

# JHancock Regional Bank I JRBFX

A niche fund with an edge.

## Morningstar's Take JRBFX

### Morningstar Rating

### Morningstar Analyst Rating



### Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	+	Positive

### Role In Portfolio

Specialty

### Fund Performance JRBFX

Year	Total Return (%)	+/- Category
YTD	3.80	3.08
2017	10.86	-5.86
2016	37.32	18.22
2015	5.98	6.85
2014	8.48	3.58

Data through 4-30-18

4-23-18 | by Tony Thomas

A veteran team and unique process give John Hancock Regional Bank an edge in its niche; while inflows may pose a challenge, it still earns a Morningstar Analyst Rating of Bronze.

Lead manager Lisa Welch, a former analyst and bank examiner for the Federal Reserve Banks of Boston and New York, uses Fed-style tactics to evaluate banks' quality. Known as the "CAMELS" framework, the process entails a methodical examination of banks' capital adequacy, asset and management quality, and interest-rate sensitivity, among other things. It is a suitable tool for assessing the smaller U.S. regional banks that have long been a staple of this fund because it is versatile and designed to pinpoint each bank's specific strengths and weaknesses. It is also applicable to big banks such as JPMorgan Chase JPM and Bank of America BAC, which provide diversification and liquidity for the fund.

Welch's small but experienced team helps her sift through hundreds of prospects. Sue Curry has comanaged here since 2006 and has been lead manager on another of the team's products, Neutral-rated John Hancock Financial Industries FIDAX. Ryan Lentell, a former Morningstar senior equity analyst, came aboard as an analyst in 2008 and rose to comanager in 2015. A fourth member, analyst Joe Marguy, provides dedicated research support. The team has worked together for nearly a decade.

The managers' record is impressive over various periods. From Lentell's September 2008 arrival through March 2018, the fund's 12.1% annualized total return beat 95% of its financial Morningstar Category peers and topped the 8.4% rise for the S&P Composite 1500 Banks benchmark--all while proving more durable in down markets and less volatile than the index.

Investors should watch how inflows affect the portfolio. The managers added many small positions as they took in a lot of new money in late 2016. They have since pared back their holdings, but, should flows pick up again, a similar move would threaten this fund's character and raise a warning flag for an otherwise attractive specialty fund.

### Process Pillar + Positive | Tony Thomas 04/23/2018

The managers bring a regulator's eye to investment analysis--a heritage of lead manager Lisa Welch's prior work with the Federal Reserve. Their stock-picking process is rigorous, earning a Positive Process rating, though their handling of inflows bears watching.

The team's investable universe is all publicly traded banks, regardless of market cap, though it favors regional banks. The team members are value investors, looking for quality stocks that have suffered short-term setbacks. They like banks with

above-average profitability and growing market share. They also look for firms that could benefit from mergers and acquisitions as the bank industry consolidates.

After screens on macroeconomic factors and meetings with management generate ideas, the team's research follows the Fed's "CAMELS" framework. This looks at banks' capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to interest rates. Earnings models and prospective valuations aid the final selections.

A recent spike in the number of holdings raised a red flag in this otherwise sound process. Although the portfolio had 60-100 names for much of Welch's 17-year tenure, it grew to over 130 positions in early 2017 to accommodate inflows after the 2016 U.S. elections. The number of holdings has since ebbed as flows stabilized, but that addition of many small positions risked diluting performance.

The emphasis here is on regional banks, but there are large stakes in diversified banks such as JPMorgan Chase JPM and Bank of America BAC. These big banks provide more than just liquidity: In the 12 months ended March 2018, those two banks were among the fund's top contributors to performance. In fact, larger-cap banks have taken on a greater role here. After micro-caps made up the largest portion of the portfolio from mid-2011 to early 2017, the fund's stakes in mid-, large, and giant caps now hold over 60% of assets.

To manage the risks of regional bank investing, the managers seek diversity. Their holdings range from well-known names such as PNC Financial Services PNC and US Bancorp USB to numerous community banks. The latter often command only small positions. Over half of the portfolio's individual equity holdings are 0.5% of assets or less and together command less than 15% of total assets. The

average market cap of these small positions is \$850 million.

Most of this fund's positions are equities, but there is a handful of preferred stocks, corporate bonds, short-term repurchasing agreements, and government-agency debt as well. Despite this array of assets, the managers have stayed committed to their picks and kept portfolio turnover in check. The fund's 24% average annual turnover over five years through 2017 was well below the 96% financial Morningstar Category average.

**Performance Pillar** + Positive | Tony Thomas  
04/23/2018

This fund's regional-bank focus has proved to be an attractive long-term play on financials, earning the fund a Positive Performance rating.

The tenure of lead manager Lisa Welch covers sizable fluctuations in U.S. bank stocks, and her record is impressive. From her start in early 2001 through March 2018, the fund's 7.1% annualized total return handily beat the 4.9% financial Morningstar Category average and the 3.6% tally for the S&P Composite 1500 Banks benchmark. Its three-, five-, and 10-year returns are top-decile, and the 15-year mark is top-quintile.

Despite focusing on a niche industry in the financial-services sector, the fund was only slightly more volatile (as measured by standard deviation) than its typically more-diversified peers and less erratic than its index over the period. The portfolio also usually provides downside protection, with the fund capturing only 74% of its index's downdrafts in Welch's tenure. This relatively stable, durable performance pattern gives the fund solid risk-adjusted returns (as measured by the Sortino ratio) versus the benchmark and the average peer.

The fund's rolling three-year returns also show its durability and consistency. It has beaten its benchmark in 73% of periods covering Welch's tenure, with its greatest outperformance coming in periods that included the 2007-09 global financial crisis.

**People Pillar** + Positive | Tony Thomas  
04/23/2018

The Fed experience of lead manager Lisa Welch and research abilities of her dedicated team earn this fund a Positive People rating.

John Hancock's in-house Financial Institutions team runs this fund. Welch is lead portfolio manager on the team, whose members also oversee the open-end, Neutral-rated John Hancock Financial Industries FIDAX and the closed-end John Hancock Financial Opportunities BTO. The team's three portfolio managers and an analyst have access to additional risk management resources, quantitative analytics, and research at John Hancock Asset Management.

Welch's expertise makes her a worthy lead manager. She became comanager here in 2001 and assumed the lead role in 2007. Her previous work at the Federal Reserve Banks in Boston and New York informs her team's process. She has also comanaged John Hancock Balanced SVBAX since December 2016, where she mentors a recently minted manager.

Comanagers Susan Curry and Ryan Lentell round out the manager team. Curry, a former analyst, became comanager here in 2006. She also leads John Hancock Financial Industries, which looks beyond regional U.S. banks to global financials, insurance companies, and asset managers. Lentell, a former Morningstar senior equity analyst, joined the team in 2008 and became comanager here in 2015. Each manager holds a respectable \$500,001-\$1 million in the fund.

**Parent Pillar** + Positive | Tony Thomas  
05/22/2017

John Hancock's stewardship profile has improved under CEO Andrew Arnott. Arnott came from the firm's investment research group and brings a well-informed and fundholder-centric perspective to bear on his current role. Since he took over the firm's retail funds division in 2012, an ethos to deliver best-in-class strategies--whether or not they are affiliated with John Hancock or parent Manulife--has permeated throughout the company's offerings.

The firm continues to build out its lineup of subadvised and multiasset strategies, forming new partnerships with strong institutional money managers such as Boston Partners and Dimensional Fund Advisors. Money invested with these outside subadvisors now accounts for about half of the firm's fund assets, up from almost none a decade ago. Equally important to this commitment, the firm's manager research team has shown the wherewithal to fire affiliated managers when necessary.

Subadvised models often come with higher expenses, but after years of inching down, John Hancock's fees are generally on par with those of industry peers; it's good to see the firm set aside the oft-cited excuse that subadvised models are inherently expensive. Innovative and fundholder-friendly tactics, such as firmwide fee breakpoints, have helped the firm achieve this, and they further support our upgrade of the firm's Parent rating to Positive from Neutral.

**Price Pillar** + Positive | Tony Thomas  
04/23/2018

This specialty fund's modest fees earn it a Positive Price rating.

The A share class, which holds 53% of the fund's total assets, carries a 1.24% expense ratio. That is 14 basis points below the median for front-load shares in the specialty Morningstar Fee Category. The attractive fees aren't confined to the A shares: Each of the fund's share classes has a Below Average Morningstar Fee Level or better versus its peers. These rates are particularly attractive for a fund with a penchant for smaller-cap fare.

# John Hancock Regional Bank Fund Class I JRBFX

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## AVERAGE ANNUAL TOTAL RETURNS<sup>1</sup> (%) (as of 3/31/19)

	1 year	5 year	10 year	Life of fund	Life of fund date
Class I (without sales charge)	-12.24	8.90	14.62	10.96	1/3/92
Class A (without sales charge)	-12.47	8.73	14.53	10.93	1/3/92
Class A (with 5% maximum sales charge)	-16.86	7.62	13.94	10.72	1/3/92
S&P Composite 1500 Banks Index <sup>3</sup>	9.50	10.91	15.92	—	—

## Expense ratios (%)

	Gross	Net (what you pay)
Class I (without sales charge)	0.93	0.92
Class A (without sales charge)	1.22	1.21
Class A (with 5% maximum sales charge)	1.22	1.21

## MORNINGSTAR RATINGS—FINANCIAL

	Overall	3 year	5 year	10 year
Class I shares	☆☆☆	☆☆☆	☆☆☆	☆☆☆

Hollow stars indicate Morningstar's extended performance rating.

For each managed product, including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts, with at least a 3-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return that accounts for variation in a fund's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. Exchange-traded funds and open-end mutual funds are considered a single population for comparative purposes. The top 10.0% of funds in each category, the next 22.5%, 35.0%, 22.5%, and bottom 10.0% receive 5, 4, 3, 2, or 1 star(s), respectively. The overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics. The rating formula most heavily weights the 3-year rating, using the following calculation: 100% 3-year rating for 36 to 59 months of total returns, 60% 5-year rating/40% 3-year rating for 60 to 119 months of total returns, and 50% 10-year rating/30% 5-year rating/20% 3-year rating for 120 or more months of total returns. Star ratings do not reflect the effect of any applicable sales load. As of 3/31/19, the fund's Class I shares received a 3-star overall rating out of 97 funds in the Morningstar financial category. The fund was rated **3, 3**, and **3** stars out of **97, 92**, and **77** funds for the **3-**, **5-**, and **10-year** periods, respectively. **Bold numbers indicate Morningstar's extended performance rating. Morningstar's extended performance rating** is calculated by adjusting the historical total returns of the oldest share class to reflect the fee structure of a younger share class, and then compounding the combined record of actual and adjusted performance into the 3-, 5-, and 10-year time periods necessary to produce Morningstar Risk-Adjusted Returns and a Morningstar Rating. Extended performance ratings do not affect actual Morningstar ratings; the overall ratings for multi-share class funds are based on actual performance only or extended performance only. Once a share class turns 3 years old, the overall Morningstar Rating will be based on actual ratings only. Adjusted historical performance is only an approximation of actual returns, and Morningstar's calculation methodology may differ from those used by other entities. For complete performance information, visit [jhinvestments.com](http://jhinvestments.com). Other share classes may be rated differently. Past performance does not guarantee future results.

**1** Class I shares were first offered on 9/9/16. Returns prior to this date are those of Class A shares that have been recalculated to reflect the gross fees and expenses of Class I shares. **2** Listed holdings are a portion of the fund's total and may change at any time. They are not recommendations to buy or sell any security. Data is expressed as a percentage of net assets and excludes cash and cash equivalents. **3** The S&P Composite 1500 Banks Index tracks the performance of publicly traded large- and mid-cap banking companies in the United States. It is not possible to invest directly in an index.

*A portfolio concentrated in one sector or that holds a limited number of securities may fluctuate more than a diversified portfolio. The stock prices of midsize and small companies can change more frequently and dramatically than those of large companies. Foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability. Hedging and other strategic transactions may increase volatility and result in losses if not successful. Please see the fund's prospectus for additional risks.*

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