Factsheet
June 30, 2019

Corporate Bond Strategy

SEPARATELY MANAGED ACCOUNTS

Investment Philosophy[1]

There are 'pockets of value' in the fixed income market. Thorough credit and curve analysis enables us to identify and exploit these pockets of value in the pursuit of long-term returns, while minimizing downside risk. Within this conservative framework we apply our creativity to generate innovative investment ideas, and develop state of the art portfolio management techniques, allowing us to remain at the forefront of the investment industry.

Style:	Multi-Disciplinary
Strategy Inception:	August 1, 2012
Benchmark:	FTSE Canada Corporate Bond Index

Investment Process[2]

Macroeconomic Analysis

- Assess macroeconomic factors
  - Fiscal & monetary policy
  - Business and credit cycle stage
  - Default forecast
- Ideas come from multiple sources**:**
  - Portfolio Managers/ Research Analysts
  - Internal/external Economists
  - Sell side relationships
  - Industry sources
  - Proprietary ESG risk/opportunity assessment

Credit Quality and Industry Sector Allocation

- Assess long-term industry trends and catalysts
- Evaluate industry risks
- Identify industry and quality sectors that offer compelling relative value

Issuer Due Diligence and Security Analysis

- Minimize default risk through in depth credit research
- Identify the most attractive part of the capital structure
- Assess ESG risk and opportunity factors, and sustainability impact
- Identify securities with attractive risk-return profiles
  - Index screens
  - Relative value analysis

Disciplined Portfolio Construction

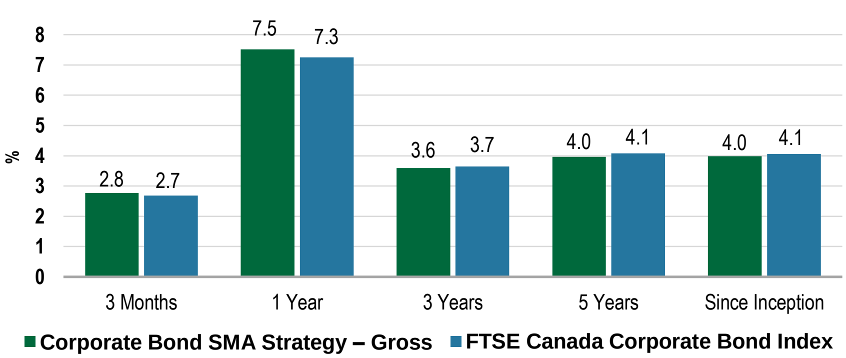
- Diversify across industry sectors and issuers
- Actively manage credit exposure to benefit from evolving risk environment
- Total return approach with an emphasis on income generation and capital preservation

Stringent Risk Management

- Monitor and seek to eliminate unintended risks
- Monitor liquidity for all positions
- Monitor price volatility for all positions
- Evaluate sector and issuer concentration
- Continual review of portfolio holdings
- Ensure proper management of ESG risks for long-term sustainable returns
- Focus engagement on companies with opportunity to improve for both investors and society

Composite Performance*

Returns as of June 30, 2019 (%)



Calendar Year Returns (%)

	2018	2017	2016	2015	2014	2013
Corporate Bond SMA Strategy – Gross[3]	0.88	3.12	3.81	2.61	6.78	0.80
FTSE Canada Corporate Bond Index	1.10	3.38	3.73	2.71	7.58	0.84

*Performance shown above is based on a model portfolio and is gross of fees, in CAD. Past performance is not indicative of future results. Returns greater than one year are annualized. Inception date: August 1, 2012.

Strategy Highlights

- Focused exposure to high-quality, attractively valued corporate bonds
- Enhanced total return opportunity through an active approach to credit, sector and security selection
- A dedicated investment team, backed by one of North America's largest global credit research groups

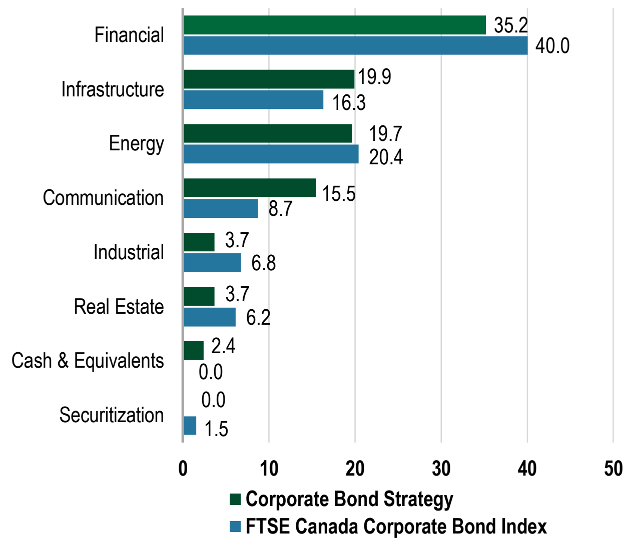
Portfolio Characteristics[4]

	Corporate Bond SMA Strategy	FTSE Canada Corporate Bond Index
Average Rating	A	A
Modified Duration (years)	6.45	6.59
Yield to Maturity (%)	2.65	2.69
Number of Holdings	25	973

Maturity Distribution (%)

Short Term (0 – 4.99 years)	44.26	50.48
Medium Term (5 – 10 years)	29.96	19.54
Long Term (> 10 years)	25.78	29.98

Sector Allocation (%)[4]



Credit Quality (%)

	Corporate Bond SMA Strategy	FTSE Canada Corporate Bond Index
AAA	2.43**	1.96
AA	22.90	23.95
A	26.07	31.93
BBB	48.60	42.16

Top Ten Holdings (%)[4***]

Issuer	Coupon	Maturity Date	Portfolio Weight
Toronto-Dominion Bank	2.62	December 22, 2021	8.69
Bank of Montreal	4.61	September 10, 2025	7.16
HSBC Bank Canada	2.91	September 29, 2021	7.05
Capital Desjardins	5.19	May 5, 2020	6.02
Telus Corp	3.75	March 10, 2026	5.36
Shaw Communications	4.35	January 31, 2024	5.20
Bell Canada	3.55	March 2, 2026	4.90
Emera	2.90	June 16, 2023	4.61
Bank of Nova Scotia	2.58	March 30, 2027	4.59
Altalink LP	3.99	June 30, 2042	4.03

** Including cash
***Top ten holdings exclude cash instruments

Market Commentary

Market Environment

During the quarter, the dovish stance of global central banks supported the risk-on sentiment despite increased uncertainties from trade talks between the U.S. and China. In Canada, recent economic data suggested continued healthy economic growth. March's Core Retail Sales (month-over-month) came in at 1.7%, marking positive growth for three consecutive months since February. Labour markets continued to show strength, with the unemployment rate falling to 5.4% in May, and the economy adding 107,000 jobs in April, the biggest monthly gain on record. Gross domestic product growth was positive in both March and April, and the core consumer price index beat economist consensus and recorded 2.1% year-over-year growth in May, in line with the 2% target of the Bank of Canada ("BoC"). During the latest meeting, the BoC kept its benchmark interest rate unchanged at 1.75%. In its latest rate statement, the BoC suggested the positive growth in the second quarter indicates that the recent weakness in late 2018 and early 2019 was temporary. Overall, the statement suggested that the degree of accommodation being provided by the current policy interest rate remains appropriate, suggesting the BoC will likely be on hold over the near term. Government of Canada bond yields dropped across the curve during the quarter, with 2-year yields dropping 8 basis points ("bps") to 1.47% and 10-year yields decreasing 15 bps to 1.47%.

The U.S. Federal Reserve Board ("Fed") kept its federal funds rate at the range between 2.25% and 2.50% in June, as expected by the market. However, the statement from the Federal Open Market Committee ("FOMC'"), as well as Fed Chair Jerome Powell's dovish speech at the press conference, reinforced recent market sentiment that the Fed is open to potential interest rate cuts. We believe that in the FOMC's statement, the word "patient" was removed due to increased uncertainties in the market and muted inflation. During the press conference, Powell highlighted signs of positive domestic economic growth, such as consumer spending and strong labor market growth. However, business investments have been soft, and subdued inflation has continued. In our opinion, the increased uncertainties with trade and potential prolonged subdued inflation growth have led the FOMC's members to believe that the risk of less favorable outcomes has risen and the case for somewhat more accommodative monetary policy has strengthened. While implying potential interest rate cuts over the near term, Powell emphasized that the Fed would continue to be data-dependent and will closely monitor trade talk developments and inflation-related data. U.S. Treasury yields dropped sharply during the period, with 2-year yields falling 51 bps to 1.76% and 10-year yields falling below 2.01%.

On the international front, trade tensions between the U.S. and China eased as the two countries agreed to a trade war truce at the G20 Summit in Osaka, Japan, after their initial trade talks broke down in May. In Europe, European Central Bank ("ECB") President Mario Draghi delivered a dovish speech at the ECB Forum in Portugal, which we believe led to significant bond recoveries in Europe. Draghi suggested that the ECB is open to increasing monetary policy accommodation, and he reassured the market that it has the available tools to do so.

The FTSE Canada Universe Bond Index returned 2.51% over the quarter. Corporate bonds, as measured by the FTSE Canada All Corporate Bond Index, returned 2.68% during the period, as corporate spreads narrowed 13 bps. Within the corporate space, A-rated bonds were strong performers, while from a sector standpoint, the Energy sector and Infrastructure industry were the strongest performers.

Portfolio Review

From a credit quality standpoint, an overweight exposure to BBB-rated bonds contributed to the strategy's performance, while its underweight exposure to A-rated bonds detracted from performance. Security selection within BBB- and A-rated bonds contributed to the strategy's performance.

From a sector standpoint, an underweight exposure to the Financials sector and an overweight exposure to the Communication Services sector contributed to the strategy's performance. Security selection within the Infrastructure industry and the Industrials sector contributed to the strategy's performance, while security selection within the Energy sector detracted from performance.

The Montréal–Pierre Elliott Trudeau International Airport (3.36%, 2047) was added to the strategy during the period, while Inter Pipeline Ltd. (4.64%, 2044) was removed from the strategy.

At the end of the period, the strategy's duration was 6.5 years, which is slightly below its benchmark, the FTSE Canada All Corporate Bond Index. The strategy had a yield to maturity of 2.7%, which is 4 bps below its benchmark.

Outlook

In the second quarter of 2019, both the Fed and the BoC signalled a more dovish approach to monetary policy for the remainder of the year. We believe the market has slightly overreacted in response to the BoC's recent dovish statements. Given the current environment, our bias will be to maintain a neutral duration in the near term relative to the benchmark. We also expect the Canadian government bond yield curve to flatten further. The search for yield in a persistently low interest rate environment should continue to be a significant theme, and we expect demand for corporate bonds to be robust. However, we believe the political uncertainty of the U.S. administration will subject markets to volatility in the medium to long term. In addition, we expect uncertainties within the oil and housing markets to remain key risks to the Canadian economic outlook.

Lead Portfolio Managers

Terry Carr, CFA, chief investment officer for Canadian fixed income, leads the Canadian Fixed Income Team at Manulife Investment Management. In this role, he is responsible for the Toronto and Montreal-based Fixed Income and Money Market teams who manage client portfolios in actively-managed strategies within the investment grade and high yield sectors, including fixed income balanced and other customized mandates. Terry is also a member of the Manulife AM Responsible Investment Committee which is responsible for ongoing development of policies and programs to facilitate the integration of ESG factors within the firm's investment process.

Terry joined Manulife Investment Management in 2002 as a senior portfolio manager, high yield securities. In 2005, his responsibilities grew to include all of Manulife Investment Management's Canadian total return and passive bond portfolios and in 2007, Terry began overseeing the Money Market Team as well. In 2017 he was named CIO, Canadian fixed income. Terry first worked in Manulife Financial's investment department from 1987 to 1996, ultimately as assistant vice president for US bonds. Between his work at Manulife, Terry was president of Tarian Capital Management from 1999 to 2002 and senior portfolio manager, high yield bonds, at Royal Bank of Canada from 1996 to 1999. Prior to his first term at Manulife, Terry held roles of progressive responsibility at other large Canadian insurance companies and banks. Terry is a CFA charterholder.

Education: York University, BBA, 1985

Joined Company: 2002

Began Career: 1986

Roshan Thiru, CFA, is a managing director and senior portfolio manager with Manulife Investment Management. He is a member of the Canadian Fixed Income Team and focuses on investment grade corporate debt mandates. Previously, Roshan was a portfolio manager and senior fixed income analyst. Prior to joining Manulife, he was a lead analyst with DBRS, covering the energy, project finance, and utility sectors. Before that, he worked as an institutional credit risk manager at RBC Financial Group and as an analyst at Foyston, Gordon & Payne. Roshan is a CFA charterholder.

Education: McMaster University, BA (Honours) in Economics, 2000; Wilfrid Laurier University, Diploma in Accounting, 2001; University of Windsor, MBA, 2003

Joined Company: 2008

Began Career: 2000

Corporate Bond team also includes:

Altaf Nanji, CFA
Managing Director,
Head of credit research

Joined Firm: 2014

Began Career: 1998

José Saracut, CFA, FRM
Managing Director,
Senior Credit Analyst

Joined Firm: 2015

Began Career: 1998

Vincent Zheng, CFA
Managing Director
Senior Credit Analyst

Joined Firm: 2019

Began Career: 2011

Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than 150 years of financial stewardship to partner with clients across our institutional, retail, and retirement businesses globally. Our specialist approach to money management includes the highly differentiated strategies of our fixed-income, specialized equity, multi-asset solutions, and private markets teams—along with access to specialized, unaffiliated asset managers from around the world through our multimanager model.

Rounding discrepancies possible.

The Strategy provides a bond portfolio offering superior income compared to traditional bond funds. The Strategy invests primarily in Canadian corporate bonds and has an average credit rating of at least BBB at all times.

The FTSE Canada Corporate Bond index is comprised primarily of semi-annual pay fixed rate corporate bonds issued domestically in Canada and denominated in Canadian dollars, with an investment grade rating. It is not possible to invest directly in an index.

The indices referenced herein are broad-based securities market indices and used for illustrative purposes only. The indices cited are widely accepted benchmarks for investment performance within their relevant regions, sectors or asset classes, and represent non-managed investment portfolios.

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Source for information shown is Manulife Investment Management, unless otherwise noted.

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[2] No investment strategy or risk management techniques can guarantee returns or eliminate risk in any market environment.

[3] Gross performance results do not reflect the deduction of investment management fees and are net of commissions and foreign withholding tax. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Investment management fees are available upon request.

[4] Portfolio characteristics — Holdings, sector weightings, market capitalization and portfolio characteristics are subject to change at any time and are based on a model portfolio. Holdings, sector weightings, market capitalization and portfolio characteristics of individual client portfolios in the strategy may differ, sometimes significantly, from those shown. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities and sectors listed. portfolios in the strategy may differ, sometimes significantly, from those shown. Top ten holdings information shown combines share listings from the same issuer, and related depositary receipts, into a singular holding to accurately present aggregate economic interest in the referenced company.