

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 74.56 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.735	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.

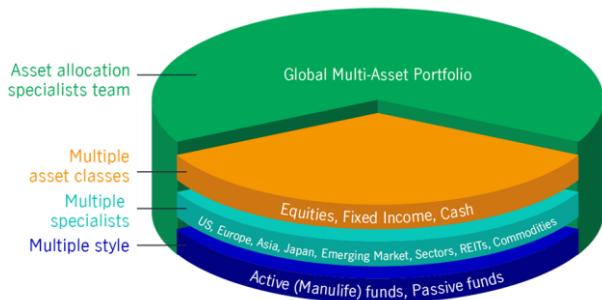
Performance Return (December 31, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	4.08%	7.36%	7.36%	-5.79%	9.31%	6.70%
Annualized	n.a.	n.a.	7.36%	-1.97%	1.80%	0.82%

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	61.91
North American Equities	40.58
European Equities	7.54
Asia Pacific (ex-Japan) Equities	7.33
Japanese Equities	6.46
Fixed Income	36.88
International Bonds	19.71
US Bonds	12.29
Emerging Market Bonds	4.87
Cash & Cash Equivalents	1.22

Top Ten Holdings

	%
SPDR Bloomberg International Treasury Bond ETF	19.71
SPDR S&P 500 ETF Trust	13.28
iShares MSCI Japan ETF	6.46
iShares Core S&P 500 ETF	6.44
MGF - U.S. Equity Fund	6.14
Amundi EURO STOXX 50 II UCITS ETF	5.97
Invesco QQQ Trust Series I	5.67
iShares 7-10 Year Treasury Bond ETF	5.27
Amundi S&P 500 II ETF	4.99
VanEck J. P. Morgan EM Local Currency Bond ETF	4.87

^Figures may not sum to 100 due to rounding.

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Market Review

December had strong momentum across major asset classes delivering mid-single digit returns to end CY 2023, as the market digested rate cut prospects in 2024, a further moderation in inflation and a soft landing growth narrative remained robust, given a strong US consumer base. The possibility of rate cuts in 2024 and dovish comments by US Federal Reserve Board (Fed) Chair Powell have sent equities and bonds higher, thanks to the risk-on sentiment that was also supported by upbeat news from falling inflation reports, causing US 10-year Treasury yields to decline over the month and end at 3.88%. Lower treasury yields and a weaker USD powered the broad risk asset rally.

US PMIs suggested the US economy is holding up well with the composite PMI rising to 51.0 in December, propelled by the service sector. On the inflation data front, the CPI reading for November came in near estimates, with headline and core inflation running at 3.1% YoY and 4.0% YoY, respectively. The decline in inflation data was largely driven by lower energy and gasoline prices. The PPI report also showed disinflation in the pipeline with the PPI ex food and energy reading coming at 0.0% MoM and 2.5% YoY. The US Fed kept rates unchanged and the Federal Open Market Committee (FOMC) summary of economic projections showed a median estimate of three 0.25% rate cuts in 2024, bringing the US Fed funds rate from 5.50% to 4.60%. The market, however, is pricing in five to six rate cuts for 2024, which heightens the risk of a repricing in rates as we move into 2024.

The euro-zone composite PMI fell to 47.0 from November's 47.6 in December, which marked the seventh consecutive monthly shrinking in business activities. The European Central Bank (ECB) held its rates unchanged at 4.0%. The Bank of England (BOE) also kept its policy rate unchanged at 5.25%, but policymakers reaffirmed their stance to hike again if inflation persists.

Elsewhere in China, November data releases continued to paint a mixed picture of China's economy. China's CPI fell by -0.5% YoY, driven by lower pork prices, while PPI dropped by -3.0% YoY in November, pointing to concerns of deflation. The property sector remained a drag on economic growth. However, industrial production grew at 6.6% YoY, beating expectations as well as retail sales surging 10.1% YoY. The People's Bank of China (PBOC) continued its liquidity injection into the banking system via a medium-term lending facility to boost China's economy. Despite supportive measures, we are yet to see a catalyst for the Chinese equity and debt markets.

Equities posted strong gains globally with MSCI ACWI up +4.84% in December. The Dow Jones Industrials and Nasdaq 100 indices returned to new all-time highs over the month. Latin America performed well, gaining +8.38%, followed by Canada, rising +6.85%. Emerging markets lagged but still gained +3.95% over the period. Style-wise, US small cap was the standout, rallying double digits as concerns of higher-for-longer rates has eased over the month.

Within MSCI World, real estate, although a laggard sector, led the gains by +8.86% in December, as the rate-sensitive sector benefitted from potential falling rates. Industrials also performed well in December, gaining +7.61%. Defensive sectors including healthcare (+4.46%), utilities (+3.02%) and consumer staples (+2.79%) detracted from performance. Energy struggled and ended the month flat, as oil prices and other energy-related commodity prices fell.

Fixed income returns were also positive across the board, as yields plunged over the month. The FTSE World Government Bond Index gained +4.20% and the Bloomberg Global Aggregate Index was up +4.16%. The Bloomberg Global Corporate and Global High Yield rose +4.25% and +4.03%, respectively.

In foreign exchange, most major currencies strengthened against the USD in December, including the GBP (+0.70%), EUR (+1.24%), and JPY (+4.86%).

Outlook

Looking ahead, we expect lower interest rates to be accommodative for economic growth. In addition, inflation appears to be coming down and unemployment remains low. However, geopolitical challenges and the upcoming US Presidential Elections could pose challenges to investor sentiment. We also expect that 2024 will be a more challenging year for global growth.

Central banks will continue to push back against the higher magnitude of rate cut expectations that the market has currently priced in, but we still expect cuts to occur in most developed markets, even with inflation in the 2-3% range in 2024. The December Federal Open Market Committee (FOMC) meeting has shifted the narrative away from "are we at peak yet?" towards "when will the US Fed start cutting and by how much?"

The Summary of Economic Projections (SEP) has penciled in three rate cuts in 2024 (vs two previously). The FOMC decision almost reads as an "all clear" signal on policy easing ahead. Reading the SEP, the US Fed expects the US economy to stick the soft landing given moderating inflation, modest (but not negative) growth and a slightly higher level in unemployment rate. Recent data releases also suggested a resilient US growth, as the US consumer and retail sales remained strong. We maintain our base case that the US economy will slip into a mild to moderate recession within the next six months. Simply put, we expect to see two consecutive quarters of negative GDP growth, accompanied by a rise in the unemployment rate. Whether or not economic activity has contracted to the extent that it fits the official definition of recession is much less important than the decline in growth momentum that lies ahead. In our view, lending, consumer activity, capital investment and, among other things, earnings will weaken in the coming six months.

While recent developments support this view, we are acutely aware that the narrative is unlikely to unfold in a linear manner. Areas that could add uncertainty in the coming weeks and tilt the narrative back towards our risk case of higher-for-longer interest rates include how markets react to the data, whether inflation continues to move in the right direction, and how lending conditions evolve. That said, we still believe that deteriorating economic conditions will push the US Fed into cutting rates in the second half of 2024.

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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. In our view, the negative sentiment has likely run ahead of itself for the time being. The gloom belies the green shoots of a cyclical rebound: car sales and commodity demand have been a bright spot, and the lagged effects of incremental policy easing should generate some recovery in credit growth. Equity valuations in Asian markets tip toward the favorable side of the equation. While we do not expect the cyclical rebound to be as large as previous cycles, we see tactical upside for Chinese risk assets as market hopes for a more meaningful support package in 2024. However, 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.

In markets, 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 remained resilient. Oil prices have fallen against lackluster demand, though the escalating Hamas-Israel conflict in the Middle East has the potential for wide-ranging impact should other regional players get drawn in. Given the uncertainty surrounding several factors—among them monetary policy, geopolitical tensions and recessionary risks—we are focusing on quality across equity assets and taking a more defensive position. At the same time, we appreciate the excitement surrounding artificial intelligence (AI) and the magnitude of its potential impact on revenue monetization, productivity and cost cutting, and seek pockets of related growth opportunities.

High-yield bonds and loans, and spread sectors more broadly, have continued to benefit from comparatively high levels of carry and current yield from a historical basis, and from positive investor sentiment and spread levels that have moved tighter year-to-date.

Companies of lower credit quality will have to carefully navigate worsening conditions compounded by increased required rates of return by financial markets. We have seen new issue activities pick up in the latter half of the third quarter, but from very weak levels recorded earlier in the year and in 2022. Default rates have also picked up, particularly for CCC-rated issuers, and we believe this trend will likely continue, driven by a potentially weakening economy, a growing number of bonds maturing over the next few years, and restrictive refinancing rates facing many corporations.

Overall, we maintain that there are downside risks to the economy given tighter credit conditions and may see higher-for-longer interest rates given the potential for macro data disappointments. Tactical positioning will be more prevalent again as we go into 2024, to nimbly add and de-risk portfolios, as well as add to yield opportunities as they arise.

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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