

**Important Notes:**

- 1 Manulife Advanced Fund SPC – US Bank Equity Segregated Portfolio (“Manulife US Bank Equity Fund” or the “Fund”) invests primarily in equities and equity-related investments of US banks, which exposes investors to concentration and equity market risk.
- 2 The Fund may invest in equities of small- and mid-capitalisation companies, which can involve liquidity and volatility risks, and is subject to greater risk than is customarily associated with investments in larger capitalisation companies.
- 3 Investment involves risk. The Fund may expose its investors to capital loss. Investors should not make decisions based on this material alone and should read the offering document for details, including the risk factors, charges and features of the Fund and its share classes.



 **Manulife** Investment Management

December 2020

# Manulife US Bank Equity Fund

# US banking sector: Long term growth potential with attractive valuation

Against the backdrop of solid loan growth, strong financial position with near-record levels of capital, improved underwriting standards and a continuation of merger and acquisition (M&A) activity when the economy reopens, US banking sector has revealed its long-term growth potential and attractive valuation. Absent a prolonged economic slowdown, we remain optimistic for the sector as US banks have shown the resiliency of their business model as they continue to support their customers through the global health crisis. US banks are part of the solution today, which contrasts vastly with their role during the global financial crisis.

## 4 strong fundamentals of US banking sector

### Solid revenue and loan growth

In today's environment, banks started to build loan loss reserves for possible future loan losses related to the global health crisis. When the economy begins to grow again, we believe US banks should see faster normalisation of earnings. Revenue and loan growth may hold up better in today's environment as banks provide support to their customer's borrowing needs.

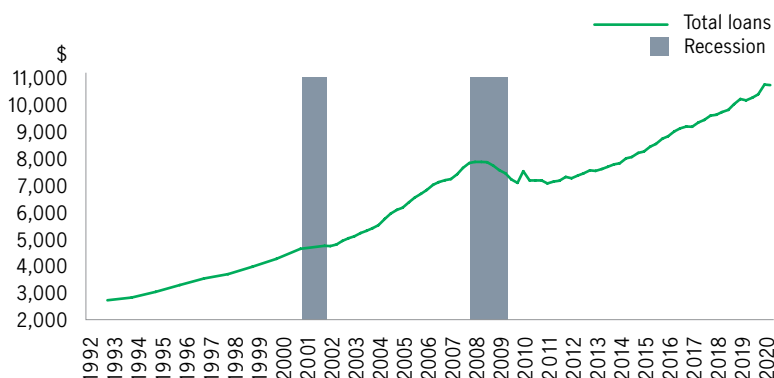
### Strong financial position with near-record levels of capital

While loan loss provisioning and net charge-off are expected to increase as a result of the global health crisis, we believe the strength of the US banking system today enables banks to be part of the solution to support business and customers.

### Creating synergies via M&A

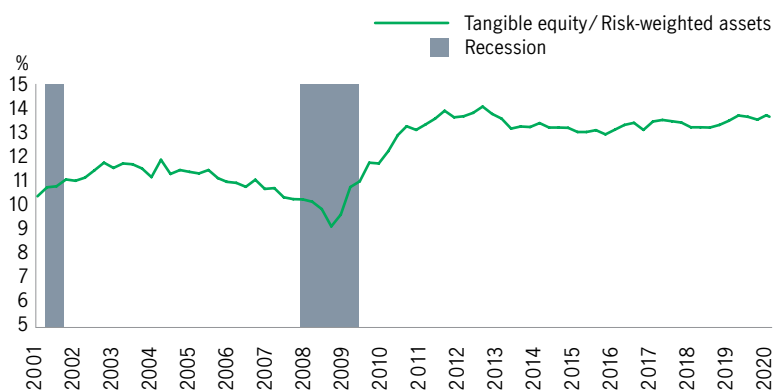
We believe the current environment is conducive to M&A activity. The consolidations not only unleashed values of the acquired banks, with a direct impact on boosting stock prices, but also create synergies to the acquiring bank with a sizable reduction in operating costs.

US banking industry: Total loans (USD billions)



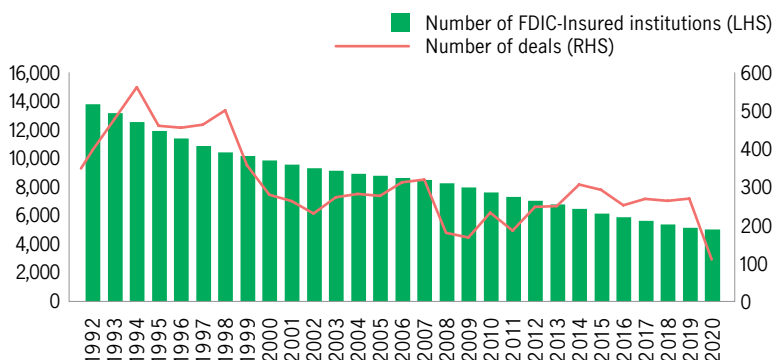
Source: Federal Deposit Insurance Corporation, as of 30 June 2020.

US banking industry: Excess capital levels



Source: Federal Deposit Insurance Corporation, as of 30 June 2020.

US banks: continued consolidation

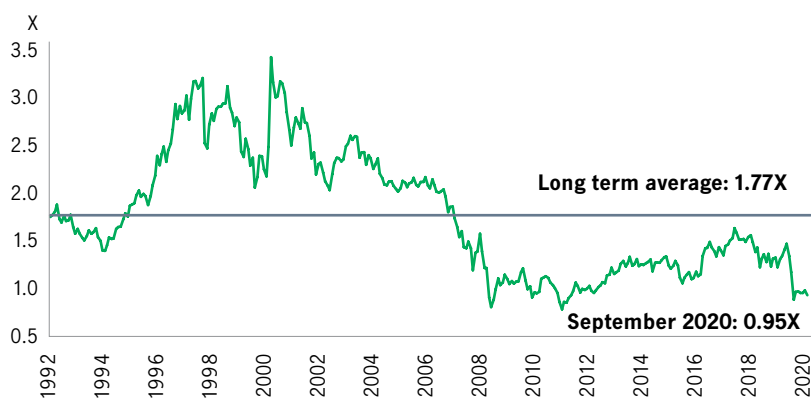


Source of number of deals: number of deals are measured by total bank acquisitions announced, SNL Financial, as of 30 September 2020. Source of Number of FDIC-Insured financial Institutions: Federal Deposit Insurance Corporation, 30 June 2020.

## Attractive valuations relative to history

US banking industry valuation is trading below its historical average today, with the price-to-book ratio hitting the lowest since 2011 and near levels during the global financial crisis. Historically, periods of heightened volatility have provided opportunities to purchase higher quality banks with above peer profitability at attractive valuations.

## US banking industry: Price-to-Book Ratio



Source: SNL Financial, as of 30 September 2020, in USD. US banking industry is represented by SNL US Bank Index, which is a custom Index provided by SNL Financial.

## Key features of Manulife US Bank Equity Fund



### Experienced team with boutique structure

- Specialised investment team that owns investment process from research through portfolio construction
- Well-resourced investment team with deep sector expertise averaging 27 years' experience
- Managed by a lead fund manager with investment focus exclusively on US Banks



### Time- and market-tested research process

- Relative-value approach to investing in US banks
- Long-term outperformance achieved by taking advantage of the market's focus on short-term factors
- Fundamentally driven research process using regulatory-based **CAMELS\*** framework to analyse a bank's business strategy

|          |                                      |  |
|----------|--------------------------------------|--|
| <b>C</b> | <b>Capital</b>                       | Evaluate company's capital adequacy, including total leverage and risk-based capital, in conjunction with an analysis of the loan portfolio and fair valuation of other assets |
| <b>A</b> | <b>Asset quality</b>                 | Credit review, including analysis of portfolio mix, loan policies and procedures, loan officer compensation structure, and underwriting process                                |
| <b>M</b> | <b>Management</b>                    | Meetings with senior management, which often include visits to headquarters to evaluate culture and strategy   |
| <b>E</b> | <b>Earnings</b>                      | Build earnings models, project earnings power in future years and identify attractive entry price  |
| <b>L</b> | <b>Liquidity</b>                     | Investment portfolio review, assessment of funding profile including reliance on borrowings, high-cost deposits, quality of deposits, and cash availability                    |
| <b>S</b> | <b>Sensitivity to interest rates</b> | Asset/Liability management, matched funding, duration of liabilities and assets  |

\* This is illustrative guideline. Portfolio holdings and characteristics are subject to change at any time. Information about the asset allocation is historical and is not an indication of the future composition. Source: Manulife Investment Management, as of 31 October 2020.

## Manulife's investment expertise

**27+ years**

Average experience of portfolio managers

**80% of assets<sup>1</sup>**

Substantially invested in regional banks

**525+**

Investment professionals<sup>2</sup>

<sup>1</sup> Source: Manulife Investment Management, as of 30 September 2020. This is illustrative guideline. Portfolio holdings and characteristics are subject to change at any time. Information about the asset allocation is historical and is not an indication of the future composition.

<sup>2</sup> Total is comprised of investment professionals of Manulife Investment Management, Manulife-TEDA Fund Management Co. Ltd., a 49% joint venture is a joint venture between Manulife Financial and Northern International Trust, part of the Tianjin TEDA Investment Holding Co. Ltd. (TEDA), and Mahindra Manulife Investment Management Private Limited, a 49% joint venture of Manulife and Mahindra AMC. Total includes Investment Professionals in private market asset classes of Agriculture/Timberland, Infrastructure and Real Estate. As of 30 June 2020.



**Ryan P. Lentell**

Portfolio manager at  
Manulife Investment  
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**Susan A. Curry**

Portfolio manager at  
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Management

### **Q: How did the US banking stocks perform in November?**

A: US equities surged in November, benefitting from news that two COVID-19 vaccines in development had showed 90% or better efficacy in trials and could begin distribution before year end. Investors also responded favourably to the resolution of the US presidential election and the prospect of a divided Congress reducing the likelihood of a disputed election and radical regulatory or tax changes. Within the S&P 500 Index, the energy sector posted the biggest gain by far, with added strong advances from the financials and industrials sectors, all of which rose amid expectations of more normalised economic activity ahead.

The Fund's benchmark, the S&P Composite 1500 Banks Index, increased by 19.3% for the month<sup>1</sup>.

### **Q: What were the key contributors and distractors to the Fund's performance over the month?**

A: A Phoenix, Arizona, based regional bank was an outperformer for the second month in row. Bank management discussed above peer loan growth expectation for the fourth quarter and leading into 2021 in October when it released third quarter earnings. With the positive news on vaccine development, loan growth should likely accelerate further next year given a better economic backdrop. Moreover, the bank's hospitality-based loans should be supported by the news on vaccine which should lead to lower credit expenses next year and likely reserve releases.

Two super regional banks lagged in the month. While each bank posted positive returns, they lagged both larger peers as well as some of smaller competitors. We believe the initial relief rally benefitted the largest banks as the likely divided Congress limits the chances of regulatory reform which would have potentially targeted the largest banks. Meanwhile, the news on pandemic supported some smaller banks that may benefit more from accelerating loan growth. We maintained our position in both banks.

### **Q: What is your investment outlook to the US banks?**

A: Given the strength of the US banking system today, we believe that US banks will continue to provide support to the US economy as corporations and business owners work through the challenges from the global health crisis and its impact on economic activity. This is drastically different from the Global Financial Crisis when banks were at the root of the economic problems. Today, US banks are fundamentally strong, extremely well capitalised and have ample liquidity to support their customers during this tumultuous time. As the economy continues its process of re-opening, we're seeing a winding down of the loan payment deferrals that banks granted many customers – temporary relief known as forbearance.

Overall, valuations are significantly depressed and US banks remain fundamentally strong with historically high levels of capital and liquidity, which will allow them to provide support to their customers. In comparable periods before, when bank stocks traded at trough multiples, the market dislocation proved to be transitory and historically a very attractive entry point for long-term investors.

Unless otherwise stated, all information sources are from Manulife Investment Management, as of 30 November 2020. A widespread health crisis such as a global pandemic could cause substantial market volatility, exchange trading suspensions and closures, and affect fund performance. For example, the novel coronavirus disease (COVID-19) has resulted in significant disruptions to global business activity. The impact of a health crisis and other epidemics and pandemics that may arise in the future, could affect the global economy in ways that cannot necessarily be foreseen at the present time. A health crisis may exacerbate other pre-existing political, social and economic risks. Any such impact could adversely affect the fund's performance, resulting in losses to your investment. The information in this material may contain projections or other forward-looking statements regarding future events, targets, management discipline or other expectations, and is only as current as of the date indicated. There is no assurance that such events will occur, and may be significantly different than that shown here.

<sup>1</sup> Source: Bloomberg, as of 30 November 2020. Past performance is not indicative of future results. US equity performance is measured by S&P 500 index. Benchmark is S&P Composite 1500 Banks Index. US regional banks are represented by S&P Regional Banks Select Industry Total Return Index.

Issued by Manulife Investment Management (Hong Kong) Limited.

This material has not been reviewed by the Securities and Futures Commission (SFC).