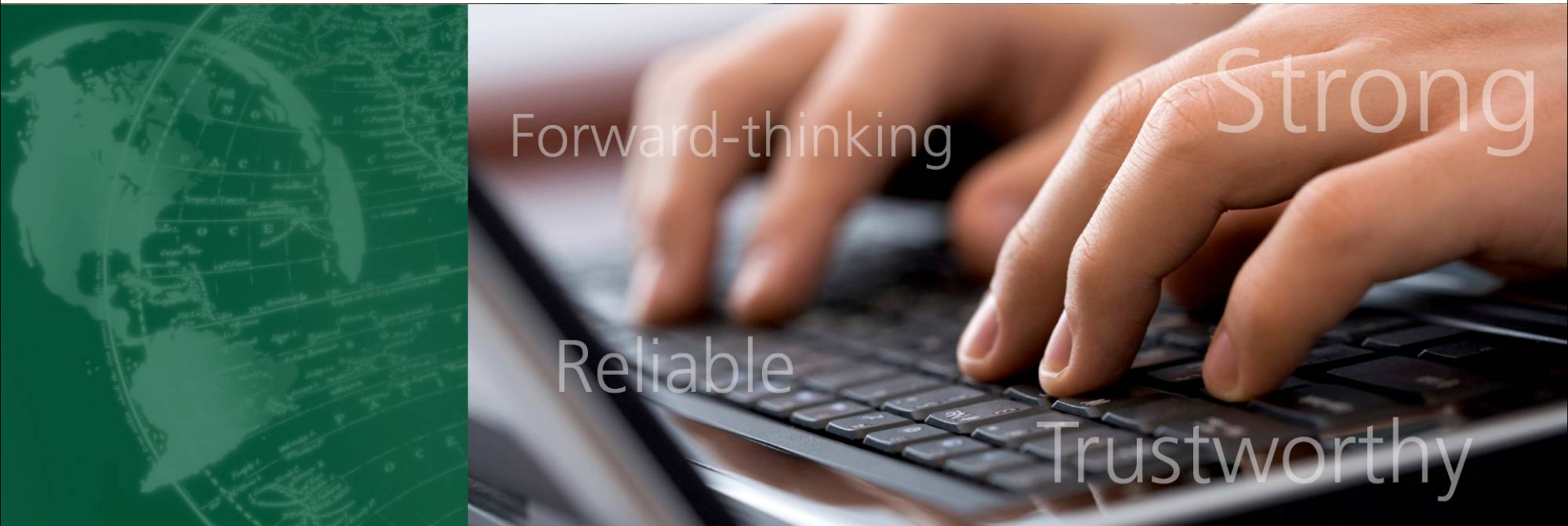


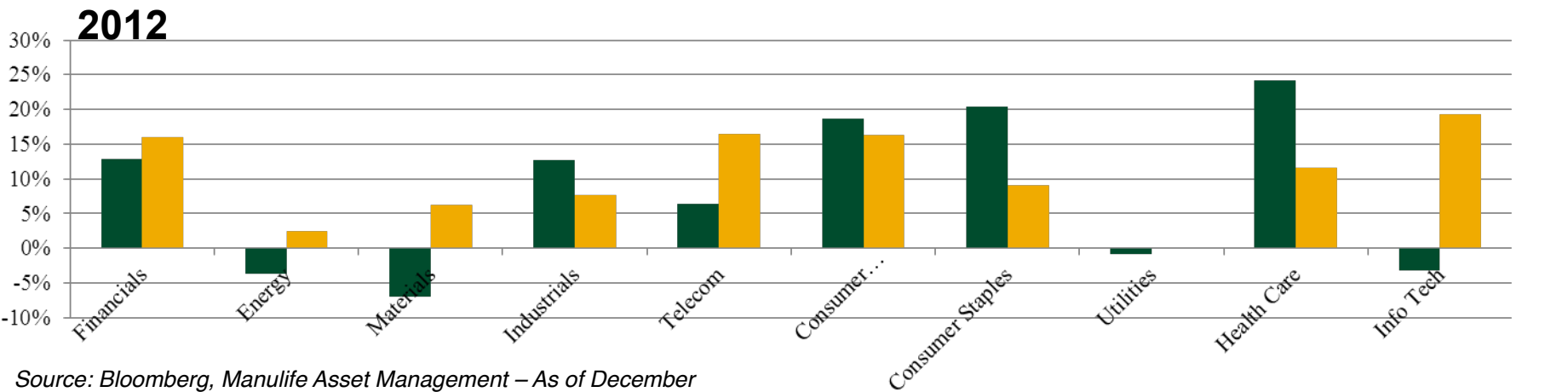
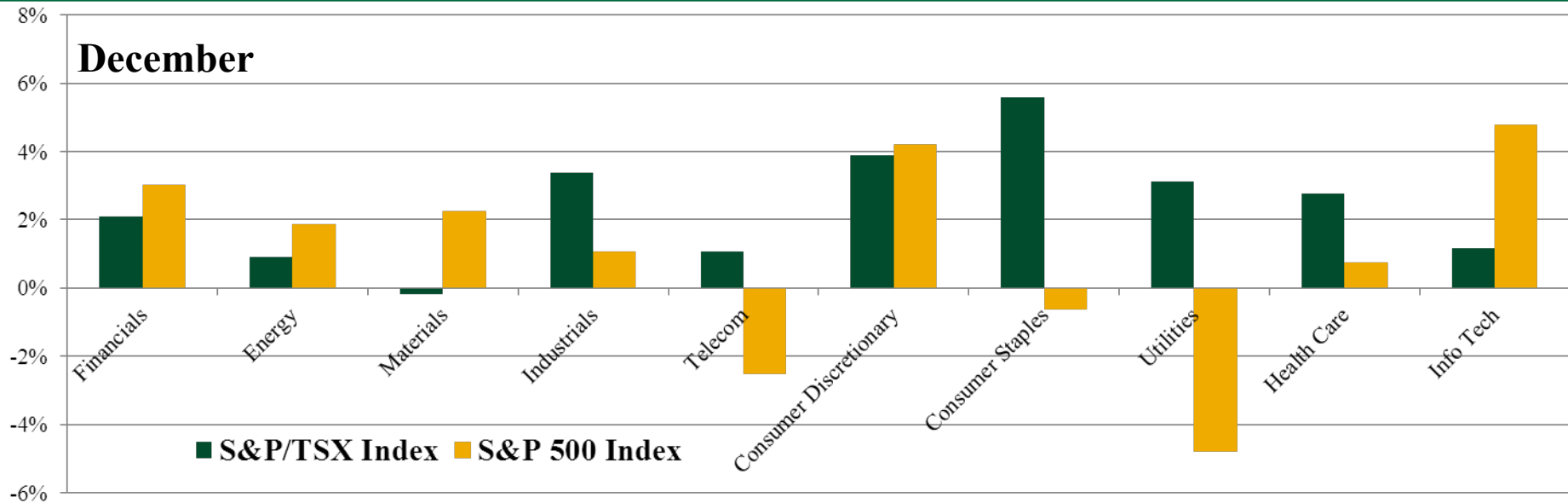
Portfolio Advisory Group (PAG) Economic & Capital Markets Overview



December 2012



December and 2012 Sector Performance



Source: Bloomberg, Manulife Asset Management – As of December 31st, 2012

US Economy appears to be stabilizing and continues to show areas of weak growth

- Upside risks with housing and auto sector improving
- Continued accommodative Monetary Policy From the Federal Reserve.

Chinese economy is bottoming

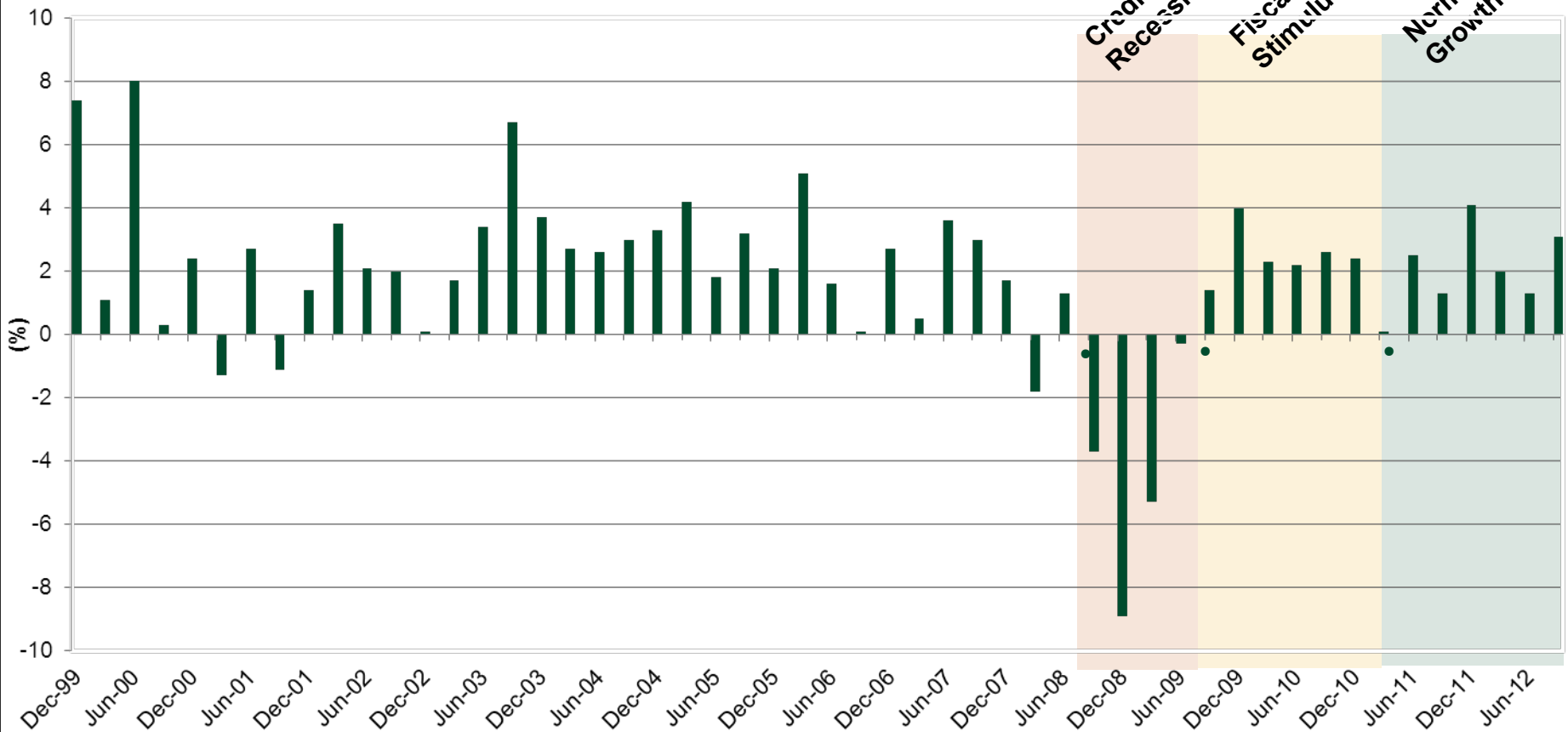
- With transition to new government and inflation moderating, expect more reform and stimulus from the world's second largest economy
- In transition from export/infrastructure to consumption growth. As a result, investments leveraged to consumption will outperform those levered to commodities.

European economy stabilizing but far from growth

- Challenges with sovereign debt, Greece, Spain
- Discussion regarding the sustainability of the euro have decreased going into 2013. Expect further austerity that will be implemented in early 2013 to stress European economies.

US Economy Continues to Show Moderate Growth

US GDP



Source: Bloomberg, Manulife Asset Management. - As of December 31st, 2012

U.S. Housing: Upside Catalyst

U.S. NAHB Market Index SA

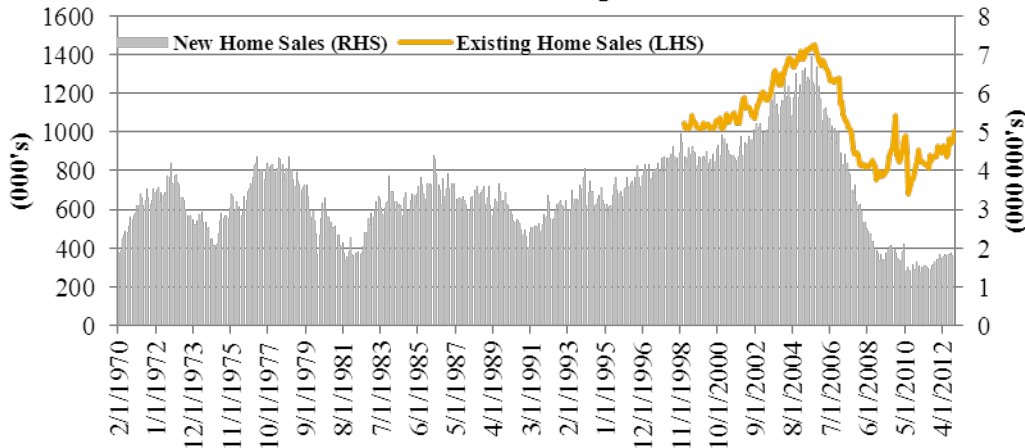


Upward trend continues in Home Prices, Sales and Construction Activity

Inventories Unsold Homes (November) = 4.8 Sales (lowest since correction)

Record Low Mortgage Rates & Attractive Prices, supported by improving employment will continue to help the housing recovery

U.S. New & Existing Home Sales

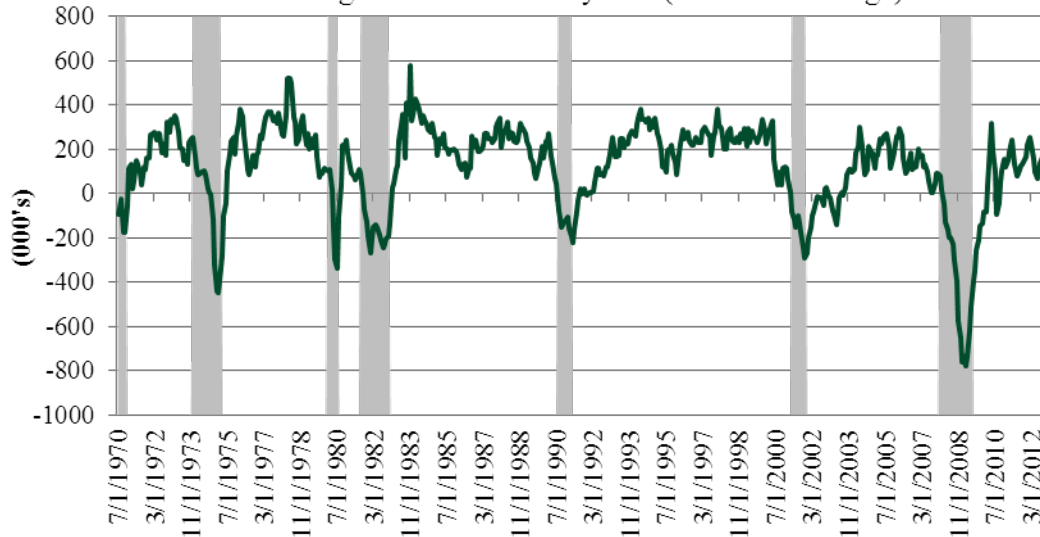


Source: Bloomberg, Portfolio Advisory Group. As of November 30th, 2012

U.S. Jobs: Continued Improvement

 Manulife Asset Management.

Change in Non-Farm Payrolls (3 Month Average)



Initial Jobless Claims (4 Week Average)



The U.S. Employment picture has been encouraging since the fall. Weaker numbers in November were attributed to Hurricane Sandy

The rate of layoffs has continued its downward trend since mid-2009, in line with improvement in private sector activity

The rate of layoffs in manufacturing was a standout, recording one of the lowest levels on record

Source: Bloomberg, Portfolio Advisory Group. Through December 31st, 2012

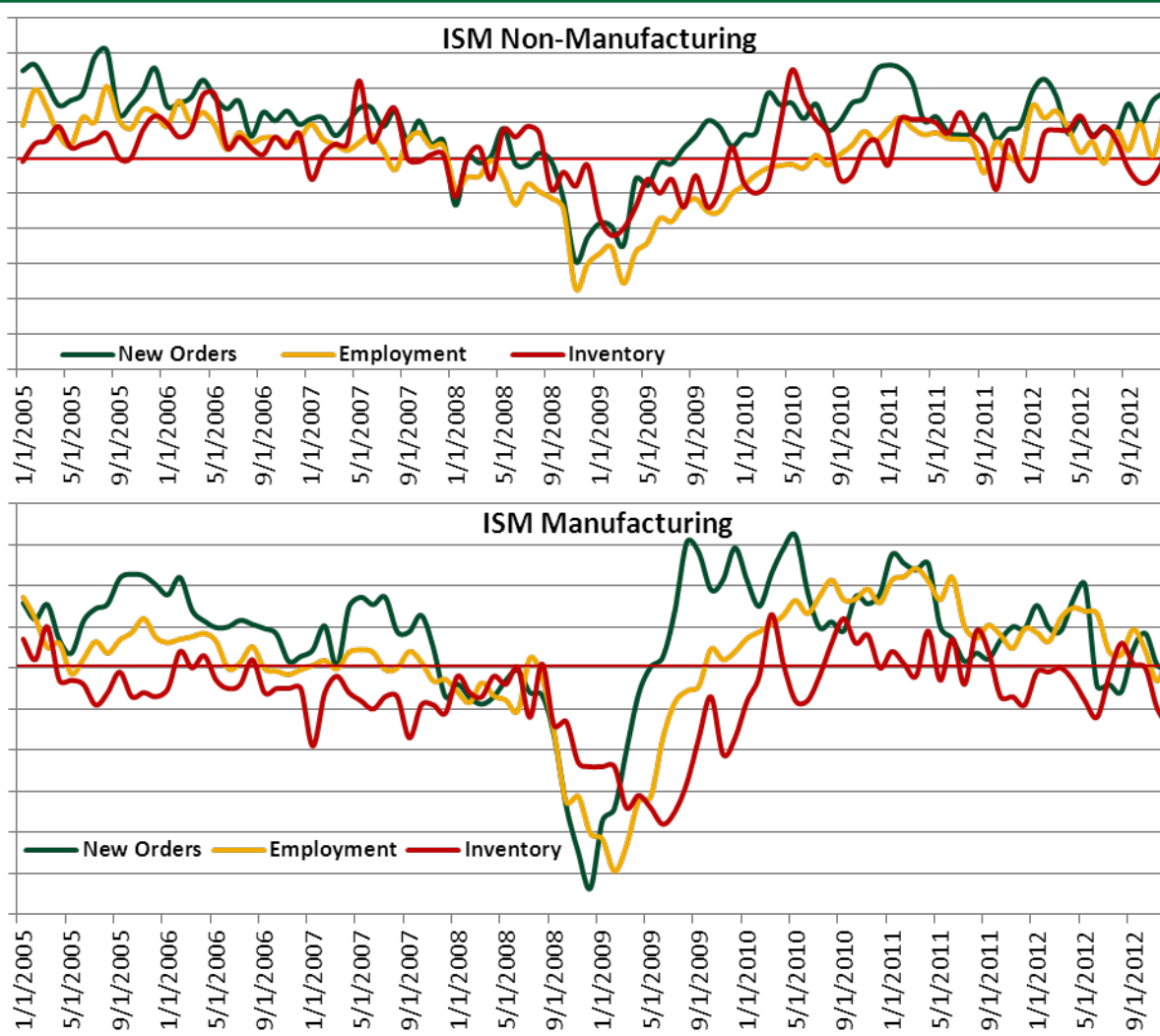
6

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U.S. Economic Activity: Decent



A reading less than 50 indicates contraction.
A reading greater than 50 indicates expansion.

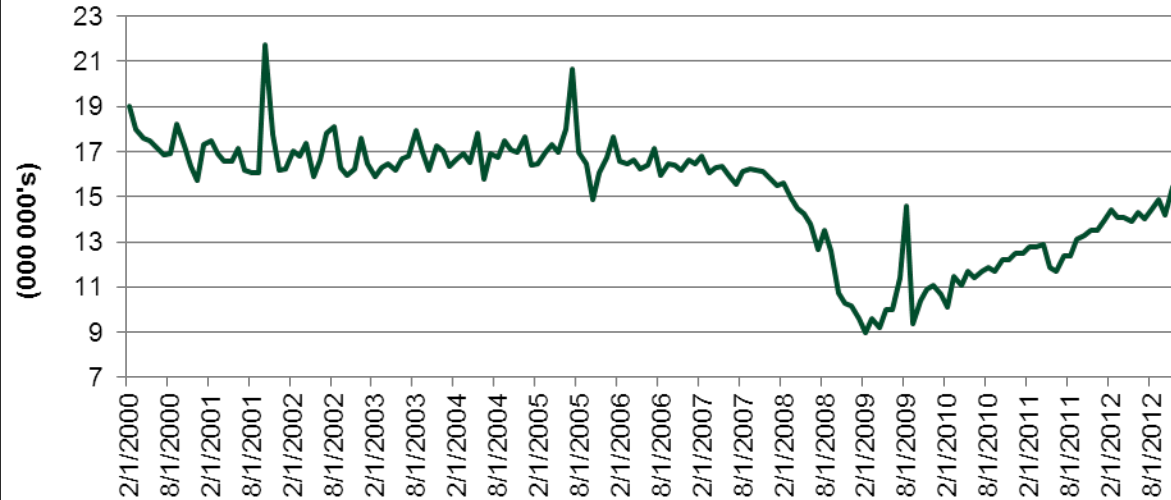
ISM survey indicates that the both Manufacturing and Non-Manufacturing sectors are expanding.

At current levels, ISM doesn't point to a recession in the first half of 2013

Source: Bloomberg, Portfolio Advisory Group. Through December 31st, 2012

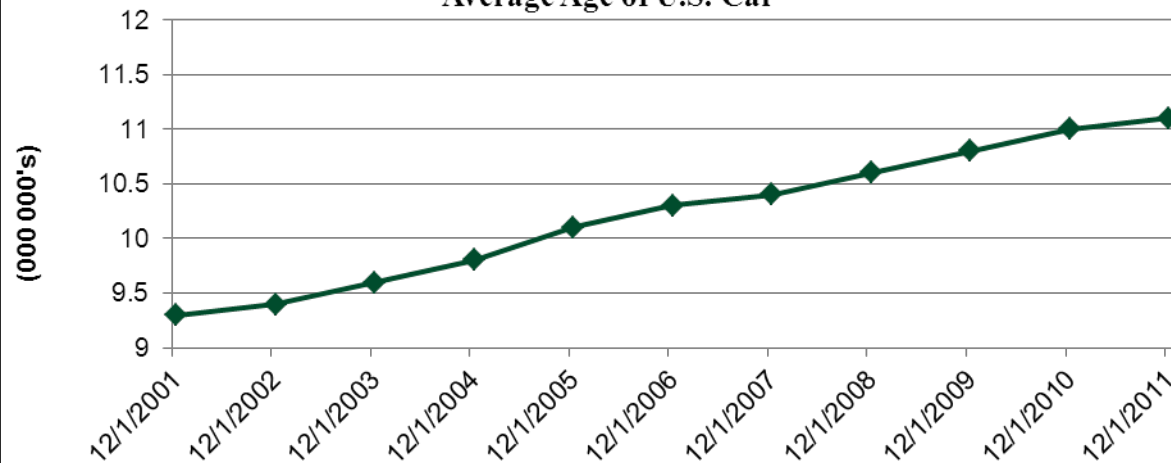
U.S. Auto: Continued Strength

U.S. Auto Sales Total Annualized (seasonally adjusted)



14.5 million vehicles sold in 2012, a 13% increase from 2011. Expect further growth in 2013 (given avg. age of car)
 European Auto market at a 20 year low, expected to shrink by 1.7 percent in 2013
 U.S. is the world's healthiest auto market

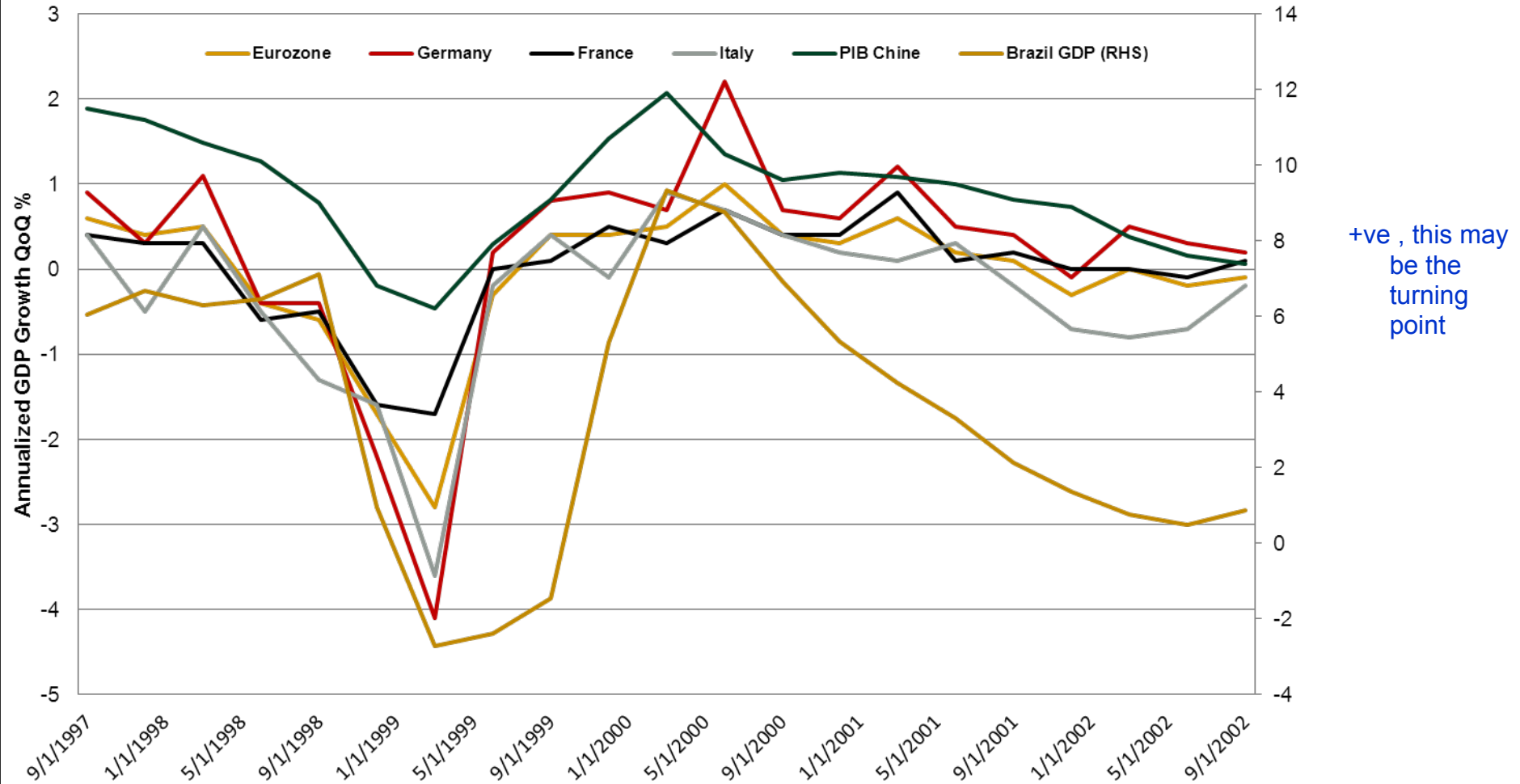
Average Age of U.S. Car



Source: Bloomberg, Portfolio Advisory Group. As of December 31st, 2012

Global Economy Showing Signs of Stabilization

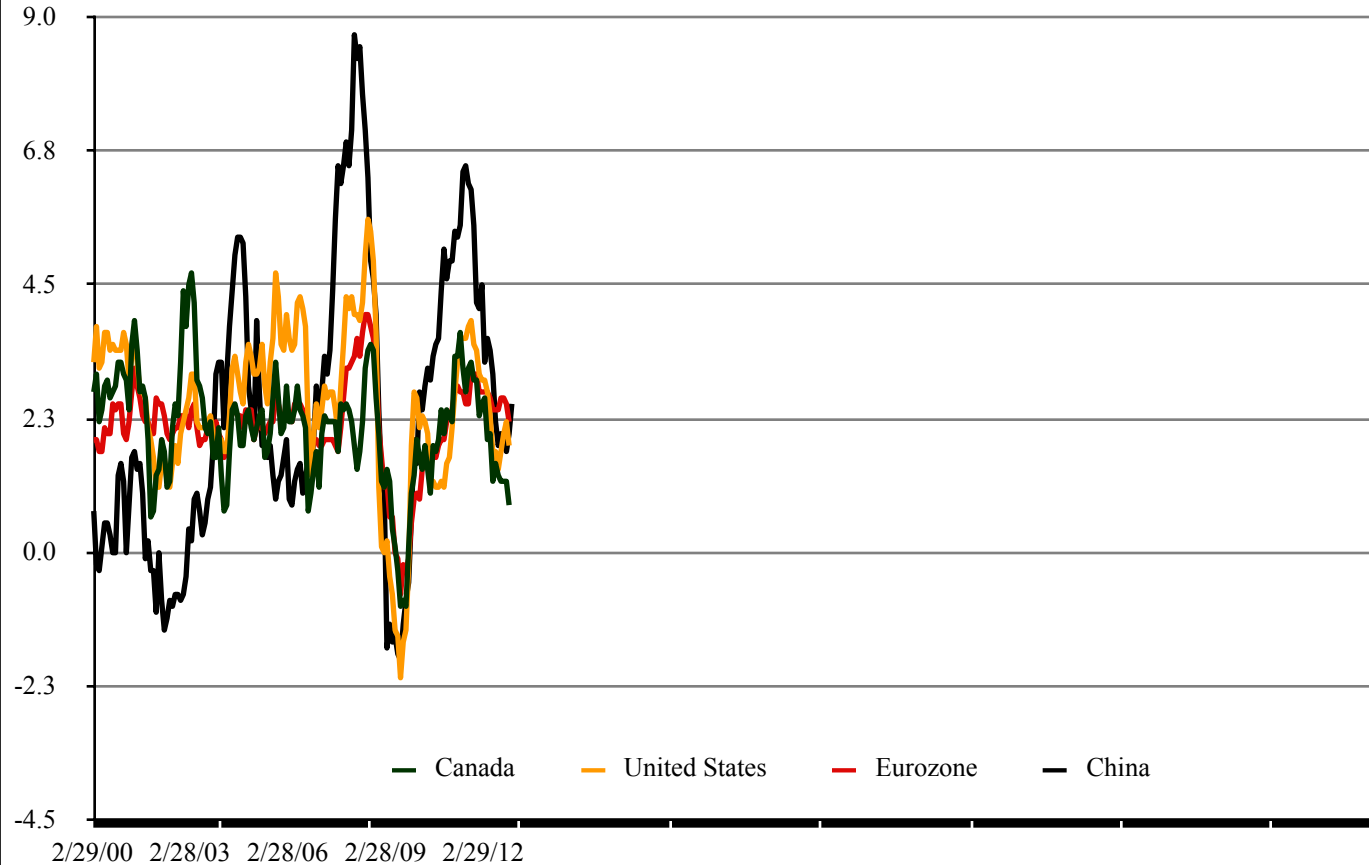
 Manulife Asset Management.



Source: Bloomberg, Manulife Asset Management. As of December 31st, 2012

Global Inflation is Moderate

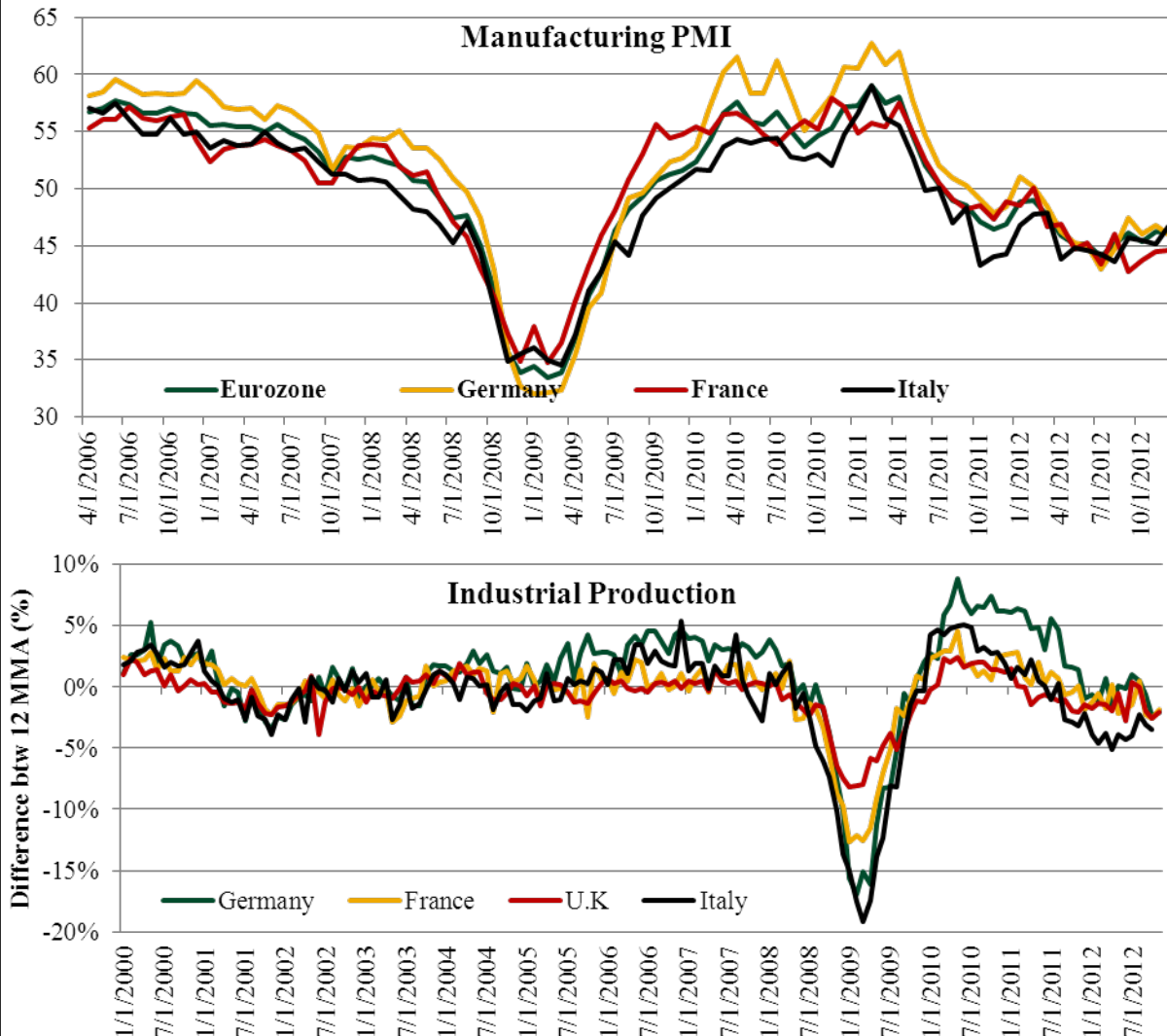
Global Inflation



Inflation continues to be moderate. Provides central banks with ammunition to stimulate. Particularly in EM countries.

Source: Bloomberg, Manulife Asset Management. As of November 30, 2012.

Don't Be Fooled By Europe



We continue to look at Europe with skepticism. More Austerity will continue to hurt these economies. However, the European Central Bank has provided a floor due to its monetary policy programs reducing the tail end risks from Europe.

Source: Bloomberg, Portfolio Advisory Group. As of December 31st, 2012

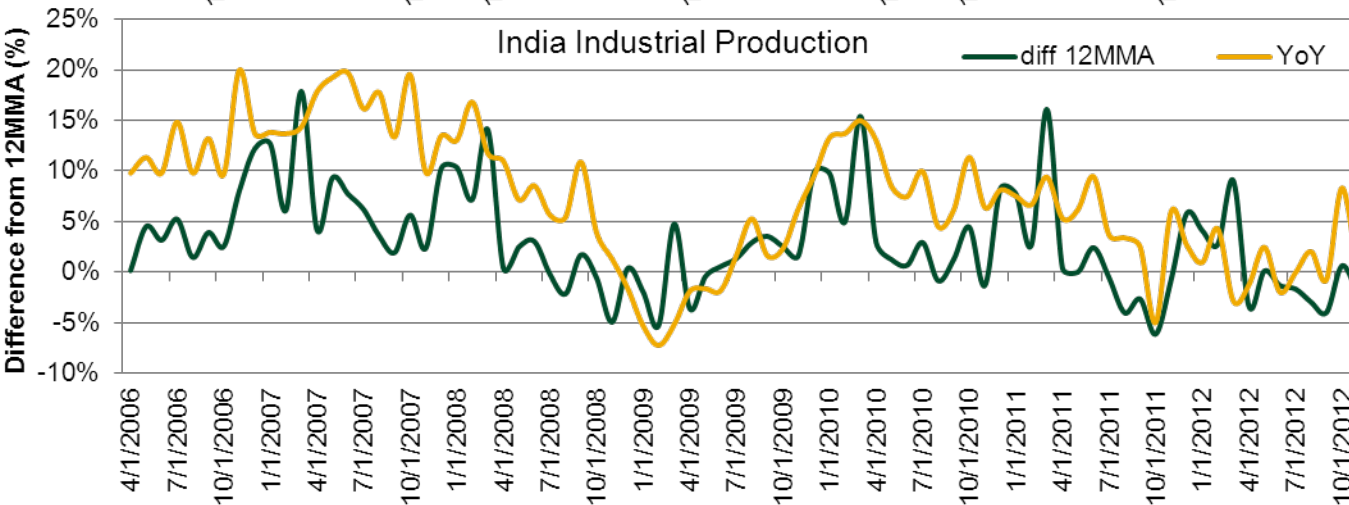
EM Showing Signs of Stabilization



China's economy is showing signs of stabilization.

We expect further growth encouraging policies by the new government in Beijing.

India's economy continues to appear vulnerable



Source: Bloomberg, Portfolio Advisory Group. As of November 30th, 2012

U.S. continues to outperform

- View towards slightly positive earnings growth in North American equity markets, peak margins will result in lower returns than 2012.
- We anticipate annual dividend growth to increase 10-20% after increasing 20% and 13% in 2012 and 2011 respectively.
- We anticipate modest P/E expansion.
- FAVOR: U.S & International equities over Canada. Favor Large Cap over Small Cap equities on a risk adjusted basis.

Europe attractive but carries risk

- While valuation is attractive, geo-political and sovereign debt risks will weigh on performance

ASIA PACIFIC Equities are the 2013 Dark Horse

- Attractive valuation, favorable economies, lower inflation

US Treasury and Gov't of Canada yields to remain low

- 10-year yields remain between 1.75% and 2.5%.
- U.S. Fed likely to remove “zero interest rate policy until at least middle of 2015” language from minutes during the current fiscal year.

High yield had a great year

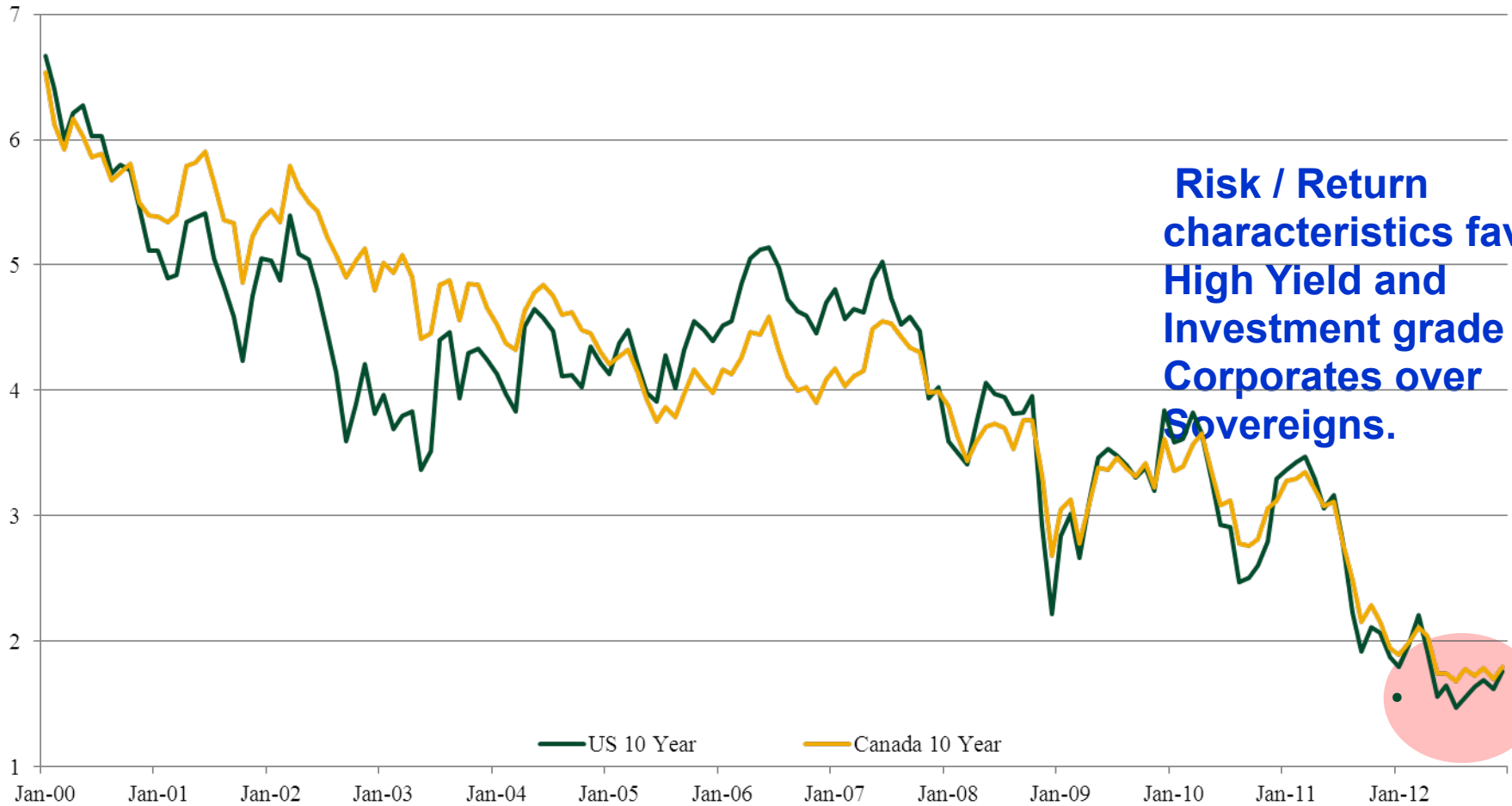
•Following a very strong year for fixed income in 2012, we believe the returns will be much more modest in 2013. Adjust your expectation accordingly.

Fixed Income Going Forward

- High Yield Spreads have compressed drastically since the beginning of 2012 <Spreads went from 726 bps to 529 bps>. Current yield on High Yield Bond indicates much less upside.
- Favored Area: with modest upside in Fixed Income, we favor High Yield Bonds, Emerging Market Bonds, Floating Rate bonds and Investment Grade Corporates.
- Downside Risk for Developed Market Sovereign Bonds.

US Treasury Yields Near Decade Lows

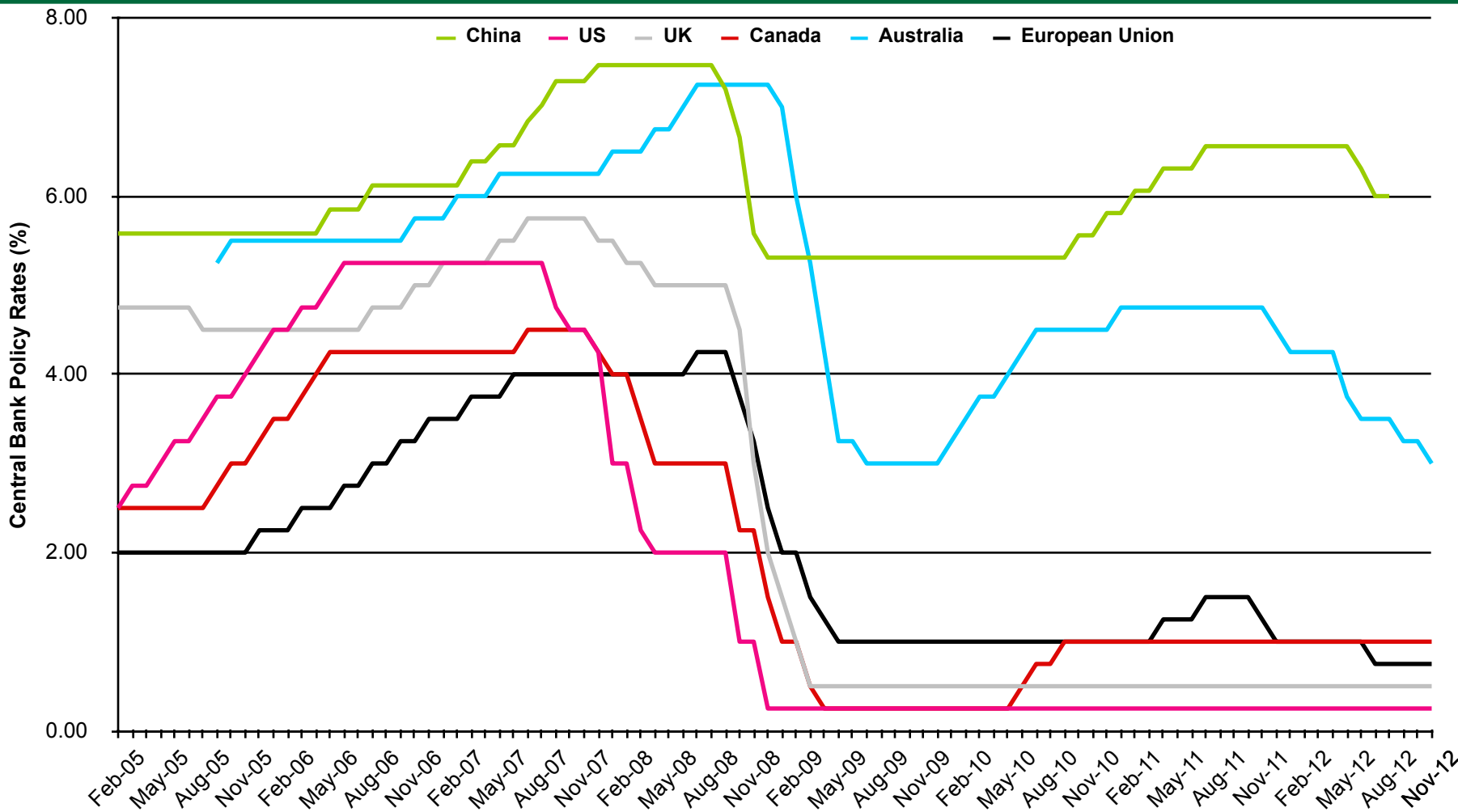
10 Year Government Yields



Risk / Return characteristics favor High Yield and Investment grade Corporates over Sovereigns.

Source: Bloomberg, Manulife Asset Management – As of December 31st, 2012

Central Banks are Maintaining the Status Quo of Growth at Any Cost



Source: Bloomberg & Manulife Asset Management – As of December 31st, 2012

High Yield Remains Attractive

Merrill Lynch High Yield Spread



Source: Bloomberg, Manulife Asset Management – As of December 31st, 2012

US Treasury and Gov't of Canada yields to remain low

- 10-year yields remain between 1.75% and 2.5% - negative real returns
- U.S. Fed maintains zero interest rate policy until at least middle of 2015

High yield still attractive

- Better yields
- Lower interest rate sensitivity
- Balance sheets remain strong

Emerging market debt favoured

- Monetary policy favours rate cuts (and Central banks that have the room)

Economy

- Soft patch globally, but strong enough to avoid recession. Economies in Asia will rebound in 2013. Europe and US will continue to be soft. US will avoid recession.

Reasons to Like Equities

- Slower but positive earnings growth and attractive valuation
- U.S. and International Equities are favoured over Canada
- GDP is domestic but sales are global

Opportunities in Fixed Income

- DM sovereigns are in a mild upswing in interest rates.
- High Yield is the favoured asset class, then Emerging Markets, and Investment Grade Corporate Debt

Currency

- Canadian Dollar continues to appreciate vs. the U.S. Dollar and other developed countries (range US\$1.02 – US\$1.05 next 12-18 month)

Portfolio Advisory Group

Manulife Asset Management's Portfolio Advisory Group provides insights on investment strategies, asset allocation, the global economy, as well as equity and fixed income markets. The Portfolio Advisory Group works with Manulife Asset Management's portfolio management teams around the world to provide clients with guidance and commentary on investment strategies, asset allocation weightings, and specific portfolio recommendations.

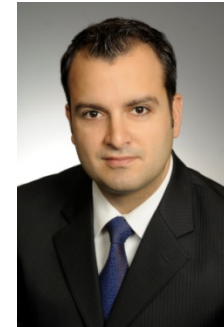
The team writes a weekly commentary (Week in Perspective) that can be found at www.manulifeam.com. In addition, team members frequently appear in the media including appearances and quotes with BNN, Bloomberg, Dow Jones and Reuters, to name a few.



Philip Petursson
Managing Director



Kevin Headland
Director



Macan Nia
Manager

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