



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

March 31, 2017

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

Investment objective: The Fund's objective is to generate a combination of capital growth and income. The Fund invests primarily in a diversified portfolio of high-yielding equity and equity-type securities.

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
Dividend Income Fund (SLMF)	N/A	N/A	8.83	0.75	16.60	3.82	N/A
Dividend Income Fund Benchmark (SLMF) ⁽¹⁾	N/A	N/A	9.79	-4.51	17.94	2.71	N/A
Value added (+) / lost (-)	N/A	N/A	-0.96	5.26	-1.34	1.11	N/A
Benchmark:	80% S&P/TSX Capped Composite Index + 15% S&P 500 (C\$) + 5% FTSE TMX Canada 91 Day T-Bill						

Short-term performance analysis

- In the first quarter of 2017, the Fund outperformed its custom benchmark.
- Security selection was the main contributor to the added value, particularly in the Consumer Staples (Premium Brands, Sleep Country) and Utilities sectors.
- Sector allocation was largely neutral as gains from overweights to the outperforming Utilities and Consumer Discretionary sectors were offset by losses from underweights to the strong performing Materials and Information Technology sectors.
- The portfolio's overweight allocation to the U.S. also slightly added value amid a strong U.S. equity market.
- The portfolio continues to maintain a significant underweight in the Materials sector, largely in line with its dividend income investment style, and a meaningful underweight allocation to the Information Technology sector. The largest overweight allocation is to Real Estate while moderate overweight allocations were also spread across Utilities, Industrial and Consumer sectors.
- The Manager continues to hold a moderate overweight allocation to the U.S. market and a partial currency hedging strategy has been implemented since 2016 to reduce the Fund's foreign currency exposure.
- Based on S&P/TSX style indices, growth stocks outperformed on average. Given the Fund's dividend income investment philosophy, its style had no impact on short-term performance.

Long-term performance analysis

- The Fund has a limited long-term track record.
- The Fund outperformed its benchmark and added value on a three-year annualized basis.
- Security selection was the main driver of added value over the medium term.
- Sector allocation also produced positive results over the three-year period primarily due to its overweight allocation to the U.S. equity market.

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 Dividend Income 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 portfolio manager focuses primarily on companies that have superior financial positions and have historically demonstrated their capacity to pay high relative dividends and sustain such payments over time. The Fund may invest in Canadian or foreign fixed-income securities which may include bonds, asset-backed securities, mortgage-backed securities or other fixed-income instruments. The Fund may also invest in foreign securities up to 30% of its net asset value.
- 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 Dividend Income 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 has 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, IMS 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 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, 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, both groups' process are based on bottom-up fundamental research, and there are common characteristics of companies that 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 income investment philosophy and style.
- The Fund has outperformed on a three-year annualized basis. Outperformance has been in part due to positive security selection; the Manager's stated the primary source of added value.

Conclusion:

- Despite the fact that the Fund has outperformed its benchmark over the medium 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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