

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

Inception Date January 2016	Fund Size USD 78.21 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.725	Management Fee 2.25% per annum	Bloomberg Ticker 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.

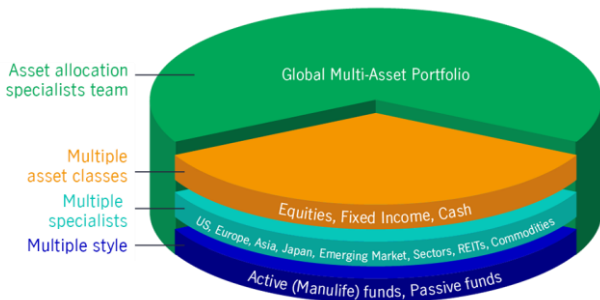
Performance Return (April 30, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.68%	2.59%	-3.74%	7.07%	-4.69%	1.96%
Annualized	n.a.	n.a.	-3.74%	2.30%	-0.96%	0.27%

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 - **M**acroeconomic, **F**undamental, **S**entiment and **T**echnical 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^

	%
Equities	52.78
North American Equities	34.92
European Equities	9.54
Asia Pacific (ex-Japan) Equities	6.28
Japanese Equities	2.05
Fixed Income	43.55
US Bonds	30.22
International Bonds	8.07
Asian Bonds	5.25
Cash & Cash Equivalents	3.67

Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	9.75
Lyxor S&P 500 UCITS ETF D USD	9.63
iShares 7-10 Year Treasury Bond ETF	9.17
iShares 3-7 Year Treasury Bond ETF	7.59
iShares 20+ Year Treasury Bond ETF	5.98
Lyxor EURO STOXX 50 (DR) UCITS ETF	5.43
iShares Core S&P 500 ETF	5.35
Invesco QQQ Trust	5.33
Vanguard Total International Bond ETF	5.00
Tracker Fund of Hong Kong	4.94

^Figures may not sum to 100 due to rounding.

Global Target Income Fund

Market Review

The world equity and debt markets generated broad-based gains in April, building on the rally that began in late March amidst a somewhat calmer sentiment than in previous months. Investors displayed confidence that the bank failures that made headlines in the first quarter had been largely contained and would not prove to be a source of systemic risk despite the continuing fallout. In addition, the markets remained supported by hopes that the US Federal Reserve Board and other central banks would be finished raising rates by mid-2023. The futures markets also indicated mounting expectations that the Fed would, in fact, begin cutting rates before year-end, albeit certain Fed members remained more hawkish than market expectations suggest.

Inflation eased during the month but remained elevated, reaffirming expectations that the Fed would raise short-term interest rates in early May.

US economic growth in the first quarter came in at a 1.1% annualised rate, well below expectations and the weakest quarter of growth since a contraction in the second quarter of 2022.

Global equities were boosted further over the month by better-than-expected corporate earnings, especially for mega-cap US technology-related stocks. While profits were being measured against a lowered bar, this development nonetheless helped alleviate long-standing concerns that rising rates would fuel an earnings recession. The positive news largely overshadowed signs of a slowing economy.

European equities performed exceptionally in April, continuing the trend that characterised the first quarter. On the other hand, renewed weakness in China resulted in underperformance for the emerging markets. Global mid- and small-cap stocks also lagged due to concerns about the potential effects of slowing economic growth.

Bond yields, however, were mixed but relatively stable in April. US Treasury bill yields continued to rise in anticipation of an upcoming Fed rate hike, but yields in other maturity segments were flat to slightly lower.

Across global equities, MSCI World gained 1.8%, with the S&P 500 gaining 1.6%. Emerging markets underperformed Developed markets, falling -1.1%. Asia also saw underperformance, falling -1.7% over the month of April. Underperformance from Chinese equities weighed heavily as investors questioned the country's re-opening narrative and the depth of its recovery. On the other hand, LatAM gained 2.7%. Europe was the notable outperformer, gaining 4.3% and continuing its momentum from Q1.

Sectorally, within MSCI World, Information Technology and Materials were the notable underperformers, falling -0.1% and -0.5%, respectively. Sector gains were seen in the defensives, such as Consumer Staples with 4.3% and Utilities with 3.0%. Communication Services and Healthcare also gained 3.2% and 3.5%, respectively. Energy gained 3.8% after a surprise decision by OPEC+ to limit output at the beginning of the month. Financials also did better, recovering 3.2% after a painful March.

Value, represented by the Russell 1000 Value, gained 1.5%. Growth, represented by the Russell 1000 Growth, gained 1%.

Within Fixed Income, yields trended slightly lower with the pricing in of possible rate cuts later this year. US 10-year Treasuries ended April at 3.45% vs. 3.5% in March. The Citi World Government Index rallied 0.4%. Similarly, the Barclays Global Aggregate Index gained 0.4%, and the Barclays Global High-Yield Index gained 0.6%. Barclays EM Agg gained 0.39%.

In FX, most major currencies strengthened compared with the USD, including the EUR (+1.6%) and GBP (+1.7%), as near-term headwinds keep the dollar on a bearish trajectory. The Japanese Yen weakened vs. the USD (-2.26%). The RMB also weakened (-0.8%).

Outlook

Rate tightening appears to be having a more meaningful effect on economic growth than on inflation. The US commerce department's estimate of GDP growth released in April was 1.1% for Q1, below the 2% expectation, and clearly slowing from 3.2% in Q3 and 2.6% in Q4 of 2022. More than three-quarters of S&P companies have reported Q1 earnings, with surprises to the upside. Nonetheless, at the index level, sales growth is positive year-over-year, while earnings growth is negative. We believe corporate profits will face even further pressure in a weaker economy. The US labour picture is mixed, with new data pointing to a low in unemployment, while downward revisions point to fewer jobs added in previous months than originally thought. Lending and credit availability are also contracting as interest rates hit a 15-year high.

Further problems in the US banking sector have appeared, with First Republic Bank suffering a similar fate to SVB, reporting 40% of their deposits leaving in Q1 2023. This created the potential for the second-largest bank failure in US history, an eventuality that occurred within a day of month-end. The negative deposit momentum that engulfed First Republic and is affecting other smaller banks may reflect efforts to keep balances below insured levels as well as the movement of money towards 'too big to fail' and, hence, safer institutions. However, it also reflects the US government essentially attracting financing by crowding out its own financial system as flows go to money market funds and shorter-term treasuries that now offer more attractive yields relative to deposits.

Meanwhile, the Fed's March meeting minutes released in April left the door open for another hike in May, which came in at 25 bps as markets expected. Inflation, however, remains persistently elevated, albeit off its peaks. The Fed's preferred 'core inflation' indicator or personal consumption expenditure (PCE) released at month end was up 0.3% to 4.6%. This index excludes food and energy, which one would reasonably assume to be core for most people. Despite the magnitude of hikes to date, inflation has not yet declined meaningfully. With that said, given signs of a slowdown in the economy, many expect the Fed to now pause and reverse course before year-end with rate cuts. We remain cautious and believe the market has overestimated the number of cuts this year and that there is even a slight possibility of a pause followed by a hike. As the possibility of a recession looms larger, moves towards deglobalisation and continued geopolitical tensions could deepen a global slowdown and exacerbate supply chain disruptions. In particular, China's decoupling from the West and an emphasis on onshoring/friendshoring may result in further inflationary pressures. We have seen the effects of this divergence, including recent limits on foreign access to Chinese company data, and continue to watch deglobalisation as a long-term theme. Overall, we are likely to see higher and more persistent levels of geopolitical risks.

Global Target Income Fund

Within credits, metrics remain supported by a thus far resilient US consumer and low leverage for most businesses, though companies with floating rate debt in their capital structures are more acutely experiencing declining interest coverage ratios. Earnings deterioration is also pressuring companies as demand for goods wanes and inflationary pressures impact margins. Most higher-quality corporations should be able to withstand the softening economic conditions. Companies of lower credit quality will have to carefully navigate worsening conditions compounded by increased required rates of return by the financial markets. Default rates will continue to rise from historically low levels, driven by a weakening economy, a growing number of bonds maturing over the next few years and restrictive refinancing rates for many corporations.

Our broad asset allocation is tilted towards defensive, quality assets that provide ballast to the portfolios in times of increased uncertainty. Low-volatility, defensive attributes of consumer staples, utilities, as well as broad dividend names may find some insulation.

Tactical positioning will be more prevalent again in 2023 to be able to nimbly add and de-risk portfolios as well as add to yield opportunities as they arise. Valuations within some sectors have more than halved without a corresponding decline in earnings or cash flows. This suggests a disconnect between market conditions and fundamentals in some quality franchises. Overall, we are tilted towards higher for longer rates whilst seeing yields staying contained, given the potential for macro data disappointments.

Disclaimer

The Global Target Income Fund is an investment fund option for The Manufacturers Life Insurance Co. (Phils.), Inc. and is managed by Manulife Investment Management (Hong Kong) Limited.

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