



Equity Tri-Plan Fund (SLI)

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Manulife Equity Tri-Plan Fund (Manulife Asset Management)

March 31, 2017

Lead manager(s):	Manulife Asset Management	Investment style:	Specialty
Investment objective:	To provide long-term capital growth by investing primarily in equities of issuers located in North America and listed on a recognized exchange.		
Last meeting date:	Q2 2016	Next estimated meeting date:	Q3 2017
Current rating:	INCREASED SCRUTINY		

Annual fund performance (%)

	2013	2014	2015	2016	2017	YTD	5 yrs
Equity Tri-Plan Fund (SLI)	8.91	19.70	9.62	-3.91	11.92	3.54	9.51
Equity Tri-Plan Benchmark – C\$	7.34	17.58	9.79	-4.51	17.94	2.71	9.81
Value added (+) / lost (-)	1.57	2.12	-0.17	0.60	-6.02	0.83	-0.30

Benchmark: 80% S&P TSX Composite Index + 15% S&P 500 Index + 5% FTSE TMX Canada 91-Day T-Bill Index

Short-term performance analysis

- Year-to-date the Fund has outperformed its benchmark. The Fund benefitted from its sector allocation that was overweight towards IT and Consumer Discretionary and underweighted Energy. An underweight to Materials mitigated added value. Security selection was modestly negative as detracting selection in IT and Energy were mitigated by positive picks in Industrials and Health Care.
- In the 12-month period ending March 2017 the Fund underperformed its benchmark. Overall security selection was the main reason for underperformance, though sector allocation was also a detractor.
- An underweight to the Materials sector, particularly to gold companies, has been the main detractor over the past 12-month period. Selection in the same sector also hurt relative performance as not owning Teck Resources, First Quantum or Barrick Gold were key detractors.
- Security selection in the consumer sectors were also detractors while selection in Industrials and Health Care were positive.
- The Manager applies a “North American integrated approach” in constructing a diversified portfolio of stocks with the best return/risk profiles across geographies while maintaining target regional and sector allocations.
- Over 12-months ending March 2017, the S&P 500 outperformed the S&P/TSX Composite Index in Canadian dollar terms, hence an overweight to U.S. equities was advantageous. The U.S. dollar appreciated just over 3 percent over the 12-month period versus the Canadian dollar.
- With the Fund’s core investment philosophy, style is not expected to have a major impact on Fund performance.

Long-term performance analysis

- The Fund outperformed its benchmark in three of the past five 12-month periods ending March 31, 2017, and the five-year annualized performance result is in-line with the benchmark.
- Over the longer-term, asset allocation has produced positive results due to an overweight to the US equity market. The US equity market has produced strong absolute returns, aided by a stronger US dollar when performance is considered in Canadian dollar terms.
- Nearer term performance has been a drag on longer term positive performance results. With the Fund’s core investment philosophy, investment style is not expected to have a major impact on Fund performance.

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

- Monika Skiba has announced her intent to retire in December 2017. Patrick Blais, currently Senior Portfolio Manager on the team, has been promoted and will join Monika as co-head of the team immediately. Upon Monika's retirement, Patrick will assume full leadership of the team, which will continue to have members in both Toronto and Montreal. Cavan Yie, who had been an analyst for the team's Canadian Core Equity strategies has been promoted to portfolio manager and will be joining Monika and Patrick as co-managers on the team's institutional core equity strategies.
- In January 2016, MAM announced several changes to the MAM Canadian Fundamental Equity Team. Senior Portfolio Managers Monika Skiba and Patrick Blais took over responsibility for the management of the Canadian Core Equity strategies that were previously managed by Portfolio Manager Susan Da Sie, including the Equity Tri-Plan Fund. The changes became effective as at February 8th, 2016.
- In May 2015, MAM announced that they had created a new, combined Canadian Fundamental Equity team with resources based in both Montreal and Toronto. The team was led by Monika Skiba and encompassed ten investment professionals. Susan Da Sie became lead portfolio manager for the Standard Life Equity Tri-Plan Fund (SLI).

IMS commentary

- The Equity Tri-Plan Fund (SLI) is a bottom-up, core Canadian and U.S. equity mandate that emphasizes investing in companies with strong management, solid financials, sustainable earnings and attractive valuation relative to its peers. Added value is expected to be primarily a factor of superior stock selection.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- In September 2014, Manulife Financial Corp. announced the acquisition of Standard Life PLC's Canadian operations. Following this acquisition, Susan Da Sie became the lead manager for the Standard Life Equity Tri-Plan Fund (SLI) and she began reporting to Monika Skiba, the senior managing director and senior portfolio manager of MAM Canadian Fundamental Equity team.
- Under the management of Ms. Skiba and her team, the investment process will maintain its disciplined focus on identifying companies that exhibit strong cash flow return on invested capital utilizing the same process that has been in place for the Manulife Canadian Stock Fund under their management.
- The team's Canadian Core Equity strategies are currently under Increased Scrutiny due to past team turnover. Monika Skiba's forthcoming retirement has been announced with lengthy advance notice, and IMS has met several times with Patrick Blais and Cavan Yie which both serve to mitigate concerns somewhat in regards to Monika's departure. However, the planned change remains significant and must be closely monitored. There have been no announced changes to the process, philosophy or strategy of any of these mandates as a result of these changes.

Conclusion:

- Given the magnitude and number of changes the Fund has undergone, IMS continues to rate the Fund under Increased Scrutiny to better assess how the most recent changes in management will impact the process, strategy and holdings base of this Fund.

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