



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

March 31 2016

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

Investment objective: The Fund's objective is to generate income with the potential for long-term capital growth. The Fund invests primarily in fixed income and equity securities of Canadian and foreign issuers.

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
Tactical Income Fund (SLMF)	N/A	N/A	7.91	-0.25	11.44	3.31	N/A
Tactical Income Fund Benchmark (SLMF)	N/A	N/A	8.68	-2.86	9.80	1.83	N/A
Value added (+) / lost (-)	N/A	N/A	-0.77	2.61	1.64	1.48	N/A
Benchmark:	50% S&P/TSX Composite Index + 50% FTSE TMX Canada Universe Bond 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 in which strong selection in the Health Care and Consumer Staples sectors added considerable value due to its U.S. exposure.
- Asset allocation also produced a positive result primarily due to an overweight allocation to the outperforming equity markets.
- The Manager continues to maintain an overweight allocation to equities particularly to the U.S. equity market. As a result, the portfolio has a significant underweight allocation to the Canadian bond market relative to its benchmark. The Fund's cash position has slightly increased during the first quarter and remains at 9% at the end of March.

Long-term performance analysis

- The Fund has a limited long term track record.
- The Fund has outperformed its benchmark on a three-year annualized basis.
- Asset class performance was the main driver of added value on a three-year annualized basis.
- Asset allocation produced negative results primarily due to the Fund's larger cash allocation over the last three 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 Tactical 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 portfolio manager utilizes a strategy of tactically allocating investments among various fixed-income and equity asset classes. Tactical Asset Allocation (TAA) decisions are derived from the portfolio manager's analysis and reports that assess a number of factors which include, but are not limited to, available yields, quality of management, a company's earnings and dividend growth as well as its industry and overall economic prospects.
- 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 three-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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