

**FIRM BROCHURE  
(Part 2A of Form ADV)**

Manulife Asset Management (US) LLC  
101 Huntington Avenue  
Boston, MA 02199  
617-375-1500  
[www.manulifeam.com](http://www.manulifeam.com)

March 28, 2013  
as amended July 18, 2013

**This brochure provides information about the qualifications and business practices of Manulife Asset Management (US) LLC. If you have any questions about the contents of this brochure, please contact us at the number above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.**

**Additional information about Manulife Asset Management (US) LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Item 2. Material Changes**

There are no material changes for our Brochure since the Firm's last annual update on March 28, 2013, however the Firm has updated the following:

**Item 5. Fees and Compensation:**

- We have updated our current fee disclosure.

## TABLE OF CONTENTS

	<u>Page</u>
<b>Item 4.</b> Advisory Business .....	1
<b>Item 5.</b> Fees and Compensation .....	5
<b>Item 6.</b> Performance-Based Fees and Side-by-Side Management .....	12
<b>Item 7.</b> Types of Clients .....	13
<b>Item 8.</b> Methods of Analysis, Investment Strategies, and Risk of Loss.....	13
<b>Item 9.</b> Disciplinary Information.....	64
<b>Item 10.</b> Other Financial Industry Activities and Affiliations .....	64
<b>Item 11.</b> Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	66
<b>Item 12.</b> Brokerage Practices .....	68
<b>Item 13.</b> Review of Accounts .....	73
<b>Item 14.</b> Client Referrals and Other Compensation .....	73
<b>Item 15.</b> Custody .....	73
<b>Item 16.</b> Investment Discretion .....	74
<b>Item 17.</b> Voting Client Securities .....	74
<b>Item 18.</b> Financial Information.....	75

## **Item 4. Advisory Business**

### **Overview**

Manulife Asset Management (US) LLC (“we” or “Manulife AM (US)”) provides investment management services to a variety of institutional and private clients. We provide services for a fee to institutional separate account clients, US and non-US mutual funds sponsored by affiliated parties, as well as investment vehicles that we sponsor (referred to as “Sponsored Products”). These Sponsored Products are those in which Manulife AM (US) or its affiliates may serve as general partner or managing member of a limited liability company or other pooled investment vehicle. They include bank maintained collective investment funds, registered investment companies and privately-offered unregistered investment funds, in which clients of Manulife AM (US) may be solicited to invest. In addition, Manulife AM (US) may serve as an adviser or subadviser to various accounts for which our affiliates or subsidiaries have contracted to provide investment advisory services. These accounts include, among others, trusts and investment companies organized in jurisdictions outside Canada and the United States.

Manulife AM (US) was organized in 1968 and is an indirect, wholly-owned subsidiary of Manulife Financial Corporation (“Manulife Financial”), a publicly held, Canadian-based company listed on the Toronto Stock Exchange, New York Stock Exchange, Hong Kong Stock Exchange, and the Philippine Stock Exchange. We have been registered as an investment adviser with the SEC since 1992, and we are affiliated with several SEC-registered and non-SEC registered investment advisers, located both in the U.S. and outside the U.S. (each of which is also a subsidiary or affiliate of Manulife Financial).

Along with its headquarters in Boston, MA, Manulife AM (US) maintains offices in Berwyn, PA, Charlotte, NC and Milwaukee, WI. Each office provides investment management services in a variety of different platforms including wrap programs as well as sub-advisory investment management services to certain affiliated U.S. registered mutual funds.

Manulife AM (US) and certain of our affiliated registered investment adviser firms may provide investment management or advisory services, and may market such services, to affiliated clients under the brand name “John Hancock Asset Management” and “Sovereign Asset Management.” We also may further describe each of these brands as “a division of Manulife Asset Management (US) LLC.” These are brand names only, not entities separate from Manulife AM (US).

We and our affiliates provide comprehensive asset management services for institutional investors, individuals, and retirement and investment funds in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative investments such as oil and gas, real estate, timber and farmland, as well as asset allocation strategies. Manulife AM (US) may, for certain of our investment strategies, to the extent permitted by its management contracts, delegate investment discretion or trade execution services to an affiliated sub-adviser who manages all or a portion of a portfolio. We may also utilize the services of certain personnel of our affiliates, as supervised persons under personnel sharing arrangements or other inter-company arrangements entered into with affiliates. Certain of these affiliates have been deemed to be “Participating Affiliates” of Manulife AM

(US). Manulife AM (US) or its affiliates may have access to investment research from various subsidiaries and affiliates. Manulife AM (US) or its affiliates may provide to or receive from other affiliated investment managers or financial institutions non-discretionary advisory services in the form of research services.

## **Participation in Managed Account Programs**

Manulife AM (US) provides investment advisory services to managed account programs (“Managed Accounts”) predominately organized by unaffiliated investment advisers and broker-dealers (“Program Sponsors”, collectively, Managed Accounts and Program Sponsors are “Managed Account Programs”).

The portfolios under Managed Account Programs have a mix of investment objectives and may invest in, or create exposure to, a wide variety of financial instruments in different asset classes, including listed and unlisted equity and fixed income securities, fixed income instruments, derivatives and structured products, futures and options.

We participate in a variety of different Managed Account Programs and provide various levels of investment advisory services pursuant to the specific contractual terms of each respective Managed Account Program. Generally, the types of services range between managing directly each Managed Account Program’s client’s portfolio on a fully-discretionary basis to only providing and periodically updating a model portfolio to the Managed Account Program Sponsors. In addition, in programs in which Manulife AM (US) provides discretionary investment advisory services to a Managed Account Program, such Managed Accounts may be subject to customization from a Managed Account Program client. Such customization can range from instructions to execute all trades with the Program Sponsor to specific securities portfolio restrictions.

In general, Manulife AM (US) participates in three main types of Managed Account Programs: 1) wrap fee; 2) direct managed; and 3) model only.

### **Wrap Fee**

In the majority of the Managed Account Programs in which we participate, a client pays a single, all inclusive fee to the Program Sponsor, covering all services provided, including investment management, brokerage commission, custodial services, record-keeping and reporting. Such Managed Account Programs are commonly referred to as a “wrap fee program.” In wrap fee programs, the Program Sponsor recommends Manulife AM (US) as investment adviser to a client of the program, the Program Sponsor pays the management fees on behalf of the client, executes the client’s portfolio transactions without commission charges, and monitors the investment performance of the client’s portfolio.

The wrap fee Program Sponsors and the wrap fee program clients are primarily responsible for ensuring that the services provided by the program and Manulife AM (US) as investment adviser are suitable for the client. Manulife AM (US) does not know whether it is managing a portion or all of the client’s assets available for investment and also does not know

the complete financial situation of the client. Accordingly, in most cases, Manulife AM (US) relies on the wrap fee Program Sponsor for the overall determination of suitability in selecting us to manage the client's assets.

### Direct Managed

In a direct managed program, Manulife AM (US) serves as a sub-adviser to another investment manager, generally the Program Sponsor. In these programs, the client pays separately for the services provided, including a separate fee for investment management, custody and brokerage commission. Such fees, including the sub-advisory fee paid to us, are generally negotiated between the client and the Program Sponsor.

### Model Only

Manulife AM (US) also participates in "model only" programs. In these programs, we provide an "investment model" to the Program Sponsor or to another designated third party. For these programs, our primary responsibility is to create a non-client specific, representative model portfolio based on a specified investment strategy and communicate periodic model changes to the Program Sponsor or designated third party. At their discretion, the Program Sponsors or designated third parties decide whether to effect those model changes. Manulife AM (US) therefore does not maintain nor have any specific client portfolio information for any of the underlying accounts in these programs. The Program Sponsors of model-only programs are solely responsible for determining the suitability of the strategy and investments for each client participating in these programs. All management and support of the underlying client accounts is the sole responsibility of the Program Sponsor or designated third party.

### Services Provided

As noted, we participate in different types of Managed Account Programs and our services, required minimum account size, and investment advisory fees vary depending on the type of programs. This also means that client relationship services can also vary among the types of the programs.

As an example, depending on the requirements of the respective Managed Account Programs, we may prepare and deliver to the wrap fee program sponsor a quarterly letter for wrap fee program clients summarizing, among other things, investment strategies and activities for the quarter. For some programs, we may also provide a regular statement of trading activity.

Managed Account Program clients should note that the level of services provided by Manulife AM (US) depends greatly upon the program, the specific client advisory arrangement, or both, negotiated between the Program Sponsor and the client. Thus, Managed Account Program clients should familiarize themselves with all account documentation provided by the Program Sponsor with regard to the specific details and requirements of the program.

## Trading

In wrap fee programs, a client should understand that brokerage commissions are not negotiated by Manulife AM (US). Transactions are effected “net” of commissions and a portion of the wrap fee is considered in lieu of commissions. Trades generally will be executed only with the Program Sponsors to avoid incurring the incremental brokerage costs from using other broker/dealers. Therefore, Manulife AM (US) may not be free to seek best price and execution by placing transactions with other brokers or dealers. Broker/dealer sponsors of wrap fee agreements generally can offer best price for transactions in listed equity securities. With respect to transactions in other types of securities, no similar assurance can be given. Clients should consider whether, the amount of portfolio activity, and the value attributed to custodial, monitoring and any other services included in the wrap fee would exceed the aggregate cost of such services if they were separately provided and Manulife AM (US) were free to choose the broker/dealers to execute portfolio transactions.

For some Managed Account Programs, clients may direct us to execute their transactions using a particular broker-dealer. Clients that choose to direct their brokerage, should consider the following: (i) our brokerage placement practices; (ii) they may pay higher commissions on some transactions than might be attainable by us, or may receive less favorable execution of some transactions, or both; (iii) they may forego any benefit from savings on execution costs that we could obtain for our clients through negotiating volume discounts on batched transactions; (iv) they may not be able to participate in an allocation of a new issue if that new issue is provided by another broker; (v) they may restrict us from receiving research-related products and services available from other brokers; (vi) we may not begin to execute client securities transactions with broker-dealers which have been directed by clients until all non-directed brokerage orders are completed; and (vii) they may not generate returns equal to clients which do not direct brokerage.

## Managed Account Program- Sequencing Placement of Orders

We endeavor to treat all Managed Account Program accounts fairly and equitably in communicating orders to sponsors in accordance with client-directed trading instructions or in executing client orders in accordance with the requirements of the particular Managed Account Programs.

In view of the different types of investment advisory services and clients’ instructions, we have established a policy and related procedures that we believe are reasonably designed to address the potential conflicts arising from sequencing of order placements and execution among Managed Accounts and other client portfolios in similarly managed strategies. Our general practice is to communicate investment decisions to all affected clients at or about the same time. This entails a rotational method of releasing orders to the sponsoring or other executing brokers consistent with our fiduciary duties. For Managed Account Programs whereby we are solely responsible for providing a model portfolio and model updates, we will also seek to communicate the model and updates to the Program Sponsors as efficiently as possible but it will be after the completion of the operational process of communicating the orders to the Managed Program Sponsors subject to clients’ instructions of directed trading.

## Discretionary Authority and Assets Under Management

Clients retain Manulife AM (US) on both a discretionary and nondiscretionary basis. When we are retained on a discretionary basis, we have authority to supervise and direct the investments of and for the client's account without prior consultation with the client. Pursuant to this discretionary authority, we determine which securities are bought and sold for the account, the total amount of the purchases and sales, the brokers or dealers through which transactions are executed and the commission rates paid to effect the transactions, as applicable. The client may restrict or prohibit transactions in certain types of securities or direct that transactions be effected through specific brokers or dealers.

Some clients retain us on a non-discretionary basis, requiring that portfolio transactions be discussed in advance and executed at the client's direction.

As of December 31, 2012, we managed \$132,889,368,818 on a discretionary basis and \$1,757,601,412 on a non-discretionary basis.

### Item 5. Fees and Compensation

#### Fees

Subject to applicable laws and regulations, Manulife AM (US) retains complete discretion over the fees charged to clients, as well as any changes to those fees. Fees generally are non-negotiable; however, non-standard fees may be negotiated or modified in light of a client's special circumstances, asset levels, service requirement, or other factors, in our sole discretion. We may agree to offer certain clients a fee schedule that is lower than that of other comparable clients in the same investment strategy. We may also choose to waive all or a portion of our negotiated fee for a given period. Finally, we may enter into a commitment with certain clients to provide services at the lowest fee available for a particular investment strategy, and this fee may be lower than that paid by other comparably situated clients.

Our basic fee schedule (below) is categorized by our investment strategies. Advisory fees, as a percentage of assets under management at the annual rates shown, generally are applied to the aggregate market value of all assets in the client's account as of the last business day of each month or quarter, or on average assets for a period as requested by the client.

#### A Equity Strategy Fees (as a percentage of assets under management)

Large Cap Equity		
First \$50M	Next \$50M	Over \$100M
0.55%	0.45%	0.35%

  

Small Cap Opportunity		
First \$50M	Over \$50M	
0.90%	0.75%	



Global Opportunities		
First \$50M	Next \$50M	Over \$100M
0.75%	0.65%	0.45%

Balanced		
First \$25M	Next \$75M	Thereafter
0.50%	0.40%	0.30%

Global Natural Resources		
First \$50M	Next \$50M	Over \$100M
0.75%	0.65%	0.45%

Global Real Estate		
First \$50M	Next \$50M	Over \$100M
0.70%	0.55%	0.50%

Small Cap Growth		
First \$50M	Over \$50M	
0.90%	0.75%	

Mid Cap Growth		
First \$50M	Next \$50M	Over \$100M
0.70%	0.60%	0.50%

US Large Cap Core US Large Cap Value		
First \$25M	Next \$50M	Over \$75M
0.60%	0.50%	0.40%

International Value		
First \$50M	Next \$50M	Over \$100M
0.70%	0.50%	0.45%

Large Cap Growth		
First \$25M	Next \$50M	Over \$75M
0.60%	0.50%	0.40%

Emerging Markets Opportunities		
First \$25M	Next \$50M	Over \$75M
1.00%	0.90%	0.80%

Emerging Markets ADR			
3.00% of average daily total managed assets			

Global Focus			
First \$25M	Next \$25M	Next \$50M	Thereafter
0.70%	0.65%	0.55%	0.45%

US All Cap Core		
First \$25M	Next \$50M	Thereafter
0.70%	0.60%	0.50%

Small-Mid Cap Growth		
First \$50M	Thereafter	
0.90%	0.75%	

Diversified Strategies		
First \$1B	Over \$1B	
0.25%	0.225%	

International Value ADR Large Cap Value				
First \$10M	Next \$15M	Next \$25M	Next \$50M	Over \$100M
1.00%	0.80	0.70%	0.50%	0.40%

Bank Opportunities				
First \$10M	Next \$15M	Next \$25M	Next \$50M	Over \$100m
0.90%	0.80%	0.75%	0.70%	0.60%

Financial Industries				
First \$10M	Next \$15M	Next \$25M	Next \$50M	Over \$100m
0.90%	0.80%	0.75%	0.70%	0.60%

Regional Bank				
First \$10M	Next \$15M	Next \$25M	Next \$50M	Over \$100m
0.90%	0.80%	0.75%	0.70%	0.60%

Concentrated Opportunity				
First \$1M	Next \$2M	Next \$2M	Next \$5M	Over \$10M
1.00%	0.80%	0.70%	0.50%	0.40%

Large Cap Core Dividend				
First \$10M	Next \$15M	Next \$25M	Next \$50M	Over \$100M
0.70%	0.55%	0.45%	0.40%	0.35%

Dividend Performers		
First \$250K	Next \$250K	Over \$250K
0.75%	0.60%	0.50%

Global Healthcare		
First \$50M	Next \$50M	Over \$100M
0.75%	0.65%	0.45%

High Dividend Value		
First \$25M	Next \$25M	Over \$50M
0.60%	0.50%	0.40%

Global Equity		
First \$25M	Next \$75M	Thereafter
0.75%	0.65%	0.50%

Asian Small Cap		
First \$50M	Thereafter	
0.90%	0.75%	

Dividend Performers Balanced		
First \$250K	Next \$250K	Over \$250K
0.75%	0.60%	0.50%

**B. Preferred Strategies Fees (as a percentage of assets under management)**

Preferred Income
0.75% of average daily total managed assets

Tax-Advantaged Dividend Income
0.75% of average daily total managed assets

Premium Dividend Income
0.500% of average daily total managed assets plus 5% of the fund's daily gross income.

**C. Fixed Income Strategy Fees (as a percentage of assets under management)**

<b>Core Fixed Income</b>		
First \$25M	Next \$50M	Over \$75M
0.30%	0.25%	0.20%

<b>Core Plus Fixed Income</b>		
First \$75M	Next \$75M	Over \$150M
0.30%	0.25%	0.20%

<b>Strategic Fixed Income</b>			
First \$25M	Next \$75M	Next \$75M	Over \$175M
0.40%	0.35%	0.30%	0.25%

<b>Strategic Fixed Income Opportunities</b>		
First \$75M	Next \$75M	Over \$150M
0.40%	0.35%	0.30%

<b>Global Fixed Income</b>		
First \$75M	Next \$75M	Over \$150M
0.35%	0.30%	0.25%

<b>Global Investment Grade</b>		
First \$25M	Next \$50M	Over \$75M
0.35%	0.30%	0.25%

<b>International Fixed Income</b>		
First \$25M	Next \$50M	Over \$75M
0.35%	0.30%	0.25%

<b>High Yield</b>		
First \$50M	Next \$50M	Over \$100M
0.50%	0.45%	0.40%

<b>US TIPS</b>		
First \$100M	Over \$100M	
0.15%	0.10%	

<b>Emerging Markets Debt</b>		
First \$25M	Next \$25M	Over \$50M
0.60%	0.50%	0.40%

<b>Long Credit Fixed Income</b>		
First \$50M	Next \$50M	Over \$100M
0.30%	0.25%	0.20%

<b>Floating Rate Income</b>		
First \$50M	Next \$50M	Over \$100M
0.50%	0.45%	0.40%

<b>US Government</b>		
First \$25M	Next \$25M	Over \$50M
0.30%	0.25%	0.20%

<b>US Short-Term Fixed Income</b>		
First \$25M	Next \$50M	Over \$75M
0.25%	0.20%	0.15%

<b>Municipal Bonds</b>	
Tax-Free	0.55% of average daily total managed assets
California Tax-Free	0.55% of average daily total managed assets
Massachusetts Tax-Free	0.50% of average daily total managed assets
New York Tax-Free	0.50% of average daily total managed assets
High Yield Municipal	0.55% of average daily total managed assets

<b>Asia Total Return Bond</b>		
First \$50M	Next \$50M	Thereafter
0.50%	0.40%	0.30%

<b>Leveraged Companies</b>
0.75% of average daily total managed assets

<b>Ultra Short Bond</b>
0.55% of average daily total managed assets

<b>US Money Market</b>
0.50% of average daily total managed assets

<b>Absolute Return Mortgage Securities</b>
1.0% of average daily total managed assets*

<b>Total Return Bond</b>
0.60% of average daily total managed assets

\*Does not include performance-based compensation.

#### **D. Asset Allocation Strategy Fees (as a percentage of assets under management)**

Fees for the Asset Allocation Strategy (Strategic Allocation) may vary depending upon the services provided, but are generally 0.015% of assets under management, from which we may allocate a portion of the fee to certain affiliates with employees that provide investment-related services to the Asset Allocation Strategies.

#### **E. Managed Account Programs Fees**

Advisory fees from Managed Account Programs are based on a percentage of total assets in a client account, or are aggregated across all client accounts in a particular program and similar style. All fees are negotiable but typically range from 0.0036% to 0.01% on assets under management. Typically all fees due to Manulife AM (US) are paid directly by the Program Sponsor on a quarterly basis. However, depending on the type of program or account set up, Manulife AM (US) may invoice a client or custodian directly.

#### **F. Private Funds**

Manulife AM (US) and its affiliates advise private funds and charge fees based on assets under management or net asset value, as well as performance fees. Compensation to Manulife AM (US) is payable on a quarterly or monthly basis in arrears or on such other terms as Manulife AM (US) may from time to time agree or as Manulife AM (US) may be entitled to under the terms of operating agreements of any privately-offered investment fund that Manulife AM (US) may advise.

#### **G. Billing Methods**

We may bill clients directly for our advisory fee, or we may deduct the fee from client accounts, depending upon the terms of the client's contract with us. Clients are given the opportunity to state their preference.

Fees are computed and billed either at the close of each calendar month or quarter, in arrears, or quarterly in advance based upon the previous quarter's assets, or as may be agreed to by clients.

The majority of Manulife AM (US)'s clients pay all of their operating expenses. However, certain Manulife AM (US)'s clients have all-inclusive fee arrangements, pursuant to which Manulife AM (US)'s affiliates pay certain of the applicable client's expenses. Manulife AM (US)'s affiliates' fees for providing these services are negotiated on an individual basis and vary significantly among clients and investment strategies.

Clients are generally billed for fees incurred. Fees may be deducted by a service provider for privately-offered investment funds that Manulife AM (US) may advise.

#### **Payment for Partial Periods and Fee Refunds**

For quarters in which a client's investment management agreement has commenced or terminated, the fee may be prorated. Prepaid fees, if any, will be refunded on a pro-rata basis upon termination of the agreement.

With regard to mutual funds, Manulife AM (US) or the fund unilaterally may terminate the investment management or sub-advisory agreement after giving written notice (usually 30 days). If the agreement is terminated other than at a month (or other specified period) end, fees and expenses will be prorated to the termination date of the agreement. Manulife AM (US) in its sole discretion may agree to waive the 30-day notice requirement.

## **Other Fees and Expenses**

In addition to the advisory fees discussed above, clients may incur additional fees related to the services we provide. Clients will incur the fees and expenses charged by the custodian of client assets managed by us, as well as brokerage and other transaction costs associated with securities trades that we order on behalf of the assets in a client's account. Please see Item 12. "Brokerage Practices" in this Brochure for additional information about brokerage and brokerage fees.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

Manulife AM (US) currently manages client assets from which we receive performance-based compensation in addition to a management fee. The performance-based compensation, which has an annual maximum fee, is payable only if the relevant account meets or exceeds client-established performance thresholds. Certain of our portfolio managers provide advisory services both to accounts paying a performance fee, and to accounts paying a traditional asset based management fee.

The potential to receive a performance-based fee may create an incentive for the Firm and our portfolio managers to favor accounts from which a performance based fee is received. In addition, a performance-based fee, if received, may result in fees paid to us that are greater than normally paid to investment advisers for similar services.

Our compliance program seeks to manage actual and potential conflicts associated with the contemporaneous management of performance fee accounts and traditional fee accounts. We generally expect that performance fee accounts and traditional management fee accounts that are invested in the same strategy to participate in investment opportunities at the same time and in an equitable manner. We expect that any such allocation of investment opportunities will be performed on a basis that we believe is fair and equitable and will use all reasonable efforts to ensure that no participating entity or account receives preferential treatment over another.

When an investment opportunity is suitable for more than one investment account, the investment opportunity will generally be allocated pro-rata among such investment accounts based on cash availability, account restrictions, regulatory requirements and other relevant factors.

There can be no assurance, however, that all conflicts associated with the contemporaneous management of these accounts has been addressed in all situations or that the allocation of investment opportunities will not be of an advantage to one client over another.

## **Item 7. Types of Clients**

Manulife AM (US) manages assets for a variety of institutional and other types of clients, including public and private pension funds, mandatory provident funds outside the U.S., financial institutions, investment trusts and high net worth individuals. We also manage registered funds, including UCITS, U.S. and Canadian open- and closed-end mutual funds and privately-offered unregistered investment funds. We are affiliated with, and serve as investment manager or a sub-adviser to a number of mutual fund families that are sponsored by us or our affiliates (“Funds”). We also provide investment management services to investment vehicles that we sponsor, including collective investment funds and U.S. domiciled funds. We provide investment advisory services to both ERISA and non-ERISA institutional clients.

We also manage advisory accounts of affiliates. This includes separate account, general account, and pension assets for the John Hancock Life Insurance Company (U.S.A.) and general account assets for Manulife Asset Management (International) Limited.

Complete information about the Funds that we manage or sub-advise is disclosed in each Fund’s prospectus and statement of additional information or other relevant offering documents.

### **Conditions for Managing Accounts**

Minimum account size for institutional investors, other than investment companies, generally ranges from \$10,000,000 to \$50,000,000, depending upon the investment objectives of the account. On occasion, we may modify the minimum investment amounts, in our discretion. Wrap and non-wrap account high net worth individual clients typically have a minimum account size of \$100,000. Wrap fee program minimum account requirements generally depend upon the specific wrap fee program requirements as set by the Program Sponsors.

## **Item 8. Methods of Analysis, Investment Strategies, and Risk of Loss**

Manulife AM (US) provides investment supervisory services utilizing a full range of equity and fixed income investment strategies, as well as asset allocation strategies. Therefore, we use a wide range of research tools and analyses, depending to a large extent on the particular strategy and portfolio manager. Our portfolio managers’ methods include macro and micro fundamental research of companies, industries, sectors, countries, and local and global markets. The methods employed also include quantitative securities and investment instrument research which applies security scoring methodology for different factors expected to influence investment performance and risk and establishes a ranking of all securities or instruments in the investment universe. To maximize potential performance for a given level of risk, we may use portfolio construction tools to create optimal portfolios. We may utilize advice or research provided by certain affiliated investment advisers (some of which are not registered under the Advisers Act and are located outside the U.S.) pursuant to sub-advisory agreements, inter-company agreements or other agreements with the affiliates.

We may supplement research with quantitative and fundamental analysis, created primarily by third parties. Primary sources include financial newspapers and magazines, access to industry experts, research materials prepared by others, corporate rating services, annual reports, prospectuses, and filings with the SEC. Our investment personnel may also participate



in meetings with company management, customers, suppliers and competitors. Analysts attend industry conferences, academic seminars and trade shows to obtain new perspectives.

We may employ any of the following for sources of information and analysis: consultants, industry and governmental authorities, experts in related fields, management consulting firms, specialists to evaluate technical developments, third party models, analysis and research, and internally generated portfolio management reports and risk metrics. We may utilize trading ideas generated by brokers or others. Trades may be executed with the broker that generated the idea, subject to best execution.

Manulife AM (US) may engage in the purchase of securities on margin but generally will do so only in connection with clearance and settlement of securities and permitted derivatives transactions and with regard to its privately-offered fund clients. We may also invest in futures contracts and engage in swap transactions, which may include interest rate, total return and credit default swaps.

Investing in securities involves a risk of loss that clients should be prepared to bear. With respect to our privately-offered funds, more detailed information relating to the investment strategies used to manage a particular fund and the risks of investing in the fund are set out in the applicable fund's confidential offering memorandum.

## **Investment Risks**

The significant methods of analysis, significant strategies, and material risks, for each of our investment strategies are detailed below. With respect to all of our investment strategies, investing in securities involves risk of loss that clients should be prepared to bear. The specific risks associated with each investment strategy discussed below are outlined in the discussion. A more detailed description of each risk can be found in Appendix 1, "Glossary of Investment Risks."

## **A. EQUITY STRATEGIES**

### **Large Cap Equity**

Large Cap Equity is a strategy that focuses on the equity securities of large capitalization (“large cap”) companies. Large cap companies are those companies with a market capitalization as defined by the Russell 1000 Index. We primarily invest in common stocks of U.S. companies.

### **Principal Investment Strategies**

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

Our Large Cap Equity investment strategy begins with a fundamental review of a variety of security-specific characteristics, including the company’s ability to generate high return on invested capital, margin of safety in the valuation, margin of safety in the business (including the company’s potential to generate high cash flow, management teams that have created value and have incentives that are aligned with shareholders) and company-specific catalyst(s). Assuming that a stock’s fundamentals prove compelling, the current stock price relative to our assessment of the company is continually evaluated in order to find the right entry price based on a risk/reward analysis of the company.

Portfolio construction is driven by the following criteria:

- Potential for high return generation
- Significant discount to intrinsic value and a margin of safety in the nature of the business
- Management teams with a demonstrated track record of creating value
- Identified catalysts that will unlock the company’s value

Buy decisions are driven by the presence of the above criteria. Based on the price target price we set for each company, we will evaluate its downside risk and conduct a risk/reward analysis, seeking a 3:1 upside versus downside ratio relative to the current stock price.

### **Principal Investment Risks**

Material risks of this strategy center on an investment’s failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy’s principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **Small Cap Opportunities**

Small Cap Opportunities is a strategy that focuses on the equity securities of small capitalization (“small cap”) companies. Small cap companies are those companies with a market capitalization as defined by the Russell 2000 Index. We primarily invest in common stocks of U.S. companies.

## **Principal Investment Strategies**

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

Our Small Cap Opportunities investment strategy begins with a fundamental review of a variety of security-specific characteristics, including the company’s ability to generate high return on invested capital, margin of safety in the business (including the company’s potential to generate high cash flow, management teams that have created value and have incentives that are aligned with shareholders), margin of safety in the valuation and company-specific catalyst(s). Assuming that a stock’s fundamentals prove compelling, the current stock price relative to our assessment of the company is continually evaluated in order to find the right entry price based on a risk/reward analysis of the company.

Portfolio construction is driven by following criteria:

- Significant discount to intrinsic value and a margin of safety in the nature of the business
- Potential for high return generation
- Management teams with a demonstrated track record of creating value
- Identified catalysts that will unlock the company’s value

Buy decisions are driven by the presence of the above criteria. Based on the price target price we set for each company, we will evaluate its downside risk and conduct a risk/reward analysis, seeking a 3:1 upside versus downside ratio relative to the current stock price.

## **Principal Investment Risks**

Material risks of this strategy center on an investment’s failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy’s principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **Global Opportunities**

Global Opportunities is a strategy that focuses on the equity securities of small, mid and large capitalization companies. The strategy will invest in those companies with a market capitalization as defined by the MSCI All Country World Index. We primarily invest in common stocks of developed markets and most emerging markets.

## **Principal Investment Strategies**

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

Our Global Opportunities investment strategy begins with a fundamental review of a variety of security-specific characteristics, including the company's ability to generate high return on invested capital, margin of safety in the business (including the company's potential to generate high cash flow, management teams that have created value and have incentives that are aligned with shareholders), margin of safety in the valuation and company-specific catalyst(s). Assuming that a stock's fundamentals prove compelling, the current stock price relative to our assessment of the company is continually evaluated in order to find the right entry price based on a risk/reward analysis of the company.

Portfolio construction is driven by following criteria:

- Significant discount to intrinsic value and a margin of safety in the nature of the business
- Potential for high return generation
- Management teams with a demonstrated track record of creating value
- Identified catalysts that will unlock the company's value

Buy decisions are driven by the presence of the above criteria. Based on the price target price we set for each company, we will evaluate its downside risk and conduct a risk/reward analysis, seeking a 3:1 upside versus downside ratio relative to the current stock price.

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk, high portfolio turnover risk.

## **Balanced Strategy**

Balanced is a strategy that focuses on the equity and fixed income securities of large capitalization (“large cap”) companies. Large cap companies are those companies with a market capitalization as defined by the Russell 1000 Index. We primarily invest in a diversified mix of U.S. debt and equity securities.

## **Principal Investment Strategies**

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

Our Balanced investment strategy begins with a fundamental review of a variety of security-specific characteristics, including the company’s ability to generate high return on invested capital, margin of safety in the valuation, margin of safety in the business (including the company’s potential to generate high cash flow, management teams that have created value and have incentives that are aligned with shareholders) and company-specific catalyst(s). Assuming that a stock’s fundamentals prove compelling, the current stock price relative to our assessment of the company is continually evaluated in order to find the right entry price based on a risk/reward analysis of the company.

Portfolio construction is driven by following criteria:

- Potential for high return generation
- Significant discount to intrinsic value and a margin of safety in the nature of the business
- Management teams with a demonstrated track record of creating value
- Identified catalysts that will unlock the company’s value

Buy decisions are driven by the presence of the above criteria. Based on the price target price we set for each company, we will evaluate its downside risk and conduct a risk/reward analysis, seeking a 3:1 upside versus downside ratio relative to the current stock price.

Debt securities are used to enhance current income and provide some added stability. Investments in bonds of any maturity are primarily investment grade (rated BBB or above by S&P or Baa or above by Moody’s and their unrated equivalents).

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, economic and market events risk, equity securities risk, fixed-income securities risk.

## **Global Natural Resources**

Global Natural Resources is a strategy that focuses on securities that have natural resource related businesses. We primarily invest in common stocks of developed markets and most emerging markets.

## **Principal Investment Strategies**

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

Our Global Natural Resources investment strategy begins with a fundamental review of a variety of security-specific characteristics, including the company's ability to generate high return on invested capital, margin of safety in the business (including the company's potential to generate high cash flow, management teams that have created value and have incentives that are aligned with shareholders), margin of safety in the valuation and company-specific catalyst(s). Assuming that a stock's fundamentals prove compelling, the current stock price relative to our assessment of the company is continually evaluated in order to find the right entry price based on a risk/reward analysis of the company.

Portfolio construction is driven by following criteria:

- Significant discount to intrinsic value and a margin of safety in the nature of the business
- Potential for high return generation
- Management teams with a demonstrated track record of creating value
- Identified catalysts that will unlock the company's value

Buy decisions are driven by the presence of the above criteria. Based on the price target price we set for each company, we will evaluate its downside risk and conduct a risk/reward analysis, seeking a 3:1 upside versus downside ratio relative to the current stock price.

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, commodity price risk, economic and market events risk, equity securities risk, foreign securities risk.

## **Global Real Estate**

Global Real Estate is a strategy that focuses on securities that have real estate related businesses. We primarily invest in common stocks and REITs of developed markets and most emerging markets.

## **Principal Investment Strategies**

Our Global Real Estate investment strategy begins with a fundamental review of global markets that include an assessment of economic growth, interest rates, capital markets, demand and supply conditions for the real estate sector, and other related factors that may impact the sector. We use proprietary screens to help identify attractive companies within each market that may appear undervalued and warrant further analysis. When screening on valuation, we look at a variety of metrics including price to funds from operations, price to book, price to net asset value, as well as debt and leverage metrics. The results of these screens are then analyzed in context of the market that they operate in through our fundamental analysis. Our primary method of analysis is fundamental analysis on individual holdings using the CAMELS framework to analyze a company's business strategy. Under the CAMELS approach, we evaluate six fundamental areas for each company: Capital strength, Asset quality, and Management, Earnings, Location, and Scenario analysis. We utilize public sources, such as company filings and third-party research to assist in our analysis.

Portfolio construction is driven by following criteria:

- Significant discount to intrinsic value and a margin of safety in the nature of the business
- Potential for high return generation
- Management teams with a demonstrated track record of creating value
- Identified catalysts that will unlock the company's value

Buy decisions are driven by the presence of the above criteria. Based on the price target price we set for each company, we will evaluate its downside risk and conduct a risk/reward analysis to determine the proper weighting within the fund.

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance

expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk, foreign securities risk

### **Small Cap Growth**

Small Cap Growth is a strategy that focuses on the equity securities of small capitalization ("small cap") companies. Small cap companies are those companies with a market capitalization as defined by the Russell 2000 Index. We primarily invest in common stocks of U.S. companies.

### **Principal Investment Strategies**

The Small Cap Growth investment team starts with identifying investment ideas that are generated from several sources, including proprietary, fundamental research and systematic screens. Our intent is to identify companies with a unique product or service that leads to a durable competitive advantage, combined with management expertise and a strong financial profile. We apply tailored systematic screens that are based on specific and distinct factors most relevant to a particular market segment. The screens assist in identifying undervalued growth opportunities in companies with greater than average potential for earnings momentum and/or returns on capital.

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

We also conduct valuation analysis in order to determine the upside potential and investment risks for each security covered. This valuation analysis centers on comparing current stock prices to the team's current valuation of expected future cash flows of each company. Multiple scenario price targets are established to create a risk/reward spectrum for each security. These steps help us understand implied growth expectations for each security and assist us in making cross-sector comparisons and capital allocation decisions within the portfolio. The result is a comprehensive list of investment opportunities with assigned upside potential and downside risk.

### **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:



Active management risk, economic and market events risk, equity securities risk.

### **Mid Cap Growth**

Mid Cap Growth is a strategy that focuses on the equity securities of mid-capitalization (“mid cap”) companies. Mid cap companies are those companies with a market capitalization as defined by the Russell Mid Cap Growth Index. We primarily invest in common stocks of U.S. companies.

### **Principal Investment Strategies**

The Mid Cap Growth investment team starts with identifying investment ideas that are generated from several sources, including proprietary, fundamental research and systematic screens. Our intent is to identify companies with a unique product or service that leads to a durable competitive advantage, combined with management expertise and a strong financial profile. We apply tailored systematic screens that are based on specific and distinct factors most relevant to a particular market segment. The screens assist in identifying undervalued growth opportunities in companies with greater than average potential for earnings momentum and/or returns on capital.

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

We also conduct valuation analysis in order to determine the upside potential and investment risks for each security covered. This valuation analysis centers on comparing current stock prices to the team’s current valuation of expected future cash flows of each company. Multiple scenario price targets are established to create a risk/reward spectrum for each security. These steps help us understand implied growth expectations for each security and assist us in making cross-sector comparisons and capital allocation decisions within the portfolio. The result is a comprehensive list of investment opportunities with assigned upside potential and downside risk.

### **Principal Investment Risks**

Material risks of this strategy center on an investment’s failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy’s principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **U.S. Large Cap Core/US. Large Cap Value**

U.S. Large Cap Core and U.S. Large Cap Value are strategies that focus on the equity securities of large capitalization (“large cap”) companies. Large cap companies are those companies with a market capitalization as defined by the Russell 1000 Index. We primarily invest in common stocks of U.S. companies.

### **Principal Investment Strategies**

Our U.S. Large Cap Core and U.S. Large Cap Value investment strategies focus on those companies where their return on invested capital exceeds the weighted average cost of capital and the company has a sustainable competitive advantage. We seek to validate a company’s competitive advantage through an in-depth fundamental research process that focuses on key growth drivers and qualitative factors such as competitive positioning, financial strength and evidence of management’s ability to create shareholder value.

We conduct securities analysis using a variety of sources, including third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages. Our research includes detailed fundamental company models using key assumptions that drive sales, margins and capital deployment.

Once company ideas are identified and in-depth research has been conducted, valuation models are run with four scenarios from best to worst case. This scenario analysis provides a range of fundamental value targets and a sensitivity analysis to understand what the current stock price is embedding for expectations. Investments decisions are a function of finding stocks that possess the qualitative factors as outlined above and are trading at a significant discount to the base case value, offering greater than a 2:1 upside versus downside risk reward versus the current stock price.

### **Principal Investment Risks**

Material risks of this strategy center on an investment’s failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy’s principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **International Value Ordinary/International Value ADR**

International Value Ordinary and International Value ADR are strategies that focus on the equity securities of large capitalization (“large cap”) companies. Large cap companies are those companies with a market capitalization as defined by the MSCI World ex-US Index. The International Value Ordinary strategy primarily invests in common stocks of non-U.S. companies. The International Value ADR strategy primarily invests in ADRs (American Depositary Receipts) which trade on U.S. exchanges to gain non-U.S. equity exposure.

### **Principal Investment Strategies**

The International Value investment team starts with a proprietary screen that uses 20 unique sector models within each region. The screens rank each stock based on value metrics that are appropriate for each sector such as price to earnings, price to book and price to cash flow. Stocks that rank in the top two deciles are considered for further research. Stocks are then checked for operational viability by focusing on companies that have good cash flow, low or no leverage and flat or positive earnings revisions. We then conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages. We specifically look for positive operating trends and a financial and/or structural catalyst.

Once ideas have been identified and researched, initial position sizes will be normally less than 1.5% for the Ordinary strategy and 2% for the ADR strategy. Buy determinations are a function of our level of conviction in the company’s valuation relative to its sector, operating cash flow, manageability of leverage and dividends. The portfolio construction process seeks to minimize structural risk by keeping the sector and regional weights closely aligned with the respective weights in the benchmark.

### **Principal Investment Risks**

Material risks of this strategy center on an investment’s failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy’s principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk, foreign securities risk.

## **Large Cap Value**

Large Cap Value is a strategy that focuses on the equity securities of large capitalization (“large cap”) companies. Large cap companies are those companies with a market capitalization as defined by the Russell 1000 Index. We primarily invest in common stocks U.S. companies.

### **Principal Investment Strategies**

The Large Cap Value investment team starts with a proprietary screen that uses 20 unique sector models. The screens rank each stock based on value metrics that are appropriate for each sector such as price to earnings, price to book and price to cash flow. Stocks that rank in the top two deciles are considered for further research. Stocks are then checked for operational viability by focusing on companies that have good cash flow, low or no leverage and flat or positive earnings revisions. We then conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages. We specifically look for positive operating trends and a financial and/or structural catalyst.

Once ideas have been identified and researched, initial position sizes will be normally less than 3%. Buy determinations are a function of our level of conviction in the company’s valuation relative to its sector, operating cash flow, manageability of leverage and dividends. The portfolio construction process seeks to minimize structural risk by keeping the sector weights closely aligned with the respective weights in the benchmark.

### **Principal Investment Risks**

Material risks of this strategy center on an investment’s failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy’s principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **Financial Industries**

Financial Industries is a strategy that focuses on the equity securities of banks, thrifts, finance companies, brokerage and advisory firms, real estate-related firms, insurance companies and financial holding companies. We primarily invest in common stocks of U.S. and non-U.S. companies.

### **Principal Investment Strategies**

In constructing the fund, the management team focuses primarily on stock selection rather than industry allocation. In choosing individual stocks, the team uses fundamental financial analysis

to identify securities that appear comparatively undervalued. The Financial Industries strategy may also utilize screens to help identify attractive companies. These screens consider several industry-specific factors along with certain valuation metrics such as price-to-book, price-to-tangible book and price-to-earnings.

Following this process, we evaluate the most promising stocks through fundamental analysis. This normally involves reviewing company filings and meetings with company management. We then create proprietary earnings models and set price targets. The companies we purchase generally have attractive valuations when compared on an absolute or relative basis. Value can be defined by several factors such as price-to-book, price-to-tangible book and price-to-earnings. In general, our position sizes are influenced by our level of conviction on a stock's upside potential to our price target and its liquidity.

### **Principal Investment Risks**

Material risks of this strategy center on our investments' potential failure to meet our performance expectations.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk, sector/industry investing risk.

### **Regional Bank**

Regional Bank is a strategy that focuses on the equity securities of regional banks and lending companies, including commercial and industrial banks, savings and loan associations and bank holding companies. We primarily invest in common stocks of U.S. companies.

### **Principal Investment Strategies**

In constructing the fund, the management team focuses primarily on stock selection rather than industry allocation. In choosing individual stocks, the team uses fundamental financial analysis to identify securities that appear comparatively undervalued. The Regional Bank strategy may also utilize screens to help identify attractive companies. These screens consider several industry-specific factors along with certain valuation metrics such as price-to-book, price-to-tangible book and price-to-earnings.

Following this process, we evaluate the most promising stocks through fundamental analysis. This normally involves reviewing company filings and meetings with company management. We then create proprietary earnings models and set price targets. The companies we purchase generally have attractive valuations when compared on an absolute or relative basis. Value can be defined by several factors such as price-to-book, price-to-tangible book and price-to-earnings. In general, our position sizes are influenced by our level of conviction on a stock's upside potential to our price target and its liquidity. We use a CAMELS framework as the basis of our fundamental analysis. Under the CAMELS approach, we evaluate six areas for each company:

Capital strength, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk. In conjunction with this analysis, we often create earnings models and set price targets. We seek to purchase companies whose valuations are cheap on an absolute or relative basis. In general, our position sizes are influenced by our level of conviction on a stock's potential upside to our price target and its liquidity.

### **Principal Investment Risks**

Material risks of this strategy center on our investments' potential failure to meet our performance expectations.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk, sector/industry investing risk.

### **Dividend Performers**

Dividend Performers is a strategy that focuses primarily on the equity securities of large capitalization ("large cap") companies. To a lesser extent, the strategy also invests in medium capitalization companies. The Dividend Performers strategy invests in those companies with market capitalizations greater than \$2 billion. We invest in common stocks and ADR's of U.S. companies.

### **Principal Investment Strategies**

Dividend Performers focuses exclusively on companies that have increased their dividends each year for the past five years. The team believes that rising dividends is one of the best indicators for identifying high quality, large-cap companies with consistent earnings growth and stability.

The Dividend Performers investment process begins by clearly defining its stock universe. Investment candidates are identified by screening thousands of domestic stocks for companies with at least a five year history of increasing annual dividends. The investment candidate universe is furthered narrowed by market capitalization. Generally the lowest capitalization of a stock at the time of purchase is \$2 billion.

Fundamental, bottom-up analysis is the most important component of the Dividend Performers investment process. The team seeks to identify financially strong companies with effective management teams, solid products and competitive advantages. Company fundamentals such as earnings momentum, return on equity and quality of management are reviewed in order to assess future earnings growth and dividend growth continuance.

Valuation metrics including historical price-to-earnings vs. growth (PEG) ratios, historical price-to-earnings ratios, relative market valuations, price-to-sales and price-to-cash flow ratios, ~re analyzed in order to determine if a stock's valuation is attractive relative to its fundamental earnings prospects, historical trading ranges and industry peers.

The team reviews and discusses each team member's fundamental and valuation analyses to determine the most attractive investment choices and creates a portfolio consisting of between 35 and 45 companies.

### **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

### **Dividend Performers Balanced**

The equity portion of the Dividend Performers strategy focuses primarily on the equity securities of large capitalization ("large cap") companies. To a lesser extent, the strategy also invests in medium capitalization companies. The Dividend Performers strategy invests in those companies with market capitalizations greater than \$2 billion. We invest in common stocks and ADR's of U.S. companies. The fixed income portion of the Dividend Performers Balanced strategy focuses on U.S. Treasuries/Agencies and investment grade U.S. corporate bonds (rated BBB or above by S&P or Baa or above by Moody's and their unrated equivalents).

### **Principal Investment Strategies**

The Dividend Performers Balanced strategy combines the Dividend Performers equity strategy (investing in companies that have increased their dividends each year over the past five years) with a portfolio of investment-grade fixed income securities. The target asset allocation for the Dividend Performers Balanced strategy is 60% equity and 40% fixed income.

The Dividend Performers investment process begins by clearly defining its stock universe. Investment candidates are identified by screening thousands of domestic stocks for companies with at least a five year history of increasing annual dividends. The investment candidate universe is further narrowed by market capitalization: generally, the lowest capitalization of a stock at the time of purchase is \$2 billion.

Fundamental, bottom-up analysis is the most important component of the Dividend Performers investment process. The team seeks to identify financially strong companies with effective management teams, solid products and competitive advantages. Company fundamentals such as earnings momentum, return on equity and quality of management are reviewed in order to assess future earnings growth and dividend growth continuance.

Valuation metrics including historical price-to-earnings vs. growth (PEG) ratios, historical price-to-earnings ratios, relative market valuations, price-to-sales and price-to-cash flow ratios, are analyzed in order to determine if a stock's valuation is attractive relative to its fundamental earnings prospects, historical trading ranges and industry peers. The team reviews and discusses

each team member's fundamental and valuation analyses to determine the most attractive investment choices

The Strategy purchases fixed income securities with short to intermediate term maturities. They attempt to offset price volatility and reduce issuer-related risk by purchasing a combination of U.S. Treasury bonds, Federal Agency Issues, and U.S. corporate bonds.

Looking out 12 to 15 months, the portfolio management team formulates an interest rate and business cycle outlook, by analyzing global macroeconomics (fiscal and monetary policies), interest rate and yield curve forecasts, currency trends, the political environment, as well as current and historical market trading trends. Based on the team's expectations on the direction of interest rates and its potential impact on the shape of the yield curve, the investment team determines the portfolio's optimal positioning relative to our fixed income benchmark, the Barclays Capital Intermediate Government/Credit Index.

Portfolio duration is then adjusted to match anticipated changes in the yield curve and interest rate trends. Their overall portfolio duration will typically be less than that of the overall bond market as they are focused on minimizing price volatility within the portfolio.

The investment team employs a ladder approach in order to increase diversification and extend the average yield, while preserving short to intermediate term volatility expectations. Maturities in the portfolio are then staggered to minimize reinvestment risk.

The Dividend Performers Balanced portfolio consists of between 40 and 50 securities.

### **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, economic and market events risk, equity securities risk, fixed-income securities risk.

### **Large Cap Core Dividend**

Large Cap Core Dividend strategy focuses primarily on the equity securities of large capitalization ("large cap") companies. To a lesser extent, the strategy also invests in medium capitalization companies. Large Cap Core Dividend invests in those companies with market capitalizations greater than \$1 billion. We invest in common stocks and ADR's of U.S. companies.

### **Principal Investment Strategies**

The investment team believes that rising dividends is one of the best indicators for identifying high quality, large-cap companies. At least 65% of the strategy's stock investments are "dividend



performers”—companies whose dividend payments have increased steadily for ten years. The balance of the portfolio consists of other high quality large cap companies that have consistent earnings and revenues. All of their stocks undergo a rigorous stock selection process which focuses on financially strong companies led by sound management teams that demonstrate superior earnings growth and stability.

Large Cap Core Dividend investment process begins by clearly defining its stock universe. Investment candidates are identified by screening thousands of domestic stocks with a minimum market capitalization of \$1 billion. Their universe includes those stocks that have raised their dividend for a minimum of ten years, and other high quality large cap stocks with consistent earnings and revenues.

Fundamental, bottom-up analysis is the most important component of Large Cap Core Dividend’s investment process. The team seeks to identify financially strong companies with effective management teams, solid products and competitive advantages. Company fundamentals such as earnings momentum, return on equity and quality of management are reviewed in order to assess future earnings growth and dividend growth continuance.

Valuation metrics including historical price-to-earnings vs. growth (PEG) ratios, historical price-to-earnings ratios, relative market valuations, price-to-sales and price-to-cash flow ratios, are analyzed in order to determine if a stock’s valuation is attractive relative to its fundamental earnings prospects, historical trading ranges and industry peers.

The team reviews and discusses each team member’s fundamental and valuation analyses to determine the most attractive investment choices and creates a portfolio consisting of between 50 and 60 Sovereign Investors companies.

### **Principal Investment Risks**

Material risks of this strategy center on an investment’s failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy’s principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

### **Concentrated Opportunity**

Concentrated Opportunity is a strategy that focuses on the equity securities of small, mid and large capitalization companies. We primarily invest in common stocks of developed and most emerging market companies.

### **Principal Investment Strategies**

The Concentrated Opportunity investment team starts with a proprietary screen that uses 20 unique sector models within each region. The screens rank each stock based on value metrics

that are appropriate for each sector such as price to earnings, price to book and price to cash flow. Stocks that rank in the top two deciles are considered for further research. Stocks are then checked for operational viability by focusing on companies that have good cash flow, low or no leverage and flat or positive earnings revisions. We then conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages. We specifically look for positive operating trends and a financial and/or structural catalyst.

Once ideas have been identified and researched, initial position sizes will be normally less than 4%. Buy determinations are a function of our level of conviction in the company's valuation relative to its sector, operating cash flow, manageability of leverage and dividends.

### **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk, foreign securities risk.

### **Large Cap Growth**

Large Cap Growth is a strategy that focuses on the equity securities of large capitalization ("large cap") companies. Large cap companies are those companies with a market capitalization as defined by the Russell 1000 Index. We primarily invest in common stocks of U.S. companies. The investment objective of our Large Cap Growth strategy is to provide capital appreciation in excess of the Russell 1000 Growth Index over a complete market cycle (typically defined as 3-5 years). The Large Cap Growth strategy seeks to add value primarily through stock selection.

### **Principal Investment Strategies**

The Large Cap Growth investment strategy employs a combination of quantitative and qualitative bottom-up fundamental analysis to identify stocks whose earnings growth rate and sustainability are being underestimated by the market consensus. Our research encompasses the following 5 steps:

- Industry group analysis where we focus on identifying secular and cyclical trends, competitive positioning of companies within the group and market share trends
- Company history analysis where we focus on financial statement analysis and quality of reported earnings

- Earnings growth sustainability where we focus on competitive advantage, earnings estimate analysis, long-term growth expectations and capital allocation decisions by management
- Fundamental catalysts where we focus on product cycles, technical innovation, acquisition/divestitures and management changes
- Consensus estimate comparison where we focus on earnings estimate differentials and sustainable growth rate differentials

Each company within the portfolio has undergone a rigorous reward/risk analysis base on our independent earnings estimate and a clearly articulated investment thesis. As part of our ongoing reward/risk analysis, we devote approximately 70% of our research efforts to monitoring existing portfolio holdings in an effort to continuously challenge and reaffirm each thesis. We believe that this scrutiny helps us recognize cases in which gaps between our assessment and that of consensus has narrowed or fundamentals have changed. We will sell or trim a position when a stock approaches full valuation or we identify deterioration in our original investment thesis.

### **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

### **Emerging Market Opportunities**

Emerging Market Opportunities is a strategy that focuses on the equity securities of small, mid and large capitalization companies. The strategy will invest in those companies with a market capitalization as defined by the MSCI Emerging Markets Index. We primarily invest in common stocks of most emerging markets.

### **Principal Investment Strategies**

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

Our Emerging Market Opportunities investment strategy begins with a fundamental review of a variety of security-specific characteristics, including the company's ability to generate high return on invested capital, margin of safety in the business (including the company's potential to generate high cash flow, management teams that have created value and have incentives that are

aligned with shareholders), margin of safety in the valuation and company-specific catalyst(s). Assuming that a stock's fundamentals prove compelling, the current stock price relative to our assessment of the company is continually evaluated in order to find the right entry price based on a risk/reward analysis of the company.

Portfolio construction is driven by following criteria:

- Significant discount to intrinsic value and a margin of safety in the nature of the business
- Potential for high return generation
- Management teams with a demonstrated track record of creating value
- Identified catalysts that will unlock the company's value

Buy decisions are driven by the presence of the above criteria. Based on the price target price we set for each company, we will evaluate its downside risk and conduct a risk/reward analysis, seeking a 3:1 upside versus downside ratio relative to the current stock price.

### **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, emerging markets risk equity securities risk, foreign securities risk.

### **Emerging Markets ADR**

The investment objective of our Emerging Markets ADR strategy is to provide capital appreciation in excess of the MSCI Emerging Markets Index over a complete market cycle (typically defined as 3-5 years). The Emerging Markets ADR strategy seeks to add value primarily through stock selection.

The Emerging Markets ADR strategy focuses on the equity securities of emerging market companies. We primarily invest in ADRs (American Depositary Receipts) which trade on U.S. exchanges to gain non-U.S. equity exposure as well as ETFs to gain country exposure where ADR equity options are more limited.

## **Principal Investment Strategies**

The Emerging Markets ADR investment team starts with a proprietary screen that uses 20 unique sector models. The screens rank each stock based on value metrics that are appropriate for each sector such as price to earnings, price to book and price to cash flow. Stocks that rank in the top two quintiles are considered for further research. Stocks are then checked for operational viability by focusing on companies that have good cash flow, low or no leverage and flat or positive earnings revisions. We then conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages. We specifically look for positive operating trends and a financial and/or structural catalyst.

Once ideas have been identified and researched, initial position sizes will be less than 10%. Buy determinations are a function of our level of conviction in the company's valuation relative to its sector, operating cash flow, manageability of leverage and dividends. The portfolio construction process seeks to minimize structural risk by keeping the sector weights closely aligned with the respective weights in the benchmark.

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, emerging markets risk, equity securities risk, foreign securities risk.

## **Global Focus**

The investment objective of our Global Focus strategy is to provide capital appreciation in excess of the MSCI World Index over a complete market cycle (typically defined as 3-5 years). The Global Focus strategy seeks to add value primarily through stock selection.

The Global Focus strategy focuses on the equity securities of small, mid and large capitalization companies in both developed and emerging countries. We primarily invest in common stocks of developed and emerging companies as well as ADRs (American Depositary Receipts) which trade on U.S. exchanges.

## **Principal Investment Strategies**

Our Global Focus investment strategy focuses primarily on those companies where their return on invested capital exceeds the weighted average cost of capital and the company has a sustainable competitive advantage. We seek to validate a company's competitive advantage through an in-depth fundamental research process that focuses on key growth drivers and qualitative factors such as competitive positioning, financial strength and evidence of management's ability to create shareholder value.

We conduct securities analysis using a variety of sources, including third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages. Our research includes detailed fundamental company models using key assumptions that drive sales, margins and capital deployment.

Once company ideas are identified and in-depth research has been conducted, valuation models are run with four scenarios from best to worst case. This scenario analysis provides a range of fundamental value targets and a sensitivity analysis to understand what the current stock price is embedding for expectations. Investment decisions are a function of finding stocks that possess the qualitative factors as outlined above and are trading at a significant discount to the base case value, offering greater than a 2:1 upside versus downside risk reward versus the current stock price.

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **U.S. All Cap Core**

The investment objective of our U.S. All Cap Core strategy is to provide capital appreciation in excess of the Russell 3000 Index over a complete market cycle (typically defined as 3-5 years). The U.S. All Cap Core strategy seeks to add value primarily through stock selection.

U.S. All Cap Core strategy focuses on the equity securities of large, mid and small capitalization ("all cap") companies. All cap companies are those companies with a market capitalization as defined by the Russell 3000 Index. We primarily invest in common stocks of U.S. companies.

## **Principal Investment Strategies**

Our U.S. All Cap Core investment strategy focuses primarily on those companies where their return on invested capital exceeds the weighted average cost of capital and the company has a sustainable competitive advantage. We seek to validate a company's competitive advantage through an in-depth fundamental research process that focuses on key growth drivers and qualitative factors such as competitive positioning, financial strength and evidence of management's ability to create shareholder value.

We conduct securities analysis using a variety of sources, including third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages. Our research includes detailed fundamental company models using key assumptions that drive sales, margins and capital deployment.

Once company ideas are identified and in-depth research has been conducted, valuation models are run with four scenarios from best to worst case. This scenario analysis provides a range of fundamental value targets and a sensitivity analysis to understand what the current stock price is embedding for expectations. Investment decisions are a function of finding stocks that possess the qualitative factors as outlined above and are trading at a significant discount to the base case value, offering greater than a 2:1 upside versus downside risk reward versus the current stock price.

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **Small-Mid Cap Growth**

The investment objective of our Small-Mid Cap Growth strategy is to provide capital appreciation in excess of the Russell 2500 Growth Index over a complete market cycle (typically defined as 3-5 years). The Small-Mid Cap Growth strategy seeks to add value primarily through stock selection.

Small-Mid Cap Growth is a strategy that focuses on the equity securities of small and mid-capitalization ("smid cap") companies. Smid cap companies are those companies with a market capitalization as defined by the Russell 2500 Growth Index. We primarily invest in common stocks of U.S. companies.

## **Principal Investment Strategies**

The Small-Mid Cap Growth Equity investment team starts with identifying investment ideas that are generated from several sources, including proprietary, fundamental research and systematic screens. Our intent is to identify companies with a unique product or service that leads to a durable competitive advantage, combined with management expertise and a strong financial profile. We apply tailored systematic screens that are based on specific and distinct factors most relevant to a particular market segment. The screens assist in identifying undervalued growth opportunities and allow us to focus on those stocks with emerging earnings momentum and a change in investor sentiment and/or a high return on capital.

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

We also conduct valuation analysis in order to determine the upside potential and investment risks for each security covered. This valuation analysis centers on comparing current stock prices to the team's current valuation of expected future cash flows of each company. In addition, we assess earnings yield. An upside price target and downside valuation support are established to create a risk/reward spectrum for each security. These steps help us understand implied growth expectations for each security and assist us in making cross-sector comparisons and capital allocation decisions within the portfolio. The result is a comprehensive list of investment opportunities with assigned upside potential and downside risk.

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **Global Equity**

The investment objective of our Global Equity strategy is to provide long-term capital appreciation in excess of the MSCI World (Net) Index over a complete market cycle (typically defined as 3-5 years). The Global Equity strategy seeks to add value primarily through stock selection.

The Global Equity strategy focuses on the equity securities of small, mid and large capitalization companies in both developed and emerging countries. We primarily invest in common stocks of



developed and emerging companies as well as ADRs (American Depositary Receipts) which trade on U.S. exchanges.

### **Principal Investment Strategies**

Our Global Equity investment strategy focuses primarily on those companies that exhibit attractive valuations, solid business franchises, sustainable margins / cash flow, disciplined capital allocation, strong management teams, and strong balance sheets. The strategy employs an unconstrained, bottom-up stock selection process based on disciplined fundamental research with the aim to create a diversified portfolio of quality global stocks that demonstrate compelling value and generate sustainable cash flows.

Portfolios are constructed on a bottom-up basis. The decision-making process involves candidate companies being screened for valuation and quality, together with a detailed examination of the challenges and opportunities that exist for that business. We will assess the valuation opportunity for that company by establishing base case, upside and downside price targets. We will also take into consideration the diversification benefits and the liquidity of the security before making the final investment decision.

### **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk, foreign securities risk, liquidity risk, hedging, derivatives and other strategic transactions risk,

### **High Dividend Value**

The investment objective of our High Dividend Value strategy is to provide income as well as capital growth in excess of the Russell 1000 Value Index over a complete market cycle (typically defined as 3-5 years). The High Dividend Value strategy seeks to add value primarily through stock selection.

High Dividend Value is a strategy that focuses on the equity securities of small, mid and large capitalization companies as well as other high yield asset classes such as convertible preferred and REITs. We primarily invest in common stocks of U.S. companies.

## **Principal Investment Strategies**

The High Dividend Value strategy seeks to achieve income and capital growth by allocating approximately 65% of the portfolio to high yield stocks exhibiting rising dividend characteristics and 35% to those stocks with premium yields. The team believes that rising dividends is one of the best indicators for identifying high quality, large-cap companies with consistent earnings growth and stability that can provide above average current income and long term total returns.

The High Dividend Value strategy investment process begins by clearly defining its stock universe. Investment candidates are identified by screening thousands of domestic stocks for companies with at least a five year history of increasing annual dividends. The investment candidate universe is furthered narrowed by market capitalization. Generally the lowest capitalization of a stock at the time of purchase is \$2 billion. In addition, the team will screen for those with premium yields that may not fall in the first screen.

Fundamental, bottom-up analysis is the most important component of the investment process. The team seeks to identify financially strong companies with a sustainable competitive advantage, stable earnings and abundant cash flow. Company fundamentals such as consistent earnings growth over time, high organic growth, competitive operating margin potential and quality of management are reviewed in order to assess future earnings growth and dividend growth continuance.

Valuation metrics including free cash flow yield, absolute yield levels, and appropriate historical valuation measures such as price-to-earnings ratios, relative market valuations, and EV/EBITDA are analyzed in order to determine if a stock's valuation is attractive relative to its fundamental earnings prospects, historical trading ranges and industry peers.

The team reviews and discusses each team member's fundamental and valuation analyses to determine the most attractive investment choices and creates a portfolio consisting of between 35 and 75 companies.

## **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk.

## **Global Health Care**

The investment objective of our Global Healthcare strategy is to provide capital appreciation in excess of the MSCI All Country World Healthcare Index over a complete market cycle (typically defined as 3-5 years). The Global Healthcare strategy seeks to add value primarily through stock selection.

Global Healthcare is a strategy that focuses on securities that have healthcare related businesses. We primarily invest in common stocks of developed markets and most emerging markets.

### **Principal Investment Strategies**

We conduct securities analysis using a variety of sources, including proprietary valuation screens, third-party research and public sources such as company filings. We manage these sources so that securities can be analyzed in various ways. Our primary method of analysis is fundamental analysis, which we describe as the ability to assess the health of a company, its competitive positioning, strength of management and its competitive advantages.

Our Global Healthcare investment strategy begins with a fundamental review of a variety of security-specific characteristics, including the company's ability to generate high return on invested capital, margin of safety in the business (including the company's potential to generate high cash flow, management teams that have created value and have incentives that are aligned with shareholders), margin of safety in the valuation and company-specific catalyst(s). Assuming that a stock's fundamentals prove compelling, the current stock price relative to our assessment of the company is continually evaluated in order to find the right entry price based on a risk/reward analysis of the company.

Portfolio construction is driven by following criteria:

- Significant discount to intrinsic value and a margin of safety in the nature of the business
- Potential for high return generation
- Management teams with a demonstrated track record of creating value
- Identified catalysts that will unlock the company's value

Buy decisions are driven by the presence of the above criteria. Based on the price target price we set for each company, we will evaluate its downside risk and conduct a risk/reward analysis, seeking a favorable upside versus downside ratio relative to the current stock price.

### **Principal Investment Risks**

Material risks of this strategy center on an investment's failure to meet our performance expectations, and irrational or speculative market conditions resulting from investor responses to perceptions about market conditions.

The strategy's principal risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, equity securities risk, foreign securities risk.

### **Asian Small Cap Equity**

Asian Small Cap Equity is a strategy that seeks to capitalize on the growth potential of smaller companies in Asia and achieve above average risk-adjusted returns and capital appreciation over the long-term. The product is intended for investors willing to accept some fluctuation in the value of their investment by investing primarily in listed equities of companies throughout Asia Pacific, excluding Japan, with a market capitalization between US\$100m and US\$3bn.

### **Principal Investment Strategies**

The Strategy seeks to identify well managed and well positioned companies with growing cash flow and superior earnings growth, trading at reasonable valuations. We believe that our extensive and experienced local resources within the Asian region and track record in superior stock selection are critical to early identification on companies likely to experience acceleration in earnings. .

The Strategy is fundamentally bottom-up driven. The investment process begins by using a quantitative screening process to assess a variety of security-specific characteristics. The goal is to identify companies with a competitive advantage and unique positioning and managed by seasoned teams with good governance. Fundamental bottom-up internal research focuses on the operational and financial strength of the company, and how our earnings expectation differs from that of the market. The research is also focused on the identification of an earnings catalyst to drive the share price. Examples of catalysts include market share gains, cost efficiencies, or new product developments.

We pay particular attention on change at the margin for each stock and assess what has been priced in and what value can be realized that will eventually lead to a share price re-rating.

The holdings in the portfolio comprise of the team's highest conviction ideas.

The portfolio is the product of:

- The implementation of the Strategy's investment philosophy;
- The locking in of a measurable valuation gap between the current stock price and our target price;
- The identification of one or more catalysts to drive the stock price;
- Ongoing due diligence, including company visits and conference calls, to remain current on all new developments; and
- Prudent risk control through the application of regular monthly risk meetings and monitoring of liquidity conditions and correlations.

## **Principal Investment Risks**

The strategy's principal risk factors include liquidity, macroeconomic, stock-specific and individual country policy risk. As companies in this space are growing rapidly, cash flow generation that is lower than our forecasts can lead to additional share issuance and equity dilution for minority shareholders. In any severe and protracted market downturn, Asian small cap equities typically become less liquid and can be subject to pronounced downward price pressure. Government policies on individual sectors and companies within those sectors can be either positive or negative.

## **Diversified Strategies**

Diversified Strategies is a fund of fund strategy which seeks to achieve a target return objective with a focus on capital preservation. The strategy invests directly in fixed income and equity securities, or indirectly in securities of other mutual funds.

## **Principal Investment Strategies**

The strategy generally allocates a majority of its assets (approximately 65%) to an internally managed fixed income sleeve holding a diversified collection of securities. The fixed income sleeve is meant to be opportunistic, seeking the highest yielding securities while providing strong principal protection across different market cycles. To achieve its objective of capital preservation, the fixed income sleeve utilizes a tactical allocation to Treasury strips in order to reduce risk during times of perceived market stress.

The strategy allocates the remaining assets (approximately 35%) to a unique mix of asset classes including traditional equities, REITs, ETFs, commodities, currencies, and alternative investment strategies such as absolute return and long/short.

The strategy is managed by multiple investment professionals within the Manulife Asset Management organization, including those focused on the overall asset allocation design of the portfolio ("asset allocation team") and those focused on the management of the directly held fixed income sleeve ("fixed income team").

## **Asset Allocation Team Process**

There are four main steps involved in the design of the fund-of-fund portfolio. The asset allocation team first selects the asset classes and underlying funds for potential inclusion in the portfolios. Next, the team works to find the appropriate weightings to each asset class using multiple optimization techniques (e.g. resampled Mean Variance Optimization and/or Alpha vs. Tracking Error). In the third step, the Management Team determines the appropriate mix of managers to fit each portfolio. In the fourth and final step, the team continually monitors the economic environment and investment markets to determine if any changes are needed, and to keep the portfolio up-to-date and consistent with its investment policy and objectives.

To determine which asset allocation opportunities to invest in, the asset allocation team relies upon strong relationships with a wide array of top asset managers on the investment platforms

provided by John Hancock's Investment Management Service Group. The team also maintains close contact with many top market strategists and economists in their search for asset class investment opportunities.

We determine the overall asset allocation mix by combining proprietary forecasting models and qualitative judgments. The asset allocation mix ultimately reflects an intricate combination of valuations, forecast returns, correlations and a set of practical constraints for allocations to each asset class.

The asset allocation team tests each portfolio's asset class mix at least annually by reviewing key statistical metrics including:

- Expected Return
- Alpha
- Expected Risk (Standard deviation)
- Probability of Outperformance
- Expected Shortfall
- Beta
- Value at Risk (VaR)

Additionally, short-term risk and upside/downside capture ratios are closely monitored.

Generally, material updates to the asset allocation mix are tested prior to implementation to evaluate the impact to the portfolios' risk/return profiles.

In addition to an annual review, the asset allocation team regularly updates its capital market assumptions and tests the efficiency of the Portfolios. The team may also incorporate modest reallocations away from the policy mix throughout the year. The team continually monitors the economic environment and investment markets to determine if any changes are needed. The team also holds formal weekly and monthly meetings to renew various issues, including the policy mix and/or manager mix and ongoing maintenance of the portfolios. Detailed performance and risk analysis is conducted to ensure that objectives are being met.

### **Fixed Income Team Process**

In selecting securities within the internally managed fixed income sleeve, the fixed income team begins with a global macro-economic overview in which global bond and currency scenarios based on the fiscal and monetary policy, interest rate expectations, market volatility and political trends of individual countries are established. The fixed income team then analyzes a broad range of yield opportunities within a three-pronged universe consisting of U.S. government debt; corporate debt (including investment grade and high-yield); and foreign debt (both government and corporate, including emerging markets). Once the sector allocation decision is made, the

fixed income team selects individual securities based on intensive fundamental analysis of individual issues. We describe fundamental analysis as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management. Furthermore, assessments are made with respect to the bond's credit quality, interest rate sensitivity and valuation relative to other bonds in the same sector and of similar quality. The team actively monitors the securities held and will discuss or visit with company management should any concerns about our original investment thesis arise.

Additionally, we seek to protect principal through tactical increases/decreases to government strip bonds based on the fixed income team's assessment of volatility. Tactical decisions are made taking into consideration a broad range of fundamental, market and economic variables as well as available yields from securities markets globally. In periods of high perceived market risk, the strategy is designed to increase its allocation to government securities

### **Principal Investment Risks**

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, currency risk, economic and market events risk, emerging markets securities risk, equity securities risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, interest rate risk, lower-rated fixed-income securities risk, mortgage-backed and asset-backed securities risk.

## **B. PREFERRED STRATEGIES**

### **Premium Dividend Income**

The strategy primarily invests in diversified portfolios of various preferred (including convertible preferred), equity and debt securities. The strategy invests in below investment grade and unrated securities as well as fixed rate and adjustable rate securities and securities issued by foreign issuers (corporate and government). To manage interest rate risk, the strategy uses over-the-counter interest rates swaps for investment or hedging purposes. The strategy also uses leverage in an attempt to increase the level of income of the strategy. The amount of leverage employed is dependent upon the cost of leverage and the use of leverage may increase the volatility of the strategy.

### **Principle Investment Strategies**

The Preferred Equity Income team uses a multi-step process to identify and research preferred, equity and debt securities for inclusion in the portfolios.

Investment ideas for strategy are generated from within the Preferred Equity Income team. The team maintains extensive credit files on companies based on meetings and conference calls with company managements. Additionally, third-party research is used selectively.

The team starts its investment process by formulating a 12-month business cycle forecast and interest rate outlook in order to anticipate shifts in the markets. Excess return opportunities

among sectors are identified across the broad universe of the securities the team covers. The team seeks to add value by anticipating the broader, more gradual changes in the business cycle, and then investing in those industries and sectors that are expected to benefit from the changes.

Within those industries and sectors, the team seeks to identify and invest in companies and/or issues issued by these companies that are undervalued and mispriced relative to the market. The team conducts relative value analysis, examining the credit strength and anticipated changes to specific issues, searching for mispricing opportunities. The team seeks to avoid problem credits through comparative analysis and to structure an optimal portfolio by diversifying across multiple issuers and sectors.

### **Principal Investment Risks**

Risks of investing in the Premium Dividend Income strategy includes credit risk, convertible securities risk, derivatives risk, equity risk, foreign securities risk, interest rate risk, illiquid investments risk, market disruption and geopolitical risk, sector risk, and special risks related to preferred securities (voting rights, special redemption rights, deferral, subordination and liquidity).

### **Preferred Income**

The strategy primarily invests in diversified portfolio of preferred securities (including convertible preferred). The strategy may also invest in equity and debt securities. The strategy invests in below investment grade and unrated securities as well as fixed rate and adjustable rate securities and securities issued by foreign issuers (corporate and government). To manage interest rate risk, the strategy uses over-the-counter interest rates swaps for investment or hedging purposes. The strategy also uses leverage in an attempt to increase the level of income of the strategy. The amount of leverage employed is dependent upon the cost of leverage and the use of leverage may increase the volatility of the strategy.

### **Principal Investment Strategies**

The Preferred Equity Income team uses a multi-step process to identify and research preferred, equity and debt securities for inclusion in the portfolios.

Investment ideas for strategy are generated from within the Preferred Equity Income team. The team maintains extensive credit files on companies based on meetings and conference calls with company managements. Additionally, third-party research is used selectively.

The team starts its investment process by formulating a 12-month business cycle forecast and interest rate outlook in order to anticipate shifts in the markets. Excess return opportunities among sectors are identified across the broad universe of the securities the team covers. The team seeks to add value by anticipating the broader, more gradual changes in the business cycle, and then investing in those industries and sectors that are expected to benefit from the changes.

Within those industries and sectors, the team seeks to identify and invest in companies and/or issues issued by these companies that are undervalued and mispriced relative to the market. The team conducts relative value analysis, examining the credit strength and anticipated changes to



specific issues, searching for mispricing opportunities. The team seeks to avoid problem credits through comparative analysis and to structure an optimal portfolio by diversifying across multiple issuers and sectors.

### **Principal Investment Risks**

Risks of investing in the Preferred Income strategy includes credit risk, convertible securities risk, derivatives risk, equity risk, foreign securities risk, interest rate risk, illiquid investments risk, market disruption and geopolitical risk, sector risk, and special risks related to preferred securities (voting rights, special redemption rights, deferral, subordination and liquidity).

### **Tax Advantaged Dividend Income**

The strategy primarily invests in diversified portfolios of various preferred (including convertible preferred), equity and debt securities. The strategy invests in below investment grade and unrated securities as well as fixed rate and adjustable rate securities and securities issued by foreign issuers (corporate and government). To manage interest rate risk, the strategy uses over-the-counter interest rates swaps for investment or hedging purposes. The strategy also uses leverage in an attempt to increase the level of income of the strategy. The amount of leverage employed is dependent upon the cost of leverage and the use of leverage may increase the volatility of the strategy.

### **Principal Investment Strategies**

The Preferred Equity Income team uses a multi-step process to identify and research preferred, equity and debt securities for inclusion in the portfolios.

Investment ideas for strategy are generated from within the Preferred Equity Income team. The team maintains extensive credit files on companies based on meetings and conference calls with company managements. Additionally, third-party research is used selectively.

The team starts its investment process by formulating a 12-month business cycle forecast and interest rate outlook in order to anticipate shifts in the markets. Excess return opportunities among sectors are identified across the broad universe of the securities the team covers. The team seeks to add value by anticipating the broader, more gradual changes in the business cycle, and then investing in those industries and sectors that are expected to benefit from the changes.

Within those industries and sectors, the team seeks to identify and invest in companies and/or issues issued by these companies that are undervalued and mispriced relative to the market. The team conducts relative value analysis, examining the credit strength and anticipated changes to specific issues, searching for mispricing opportunities. The team seeks to avoid problem credits through comparative analysis and to structure an optimal portfolio by diversifying across multiple issuers and sectors.

### **Principal Investment Risks**

Risks of investing in the Tax Advantaged Dividend Income strategy includes credit risk, convertible securities risk, derivatives risk, equity risk, foreign securities risk, interest rate risk,

illiquid investments risk, market disruption and geopolitical risk, sector risk, and special risks related to preferred securities (voting rights, special redemption rights, deferral, subordination and liquidity).

## **C. FIXED INCOME STRATEGIES**

### **Floating Rate Income**

The Floating Rate Income strategy predominantly invests in domestic and foreign issuer loans and loan participations that pay interest at rates that float or reset periodically at a margin above a generally recognized base lending rate such as the Prime Rate, the London Inter-Bank Offered Rate (“LIBOR”) or another generally recognized base lending rate. The strategy may invest in fixed and floating rate debt securities of companies whose financial conditions are troubled or uncertain and that may be involved in bankruptcy proceedings, reorganizations or financial restructurings. To manage interest rate, credit and currency exposures, the strategy engages in exchange-traded interest rate and currency futures and options as well as currency forward contracts for investment or hedging purposes.

### **Principal Investment Strategies**

The Floating Rate investment team maximizes yield and capital appreciation opportunities using a value approach to identify undervalued companies with an attractive long-term outlook, with an emphasis on downside risk protection. The team invests in companies where a catalyst for unlocking value and restoring confidence can be identified. These companies generally exhibit one of the following characteristics: the potential for a sustainable business model, a compelling value proposition, strong cash flows and/or hard assets.

The investment team primarily concentrates on security selection, deciding which types of securities to emphasize at a given time. The team selects individual securities based on intensive bottom-up, fundamental analysis of individual issues. We describe fundamental analysis as the ability to assess an issuer’s financial position and operations, its competitive advantage and the depth of its management.

In constructing the portfolio, the team may take full advantage of the entire range of maturities. The team actively monitors the securities held and will discuss or visit with company management should any concerns to our original investment thesis arise. The team continuously assesses the relative value of a loan based on its potential to generate income and total return. Final investment decisions are the responsibility of the portfolio manager.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, distressed investments risk, economic and market events risk, fixed-income securities risk, foreign securities risk, high portfolio turnover risk, issuer risk, liquidity risk, loan participations risk, lower-rated fixed-income securities risk and high-yield securities risk, prepayment risk.

### **Emerging Market Debt**

The strategy invests primarily in a diversified portfolio of debt securities of emerging markets issuers. These include government and corporate bonds denominated in hard and local currencies. The Emerging Market Debt team considers classifications by MSCI, World Bank, International Finance Corporation and United Nations in determining whether a country is an emerging or a developed country. To manage interest rate, credit and currency exposures, the strategy engages in exchange-traded interest rate and currency futures and options as well as currency forward contracts for investment and hedging purposes.

### **Principal Investment Strategies**

The Emerging Market Debt team seeks out the best opportunities within and across emerging market countries based on in-depth research. The investment process begins with a global macro-economic overview where the investment team establishes global bond and currency scenarios based on economic and industry analysis to anticipate shifts in the business cycle and determine which countries and sectors present the most attractive investment opportunities.

The team uses fundamental research to identify specific countries, sectors and issues that are attractively priced. We describe fundamental analysis for sovereign issuers as the ability to assess economic factors such as inflation, the cyclical factors of the business cycle, monetary and fiscal policy, capital structures, balance of payments, political stability and interest rate levels. For corporate issuers, fundamental analysis is described as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management. Furthermore, assessments are made with respect to each bond's credit quality, interest rate sensitivity and valuation relative to other bonds in the same country, sector and of similar quality.

In constructing the portfolio, the investment team monitors all positions on a daily basis and looks for the optimal mix of countries, sectors, securities and currency exposures. Final investment decisions are the responsibility of the portfolio manager.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, currency risk, economic and market events risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, issuer risk, liquidity risk, non-diversified risk.

### **Municipal Bond**

The investment objective of our Municipal Bond strategies is to provide a high a level of interest income exempt from federal income tax, and for the state specific strategies, interest exempt from state taxes, consistent with preservation of capital. The strategies invest primarily in a tax exempt bonds of any maturity.

### **Principal Investment Strategies**

The Municipal Bond investment team uses a process that combines top down and bottom up analysis to identify attractive securities. The team uses fundamental research to identify bonds that are under-valued, based on both broad and security-specific factors, such as issuer creditworthiness, bond structure, general credit trends and the relative attractiveness of different types of issuers. In general, the investment team favors bonds backed by revenue from a project or facility deemed to benefit the public, as they tend to offer higher yields than general obligation bonds. The team also favors bonds that have limitations on being paid off early (call protection), as this can help minimize the effect that falling interest rates may have on a strategy's yield.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, economic and market events risk, fixed-income securities risk, hedging, derivatives and other strategic transactions risk, issuer risk, liquidity risk, lower-rated fixed-income securities risk and high-yield securities risk, municipal bond risk, state/region risk.

### **US TIPS**

The strategy invests primarily in a diversified portfolio of debt securities. These include U.S. Treasury Inflation-Protected Securities (US TIPS) and other types of inflation-indexed and non-inflation-indexed debt securities issued or guaranteed by the U.S. government, its agencies and instrumentalities. The strategy also invests in foreign government and corporate bonds, mortgage-backed securities, asset-backed securities and other types of debt securities and instruments.

## **Principal Investment Strategies**

The investment team creates a business cycle outlook after a thorough top-down analysis of global macroeconomic factors. Such factors may include fiscal and monetary policy, interest rate and yield curve forecasts, political environment, market liquidity and volatility, among others. Based on this broad market view, the investment team seeks to identify those fixed income sectors and points on the yield curve which present the most attractive investment opportunities.

The security selection process for the strategy includes duration and yield curve management, and an assessment with respect to each bond's credit quality, interest rate sensitivity and valuation relative to other opportunities. In constructing the portfolio, the team actively manages diversification and under- or over-weights sectors and securities versus the benchmark based on its assessment of the likelihood of those exposures to out-perform. Final investment decisions are the responsibility of the portfolio manager.

## **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, fixed-income securities risk, floating rate reset risk, foreign securities risk, high portfolio turnover risk, liquidity risk, mortgage-backed and asset-backed securities risk and prepayment risk.

## **US Government**

The US Government strategy invests primarily in a diversified portfolio of government debt securities. These include U.S. government and agency securities, U.S. dollar-denominated foreign government securities and corporate bonds (including high yield securities), mortgage-backed securities, asset-backed securities, municipal bonds and other types of debt securities and instruments. To manage interest rate exposures, the strategy engages in exchange-traded interest rate futures and options for investment or hedging purposes.

## **Principal Investment Strategies**

The investment team creates a business cycle outlook after a top-down analysis of macroeconomic factors. Such factors include fiscal and monetary policy, interest rate and yield curve forecasts, political environment, market liquidity and volatility, among others. Based on this broad market view, the investment team identifies those fixed income sectors which present the most attractive investment opportunities.

The investment team considers interest rate trends to determine which types of bonds to emphasize at a given time. The strategy typically favors mortgage-related securities when it

anticipates that interest rates will be relatively stable and favors U.S. Treasuries at other times. Since high-yield bonds often respond to market movements differently from U.S. government bonds, the strategy may use them to manage volatility.

In constructing the portfolio, the team actively manages diversification and under- or over-weights sectors and industries versus the benchmark based on its assessment of the likelihood of that sector to out-perform. Final investment decisions are the responsibility of the portfolio manager.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, economic and market events risk, fixed-income securities risk, floating rate reset risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, issuer risk, lower-rated fixed-income securities risk and high-yield securities risk, mortgage-backed and asset-backed securities risk and prepayment risk.

### **Short-Term Fixed Income**

The investment objective of our Short-Term Fixed Income strategies is to maximize current income in a manner consistent with preserving capital and maintaining liquidity.

The strategies invest primarily in a diversified portfolio of U.S.-dollar-denominated, short-term debt securities rated within the two highest short-term credit categories and their unrated equivalents. These include commercial paper and short-term, fixed and floating rate debt instruments of U.S. and foreign banks and governments, U.S. agencies, corporates, states and municipalities and international organizations such as the World Bank and the International Monetary Fund, as well as mortgage-backed and asset-backed securities. The strategies may also invest in repurchase agreements based on these securities.

### **Principal Investment Strategies**

The investment team creates a business cycle outlook after a top-down analysis of macroeconomic factors. Such factors include fiscal and monetary policy, interest rate and yield curve forecasts, political environment, market liquidity and volatility, among others. Based on this broad market view, the investment team identifies those fixed income sectors and securities which present the most attractive investment opportunities while also meeting the strategy's credit and maturity requirements.

The team's assessment of a security's credit quality, structure, and price/yield-spread relationship on an historical basis relative to other bonds with similar attributes drives the investment process.

As an outcome of this research, the team seeks to construct a portfolio that maximizes current income while emphasizing preservation of capital and liquidity.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Economic and market events risk, fixed-income securities risk, floating rate reset risk, foreign securities risk, issuer risk, mortgage-backed and asset-backed securities risk and prepayment risk.

### **High Yield**

The High Yield strategy invests in U.S. and non-U.S. fixed-income securities and debt instruments rated BB/Ba or lower and their unrated equivalents. These include U.S. and foreign government and corporate bonds (including emerging market securities), mortgage-backed securities, asset-backed securities, municipal bonds, convertible securities, preferred and common stocks and other types of debt securities and instruments. To manage interest rate, credit and currency exposures, the strategy engages in exchange-traded interest rate and currency futures and options, currency forward contracts as well as over-the-counter swap transactions (including interest rate and credit default swaps) for investment or hedging purposes.

### **Principal Investment Strategies**

The High Yield investment team uses a value approach to identify undervalued companies with an attractive long-term outlook. The team invests in companies where a catalyst for unlocking value and restoring confidence can be identified. These companies generally exhibit one more of the following characteristics: the potential for a sustainable business model, a compelling value proposition, strong cash flows and/or hard assets.

The investment team concentrates on industry allocation and security selection, deciding which types of industries to emphasize at a given time and then which individual securities to buy. The team selects individual securities based on intensive fundamental analysis of individual issues. We describe fundamental analysis as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management. As part of the research process, the team identifies the most attractive part of the capital structure to invest, from bank loans and senior notes down to subordinated notes, convertible notes and equity.

In constructing the portfolio, the team actively monitors the securities held and will discuss or visit with company management should any concerns to our original investment thesis arise. Final investment decisions are the responsibility of the portfolio manager.

## **Principal Investment Risks**

Investing in fixed income and equity securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity. The prices of equity securities change in response to many factors including the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, currency risk, distressed investments risk, economic and market events risk, equity securities risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, issuer risk, liquidity risk, lower-rated fixed-income securities risk and high-yield securities risk, medium and smaller company risk.

## **Core/Core Plus Fixed Income**

The Core/Core Plus Fixed Income strategies invest primarily in a diversified portfolio of debt securities. These include U.S. and foreign government and corporate bonds (including emerging market and high yield securities), mortgage-backed securities, asset-backed securities, municipal bonds, convertible securities, preferred stocks and other types of debt securities and instruments. To manage interest rate, credit and currency exposures, the strategy engages in exchange-traded interest rate and currency futures and options, currency forward contracts as well as over-the-counter swap transactions (including interest rate and credit default swaps) for investment or hedging purposes.

## **Principal Investment Strategies**

The investment team creates a business cycle outlook after a top-down analysis of global macroeconomic factors. Such factors include fiscal and monetary policy, interest rate and yield curve forecasts, currency trends, political environment, market liquidity and volatility, among others. Based on this broad market view, the investment team identifies those fixed income sectors which present the most attractive investment opportunities.

Once the sector allocation decision is made, the team selects individual securities based on intensive fundamental analysis of individual issues. We describe fundamental analysis as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management. Furthermore, assessments are made with respect to the bond's credit quality, interest rate sensitivity and valuation relative to other bonds in the same sector and of similar quality. The team actively monitors the securities held and will discuss or visit with company management should any concerns to our original investment thesis arise.



In constructing the portfolio, the team actively manages diversification and under- or over-weights sectors and industries versus the benchmark based on its assessment of the likelihood of that sector to out-perform. Final investment decisions are the responsibility of the portfolio manager.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, currency risk, economic and market events risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, liquidity risk, lower-rated fixed-income securities risk, mortgage-backed and asset-backed securities risk.

### **Long Credit Fixed Income**

The Long Credit Fixed Income Strategy invests primarily in a diversified portfolio of debt securities. These include U.S. and foreign government and corporate bonds (including emerging market and high yield securities), mortgage-backed securities, asset-backed securities, municipal bonds, convertible securities, preferred stocks and other types of debt securities and instruments. To manage interest rate exposures, the strategy engages in exchange-traded interest rate futures and options for investment or hedging purposes.

### **Principal Investment Strategies**

The investment team creates a business cycle outlook after a top-down analysis of global macroeconomic factors. Such factors include fiscal and monetary policy, interest rate and yield curve forecasts, political environment, market liquidity and volatility, among others. Based on this broad market view, the investment team identifies those fixed income sectors which present the most attractive investment opportunities.

Once the sector allocation decision is made, the team selects individual securities based on intensive fundamental analysis of individual issues. We describe fundamental analysis as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management. Furthermore, assessments are made with respect to the bond's credit quality, interest rate sensitivity and valuation relative to other bonds in the same sector and of similar quality. The team actively monitors the securities held and will discuss or visit with company management should any concerns to our original investment thesis arise.

In constructing the portfolio, the team actively manages diversification and under- or over-weights sectors and industries versus the benchmark based on its assessment of the likelihood of that sector to out-perform. Final investment decisions are the responsibility of the portfolio manager.

## **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, economic and market events risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, liquidity risk, lower-rated fixed-income securities risk and high-yield securities risk, mortgage-backed and asset-backed securities risk.

## **Strategic Fixed Income/Strategic Fixed Income Opportunities**

The Strategic Fixed Income/Strategic Fixed Income Opportunities invest primarily in a diversified portfolio of debt securities. These include U.S. and foreign government and corporate bonds (including emerging market and high yield securities), mortgage-backed securities, asset-backed securities, municipal bonds, convertible securities, preferred stocks and other types of debt securities and instruments. To manage interest rate, credit and currency exposures, the strategies engage in exchange-traded interest rate and currency futures and options as well as currency forward contracts for investment and hedging purposes.

## **Principal Investment Strategies**

The Strategic Fixed Income team seeks out the best opportunities within and across each sector based on in-depth research. The investment process begins with a global macro-economic overview in which the investment team establishes global bond and currency scenarios based on the fiscal and monetary policy, interest rate expectations, market volatility and political trends of individual countries. The team then analyzes a broad range of yield opportunities within a three-pronged universe consisting of U.S. government debt; corporate debt (primarily high yield); and foreign debt (both government and corporate, including emerging markets).

Once the sector allocation decision is made, the team selects individual securities based on intensive fundamental analysis of individual issues. We describe fundamental analysis as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management, or in the case of government debt, its fiscal and monetary policy, and economic and political stability. Furthermore, assessments are made with respect to the bond's credit quality, interest rate sensitivity and valuation relative to other bonds in the same sector and of similar quality. In constructing the portfolio, the investment team monitors all positions on a daily basis and looks for the optimal mix of sectors, securities and currency exposures. Final investment decisions are the responsibility of the portfolio manager.

## **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the

creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, currency risk, economic and market events risk, equity securities risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, issuer risk, liquidity risk, lower-rated fixed-income securities risk and high-yield securities risk, mortgage-backed and asset-backed securities risk.

### **Global Fixed Income/Global Investment Grade Fixed Income**

The Global Fixed Income/Global Investment Grade Fixed Income strategies invest primarily in a diversified portfolio of debt securities. These include U.S. and foreign government and corporate bonds (including emerging market and for the Global Fixed Income strategy, high yield securities), mortgage-backed securities, asset-backed securities, municipal bonds, convertible securities, preferred stocks and other types of debt securities and instruments. To manage interest rate, credit and currency exposures, the strategy engages in exchange-traded interest rate and currency futures and options as well as currency forward contracts for investment and hedging purposes.

### **Principal Investment Strategies**

The Global Fixed Income team seeks out the best opportunities within and across each country and sector based on in-depth research. The investment process begins with a global macro-economic overview in which the investment team establishes global bond and currency scenarios based on the fiscal and monetary policy, interest rate expectations, market volatility and political trends of individual countries. The team then analyzes a broad range of yield opportunities across global government, corporate and securitized debt. Once the country and sector allocation decision is made, the team selects individual securities based on intensive fundamental analysis of individual issues. We describe fundamental analysis as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management or in the case of government debt, its fiscal and monetary policy, and economic and political stability. Furthermore, assessments are made with respect to the bond's credit quality, interest rate sensitivity and valuation relative to other bonds in the same country, sector and quality. In constructing the portfolio, the investment team monitors all positions on a daily basis and looks for the optimal mix of sectors, securities and currency exposures. Final investment decisions are the responsibility of the portfolio manager.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, currency risk, economic and market events risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, issuer risk, liquidity risk, lower-rated fixed-income securities risk and high-yield securities risk, mortgage-backed and asset-backed securities risk.

### **Absolute Return Mortgage Securities**

The Absolute Return Mortgage Securities strategy invests primarily in (i) mortgage-backed securities (“MBS”), in particular residential mortgage-backed securities (“RMBS”) issued by U.S. government agencies and entities (“Agency MBS”), such as securities issued by the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and the Government National Mortgage Association (“Ginnie Mae”), and derivatives; (ii) RMBS issued by private sector companies (“Non-Agency RMBS”); and (iii) commercial mortgage-backed securities (“CMBS”). The tactical weighting in each sector will vary according to relative-value spreads, market volatility and liquidity. We anticipate that a client employing this strategy may benefit from the depressed expectations found in the securitized real estate markets and security-specific pricing anomalies. This strategy will also invest in prepayment-sensitive assets that tend to benefit from slow prepayments and slow economic growth, such as Agency MBS and derivatives and Non-Agency interest only (“IO”) and inverse interest only (“IIO”) MBS.

### **Principal Investment Strategies**

We seek to identify and exploit pricing anomalies that occur across the spectrum of mortgage securities, including Agency MBS, RMBS and CMBS. Portfolio holdings may range from short tenor senior classes to stressed issues or subordinated securities with substantial risk of non-payment and correspondingly higher yields.

We seek to diversify this strategy’s portfolio holdings between credit-sensitive and prepayment-sensitive securities. Most securities contemplated for this strategy will have exposure to both credit risk and prepayment risk; however for purposes of this Brochure, “credit-sensitive securities” refers to Non-Agency RMBS, CMBS and other structured credit assets while “prepayment-sensitive securities” refers to Agency MBS and derivatives. The tactical weighting of this strategy’s portfolio across the different sub-sectors of the securitization market varies according to our perception of sub-sector as well as overall expected return, market volatility and liquidity. Smaller portfolio allocations may include consumer asset-backed securities, other structured credit securities and corporate bonds. This strategy may invest in securities which tend to benefit from slow mortgage prepayments and slow economic growth, such as IO and IIO MBS. Other strategy investments may include but are not limited to U.S. government securities, unsecured debt securities issued by U.S. government agencies and entities and derivatives related to any of the above.

We may cause this strategy to take long and short positions in any of the foregoing instruments.

We may invest in a wide range of securities in which excess return may be available due to information barriers, wide premiums associated with prepayment risk and credit risk, supply-demand imbalances, unintended consequences of governmental intervention and other factors. Such strategies may include, but are not limited to:

- credit-based long and short positions in Non-Agency RMBS and CMBS (specific securities or indices);
- long or short positions in prepayment-related Agency MBS and Agency IO and IIO securities;
- relative-value, long only or long-short leveraged positions in Agency MBS, Non-Agency RMBS or CMBS.

The credit and prepayment strategies are summarized as follows:

Credit Strategies: Non-Agency RMBS and CMBS are complex securities collateralized by large pools of loans. For investment managers to analyze and acquire these securities, the barriers to entry include research capabilities, trading experience and proprietary loan-level models on diverse loan types. The opaque nature of securitization gives rise to a variety of security-specific anomalies and opportunities for risk-adjusted excess return.

Prepayment Strategies: Declining real estate values and tighter underwriting standards have reduced access to mortgage financing and refinancing for many homeowners. As capacity constraints in mortgage banking persist, we seek opportunities for excess return based on pool-specific attributes and insight into projected prepayment speeds.

A client account employing this strategy may enter into repurchase and reverse repurchase agreements, and invest and trade in futures contracts, forward contracts, options, swaps and other derivative transactions, both for hedging and speculative purposes. It also may use leverage, subject to any limits agreed to between the client and us.

There is no material limitation on the credit ratings, markets or types of mortgage securities, or any other financial instrument, in which this strategy may trade.

Notwithstanding the above, during any time that a client's assets are considered for purposes of ERISA to be "plan assets," the investments for that client may, in certain cases, be limited by or as a consequence of such laws.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, economic and market events risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, illiquid investments risk, interest rate risk, issuer risk, leverage risk, liquidity risk, lower-rated fixed-income securities risk and high-yield securities risk, mortgage-backed and asset-backed securities risk, non-diversified risk, prepayment risk, real estate securities risk, sector investing risk.

### **International Fixed Income**

The International Fixed Income strategy invests primarily in a diversified portfolio of debt securities. These include global government and corporate bonds, mortgage-backed securities, asset-backed securities, municipal bonds, convertible securities, preferred stocks and other types of debt securities and instruments. To manage interest rate, credit and currency exposures, the strategy engages in exchange-traded interest rate and currency futures and options as well as currency forward contracts for investment and hedging purposes.

### **Principal Investment Strategies**

The International Fixed Income team seeks out the best opportunities within and across each country and sector based on in-depth research. The investment process begins with a global macro-economic overview in which the investment team establishes global bond and currency scenarios based on the fiscal and monetary policy, interest rate expectations, market volatility and political trends of individual countries. The team then analyzes a broad range of yield opportunities, primarily across non-US government and corporate debt.

Once the country and sector allocation decision is made, the team selects individual securities based on intensive fundamental analysis of individual issues. We describe fundamental analysis as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management or in the case of government debt, its fiscal and monetary policy, and economic and political stability. Furthermore, assessments are made with respect to the bond's credit quality, interest rate sensitivity and valuation relative to other bonds in the same country, sector and quality.

In constructing the portfolio, the investment team monitors all positions on a daily basis and looks for the optimal mix of countries, sectors, securities and currency exposures. Final investment decisions are the responsibility of the portfolio manager.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, currency risk, economic and market events risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic

transactions risk, high portfolio turnover risk, issuer risk, liquidity risk, lower-rated fixed-income securities risk and high-yield securities risk, mortgage-backed and asset-backed securities risk.

### **Asia Total Return Bond**

The strategy aims to maximize total returns from a combination of capital appreciation and income generation by investing primarily in fixed income securities, issued by governments, agencies, supra-nationals and corporate issuers in the Asia Pacific region. The strategy features a balanced mix of hard currency and local currency Asian bond investments. To manage interest rate and currency exposures, the strategy may engage in interest rate futures, currency forward contracts, and non-deliverable forwards for hedging purposes.

### **Principal Investment Strategies**

The pan-Asia bond team seeks out to exploit credit, interest rate and currency opportunities within and across Asian fixed income markets based on in-depth research and a risk-controlled investment approach.

The investment process begins with assessing the global macro environment focusing on key factors such as fiscal and monetary policies, global interest rate, yield curve and currency dynamics, political environments, market volatility and liquidity.

The team uses fundamental research to identify specific countries, sectors and issues that are attractively priced. We describe fundamental analysis for sovereign issuers as the ability to assess economic factors such as inflation, the cyclical factors of the business cycle, monetary and fiscal policy, capital structures, balance of payments, political stability and interest rate levels. For corporate issuers, fundamental analysis is described as the ability to assess an issuer's financial position and operations, its competitive advantage and the depth of its management. Furthermore, assessments are made with respect to each bond's credit quality, interest rate sensitivity and valuation relative to other bonds in the same country, sector and of similar quality.

In constructing the portfolio, the investment team monitors all positions on a daily basis and looks for the optimal mix of countries, sectors, securities and currency exposures. Final investment decisions are the responsibility of the portfolio manager.

### **Principal Investment Risks**

Investing in fixed income securities involves the risk that the market value of the securities will fluctuate. The prices of fixed income securities change in response to many factors including the creditworthiness of the issuer, its sensitivity to interest rate changes, general economic conditions, investor perceptions and market liquidity.

The strategy's main risk factors are listed below in alphabetical order:

Active management risk, credit and counterparty risk, currency risk, economic and market events risk, fixed-income securities risk, foreign securities risk, hedging, derivatives and other strategic transactions risk, high portfolio turnover risk, issuer risk, liquidity risk, non-diversified risk.

## **Total Return Bond**

This active fixed income management strategy focuses on income-producing structured finance securities in a portfolio composition not overly exposed to price risk should interest rates rise.

### **Principal Investment Strategies**

The investment thesis seeks to capitalize on the value or relative value in some securitized assets as compared other debt alternatives such as high yield bonds or loans. We observe that many securitized assets backed by real estate mortgages such as RMBS or CMBS are out of favor with investors and are difficult for ratings-sensitive portfolios to hold. As well, market expectations for mortgage pool losses are depressed which causes some securities to trade at discounts to intrinsic value. Our opportunity set – the securitized markets – also includes many floating rate and interest only ("IO") securities as well as amortizing and short tenor bonds which have tended to exhibit reduced price risk and greater reinvestment potential during periods of wider spreads or higher interest rates. Portfolios using this strategy will invest in securitized assets ranging from short tenor senior classes to stressed issues or subordinated securities with substantial risk of non-payment and correspondingly higher yields. The tactical weighting across sub-sectors will vary according to our perception of market volatility and liquidity. Smaller portfolio allocations may include consumer ABS, other structured credit securities and corporate bonds. As a diversifier and potential hedge to credit risk, portfolios using this strategy also may invest in assets that tend to benefit from slow mortgage prepayments and slow economic growth, such as IO Agency MBS and RMBS. Currently this strategy does not use leverage or borrowed money. Our structured credit and prepayment strategies within the total return bond strategy reflect the following perspectives:

- Credit Strategies – RMBS and CMBS are complex and collateralized by large pools of loans. For asset managers, barriers to entry include research infrastructure, experience and proprietary loan-level models of diverse loan types. We believe that the opaque nature of the securitization market creates security-specific anomalies, market inefficiencies and resulting profit opportunities to a materially greater degree than is typical in the largely “commoditized” market in the more liquid publicly-traded debt markets.

- Prepayment Strategies – Uncertainty over borrower behavior and the effects of public policy can lead to market inefficiencies, particularly with respect to securities the value of which is materially affected by mortgage prepayments. Declining real estate values and tighter underwriting standards have greatly reduced access to mortgage credit, and prepayment performance will vary significantly based on location, loan type and borrower attributes. We believe that capacity constraints in the mortgage banking industry are likely to persist in a number of market segments, creating the potential for excess return from acquiring securities which the market has materially underpriced.



## **Principal Investment Risks**

Material risks involved with this strategy and these securities are credit risk, interest rate risk, concentration, prepayment or extension risk and liquidity risk.

### **D. ASSET ALLOCATION STRATEGIES**

#### **Principal Strategies**

Our risk-based strategies normally invest a pre-determined percentage of their assets in underlying funds that invest primarily in equity securities, and a pre-determined percentage in underlying funds that invest primarily in fixed-income securities (the “Portfolio(s)”). The Portfolios are designed to provide investors across different risk tolerance segments with a single investment option that simplifies the asset allocation and fund selection process. The Portfolios are based on the idea that investors will continue to re-evaluate their risk appetite over time and choose the Portfolio that is right for their own personal situation.

Our age-based strategies normally invest all of their assets in underlying funds using an asset-allocation strategy that automatically becomes more conservative until its target retirement date. The Portfolios are designed for investors expecting to retire within pre-defined dates. The portfolios with dates further in the future invest more aggressively, and the asset mix changes slowly – along a “glidepath” – becoming more conservative as the retirement date approaches. As a Portfolio approaches its target date, the allocation gradually migrates to more conservative, fixed-income funds.

We also offer a wide selection of customized objectives-based asset allocation strategies which are structured to meet specific investor objectives. These may include income, absolute return and balanced asset allocation funds.

While our risk-based, age-based and objectives-based Portfolios are focused on different types of investors, they are built using a similar underlying philosophy and process, described in the following section.

There are four main steps involved in the design of fund-of-fund portfolios. The management team at Manulife Asset Management (US) LLC (“Management Team”) first selects the asset classes and underlying funds for potential inclusion in the portfolios. Next, the team works to find the appropriate weightings to each asset class using multiple optimization techniques (e.g. resampled Mean Variance Optimization and/or Alpha vs. Tracking Error). In the third step, the Management Team determines the appropriate mix of managers to fit each portfolio. In the fourth and final step, the team continually monitors the economic environment and investment markets to determine if any changes are needed, and to keep the portfolios up-to-date and consistent with their respective investment policies and objectives.

#### **Principal Risks**

The Portfolios may invest in various underlying funds that as a group hold a wide range of equity type securities in their funds. These include small-, mid and large-capitalization stocks, domestic and foreign securities (including emerging market securities), and sector holdings such as

utilities and science and technology stocks. Each of these underlying funds has its own investment strategy that, for example, may focus on growth stocks or value stocks or may employ a strategy combining growth and income stocks and/or may invest in derivatives, such as options on securities and futures contracts. Certain of these underlying funds focus their investment strategy on fixed-income securities, which may include investment grade and below investment grade debt securities with maturities that range from short to longer term. The fixed-income underlying funds collectively hold various types of debt instruments, such as corporate bonds and mortgage backed, floating rate notes, government issued domestic and international securities (including emerging market debt securities).

All investment strategies involve some risks. Each Fund's performance depends on the Management Team's skill in determining the strategic asset class allocations, the mix of underlying funds and the performance of those underlying funds. The underlying funds' performance may be lower than the performance of the asset class which they were selected to represent. Each Fund is subject to the same risks as the underlying funds in which it invests, which include the following: stocks and bonds can decline due to adverse issuer, market, regulatory or economic developments; foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability; the securities of small-capitalization companies are subject to higher volatility than larger, more established companies; and high-yield bonds are subject to additional risks, such as increased risk of default.

Each Target Date portfolio's name refers to the approximate retirement year of the investors for whom the portfolio's asset allocation strategy is designed. The portfolios with dates farther off initially allocate more aggressively to stock funds. As a portfolio approaches and passes its target date, the allocation will gradually migrate to more conservative, fixed-income funds. The principal value of each portfolio is not guaranteed and you could lose money at any time, including at, or after, the target date.

## Item 9. Disciplinary Information

We have no disciplinary information to report.

## Item 10. Other Financial Industry Activities and Affiliations

Manulife AM (US) is affiliated with several SEC-registered and non-SEC registered investment advisers, located both within and outside the U.S. We also are affiliated with, and serve as investment manager or a sub-adviser to a number of affiliated Funds. The majority of such Funds are registered under the U.S. Investment Company Act of 1940, as amended, while others are registered in certain foreign jurisdictions. We are deemed to be an affiliated person of these Funds due to our role as their sub-adviser. Our key affiliates are as follows:

John Hancock Family of Funds	US registered investment company complex
John Hancock Distributors LLC	US broker-dealer
John Hancock Funds, LLC	US broker-dealer
John Hancock Advisers, LLC	US investment adviser
Hancock Venture Partners, Inc.	US investment adviser
Hancock Natural Resource Group, Inc.	US investment adviser
Declaration Management & Research LLC	US investment adviser
Signator Investors, Inc.	US broker-dealer and investment adviser
Manulife Asset Management (North America) Limited	non-US investment adviser (also registered with the SEC)
John Hancock Investment Management Services, LLC	US investment adviser
Manulife Asset Management (Asia), a division of Manulife Asset Management (Hong Kong) Limited	non-US investment adviser
Manulife Asset Management Limited	non-US investment adviser
Manulife Asset Management (Europe) Limited	non-US investment adviser
Manulife Asset Management (Japan) Limited	non-US investment adviser
Manulife Asset Management (Singapore) Pte., Limited	non US investment adviser
Manulife Asset Management (Taiwan) Co., Limited	non US investment adviser
John Hancock Life Insurance Company (U.S.A.)	US insurance company
Manulife Asset Management Trust Company LLC	New Hampshire Nondepository Trust Company

Manulife AM (US) has material business relationships with some of our related persons. Often personnel from these entities work together to manage client portfolios and provide related services, including client liaison, investment monitoring, account administration, investment research, and trading services. In some circumstances, one affiliate delegates responsibility for providing those services to another. If Manulife AM (US) delegates a function related to a client account to an affiliate we will notify the relevant client and take steps to ensure that the

delegation will comply with all applicable laws. All investment management arrangements are conducted on an arms-length basis so as to neither disadvantage nor advantage other clients or related parties.

Manulife AM (US) provides sub-advisory services to certain U.S. registered investment companies advised by its affiliates John Hancock Advisers, LLC (“JHA”), and John Hancock Investment Management Services, LLC (“JHIMS”), each a wholly-owned subsidiary of Manulife Financial. We also provide sub-advisory services to certain non-U.S. registered and unregistered investment vehicles advised and/or sponsored by our affiliate Manulife Asset Management Limited (“MAML”), which is also wholly-owned by Manulife Financial. MAML also provides Manulife AM (US) with sales, marketing and distribution support outside of the U.S. with respect to certain privately-offered investment funds sponsored by Manulife AM (US).

Manulife AM (US) is related to John Hancock Funds, LLC (“JHF”) and John Hancock Distributors, LLC (“JHD”), which are all U.S. registered broker-dealers and wholly-owned by Manulife Financial. JHF is the principal underwriter for certain U.S. registered investment companies for which Manulife AM (US) serves as sub-adviser. JHD is the principal underwriter for John Hancock Trust, a U.S. registered investment company for which Manulife AM (US) serves as sub-adviser. JHD also acts as a placement agent for privately-offered investment funds advised by Manulife AM (US) and its affiliates in the US. JHD is a registered broker-dealer under the Exchange Act. John Hancock Life Insurance Company (U.S.A.) acts as insurance agent for the sale of variable annuity contracts or variable life insurance contracts whose underlying portfolios may be sub-advised by Manulife AM (US).

Certain employees who provide administrative and support and other related services to Manulife AM (US) are also employees of JHA. Some officers of JHA are also officers of Manulife AM (US).

Manulife AM (US) has arrangements with two affiliated non-U.S. registered investment advisers, Manulife Asset Management (Asia), a division of Manulife Asset Management (Hong Kong) Limited (“Manulife Hong Kong”) and MAML for the provision of advisory services to certain of our clients pursuant to Memorandum of Understandings (“MOU”). Neither Manulife Hong Kong nor MAML are registered as investment advisers under the Advisers Act and each is deemed to be a “Participating Affiliate” of Manulife AM (US) (as this term has been used by the SEC’s Division of Investment Management in various no-action letters granting relief from the Advisers Act’s registration requirements for certain affiliates of registered investment advisers). Manulife AM (US) deems MAML or Manulife Hong Kong and certain of their employees as “associated persons” of Manulife AM (US) within the meaning of Section 202(a)(17) of the Advisers Act, because MAML or Manulife Hong Kong may, through such employees, contribute to Manulife AM (US)’s research process and may have access to information concerning which securities are being recommended to Manulife AM (US)’s clients prior to the effective dissemination of such recommendations. MAML and Manulife Hong Kong may also provide certain affiliates of Manulife AM (US) certain research relating to securities that are the subject of research it also provides to Manulife AM (US). As Participating Affiliates of Manulife AM (US), MAML and Manulife Hong Kong have agreed to submit themselves to the jurisdiction of US courts for actions arising under US securities laws in connection with investment advisory activities conducted for Manulife AM (US)’s clients. Manulife AM (US) maintains a list of the employees of MAML and Manulife Hong Kong

whom it has deemed “associated persons,” which we will make available to current and prospective clients of Manulife AM (US) upon request.

Manulife AM (US) provides various services to an affiliated U.S. Registered Investment Adviser, Declaration Management & Research LLC (“Declaration”). These services include investment management support such as trade execution for certain instruments and shared investment research; investment operations services such as account records maintenance and reconciliation, processing and settling trades with custodians and providing asset valuations; general corporate services such as office space and facilities, administrative support, information technology, vendor sourcing and corporate accounting; and other related services such as compliance staff support, investment guideline compliance monitoring and reporting, and support for client and regulatory reporting. Declaration also shares office space in Boston with Manulife AM (US) and certain of our officers may also serve as officers of Declaration.

Manulife Asset Management Trust Company LLC (the “Trust Company”), is a limited-purpose, nondepository trust company regulated by the New Hampshire Banking Department, (the “Trust”). The Trust Company provides a range of trust services, including pension advisory, directed trustee, asset management, asset allocation, and account custody and administration. In addition, the Trust maintains a series of collective investment funds (the “Commingled Funds”) in connection with the trust services it offers to its clients. It acts as trustee, manager, and distributor of the Commingled Funds. The Commingled Funds are exempt from registration under the US Investment Company Act of 1940, as well as under the Securities Act of 1933, both as amended. Manulife AM (US) provides investment management support and related support services for the Commingled Funds, on behalf of the Trust Company.

### **Sponsor or Syndicator of Limited Partnerships**

Related persons of Manulife AM (US) may be a general partner of a partnership or a managing member of a limited liability company or other pooled investment vehicle, such as a privately-offered unregistered investment fund, in which clients of Manulife AM (US) may be solicited to invest and which Manulife AM (US) may advise. These unregistered investment companies may invest in a wide variety of interests including securities and derivatives instruments, real estate and other privately-offered funds.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics**

Manulife AM (US) has adopted a written Code of Ethics (the “Code”) designed to prevent and detect personal trading activities that may interfere or be in conflict with client interests. The Code requires that our employees adhere to the highest ethical standards and comply with applicable federal securities laws. Our employees may from time to time acquire or sell securities for their personal accounts which may also be purchased or sold for the account of clients. The Code generally requires that all transactions in securities by our Investment Access Persons and Regular Access Persons (as each term is defined in the Code) and their spouses be

cleared prior to execution through compliance department processes. Personal securities transactions also are subject to quarterly reporting requirements, annual certification requirements and related compliance obligations. Regarding mutual funds, employees are required to report their transactions in the mutual funds we advise or sub-advise on a post-trade basis. Employees are also required to report any violations of the Code that come to their attention.

Clients should be aware that no set of rules can possibly anticipate or eliminate all potential conflicts of interest or ensure exemplary conduct in personal trading or all other matters, and that certain conflicts of interest inevitably exist in performing services such as providing investment advice. Such conflicts of interest, and how we address conflicts, are discussed below.

A copy of our Code of Ethics will be provided to any client or prospective client upon request.

### **Participation or Interest in Client Transactions**

Manulife AM (US) or its affiliates may purchase or sell, for the accounts of clients, securities in which Manulife AM (US) or its affiliates' may have a material financial interest. For example, our employees may incidentally hold in their own securities accounts one or more of the same securities that we also purchase or sell for clients. In addition, we, our affiliates, and our officers and employees (and members of their families as well as those of our affiliates) may be investors in investment vehicles that we sub-advise; including the U.S. registered mutual funds. Personal trading by employees is substantially restricted by our Code of Ethics.

Manulife AM (US) or its related persons may recommend to prospective clients that they buy or sell interests in the same investment products in which we or our related persons may have some financial interest, including ownership, and we or our related persons may own, buy or sell the same securities that they may have recommended to clients. For example, from time to time, one of our affiliates may provide seed capital in connection with the launching of a new strategy or Fund. Through this affiliation, we may have a financial interest in the securities recommended to the Funds. In addition, we or our affiliates may recommend to investment advisory clients or prospective investment advisory clients the purchase or sale of the Funds. Manulife AM (US) earns a management or sub-advisory fee on the Funds. Certain of our employees also own interests in the Funds. Funds containing seed capital will be managed along with other client accounts, and orders for the Funds may be aggregated with orders for other client accounts for purposes of trade execution. Our Code of Ethics and the policies and procedures thereunder are intended to minimize the impact of these and other potential conflicts of interest.

Due to the nature of our clientele, we may from time to time trade in investments issued by clients or clients of our affiliates. In all cases, we shall engage in such transactions pursuant to federal securities laws and in keeping with the best interests of our clients on behalf of whom we purchase or sell such investments.

To help prevent conflicts of interest, all employees must comply with our Code of Ethics, which imposes restrictions on the purchase or sale of securities for employee accounts and the accounts of certain household members, and seeks to ensure that employees do not personally benefit from the short-term market effects of our recommendations for clients.

## **Item 12. Brokerage Practices**

### **Brokerage Discretion**

Generally, clients grant us full discretionary authority over securities purchases and sales, subject to the client's investment objectives, guidelines and restrictions. These are typically established by agreement between Manulife AM (US) and the client at the time the client account is established.

### **Approved Trading Counterparties**

Manulife AM (US) maintains and periodically updates a list of approved trading counterparties. Portfolio managers may execute trades only with pre-approved broker-dealer/counterparties. A sub-group of our Brokerage Practices Committee, through a delegation from our Senior Investment Policy Committee, reviews and approves all broker-dealers/counterparties.

### **Selection of Brokers, Dealers, and Counterparties**

In placing orders for purchase and sale of securities and selecting trading counterparties (including banks or broker-dealers) to effect these transactions, Manulife AM (US) seeks prompt execution of orders at the most favorable prices reasonably obtainable. We will consider a number of factors when selecting trading counterparties, including the overall direct net economic result to the client (including commissions, which may not be the lowest available, but which ordinarily will not be higher than the generally prevailing competitive range), the financial strength, reputation and stability of the counterparty, the efficiency with which the transaction is effected, the ability to effect the transaction when a large block trade is involved, the availability of the counterparty to stand ready to execute possibly difficult transactions in the future, and other matters involved in the receipt of brokerage and research services.

Manulife AM (US) periodically prepares and maintains a list of broker-dealer firms that have been deemed to provide valuable research as determined periodically by the investment staff, together with a suggested non-binding amount of brokerage commissions ("non-binding target") to be allocated to each of these research firms, subject to certain requirements. Neither we nor any client has an obligation to any research firm if the amount of brokerage commissions paid to the research firms is less than the applicable non-binding target.

In seeking best execution, traders have a variety of venues available for execution. Traders may, in their discretion, use algorithmic strategies through direct market access ("DMA") tools and electronic crossing networks ("ECNs"). DMA allows the trader to act in the market without a full service or other broker. ECNs give the trader additional options when searching for liquidity and the ability to trade block positions in a more efficient manner. In

selecting a broker, dealer or trading venue, traders consider the full range of available trading platforms in seeking best execution.

### **Affiliated Brokers**

Manulife AM (US) does not execute trades or otherwise implement trading strategies through an intermediary that is an affiliated broker.

### **Cross Transactions**

Manulife AM (US) does not effect agency cross-transactions (in which our affiliated broker-dealer would act as the broker for both the client and the counterparty to the transaction and receives commissions from the client and the counterparty). Generally, we do not effect cross trades between clients and our affiliates.

In some instances, a security to be sold by one client account may independently be considered appropriate for purchase by another client account. We may effect such a “cross transaction” if it is in the best interests of both clients, consistent with applicable laws and policies and clients’ requirements and restrictions. Manulife AM (US) will be guided by Rule 17a-7 of the Investment Company Act of 1940, as amended, in its use of these cross transactions with respect to any U.S. registered Funds, and by other applicable non-U.S. laws and regulations with respect to any non-U.S. Funds. We do not permit client accounts governed by the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), to engage in cross trading.

### **Best Execution**

Manulife AM (US) owes a duty to its clients to seek best execution when executing trades on behalf of clients. “Best execution” generally is understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances. Manulife AM (US) is not obligated to choose the broker-dealer offering the lowest available commission rate if, in our reasonable judgment, there is a material risk that the total cost or proceeds from the transaction might be less favorable than may be obtained elsewhere, or, if a higher commission is justified by the trading provided by the broker-dealer, or if other considerations dictate using a different broker-dealer. Negotiated commission rates generally will reflect overall execution requirements of the transaction without regard to whether the broker may provide other services in addition to execution.

Manulife AM (US) may pay higher or lower commissions to different brokers that provide different categories of services. Under this approach, we periodically may classify different brokers in different categories based on execution abilities, the quality of research, brokerage services, block trading capability, speed and responsiveness, or other services provided by the brokers. Some examples of these categories may include, without limitation, full service brokers, alternative trading systems, client commission and execution-only brokers.

The reasonableness of brokerage commission is evaluated on an ongoing basis and at least annually on a formal basis.



When more than one broker-dealer is believed to be capable of providing the best combination of price and execution with respect to a particular portfolio transaction, Manulife AM (US) often selects a broker-dealer that furnishes research and other related services or products. The amount of brokerage allotted to a particular broker-dealer is not made pursuant to any binding agreement or commitment with any selected broker-dealer. However, we maintain an internal allocation procedure to identify those broker-dealers who have provided us with effective research and the amount of research provided, and we endeavor to direct sufficient commissions to them to ensure the continued receipt of research that we believe is useful.

## **Research and Other Soft Dollar Benefits**

Manulife AM (US) may pay for research and brokerage services with the commission dollars generated by client account transactions (known as “soft dollar benefits”), subject to certain conditions. Further, we may cause clients to pay commissions, markups or markdowns higher than those charged by other broker-dealers in return for soft dollar benefits

The research provided may be either proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analysts, traders and issuers) or third-party (created by a third party, but provided by broker-dealer). Proprietary research is generally part of a “bundle” of brokerage and research, with research not separately priced. In the case of third party research, the cost of products and services is generally more transparent, and payment is made by the broker to the preparer in “hard dollars.” We may receive both proprietary and third party research and execution services.

Manulife AM (US) considers three factors with respect to all third-party research and execution services received through soft dollars:

- Whether the product or service is eligible research or brokerage under SEC rules and regulations;
- Whether an eligible product or service actually provides “lawful and appropriate assistance” in the performance of our investment decision-making responsibilities.
- Whether the amount of the commission paid is reasonable in light of the value of the product or service provided by the broker-dealer (viewed in terms of the particular transaction or our overall responsibilities with respect to our client accounts).

Research services currently purchased with soft dollars include: reports on the economy, industries, sectors and individual companies or issuers; introduction to issuers, invitations to trade conferences, statistical information; statistical models; political and country analyses; reports on legal developments affecting portfolio securities; information on technical market actions; and credit analyses.

The overriding consideration in selecting brokers to execute trade orders is the maximization of client profits through a combination of controlling transaction and securities costs and seeking the most effective use of brokers’ proprietary research and execution capabilities, while maintaining relationships with those broker-dealers who consistently provide

superior service. When we use client brokerage commissions (or markups or markdowns) to obtain research or other products or services, we receive a soft dollar benefit because we do not have to produce or pay for the research, products or services. We may have an incentive to select a broker-dealer based on our interest in receiving research or other products or services, rather than on our clients' interest in receiving most favorable execution.

Any research received is used to service all clients to which it is applicable, whether or not the client's commissions were used to obtain the research. For example, commissions of equity clients may be used to obtain research that is used with respect to fixed income clients. Manulife AM (US) does not attempt to allocate the relative costs or benefits of research among client accounts because we believe that, in the aggregate, the research we receive benefits clients and assists us in fulfilling our duty to all of our clients.

We do not enter into any agreement or understanding with any broker-dealer which would obligate us to direct a specific amount of brokerage transactions or commissions in return for such services. However, certain broker-dealers may state in advance the amount of brokerage commissions they expect for certain services and the applicable cash equivalent.

We may seek to obtain client commission benefits through client commission arrangements in compliance with applicable laws and regulations. Under these types of arrangements, we can request that executing brokers allocate a portion of total commissions paid to a pool of "credits" maintained by the broker that can be used to obtain client commission benefits. After accumulating a number of credits within the pool, we may subsequently direct that those credits be used to pay appropriate parties in return for eligible client commission benefits provided by the broker to Manulife AM (US).

In summary, as noted above, we have three types of soft dollar arrangements through which we received soft dollar benefits in 2012:

- 1) Full service brokers- in addition to receiving execution services, we also receive a variety of research and related services from these brokers, including, proprietary research reports on companies, markets or investment related reports, meetings with senior management teams of companies, and discussions with the broker's analysts and market experts.
- 2) Client commission arrangements ("CCA") Manulife AM (US) has CCAs with eight brokers with whom we place equity trades for execution. We generate commission credits with these brokers which we can use to compensate third party research providers, including other brokers, for research received. The level of compensation to such research providers is determined by the equity portfolio management teams using a quarterly voting process. The number of votes determines the level of compensation paid to a research provider.
- 3) Soft dollar arrangements- Under soft dollar arrangements, Manulife AM (US) identified research services that we wanted to obtain from a soft dollar broker (the "Broker") (subject to the Broker's approval); the Broker then directly contracted with the research providers for those services. We have no financial or other contractual obligations with the research providers under this arrangement. When we execute equity trades with the Broker, the soft dollars are allocated to a portion of the commission to the research providers.

In 2012, the following are the top ten brokers (in no particular order) from whom we received soft dollar benefits in a manner noted above:

Credit Suisse First Boston

Goldman Sachs

Barclays Capital

Bank of America Merrill Lynch

JP Morgan Securities

Morgan Stanley

Citigroup

Deutsche Bank

Investment Tech Group

Knight Securities

### **Directed Brokerage**

Manulife AM (US) does not engage in directed brokerage arrangements. However, we permit clients to direct us to execute transactions using a particular broker-dealer. As discussed previously and in greater detail in Item 4, clients should consider the potential consequences of directing brokerage.

Certain Funds have entered into an arrangement under which, with respect to certain brokerage transactions directed to certain broker-dealers, the Funds receive a credit for part of the brokerage commission paid by the Fund, which is applied against expenses of the Fund.

### **Trade Aggregation**

Because investment decisions often affect more than one client, we frequently will attempt to acquire or dispose of the same security for more than one client at the same time. Manulife AM (US), to the extent permitted by applicable law, regulations and advisory contracts, may aggregate purchases and sales of securities on behalf of its various clients for which it has discretion, provided that in our opinion, all client accounts are treated equitably and fairly and that block trading will result in a more favorable overall execution. Trades will not be combined when a client has directed transactions to a particular broker-dealer or when we determine that combined orders would not be efficient or practical.

When appropriate, Manulife AM (US) will allocate such block orders at the average price obtained or according to a system that we consider to be fair to all clients over time. Generally

speaking, such allocations are made on the basis of proportional capital under management in the respective client accounts.

### **Item 13. Review of Accounts**

All Manulife AM (US) accounts are reviewed regularly (at least monthly) by their portfolio managers and periodically by Manulife AM (US)'s Chief Investment Officer and our Senior Investment Policy Committee. The accounts are reviewed for performance and compliance with applicable investment objectives, internal and client guidelines, restrictions and regulatory requirements. Accounts are also routinely reviewed by compliance personnel and, for select strategies, by our Risk Management Working Group for compliance with applicable investment objectives, guidelines and regulatory requirements.

For overseeing best execution of equity securities, we use an outside trade execution analytical firm to provide regular analysis of our trades. Our Brokerage Practices Committee reviews the findings at least quarterly.

On a quarterly and/or monthly basis, Manulife AM (US) furnishes to mutual fund clients, or their agents, summary reports of: portfolio transactions that were executed during the relevant period, portfolio listings, performance information, and other requested information about compliance matters. Information that we provide to mutual fund clients is generally informal, derived from our own systems, and for internal purposes only. Such reports are not intended to be used to report information, such as, definitive standardized mutual fund performance information.

We furnish reports to institutional clients at least quarterly. Reports typically disclose holdings and performance and other related information regarding the portfolios.

Managed Account Program clients generally receive account statements from Program Sponsors in accordance with the terms of the particular programs.

### **Item 14. Client Referrals and Other Compensation**

Manulife AM (US) relies primarily on the efforts of its internal sales and marketing personnel who are responsible for soliciting and generating new business. Discretionary compensation of Manulife AM (US) sales and marketing personnel may be based in part on their success in raising assets on behalf of the firm.

Manulife AM (US) has entered into written sales and solicitation agreements with certain affiliated persons or entities for client referrals or introductions. Manulife AM (US) may compensate or be compensated by its affiliates for placements of interests in separately managed accounts or private funds in compliance with applicable law. The material terms of such arrangements will be disclosed to each client or investor, as required by law.

### **Item 15. Custody**

In our role as an asset manager, Manulife AM (US) generally does not have possession, or the authority to control or possess assets held in client accounts. Client assets are held in

separate accounts maintained by independent third-party custodians who have been selected by our clients. As a fiduciary, Manulife AM (US) seek to safeguard client assets against unauthorized access or use. Manulife AM (US) accomplishes this by separating investment management, trading, operations, and client relationship functions and responsibilities. We maintain access controls around the systems used by trading and by portfolio management to ensure that trades are duly authorized. We periodically reconcile records of client funds and securities to the client's custodian records.

Manulife Asset Management AM (US) and its affiliates or subsidiaries sponsor bank maintained collective investment funds and privately-offered unregistered investment funds. As Manulife AM (US) or its subsidiaries may often serve as the trustee, director or the general partner of, or hold another comparable position with respect to these products, we take additional required measures to ensure that client assets are safeguarded.

Manulife Asset Management Trust Company LLC is the trustee of certain Commingled Funds in which its clients' assets are invested. The assets of these Commingled Funds are held at a third-party custodian pursuant to a sub-custodian agreement. Our privately-offered fund's cash and securities are maintained exclusively with its prime broker. In addition, our bank maintained collective investment funds and privately-offered unregistered investment funds provide audited financial statement to their investors on an annual basis. With these additional required safeguards in place, Manulife AM (US) is not subject to annual surprise examinations from an independent public account.

Clients should carefully review any statement or other reports that they receive from a custodian and compare them to the client reports provided by us.

#### **Item 16. Investment Discretion**

Clients retain Manulife AM (US) on both a discretionary and nondiscretionary basis. Clients that retain us on a discretionary basis grant us such authority by way of an investment management agreement. As such, we have the authority to supervise and direct the investments of and for those clients' account without prior consultation with the client. Pursuant to this discretionary authority, we determine which securities are bought and sold for the account, the total amount of the purchases and sales, the brokers or dealers through which transactions are executed and the commission rates paid to effect the transactions, as applicable. The client may restrict or prohibit transactions in certain types of securities or direct that transactions be effected through specific brokers or dealers.

A few clients retain us on a non-discretionary basis, requiring that portfolio transactions be discussed in advance and executed at the client's direction.

#### **Item 17. Voting Client Securities**

Under our discretionary management agreements, clients have the option to grant us proxy voting authority over securities held in a client account. When clients grant such authority, Manulife AM (US) seeks to vote proxies in the best economic interests of all of its clients for whom it has proxy voting authority and responsibilities. We believe that our proxy voting policies and procedures are reasonably designed to ensure that proxy voting is conducted

in the best interest of clients, and in accordance with our fiduciary duties, applicable rules under the Investment Advisers Act of 1940, and fiduciary standards and responsibilities applicable to our ERISA clients. Proxies generally will be voted to maximize the monetary value of each portfolio's holdings. We believe that this approach is in the best interests of our clients.

Manulife AM (US) has contracted with ISS a MSCI Company ("ISS") an independent third party service provider, to vote clients' proxies according to our policies, which incorporate ISS' proxy voting recommendations. Proxies will be voted in accordance with the voting recommendations contained in the applicable domestic or global ISS Proxy Voting Manual, as in effect from time to time. Except in instances when a Manulife AM (US) client retains voting authority, Manulife AM (US) will instruct custodians of client accounts to forward all proxy statements and materials received in respect of client accounts to ISS.

Manulife AM (US) has engaged ISS as its proxy voting agent to:

1. research and make voting recommendations or, for matters for which Manulife AM (US) has so delegated, to make the voting determinations;
2. ensure that proxies are voted and submitted in a timely manner;
3. handle other administrative functions of proxy voting;
4. maintain records of proxy statements received in connection with proxy votes and provide copies of such proxy statements promptly upon request;
5. maintain records of votes cast; and
6. provide recommendations with respect to proxy voting matters in general.

There may be circumstances when a portfolio manager or other Manulife AM (US) investment professional ("Investment Professional") believes that the best interests of our clients are served by voting proxies differently from the recommendations of ISS. The Investment Professional or portfolio manager will inform Manulife AM (US)'s operations department ("Proxy Operations") of the decision to vote a proxy differently from the ISS recommendation, and the reason why. Proxy Operations will report to the Chief Compliance Officer no less than quarterly any instance in which an Investment Professional or portfolio manager has decided to vote a proxy in such manner.

Clients may obtain a copy of our proxy voting policies and procedures, a summary of ISS' policies and procedures, and information about how we voted proxies during the past fiscal year by contacting your relationship manager at (617) 375-1500.

## **Item 18. Financial Information**

**Not Applicable**

## APPENDIX 1

### GLOSSARY OF INVESTMENT RISKS

- **Active management risk.** The adviser's investment strategy may fail to produce the intended result.
- **Convertible securities risk.** The market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. In addition, as the market price of the underlying common stock declines below the conversion price, the price of the convertible security tends to be increasingly influenced more by the yield of the convertible security.
- **Credit and counterparty risk.** The issuer or guarantor of a fixed-income security, the counterparty to an over-the-counter derivatives contract or a borrower of a fund's securities may be unable or unwilling to make timely principal, interest or settlement payments, or otherwise to honor its obligations. Funds that invest in fixed-income securities are subject to varying degrees of risk that the issuers of the securities will have their credit rating downgraded or will default, potentially reducing a fund's share price and income level. U.S. government securities are subject to varying degrees of credit risk depending upon the nature of their support.
- **Credit risk.** The issuer or guarantor of a fixed-income security, the counterparty to an over-the-counter derivatives contract or a borrower of a fund's securities may be unable or unwilling to make timely principal, interest or settlement payments, or otherwise to honor its obligations. Funds that invest in fixed-income securities are subject to varying degrees of risk that the issuers of the securities will have their credit rating downgraded or will default, potentially reducing a fund's share price and income level. U.S. government securities are subject to varying degrees of credit risk depending upon the nature of their support.
- **Currency risk.** Currency risk is the risk that fluctuations in exchange rates may adversely affect the U.S. dollar value of a fund's investments.
- **Derivatives risk.** Hedging and other strategic transactions may increase the volatility of a fund and, if the transaction is not successful, could result in a significant loss to a fund. Counterparty risk, liquidity risk (i.e., the inability to enter into closing transactions) and risk of disproportionate loss are the principal risks of engaging in transactions involving futures contracts, options, swaps and foreign currency forward contracts. Counterparty risk does not apply to exchange-traded options. Foreign currency forward contracts are also subject to foreign currency risk. The use of derivative instruments (such as options, futures and swaps) could produce disproportionate gains or losses, more than the principal amount invested. Investing in derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments and, in a down market, could become harder to value or sell at a fair price.
- **Distressed investment risk.** Many distressed investments, including loans, loan participations, bonds, notes and non-performing and sub-performing mortgage loans, are not publicly traded and may involve a substantial degree of risk.
- **Economic and market events risk.** Events in the financial markets have resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign. In addition, reduced liquidity in credit and fixed-income markets may adversely affect issuers worldwide.
- **Emerging markets risk.** The risks of investing in foreign securities are greater for investments in emerging markets. Emerging market countries may experience higher inflation, interest rates and unemployment as well as greater social, economic, regulatory and political uncertainties than more developed countries.
- **Equity risk.** The value of a company's equity securities is subject to changes in the company's financial condition, and overall market and economic conditions.
- **Equity securities risk.** The value of a company's equity securities is subject to changes in the company's financial condition, and overall market and economic conditions.

- **Exchange-traded fund risk.** Owning an ETF generally reflects the risks of owning the underlying securities it is designed to track.
- **Fixed-income securities risk.** Fixed-income securities are affected by changes in interest rates and credit quality. A rise in interest rates typically causes bond prices to fall. The longer the average maturity of the bonds held by a fund, the more sensitive a fund is likely to be to interest-rate changes. There is the possibility that the issuer of the security will not repay all or a portion of the principal borrowed and will not make all interest payments.
- **Foreign securities risk.** As compared to U.S. companies, there may be less publicly available information relating to foreign companies. Foreign securities may be subject to foreign taxes. The value of foreign securities is subject to currency fluctuations and adverse political and economic developments. The risks of investing in foreign securities are greater for investments in emerging markets.
- **Fund of funds risk.** A fund is subject to the performance of the underlying funds in which it invests.
- **Greater China risk.** Investments in the Greater China region are subject to special risks, such as less developed or less efficient trading markets, restrictions on monetary repatriation and possible seizure, nationalization or expropriation of assets. In particular, investment in Taiwan could be adversely affected by its relationship with China, and Hong Kong and Chinese markets could be hurt significantly by adverse government actions. A small number of companies and industries represent a relatively large portion of the Greater China market as a whole.
- **Hedging, derivatives and other strategic transactions risk.** Hedging and other strategic transactions may increase the volatility of a fund and, if the transaction is not successful, could result in a significant loss to a fund. Counterparty risk, liquidity risk (i.e., the inability to enter into closing transactions) and risk of disproportionate loss are the principal risks of engaging in transactions involving futures contracts, options, swaps and foreign currency forward contracts. Counterparty risk does not apply to exchange-traded options. Foreign currency forward contracts are also subject to foreign currency risk. The use of derivative instruments (such as options, futures and swaps) could produce disproportionate gains or losses, more than the principal amount invested. Investing in derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments and, in a down market, could become harder to value or sell at a fair price.
- **High portfolio turnover risk.** Actively trading securities can increase transaction costs (thus lowering performance) and taxable distributions.
- **Illiquid investments risk.** The difficulties and delays associated with such transactions could result in a fund's inability to realize a favorable price upon disposition, and at times might make disposition of such securities impossible. In addition, a fund may be unable to sell other illiquid investments when it desires to do so, resulting in a fund obtaining a lower price or being required to retain the investment.
- **Industry or sector investing risk.** The performance of a fund that focuses on a single industry or sector of the economy depends in large part on the performance of that industry or sector. As a result, the value of an investment may fluctuate more widely than it would in a fund that is diversified across industries or sectors.
- **Inflation-indexed debt securities risk.** Inflation-indexed debt securities are subject to the effects of changes in market interest rates caused by factors other than inflation (real interest rates). There can be no assurance that the inflation index used will accurately measure the real rate of inflation in the prices of goods and services.
- **Initial public offerings risk.** IPO shares may have a magnified impact on fund performance and are frequently volatile in price.
- **Interest rate risk.** A rise in interest rates typically causes bond prices to fall. The longer the average maturity of the bonds held by a fund, the more sensitive a fund is likely to be to interest-rate changes. The yield earned by a fund will vary with changes in interest rates.



- **Investment company securities risk.** A fund bears its own expenses and indirectly bears its proportionate share of expenses of the underlying funds in which it invests.
- **Issuer risk.** An issuer of a security may perform poorly and, therefore, the value of its stocks and bonds may decline. An issuer of securities held by a fund could default or have its credit rating downgraded.
- **Large company risk.** Large-capitalization stocks as a group could fall out of favor with the market, causing a fund to underperform investments that focus on small- or medium-capitalization stocks. Larger, more established companies may be slow to respond to challenges and may grow more slowly than smaller companies.
- **Leverage risk.** The use of leverage magnifies both the favorable and unfavorable effects of price movements in the investments made by a fund. To the extent that a fund is leveraged in its investment operations, a fund will be subject to substantial risk of loss.
- **Lifecycle risk.** There is no guarantee that the adviser will correctly predict the market or economic conditions and, as with other fund investments, you could lose money even if a fund is at or close to its designated retirement year or in its post-retirement stage.
- **Liquidity risk.** Exposure exists when trading volume, lack of a market maker or legal restrictions impair the ability to sell particular securities or close derivative positions at an advantageous price.
- **Loan participations risk.** Participations and assignments involve special types of risks, including credit risk, interest-rate risk, liquidity risk and the risks of being a lender.
- **Lower-rated fixed-income securities risk and high-yield securities risk.** Lower-rated fixed-income securities and high-yield fixed-income securities (commonly known as junk bonds) are subject to greater credit-quality risk and risk of default than higher-rated fixed-income securities. These securities may be considered speculative and the value of these securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market or economic developments and can be difficult to resell.
- **Market disruption and geopolitical risk.** Events in the financial markets have resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign. In addition, reduced liquidity in credit and fixed-income markets may adversely affect issuers worldwide.
- **Medium and smaller company risk.** The prices of medium and small company stocks can change more frequently and dramatically than those of large company stocks.
- **Medium company risk.** The prices of medium company stocks can change more frequently and dramatically than those of large company stocks.
- **Mortgage-backed and asset-backed securities risk.** Different types of mortgage-backed securities and asset-backed securities are subject to different combinations of prepayment, extension, interest-rate and/or other market risks.
- **Municipal bond risk.** Municipal bond prices can decline due to fiscal mismanagement or tax shortfalls. Revenue bond prices can decline if related projects become unprofitable. A fund may hold bonds that are insured as to principal and interest payments. Because the value of an insured municipal bond depends in part on the claims-paying ability of the insurer, a fund would be subject to the risk that the insurer may be unable to pay claims filed pursuant to the coverage. A fund may hold several investments covered by one insurer, which would increase a fund's exposure to the claims-paying ability of that insurer. In addition, insurance does not guarantee the market value of the insured obligation.
- **Natural resources risk.** The natural resources industry can be significantly affected by events relating to international political and economic developments, energy conservation, the success of exploration projects, commodity prices, and taxes and other governmental regulations.
- **Non-diversified risk.** Certain funds are not "diversified" within the meaning of the Investment Company Act of 1940. This means they are allowed to invest in the securities of a relatively small number of issuers, which may result in greater susceptibility to associated risks. As a result, credit, market and other risks associated with a fund's investment strategies or techniques may be more pronounced for these funds than for funds that are "diversified."

- **Prepayment risk.** Prepayment risk occurs when the issuer of a security can repay principal prior to the security's maturity. Securities subject to prepayment risk can offer less potential for gains when the credit quality of the issuer improves.
- **Real estate securities risk.** Investing in securities of companies in the real estate industry subjects a fund to the risks associated with the direct ownership of real estate. REITs involve additional risk factors including poor performance by a REIT's manager, changes to the tax laws, and failure by the REIT to qualify for tax-free distribution of income or exemption under the Investment Company Act of 1940.
- **Sector investing risk.** Because a fund may focus on a single sector of the economy, its performance depends in large part on the performance of that sector. As a result, the value of your investment may fluctuate more widely than it would in a fund that is diversified across sectors.
- **Sector risk.** Because a fund may focus on a single sector of the economy, its performance depends in large part on the performance of that sector. As a result, the value of your investment may fluctuate more widely than it would in a fund that is diversified across sectors.
- **Short sales risk.** Short sales involve costs and risk. A fund must pay the lender interest on the security it borrows, and a fund will lose money if the price of the security increases between the time of the short sale and the date when a fund replaces the borrowed security.
- **Small company risk.** Stocks of smaller companies are more volatile than stocks of larger companies.
- **Special risks related to preferred securities.** Generally, preferred security holders have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may have the right to elect a number of directors to the issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by a fund. Preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. Preferred securities are subordinated to bonds and other debt instruments in a company's capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments. Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. government securities.
- **State/region risk.** Investing heavily in any one state or region increases exposure to losses in securities of that state's or region's issuers.
- **State-specific risk.** Because a fund invests mainly in bonds from a single state, its performance is affected by local, state and regional factors. These factors may include economic or political changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, and changes in the credit ratings assigned to the state's municipal issuers.
- **Target allocation risk.** From time to time, one or more of the underlying funds may experience relatively large redemptions or investments due to reallocations or rebalancing of the assets of a portfolio, which could affect the performance of the underlying funds and, therefore, the performance of a fund.

