John Hancock INVESTMENTS

A message to shareholders

Andrew G. Arnott
President and CEO

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Global financial markets extended their run of positive performance in the second quarter of 2017, with particular strength coming from markets outside the United States.

A shifting global landscape

U.S. stocks delivered modest gains, despite a jolt of stronger-than-expected corporate earnings (the 14% Q1 earnings growth reported by S&P 500 companies marked the highest year-over-year increase since the third quarter of 2011). The eight-year-old bull market appeared to have already more than priced in those earnings, however, as the S&P 500 Index's trailing price/earnings ratio—a common measure of how expensive the market is—grew to more than 21x as of early June, well above its long-term average.[1] Gains were also increasingly concentrated in a handful of leading stocks as the quarter progressed, another potentially cautionary signal.

Many of the headwinds now facing U.S. stocks are in keeping with an aging economic expansion: The labor market is tightening, unemployment has reached a 16-year low, and employers are increasingly pointing to a lack of qualified job applicants.[2] At the same time, the U.S. Federal Reserve is curtailing monetary stimulus through interest-rate increases and signaling its desire to begin unwinding its balance sheet of assets accumulated in response to the 2008 financial crisis. Although today's low levels of stock market volatility suggest investors are not yet concerned, more tempered return expectations may be warranted.

International markets have delivered relatively stronger returns so far this year and are enjoying a synchronized recovery in earnings and economic growth. Compared with the United States, these markets have lower valuations on average and greater potential for improvement. Many European companies, for example, are still reporting earnings below peak levels achieved in 2011.[3] Monetary policy also remains accommodative in many parts of the world as central banks strive to spur economic growth that has lagged behind that of the United States. Finally, political risks have diminished outside the United States, particularly in Europe, removing an important barrier to investor sentiment.

Morningstar recognizes our commitment to shareholders

One of our primary goals at John Hancock Investments is to advance the interests of our fund shareholders wherever possible. From managing fund costs to managing portfolio risk, we strive to put our investors first in everything we do. Recently, we learned that fund researcher Morningstar formally recognized our shareholder-friendly initiatives by upgrading our parent pillar rating—a key component of the Morningstar Analyst Rating system—to positive, the highest possible rating.

Morningstar's Analyst Rating system is based on five pillars: process, performance, people, parent, and price. The firm evaluates select funds and their parent firms based on intensive research, including on-site due diligence—much like the work we do evaluating and overseeing our network of asset managers. The parent pillar is important because it applies to every John Hancock fund Morningstar evaluates. Morningstar's analysis that led to our positive rating focused on things such as whether our portfolio managers invest meaningfully in the funds they manage, the quality of our risk management, our corporate culture, and our commitment to advancing shareholder interests—in other words, how good we are as stewards of investor capital. We're pleased to share the news of this recognition with you and to continue our work promoting your interests as shareholders of John Hancock funds.

On behalf of everyone at John Hancock Investments, I'd like to take this opportunity to welcome new shareholders and to thank existing shareholders for the continued trust you've placed in us.

Sincerely,

Andrew G. Arnott
President and CEO
John Hancock Investments

1 FactSet, Standard & Poor's, June 2017.

2 Institute for Supply Management, June 2017.

3 MRB Partners, June 2017.

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