

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, punctuated by increased volatility after the surprise decision by U.K. voters to leave the European Union (“Brexit”). Continued recovery in the commodities sectors, led by performance in the Energy sector and metals and mining sub-sector, has remained a key theme to high-yield markets since the mid-February low. Expectations for accommodative central bank policies in response to global growth concerns and deferred action from the U.S. Federal Reserve Board (“Fed”) positively affected the demand for fixed income assets offering additional yield in a low-rate environment. Leveraged loans and other floating rate securities trailed in performance relative to longer-duration instruments, given the continued compression of U.S. Treasury rates and expectations that the Fed will further defer action.

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

Underweight positioning and security selection in the Information Technology sector contributed to the Fund's positive performance, as did security selection among telecommunication and non-cyclical consumer securities. Significant individual contributors to performance included ExGen Texas Power, LLC, as the outlook for the company improved, and Laureate Education, Inc., amid some price recovery within a previously weakened sector.

Underweight exposure to the energy sector detracted from the Fund's performance, as did security selection in the basic industries sub-sector. Individual detractors from performance included Rue21, Inc. and Neiman Marcus Group, Inc. as a result of the mixed outlook for retailers.

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 low global interest rate environment provides some support to sectors that are desired by 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. With the possibility of elevated 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. Broader market volatility (as recently illustrated by Brexit sentiment) is causing wide price movements with limited volume, providing additional reason to remain cautious for the coming period

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