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# TRENDS & IDEAS

## JOHN HANCOCK DISCIPLINED VALUE MID CAP FUND

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Monitoring today's investment climate can be like attending a three-ring circus. On any given day, Ring No. 1 might feature Europe juggling its sovereign debt problems, Ring No. 2 might deliver a parade of mixed figures on the U.S. and global economies, and Ring No. 3 might show China battling inflation on the high wire.

Against this backdrop, which lately has fueled nail-biting gyrations in the financial markets, finding a mutual fund to invest in with a proven track record of delivering solid results can be difficult. One fund that investors might consider is the John Hancock Disciplined Value Mid Cap Fund (JVMAX), which garners a five-star ranking by Standard & Poor's mutual fund ranking methodology. Year to date through August 19, JVMAX had a trailing total return of -11.58% vs. its peer group's average of -14.69%. Over the past year the fund returned 9.46% vs. peers' 3.87%, and over the past three years it returned 3.64% vs. -1.32%. Further out, the fund returned 7.30% over the past 10 years vs. peers' 5.62%, and 7.01% since inception in 1997 vs. peers' 2.93%.

Along with performance, manager tenure is a key quality that S&P looks for in ranking funds. Steven Pollack has been the fund's lead manager since July 1, 2001. The fund, he notes, was initially called the Robeco BP Mid-Cap Value Fund back in 1997, and it was given its current name when it was adopted by John Hancock Funds on July 9, 2010. Serving as co-manager of JVMAX is Joseph Feeney. Rounding out the investment team are four quantitative analysts and about 12 fundamental analysts.

Pollack says that he and his team are "long-term investors," typically taking a one- to three-year view on holdings, although "first and foremost we are value investors." Their buy discipline, he explains, lies within a "Three Circle framework," which asks three questions about every stock that's evaluated for investment: 1) Is the company priced at an attractive discount to its intrinsic value? 2) Is it engaged in a fundamentally attractive business? i.e., does it generate high and sustainable returns on invested capital? 3) Is the business improving and is there an identifiable catalyst that will drive the stock price up toward fair value?

Like its benchmark, the Russell Mid-Cap Value Index, JVMAX is heavily weighted in financials (25.09% as of June 30), although banks are not among its favorite holdings, says Pollack. "Instead," he notes, "we focus on credit card companies," which he points out were "very attractive a couple of years ago when they were purchased during the financial crisis." Compared with the overall financial industry, Pollack says credit card companies had strong balance sheets and "their losses were relatively muted" versus previous downturn cycles. "That gave me confidence toward how companies were handling their exposures," the manager says. "Mortgages," he adds, "were being defaulted on more than credit cards. Credit card payments were being kept up. That's not to assume they (credit card companies) didn't have their losses, but they were smaller" versus the overall scenario. As of June 30, Discover Financial Services, which offers the Discover credit card, was among the top 10 individual holdings in the fund. Besides financials, other heavily weighted industry sectors included industrials (15.02%), information technology (13.04%), and consumer discretionary (11.61%).

Pollack says JVMAX currently holds about 110 stocks, which is within its historical range of 80 to 130. Most of the holdings are U.S. domiciled businesses. Each has a target set at purchase, which the manager and his team constantly monitor and adjust as appropriate. The fund's market-cap range is \$1 billion to \$18 billion. The fund sells a holding when it no longer meets one or more of the Three Circle criteria, either through obtaining fair value or due to an adverse change in fundamentals or business momentum.

Asked what his No. 1 message to potential JVMAX investors is? Pollack replied: "The key to our long-term success is the execution of our Three Circle philosophy. Today, in these very uncertain times

**TAKEAWAY:** This fund wins a five-star ranking from S&P's mutual fund ranking methodology.

### POSITIVE IMPLICATIONS:

John Hancock  
Disciplined Value  
Mid Cap Fund;A

★★★★★ [JVMAX]

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with a lot of volatility, we are not changing anything. We are sticking to our discipline." Are any of his assets invested in the fund? "Yes, a significant percentage of my 401k."

S&P believes it is important to assess a fund's underlying holdings, risk, and cost considerations in addition to its performance and manager tenure, and our unique ranking methodology incorporates all of these analyses in establishing our mutual fund ranking.

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BRIAN J. EGLI, S&P Editorial

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