



Paul Moroz

Director & Portfolio Manager

Mawer Investment Management Ltd.

Derek Saliba: Tell us about the Manulife Global Small Cap Fund.

Paul Moroz: Sure. Well we start with a logical repeatable investment philosophy that we use across all of Moore investment management's equity mandates, and that is investing in strong business models, excellent management teams and attractive valuations. And we take that globally, looking at small cap companies, less than a market cap of 3 billion U.S. dollars. The result is something we call blue chip small cap.

DS: Blue chip and small cap aren't normally spoken of in the same breath. Would you mind elaborating a bit on that concept?

PM: Sure. Our portfolio of companies are all wealth creating. They all generate earnings. They have dominant market positions. They're the big fish in the small pond so even though they're small, they're extremely productive. To give you some stats, some numbers: Our portfolio trades at a little over 10 times 2011 earnings. It pays a dividend yield almost twice of a 10-year Government of Canada bond. We're sitting at 3.7 per cent. The return on equity, or ROE, of the portfolio is over 20 per cent. So, the portfolio is more resilient in tough economic times but you still get that longer term growth potential of the small cap asset class. So it's not an ordinary small cap fund; it's blue chip small cap.

DS: Would you share an example of a significant holding within the portfolio?



PM: One of the companies we own is called Retail Food Group and it's an Australia listed company. It's a bit like the Tim Horton's of Australia in that it's a franchisor of quick-service brands. It has five or six brands that are all over shopping malls across Australia, including the Donut King. Their revenue model is extracting a 7 per cent royalty, on average, off the revenue that the franchisees generate.

So, this is a great business model. Part of the reason for that is the franchisees will fund the growth initiatives of the companies. They'll put up the capital to expand the store. So, with that excess capital that means Retail Food Group can pay out a larger dividend and still grow. The dividend yield of Retail Food Group is close to 6 per cent. It trades at nine times earnings; it generates approximately an 18 per cent return on equity. So that's a blue chip small cap stock.

DS: You're also the manager of the Manulife Global Small Cap Balanced Fund which was launched in August of 2011. Can you tell us about how that fund differs from the Manulife Global Small Cap Fund?

PM: This is a combination of funds and so it includes primarily the global small cap fund, but also, it adds the strategic income fund as a fixed income component. And finally, there's a portion that we can allocate to either cash, fixed income or global equity and tactically add value for clients.

DS: Thank you, Paul.

PM: Thanks very much for having me.

DS: I'm Derek Saliba. Thank you for watching Manulife Mutual Funds *3 Minutes with Paul Moroz*.

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