



**US Equity Fund (Guardian)
Manulife Guardian US Equity Fund
Guardian Capital LP**

December 31, 2016

Lead manager(s):	Fiona Wilson	Investment style:	GARP
Investment objective:	To achieve long-term growth of capital through investment in equity or equity-related securities of issuers located in the United States.		
Last meeting date:	Q3 2016	Next estimated meeting date:	Q3 2017
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
US Equity Fund (Guardian)	9.67	35.85	21.69	21.14	5.37	18.25
S&P 500	13.48	41.53	23.99	20.97	8.61	21.21
Value added (+) / lost (-)	-3.81	-5.68	-2.30	0.17	-3.24	-2.96
Quartile ranking ⁽²⁾	4 th	4 th	2 nd	2 nd	3 rd	4 th

Short-term performance analysis

- Over 2016, the Fund significantly underperformed its benchmark and ranked in the third quartile relative to its peers.
- The Fund outperformed its benchmark in the fourth quarter with outperformance from the Fund's holdings in the Industrials and Materials (Nucor) sectors.
- The Fund's underperformance in 2016 was driven by several areas, the Funds' quantitative process struggled to keep pace with the wild swings in the marketplace that were evident in the first half of the year. The Fund's process typically performs more strongly in steadily trending market environments.
- Major detractors also came from the Fund's positioning in the Energy and Consumer Discretionary sectors as the Fund's underweight to the Energy sector and security selection within both sectors was a major detractor.
- Fund management believes that with increased infrastructure spending under a Trump administration and a rising interest rate cycle that both growth and value stocks should continue to perform strongly going forward, however, it will also likely be a very volatile period. Fund management remains focused on greater earnings and cash flow visibility and a strong intrinsic value in executing their growth strategy.
- Based on the S&P 500 style indices, value stocks outperformed on average in 2016. Given the Fund's GARP investment bias, its style acted as a headwind to performance for the year.

Long-term performance analysis

- The Fund has outperformed its benchmark in only one of the past five years, and has detracted value on a five-year annualized basis. This long-term performance ranks it in the fourth quartile when compared to its peers.
- Security selection was negative more often than not, and was the main detractor from relative value on a five-year annualized basis.
- Sector allocation produced a relatively small negative impact over the long term.
- Based on the S&P 500 style indices, growth stocks outperformed on average. Given the Fund's GARP investment bias, its style had limited impact on long-term performance.

Significant corporate events

Corporate

- There were no significant corporate events over the past three years.

Fund specific

- In April 2016, Guardian Capital (“Guardian”) announced that Harpreet Singh, Director of Research and Development with the Systematic Equity Team had departed from the firm. Harpreet’s research and development responsibilities were taken on by the Managing Director and lead Portfolio Manager of the Guardian global funds, Sri Iyer, who continues to be supported by a team of portfolio engineers including, Adam Cilio, Peter Michaels and Elgin Chau.

IMS commentary

- The US Equity Fund (Guardian) is a bottom-up, GARP US equity mandate that focuses on investing in quality companies with stable earnings growth. The team managing this product employs a quantitative model to identify stocks that fit these criteria. The Fund will tend to outperform in steadily rising and falling markets, and underperform in more speculative, momentum driven markets with significant volatility spikes.
- The Fund continues to be managed by the systematic equity team. The team is now composed of 6 members who oversee all of the systematic equity portfolios which includes Sri Iyer, Managing Director, Fiona Wilson, Portfolio Manager, 2 Portfolio Managers/Engineers, an analyst and a client facing individual. All members of the team have strong quantitative skills and remain knowledgeable about their quantitative process. Harpreet’s research responsibilities in the global strategies have been transitioned appropriately, and the team remains well-resourced.
- The Fund continue to employ the same investment process and philosophy across all mandates. This team-based research approach to the strategies utilizes GEMX, which is a proprietary filter that runs a quantitative screen on all global stocks in their universe. The team then construct portfolios based on the model portfolios generated by their multi-factor quantitative model that is based on four valuation frameworks. There have been no changes to the process due to Harpreet’s departure.
- The Fund has underperformed over the long term and ranks in the fourth quartiles. This can be partly attributed to its particular quantitative investment process, which tends to underperform in very volatile equity markets (with multiple inflection points), such as the period we have seen from 2011 to 2013. More recent performance has been stronger relative to peers, although continues to significantly lag the index in what has been a difficult market for active US equity managers. There were significant concerns and issues from 2011-2013 when Fund management confirmed there had been issues with inconsistent portfolio implementation.
- Over the last two years, the manager has reinforced the portfolio implementation process and the recent performance has improved and is now largely in line with our expectations. As well, there are no major concerns regarding Harpreet’s departure. IMS continues to be comfortable with the team and management of the Funds going forward. Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style, although the magnitude of recent underperformance has been disappointing.

⁽¹⁾ The source of benchmark returns are utilizing the Bank of Canada end of day rate for currency exchange. This change may result in minor differences from otherwise listed benchmark returns.

⁽²⁾ Quartile rankings are based on the underlying fund’s returns.

This report card is provided by Manulife as a tool to assist you in the governance of your retirement plan.

Manulife makes no representation or warranty, express or implied, as to the accuracy or completeness of the information provided. Though Manulife has taken all reasonable measures to provide you with relevant information and professional opinions, based on reliable sources*, it reserves the right to correct any error or omission.

The opinion of Manulife expressed in this report card shall not be the only factor to consider for decisions related to your plan’s portfolio. Manulife is not responsible for the outcome of decisions made based on the information and opinion provided in the report card.

* Sources may include, but are not limited to, Mercer MPA, Morningstar, Principia and Thomson Baseline

All rights reserved © 2016 The Manufacturers Life Insurance Company

The Manufacturers Life Insurance Company

The source of benchmark returns are utilizing the Bank of Canada end of day rate for currency exchange. This change may result in minor differences from otherwise listed benchmark returns.



Conclusion:

- Due to the fact that 1) we are confident the US Equity Fund has more recently, largely performed in line with expectations and 2) the personnel changes have been well communicated and Harpreet's roles and responsibilities have been distributed accordingly, all the while remaining within the stated investment philosophy and style, IMS continues to rate this Fund In Good Standing.

⁽¹⁾ The source of benchmark returns are utilizing the Bank of Canada end of day rate for currency exchange. This change may result in minor differences from otherwise listed benchmark returns.

⁽²⁾ Quartile rankings are based on the underlying fund's returns.

This report card is provided by Manulife as a tool to assist you in the governance of your retirement plan.

Manulife makes no representation or warranty, express or implied, as to the accuracy or completeness of the information provided. Though Manulife has taken all reasonable measures to provide you with relevant information and professional opinions, based on reliable sources*, it reserves the right to correct any error or omission.

The opinion of Manulife expressed in this report card shall not be the only factor to consider for decisions related to your plan's portfolio. Manulife is not responsible for the outcome of decisions made based on the information and opinion provided in the report card.

* Sources may include, but are not limited to, Mercer MPA, Morningstar, Principia and Thomson Baseline

All rights reserved © 2016 The Manufacturers Life Insurance Company

The Manufacturers Life Insurance Company

The source of benchmark returns are utilizing the Bank of Canada end of day rate for currency exchange. This change may result in minor differences from otherwise listed benchmark returns.