Manulife

Global Equity Fund (SLMF)
Manulife MMF Global Unconstrained Equity Fund (SLI)
Manulife Asset Management Ltd.

March 31 2017

Lead manager(s): Mikhail Zverev, Jaime Ramos Martin

Investment style: Core

Investment objective: To provide capital appreciation over the medium to longer term. The Fund invests primarily in equity and equity-type securities of multinational companies throughout the world. It may also invest in companies that the sub-manager expects will achieve multinational status. Income will not be a prime consideration for investors in the Fund.

Last meeting date: Q1 2017

Next estimated meeting date: Q3 2017

Current rating: **ON-WATCH**

Annual fund performance (%)

	2013	2014	2015	2016	2017	YTD	5 yrs
Global Equity Fund (SLMF)	13.44	33.07	18.74	-2.00	9.62	6.32	14.00
MSCI ALL Country World Index (1) *	12.37	26.63	20.96	-2.30	18.62	6.32	14.81
Value added (+) / lost (-)	1.07	6.44	-2.22	0.30	-9.00	0.00	-0.81

* The benchmark was changed from MSCI World Index to MSCI All Country World Index in January 2016. All historical returns are based on MSCI ACWI Index (C$)

Short-term performance analysis

- In the first quarter of 2017, the Fund produced a solid performance that was in line with the strong return of its benchmark index.
- Sector allocation was the main contributor to the relative performance, primarily due to an overweight allocation to the outperforming Information Technology sector and an underweight allocation to the underperforming Energy sector.
- Security selection produced a slightly negative effect as strong gains from the Information Technology sector, in which US video games developer Activision Blizzard and semiconductor company Broadcom were the top contributors, were more than offset by weak selection in the Consumer Discretionary and Industrials sectors. Within Consumer Discretionary, Danish Jewellery manufacturer Pandora and Yamaha were among the main detractors due to short term growth concerns; meanwhile, Acuity Brands and Babcock within Industrials also detracted value.
- The Manager believes that the global economy is improving and deflationary risks have faded, but uncertainties exist around policy and politices. Meanwhile, 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 Information Technology and Industrials sectors while the largest underweight allocation remained in Materials (with zero exposure) and Financials. During the first quarter, the portfolio added Apple and Comcast Corporation, the former based on the Manager's positive view on iPhone 8 in a significant phone replacement cycle and the latter based on strong fundamentals from several business segments of the media conglomerate.
- Based on the MSCI World style indices, growth stocks outperformed in the first quarter of 2017. Given the Fund's growth-tilted unconstrained core investment bias, its style had a positive impact on the short-term performance.

Long-term performance analysis

- The Fund outperformed its benchmark in three of the past five annual periods ending March 31st; however, due to the significant underpeformance in 2016, the Fund has failed to add value on a five-year annualized basis.
- Security selection detracted significant value in 2016 and 2014 and was the main detractor of relative performance on a five-year annualized basis.
- Sector allocation produced a neutral effect over the long term.
- Based on the MSCI World style indices, growth and value stocks performed largely in line with one another over the five year period. Given the Fund's growth-tilted unconstrained core 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 is still forthcoming but recommendations by the firms are for investors to vote favourably on the deal.
- In March 2017, following the announcement of 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 10 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 January 2016, as part of the planned integration process following the acquisition of Standard Life's Canadian operations, the SLMF Global Equity Fund was transitioned to an unconstrained version of the same mandate. The Fund continues to be sub-advised by the Global Equity Team of Standard Life Investment located in U.K. under a revised Investment Policy Statement which reflects the change of the Fund to an unconstrained approach which will provide Fund management greater flexibility in approach while utilizing the same process.
- In December 2016, Standard Life Investment (SLI) announced that Stephen Weeple, Portfolio Manager of the Manulife Global Unconstrained Equity Fund (SLI), 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 a Portfolio Manager role for the Manulife Global Equity Unconstrained Fund with immediate effect. Mikhail Zverev, Head of the SLI Global Equity Team, retains portfolio management responsibilities for the Manulife Global Equity Unconstrained Fund.

  Following the announcement of this team change, IMS has recommended that the Manulife Global Equity Unconstrained Fund be placed on-Watch.

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IMS commentary

- The Global Equity Fund (SLMF) is a core global equity mandate that is managed with SLI's Focus on Change investment philosophy and a fundamental bottom-up investment process. The Focus on Change approach looks for undiscovered or mispriced fundamental changes at a company level in order to exploit market inefficiencies at pricing in these material changes. As a core mandate, the Fund is expected to outperform its relative benchmark on a consistent basis across various market environments.
- In January 2016, the SLMF Global Equity Fund was renamed and transitioned to an unconstrained version of the same investment mandate. Under the revised Investment Policy Statement (IPS), the Fund continues to be managed by the same SLI Global Equity Team and the Manager is allowed more flexibility to invest across the broader market and to construct a more concentrated portfolio with their highest conviction ideas. The Fund also continues to be managed with the same investment philosophy and style and is expected to continue to provide investors with a core strategy to global equity investing.
- The Fund has slightly underperformed its benchmark index on a five-year annualized basis, which was primarily due to the significant underperformance in 2016 which has been a major concern. Since July 2016, IMS has met with the SLI Global Equity Team on multilple occasions to review the portfolio performance and the team's investment process in great details. In the third quarter of 2016, IMS recommended the Fund being placed under Increased Scrutiny as we were concerned with negative security selection across multiple sectors and regions and the portfolio's large risk exposure to macro events.
- In December 2016, following Stephen Weeple's departure from the SLI Global Equity Team, IMS recommended the Fund be placed On Watch as the loss of expertise and experience for the investment team requires close monitoring.
- In February 2017, IMS met with the new Portfolio Manager, Jaime Ramos 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 whether this team change will have a significant impact on the portfolio's positioning and the implementation of the Fund's process. Furthermore, the Manager has indicated that a new risk management system will be implemented to allow them to more effectively monitor and control factor risk, which was addressed as a main reason for the significant underperformance 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 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 and the significant underperformance in 2016, the change to the team and modification to the risk monotoring system, and the hightened uncertainties following the merger announcement, close monotoring 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:

- Significant concerns remain with the Fund due to the fact that 1) the change of Portfolio Manager is a significant event and more time is needed to assess the impact on the implementation of the investment process, 2) the magnitude of underperformance in 2016 requires close monitoring of the Manager's ability to consistently add value through positive security selection, and 3) the renewed uncertainties at the team level and the organization level due to the recent merger announcement also require close monitoring.

(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.