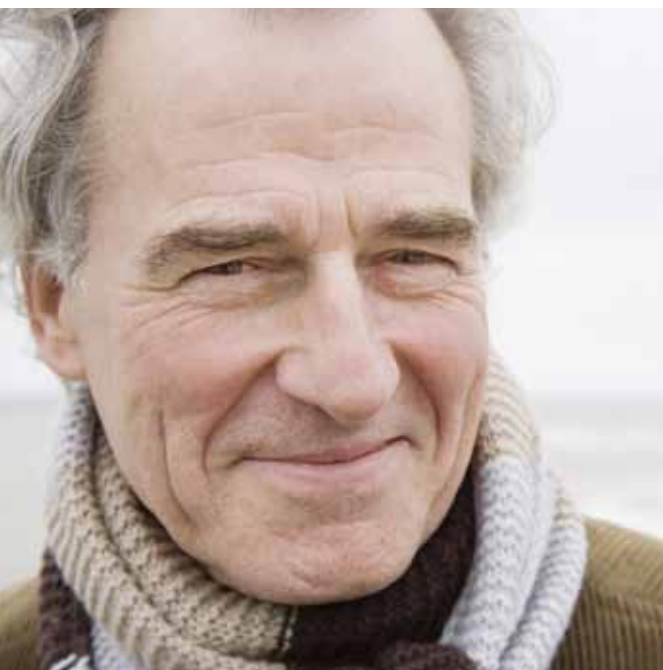


## 5 reasons to consider U.S. equity funds



With all of the recent volatility in the market, many investors are searching for opportunities to diversify their portfolios.

Despite the often negative headlines, there are many exciting opportunities south of the border.

1. Attractive valuations
2. Strong fundamentals
3. Global diversification of U.S. multinationals
4. Favorable long term trends
5. Low interest rates

### 1. EVERYBODY LOVES A DEAL: THERE ARE GREAT OPTIONS IN THE U.S. MARKET

The political environment in the United States and uncertainty in Europe have led investors to lower their exposure to the equity markets, resulting in decreased valuations. While the U.S. government does still have its debt challenges, these issues are not necessarily indicative of the financial position of all public companies – there are great options in the U.S. market right now. As of the end of November 2011, the average trailing Price to Earnings (P/E) ratio on the S&P 500 (U.S.) was approximately 13.1 times, compared to over 20.0 times ten years ago<sup>1</sup>. For further context, the average trailing P/E on the relative Canadian index, the S&P TSX was sitting around 14.8 times at the end of November. While not all U.S. companies are bargains right now, there are plenty of opportunities to find quality companies trading at a discount price.

Another impact of weakened valuations is the increased yield on dividend-paying companies. The higher yields accompanying lower valuations have been amplified by strong dividend increases and share repurchase activity over the past 18 months, which results in the investor getting paid while waiting for stock prices to reach full valuations.

<sup>1</sup>Source: Bloomberg, as at November 30, 2011. <sup>2</sup>Source: coca-cola.com, as at November 30, 2011.



## 2. COMPANIES ARE FUNDAMENTALLY STRONGER THAN THEY WERE IN 2008

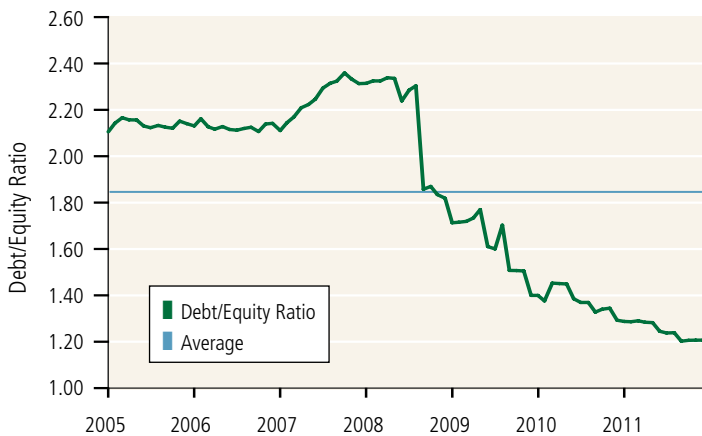
In the aftermath of the market crash of 2008, many large U.S. companies were forced to beef up their balance sheets and decrease leverage. As an example, the average Debt/Equity ratio in 2008 was 2.15 compared to an average of 1.20 today<sup>1</sup>.

Despite these improved fundamentals, investor panic over recent volatility has created great buying opportunities in companies that are much more fundamentally sound than they were in 2008.

## 3. QUALITY GLOBAL NAMES: DIVERSIFICATION OF U.S. MULTINATIONAL COMPANIES

Geographic diversification is crucial to reducing risk in any portfolio. Many of the world's largest multinational companies are domiciled in the United States, with revenue coming from all over the world. These companies provide investors with globally diversified exposure and the comfort of U.S. reporting standards. As an example, Coca-Cola is sold in over 200 countries around the world and nearly 70 per cent of the company's net operating revenues were generated outside of North America<sup>2</sup>. These diversified revenue streams allow the company to participate as growth opportunities shift toward lesser developed economies around the world.

**S&P 500 debt/equity ratio: 2005–2011**



Source: Bloomberg, as at December 31, 2011. For illustration purposes only.



#### 4. LONG-TERM TRENDS SUGGEST SUBSTANTIAL OPPORTUNITIES FOR PATIENT INVESTORS

Since 1900, the average annual total return of the S&P500 is approximately 10 per cent per year. Given the low level of growth seen in the last decade, it is anticipated that there is the potential for substantial

growth over the next decade. The last time that the S&P was this flat over 10 years was during the great depression, which was followed by a 60 year trend of consistent growth.

**S&P 500 growth of \$1.00 from 1900**



Source: 1900-1928: capital returns from the Schwert Series, 1929 – now: S&P (S&P 90 Composite prior to 1957, March 1957 onwards is the S&P 500, as at August 15, 2011. For illustration purposes only.



## 5. OPPORTUNITIES EXIST FOR LOWER COST OF CAPITAL

Interest rates are at all-time lows. As a result, it may be cost effective for growing businesses to go to the debt market to secure the necessary capital to fund their operations. This also may allow well-managed growth companies to take advantage of these rates to build their business for the future. Overall, this lower cost of capital

for U.S. corporations may enhance returns as growth accelerates.

Investors today, have the opportunity to get in on the ground floor of this increased return and accelerated growth.

**10 year U.S. Treasury yields**



Source: [federalreserve.gov/releases/h15/data.htm](http://federalreserve.gov/releases/h15/data.htm), as at August 15, 2011. For illustration purposes only.



## INTRODUCING OUR NEW U.S. CORE VALUE EQUITY TEAM



**Walter T. McCormick, CFA**  
 Senior Portfolio Manager  
 Manulife Asset Management (U.S.), LLC  
 41 Years Experience  
 Utilities, Energy



**Emory W. (Sandy) Sanders, Jr., CFA**  
 Senior Portfolio Manager  
 Manulife Asset Management (U.S.), LLC  
 15 Years Experience  
 Technology, Consumer Staples

## INVESTMENT PHILOSOPHY

Walter and Sandy believe that quality companies with a sustainable competitive advantage and cash flow generation bought at the “right price” could outperform. Patience and a long-term investment horizon allows for the compounding of companies’ cash flows.

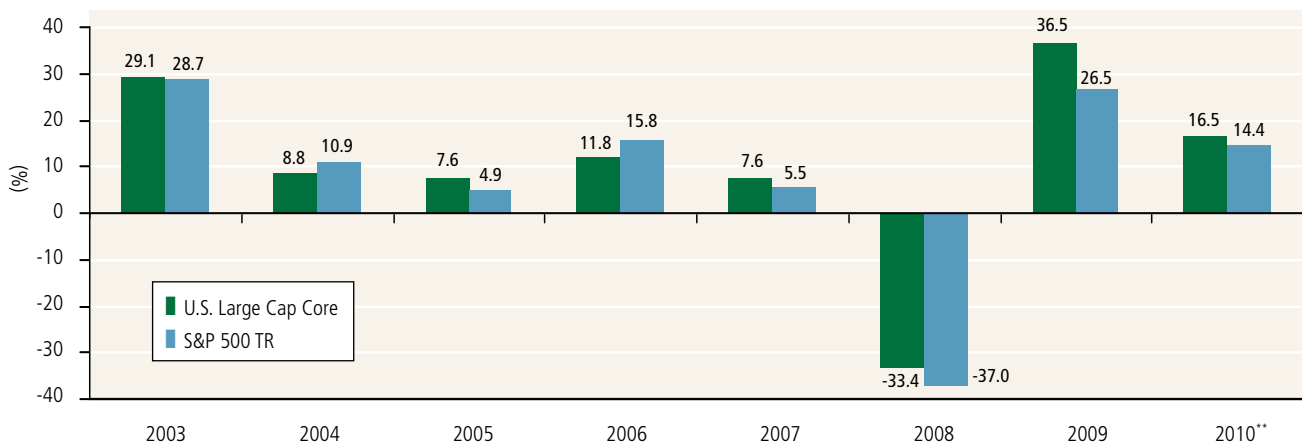
## INVESTMENT PROCESS

The U.S. Core Value Equity team applies a proprietary bottom-up, seven-step fundamental research process over a three to four week period, on companies they believe have sustainable competitive advantages. They perform a range of values analysis with four discounted cash flow cases from “Best to Base to Bear to Worst”, each with their own set of assumptions for sales margins and asset turns. From this rigorous research process, the team is able to isolate the right price to pay by focusing

on the downside analysis to come up with a margin of safety, which allows them to be highly opportunistic.

Below are the calendar year returns of a comparable fund\* to the Manulife U.S Large Cap Equity Fund that they managed for the past 8 years. If you add up the excess returns over the S&P 500 (USD) Index on a calendar year basis, it outperformed by almost 15 per cent over the 8 years (ending December 2010) since its inception.

**U.S. Large Cap Core strategy comparable fund calendar year returns**



Source: Manulife Asset Management, as at August 31, 2011. For illustration purposes only. \*Wells Fargo Advantage Core Equity Fund (not available for sale in Canada) – managed March 31, 2002 through December 27, 2010 with an investment objective, investment policies and strategies similar to those of Manulife U.S. Large Cap Equity Fund.

\*\*2010 calendar year returns are from January 1, 2010 – December 27, 2010. Wells Fargo Advantage Core Equity Fund was merged on August 26, 2011 into Wells Fargo Advantage Opportunity Fund. The performance of Wells Fargo Advantage Core Equity Fund does not mean that the Manulife U.S. Large Cap Equity Fund will provide the same returns.

## MANULIFE U.S. LARGE CAP EQUITY FUND

The U.S. Core Value Equity team uses their proprietary research process to identify large cap opportunities across all sectors within the U.S. This portfolio has a bias for quality companies with a competitive advantage, bought at a discount to their intrinsic value. This fund is available in multiple series in both Trust and Corporate Class:

	ADVISOR				SERIES F		ELITE SERIES	
	FE	LL	DSC	MER	Code	MER	Code	MER
Manulife U.S. Large Cap Equity Fund	4516	4716	4416	-	4616	-	4816	1.00
Manulife U.S. Large Cap Equity Fund (US\$)	9541	9741	9441	-	9641	-	-	-
Manulife U.S. Large Cap Equity Class	8541	8741	8441	-	8641	-	8841	1.00
Manulife U.S. Large Cap Equity Class (US\$)	9575	9775	9475	-	9675	-	-	-

## MANULIFE U.S. ALL CAP EQUITY FUND

This all-cap mandate is designed to take advantage of strong companies of any size. The team uses the same screening process as the large cap mandate to identify quality companies, but also provides exposure to the growth potential of small and mid sized companies. This fund is also available in multiple series in both Trust and Corporate Class:

	ADVISOR				SERIES F		ELITE SERIES	
	FE	LL	DSC	MER	Code	MER	Code	MER
Manulife U.S. All Cap Equity Fund	4515	4715	4415	-	4615	-	4815	1.00
Manulife U.S. All Cap Equity Fund (US\$)	9521	9721	9421	-	9621	-	-	-
Manulife U.S. All Cap Equity Class	8539	8739	8439	-	8639	-	8839	1.00
Manulife U.S. All Cap Equity Class (US\$)	9573	9773	9473	-	9674	-	-	-



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**FOR MORE INFORMATION PLEASE CONTACT YOUR MANULIFE INVESTMENT SALES TEAM,  
OR VISIT [MANULIFEMUTUALFUNDS.CA](http://MANULIFEMUTUALFUNDS.CA)**

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