

Portfolio Manager Insights

Manulife Floating Rate Senior Loan Fund



John Addeo

Managing Director & Portfolio Manager
Manulife Asset Management (US) LLC

Market Environment

During the quarter, market participants were focused on fluctuating oil prices and the discussion by the Organization of the Petroleum Exporting Countries (“OPEC”) on oil supply cuts, the U.S. election in November and expectations for U.S. Federal Reserve Board action in December and beyond. The high-yield market performed well during the quarter. The Energy sector and the metals and mining sub-sector were top performers amid continued improvement in the commodities complex and oil prices around the US\$50 per barrel mark. Lower-quality tiers also outperformed. The European Central Bank implied more stimulus measures might be considered in the eurozone, and the potential for central bank policy shifted in a dovish direction elsewhere in response to disinflationary pressures. The Bank of Japan adopted negative interest rates for the first time, and the Fed indicated it would take a more cautious approach to future rate increases with concerns about overall growth, market downside risk and consistently low inflation.

Portfolio Review

The Fund’s underweight position and security selection in consumer non-cyclical stocks contributed to performance, as did its underweight position in consumer cyclical stocks and its security selection in capital goods companies. Individual contributors

included Otter Products, LLC and Mohegan Tribal Gaming Authority, both on a positive outlook, and Quorum Health Corporation on some price improvement from lower levels.

The Fund’s security selection in basic industries and the Telecommunication Services sector detracted from the Fund’s performance, as did its underweight position and security selection in the Information Technology sector. Individual detractors included retailers The Neiman Marcus Group, Inc. and rue21, inc. on negative sentiment. AgroFresh Solutions, Inc., a global leader in providing solutions to the fresh fruit and produce market, also detracted as a result of its mixed outlook.

Outlook

We believe corporate fundamentals remain solid across a variety of sectors, but earnings growth has slowed significantly. A surprise U.S. election result in favour of President-elect Donald Trump caused a dramatic rise in U.S. Treasury rates alongside shifting expectations for increased growth and inflation concerns. Trump's agenda includes a number of measures designed to stimulate higher growth, such as tax cuts, increased fiscal spending and reduced regulation. How much of his campaign agenda (which included topics such as trade protectionism, higher tariffs and immigration controls) will actually be put into action by Congress is yet to be seen. The cost of targeting higher economic growth will likely be higher debt levels and increasing interest rates on inflation concerns. Expectations for high-yield returns balance between higher rates being a negative influence on bond prices and better economic conditions being positive for business performance.

Stabilization in commodity-related sectors and crude oil prices above US\$50 per barrel, with an OPEC production cut supporting prices in 2017, have diminished default expectations for industries highly sensitive to those prices. However, we believe that at this stage of the credit cycle, security selection and fundamental analysis will likely be critical to success in the leveraged-credit markets. Given relatively strong 2016 performance and the possibility for broader market volatility, we believe there is reason to remain cautious over the coming period.

John Addeo

Managing Director & Portfolio Manager
Manulife Asset Management (US) LLC

For more information, please
speak with your advisor or visit
manulifemutualfunds.ca



You will usually pay brokerage fees to your dealer if you purchase or sell units of the investment fund on the Toronto Stock Exchange. If the units are purchased or sold on the Toronto Stock Exchange, investors may pay more than the current net asset value when buying units of the investment fund and may receive less than the current net asset value when selling them. There are ongoing fees and expenses associated with owning units of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in these documents. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. Manulife Structured Products are managed by Manulife Asset Management Limited. Manulife, Manulife Investments, the Block Design, the Four Cube Design, and Strong Reliable Trustworthy Forward-thinking are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under licence.