

3 MINUTES WITH WALTER McCORMICK AND SANDY SANDERS TRANSCRIPT

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**Walter McCormick**

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**Emory (Sandy) Sanders**

Senior Managing Director & Senior Portfolio Manager  
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Derek Saliba: You've both been investing in U.S. equities across market caps for a number of years. Walter, what do you attribute your success to?

Walter McCormick: I would say there's a common denominator to success, whether it's U.S. equities international, large cap or small cap, and that's having a strong investment discipline. We pay a lot of attention to good quality companies where we can verify a competitive advantage, and we want to find companies where that competitive advantage leads to sustainable, above-average cash flow. And that combination puts us into better quality companies. At the end of the day, we want to buy those companies at the right price so we spend a lot of time thinking about those fundamentals and taking advantage of opportunities as they come along.

DS: How do you navigate the markets with all of the volatility we've been experiencing of late?

WM: Well, it's always a challenge when you have this sort of volatility but quite honestly it works to our favour, given the fact that we spend so much time trying to identify the right entry points for companies that we're interested in, that meet our quality criteria. The fact that



volatility exists gives us those opportunities to step into the stocks at very good price points, so we take advantage of this sort of volatility.

DS: Sandy, would you please elaborate a bit on the process that you use to select companies for these portfolios?

Sandy Sanders: Sure. We use a fundamental bottoms-up detailed research process. It's about a three to four week process we call the Seven Step Research Process. First, we look at the competitive advantages. Second, it's the growth drivers. Third, an industry analysis. Fourth, financial statement analysis. Fifth, we're looking at the management team and the track record. Six, it's a range of value analysis; four DCF models from best case to worse case. And lastly, a risk sensitivity analysis.

DS: Would you mind just taking a moment to walk us through an example of a company that's gone through your seven-step process?

SS: Sure. If you look at Amazon.com, this is a company that has a great sustainable competitive advantage because of its three pillars. First, its price. Has the lowest prices on the industry. Selection. Has the widest selection of goods. And convenience. It's so easy to shop on Amazon.com.

The growth driver is that the low penetration of online retail in the U.S. and globally is basically 8% penetrated. So therefore, we see a long tailwind for this company to—from rising penetration over the next 10 years, getting to about a 15% penetration. The industry itself is going to grow 16% but Amazon should gain market share and grow faster.

The competition is high but Amazon has an advantage because of that first-mover advantage. Returns on invested capital are very attractive. If you look at the financial analysis part of the Seven Step, it's typically a greater than 20-30% return on invested capital business. And if you look at a range of value analysis on Amazon, you know, we think the stock is attractively priced here based on our analysis from best case to worse case that we build from the bottoms up.

Lastly, management team. The management team is focussed on driving return on invested capital and free cash flow. Our two favourite things.

DS: Thank you both. I'm Derek Saliba. You've been watching Manulife Mutual Funds "3 Minutes With" Walter McCormick and Sandy Sanders?



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