Talking investments with Sandy Sanders – Manulife Strategic Balanced Yield Fund

The Manulife strategic balance yield fund is a balanced fund; sixty percent US equities, forty percent global fixed income.

This fund is set up to basically offer investors a smoother ride through all cycles as basically this fund is, provides the steady income on a monthly basis from the global fixed income component of three point three cents per share, per month, but also gives you exposure to the US equity market and zeros in on the dividend growth companies, which we believe over time should compound in value.

Now the global fixed income piece also offers exposure to um, high yield, uh, corporate bonds and, and sovereign bonds around the world, particularly with an emphasis on Asia.

So we believe that the Manulife strategic balance yield fund is a diversified fund that is balanced and will uh, through ups and downs markets will provide a steadier ride for investors.

We use a seven step research process. We've been doing this now for over thirteen years, using this process. The first step is competitive advantage; making sure that when we look at a company, we wanna make sure it has a sustainable competitive advantage that's gonna be here for a long time.

We model our businesses five to ten years, so therefore if that company has an advantage, we take a longer term forecast. We look at high barriers to entry, high switching cost, does it have a size and a scale advantage, n-needs to be something that we can understand.

Secondly, then we would go to the growth drivers; looking at what's gonna grow a business over time? Whether it be market penetration of an end market such as uh e-commerce, currently is eight percent penetrated in the US.

We think that is likely to double over the coming decade. So it's a nice growth driver for a business in that market. Third is a, uh, industry analysis; here we look at all the competitors globally.

Try to understand – are the market shares going to be stable? Is there, is the competitive landscape very intense? Step four is a financial statement analysis; going through the income statement, balance sheet, cash flow, uh, we like to look at the balance sheet and basically say, y'know is there too much leverage here?

We don't wanna have to worry about balance sheets. Step number five is a management team assessment; here we actually go out and visit with a company at their headquarters and we ask 'em these questions: what is your competitive advantage? Tell us about your growth drivers.

And this allows to zero right back on the investment process, versus getting distracted with the latest buzz on a company. Now, the key step in our process is step number six. This is a range of values analysis.

We do four scenarios: we do a best case, a base case, a bare and a worst. And these scenarios are five years, uh, discounted cash flow models.

The base case is what we think the stock is worth today based on our estimate and that is essentially the hundred cents on the dollar. So then every morning, what we do is we take the current stock price, divide it by our base case value and that gives us the cents on the dollar.

So this allows us to follow two hundred companies now, in this format, ranked on cents on the dollar every morning to choose from, t-to build a fifty stock portfolio.

The team essentially has been doing this now for thirteen years. We're able to make the presentation in a room and essentially the team debates after that month of work; the seven step process, then it goes in to that active inventory after that presentation, so it's a very thorough analysis.

We, we're steady, we don't rush through, we take our time but it, we believe that we generally puts us in a good place after that month of work. We generate ideas by essentially we have an active inventory.

We follow over two hundred companies, every day they're sorted on cents on the dollar. So we believe in looking at companies with a strong competitive advantage, we put them through our seven step research process where we try to buy the stock at the right price.

And that right price is seventy cents on the dollar. So we maintain our portfolios about fifty stocks in each strategy and at any one time, um, when stocks go into the portfolio they go in at seventy cents or less and then we sell them when they get to a hundred cents.

So that's a very repeatable investment process but the ideas are generated by looking at our active inventory every day, trying to find names that still have a great competitive advantage that are trading at seventy cents on the dollar.

The way the US core value team mitigates risk is that we make sure we pay the right price for a good company with a competitive advantage.

The competitive advantage is the way it's the buffer in the front of our investment process. We want a good company that has a sustainable advantage so we know it's gonna be here five or ten years from now.

We make sure that the company, whether it be high barriers to entry, high switching costs, but there's an advantage there that's sustainable. And then, we focus in on paying the right price.

So the seventy cents on the dollar gives us good margin of safety; making sure we don't overpay for company, we always look at risk rewards, so we wanna make sure we have a twice the upside versus the downside that gives us the margin of safety, and then most importantly making sure we buy a good business.