

Portfolio Manager Insights

Manulife Floating Rate Senior Loan Fund



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Market Environment

Global markets began 2016 with the same negative trend that had closed out 2015, as declining oil prices, lack of clarity on central bank policies and concerns about global growth, particularly in China, continued to weigh on investor sentiment. Concerns increased about the European financials sector, the price of oil slid to below US\$30 per barrel and the U.S. Federal Reserve Board ("Fed") discussed negative interest rates as a potential policy option. This left many investors wondering about potential risks to the global economy being elevated when the Fed increased short-term interest rates in December.

Investor sentiment became more positive in mid-February in response to a number of factors, most notably higher oil prices and expectations for a more cautious approach for Fed policy. Commodity and energy-related assets rallied significantly over the second half of the quarter, mostly driven by the news that the Organization of the Petroleum Exporting Countries ("OPEC"), especially Saudi Arabia, would join other non-OPEC producers including Russia, in seeking an agreement to freeze oil production levels. In addition, 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

Security selection in the consumer cyclicals sub-sector, notably among retailers and gaming companies, contributed to the Fund's performance. Individual contributors to performance included Jo-Ann Stores, Inc. on improving business outlook, and Scientific Games Corp., which benefited from favourable market sentiment.

Underweight exposure to metals and mining companies and to the energy sector detracted from the Fund's performance. The energy sector performed strongly in March when oil prices rose. Individual detractors from performance included Southeast Powergen Holdings, LLC, in light of its negative outlook, and Cumulus Media Inc., as a result of weak operating results.

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 interest rate environment globally provides some support to sectors desired by yield-seeking investors. However, this same “supportive” message delivered by central banks regarding low inflation and limited growth is cause for concern over the economic trajectory and business conditions impacting many bond issuers. With expectations for elevated default activity, particularly from commodity-related industries, we believe security selection and fundamental credit analysis will be critical elements to success in the leveraged credit markets. Broader market volatility, as recently illustrated by rapid performance swings in condensed time-periods, also provides more reason to remain cautious for the coming period.

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