



Manulife Fidelity Global Fund Fidelity Investments Canada

March 31, 2017

Lead manager(s):	Jeremy Podger	Investment style:	Core
Investment objective:	The Fund aims to achieve long-term capital growth by investing primarily in equity securities of companies anywhere in the world.		
Last meeting date:	December 2016	Next estimated meeting date:	Q4 2017
Current rating:	ON WATCH		

Annual fund performance (%)

	2013	2014	2015	2016	2017	YTD	5 yrs
Manulife Fidelity Global Fund	10.87	28.84	24.51	0.62	22.29	7.60	16.97
MSCI All Country World Index (\$Cdn)	12.38	26.63	20.96	-2.30	18.62	6.32	14.81
Value added (+) / lost (-)	-1.51	2.21	3.55	2.92	3.68	1.28	2.16

Short-term performance analysis

- In the first quarter 2017, the Fund outperformed its benchmark.
- Security selection was the main driver of added value, particularly in the Information Technology, Health Care and Energy sectors. Within Information Technology, several positions were among the top contributors including Check Point, Lam Research and Activision Blizzard. On a regional level, holdings in the U.S. and emerging markets were the main contributors to added value.
- Sector allocation was a slight positive during the period, primarily due to an overweight allocation to the outperforming Information Technology sector.
- At the end of the first quarter, the portfolio's largest regional overweight was to Japan and the largest underweight was to Canada. On the sector level, the largest overweight allocation was to Information Technology and the largest underweight allocation was to Financials and Consumer Staples. While the Manager is cautious about political risks in Europe and elevated market valuations, he remains optimistic about equities amid improved investor sentiment since the U.S. election and the potential for earnings growth to surprise on the upside.
- Based on MSCI style indices, growth stocks outperformed on average in the first quarter. Given the Fund's core investment bias, its style had little impact on short-term performance.

Long-term performance analysis

- The Fund outperformed its benchmark in four of the past annual periods as of March 31st and has added value on a five-year annualized basis.
- Sector allocation and security selection were mixed over the past five years. Over the longer term, the performance track record includes a variety of portfolio managers that have managed this portfolio over time.
- Based on MSCI style indices, growth stocks slightly outperformed on average. Given the Fund's core investment approach, its style had little impact on long-term performance.

Significant corporate events

Corporate

- There were no significant corporate specific events over the last three years.

Fund specific

- Effective November 3, 2014, Jeremy Podger assumed portfolio management responsibilities for the Fidelity Global Fund. Mr. Podger took over responsibilities from Brian Hoesly, Chris Steward, and the current sub-portfolio management team to manage the Fund as a single, integrated global equity strategy.

IMS commentary

- The Fidelity Global Fund follows an investment process that aims to identify and invest in a group of typically 70-110 stocks with the potential to deliver strong returns. The investment manager categorizes investment opportunities into one of three types: unique businesses, companies undergoing corporate change, or companies offering exceptional value. Over the long term, the Fund expects average weights for each opportunity: corporate change: 25%, exceptional value: 50% and unique businesses: 25%.
- Mr. Podger's appointment to the Fund in November 2014 has resulted in a change to the investment process and approach utilized by the Fund. The Fund was previously managed under a multi-portfolio structure in which lead portfolio managers Chris Steward and Brian Hoesly focused on asset allocation and security selection within Developed International ex-Asia markets, while sub-portfolio managers made stock selection decisions within Asia, U.S. and Emerging Markets respectively. Now, the Fund is managed solely by Mr. Podger who makes all portfolio decisions with a bottom-up, fundamental research approach.
- IMS has monitored the Fund closely under Mr. Podger's management. Concerns exist with the change in approach that has resulted in a more concentrated portfolio with moderately wider regional and sector deviations than the highly diversified portfolio driven by the previous multi-manager approach.
- The Fund had consistently experienced disappointing performance under the former Portfolio Managers. Since Mr. Podger took over the portfolio management responsibility, the Fund's absolute performance has been strong over the last two annual periods; however, the Fund's volatility and tracking error have been elevated with quarters of both significant underperformance and outperformance which makes it difficult to predict future performance.
- Based on our due diligence, significant concerns exist with the continued, large-scale changes to the Fund over the last four years. The change in portfolio management to Mr. Podger brought about a new process and a new portfolio considerably different from what were previously offered. Furthermore, Mr. Podger's investment approach is unique and complex as he attempts to take advantage of multiple styles across different market conditions; this presents a key-man risk in addition to the fact that a longer track record is required to assess his ability to consistently add value with this approach. These concerns have resulted in IMS placing the Fidelity Global Fund 'on-Watch'.
- IMS has met with Mr. Podger in December 2016 and existing concerns remain and we will continue to monitor the Fund closely going forward.

Conclusion:

- IMS has been monitoring the Fund's process and positioning closely since Mr. Podger's appointment. Despite the solid performance over the last two years, we continue to rate the Fund On-Watch as existing concerns remain with the significant changes to the process and the portfolio positioning as well as the performance pattern. IMS will continue to monitor the Fund closely going forward.

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