarity, and has met with the MAM team, led by Ted Whitehead several times since his appointment to this mandate. The Manulife team offers a deeper team with a consistently applied process that has shown the ability to outperform historically. IMS has no concerns with the appointment of this Manulife team to this mandate.
- The Fund's recent underperformance is in-line with expectations given the underlying managers' investment philosophy and process. Over longer timeframes, the Fund has demonstrated an ability to add value in the small cap space.

### Conclusion:

- Due to the fact that we are confident that the combination of the Canadian Small Cap Equity Fund (Manulife) and Canadian Small-Cap Equity Fund (BMO Asset Management) provides an above average Canadian equity small cap portfolio, IMS continues to rate this portfolio In Good Standing.

<sup>(1)</sup> Quartile rankings are based on the underlying fund's returns.

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