

Portfolio Manager Insights

Manulife Floating Rate Senior Loan Fund



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Market Environment

The leveraged loan market ended the fourth quarter with negative performance, as most investors avoided riskier assets as a result of declining commodity prices, weakening economic conditions in China and expectations of a U.S. Federal Reserve Board (“Fed”) interest rate increase. There was significant variation in performance among industry sectors and quality tiers, with the energy sector, the metals and mining sub-sector and lower-quality issues ending the period significantly lower. Investors were unwilling to take decisive action in the face of uncertainty regarding the timing of the long-awaited U.S. interest rate increase, which was exacerbated by mixed messages from the Fed, higher market volatility and difficult liquidity conditions.

Portfolio Review

The Fund’s underweight exposure to the challenged energy sector and the metals and mining sub-sector benefited performance over the period, as did the Fund’s underweight

exposure to lower-quality credit tiers, such as bonds rated CCC. The Fund’s positioning in favour of businesses with tangible assets and its relative underweight exposure to the information technology sector, as well as other asset-light companies, also benefited performance. Notable individual contributors to performance included NextEra Energy, Inc. on an improved business outlook, The Weather Company, which appreciated after International Business Machines agreed to acquire its digital assets, and Brand Energy & Infrastructure Services, Inc., which rebounded from low valuations.

Select holdings in the energy and telecommunication services sectors detracted from the Fund’s performance over the period. Individual detractors from performance included ExGen Texas Power, LLC on a negative outlook in light of weak power prices, Thompson Creek Metals Company Inc. on a decline in copper prices, and Jo-Anne Stores, Inc. over concerns about weaker operating results and refinancing risks.

Outlook

We believe that corporate fundamentals remain sound in a variety of sectors, but that earnings growth has slowed materially. Our outlook is cautious as we expect that broader market volatility, rising U.S. Treasury rates and increasing default risk, particularly in

commodity-related industries, will impact the leveraged loan market.

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Investments

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.