



Canadian Dividend Fund (SLMF)
Manulife MMF Canadian Dividend Fund
Manulife Asset Management Ltd.

March 31, 2017

Lead manager(s): Steve Belisle, Christopher Mann **Investment style:** Specialty

Investment objective: To provide both capital growth and income. The Fund invests primarily in a diversified portfolio of dividend paying Canadian equities.

Last meeting date: May 2017 **Next estimated meeting date:** Q2 2018

Current Rating: **INCREASED SCRUTINY**

Annual fund performance (%)

	2013	2014	2015	2016	2017	YTD	5 yrs
Canadian Dividend Fund (SLMF)	8.24	17.27	8.22	-0.33	14.89	3.63	9.48
S&P/TSX Capped Composite Index	5.89	15.97	6.93	-6.57	18.62	2.41	7.79
Value added (+) / lost (-)	2.35	1.30	1.29	6.24	-3.73	1.22	1.69

Short-term performance analysis

- In the first quarter of 2017, the Fund outperformed its benchmark the S&P/TSX Composite Index.
- Security selection was the main contributor to added value, particularly in the Health Care sector in which the portfolio's U.S. holdings outperformed. Strong stock selection in the Utilities and Real Estate sectors also contributed to relative performance.
- Sector allocation was largely neutral during the first quarter as gains from an overweight allocation to the outperforming Consumer Discretionary and Utilities sectors and underweight to the underperforming Energy sector were offset by losses from a significant underweight allocation to the strongly performing Materials sector.
- The portfolio's considerable allocation to the U.S. market (about 26%) was positive as holdings across various sectors added value amid a strong U.S. equity market.
- The portfolio continues to remain significantly underweight to the Materials sector, largely in line with its dividend growth investment style. Meanwhile, the Manager currently maintains a meaningful underweight allocation to Financials due to Fund management's concern with the credit cycle in Canada. Moderate overweight allocations are more evenly spread across several sectors including Real Estate, Health Care, Consumer Discretionary and Utilities.
- The Manager continues to hold a significant allocation to the U.S. equity market and a partial currency hedging strategy has been implemented since 2016 to reduce foreign currency exposure.
- Based on S&P/TSX style indices, growth stocks outperformed on average. Given the Fund's dividend growth investment philosophy, its style had no impact on short-term performance.

Long-term performance analysis

- The Fund outperformed its benchmark in four of the past five annual periods ending March 31st and added value on a five-year annualized basis.
- Sector allocation was positive more often than not and was the main driver of added value on a five-year basis.
- Security selection produced a neutral result over the long term.
- Based on S&P/TSX style indices, value stocks outperformed on average. Given the Fund's dividend growth investment philosophy, its style had no impact on long-term 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. This transaction had no impact on this Fund which continues to be managed by the same investment team as part of Manulife Asset Management Ltd.

Fund specific

- In February 2017, Manulife Asset Management (MAM) announced the forthcoming retirement of Monika Skiba, Head of the Canadian Fundamental Equity Team, and the immediate departure of Susan Da Sie, Portfolio Manager for the team's Canadian Equity yield-oriented strategies:

Monika Skiba has announced her intent to retire in December 2017. Patrick Blais, currently Senior Portfolio Manager on the team, has been promoted and joined 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.

Susan Da Sie, a Portfolio Manager for the team's yield-oriented strategies, including the Canadian Dividend Fund, has left MAM effective immediately. Steve Belisle and Christopher Mann continue in their roles as portfolio managers for the yield-oriented strategies.

- In January 2016, Manulife Asset Management ('MAM') announced the departure of Marie-Eve Savard who was the portfolio manager for MAM's Canadian Fundamental Equity Team's dividend and income-oriented strategies. Ms. Savard's role and responsibilities were assumed internally by Senior Portfolio Manager Susan Da Sie. Additionally, Ms. Da Sie partnered with Steven Belisle who has a track record of managing Canadian income-oriented equities and has been a co-Portfolio Manager of these funds for more than five years.

Ms. Da Sie joined MAM when Standard Life's Canadian operations were acquired by Manulife in January 2015 and was tasked with the day-to-day management of the Canadian Dividend mandates. Meanwhile, Senior Portfolio Managers Monika Skiba and Patrick Blais assumed the management of the Canadian Core Equity strategies that were previously managed by Ms. Da Sie on February 8, 2016.

IMS commentary

- The Canadian Dividend Fund (SLMF) is a Canadian equity mandate that emphasizes investing in high-quality companies offering an attractive yield with dividend growth potential. It is expected that the Fund will provide above average returns over the long term while maintaining a relatively low-risk profile.
- In February 2016, after the departure of Marie-Eve Savard, the long-time co-Portfolio Manager Steven Belisle took on the role of Lead Portfolio Manager for the Canadian Dividend Fund (SLMF) and Susan Da Sie became co-Portfolio Manager of the Fund. Before taking on this role, Ms. Da Sie had been overseeing all Canadian equity portfolios managed by the Canadian Fundamental Equity Team's Montreal office and was closely involved in the peer-review process on each security.
- In February 2017, MAM announced the immediate departure of Susan Da Sie, Senior Portfolio Manager of MAM Canadian Fundamental Equity Team. This follows the prior departure of Marie-Eve Savard in 2016 and raised our concerns in regards to the level of turnover and the stability and depth of the remaining team. Consequently, we have downgraded the Fund to under Increased Scrutiny.
- In May 2017, we have met with the portfolio managers of the Fund, Mr. Belisle and Mr. Mann, as well as Mr. Blais, the co-Head of MAM Canadian Fundamental Equity Team. While Canadian Fundamental Equity Team's Montreal and Toronto offices have been working more closely together under Mr. Blais's leadership with the aim to become a fully integrated team, we noticed that certain elements of the Toronto team's process had been added to the Montreal team's fundamental research framework. We view this as a sensible and positive development that will help the team share research capacity and enhance the team's depth; in addition, both groups' process are based on bottom-up fundamental research and there are common characteristics of companies they are trying to identify. However, the degree of changes to the Fund's investment process warrants close monitoring to ensure the Manager can consistently add value over the long term while remaining within its dividend growth investment philosophy and style.
- The Fund has outperformed its benchmark over the long term. Outperformance has been primarily due to the portfolio's consistent allocation to the U.S. market which has outperformed the Canadian market on a five-year annualized basis.

Conclusion:

- Despite the fact that the Fund has outperformed its benchmark over the long term, we continue to rate this Fund under Increased Scrutiny due to the considerable changes to the investment process as well as our previous concerns with the team's stability following major changes to the investment team over the last two years.

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