



Global Asset Allocation Fund (Fidelity)
Manulife Fidelity Global Asset Allocation Fund
Fidelity Investments Canada ULC

March 31, 2017

Lead manager(s):	Ayesha Akbar, Kevin O'Nolan	Investment style:	Active
Investment objective:	To achieve a high total investment return by investing in equity securities, fixed income securities and money market instruments around the world.		
Last meeting date:	December 2016	Next estimated meeting date:	Q4 2017
Current rating:	INCREASED SCRUTINY		

Annual fund performance (%)

	2013	2014	2015	2016	2017	YTD	5 yrs
Global Asset Allocation Fund (Fidelity)	12.79	20.72	18.44	1.15	10.60	4.39	12.53
Global Asset Allocation Fund Benchmark (Fidelity) ⁽¹⁾	9.23	20.57	16.59	-0.36	12.24	4.45	11.62
Value added (+) / lost (-)	3.56	0.15	1.85	1.51	-1.64	-0.06	0.91
Benchmark: 65% MSCI All Country World (net) Index (Can\$) + 30% Barclays Capital Global Aggregate Bond Index + 5% FTSE TMX 91-day T-Bill Index							

Short-term performance analysis

- In the first quarter of 2017, the Fund produced a return that was in line with its custom benchmark index.
- Security selection within the equity sleeve was the main contributor to the Fund's relative performance. On a sector level, positive selection in the Consumer Staples and Real Estate sectors offset negative selection in the Financials and Telecommunication sectors to produce a slightly positive effect. On a regional basis, positive stock selection in China and Australia was offset by negative selection in the US market.
- Asset allocation produced a negative effect, primarily due to an underweight allocation to the strongly performing emerging markets and to the outperforming Energy sector. Within the fixed income sleeve, the Fund's overweight allocation to cash also detracted value.
- The Fund currently has a slightly overweight allocation to global equities, an underweight allocation to global bonds and an overweight allocation to cash. Within global equities, the most notable overweight allocation at the sector level was to the Information Technology and Energy sectors and the largest underweight allocation was to the Health Care and Consumer Discretionary sectors.
- Given the Fund's blended investment philosophy, style bias has no impact on short-term performance.

Long-term performance analysis

- The Fund outperformed its benchmark in four of the past five years and has added value on a five-year annualized basis.
- Asset allocation was the largest driver of added value over the five-year annualized period.
- Asset class and stock selection also produced positive results over the long-term.
- Given the Fund's blended investment philosophy, style bias has no impact on long-term performance.

Significant corporate events

Corporate

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

Fund specific

- In January 2015, Fidelity Investments (Fidelity) announced that, effective January 27, 2015, Trevor Greetham, the lead portfolio manager on the Global Asset Allocation Fund, would be leaving the firm. Kevin O’Nolan has joined current co-portfolio manager Ayesha Akbar in the management of the Fund.

IMS commentary

- The Global Asset Allocation Fund (Fidelity) follows a bottom-up, blended investment style mandate. It is expected that the fund will outperform in periods when company fundamentals are at the forefront of decision-making in the market. When the market is being driven by sentiment rather than pure company fundamentals, their research-based approach can be disadvantaged.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The Fund has outperformed its benchmark over the long term. Added value has been in part a factor of superior asset class performance, which is in line with expectations, however this performance track record belongs to various management teams, with the current PM’s in place since Q1 2015.
- Fidelity announced replacement Managers for the Fund in late 2013, following the retirement of Michael Strong on September 30, 2013. In January 2015, Trevor Greetham, the lead portfolio manager of the Fund, left the firm and Kevin O’Nolan joined the current co-portfolio manager Ayesha Akbar in the management of the Fund. They continue to rely on the expertise of Fidelity’s AA group and leverage the group’s view on regional opportunities and global asset class valuations. The portfolio managers are supported by a team of quantitative and credit analysts actively following global credit issuers. In addition, the team also replaced the underlying Global equity managers due to performance concerns.
- This significant team turnover resulted in changes to the Fund’s investment process including Portfolio Manager Kevin O’Nolan’s increased focus on tactical allocation to take advantage of short-term opportunities. The lack of a long term track record of the Manager’s ability to add value through this short-term approach warrants close monitoring. Furthermore, Fund management changed the Fund’s global equity allocation resulting in a different investment process being applied to manage the sub-fund. As such, close monitoring over a prolonged period is required to assess the effect of these changes on how the Fund is managed going forward.
- In the fourth quarter of 2016, IMS met with the Manager and our concerns still exist with regards to the changes to the investment process and the Manager’s increased tactical allocations within the portfolio. Close monitoring is required to assess the influence of this short-term focused approach on the Fund’s performance over the longer term.

Conclusion:

- Despite the solid long-term performance, IMS continues to rate the Fund under Increased Scrutiny primarily due to our concerns with regards to the changes in the investment process, which were driven by the departure of former lead Portfolio Manager Trevor Greetham in January 2015 as well as subsequent sub-portfolio manager changes.

⁽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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