

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 81.17 million | Fund Currency US dollar | Dealing/Valuation Daily |
| Price (NAV/unit) USD 0.747 | 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.

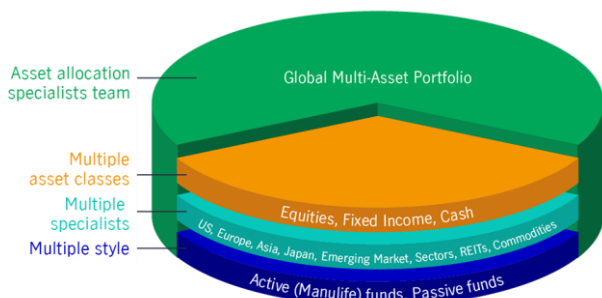
Performance Return (August 31, 2022)

| Global Target Income Fund (net of management fee) | 1 Month | YTD | 1 Year | 3 Years | 5 Years | Since Inception |
|--|---------|---------|---------|---------|---------|-----------------|
| Absolute | -2.35% | -13.16% | -13.43% | 1.36% | -3.50% | 1.77% |
| Annualized | n.a. | n.a. | -13.43% | 0.45% | -0.71% | 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 | 53.22 |
| North American Equities | 42.04 |
| European Equities | 5.71 |
| Japanese Equities | 3.64 |
| Asia Pacific (ex-Japan) Equities | 1.84 |
| Fixed Income | 34.51 |
| US Bonds | 19.66 |
| International Bonds | 9.75 |
| Asian Bonds | 5.10 |
| Others | 5.30 |
| Cash & Cash Equivalents | 6.97 |

Top Ten Holdings

| | % |
|--|-------|
| Lyxor S&P 500 UCITS ETF D USD | 10.93 |
| SPDR S&P 500 ETF Trust | 9.01 |
| MGF - U.S. Equity Fund | 8.57 |
| iShares 7-10 Year Treasury Bond ETF | 7.10 |
| Vanguard Total International Bond ETF | 6.86 |
| iShares Core S&P 500 ETF | 4.94 |
| Invesco QQQ Trust | 4.81 |
| iShares USD Corp Bond Interest Rate Hedged UCITS ETF | 3.73 |
| ICBC CSOP FTSE Chinese Government and Policy Bank Bond Index ETF HKD Counter | 3.72 |
| Xtrackers MSCI Japan Hedged Equity ETF | 3.64 |

^Figures may not sum to 100 due to rounding.

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Market Review

August's market performance was in the red as global risk-off sentiment weighed on developed market equities and debt, whilst emerging markets (EM) and Asia relatively outperformed. Powell's hawkish speech at the Jackson Hole Symposium reaffirmed the Federal Reserve (Fed) Bank's commitment to hike rates and return inflation to 2% at the expense of slower growth and softer labour market conditions. The Fed effectively pushed back against any notion of a 'pivot' which saw both equities and credits fall following the remarks.

The narrative of recessionary fears has gone from stubborn inflation to growth concerns, underpinned by supply chain disruption, China's covid-zero policy, and geopolitical tensions. After the shift in Powell's message, a soft-landing scenario appears more distant, as global economies grapple with rising interest rate differentials with the US, surging energy costs and domestic inflation.

In equities, markets gave up some of the gains from the July rally, following Jackson Hole, as investors rotated away from interest rate sensitive growth stocks to more defensive allocations. Both the MSCI World Index and the S&P 500 fell -4.1% over the month of August 2022, Asia gave up -0.2%, EM outperformed and gained +0.45%, whilst Europe underperformed, falling -6.2%.

Sectorally, within the MSCI World Index, energy outperformed, being the only sector posting positive returns at +1.9%. Underperformers were health care, real estate and technology falling -6.0%, -5.9% and -5.9%, respectively.

Fixed Income markets were down in August as rising yields across the curve put pressure on prices—the Citi World Government Bond Index fell -4.4%, Barclays EM USD Aggregate fell -0.5%, Global High Yield fell -1.5% and US High Yield fell -2.3%.

In foreign exchange, the US dollar strengthened against all majors with the British pound underperforming, weakening -4.4% vs the dollar over August. The euro hit parity with the US dollar in a late August trading session but ended the month at USD/EUR 0.9947.

After the Jackson Hole Economic Symposium, Fed guidance seems heavily tilted towards price stability over maximum sustainable employment. Policymakers at the Federal Reserve and European Central Bank look determined to coordinate monetary policy tightening in order to bring inflation down. The market is increasingly pricing in a 75 bps rate hike in September. Asset markets movement will continue to be driven by economic data and Fed guidance. The energy crisis in Europe owing to Russia's war in Ukraine will bring headwinds to the eurozone, economic growth, and the fight against inflation.

Governments and central banks continue to demonstrate a tough stance towards inflation whilst a focus on slowing growth is becoming more of a concern for markets. Escalated geopolitical tensions add to the weakened macro conditions as conflict inflation continues to challenge the Fed. Fed guidance, a function of job creation and inflation expectations, at this point remains the key driver of near-term asset markets, alongside geopolitical sentiment towards Russia and Ukraine, whilst China policy and growth will be a key driver for the Asia region and broad EM.

Outlook

Persistent inflation, tightening financial conditions, escalating geopolitical risks, and slowing growth have enacted a heavy toll on global markets. We continue to operate in a period of energy and commodity supply shortages, tight labour markets, and disrupted supply chains. This year has seen unprecedented levels of inflation and we expect both developed and emerging markets to be operating in a new normal of higher interest rates and tighter monetary conditions.

The Fed recently reiterated its commitment to rein in inflation, and it wasn't alone in its hawkish messaging—Fed Chair Powell was joined by a chorus of other top central bankers at Jackson Hole who continue to see broad-based inflation as their biggest challenge, requiring resolute action. Markets saw de-pricing of a Fed pivot and anticipate further rate hikes this year, which led to another round of sell offs. Many are fearing the prospect of an even higher 'peak' or terminal policy rate.

Global central bank tapering and rate hikes in both developed and emerging markets will likely contribute to ongoing worsening of global liquidity conditions and headwinds to growth. We anticipate that central banks will knowingly and willingly hike into substantial economic weakness, exacerbating the downturn and heightening the chance of recessions. This said, we also believe the Fed, the Bank of Canada and other major central banks will begin cutting rates in mid-2023, which is consistent with current market pricing.

The Biden Administration's pressure on the Fed to continue to go after inflation is likely driven by the front and centre concern by the US voter profile, whilst the growth repercussions and potential job losses that may become more a focus in the months to come are still not yet being overly felt. Though recent data releases show positive signs, markets have been trading along the lines of 'good news is bad news', as a stronger economy implies a longer wait for the Fed to pivot. We believe we are only about halfway through the economic slowdown in the US and expect significant economic weakness globally to persist into next year. Divergence between and within regions however will lead to relative opportunities, along with sectors that can capitalise on current market conditions.

As a result of the continued Russia/Ukraine conflict, lower growth, and higher inflation resulting from high commodity prices and uncertainty are likely to derail any short-lived momentum. Global growth forecasts are being reduced, with Europe most vulnerable, whilst the US will also remain challenged. The notion of transitory inflation has gone: sanctions represent a strongly pro-inflationary, supply driven shock, introducing risks of stagflation whilst yield curve inversion is signalling weaker macro conditions.

With winter approaching, Europe faces a growing energy crisis. Gas prices soared after Russia announced the closure of a key pipeline to the region, further rocking already volatile markets. In addition to higher bills for retail consumers, which would further push up inflation, the negative impact on industrial production and power generation should not be underestimated. Our base case is now a full-on recession for Europe, which has global ramifications including (i) headwinds to global growth, (ii) a stronger US dollar, and (iii) in our expected ECB pivot, some softening of global bond yields later this year.

Against this backdrop, more indebted emerging markets will need to maintain positive real yields to retain capital flows and avoid currency depreciation. The extent of each economy's dollar debt needs and import dependence, especially energy and commodities, will significantly impact how well it can weather the storm and some economies are much better positioned than others.

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The growth story of China is also facing increasing obstacles, and we have ongoing concerns. Continued disruptions in supply chains, the rising economic costs of covid-0 policies and waves of lockdowns, continued issues in the property sector and the potential contagion for banking, along with a likely slowdown in global export growth are all factors. We are watching closely for policy support.

Pervasive geopolitical uncertainty, downside risks to growth, and upside pressures on inflation underpin continued caution regarding earnings and valuation expectations. Heightened levels of uncertainty, especially as we head into US mid-term elections and the Chinese Communist Party Congress later this year, suggest continued market volatility ahead. However, 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.

The lasting impact of covid on the global economy is not the only factor to monitor. Rising geopolitical tensions in Ukraine, de-coupling between China and the West, decelerating growth rates post stimulus, supply chain disruptions, and a general deglobalisation trend all raise questions about the future trajectory of global debt and equity markets. Tactical positioning will continue to be more prevalent into the rest of this year, in order to be able to nimbly add and de-risk portfolios as well as add to yield and return opportunities as they arise.

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