

# Global Target Income Fund

An investment fund option for variable life insurance products of **The Manufacturers Life Insurance Co., (Phils), Inc..**

## Investment Objective

The fund seeks to deliver periodic distribution of up to 4.75%\* p.a. while providing the potential for capital appreciation and limiting the risk of capital erosion. The Fund will invest primarily in a diversified portfolio of collective investment schemes (including exchange-traded funds (ETFs), real estate investment trusts (REITs) and cash and cash equivalents.

## Fund Information

<b>Inception Date</b> January 2016	<b>Fund Size</b> USD 96.54 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.893	<b>Management Fee</b> 2.25% per annum	<b>Bloomberg Ticker</b> MGLTRIN	

**Investment Fund Manager (the "Manager")**  
Manulife Investment Management (Hong Kong) Limited

\* The target payout is not guaranteed. Distribution may be made out of principal investment.

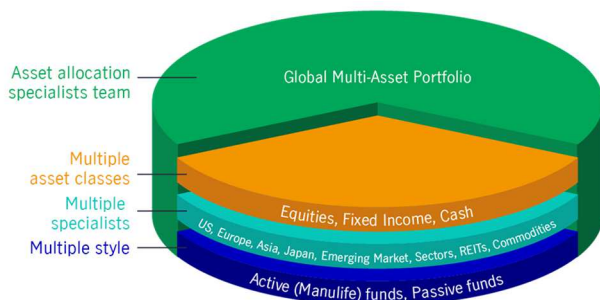
## Performance Return (October 31, 2021)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	2.46%	3.23%	14.20%	18.38%	17.38%	16.92%
Annualized	n.a.	n.a.	14.20%	5.79%	3.26%	2.74%

## Why this Fund?

The Fund is managed using the **3 "Ds"** Investment Philosophy: Diversification, Dynamic Asset Allocation, Downside Control Mechanism.

- **Diversification** - Access to diverse asset classes globally mitigates the risk inherent to individual asset classes vis-à-vis changing economic cycles and market conditions.
- **Dynamic Asset Allocation** - Optimal asset mix is achieved based on consistent application of MFST analysis - **Macro**economic, **Fundamental**, **Sentiment** and **Technical** factors are carefully examined at each stage of the economic cycle.



- **Downside control mechanism** - Our proprietary downside risk control mechanism minimizes allocation to specific investments that are highly exposed to downside risk under certain market conditions.

## Asset Allocation<sup>^</sup>

	%
<b>Equities</b>	<b>61.21</b>
North American Equities	45.07
European Equities	8.30
Asia Pacific (ex-Japan) Equities	4.08
Japanese Equities	3.76
<b>Fixed Income</b>	<b>37.22</b>
US Bonds	22.86
International Bonds	8.75
Emerging Market Bonds	4.38
Asian Bonds	1.24
<b>Cash &amp; Cash Equivalents</b>	<b>1.56</b>

## Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	11.34
Lyxor S&P 500 UCITS ETF D USD	10.58
iShares 7-10 Year Treasury Bond ETF	8.75
MGF - U.S. Equity Fund	8.52
Invesco QQQ Trust	6.18
Lyxor EURO STOXX 50 (DR) UCITS ETF	5.95
Vanguard Total International Bond ETF	5.64
iShares JP Morgan USD Emerging Markets Bond ETF	4.38
iShares MSCI Japan ETF	3.76
iShares USD Corp Bond Interest Rate Hedged UCITS ETF	3.29

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

October 2021 saw a significant bounce back in Developed Markets, notably on the Equity side, despite concerns on tapering and inflation, whilst Fixed Income globally remained rather muted, broadly delivering negative returns over the October month.

The U.S. economy grew at a 2% annualised rate in the third quarter of 2021, well below expectations and the weakest quarter of growth in the post-pandemic recovery. Supply chain disruptions weighed on growth, as did a notable decline in consumer spending. Inflation also remained elevated as the 12-month inflation rate stayed above 5% for the fifth consecutive month, driven by rising housing and food costs. Heightened inflation led to increased expectations that the U.S. Federal Reserve will begin tapering its bond buying in the near future.

Despite concerns, global Equities, represented by MSCI ACWI gained +5.1%, driven by the US, as the S&P 500 gained +7%, MSCI Europe +4.5% whilst MSCI EM and Asia Pacific ex Japan trailed with +1% and +1.7% gains. Japan gave back some of its prior outperformance, falling -3.4%. Latin America fell -5.3%, due to weakness in Brazil (-8.8%), following the Central Bank raising rates in an effort to tame inflation.

Within Equities we saw growth sectors continue their momentum as IT gained +7.6%, Consumer Disc +8.2%, whilst some of the cyclicals such as Energy gained +8.1% and Financials +6.4%. Communication Services underperformed gaining +1.4%. Looking more broadly, the Russell 1000 Growth gained +8.7%, whilst its Value counterpart gained +5.1%.

In Fixed Income, the asset class was more challenging, with broadly negative returns. Barclays Global High Yield fell -0.54%, whilst US High Yield did slightly better, falling -0.17%. Barclays EM Aggregate USD fell -0.42%.

Globally, inflation concerns remain with commodity prices continuing to edge up, led by oil and gas. Specific to Emerging Markets, in China, manufacturing activity contracted for a second straight month amid power shortages and surging commodity prices. A confluence of risk factors weighed on the Chinese economy which is leading to downward GDP growth revisions. It was noteworthy that following the collapse of leading property company, Evergrande, the PBOC injected RMB940Bn (\$150Bn) into the financial system over the last two weeks of October, the most since January 2020. Chinese banks have also started to ease credit controls on homebuyers and developers.

Oil related equities gained another +10.7%, following almost +10% last month, whilst Gold gained +1.5%.

The USD was weaker over October against most majors, as GBP appreciated +1.7%, RMB +1% whilst being slightly stronger vs the Euro as it depreciated -0.2%.

We continue to believe that US dollar weakness is likely to continue over the long term given the dovish stance of the Federal Reserve, the persistent and rising US trade deficit, and the expansionist fiscal policy of the new Biden administration.

Governments and Central banks continue to demonstrate readiness to stand-in with monetary and fiscal tools to mitigate the risk of economic damage arising from the pandemic. Fed guidance, a function of job creation and inflation expectations, at this point remains the key driver of near-term developed asset markets, whilst China policy and growth will be a key driver for the region and broad EM.

## Outlook

We remain in a challenging environment for global markets, not just because growth and earnings could disappoint due to growing logistical challenges, but also due to the growing pressure on policymakers to reduce their stimulus efforts in the face of rising inflation. Across the largest DMs, fiscal tailwinds are likely to start to fade as the US Federal Reserve looks set to commence tapering by year-end and raising interest rates. Similar moves appear to be being readied by the EU and UK monetary authorities.

Fed tapering, removal of extraordinary liquidity provision is likely to occur by year end, if not before – or at least the formal announcement is expected. The quality of the economic data over the coming months is more likely to determine how the taper is conducted which will determine the market reaction.

Policy however will likely still remain very accommodative with a very slow and gradual response in terms of rate hikes, which we don't expect until H2 2023. The risk however to the timing of rate expectations would be being later than earlier.

Massive monetary and fiscal emergency packages have been put in place but this is becoming incrementally less supportive. Vaccines are giving populations the opportunity to be more mobile again, although government restrictions remain in varying degrees of strictness which will further impact mobility trends. Policy support will likely remain abundant for businesses and the consumer to get back to some form of new COVID reality.

We see the market pricing peak macro, but not necessarily peak pessimism and see further scope for downside disappointments, particularly in relation to the consumer.

Tactical positioning will be more prevalent for 2H 2021 and into 2022 to be able to nimbly add and de-risk portfolios. Tactical portfolio positioning remains balanced around the previous outperformers and the some of the near-term improvement in performance in cyclicals. Overall we are tilted towards higher rates from here and stable spreads, but see yields keeping contained given the potential for macro data disappointments.

Corporate fundamentals are varied across sectors. Markets remain sensitive to a host of factors including COVID-19 vaccine success and fears of inflationary pressures. We expect global stimulus efforts to remain a focus whilst central banks divergent policies will keep market participants second-guessing policy responses. We are closely monitoring direct and indirect impacts of COVID-19 to avoid issuers with liquidity concerns.

The outlook for US High-yield markets remains balanced. We expect uncertainty to remain in the coming months but believe investors are generally being compensated for the risks. We feel that defaults have peaked and trailing 12-month default rates will decline in 2021. Our fundamental analysis and stress testing give us confidence in our ability to navigate these challenges.

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All indications point to an extended period of low interest rates and continued government support to put the global economy back on a positive trajectory. However, the pace of recovery into 2021 and beyond is difficult to project given the sheer number of variables to consider. Economic data has seen pockets of improvement whilst there also remains pockets of weakness. The massive volatility in indicator readings makes the positive signs less reassuring, and we believe that the level to which data eventually normalises will be more important.

Vaccines are being rolled out, although COVID variants are impacting the efficacy of current vaccines which governments and healthcare corporates have to try to manage. The most recent evidence points towards high levels of effectiveness towards the new variants.

A rising number of questions are growing around Fed policy as well as multiple questions around vaccine hesitancy in some populations. A vaccine will be a game-changer for the economies of Latin America, Indonesia and India - however a medical solution is unlikely to drive a robust, rapid economic solution. Fiscal stimulus is unlikely to be enough for a rapid economic recovery, as getting back to pre-COVID growth rates is likely to be pushed into 2022. The lasting impact of COVID-19 on the global economy is not the only factor to monitor. Rising geopolitical tensions, decelerating growth rates post stimulus, supply chain disruptions and a general deglobalization trend all raise questions about the future trajectory of global debt and equity markets.

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