



**Fixed Income Fund (Beutel Goodman)**  
**Manulife Beutel Goodman Fixed Income Fund**  
**Beutel, Goodman & Company Ltd.**

**March 31, 2017**

<b>Lead manager(s):</b>	David Gregoris	<b>Investment style:</b>	Active
<b>Investment objective:</b>	To earn a high rate of income return by investing primarily in fixed income securities, such as bonds issued from Canadian government and corporations, while preserving invested capital.		
<b>Last meeting date:</b>	Q2 2016	<b>Next estimated meeting date:</b>	Q2 2017
<b>Current rating:</b>	<b>INCREASED SCRUTINY</b>		

### Annual fund performance (%)

	2013	2014	2015	2016	2017	YTD	5 yrs
<b>Fixed Income Fund (Beutel Goodman)</b>	2.93	0.42	7.50	-0.09	2.18	1.37	2.55
FTSE Universe Overall Bond TR <sup>(1)</sup>	4.54	0.84	10.26	0.78	1.51	1.24	3.52
Value added (+) / lost (-)	-1.61	-0.42	-2.76	-0.87	0.67	0.13	-0.97

### Short-term performance analysis

- The Fund outperformed its benchmark in the first quarter of the year and for the 12-month period ended March 31, 2017.
- Outperformance in the first quarter of the year was due mainly to the allocation to credit issues within the portfolio. Duration and curve positioning were neutral over the same period.
- Over the past 12 months, the Fund has benefitted from its allocation to credit issues and to security selection within that sector. Curve positioning had a negative impact over the past year and the mandate's duration had a neutral impact on performance once again.

### Long-term performance analysis

- The Fund has underperformed its benchmark in four of the past five years with positive value added in the most recent year. The Fund has failed to add value on a five-year annualized basis.
- The Fund's credit strategies, curve positioning and a short duration position have detracted from performance over the long term. The Fund's historic short duration position continues to negatively impact longer-term annualized returns, although security selection has had a larger impact on underperformance.
- Improved relative performance over recent periods is starting to have a impact on annualized results with the Fund's two year returns within 10 basis points of the benchmark.

## Significant corporate events

### Corporate

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

### Fund specific

- In 2014, Beutel Goodman announced that Bruce Corneil, Managing Director of Fixed Income, would retire from the firm effective March 31, 2015. The lead of the fixed income team was assumed by David Gregoris, CFA, who had worked alongside Mr. Corneil since 1994 in his roles as portfolio manager and strategist.
- In January 2016, Beutel Goodman announced the hiring of Derek Brown as SVP Fixed Income. Mr. Brown was named co-lead portfolio manager with David Gregoris on the firm's fixed income strategies.

## IMS commentary

- The Fixed Income Fund (Beutel Goodman) is an active fixed income mandate, focusing mainly on generating added value primarily through active management of duration, movement in the yield curve as well as being attentive to credit spreads.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The hiring of Derek Brown in early 2016 is intended to enhance the macroeconomic perspective of the fixed income team at the firm. Mr. Brown was named co-lead portfolio manager with David Gregoris on all of Beutel Goodman's fixed income strategies. Sue McNamara continues to focus on credit research and analysis.
- The team has spent considerable effort over the past year and a half, and since Mr. Corneil's retirement, studying various factors within the economic environment affecting the bond market. While they still believe the current low level of interest rates is not natural, they acknowledge that there are a number of elements within the broader market depressing the current level of rates.
- The management team has made a number of changes in the portfolio strategy including the relative weights of holdings in the corporate and provincials sectors. The short duration position, which contributed to the Fund's historical underperformance, was adjusted in the summer of 2015 and has been kept at a more moderate position relative to the benchmark since that time.
- The Fund has underperformed the benchmark in four of the past five years and has failed to add value on a five year annualized basis. While these results can be partly attributed to the Fund's investment philosophy, the Manager has not fully met our performance expectations in recent years.
- Long-term performance has been disappointing, however results in the near-term seem to indicate a stabilization in the team's process and in their perspective on market conditions. IMS continues to evaluate the changes to the composition of the investment team and their enhanced methodology.

### Conclusion:

- This Fund remains under Increased Scrutiny due to the fact that 1) the Fund has underperformed its benchmark over the long term and 2) the configuration of the investment team has changed since the retirement of the previous team lead.

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