Manulife Investments

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Portfolio Manager Insights

Manulife U.S. Regional Bank Trust

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Market Environment

The market weakness toward the end of 2015 continued through mid-February. Further declines in oil prices, a slowdown in the global economy, fears about a U.S. recession and uncertainty about the timing of future U.S. Federal Reserve Board ("Fed") interest rate increases weighed on the U.S. equity market. U.S. recession fears started to ease in mid-February with better U.S. economic data, including employment, housing and manufacturing, and the market rebounded strongly. Bank stocks participated in both of these market moves, but fell more than the overall market, and did not rebound as much. Consequently, it was a challenging period for the group, and most bank stocks declined in the quarter.

Portfolio Review

The Fund's overweight position in small- and mid-capitalization banks contributed to its performance over the quarter. The small- and mid-cap banks, and their borrowers, tend to be more domestically focused, which contributed to the banks' performance in the face of global economic uncertainty. Individual contributors to the Fund's performance included high-quality small- and mid-cap holdings that exhibited solid loan growth and met or exceeded earnings expectations. In particular, Avenue Financial Holdings, Inc.'s stock soared during the period after its neighbour, Pinnacle Financial Partners, Inc., announced its acquisition of the bank.

The Fund's performance was negatively impacted by its underweight position in bonds. Individual detractors included some of the Fund's large superregional bank holdings, such as BB&T Corporation, KeyCorp and Citizens Financial Group, Inc., which had double-digit stock price declines as a result of worries about the strength of the U.S. economy and the expectation of fewer interest rate increases by the Fed over the next two years.

We increased the Fund's position in Citizens Financial Group when the stock sold off early in the quarter, and we eliminated its position in The Carlyle Group L.P. because our investment thesis was taking too long to play out.

Outlook

Our economic outlook has not changed. We believe that the U.S. economy is growing and will continue to expand at a moderate pace, leading to further solid loan growth for the U.S. banks. The first interest rate increase by the Fed has helped to stabilize net interest margins, an improvement from their multi-year declining trend. We saw continued merger activity, with a flurry of deal activity to start the year, but it trailed off as a result of the market decline. We expect a pickup in activity as we move through 2016.

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

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