

JHancock Multifactor Mid Cap ETF JHMM

A disciplined multifactor approach.

Morningstar's Take JHMM

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

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

Role In Portfolio

Supporting Player

Fund Performance

Year	Total Return (%)	+/- Category
YTD	16.79	-0.69
2020	16.22	3.83
2019	30.03	3.82
2018	-9.63	1.52
2017	20.07	4.14

Data through 7-31-21

11-03-20 | by Ryan Jackson

John Hancock Multifactor Mid Cap ETF's JHMM broad reach and disciplined pursuit of the size, value, and quality factors make it an appealing strategy. Its cost advantage and well-diversified portfolio further support its Morningstar Analyst Rating of Silver.

This strategy tracks the John Hancock Dimensional Mid Cap Index. This benchmark targets the broad mid-cap market and weights stocks based on the combined strength of their size, value, and quality characteristics. Stocks that score well in all three criteria receive larger weightings than firms whose strength in one factor is offset by weakness in another.

The resulting portfolio has noticeable tilts toward smaller and more-profitable stocks than the Russell Midcap Index, but its value tilt is less pronounced. The quality focus is the primary culprit, as very

cheap stocks tend to rank poorly in profitability metrics. This is a worthy trade-off. Mild value exposure is a fair price to pay to avoid stocks whose low profitability makes them unlikely to deliver strong returns.

Size, value, and quality have historically been linked to market-beating performance. Even when its value exposure wavers, this fund's factor tilts should enable it to outpace the Russell Midcap Index over the long term.

An effectively diversified portfolio should help mitigate risk. A slump from one factor could hurt this fund's returns, but its exposure to the others should help soften the blow. For example, value and quality tend to balance each other out, as their success is negatively correlated.

This fund sweeps in a wide range of mid-cap stocks, so firm-specific risk is not a concern. Neither is sector risk, as this fund evaluates firms' value and profitability traits on a sector-relative basis, yielding a portfolio whose sector composition matches the Russell Midcap Index. This fund has exhibited more volatility than the Russell Midcap Index since its 2015 inception, which is a function of its smaller market-cap orientation compared with the index.

Process Pillar Above Average | Ryan Jackson 11/03/2020

Although its value exposure is inconsistent, this fund's steady tilt toward small and profitable stocks should help it outperform the Russell Midcap Index over the long term. Its broad reach mitigates risk, and index buffers effectively limit turnover. These considerations underpin an Above Average Process rating.

The John Hancock Dimensional Mid Cap Index starts by ranking all investable U.S. stocks by market capitalization. It includes the 301st-900th

largest U.S. stocks. The index adjusts from each stock's market-cap weighting to tilt toward firms that are small, cheap (based on price/book), and profitable (based on operating profit margin) and underweight those with the opposite characteristics. This approach helps limit turnover, as the target weightings move with market prices. Index buffers further mitigate portfolio turnover and the associated transaction costs. This fund has boasted turnover in the mid-cap blend Morningstar Category's lowest quintile in each of its four full calendar years.

At each semiannual index rebalance, stocks are ranked by trailing 11-month returns. The lowest 30% cannot receive a weight increase, even if their size, value, and quality traits prescribe it. This mitigates exposure to stocks with deteriorating fundamentals and should aid performance.

This fund's mandate to hold the complete mid-cap market sweeps in many of the stocks that reside in the Russell Midcap Index. In fact, 94% of the stocks in this portfolio can be found in that index, and the fund's active share against that benchmark is only 31%, which is the lowest among multifactor funds in the mid-cap blend category. This indicates that the fund pursues its factors with caution and should perform closer to the Russell Midcap Index than other multifactor strategies in the category. For the fund to recoup its fees, its few differences from the Russell Midcap Index portfolio need to bring meaningful returns.

Adjusting each stock's weight based on the combination of its size, value, and quality traits emphasizes firms with exposure to all three factors. For example, Skyworks Solutions SWKS is far from the smallest, cheapest, or most profitable name in this portfolio. However, its exposure to each of these factors is relatively solid, earning it a top-five spot on the portfolio.

This integrated approach has produced solid exposure to the quality and small-size factors. For example, its return on assets (a measure of profitability) comfortably exceeds that of the Russell Midcap Index. This fund's small-size tilt is milder but consistent. The average market cap of this fund's holdings has hovered about \$2 billion lower than the Russell Midcap Index since this fund's inception. Value has not emerged the same way. Measures like price/book and price/earnings ratios indicate a very similar value-growth orientation for this fund and the Russell Midcap Index.

Each stock's value and profitability characteristics are evaluated on a sector-relative basis, which keeps the portfolio balanced and improves comparability. Its sector composition is nearly identical to the Russell Midcap Index, indicating that it is not making uncompensated sector bets.

This fund is well-diversified at the holding level, too. It caps each stock's weighting at 4%, but no holding has ever exceeded 1% of this portfolio. At the end of September 2020, the top 10 holdings represented just over 4% of the portfolio.

Performance Pillar | Ryan Jackson 11/03/2020

From this fund's inception in September 2015 through September 2020, it trailed the Russell Midcap Index by 17 basis points annually. This narrow underperformance owes to the fund's fee, slightly smaller market-cap orientation, and unfavorable exposure to technology stocks.

The fund's small-cap tilt has hampered performance, as the largest mid-cap stocks have delivered some of the strongest returns. For example, this fund did not invest in Nvidia NVDA and ServiceNow NOW--two outstanding performers over the past five years--as heavily as the market-cap-weighted Russell Midcap Index. This illustrates the drawback to mechanically constraining the weight of larger mid-cap stocks.

The fund's spotty exposure to the value factor has been a windfall to performance. Over the past five years, the Russell Midcap Value Index trailed the Russell Midcap Growth Index by 9.25 percentage points annually. If this fund had steered more

definitively into value, its returns would likely be far less attractive.

This portfolio management team has effectively tracked the index. The fund trailed its benchmark by 45 basis points annually over the past five years, which is right on par with its expense ratio.

People Pillar Above Average | Ryan

Jackson 11/03/2020

This fund is subadvised by a portfolio management team at Dimensional Fund Advisors, the same firm that constructs its benchmark. The team's global trading capabilities and focus on mitigating transaction costs support an Above Average People Pillar rating.

Lukas Smart, Joel Schneider, and Joe Hohn are the named managers on this fund. Smart and Schneider have overseen this strategy since its 2015 inception. Hohn joined the roster in 2018 and currently leads the effort for this fund. However, Dimensional's team-based approach renders the other two managers--and others not named on this fund--capable of stepping in for Hohn. This flat management structure ensures that the team is well-equipped to handle any departures.

Limiting transaction costs is the team's priority. Managers may spread trades over a few days around the rebalance date to reduce market impact. A global network of trading desks helps the team implement this strategy efficiently.

This team is subject to risk oversight committees at both Dimensional and John Hancock.

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 | Ryan Jackson 11/03/2020

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 cheapest quintile. 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 be able to deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.

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Average annual total returns (as of 6/30/21)						
	1 year	5 year	10 year	Life of fund (9/28/15)	Gross expense ratios (%)	Net expense ratios ¹ (%) (what you pay)
Net Asset Value	48.82	15.55	—	14.76	0.43	0.42
Market Price	48.89	15.54	—	14.75	0.43	0.42
John Hancock Dimensional Mid Cap Index	49.49	16.00	—	15.23		
Russell Midcap Index	49.80	16.45	—	14.96		
Mid-cap blend category	50.12	12.87	—	—		

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 Reflects the effect of a contractual fee waiver and/or expense reimbursement through 8/31/22 and is subject to change.

The Russell Midcap Index tracks the performance of approximately 800 publicly traded mid-cap companies in the United States. The John Hancock Dimensional Mid Cap Index is a rules-based index of mid-cap U.S. stocks that have been selected based on sources of expected returns. Securities eligible for inclusion in the index are classified according to their market capitalization, as defined by free-float market cap; relative price, as defined by price/book; and profitability, as defined by operating income over book, and are weighted accordingly in favor of smaller, less expensive, more profitable companies. The index is reconstituted and rebalanced on a semiannual basis. Index performance assumes reinvestment of dividends and, unless otherwise indicated, does not reflect the management fees, operating expenses, transaction costs, and other expenses that apply to an ETF. It is not possible to invest directly in an index.

Morningstar ratings: mid-cap blend fund category, as of 8/31/21

Morningstar ratings mid-cap blend	★★★★ Overall	★★★★ 3 year	★★★★ 5 year	— 10 year
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As of 8/31/21, the fund's Class I shares received a 4-star overall rating out of 360 funds in the Morningstar mid-cap index fund category. The fund was rated 4, 4, — stars out of 360, 301, and 205 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. 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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Investing involves risks, including the potential loss of principal. There is no guarantee that a fund's investment strategy will be successful. The stock prices of midsize and small companies can change more frequently and dramatically than those of large companies, and value stocks may decline in price. Shares may trade at a premium or discount to their NAV in the secondary market, and a fund's holdings and returns may deviate from those of its index. These variations may be greater when markets are volatile or subject to unusual conditions. Errors in the construction or calculation of a fund's index may occur from time to time. Please see the fund's prospectus for additional risks

Request a prospectus or summary prospectus from your financial professional, by visiting jhinvestments.com/etf, or by calling us at 800-225-5291. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should consider carefully before investing

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