

# Q4 2012 Funded Status Barometer

## Market Review

During the final quarter of 2012, investors were faced with an environment that included a myriad of challenges including continuing growth challenges in Europe and Japan, fears of the US economy diving over the “fiscal cliff” as well as lackluster earnings growth, and critical leadership transitions in a number of the world’s largest economies.

Despite some of the headline risks that appeared, most equity markets around the world closed the year on a high note. In Canada, equity markets saw some pretty mixed performance among sectors but in aggregate experienced a modest rise. Financials were strong, returning 6.3%, but Materials and Energy were weak, returning -6.7% and -0.8%, respectively. These three sectors make up roughly 80% of the S&P/TSX Composite, which as a whole returned 1.7% in the 4th quarter. In the United States, election results foreshadowed a difficult fight ahead to resolve the nearing “fiscal cliff.” Starting off bumpy, the S&P 500 managed to return 0.8% as hopes for compromise seemed a good possibility coming on year-end. The big winners in the 4th quarter were international stocks in both developed and emerging markets, which delivered very strong gains, as evidenced by the MSCI EAFE and MSCI Emerging Markets equity indexes each returning 7.9% and 6.9%, respectively.

On the fixed income front, Canadian bond markets eked out a 0.3% return for the quarter, as measured by the DEX Universe Bond Index. Duration did not fare as well, as the DEX Long-Term Bond Index returned a lesser 0.2%. The broader global fixed income market performed relatively better in Q4,

as the Barclays Global Aggregate Bond Index returned 0.7%. Investors seeking higher yields were rewarded for taking on risk in Emerging Market Debt and High Yield Bond markets, as those sectors continue to keep pace with equity market performance. This is evidenced by the J.P. Morgan Emerging Markets Bond Index and the Barclays Global High Yield Bond Index each returning 4.6% and 5.8%, respectively.

Overall, it was a very good year for both equity investors and fixed income investors with the broad global equity market, represented by the MSCI All Country World Index, rising 14.2% and many fixed income markets delivering solid mid-single digit to very strong double digit returns. A terrific outcome given the seemingly endless string of challenges faced throughout the year.

## Industry Funded Status Update

Given the market activity seen in the 4th quarter, a Defined Benefit Plan allocated to a standard 60/40<sup>1</sup> portfolio should have seen some improvement in their plan’s funded status position. Using the DEX Long Government Bond Index as a liability proxy, we estimate that such a plan would have started the quarter with a funded status of 70.8% and ended at 72.0%<sup>2</sup>. This improvement came as the standard 60/40 portfolio returned 1.7% in Q4 vs. the liability proxy<sup>3</sup> return of -0.1%. Throughout that period, we estimate that this typical plan experienced Funded Status Volatility<sup>4</sup> of 7.9%.

## Pension Funded Status Barometer

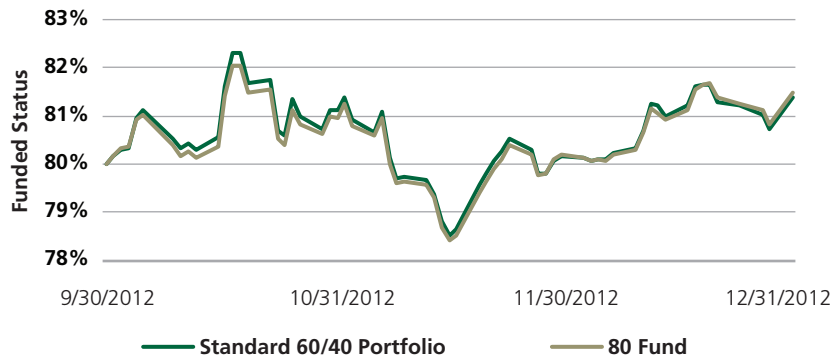


Source: Reuters, Morningstar Research Inc., Manulife Asset Management

Note: This analysis is based on a model plan. The funded status ratio has been set at December 31, 2010 at an estimated 84.0%, based on a survey by Financial Services Commission of Ontario as to the funded status of Canadian defined benefit plans at that time. The graph indicates the direction and magnitude of the change in funded ratio from month to month. The model plan is assumed to provide non-indexed pension benefits.

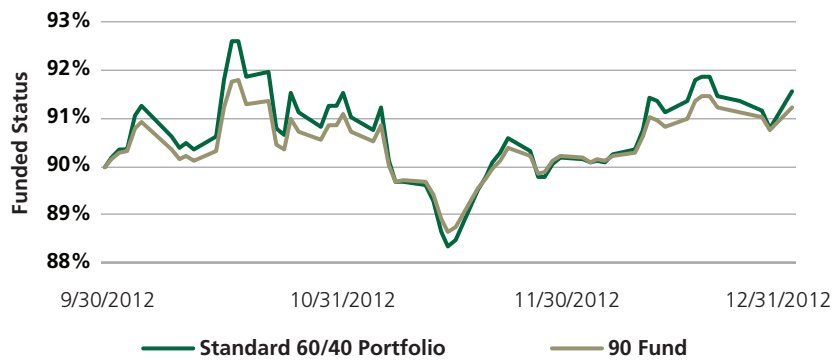
## Manulife Asset Management - Target De-Risking Funds

### Target De-Risking 80 Fund



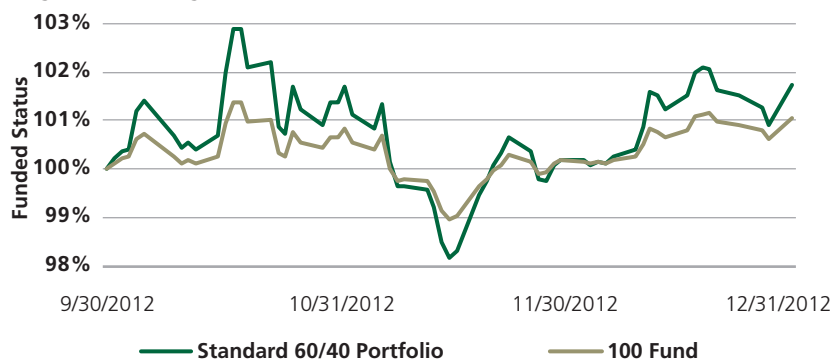
Q4 2012	80 Fund	60/40	Liability
Return	1.80%	1.67%	-0.05%
Funded Status Volatility	7.66%	7.89%	
Funded Status	<b>81.5%</b>	<b>81.4%</b>	

### Target De-Risking 90 Fund



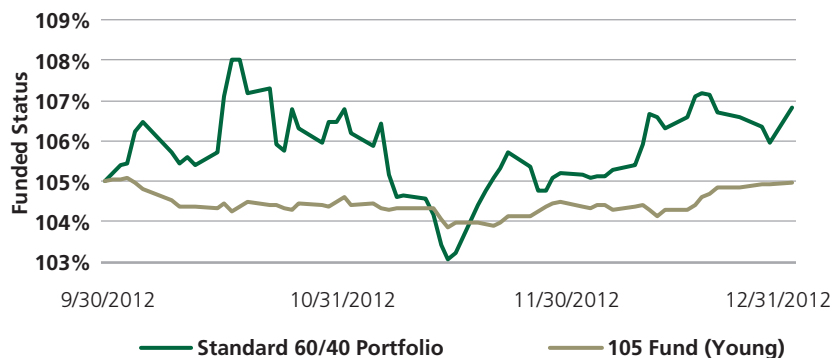
Q4 2012	90 Fund	60/40	Liability
Return	1.32%	1.67%	-0.05%
Funded Status Volatility	5.85%	7.89%	
Funded Status	<b>91.2%</b>	<b>91.5%</b>	

### Target De-Risking 100 Fund



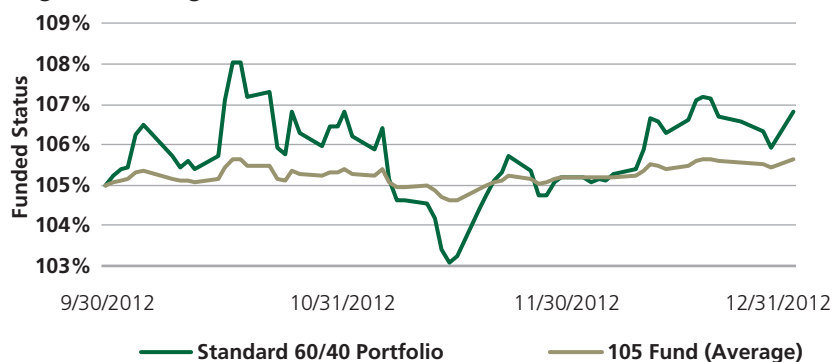
Q4 2012	100 Fund	60/40	Liability
Return	1.02%	1.67%	-0.05%
Funded Status Volatility	4.12%	7.89%	
Funded Status	<b>101.1%</b>	<b>101.7%</b>	

### Target De-Risking 105 Fund (Young)



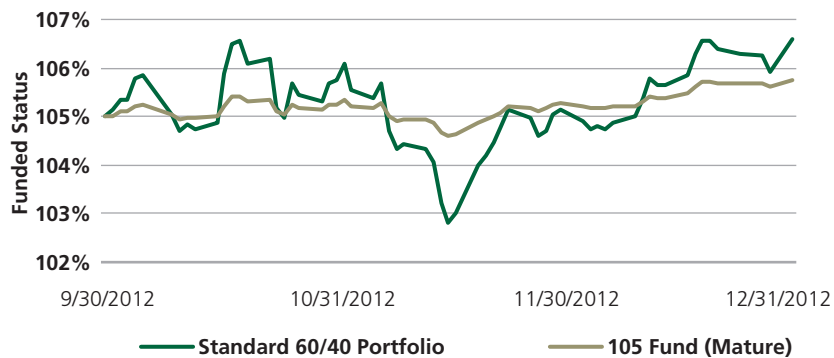
Q4 2012	105 Young	60/40	Liability
Return	-0.08%	1.67%	-0.05%
Funded Status Volatility	1.62%	7.89%	
Funded Status	<b>105.0%</b>	<b>106.8%</b>	

## Target De-Risking 105 Fund



Q4 2012	105 Fund	60/40	Liability
Return	0.56%	1.67%	-0.05%
Funded Status Volatility	1.81%	7.89%	
Funded Status	105.6%	106.8%	

## Target De-Risking 105 Fund (Mature)



Q4 2012	105 Mature	60/40	Liability
Return	0.88%	1.67%	0.16%
Funded Status Volatility	1.53%	6.08%	
Funded Status	105.8%	106.6%	

<sup>1</sup> 60% Equities / 40% Fixed Income (40% S&P/TSX Composite, 10% S&P 500 (CAD), 10% MSCI EAFE (CAD), 40% DEX Universe Bond Index)

<sup>2</sup> Uses a 12/31/10 starting point of 84.0% (Median Funded Status Position of 813 plans that filed valuation) Source: Financial Services Commission of Ontario

<sup>3</sup> DEX Long Government Bond

<sup>4</sup> Funded Status Volatility is annualized and measured as the standard deviation of the period's daily surplus returns. No allowance is made for the funding of pension plan deficits nor for contributions holidays (the Funded Status chart implicitly assumes that cash contributions are being made equal to the value of pension benefits being earned on a current basis). No allowance is made in the liabilities for pension plan improvements or demographic related factors.

## Disclosure

All performance shown gross of fees.

For the purposes of the Target De-Risking Funds ("TDRFs"), Manulife Asset Management defines funded status (FSV) as the financial position of a pension plan determined on a hypothetical wind-up basis or solvency basis as outlined in the Canadian Institute of Actuaries' Standards of Practice – Practice-Specific Standards for Pension Plans.

As with any fund(s) containing a mix of equities and fixed income, equity markets and interest rates can have a significant positive or negative impact on TDRFs. This means that while TDRFs are designed to assist You in Your efforts to reduce the FSV of Your Plan, there is no guarantee Your Plan's funded status will increase over time, or that the FSV associated with Your Plan will improve. In fact, the markets could have a negative effect on both of these factors. It is also important to note that although each TDRF fund is suited to a certain level of Plan funded status, Manulife does not guarantee that investment in a given TDRF will ensure that Your Plan will attain and retain the funded status level associated with such TDRF. (e.g. the Manulife Target De-risking 80 Fund does not guarantee that if Your Plan's funded status is 80% when you invest in this fund that the funded status will always remain at or above 80%).

Finally, the fixed income component of the TDRFs is designed to have a specific duration. You should be aware that if Your Plan's liabilities do not match the specific duration of the specific TDRF you have chosen, this will also impact the fund's ability to provide optimal results.

The Target De-Risking Funds provide Defined Benefit plans with an easy solution to reduce funded status volatility. Volatility measures presented here in this barometer were measured using the DEX Long Government Bond as a proxy for plan liability. Each DB plan's liabilities are unique to their own characteristics and so measures presented here may differ from actual results. Manulife Asset Management recommends checking your plan's actual funded status at least once a year. This barometer is only to be used as a tool to encourage users to review their funded status and duration which may warrant moving to another Target De-Risking Fund.

Index returns are for illustrative purposes only and do not represent actual fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

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