Manulife

Global Equity Fund (Aberdeen)
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Aberdeen Asset Management Inc.

March 31, 2017

Lead manager(s):	Stephen Docherty	**Investment style:**	GARP
Investment objective:	To seek to achieve total return in excess of the MSCI World Index in Canadian dollars over a period of 3 to 5 years through investing in a diversified portfolio of global equity securities.		
Last meeting date:	Q3 2016	**Next estimated meeting date:**	Q3 2017
Current rating:	INCREASED SCRUTINY		

Annual fund performance (%)

	2014	2015	2016	2017	YTD	5Yr
Global Equity Fund (Aberdeen)	20.88	12.46	-6.01	16.18	7.06	11.36
MSCI World (Cdn)(1)	30.06	22.32	-0.83	19.02	5.94	16.52
Value added (+) / lost (-) (revised data based on VIP room)	-9.18	-9.86	-5.18	-2.84	1.08	-5.16

Short-term performance analysis

- Year-to-date the Fund has outperformed its benchmark. On a country basis, allocations to the out of benchmark emerging markets such as Brazil, Mexico, Taiwan and Korea added value. Being underweight to the U.S. and overweight Hong Kong was also beneficial. Stock selection added value while country allocation detracted. From a sector basis, security selection in Industrials, Information Technology, and Financials added value.
- On a one year basis, country allocation was a slight detractor. An underweight to the U.S. and overweight to the U.K. detracted from performance, but this underperformance was mitigated by favourable allocations to Brazil, Taiwan, and Korea. Security selection in the U.S. was challenged over 1-year. Security selection in Health Care, Consumer Staples, and Information Technology detracted but was mitigated by strong selection in Energy and Materials.
- The Manager maintains a structural exposure to emerging market securities, which are not included in the benchmark and tends to be underweight to the U.S. relative to the benchmark. The manager does not see the benchmark index as providing meaningful guidance to the prospects of a company or its inherent worth and is comfortable taking decisive positions away from the benchmark.
- Based on the MSCI World style indices, the value investment style outperformed growth over the most recent 12-month period. Given the manager's GARP approach, this may be a headwind market environment to the manager's investment style.
- At quarter end, the manager feels that global markets retain an air of optimism: while economic data continues to point to a steady if underwhelming growth picture by historical standards, sentiment indicators, particularly in the U.S. reflect growing expectations of future improvement. While markets are likely to remain focused on the political direction across the U.S. Europe and China over the coming quarters, the manager feels comfortable with the underlying quality and diversified nature of the portfolio.

Long-term performance analysis

- The Manager has underperformed the benchmark during the periods observed despite its generally strong absolute returns. In the 12-month periods ending first quarter 2014, 2015 and 2016 the return dispersion between U.S. equities and Emerging Market equities was wide. The Fund has a structural overweight towards emerging markets and underweights towards the U.S. equities compared to its benchmark.
- Based on the MSCI World style indices over the listed 4-year period growth stocks have outperformed value stocks as measured by the MSCI World style indices. Given the manager's conservative GARP approach, this would be a favouable market environment to the manager's investment style.

Significant corporate events

Corporate

- On March 6th Aberdeen Asset Management and Standard Life announced their intention to merge their respective businesses. Standard Life, Scotland's largest insurer, 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 August 2015, Aberdeen announced that they have entered into an agreement to acquire Arden Asset Management, LLC – a provider of hedge fund solutions to expand their hedge fund business. The transaction was completed on December 31, 2015.
- On June 25, 2015, Aberdeen Asset Management ("Aberdeen") announced that Hugh Young, Managing Director, would take on a wider role within the firm, providing oversight for the Property and Fixed Income decisions as well as the Active Equities business. As such, Aberdeen appointed Devan Kaloo, currently the Head of Global Emerging Markets, to succeed Hugh as the Global Head of Equities. The regional and global equity desk heads now report to Devan.
- In May 2015, Aberdeen Asset Management announced that the firm has entered into an agreement to acquire FLAG Capital Management, LLC ("FLAG"). The transaction was completed on August 1, 2015.

Fund specific

- There was no significant fund specific events over the last three years.

IMS commentary

- The Manager believes, given the inefficiency of markets, that competitive long-term returns are achieved by identifying high-quality stocks at attractive valuations and holding them for the long-term. They employ a fundamental bottom-up investment approach based upon a rigorous and disciplined proprietary research effort which originates with direct company due diligence visits. They hold absolute return to be of the utmost importance over the long term.
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style.
- The Fund's long-term underperformance has been disappointing and has been monitored closely. In the 12-month periods ending first quarter 2014, 2015 and 2016 the return dispersion between U.S. equities and Emerging Market equities was wide going against the Fund's overweights to emerging markets and underweight to U.S. equities. A longer track record of outperformance will be required to recoup the relative value that had been lost over the previous 3-year period.
- IMS feels the merger with Standard Life is favorable for Aberdeen's financial stability as the firm has been hurt by weaker investor sentiment toward the emerging markets and suffered significant redemptions leading the firm to cut costs. However, the integration brings about significant uncertainty in regards to both firms' investment mandates and the potential for fund mergers and investment personnel departures going forward, particularly in areas like foreign equities where the two firms have a significant overlap in resources. IMS will continue to monitor the planned merger closely and will communicate as the situation evolves.

Conclusion:

- The Fund has had periods where they have significantly underperformed their benchmark and ranked in the lower quartiles. This underperformance can be partially attributed to the Fund's structural exposures: an out-of-benchmark weight to emerging markets and a large underweight to the U.S. equity market. While the Manager is committed to its process, the prolonged nature and magnitude of benchmark underperformance is a concern that requires closer monitoring. Additionally, Aberdeen is in the process of

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

a proposed merger with Standard Life PLC. The remaining uncertainty around regulatory and shareholder voting as well as firm leadership structure and investment management under a merged result in moderate concerns existing at present.

- The Fund remains on Increased Scrutiny at this time.

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