



Diversified Income Fund (SLMF)
Manulife MMF Conservative 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 income while preserving capital. The Fund invests primarily in a diversified portfolio composed of debt and/or debt-like securities and equity and/or 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
Diversified Income Fund (SLMF)	N/A	N/A	11.52	0.00	8.17	2.39	N/A
Diversified Income Fund Benchmark (SLMF)	N/A	N/A	11.81	-2.75	6.42	1.59	N/A
Value added (+) / lost (-)	N/A	N/A	-0.29	2.75	1.75	0.80	N/A
Benchmark:	35% S&P/TSX Composite Index + 32.5% FTSE TMX Canada Long Term Government Bond Index + 32.5% FTSE TMX Corporate 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 returns, particularly within the equity sleeve where positive security selection in the Consumer Staples and Health Care sectors and an overweight allocation to the strongly performing U.S. equity market added value.
- Asset allocation produced a neutral effect as the portfolio's asset mix was largely in line with its benchmark index.
- The Manager maintains a neutral allocation to equities including a moderate exposure to the U.S. market that focuses on sectors with a low correlation to the Canadian market. In fixed income, the portfolio continues to be short in duration as compared to the benchmark and maintains its moderate exposure to the U.S. bond market.

Long-term performance analysis

- The Fund has a limited long term track record.
- The Fund outperformed its benchmark on a three-year annualized basis.
- Asset class performance was the main driver of added value over the past three years, particularly within the Canadian equity market.
- Asset allocation also produced positive results primarily due to an overweight allocation to foreign markets.

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

- To achieve the investment objective of the Diversified Income Fund (SLMF), the Portfolio Manager invests in fixed-income securities denominated in Canadian or foreign currency of Canadian or foreign issuers and in equities or equity-type instruments. The asset mix strategy of the Fund is established by the Canadian Asset Mix Committee which is composed of senior asset class professionals who cover all relevant asset classes. The portfolio is rebalanced monthly based on the output of the Canadian Asset Mix Committee's monthly meetings.
- 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. Both asset class performance and asset allocation have produced a positive effect over the period.

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.

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