

Bond Fund (Guardian) Manulife Guardian Bond Fund

December 31, 2016

Lead manager(s):	Peter Hargrove and Domenic Gallelli	Investment style:	Active
Investment objective:	To provide a high level of current interest income while at the same time preserving capital and seeking opportunities for capital appreciation, through investment in bonds, debentures, notes or other investments.		
Last meeting date:	August 2016	Next estimated meeting date:	Q2 2017
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Bond Fund (Guardian)	4.10	-1.40	8.30	3.75	1.39	3.18
FTSE Universe Overall Bond TR	3.60	-1.19	8.79	3.52	1.66	3.22
Value added (+) / lost (-)	0.50	-0.21	-0.49	0.23	-0.27	-0.05
Quartile ranking ⁽¹⁾	3rd	4th	4th	1st	4th	4th

Short-term performance analysis

- The Fund modestly underperformed its benchmark during 2016 and ranked in the fourth quartile relative to its peers.
- The Fund also slightly underperformed during the fourth quarter of 2016. The Fund's overweight allocation to long-term Province of British Columbia bonds underperformed as rates rose during the quarter. This was offset somewhat by the Fund's overweight allocation to high quality, shorter maturity Canadian corporate bonds in the Financials sector.
- The underperformance over 2016 was mainly attributable to the Fund's exposure to higher quality corporate issues, which underperformed relative to lower quality corporate bond issues. The Fund's shorter-than-benchmark duration also hurt performance as longer term corporate bonds performed well over the first three quarters. Partially offsetting this underperformance was the Fund's selection within higher quality Canadian financial issues and Federal bonds, as well as an overweight allocation to longer-term Provincial bonds.
- The portfolio continues to overweight high quality corporate bonds and underweight Government of Canada issues. The Fund's duration is shorter than the benchmark, and the Fund tends to be overweight to AA credit quality bonds.
- The manager believes that most North American corporate credit fundamentals will continue to remain stable from a balance sheet and liquidity perspective. Guardian will continue to maintain and add to an overweight position in higher quality, short and mid-term corporate issues.
- Based on FTSE TMX Canada Universe Bond sub-indices, Corporate Bonds outperformed the broad index in 2016. Given the Fund's credit-focused bias, its investment approach would have been a benefit to short term performance.

Long-term performance analysis

- The Fund has outperformed its benchmark in two of the past five years, and has produced returns that were relatively in line with its benchmark on a five-year annualized basis. This long-term performance ranks it in the fourth quartile when compared to its peers.
- The Fund's tightly controlled duration management is an important part of the portfolio manager's process. As such, the portfolio's duration is not expected to differ largely from the benchmark over the longer term. As the portfolio is duration constrained to the benchmark, drastic changes to the term or duration of the portfolio will be the result of shifts in the FTSE/TMX Universe. So while the Fund's shorter duration aided performance in the fourth quarter, the positioning is not large enough to drastically swing performance. When foreign currency issues are purchased, the currency position of the Fund is reviewed on a fundamental basis, and then hedged up to 100%.
- Based on the FTSE TMX Universe Bond sub-indices, investment grade fixed income market outperformed the high yield bond market given its high credit quality characteristics. Federal bonds underperformed Corporates. Given the Fund's credit-focused bias, its investment approach had a positive impact on long-term results.

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. She has 16 years of industry experience.

IMS commentary

- The Bond Fund (Guardian) is an active fixed income mandate, focusing mainly on generating added value primarily through strategically positioning the portfolio for major trends occurring in the bond market. Guardian uses a core fixed-income approach. The fund is expected to outperform its relative benchmark on a consistent basis but will usually underperform in periods where the market place is less risk averse and lower quality issues are providing better returns.
- The Fund's addition of foreign currency and foreign pay bonds, and the ability to add value through yield curve and security selection are expected to be exploited in market environments such as the current low interest rate environment. The PMs believe that the Canadian bond markets are still inefficient.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style. Guardian uses a team research process and continues to manage the portfolio with controlled risk. The Fund's main philosophy is to manage the portfolio with a focus on the preservation of capital. The portfolio controls risk by emphasizing quality standards and taking a conservative approach which has helped the portfolio avoid poor quality corporate credits.
- The Fund has modestly underperformed over the long-term and ranks in the lower quartiles. Performance over the past two years has remained largely in-line with the index. Given Fund management's more conservative, higher quality approach to corporate fixed income, performance remains largely in-line with expectations, as it has been managers with larger weightings in lower quality credits that have led the peer group more recently.

Conclusion:

- Due to the fact that 1) the Fund has performed in-line with the benchmark across both the short and long-term, all the while remaining within its stated investment philosophy and style, and 2) Fund management has continued to add value through security selection, their stated source of added value, and 3) the Fund management team has been stable with little turnover, IMS continues to rate this Fund In Good Standing.

⁽¹⁾ Quartile rankings are based on the underlying fund's returns.

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