

JHancock Regional Bank | JRBFX

Still appealing after veteran manager's retirement.

Morningstar's Take JRBFX

Morningstar Rating ★★

Morningstar Analyst Rating Bronze

Morningstar Pillars

Process	● Above Average
Performance	—
People	● Average
Parent	● Above Average
Price	—

Role In Portfolio

Specialty

Fund Performance

Year	Total Return (%)	+/- Category
YTD	29.63	1.31
2020	-9.85	-8.70
2019	27.98	-0.41
2018	-17.34	-3.14
2017	10.86	-5.86

Data through 8-31-21

6-15-21 | by Eric Schultz

The retirement of lead manager Lisa Welch in June 2020 was a loss, but a solid process allows JHancock Regional Bank to maintain its Morningstar Analyst Rating of Bronze for its cheaper share classes, while more expensive ones are Neutral.

Experienced comanagers Ryan Lentell and Susan Curry remain and should be able to pick up where Welch left off. Ample lead time made for a smooth transition, as did a long history working together. Lentell joined the team as an analyst in 2008 and became a comanager in 2015. He has worked for more than a decade with Curry, who became comanager here in 2006. They hired an analyst in mid-2020 to pick up Welch's coverage, so resources are sufficient. However, Welch's experience and judgment will be harder to replicate.

The team's patient and consistent approach, however, has not changed. Lentell and Curry still use the Fed's CAMELS framework to help assess banks' capital adequacy, asset quality, management, earnings, liquidity, and interest-rate sensitivity. They buy attractive banks at deep discounts and hold them for the long haul. Turnover averaged a low 7% over the past five years. True to its name, small- and mid-cap regional banks make up most of the portfolio, with more-liquid large- and mega-cap banks used as cash proxies.

Long-term performance is competitive. Curry is the longest-tenured manager, and from her May 2006 start through November 2020, the strategy beat its average financials Morningstar Category peer as well as the S&P Composite 1500 Banks prospectus benchmark and the S&P 1500 Financials Index (which more closely matches the strategy's small-cap exposure). The focus on quality and valuation have mitigated volatility across multiple interest-rate and credit cycles, contributing to superior risk-adjusted returns and outperformance in 73% of rolling five-year periods during her tenure. Performance is closely linked with that of regional banks, which have underperformed larger diversified banks in recent years, weighing on results here. Nevertheless, for the right price, the strategy remains a solid option within its niche.

Process Pillar ● Above Average | Eric Schultz 12/22/2020

The team's investable universe is all publicly traded U.S. banks, regardless of market cap, though it favors regional banks. It screens stocks on various valuation (for example, price/book, P/E) and profitability metrics, as well as industry-specific metrics such as net interest margins and loan growth. For additional ideas, it also draws on in-house macroeconomic analysis and extensive meetings with management teams.

The Fed's CAMELS framework informs the team's fundamental research process, assessing capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to interest rates. Although originally developed to rank banks based on these characteristics, the team uses it instead to structure its research.

In addition to CAMELS, several core principles guide the managers' research. They like firms with above-peer or improving profitability as well as a strong competitive position. Management is also key, and the team looks for well-aligned teams with histories of good capital stewardship and execution. Once these criteria are met, it looks for deep discounts to intrinsic values and forecast earnings for the next two to three years to determine appropriate entry and exit points. It also likes firms that could benefit from merger and acquisition activity as the banking industry consolidates. Team consensus determines investment decisions.

This strategy invests almost entirely in equities but can also buy preferred stocks, corporate bonds, short-term repurchasing agreements, and government-agency debt. Management tends to stay fully invested with minimal cash positions, relying instead on investments in large- and mega-cap diversified banks to manage liquidity, as it can trade these names more easily than small- and micro-cap regional banks. Nevertheless, these smaller-cap banks still made up 61.7% of the portfolio's assets as of October 2020. Diversification helps mitigate some of the risk of focusing on regional banks, with about half the portfolio's 98 individual equity holdings claiming 0.5% of assets or less.

The managers are committed to their picks and keep portfolio turnover low. Over the last five years, it ranged from 3%-13% and averaged 7%, well below the 74% of its typical financials category peer. Turnover tends to be cyclical and

track disruptions in the banking industry, for example, reaching a high (by its own standards) of 37% during the credit crisis in 2009.

Mergers and acquisitions also affect the portfolio, with holdings participating in 30 deals per year on average, mostly as buyers. This trend slowed in 2020 as deal activity paused during the pandemic. However, the managers don't specifically target buyout candidates.

Performance Pillar | Eric Schultz 12/22/2020

From longest-tenured manager Susan Curry's May 2006 start through November 2020, the strategy's 4.3% annualized gain beat its average financials Morningstar Category peer's 3.3% and the S&P Composite 1500 Banks prospectus benchmark's 0.5%. It also beat the S&P 1500 Financials Index's 2.7%, which is a better proxy as it more closely matches the strategy's small-cap exposure. Focusing on high-quality and undervalued businesses has mitigated volatility, resulting in a standard deviation below both indexes over the same period. As a result, the strategy generated superior risk-adjusted returns--measured by Sharpe and Sortino ratios--over multiple credit and interest-rate cycles.

Performance in recent years has been relatively weak as regional banks lagged their larger, more-diversified peers in 17-2019 as interest rates rose. The significant overweight to regional banks and underweight to diversified banks compounded this disparity, and performance slumped versus the more top-weighted indexes. The trend continued in the year to date through November 2020 as the strategy's regional bank holdings trailed diversified banks. Gains in some other financial industries included in the index but excluded here, such as asset managers and capital markets firms, also hurt relative performance.

People Pillar | Average | Eric

Schultz 12/22/2020

The People Pillar rating was downgraded in January 2020 from Above Average to Average ahead of the retirement of longtime lead manager

Lisa Welch. The less-tenured team continues to merit an Average People rating.

Welch, who was an analyst here since 1998 and manager since 2002, retired in June 2020. She gave a lot of lead time, and the transition was smooth, but the loss of her more than 30 years in the industry, including stints as a Federal Reserve bank examiner and supervisory analyst, was significant. Still, experienced comanagers Ryan Lentell and Susan Curry remain. A former Morningstar equity analyst, Lentell joined the team as an analyst in 2008 and became a comanager in 2015. He has worked for more than a decade with Curry, who became comanager in 2006 after also joining as an analyst in 2004. The pair comanage JHancock Financial Industries FIDAX as well, which has Morningstar Analyst Ratings of Bronze and Neutral, depending on the share class.

Both cover banks and split coverage of other financial industries, except real estate, which a dedicated analyst covers. To assist with bank coverage, they added analyst Luke Wooten in August 2020. He was previously part of the small- and mid-cap bank team at investment bank KBW but is fairly junior, with just three years of industry experience.

Parent Pillar | Above Average | Madeline

Hume 08/05/2020

Manulife Financial Corp is investing in wealth and asset management. One of Canada's Big Three life insurance companies, Manulife operates primarily in Canada, the United States, and Asia. As the profitability of life insurance has come under pressure, Manulife has united its investment and wealth-management groups into a single, global segment and showcased it as a high-potential business. Manulife entrusted this initiative to key individuals from its U.S. outfit, John Hancock Investments, thanks to the group's established culture of investing excellence.

Since the CEO of John Hancock, Andrew Arnott, stepped into the role in 2012, the firm's manager research team has abided by an ethos to deliver best-in-class strategies from third-party managers. Accordingly, in-house teams run less than half of

John Hancock's money, though like many insurance-adjacent asset managers it relies on its affiliate to run a large portion of its fixed-income business.

Today, John Hancock oversees 55% of Manulife's global assets under management or advisement, but most of the firm's asset growth now comes from outside the U.S. Manulife's presence in Asia, where the firm has yet to establish a stable manager research team, bears monitoring. But global head of product Leo Zerilli has proved capable of executing a turnaround. Manulife retains its Above Average rating.

Price Pillar | Eric Schultz 12/22/2020

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's middle quintile. That's not great, but based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we think this share class will still be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Bronze.

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Capital level, asset quality, management, earnings, liquidity, and sensitivity (CAMELS) scores are nonpublic bank examiners' ratings that objectively rate the safety of a bank.

Average annual total returns ¹ (as of 9/30/21)							
	1 year	5 year	10 year	Life of fund	Inception date	Gross expense ratios (%)	Net expense ratios ² (%)
Class I (without sales charge)	93.37	13.01	16.59	11.33	1/4/92	0.96	0.95
Class A (without sales charge)	92.76	12.67	16.42	11.27	1/4/92	1.26	1.25
Class A (with 5% maximum sales charge)	83.07	11.52	15.82	11.08	1/4/92	1.26	1.25
S&P Composite 1500 Banks Index	81.51	16.02	16.44	—	—		

The past performance shown here reflects reinvested distributions and the beneficial effect of any expense reductions, and does not guarantee future results. Returns for periods shorter than one year are cumulative, and results for other share classes will vary. Shares will fluctuate in value and, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance cited. For the most recent month-end performance, visit jhinvestments.com.

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 Reflects the effect of a contractual fee waiver and/or expense reimbursement through 7/31/22, and is subject to change.

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.

Morningstar ratings: financials category as of 9/30/21

Morningstar ratings Class I shares	★★ Overall	★★ 3 year	★★ 5 year	☆☆☆ 10 year
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Hollow stars indicate Morningstar's extended performance rating.

As of 9/30/21, the fund's Class I shares received a 2-star overall rating out of 94 funds in the Morningstar financials category. The fund was rated 2, 2, and 3 stars out of 94, 87, and 71 funds for the 3-, 5-, and 10-year periods, respectively.

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. **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. Other share classes may be rated differently. Past performance does not guarantee future results.

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