

# 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><br>January 2016 | <b>Fund Size</b><br>USD 71.47 million    | <b>Fund Currency</b><br>US dollar  | <b>Dealing/Valuation</b><br>Daily |
| <b>Price (NAV/unit)</b><br>USD 0.760  | <b>Management Fee</b><br>2.25% per annum | <b>Bloomberg Ticker</b><br>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.

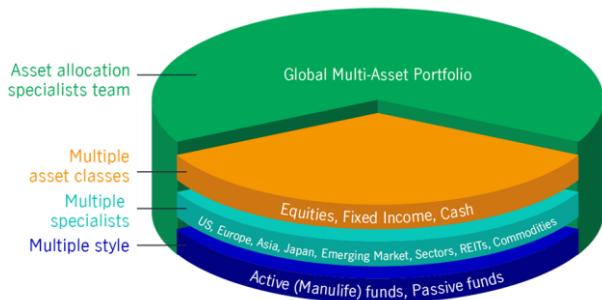
## Performance Return (August 31, 2024)

| Global Target Income Fund<br>(net of management fee) | 1 Month | YTD   | 1 Year | 3 Years | 5 Years | Since Inception |
|--|---------|-------|--------|---------|---------|-----------------|
| Absolute   | 0.53%   | 6.73% | 10.85% | -3.12%  | 13.43%  | 13.89%          |
| Annualized   | n.a.    | n.a.  | 10.85% | -1.05%  | 2.55%   | 1.52%           |

## 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^

|                                    | %            |
|------------------------------------|--------------|
| <b>Equities</b>                    | <b>55.64</b> |
| North American Equities            | 40.27        |
| European Equities                  | 5.77         |
| Japanese Equities                  | 5.52         |
| Asia Pacific (ex-Japan) Equities   | 4.08         |
| <b>Fixed Income</b>                | <b>36.07</b> |
| International Bonds                | 17.28        |
| US Bonds                           | 14.18        |
| Emerging Market Bonds              | 4.61         |
| <b>Commodities</b>                 | <b>6.01</b>  |
| <b>Cash &amp; Cash Equivalents</b> | <b>2.28</b>  |

## Top Ten Holdings

|   | %     |
|---|-------|
| SPDR Bloomberg International Treasury Bond ETF  | 17.28 |
| SPDR S&P 500 ETF Trust                          | 11.09 |
| iShares Core S&P 500 ETF                        | 8.75  |
| MGF - U.S. Equity Fund                          | 7.40  |
| SPDR Gold Shares                                | 6.01  |
| iShares 20+ Year Treasury Bond ETF              | 4.97  |
| iShares JP Morgan USD Emerging Markets Bond ETF | 4.61  |
| Multi Units LU- Amundi S&P 500 II UCITS ETF     | 4.10  |
| Utilities Select Sector SPDR Fund               | 4.03  |
| iShares 7-10 Year Treasury Bond ETF             | 3.95  |

^Figures may not sum to 100 due to rounding.

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## Market Review

August was marked by significant volatility, starting with a sharp sell-off in global equity markets as disappointing US economic data and a rate hike by the Bank of Japan (BoJ) triggered widespread concerns. The weak July payrolls report and the rise in unemployment rate in the US intensified recession fears. However, markets rebounded towards the end of the month as investors anticipated more aggressive policy easing by the US Federal Reserve Board (Fed). Cooling inflation and the US Fed's signaling of potential rate cuts bolstered confidence, leading to a recovery in equities and a rally in global bonds.

The US labor market data started to crack with the unemployment rate unexpectedly nudging up to 4.3% in July, while job gains also decelerated. The nonfarm payroll increased by only 114,000 (the smallest increase in over three years), falling significantly short of expectations. The ISM manufacturing data also came in below expectation at 46.8 (vs 48.8 in the previous month). Regarding inflation data in July, inflation continued to moderate with the headline and core inflation rate edging lower to +2.9% year-on-year (YoY) and +3.2% YoY, respectively. Approaching the end of the month, market sentiment reversed as optimism for a soft landing grew. The US Fed signaled a likelihood of a rate cut in September and reiterated that the recession risks appeared low. US Fed Chair Powell, in his Jackson Hole speech, emphasized a shift in focus towards the labor market, reaffirming the US Fed's commitment to supporting strong employment as inflation risks had moderated.

European equities advanced in August. The eurozone presented a mixed picture with the composite Purchasing Managers' Index (PMI) coming in higher than estimated, boosted by the French service sector post the Olympics, but manufacturing activity remained weak. Eurozone headline inflation dropped to 2.2% YoY bolstering expectations that the European Central Bank (ECB) would cut rates in September. UK activities remained robust with both manufacturing and service PMI remaining above expansionary levels for several consecutive months.

Within Asia, the Chinese market ended the month in green, but the economy still grappled with multiple downbeat news with continued disappointing economic data and weak consumer activities. The Chinese economy struggled to pick up, given a still sluggish property sector. However, the People's Bank of China provided stimulus to the financial system via its medium-term lending facility. In Japan, the BoJ surprised the market with an interest rate hike from 0.1% to 0.25%, which had caused the Japanese yen rally against other major currencies. Unwinding of the carry trade took place leading to a sell-off in Japanese stocks.

Equities gained in August with the MSCI ACWI up +2.57%. Developed markets performed well, with Canada and Europe leading markets, gaining +4.10% and +3.95%, respectively. Standard & Poor's (S&P) 500 was positive, adding +2.43%. Japanese equities experienced high volatility during the period but managed to end the month with +0.51% gains. Asia Pacific ex Japan gained +2.36%, while emerging market equities delivered +1.65% returns.

Within MSCI World, more defensive and interest rate sensitive sectors drove the gains with real estate and healthcare gaining +5.95% and +5.52%, respectively, followed by consumer staples +5.41%. Information technology and consumer discretionary lagged, delivering +1.46% and +0.70%, respectively. Energy detracted over the month falling -0.79%.

Fixed income markets broadly gained over the month as bond yields fell on the expectations for US Fed rate cuts in September. The US 10-year Treasury yield ended at 3.92% at the end of the month. The FTSE World Government Bond Index performed well, gaining +2.30%. Global investment-grade credits and global high yields were positive, adding +1.92% and +2.17%, respectively.

In foreign exchange, major currencies strengthened against the US dollar, including the JPY (+3.33%), GBP (+2.32%) and EUR (+2.29%).

## Outlook

Looking ahead, our medium- to long-term outlook suggests that ultimately lower interest rates would be accommodative for economic growth with inflation coming down and resiliency in corporate earnings growth. However, geopolitical challenges and the upcoming US Presidential election could pose challenges to investor sentiment. We expect short-term market volatility as growth, inflation and job data are likely to remain front and center for the US Fed, which would lead to higher than usual volatility around major data releases. Recent developments in respect of the US elections are likely to result in further uncertainty and their policy impact to varying market sectors.

We believe the global easing cycle has begun with signs of disinflation across most regions, albeit there are concerns around a weakening job market. All major central banks have indicated that the next moves are cuts, provided inflation continues to moderate, except for the BoJ, which finally moved out of its negative interest rate policy. The global easing cycle will un-pause. Uncertainty around the US Fed's path had created a ripple effect around other central banks' paths. With the US Fed now looking more certain, other central banks that had slowed or paused their own easing cycles should now be set to resume. With an initial US Fed cut, the overwhelming base case in September, we focus on the shape and size of the easing cycle in 2024 and beyond. While inflation has so far dictated the timing of the easing cycle, the extent to which growth and labor moderate further will dictate the pace and magnitude of the US Fed's moves. While there is a path for more aggressive cuts, we believe that the current growth profile of the US still favors three cuts in 2024 (vs. four currently priced into markets). This view is being supported by the recent moderation in inflationary pressure. From a growth perspective, a range of data has shown slowing momentum: the housing market has deteriorated noticeably, the last couple of retail sales prints have been mixed, and disappointing July ISM surveys also corroborate softer activity.

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We maintain our medium-term view that US growth is the “cleanest dirty shirt” for now as the recession odds in America are lower than in other developed market economies. However, the gap is narrowing through a combination of softer US data and stabilizing-to-slightly-improving growth in most other regions. The global divergence between manufacturing (exiting a prolonged recession) and services (still positive) is complicating standard forecasting and creating global de-synchronicities. We still expect a slowdown in the US economy for fundamental reasons even though the economy remains resilient, but there are clear signs of wear in US consumers. Our forecast remains consistent with a steady pace of 25-bps cuts into the year-end, not a knee jerk reaction to selected data points. Having said that, we fully acknowledge that if the data were to deteriorate in a disorderly manner, a faster pace of easing would likely ensue, and we remain data-dependent and take it one step at a time; full scrutiny is now on nonfarm payrolls. Although we are mindful going into the November US election, it is likely that fiscal support remains strong in order to help the positive macro narrative. Given that outcome, the US Fed would have to make the critical concession of cutting interest rates while inflation remains above their target. Markets could be particularly sensitive to any variance away from the soft-landing narrative.

In Asia, negative sentiment has been dominated by a faltering structural trend in aggregate growth in China, with particularly persistent tail risks to the property sector. We maintain our neutral medium-term view on China as growth in policy-supported sectors and exports is offset by weakness in the property sector and domestic consumption. Government policy will prove insufficient to boost consumer, corporate, and real estate sentiment. However, equity valuations in Asian markets tip toward the favorable side of the equation. For the cyclical rebound to strengthen itself beyond the mechanical reopening boost, we would need to see a sustained recovery in household consumption and property sales.

Elsewhere in Japan, the BoJ hiking cycle is an outlier against global easing cycle. Forward guidance on the policy rate path reads hawkish by outlining that real rates are too low and that higher rates will have a limited impact on the economy. This implies that the BoJ may raise rates further and normalize policy to a still undetermined neutral level. We now see a potential terminal rate for 2024 at 1.0% and expect at least two more hikes in 2025, which could cause significant volatility in the Japanese yen and the subsequent impact of the carry trade on global risk assets. The yen should strengthen due to favorable interest rate differentials with the rest of the world, and the yield curve should slowly flatten as the BoJ raises rates towards neutral.

The potential end of the global rate-hike cycle is supportive of our view of equities, but an uncertain macroeconomic landscape is a potential headwind for equities. Corporate earnings have generally remained strong, and consumers have remained resilient for the most part, albeit more recently that could be coming into question. Given the uncertainty surrounding several factors—among them monetary policy, geopolitical tensions, and recessionary risks—we are focusing on quality across equity assets. At the same time, we appreciate the excitement surrounding artificial intelligence (AI) and the magnitude of its potential impacts on revenue monetization, productivity, and cost-cutting, and seek pockets of related growth opportunities. The second half of 2024 should see a more favorable environment for equities with corporate earnings strength broadening beyond large-cap technology names, while market support into the November US election should also help keep markets broadly buoyant.

Overall, we expect the market to experience some volatility into the end of 2024, particularly as investors reprice interest rate and potentially inflation expectations. We maintain that there are downside risks to the economy, given tighter credit conditions, but hopeful these will be alleviated into the year-end. Tactical positioning will be more prevalent again as we continue into the rest of 2024, to nimbly add and de-risk portfolios, as well as add to yield opportunities as they arise.

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## Disclaimer

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