



Manulife Canadian Pooled Real Estate Fund (MCPREF)
Manulife Real Estate

March 31, 2017

Lead manager(s):	Greg Spafford	Investment style:	Direct Real Estate
Investment objective:	To provide long-term returns based on income and capital growth by investing primarily in income producing real estate properties.		
Last meeting date:	Q2 2017	Next estimated meeting date:	Q4 2017
Current rating:	INCREASED SCRUTINY		

Annual fund performance (%)

	2013	2014	2015	2016	2017	YTD	5 yrs
Real Estate Fund (SLIRE)	10.44	7.00	6.57	6.37	4.48	0.29	7.03

Short-term performance analysis

- The Fund has posted a positive absolute return for the first quarter of 2017.
- The Fund's results were driven by a stable income return that offset a negative capital return over the period.
- The portfolio is well diversified by asset type and geography. As at March 31, 2017, Retail properties accounted for 37% of the portfolio, while Office and Multi-Tenant Industrial properties each made up another quarter of the portfolio's net asset value. The Fund's top three geographic exposures are to Ontario (37%), Alberta (26%), and British Columbia (24%).

Long-term performance analysis

- The Fund has posted strong absolute results in each of the last five years.
- The Fund's longer term performance had historically been best assessed on an absolute basis. More recently the Fund has adopted a more appropriate benchmark, the REALPAC/IPD Canada Quarterly Property Fund Index (PFI). This index was launched in Q3 2016 and is comprised of open-ended, commingled funds of commercial real estate – including MCPREF.
- Performance over three years has been in-line with the PFI index, though the Fund has lagged over a five-year timeframe.

Significant corporate events

Corporate

- In September 2014, Standard Life PLC announced the sale of its Canadian operations to Manulife Financial Corp. This transaction was closed on January 30, 2015.

Fund specific

- Effective June 3, 2016, William Secnik left Manulife Real Estate. Mr. Secnik held the role of Managing Director and Senior Portfolio Manager with the Manulife Real Estate group within Manulife Private Markets. He served as lead manager for the Manulife Canadian Pooled Real Estate Fund ('MCPREF') that had previously been known as the SLI Real Estate Fund. Ted Willcocks, Global Head of Asset Management for Manulife Real Estate and head of Manulife's Canadian Real Estate Funds platform, had assumed Mr. Secnik's duties on MCPREF on an interim basis as the firm recruited for a permanent replacement. Co-portfolio managers Glenn D'Silva and Warwick Marchant continued to be contributors to MCPREF and supported Mr. Willcocks in the day-to-day management of the mandate.
- Effective March 27, 2017, Greg Spafford joined Manulife Real Estate as Managing Director and Senior Portfolio Manager for MCPREF. Ted Willcocks, who had assumed senior portfolio manager responsibilities on an interim basis, has transitioned those duties to Mr. Spafford.

IMS commentary

- The Manulife Canadian Pooled Real Estate Fund (MCPREF) is an actively managed mandate whose philosophy is to invest in a diversified portfolio of properties that are well located and can provide a steady stream of rental income. The fund's investment policy favours diversification amongst provinces with higher GDP figures, and allows up to 80% of its holdings in industrial types of properties. Debt levels are constrained to 25% of the overall portfolio's value. Management looks for lower risk properties with good tenancies while keeping a medium- to long-term outlook. The three main factors considered to maximize return include a wise initial choice, good location, and a favorable economy.
- IMS viewed Mr. Secnik's departure as representing turnover that required close monitoring of the Manulife Real Estate team, and more specifically of MCPREF. IMS maintained some initial comfort from a few notable mitigating factors, including: (i) the interim appointment of a veteran manager and senior leader in Ted Willcocks, (ii) team continuity, including both Glenn D'Silva and Warwick Marchant, and (iii) the broader Manulife Real Estate team's collaborative approach and depth, which was strengthened through the Standard Life integration.
- Mr. Secnik's departure and the recruitment of a senior portfolio manager to replace him created a level of shorter-term uncertainty for the group. As a result of this change in lead manager, IMS placed MCPREF under Increased Scrutiny as an initial step and with the intention of reaffirming or updating the rating following further due diligence meetings with Manulife's Real Estate group.
- Manulife Real Estate has since hired Greg Spafford as Managing Director and Senior Portfolio Manager for the MCPREF. In his role, he holds responsibility for fund strategy, acquisitions, execution and overall portfolio management of the Fund.
- IMS has recently had the opportunity to meet with Mr. Spafford along with existing team members and views his addition to the mandate to be a positive development. IMS will continue to monitor the Fund closely and build conviction in the team's newest senior member.

Conclusion:

- Due to the fact that: (i) William Secnik's departure and the recruitment of a senior portfolio manager to replace him as lead PM created a level of near-term uncertainty, and (ii) IMS continues to build conviction in the new senior portfolio manager Greg Spafford, the Fund remains under Increased Scrutiny.

This report card is provided by Manulife as a tool to assist you in the governance of your retirement plan.

Manulife makes no representation or warranty, express or implied, as to the accuracy or completeness of the information provided. Though Manulife has taken all reasonable measures to provide you with relevant information and professional opinions, based on reliable sources*, it reserves the right to correct any error or omission.

The opinion of Manulife expressed in this report card shall not be the only factor to consider for decisions related to your plan's portfolio. Manulife is not responsible for the outcome of decisions made based on the information and opinion provided in the report card.

* Sources may include, but are not limited to, Mercer MPA, Morningstar, Principia and Thomson Baseline

All rights reserved © 2017 The Manufacturers Life Insurance Company

The Manufacturers Life Insurance Company