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Portfolio Manager Commentary

Market Review

Equity markets had a golden first quarter in 2012, on the back of an improving economic outlook and a diminishing risk environment. The S&P/TSX Composite Index gained 4.4 per cent from Q4 2011, while the S&P 500 Index (C\$) rose 10.6 per cent. Foreign equities also recorded robust advances. For perspective, the MSCI emerging market index posted the biggest Q1 increase (22.34 per cent) since 1992 and the Nikkei 225 recorded its best Q1 (20.3 per cent) since 1988. Meanwhile, the flight to risk assets caused a retreat in fixed income investments. As a result, the Barcap Multiverse (C\$) fell 68 basis points over the quarter following a 7.9 per cent gain in 2011.

Portfolio Review

For the quarter, the largest contributor to performance was the Manulife U.S. Opportunities Fund. Other drivers of performance were the Manulife U.S. All Cap Equity Fund, the Manulife Canadian Value Fund, and Manulife Global Focused Fund. The biggest detractor was the Utilities SPDR ETF.

Outlook

Going into the second quarter, the cyclical outlook remains unchanged from Q1. The global economy has been gaining momentum since September 2011 and continues to accelerate. As of January 2012, 28 out of the 36



OECD country leading economic indicators are quickening; thereby implying broad based improvement in global economic activity. This trend is further collaborated across purchasing manager indices. Six out of the G7 country Purchasing Managers Index (PMI) surveys are showing increases relative to three months ago. However, the most visible improvement has been robust North American payroll gains. Non-farm payrolls in the United States have averaged above 200,000 since the beginning of the year, while Canada posted job gains of 82,300 in March. Given the consistency across economic data, the acceleration in the business cycle should continue through the end of 2012.

From a tactical perspective, the extraordinary gains in equities over the last two quarters should be viewed with a degree of caution. As the S&P 500 (C\$) has risen 20.91 per cent since the end of September without a correction of size, some chips should be taken off the table in anticipation of a pullback. The need for prudence is also being corroborated by tactical measures indicating high investor complacency, overbought conditions across equity markets and increasing sovereign stress in Europe.

From the third quarter of last year, the Fund been positioned with a high allocation to risk assets as fundamentals dictated an improving economic environment. As the equity rally materialized in the fourth quarter and progressed through to 2012, profits were crystallized incrementally. Going into the second quarter, the Fund is being managed more conservatively due to a more cautious tactical outlook. Nevertheless, the Fund will remain broadly overweight equities versus the policy mix; albeit the degree of exposure will vary as the tactical environment changes.

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