



**US Equity Fund (SSG&A) – formerly US Equity Fund (GE Asset Management)
State Street Global Advisors Ltd.**

March 31 2017

Lead manager(s): Dave Carlson, Tom Lincoln, Chris Sierakowski **Investment style:** Blend

Investment objective: The Fund seeks long term growth of capital by investing at least 80% of its net assets under normal circumstances in common and preferred stocks and other typical equity securities of issuers that are tied economically to the U.S.

Last meeting date: Q4 2016 **Next estimated meeting date:** Q2 2017

Current rating: **INCREASED SCRUTINY**

Annual fund performance (%)

| | 2013 | 2014 | 2015 | 2016 | 2017 | YTD | 5 yrs |
|--------------------------------------|-------|-------|-------|-------|-------|------|-------|
| US Equity Fund (SSg&A) | 15.13 | 35.22 | 27.81 | -0.95 | 22.49 | 6.87 | 19.27 |
| S&P 500 Index (Can\$) ⁽¹⁾ | 15.85 | 32.62 | 29.34 | 4.09 | 20.34 | 5.24 | 20.01 |
| Value added (+) / lost (-) | -0.72 | 2.60 | -1.53 | -5.04 | 2.15 | 1.63 | -0.74 |

Short-term performance analysis

- In the first quarter of 2017, the Fund outperformed its benchmark, the S&P 500 Index.
- Strong security selection across multiple sectors was the main driver of added value, particularly in the Industrials, Health Care and Consumer Discretionary sectors. Within Consumer Discretionary, Amazon and media holdings Liberty Global and Charter Communications were among the strongest performers. Within the Health Care sector, therapeutics and medical devices holdings Vertex, Allergan and Medtronic added more value due to both company specific positive news and improved investor sentiment towards the sector. Security selection in Technology, the strongest performing sector in Q1, was relatively strong with holdings such as Mobileye, Facebook and Salesforce performing well.
- Sector allocation produced a slightly positive result primarily due to a moderate overweight allocation to the outperforming Health Care sector and an underweight allocation to the underperforming Telecommunication Services sector.
- At the end of the first quarter, the portfolio was positioned for late cycle economic growth. The Manager trimmed a moderate overweight in Technology to a more neutral position but the sector remained the portfolio's largest absolute weighting, followed by Health Care, Financials and Consumer Discretionary. The portfolio maintained its largest underweight allocations to Industrials and Consumer Staples with zero exposures to Materials and Telecommunications.
- Based on S&P 500 style indices, growth stocks outperformed on average. Given the Fund's blend investment bias, its style had no impact on short-term performance.

Long-term performance analysis

- The Fund underperformed its benchmark in three of the past five years but produced a return that was largely in line with its benchmark on a five-year annualized basis.
- Security selection was mixed over the long term and slightly detracted value from relative performance on a five-year annualized basis.
- Sector allocation produced a minor effect over the long term.
- Based on S&P 500 style indices, growth stocks slightly outperformed on average. Given the Fund's blend investment bias, its style had no impact on long-term performance.



Significant corporate events

Corporate

- In March 2016, General Electric Company ('GE') announced that, after an extensive potential buyer evaluation process, it selected State Street Corporation (SSGA) to acquire GE Asset Management for US\$485 million. The deal closed in the third quarter of 2016.

GE also announced that the existing GEAM team would be expected to join SSGA as part of this transaction. To provide a smooth transition for clients, the core investment and relationship management teams serving GE's benefit plans and other clients would continue their roles with SSGA following closing.

Fund specific

- In September 2016, GE Asset Management ('GEAM') advised that, following State Street's acquisition of the asset management and advisory service business of GEAM, GE Institutional Funds' names would be changed, effective November 30, 2016:
Former Fund Name: GE Institutional U.S. Equity Fund
New Fund Name: State Street Institutional U.S. Equity Fund

GE Institutional U.S. Equity Fund is the underlying fund of Manulife GEAM US Equity Fund.

- In December 2016, State Street Global Advisors ('SSGA') announced that the following changes for the GEAM US Equity Fund would take effect on January 27, 2017:

As a blended strategy, the current portfolio structure of 40/30/30 roll-up of three underlying strategies, Core, Value and Growth, has been replaced by a new portfolio structure of 70/30 roll-up of two Core strategies, US Researched Enhanced and US Select.

Dave Carlson, CIO of the US Equities Team, Lead Portfolio Manager of the Fund and Portfolio Manager for the current underlying Growth strategy, continues in the Lead Portfolio Manager role. He is also the Portfolio Manager for US Select, one of the new Core underlying strategies.

Paul Reinhardt and Steve Gelhaus, Portfolio Managers for the current underlying Core and Value strategies, would be replaced by Tom Lincoln and Chris Sierakowski. Mr. Lincoln is the Director of Research for the Fundamental Equity Research Team and also Portfolio Manager for the US Research Enhanced strategy. Mr. Sierakowski, Portfolio Manager on the US Equities Team, has become Co-Portfolio Manager for the US Select strategy as at January 2017, working alongside Mr. Carlson.

- Following this announcement, IMS downgraded this Fund to under Increased Scrutiny to ensure that the Fund's expected overall philosophy and risk/return profile are being maintained with the new portfolio structure.

IMS commentary

- The State Street U.S. Equity Fund is a blended strategy based upon the premise that value and growth style biases are unpredictable. The Manager seeks to neutralize the need to make a tactical style decision and to remain focused on long-term stock selection by combining sub-portfolios to construct a broadly-diversified core portfolio. In January 2017, the portfolio structure has been changed from a 40/30/30 roll-up of three underlying strategies, Core, Value and Growth, to a new portfolio structure of 70/30 roll-up of two core strategies, US Researched Enhanced and US Select.

US Research Enhanced is a fundamental, research-driven, core and sector-neutral portfolio (+/- 250 bps). The portfolio is supported by 16 sector analysts and holdings represent their highest conviction ideas. Portfolio Manager Tom Lincoln has an oversight role to ensure the portfolio's characteristics are in line with those of the S&P 500 Index. The portfolio has a strong 25-year track record and is managed with a consistent objective, philosophy, process and risk guideline.

US Select is a high quality, high conviction, concentrated US equity portfolio of 25-40 holdings. The portfolio manager selects securities from analysts' highly rated stocks to construct a core fund with larger sector constraints (+/-600bps). Dave Carlson has been the sole PM of this strategy since 2007 and has produced consistent returns over the last 10 years.

- In December 2016, SSG&A announced a significant change to the Fund's structure. We have discussed this change with fund management and reviewed the new core strategies' investment process and historical performance. Given the strong track record of both strategies and Mr. Carlson and Mr. Lincoln's long experience managing these strategies, we believe that the new portfolio structure has the potential to enable a more streamlined core US equity strategy while adding value through strong security selection. However, due to the magnitude of the change and the need to monitor the US Equities Team and the Fundamental Research Team's future stability, along with the recent changes at the organizational level, we have downgraded the Fund to under Increased Scrutiny.
- In the first quarter of 2017, under the new portfolio structure, the Fund has added value amid a strong U.S. equity market. Strong security selection across multiple sectors was the main contributor. We will be meeting with the management team in the near future to further assess whether the Manager has remained within its stated investment philosophy and style and to ensure that the overall portfolio characteristics continue to conform with those of a core US Equity mandate.

Conclusion:

- Despite the fact that the Fund has produced a long term return that is in line with its benchmark, IMS continues to rate this Fund under Increased Scrutiny. More time is needed to monitor the Fund's characteristics to ensure that the Fund's overall risk/return profile remains in line with a core US Equity mandate and to also make sure that the Manager remains within its stated investment philosophy and style given the recent changes that have taken place.

⁽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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