
Quarterly Investment Update

Fourth Quarter 2020

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Market Update: A Quarter in Review

December 31, 2020

Canadian Stocks

Large Cap	Small Cap	Growth	Value
7.86%	23.48%	3.16%	15.13%
			






International Stocks

Large Cap	Small Cap	Growth	Value	Emerging
10.68%	11.85%	7.86%	13.69%	14.16%
				

US Stocks

Large Cap	Small Cap	Growth	Value
8.31%	25.19%	7.15%	11.61%
			

Real Estate and Fixed Income

Global REITs	1-Month T-Bills	Short-Term Bonds	Intermediate Bonds	Global Bonds (hedged)
7.34%	0.03%	0.47%	0.63%	0.12%
				

In Canadian dollars. Market segment (index representation) as follows: Canadian stocks: Large Cap (S&P/TSX 60 Index), Small Cap (S&P/TSX Small Cap Index), Growth (MSCI Canada Growth Index [gross div.]), Value (MSCI Canada Value Index [gross div.]); US stocks: Large Cap (Russell 1000 Index), Small Cap (Russell 2000 Index), Growth (Russell 3000 Growth Index), Value (Russell 3000 Value Index); International stocks: Large Cap (MSCI EAFE Index), Small Cap (MSCI EAFE Small Cap Index), Growth (MSCI EAFE Growth Index), Value (MSCI EAFE Value Index), Emerging Markets (MSCI Emerging Markets Index); Real Estate: Global REITs (S&P Global REIT Index); Fixed Income: 1-Month T-Bills (FTSE Canada 30 Day T-Bill), Short Term Bonds (FTSE Canada Short-Term Bond Index), Intermediate Bonds (FTSE Canada Universe Bond Index), Global Bonds (hedged) (FTSE World Government Bond Index 1-5 Years [hedged to CAD]). MSCI and Russell index returns are net of withholding tax on dividends except where noted. S&P/TSX data provided by S&P/TSX. MSCI data copyright MSCI 2021, all rights reserved. S&P data copyright 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. FTSE fixed income indices © 2021 FTSE Fixed Income LLC. All rights reserved. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance does not guarantee future returns.

Survey of Long-Term Performance

December 31, 2020

D.R. JOHNSON
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Manulife Securities

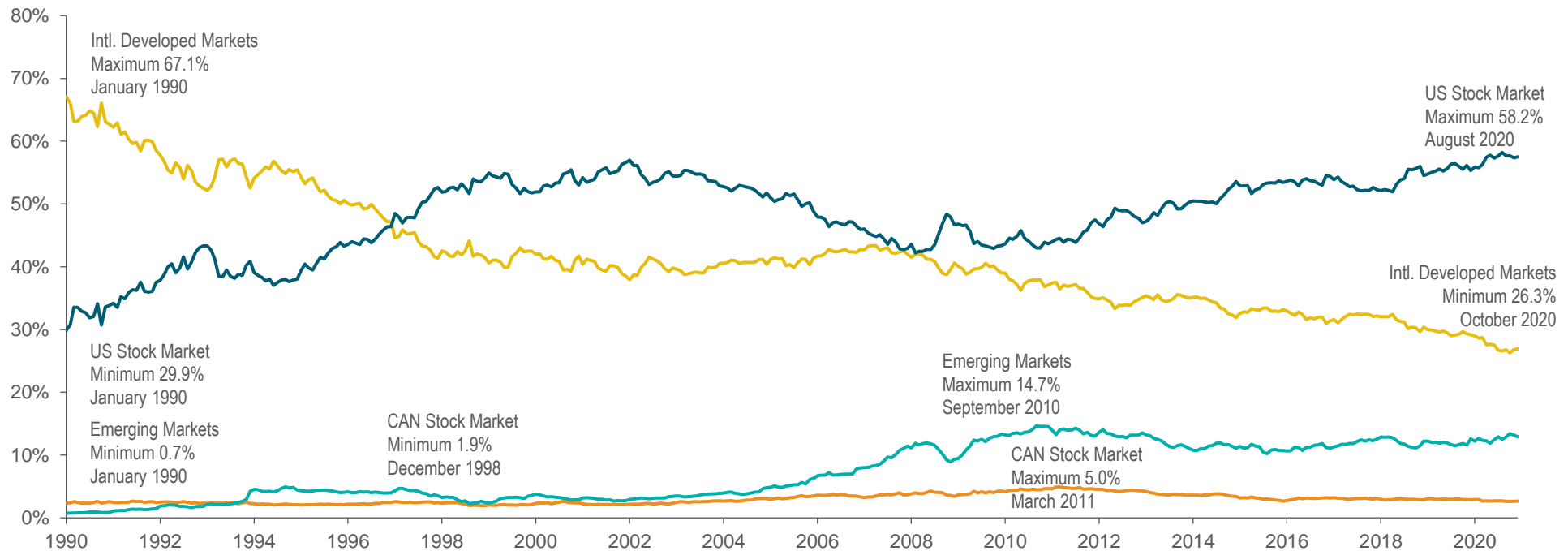
Asset Class	Index	Annualized (%)					Since First Full Month	First Full Month
		1 Year	3 Years	5 Years	10 Years	20 Years		
Canadian Stocks								
Large Cap	S&P/TSX 60	5.56	5.96	9.65	6.21	6.16	8.49	Feb-87
Small Cap	S&P/TSX Small Cap	12.87	2.28	8.77	1.26	4.53	4.63	Feb-00
Growth	MSCI Canada Growth	17.87	9.74	9.29	5.35	3.82	8.15	Jan-75
Value	MSCI Canada Value	-9.57	-0.24	7.95	5.42	6.78	10.85	Jan-75
US Stocks								
Large Cap	Russell 1000	18.23	14.83	12.97	16.20	6.45	12.18	Jan-79
Small Cap	Russell 2000	17.40	10.42	10.87	13.55	7.46	11.62	Jan-79
Growth	Russell 3000 Growth	35.44	22.77	18.15	19.37	7.17	12.10	Jan-79
Value	Russell 3000 Value	0.30	5.69	7.06	12.31	5.66	11.81	Jan-79
International Stocks								
Large Cap	MSCI EAFE (net div.)	5.92	4.86	5.61	8.16	3.64	9.01	Jan-70
Small Cap	MSCI EAFE Small Cap (net div.)	10.37	5.44	7.52	10.56	7.76	7.41	Jan-99
Growth	MSCI EAFE Growth (net div.)	16.22	10.28	8.61	10.22	4.21	9.30	Jan-75
Value	MSCI EAFE Value (net div.)	-4.34	-0.69	2.42	5.97	2.93	10.96	Jan-75
Emerging Markets	MSCI Emerging Markets (net div.)	16.23	6.77	10.87	6.24	8.69	8.45	Jan-99
Real Estate								
Global REITs	S&P Global REIT (net div.)	-10.69	2.31	1.88	8.81	6.85	7.80	Jul-89
Fixed Income								
Canadian T-Bills	FTSE Canada 30-Day T-Bill	0.61	1.20	0.94	0.89	1.74	5.73	Jun-73
Canadian Short-Term Bonds	FTSE Canada Short-Term Bond	5.29	3.42	2.26	2.54	3.90	7.24	Jan-80
Canadian Bonds	FTSE Canada Universe Bond	8.68	5.61	4.19	4.49	5.41	8.51	Jan-80
Global Bonds (hedged)	FTSE World Government Bond Index 1-5 Years (hedged to CAD)	3.13	2.55	1.93	2.14	3.19	5.82	Jan-85

In Canadian dollars. MSCI Canada Growth Index and MSCI Canada Value Index returns are gross dividends. Russell 1000 Index returns are net of withholding tax on dividends as of March 2008. Russell 2000 Index returns are net of withholding tax on dividends as of July 2002. Russell 3000 Growth Index and Russell 3000 Value Index returns are net of withholding tax on dividends as of July 2010. S&P Global REIT Index returns are gross dividends prior to January 2001. S&P/TSX data provided by S&P/TSX. MSCI data copyright MSCI 2021, all rights reserved. S&P data copyright 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. FTSE fixed income indices © 2021 FTSE Fixed Income LLC. All rights reserved. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Value of Stock Markets around the World

January 1990–December 2020

	Number of Countries	Number of Stocks	Total Value	Weights		
				December 31, 2020	Change from Previous Year	01/90-12/20 Average
Canada	1	280	1.93 Trillion	2.7%	↓ -8.7%	3.0%
United States	1	2,375	41.93 Trillion	57.5%	↑ 2.9%	48.1%
Developed Markets	21	3,237	19.61 Trillion	26.9%	↓ -7.1%	41.6%
Emerging Markets	27	3,088	9.43 Trillion	12.9%	↑ 5.7%	7.3%
Total	50	8,980	72.91 Trillion	100.0%		



Global market capitalization weights are not static; they change across time.

Data is in US dollars and values are beginning of month. The proxies for the Canadian and US equity markets are based on the respective country markets from the MSCI All Country World IMI Index. The international developed market proxy is the MSCI All Country World IMI ex USA ex Canada Index. The proxy for emerging markets is the MSCI All Country World IMI Index (Emerging Markets). MSCI data copyright MSCI 2021, all rights reserved.

The Randomness of Quarterly Returns

December 31, 2020

This table shows from top to bottom the highest returning asset classes each quarter over the last 17 quarters. Each asset class is color coded based on the legend below.

Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
6.17	10.83	3.48	3.90	7.63	4.36	8.21	5.12	1.77	13.29	2.58	7.12	9.54	2.30	16.97	7.45	14.16	?
4.54	6.65	3.34	3.68	6.39	2.10	6.77	0.31	1.33	11.57	2.51	2.48	6.70	1.56	16.61	6.98	10.68	?
1.31	5.01	1.11	1.50	4.45	1.32	5.86	0.01	0.41	11.39	1.68	2.35	5.94	0.46	12.99	4.73	9.26	?
0.12	2.41	0.23	0.56	4.42	0.26	0.77	-0.41	-0.45	7.57	1.41	1.19	3.17	-13.30	9.93	2.78	8.97	?
-0.56	1.24	0.17	0.28	3.16	0.10	0.51	-0.57	-2.22	7.51	1.26	0.79	0.43	-15.29	6.38	0.44	7.34	?
-2.21	0.88	0.13	0.16	2.02	0.04	0.31	-0.96	-7.58	3.91	0.42	0.42	0.09	-16.14	5.87	0.39	0.63	?
-3.18	0.21	-0.99	-1.84	0.21	-3.06	0.04	-1.77	-9.58	0.94	-0.93	0.23	-0.85	-20.90	0.49	0.21	0.12	?
-3.44	0.13	-1.64	-2.61	-0.04	-4.52	-6.09	-2.81	-10.11	0.39	-1.59	-2.98	-1.27	-22.09	0.06	0.06	0.03	?

Canadian Stocks
US Stocks
International Developed Markets
Emerging Markets
Global REITs
Canadian 1-Month T-Bills
Canadian Bonds
Global Bonds

The lack of a pattern indicates that picking which asset classes will be the best or worst performers is virtually impossible.

Portfolios combining these various investments will avoid extreme returns.

Data is in Canadian dollars. Indexes represented as follows: Canadian stocks (S&P/TSX Composite Index), US stocks (Russell 3000 Index), International Developed Markets (MSCI EAFE Index), Emerging Markets (MSCI Emerging Markets Index), Global REIT (S&P Global REIT Index), Canadian 1-Month T-Bills (FTSE Canada 30 Day T-Bill), Canadian Bonds (FTSE Canada Universe Bond Index), Global Bonds (FTSE World Government Bond Index Canada 1-5 Years (hedged to CAD)). MSCI and Russell index returns are net of withholding tax on dividends. S&P/TSX data provided by S&P/TSX. MSCI data copyright MSCI 2021, all rights reserved. S&P data copyright 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. FTSE fixed income indices © 2021 FTSE Fixed Income LLC. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Currency

December 31, 2020

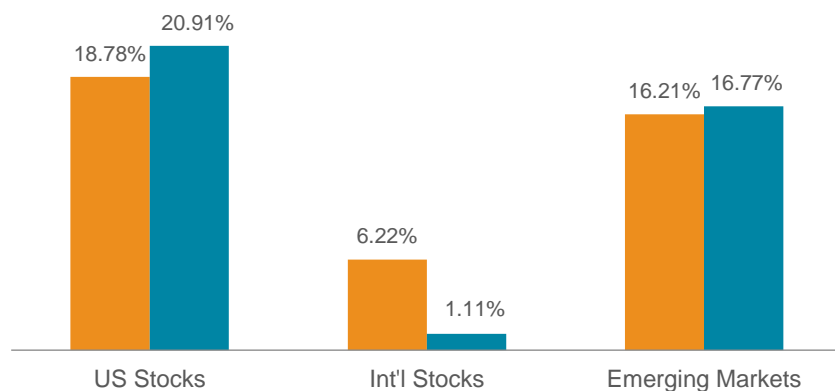
Change in Foreign Exchange Rates (%)

FX/\$CAD

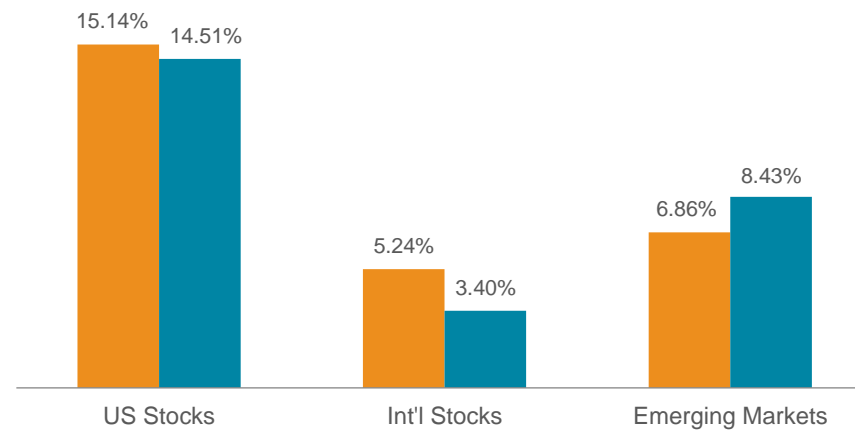
Currency	Q4 2020	One Year	Three Years
\$ US Dollars	-4.62%	-1.75%	0.56%
€ Euro	-0.62%	7.00%	1.16%
£ Pounds	1.08%	1.43%	0.99%
¥ Yen	-2.58%	3.38%	3.53%

Impact of Currency Fluctuations

Annual Returns in CAD and Local Currency



Three-Year Annualized Returns in CAD and Local Currency



■ CAD ■ Local Currency

Data is in Canadian dollars. The market for the United States, International Developed Markets, and Emerging Markets is defined as: Russell 3000 Index (net of tax), MSCI EAFE Index (net div.), and MSCI Emerging Markets Index (net div.), respectively. MSCI data copyright MSCI 2021, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

MSCI Country Returns

In Canadian Dollars and Local Currency

Fourth Quarter 2020 Returns

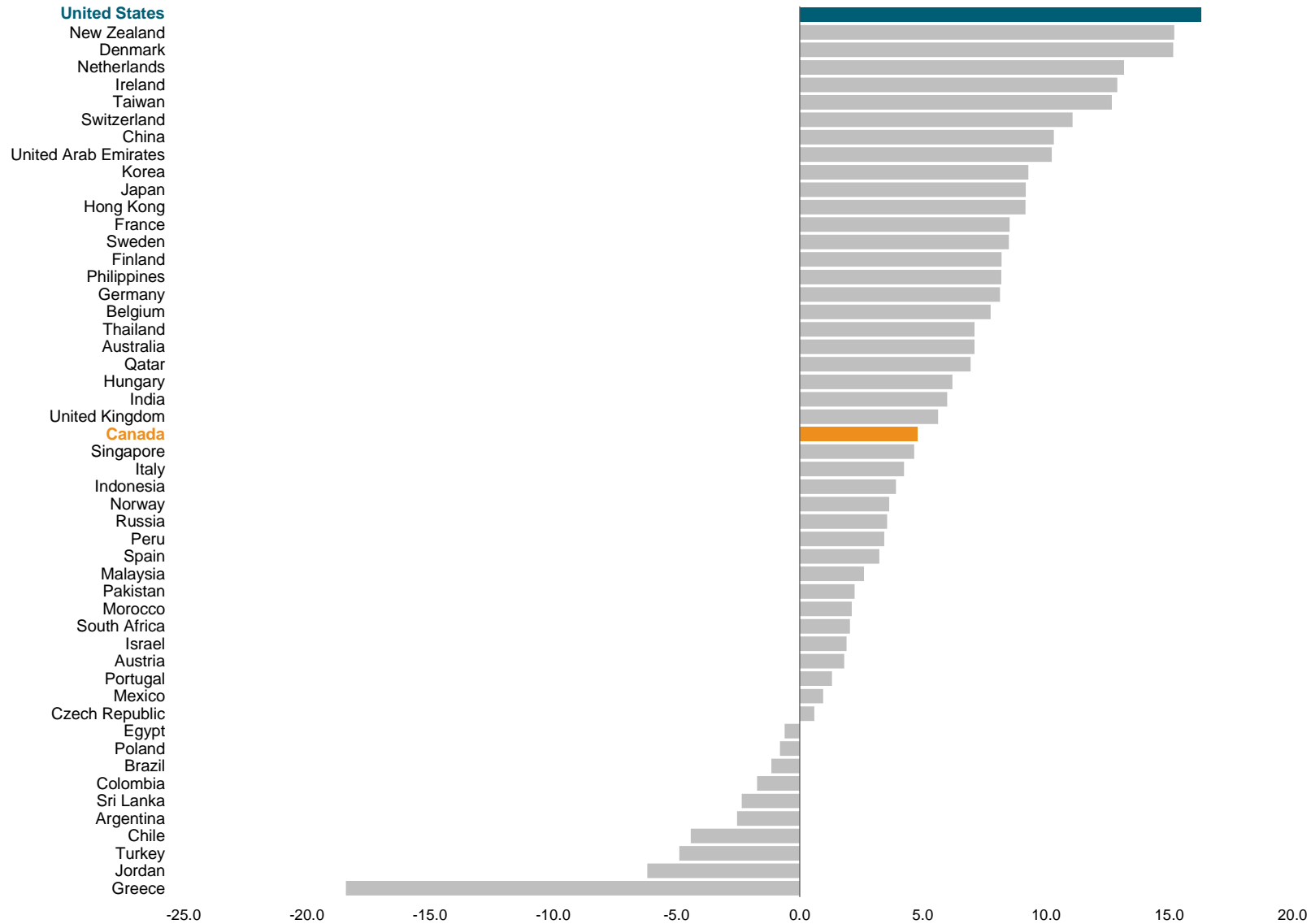
Currency	Return in CAD	Return in Local Currency	Impact of Currency
1. Colombia	40.71%	30.93%	9.79%
2. Austria	32.56%	33.20%	-0.64%
—	—	—	—
—	—	—	—
—	—	—	—
—	—	—	—
36. Canada	9.68%	9.68%	—
37. United States	9.39%	14.69%	-5.30%
—	—	—	—
—	—	—	—
49. Qatar	-2.50%	2.22%	-4.73%
50. Egypt	-6.87%	-2.55%	-4.33%

One Year Returns in CAD and Local Currency

Currency	Return in CAD	Return in Local Currency	Impact of Currency
1. Korea	41.70%	35.48%	6.22%
2. Denmark	41.07%	31.22%	9.85%
—	—	—	—
9. United States	18.96%	21.08%	-2.12%
—	—	—	—
18. Canada	5.81%	5.81%	—
—	—	—	—
—	—	—	—
—	—	—	—
49. Brazil	-20.49%	4.50%	-24.99%
50. Egypt	-21.33%	-21.52%	0.19%

MSCI Country Returns

Country Rankings—Ten-Year Annualized Returns as of December 31, 2020



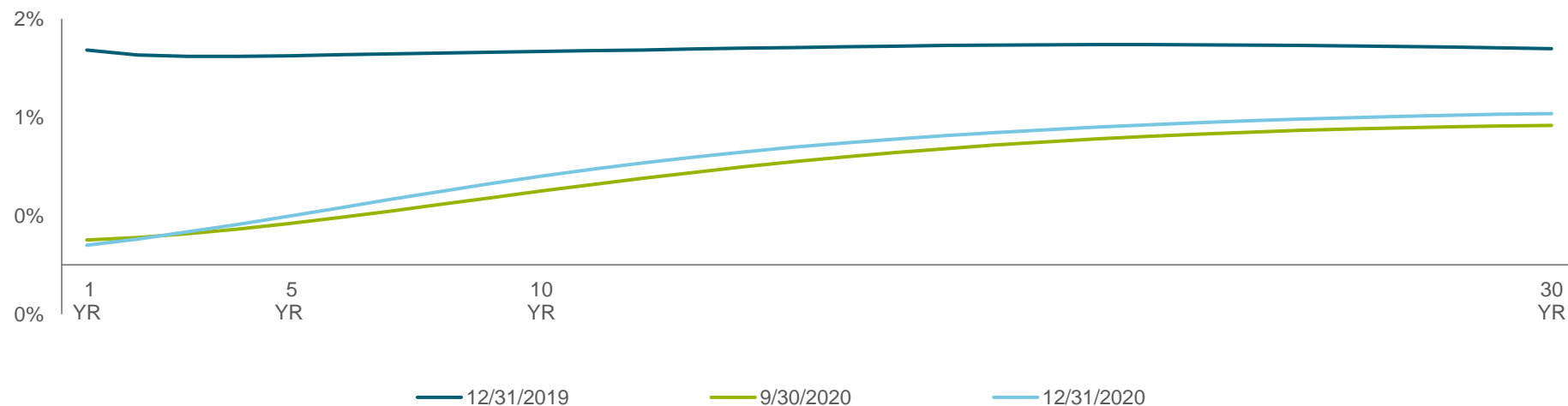
Data in Canadian dollars gross of fees. MSCI data copyright MSCI 2021, all rights reserved. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Currency

December 31, 2020

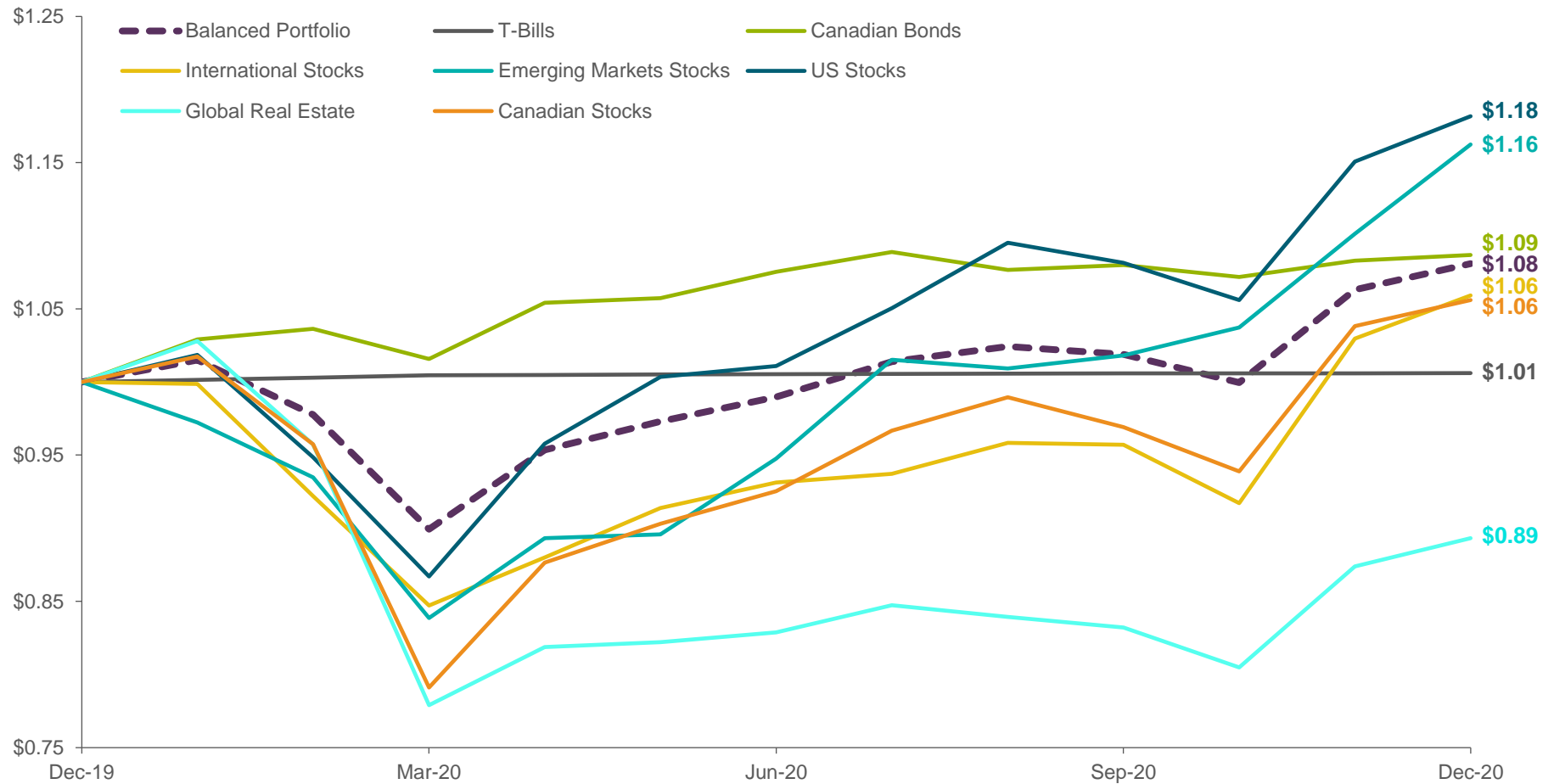
Index	Return (%)		
	Q4 2020	One Year	Three Years Annualized
FTSE Canadian 30 Day T-Bill	0.03%	0.61%	1.20%
FTSE Canada Short-Term Bond Index	0.47%	5.29%	3.42%
FTSE Canada Mid-Term Bond Index	0.62%	10.08%	5.86%
FTSE Canada Long-Term Bond Index	0.82%	11.90%	8.15%
FTSE Canada Universe Bond Index	0.63%	8.68%	5.61%
FTSE World Government Bond Index 1-5 Years (hedged to CAD)	0.12%	3.13%	2.55%

CAN Treasury Yield Curve



Growth of Wealth

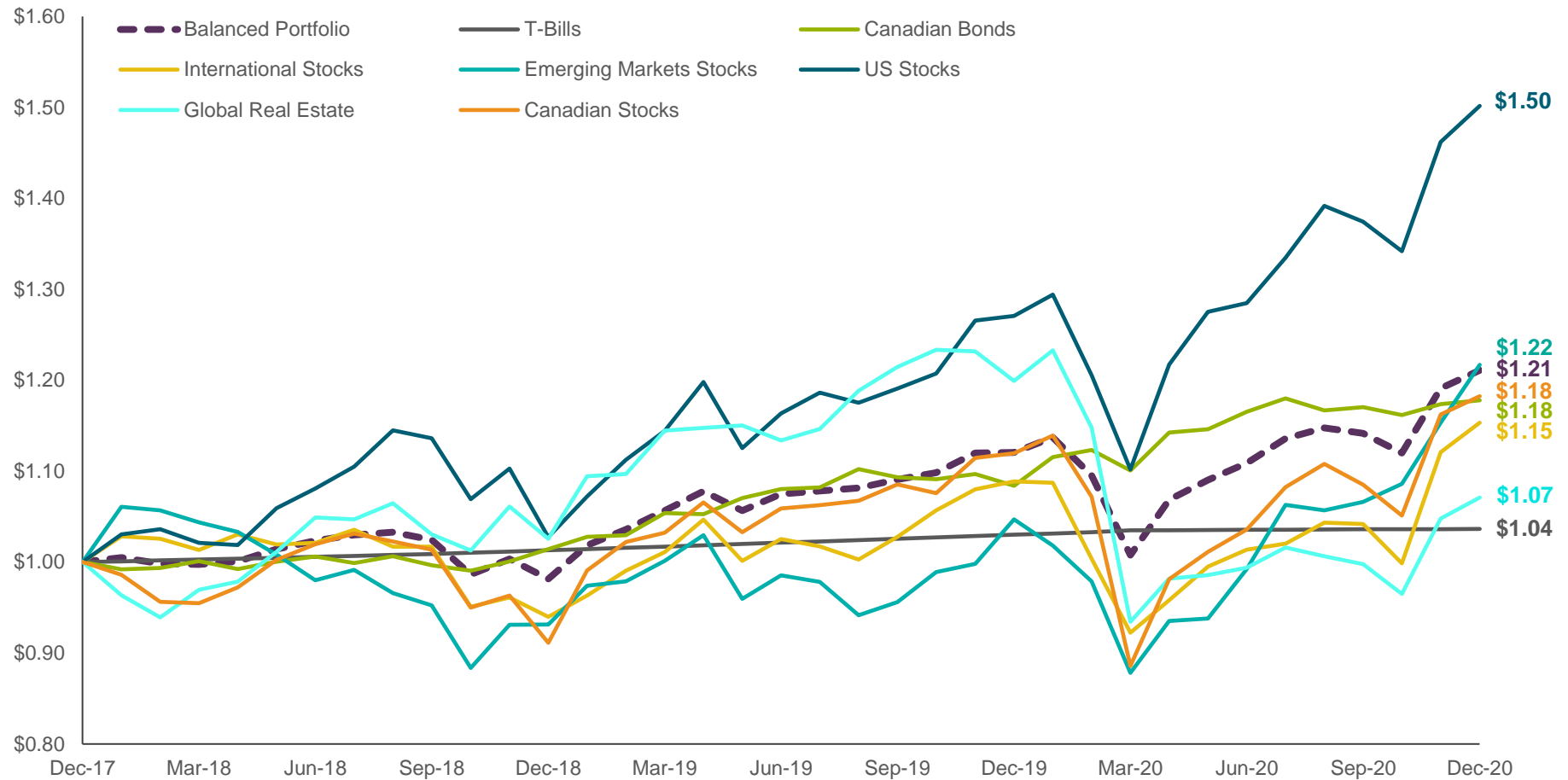
One Year as of December 31, 2020



In Canadian dollars. T-Bills is FTSE Canada 30 Day T-Bill, Canadian Bonds is FTSE Canada Universe Bond Index, Canadian Stocks is S&P/TSX Composite Index, International Stocks is MSCI EAFE Index (net div.), Emerging Markets Stocks is MSCI Emerging Markets Index (net div.), US Stocks is Russell 3000 Index (net of withholding tax on dividends as of July 2002), and Global Real Estate is S&P Global REIT Index (gross div.) from July 1989 to Dec 2000, and S&P Global REIT Index (net div.) from Jan 2001 to present. Balanced Portfolio is 10% T-Bills, 30% Canadian Bonds, 20% Canadian Stocks, 15% US Stocks, 15% International Stocks, 5% Emerging Markets Stocks and 5% Global Real Estate. FTSE fixed income indices © 2021 FTSE Fixed Income LLC. All rights reserved. MSCI data copyright MSCI 2021, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. S&P/TSX data provided by S&P/TSX. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Growth of Wealth

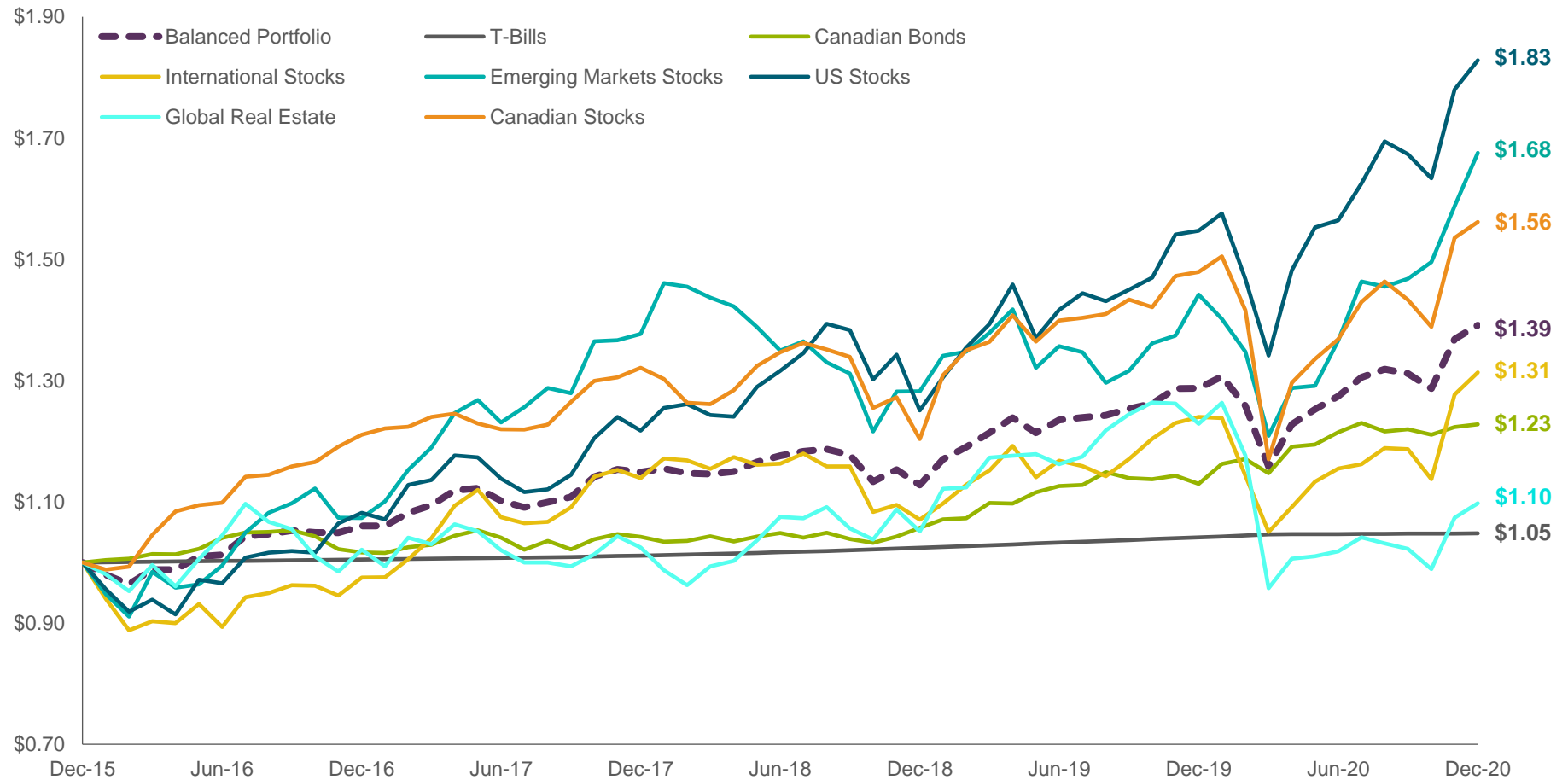
Three Years as of December 31, 2020



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Growth of Wealth

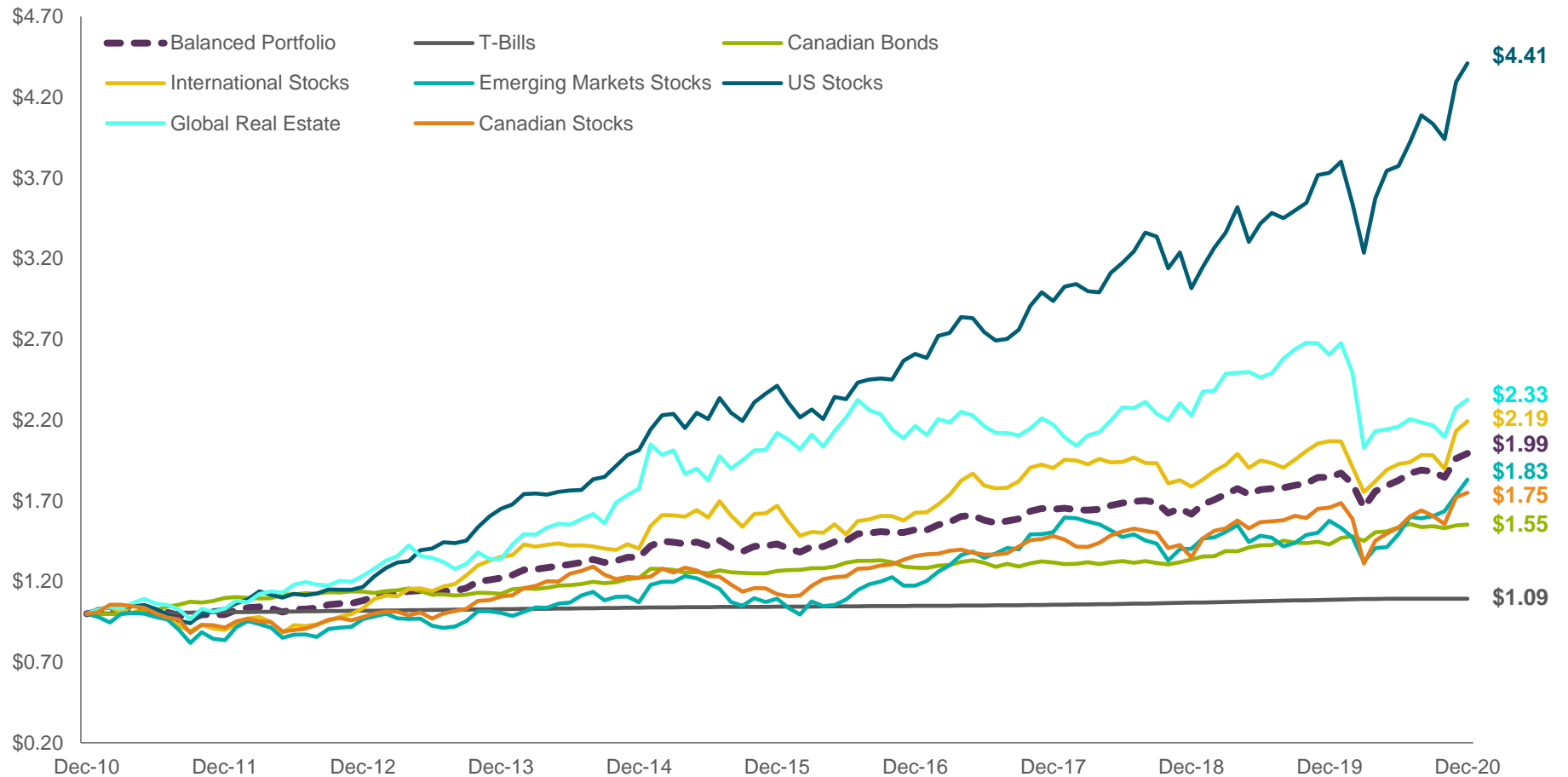
Five Years as of December 31, 2020



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Growth of Wealth

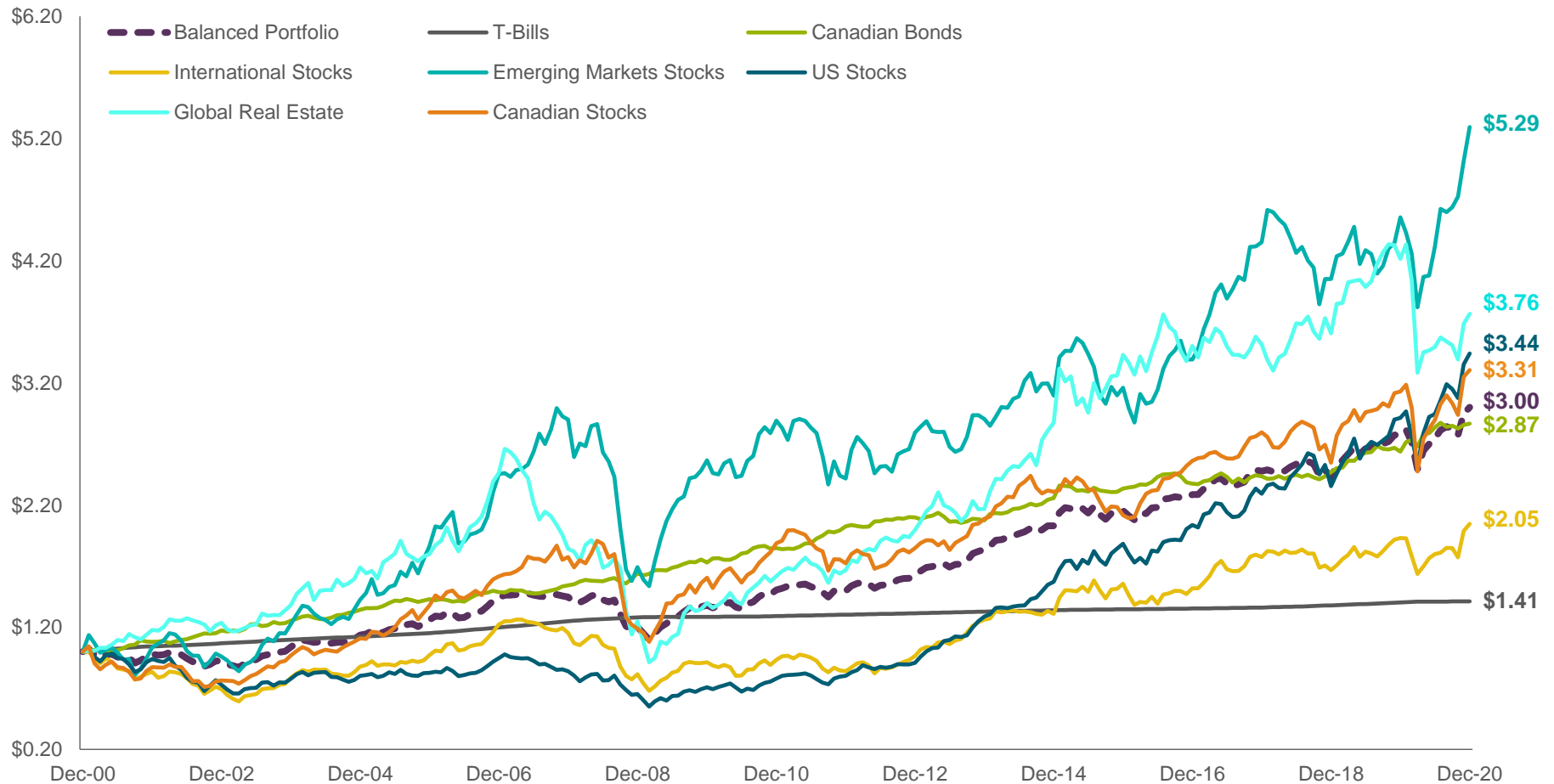
Ten Years as of December 31, 2020



In Canadian dollars. T-Bills is FTSE Canada 30 Day T-Bill, Canadian Bonds is FTSE Canada Universe Bond Index, Canadian Stocks is S&P/TSX Composite Index, International Stocks is MSCI EAFE Index (net div.), Emerging Markets Stocks is MSCI Emerging Markets Index (net div.), US Stocks is Russell 3000 Index (net of withholding tax on dividends as of July 2002), and Global Real Estate is S&P Global REIT Index (gross div.) from July 1989 to Dec 2000, and S&P Global REIT Index (net div.) from Jan 2001 to present. Balanced Portfolio is 10% T-Bills, 30% Canadian Bonds, 20% Canadian Stocks, 15% US Stocks, 15% International Stocks, 5% Emerging Markets Stocks and 5% Global Real Estate. FTSE fixed income indices © 2021 FTSE Fixed Income LLC. All rights reserved. MSCI data copyright MSCI 2021, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. S&P/TSX data provided by S&P/TSX. Indexes are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Growth of Wealth

Twenty Years as of December 31, 2020



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Market Review 2020: Looking Back on an Unprecedented Year

Fourth Quarter 2020

The year 2020 proved to be one of the most tumultuous in modern history, marked by a number of developments that were historically unprecedented. But the year also demonstrated the resilience of people, institutions, and financial markets.

The novel coronavirus was already in the news early in the year, and concerns grew as more countries began reporting their first cases of COVID-19. Infections multiplied around the world through February, and by early March, when the outbreak was labeled a pandemic, it was clear that the crisis would affect nearly every area of our lives. The spring would see a spike in cases and a global economic contraction as people stayed closer to home, and another surge of infections would come during the summer. Governments and central banks worked to cushion the blow, providing financial support for individuals and businesses and adjusting lending rates.

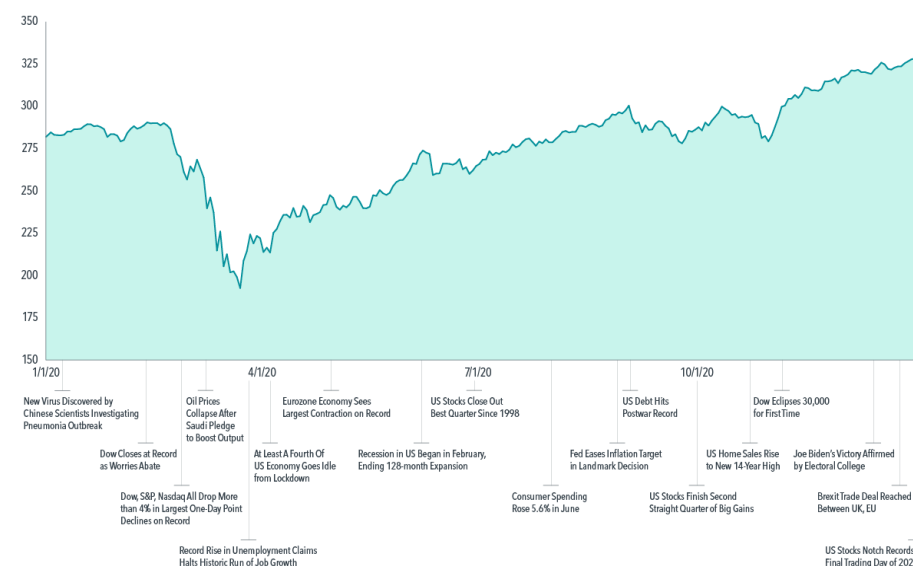
On top of the health crisis, there was widespread civil unrest over the summer in the US tied to policing and racial justice. In August, Americans increasingly focused on the US presidential race in this unusual year. Politicians, supporters, and voting officials wrestled with the challenges of a campaign that at times was conducted virtually and with an election in the fall that would include a heightened level of mail-in and early voting. In the end, the results of the election would be disputed well into December. As autumn turned to winter, 2020 would end with both troubling and hopeful news: yet another spike in COVID-19 cases, along with the first deliveries of vaccines in the US and elsewhere.

For investors, the year was characterized by sharp swings for stocks. March saw a 33.79% drop in the S&P 500 Index¹ as the pandemic worsened. This was followed by a rally in April, and stocks reached their previous highs by August. Ultimately, despite a sequence of epic events and continued concerns

over the pandemic, global stock market returns in 2020 were above their historical norm. The US market finished the year in record territory and with an 18.40% annual return for the S&P 500 Index. Non-US developed markets, as measured by the MSCI World ex USA Index,² returned 7.59%. Emerging markets, as measured by the MSCI Emerging Markets Index, returned 18.31% for the year.

Exhibit 1. Highs and Lows

MSCI All Country World Index with selected headlines from 2020



Past performance is no guarantee of future results.

In US dollars, net dividends. MSCI data © MSCI 2021, all rights reserved. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

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Market Review 2020

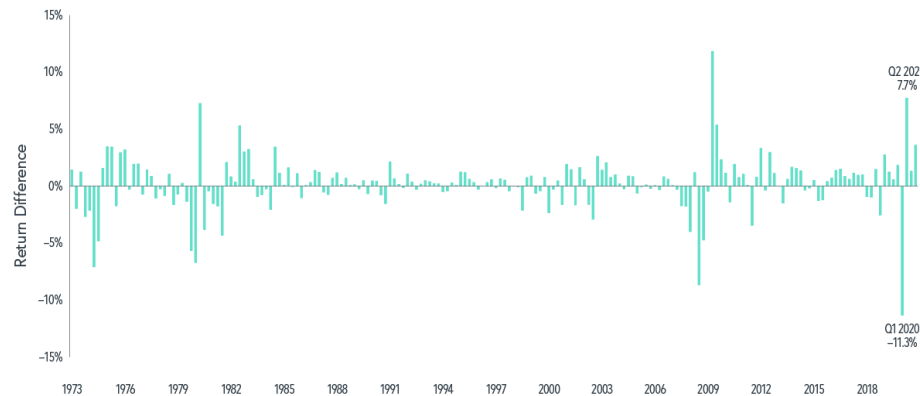
(continued from page 15)

Fixed income markets mirrored the extremity of equity behavior, with nearly unprecedented dispersion in returns during the first half of 2020. For example, in the first quarter, US corporate bonds underperformed US Treasuries by more than 11%, the most negative quarterly return difference in data going back a half century. But they soon swapped places: the second quarter was the second-most *positive* one on record for corporates over Treasuries, with a 7.74% advantage.³ Large return deviations were also observed between US and non-US fixed income as well as between inflation-protected and nominal bonds.

Global yield curves finished the year generally lower than at the start. US Treasury yields, for example, fell across the board, with drops of more than 1%

Exhibit 2. Sharp Shifts

US Credit minus US Treasury: Quarterly Returns, March 1973–December 2020



Past performance is no guarantee of future results.

In US dollars. US credit represented by the Bloomberg Barclays US Credit Bond Index. US Treasuries represented by the Bloomberg Barclays US Treasury Bond Index. Bloomberg Barclays data provided by Bloomberg. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

- US corporate bonds represented by the Bloomberg Barclays US Credit Bond Index. US Treasuries represented by the Bloomberg Barclays US Treasury Bond Index. Bloomberg Barclays data provided by Bloomberg. Indices are not available for direct investment.
- ICE BofA government yield. ICE BofA index data © 2021 ICE Data Indices, LLC.
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on the short and intermediate portions of the curve.⁴ The US Treasury curve ended relatively flat in the short-term segment but upwardly sloped from the intermediate- to long-term segment. For 2020, the Bloomberg Barclays Global Aggregate Bond Index returned 5.58%.⁵

Uncertainty remains about the pandemic and the broad impact of the new vaccines, continued lockdowns, and social distancing. But the events of 2020 provided investors with many lessons, affirming that following a disciplined and broadly diversified investment approach is a reliable way to pursue long-term investment goals.

MARKET PRICES QUICKLY REFLECT NEW INFORMATION ABOUT THE FUTURE

The fluctuating markets in the spring and summer were also a lesson in how markets incorporate new information and changes in expectations. From its peak on February 19, 2020, the S&P 500 Index fell 33.79% in less than five weeks as the news headlines suggested more extreme outcomes from the pandemic. But the recovery would be swift as well. Market participants were watching for news that would provide insights into the pandemic and the economy, such as daily infection and mortality rates, effective therapeutic treatments, and the potential for vaccine development. As more information became available, the S&P 500 Index jumped 17.57% from its March 23 low in just three trading sessions, one of the fastest snapbacks on record. This period highlighted the vital role of data in setting market expectations and underscored how quickly prices adjust to new information.

One major theme of the year was the *perceived* disconnect between markets and the economy. How could the equity markets recover and reach new highs when the economic news remained so bleak? The market's behavior suggests investors were looking past the short-term impact of the pandemic to assess the expected rebound of business activity and an eventual return to

Market Review 2020

(continued from page 16)

more-normal conditions. Seen through that lens, the rebound in share prices reflected a market that is always looking ahead, incorporating both current news and expectations of the future into stock prices.

OWNING THE WINNERS AND LOSERS

The 2020 economy and market also underscored the importance of staying broadly diversified across companies and industries. The downturn in stocks impacted some segments of the market more than others in ways that were consistent with the impact of the COVID-19 pandemic on certain types of businesses or industries. For example, airline, hospitality, and retail industries tended to suffer disproportionately with people around the world staying at home, whereas companies in communications, online shopping, and technology emerged as relative winners during the crisis. However, predicting at the beginning of 2020 exactly how this might play out would likely have proved challenging.

In the end, the economic turmoil inflicted great hardship on some firms while creating economic and social conditions that provided growth opportunities for other companies. In any market, there will be winners and losers—and investors have historically been well served by owning a broad range of companies rather than trying to pick winners and losers.

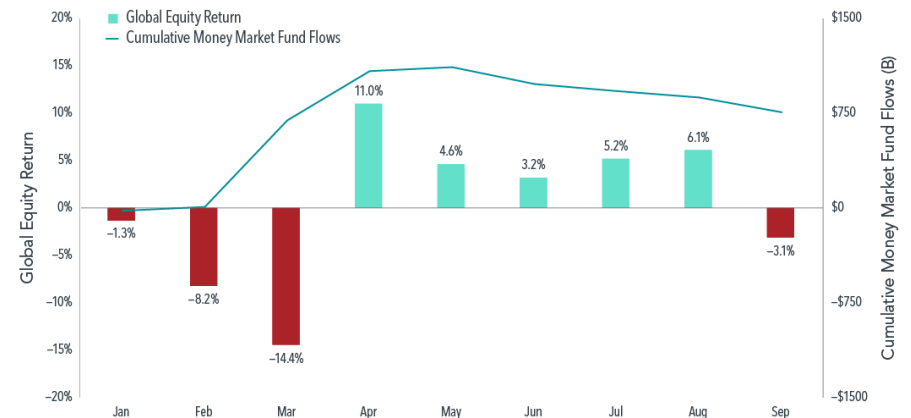
STICKING WITH YOUR PLAN

Many news reports rightly emphasized the unprecedented nature of the health crisis, the emergency financial actions, and other extraordinary events during 2020. The year saw many “firsts”—and subsequent years will doubtless usher in many more. Yet 2020’s outcomes remind us that a consistent investment approach is a reliable path regardless of the market events we encounter. Investors who made moves by reacting to the moment may have missed opportunities. In March, spooked investors fled the stock and bond markets, as money-market funds experienced net flows for the month totaling \$684 billion. Then, over the six-month period from April 1 to September 30, global equities

and fixed income returned 29.54% and 3.16%, respectively. A move to cash in March may have been a costly decision for anxious investors.

It was important for investors to avoid reacting to the dispersion in performance between asset classes, too, lest they miss out on turnarounds from early in the year to later. For example, small cap stocks on the whole fared better in the second half of the year than the first. The stark difference in performance between the first and second quarters across bond classes also drives home this point.

Exhibit 3. Cash Concerns in 2020



Past performance is no guarantee of future results.

In US dollars. Global equity returns is the MSCI All Country World IMI Index (net div.). MSCI data © MSCI 2021, all rights reserved. Money market fund flows provided by Morningstar. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

Market Review 2020

(continued from page 17)

A WELCOME TURN OF THE CALENDAR

Moving into 2021, many questions remain about the pandemic, new vaccines, business activity, changes in how people work and socialize, and the direction of global markets. Yet 2020's economic and market tumult demonstrated that markets continue to function and that people can adapt to difficult circumstances. The year's positive equity and fixed income returns remind that, with a solid investment approach and a commitment to staying the course, investors can focus on building long-term wealth, even in challenging times.

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