

Portfolio Manager Insights

Manulife U.S. Regional Bank Trust



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Market Environment

The U.S. market rebounded strongly in October following the release of better economic data and more positive rhetoric from the U.S. Federal Reserve Board (“Fed”) on the state of the U.S. economy. The market was able to hold on to most of these gains through the end of the quarter. The Fed raised its target for the federal funds rate in mid-December for the first time in almost a decade. Uncertainties about the strength of the global economy (particularly China), the continued decline in oil and gas prices, and the strengthening of the U.S. dollar resulted in market weakness toward the end of the year.

Portfolio Review

An underweight exposure to fixed income securities contributed to the Fund’s positive performance, as did stock selection. Significant individual contributors to performance included holdings in Georgia-based bank Ameris Bancorp, data centre real estate investment trust (“REIT”) Digital Realty Trust, Inc. and Norwegian insurance company Gjensidige Forsikring ASA. Ameris Bancorp continued its strong run, benefiting from solid earnings from its strategy of organic growth

combined with strategic acquisitions. Digital Realty Trust, Inc. outperformed in the fourth quarter of 2015 as a result of market optimism about the company’s business model and improving fundamentals. Gjensidige Forsikring ASA’s stock rose after a better-than-expected earnings release and the potential for excess capital to return to shareholders.

The sell-off in many of the small- and mid-capitalization bank stocks toward the end of the quarter detracted from the Fund’s performance. Once again, falling oil prices negatively impacted banks whose customers or markets were considered energy-related. As a result, the Fund’s holdings in Texas-based Cullen/Frost Bankers, Inc. and Mississippi-headquartered Hancock Holding Company detracted from its performance.

We purchased a new position in Atlantic Capital Bancshares Inc. following its acquisition of First Security Group, Inc., and we eliminated the Fund’s position in FirstMerit Corporation as the stock reached our price target.

Outlook

Our economic outlook remains the same as in the previous quarter. We anticipate that the U.S. economy will continue to grow at a

moderate pace, which should lead to solid loan growth. The Fed has started its interest rate rising campaign, which is generally positive for banks' fundamentals. We believe a healthy pace of mergers and acquisitions in the sector will likely continue in 2016. Finally, valuations remain compelling, particularly in market

pullbacks, where we are finding new investment opportunities.

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