

**Balanced Fund (Guardian)**  
**Manulife Guardian Balanced Fund**  
**Guardian Capital LP**

**December 31, 2016**

<b>Lead manager(s):</b>	Guardian Asset Mix Team	<b>Investment style:</b>	Active
<b>Investment objective:</b>	To achieve a balance between long term growth of capital and reasonable income through diversified investments in equity or equity related securities and in fixed income securities, either long term or short term.		
<b>Last meeting date:</b>	August 2016	<b>Next estimated meeting date:</b>	Q2 2017
<b>Current rating:</b>	<b>IN GOOD STANDING</b>		

## Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
<b>Balanced Fund (Guardian)</b>	8.51	11.31	11.76	5.55	7.18	8.83
Guardian Capital Global Balanced BM	7.47	12.42	10.93	3.05	8.88	8.50
Value added (+) / lost (-)	1.04	-1.11	0.82	2.50	-1.71	0.33
Quartile ranking <sup>(1)</sup>	3rd	4th	2nd	2nd	3rd	4th
Benchmark: 34% S&P/TSX, 40% FTSE TMX Universe, 26% MSCI World						

## Short-term performance analysis

- Over 2016 the Fund underperformed its benchmark and ranks in the third quartile relative to its peers.
- The Fund outperformed its benchmark in the fourth quarter of 2016 with the largest outperformance coming from the Fund's Global Equity sleeve, although the Canadian Equity and Global Dividend allocations also added value. The Canadian Bond allocation slightly underperformed.
- In 2016 asset class performance was the main driver of underperformance, particularly within the Canadian equity allocation.
- Asset allocation provided a negative impact to the Fund's results, primarily due to an overweight position towards global equities.
- Within the Canadian Equity component, the Fund's underperformance was mainly attributable to poor security selection within the Materials and Energy sectors. Sector allocation, which is a residual of the Fund's bottom-up, stock selection process, was positive. In particular, the lack of exposure to the Health Care sector added value as the sector was the poorest performing sector in the index.
- The Global Dividend equity component outperformed its benchmark, mainly driven by positive selection within the Consumer Staples and Information Technology sectors.
- The fixed income component added value over the year. The underlying component continues to add to their Provincial bond weight and has an overweight allocation to Corporate bonds which have added value. The Fund's duration is shorter than its benchmark and the PM has reduced its exposure to the 5-10 year bond area of the curve. The portfolio continues to overweight high quality corporate bonds and hold an underweight allocation to Government of Canada issues.
- Fund management's outlook remains uncertain due to the prevailing global ongoing risks, including the low interest rate environment and accommodative central banks.

## Long-term performance analysis

- The Fund outperformed its benchmark in three of the past five years, and has added value on a five-year annualized basis. This long-term performance ranks it in the fourth quartile when compared to its peers.
- Asset class performance was the main contributor to relative value on a five-year annualized basis, particularly within the Canadian equity component of the Fund.
- Asset allocation has produced mixed results over the long term.

## Significant corporate events

### Corporate

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

### Fund specific

- In September 2015, Uzma Khan was hired as a credit analyst within the Fixed Income team with responsibility to assist in research and analysis on specific issues, industries and themes.

## IMS commentary

- The Balanced Fund (Guardian) is a balanced mandate with an equity (Canadian and global) component that focuses on investing in high quality companies, experiencing strong growth at a reasonable price, and a fixed income component that seeks to preserve capital and reduce volatility. The fund tends to outperform in down markets, and underperform in more speculative, momentum driven markets. Added value is expected to be primarily a factor of underlying sub-fund allocations.
- The Fund blended asset mix is 34% S&P/TSX, 40% FTSE TMX Universe, 26% MSCI World. It combines a robust fixed income philosophy that focuses on yield curve analysis, sector allocation and credit analysis and a Canadian equity component that identifies companies with strong long-term growth potential. The global equity component of the fund is divided in two parts both managed by the same team, a global equity sleeve that emphasizes dividend growth, payout and sustainability and another that takes a GARP approach.
- The GARP global equity component's long-term performance has not met expectations, particularly from 2011-2013. During that time, as the growth-biased global equity fund gained assets, management added a fundamental, qualitative, team-based layer to the process, deviating from its quantitative approach. In addition, in early in 2015, there was a material change to the global equity process as the team added a factor to the model, called equity duration which focuses on free Cash Flow analysis. IMS continues to closely monitor this allocation and its performance.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The Fund has slightly outperformed over the long term, and ranks in the lower quartiles. Previous underperformance can be primarily attributable to the Fund's weak performance from 2011 to 2013, during which the Fund's global equity component (that uses a quantitative process) had been negatively impacted by abrupt shifts in the equity markets. Over the last two years, the Manager for the global equity component has reinforced the portfolio implementation process and the recent performance has improved and is now in line with our expectations.
- IMS has no concerns with the fixed income or Canadian equity teams which remain robust and deep.
- Overall, there are no major concerns with the Guardian Balanced Fund, although IMS is closely monitoring recent performance and the changes that have taken place with the Fund's process within the Global Equity sleeve.

### Conclusion:

- Due to the fact that 1) we are confident the global equity component of the Fund is now performing in line with expectations, and 2) the performance in the long-term has improved, all the while remaining within the stated investment philosophy and style, IMS continues to rate this Fund In Good Standing.

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

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