



Monthly Income Fund (SLMF)
Manulife MMF Monthly Income Fund
Manulife Asset Management Ltd.

March 31 2017

Lead manager(s): Steve Belisle, Jean-Pierre D'Agnillo **Investment style:** Specialty

Investment objective: To provide a regular flow of monthly revenue.

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
Monthly Income Fund (SLMF)	N/A	12.98	11.49	-1.74	10.62	2.30	N/A
Monthly Income Fund Benchmark (SLMF) ⁽¹⁾	N/A	11.02	12.08	-2.29	9.80	1.83	N/A
Value added (+) / lost (-)	N/A	1.96	-0.59	0.55	0.82	0.47	N/A
Benchmark:	50% S&P/TSX Composite Index + 20% FTSE TMX Canada Long Term Government Bond Index + 20% FTSE TMX Canada All Corporate Bond Index +10% S&P 500 (C\$) Index						

Short-term performance analysis

- In the first quarter of 2017, the Fund outperformed its custom benchmark index.
- Asset class performance was the main contributor to the Fund's relative return, particularly within the equity sleeve where positive security selection in the Health Care and Utilities sectors and an overweight allocation to the strongly performing U.S. equity market added value.
- Asset allocation produced a slightly negative effect primarily due to the portfolio's underweight allocation to the equity market versus its benchmark index.
- In 2016, as a result of a peer category change for the Fund, the Manager lowered the portfolio's equity allocation from a historical average of 65% to 50%, of which approximately 30% is allocated to foreign equities. In equities, the portfolio continues to maintain an underweight allocation to the Materials, Financials and Energy sectors and an overweight allocation to the Health Care and Consumer sectors (primarily in the U.S.) In fixed income, the portfolio maintains a slight overweight towards corporate bonds and a moderate exposure towards non-Canadian issuers.

Long-term performance analysis

- The Fund outperformed its benchmark in three of the past four years and slightly added value on a four-year annualized basis.
- Asset class performance was positive more often than not and was the main driver of added value on a four-year annualized basis.
- Asset allocation produced mixed results over the last four years.

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 immediate impact on this Fund which continued 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 immediate departure of Susan Da Sie from the MAM Canadian Fundamental Equity Team. Ms. Da Sie was Portfolio Manager for the team's yield-oriented strategies and also a member of the Canadian Asset Mix Committee, responsible for the asset mix decisions on Canadian Balanced funds including the Monthly Income Fund. Portfolio Managers Steve Belisle and Christopher Mann have assumed Ms. Da Sie's portfolio management responsibilities within the team.
- 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.

Effective February 8, 2016, Ms. Da Sie took over the role of Lead Portfolio Manager for the Monthly Income Fund (SLMF). Co-Portfolio Manager Jean-Pierre D'Agnillo continues to manage the fixed income sleeve of the Fund and the asset mix strategy continues to be established by the Canadian Asset Mix Committee.

IMS commentary

- The Monthly Income Fund (SLMF)'s asset mix is based on a 12 to 18-month outlook for capital markets and emphasizes quality and liquidity in its holdings. The fund manages the impact of market volatility by diversifying its asset mix. The Fund invests in a diversified portfolio composed primarily of equities and fixed income securities denominated in Canadian or foreign currency. These securities can come from Canadian or foreign issuers. The Fund may hold a portion of its assets in cash or money market investments for strategic and administrative reasons.
- In February 2016, after the departure of Marie-Eve Savard, Senior Portfolio Manager Susan Da Sie took on the role of Lead Portfolio Manager for this balanced mandate. Her responsibilities included implementing the asset mix strategy established by the Canadian Asset Mix Committee and managing the equity sleeve of the portfolio. Ms. Da Sie had been a member of the Canadian Asset Mix Committee since May 2015.
- In February 2017, MAM announced the immediate departure of Susan Da Sie, Senior Portfolio Manager of the MAM Canadian Fundamental Equity Team. This follows the prior departure of Senior Portfolio Manager Marie-Eve Savard in early 2016 and raised our concerns in regards to the level of turnover and the stability and depth of the remaining team.
- In May 2017, we met with the portfolio managers of the Fund, Mr. Belisle and Mr. Mann, as well as Mr. Patrick Blais, the co-Head of the MAM Canadian Fundamental Equity Team. While the 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 have 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, the investment process of each group is based on bottom-up fundamental research and there are common characteristics of companies they are trying to identify. However, the degree of change 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 stated investment philosophy and style.
- The Fund has outperformed on a four-year annualized basis. Asset class performance has been the main driver of added value, which is the Manager's stated primary source of added value.

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.

⁽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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