



**Global Dividend Fund (SLMF)
Manulife MMF Global Dividend Fund (SLI)
Manulife Mutual Fund Ltd.**

March 31, 2017

Lead manager(s): Kevin Troup **Investment style:** Specialty

Investment objective: To provide both capital growth and income. The Fund invests primarily in a globally diversified portfolio of equity, equity-type securities and other income producing investments.

Last meeting date: Q3 2016 **Next estimated meeting date:** Q3 2017

Current Rating: **INCREASED SCRUTINY**

Annual fund performance (%)

	2013	2014	2015	2016	2017	YTD	5 yrs
Global Dividend Fund (SLMF)	16.31	31.48	17.23	2.14	11.35	6.09	15.31
MSCI World (Cdn) ⁽¹⁾	14.62	30.25	22.14	-0.43	18.21	5.51	16.50
Value added (+) / lost (-)	1.69	1.23	-4.91	2.57	-6.86	0.58	-1.19

Short-term performance analysis

- In the first quarter of 2017, the Fund produced a solid return and slightly outperformed its benchmark index.
- Security selection was the main contributor to relative performance as gains in the Information Technology and Real Estate sectors more than offset the negative selection from the Consumer Discretionary and Industrials sectors. More specifically, US video games developer Activision Blizzard and semiconductor company Broadcom were the top contributors in Technology and American Tower and Equinix added value in Real Estate. Main detractors included Danish Jewellery manufacturer Pandora in Consumer Discretionary and Babcock in Industrials. With Pandora, the Manager believes the investment thesis is intact amid confused market perceptions on growth and with Babcock, the Manager is closely monitoring the holding following a cancelled contract by the UK government.
- Sector allocation produced a slightly negative effect primarily due to an underweight allocation to the outperforming Information Technology sector.
- The Manager believes that the global economy is improving and deflationary risks have faded, but uncertainties exist around policy and politics. Meanwhile, the strong rally in cyclicals at the beginning of 2017 has moderated and investors' focus has shifted to company earnings which will be favorable to the Manager's fundamental bottom-up approach. At the end of March 2017, the portfolio's largest overweight allocations were in Financials and Consumer Staples sectors while the largest underweight allocations were in the Information Technology, Materials and Industrials. During the first quarter, the Manager purchased Apple based on their positive view on the iPhone 8 in a significant phone replacement cycle and the stock's attractive valuation. The Manager also bought mining company Glencore based on strong fundamentals and dividend upgrades that they believe is more sustainable than the market has perceived.
- Based on the MSCI World style indices, growth stocks outperformed in the first quarter of 2017. Given the Fund's dividend investment bias, its style had no impact on the short-term performance.

Long-term performance analysis

- The Fund outperformed its benchmark in three of the past five years but failed to add value on a five-year annualized basis.
- Security selection detracted significant value in 2016 and was the main detractor from relative performance on a five-year annualized basis.
- Sector allocation produced slightly positive results over the long term.
- Based on the MSCI World style indices, value and growth stocks performed largely in line with one another over the last five years. Given the Fund's dividend investment bias, its style had no impact on long term performance.

Significant corporate events

Corporate

- In March 2017, Standard Life Investment ('SLI') and Aberdeen Asset Management announced their intention to merge their respective businesses. SLI is to acquire Aberdeen for approximately £3.8bn, a deal that would create a £660bn asset manager and one of Europe's largest fund managers. The merger is expected to be an all equity transaction in which Standard Life shareholders will become the majority owners of the combined firm. The firms believe the deal will bring financial stability, shared resources, global reach and a diversified asset base. Shareholder and regulatory approval are still forthcoming, but recommendations by the firms are for investors to vote favourably on the deal.
- In March 2017, following the announcement of an intended merger with Aberdeen Asset Management, Standard Life Investment ('SLI') announced that David Cumming, Head of Equities, had chosen to leave SLI to pursue other interests. Stan Pearson, Head of European Equities has assumed the role of Acting Head of Equities; Andrew Millington, Director of Equity Research, resumed the role of Acting Head of UK Equities. Mr. Pearson has 32 years' industry experience and has been with SLI for ten years. Andrew has 13 years' industry experience and nine of them at SLI.
- In September of 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. This transaction had no impact on the Fund as it remains sub-advised by the Global Equity Team of Standard Life Investment out of their U.K. operations.

Fund specific

- In December 2016, Standard Life Investment (SLI) announced that Stephen Weeple, Portfolio Manager and Director of Equity Research of SLI Global Equity Team, had left the firm effective immediately. Jaime Ramos Martin, an investment director for SLI's US Equities Team, joined the Global Equity Team and assumed Mr. Weeple's Portfolio Manager role for the Manulife Global Equity Unconstrained Fund with immediate effect. Mikhail Zverev, Head of SLI Global Equity Team, retains portfolio management responsibilities for all equity strategies managed by the team. Kevin Troup continues to be Portfolio Manager for the Manulife MMF Global Dividend Fund.

Following the announcement of this team change, IMS has recommended that the Manulife MMF Global Dividend Fund be placed under Increased Scrutiny.

IMS commentary

- The Global Dividend Fund (SLMF) is a global equity mandate that emphasizes investing in high quality companies offering an attractive yield with dividend growth potential. The fund is expected to provide above average returns over the long term while maintaining a relatively low risk profile.
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style.
- The Fund has underperformed its benchmark in only two of the past five years but failed to add value on a five-year annualized basis, primarily due to the significant underperformance in 2016. This long term performance is largely in line with its dividend growth investment style.
- In December 2016, following Stephen Weeple's departure from the SLI Global Equity Team, IMS recommended the Fund be placed under Increased Scrutiny as the loss of expertise and experience from the investment team requires close monitoring.
- In February 2017, IMS met with the Team, including Mr. Martin. While Mr. Martin's 10-year analyst tenure within SLI's investment process and his past experience managing portfolios and working with the Global Equity Team make him a sensible replacement for Mr. Weeple, more time is needed to monitor the team's stability. Furthermore, the Manager has indicated that a new risk management system will be implemented to allow them to more actively monitor and control factor risk, which was addressed as a main detractor from relative performance in 2016.
- In March 2017, SLI announced the intended merger with Aberdeen Asset Management. Shortly afterwards, SLI also announced the departure of David Cumming, Head of Equities. As Head of Equities, Mr. Cumming's role in working with six equity teams was primarily to provide vision and direction and to ensure consistent execution of the firm's Focus On Change investment philosophy across various strategies. IMS has discussed these changes with SLI and believes that Mr. Cumming's departure will not have an immediate impact on the daily portfolio management activities of the equity funds on the i-Watch platform. However, we will monitor the situation closely as it highlights the significant uncertainty within the firm following the recent announcement of the merger between SLI and Aberdeen.
- Given the nature of the existing concerns on the significant underperformance in 2016, the change to the team and modification to the risk monitoring system, and the heightened uncertainties following the merger announcement, close monitoring is required to evaluate the team's ability to consistently add value while staying within their investment philosophy and style, the team's future stability and if there will be any potential impact on this equity mandate given the significant organizational event.

Conclusion:

- Despite the fact that the Fund has produced long term performance that was largely in line with its investment style and our expectations, IMS continues to rate this Fund under Increased Scrutiny to allow more time to monitor the investment team's stability amid the renewed uncertainties at the team level and at the organization level due to the recent merger announcement. In addition, we need to monitor the efficacy of the new risk monitoring system to ensure that the Manager continues to remain within its stated investment philosophy and style.

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

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