

## Portfolio Manager Insights

Manulife Floating Rate Senior Loan Fund



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### Market Environment

Over the period, high-yield bonds and loans provided solid gains amid a favourable environment for risk assets. Though markets traded softer to begin the final month of the period, meeting comments from the Bank of Japan and the U.S. Federal Reserve Board (“The Fed”) helped ease market concerns, refocusing investor interest on the search for yield in a “lower-for-longer” environment. Oil prices surged over the final week of September, after the Organization of the Petroleum Exporting Countries unexpectedly agreed to reduce production. Continued recovery in the commodities sectors has led to decreased default activity versus expectations at the beginning of 2016.

### Portfolio Review

The Fund's security selection across most areas of the market, notably consumer cyclical, technology and communications companies, contributed positively to its performance. Its overweight position and security selection in basic industries also contributed. Individual contributors to the Fund's performance included Navistar International Corporation, on positive sentiment over its Volkswagen AG partnership, and Gardner Denver, Inc. on its favourable outlook.

The Fund's slightly overweight position and security selection in consumer non-cyclical companies, and security selection in transportation companies, detracted from its performance. Individual detractors from

performance included rue21, Inc. on a mixed outlook for the retailer, and Quorum Health Corporation and Carestream Health, Inc. on mixed operating results and merger concerns.

## Outlook

We believe that corporate fundamentals remain sound in a variety of sectors, but that earnings growth has slowed materially. With a more benign U.S. interest rate outlook, or at least a more measured course of action expected from the Fed, combined with accommodative conditions elsewhere, the global environment of low interest rates provides some support to sectors that are attractive to yield-seeking investors. However, this same “supportive” message delivered by central banks regarding low inflation and limited growth could be cause for concern over the economic trajectory and business conditions affecting many bond issuers. Though stabilization in the commodity sub-sector and crude oil prices above US\$40 per barrel have somewhat diminished the expected level of default activity, particularly from commodity-related industries, we believe security selection and fundamental credit analysis will be critical to success in the leveraged credit markets. Relatively strong performance year to date, and the possibility of broader market volatility that could cause wide price movements with limited volume, provide additional reason to remain cautious for the coming period.

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For more information, please  
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[manulifemutualfunds.ca](http://manulifemutualfunds.ca)



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