

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 79.89 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.738	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.

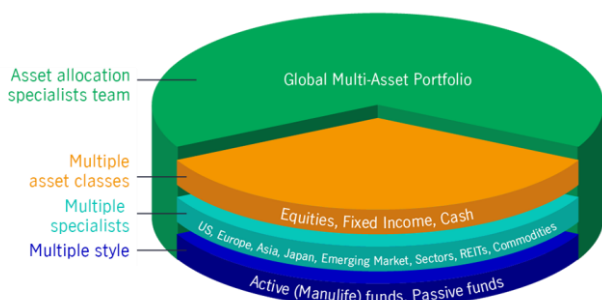
Performance Return (January 31, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	3.19%	3.19%	-9.15%	-3.49%	-7.03%	2.55%
Annualized	n.a.	n.a.	-9.15%	-1.18%	-1.45%	0.36%

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	54.85
North American Equities	39.06
European Equities	8.85
Asia Pacific (ex-Japan) Equities	4.96
Japanese Equities	1.99
Fixed Income	32.90
US Bonds	19.78
International Bonds	7.87
Asian Bonds	5.25
Cash & Cash Equivalents	12.25

Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	9.30
Lyxor S&P 500 UCITS ETF D USD	9.13
MGF - U.S. Equity Fund	8.54
iShares 7-10 Year Treasury Bond ETF	7.01
iShares Core S&P 500 ETF	5.10
ChinaAMC CSI 300 Index ETF	4.96
Lyxor EURO STOXX 50 (DR) UCITS ETF	4.94
Vanguard Total International Bond ETF	4.84
Invesco QQQ Trust	4.76
iShares 20+ Year Treasury Bond ETF	4.45

^Figures may not sum to 100 due to rounding.

Global Target Income Fund

Market Review

Global equities and fixed income posted strong gains over the month of January, which has seen a market rally on moderating inflation data, weakening US dollar (USD) and a continued China reopening, despite a shaky start for the earnings season. Markets were optimistic about the possibility that the US Federal Reserve Board (Fed) could pull off a soft-landing scenario given the softening data. Equity markets in Latin America, Canada and Europe performed well. January was also a strong performing month for global high yield debt with Asian credits continuing strong momentum post further support for the Chinese economy and property sector.

December CPI in the US came in lower than expected which softened the USD, spurring a global risk-on rally. Headline Consumer Price Index (CPI) was down -0.1% month-over-month (mom), but still at a lofty +6.5% year-over-year (yoy). Core CPI was up +0.3% mom and +5.7% yoy. The US labour market remained tight, so much so that job creation in December surprised to the upside, whilst the pace of jobs growth has slowed significantly. Resilient labour demand necessitated rates to remain in restrictive territory for the foreseeable future.

Global central banks have hiked interest rates with the European Central Bank (ECB) and the Bank of England (BOE) both raising rates by 50 bps. The Fed also raised its benchmark interest rates by 25 bps as expected on February 1st bringing the rate to the higher end range of 4.75%, followed by optimistic comments on progress against inflation made by Chairman Powell. However, the Fed still saw the need for ongoing increases into the target range and considered smaller rate moves, given the lag effect that tightening policy has on the US economy. The Fed Funds Futures market is pricing in a 25 bps hike in March, followed by a pause until November where the first 25 bps cut could potentially occur. One exception is the Bank of Japan (BOJ), which expressed that tightening is too strong a term – rather it appears to be stepping away from ultra-easy policy.

Global Purchasing Manager's Indexes (PMI) have been improving with the Eurozone composite PMI coming in better than expected at 50.2, hitting a mild expansionary reading. Positive recent tides were developing in Europe as the energy market in particular has been alleviated by falling prices, helped by the warmer than usual weather and generous government assistance. Supply chain stress has eased, benefitting producers most notably in Germany.

Within Asia, the centre of attention was on the Chinese government's announcement of China reopening borders and dropping quarantine policy starting on January 8th. China's national tourism and consumption recovery from zero-covid are getting off to a solid start.

Across global equities, MSCI World gained +7.1% and the S&P 500 gained +6.3%. Latin America gained +9.9%, Canada was +9.1% and Europe was +8.7%, followed by Asia Pacific ex Japan gaining 8.6%.

Sectorally, consumer discretionary performed well, gaining positive returns at +14.6%, followed by communication services and materials gaining +13.1% and +10.5%, respectively. Healthcare lagged, losing -0.6%.

Across styles, Russell 1000 Growth performed better than the Russell 1000 Value, which gained +8.3% vs +5.2%, respectively.

Within fixed income, US 10 year Treasuries were down -33 bps to 3.55% and the Citi World Government Bond Index gained +3.2%. Barclays Global High Yield performed well gaining +4.2% and Global Aggregate – Corporate gained +4.0%. US High Yield was +3.9%.

In terms of spreads, we saw spreads tightening over the month of January in the Bloomberg Barclays US Corporate High Yield Average OAS to 418 bps vs 469 bps at the end of December.

Within foreign exchange (FX), most currencies gained against the USD with the Australian dollar leading the gain at +4.4% and the Mexican peso gaining +3.8%, whilst the Norwegian krone and the Hong Kong dollar depreciated -0.9% and -0.4%, respectively.

In terms of a gauge for volatility, the VIX ended at 19 at the end of January vs 22 at the end of December 2022.

Overall, this month has seen a market rebound across equity and fixed income markets based on optimistic investor sentiment on cooling inflation data which could lighten the magnitude of Fed hikes going forward. The weakening USD further sparked a risk-on rally. However, considering the lag effects of the Fed's liquidity tightening, it is likely to be felt into 2023 and remains a headwind for the equity market. Although narratives have changed with respects to China's zero-covid policies and reopening, this has provided some optimism for the Asia market and broad EM. Challenges, however, lie ahead as covid cases soar within the region, which could give rise to challenges within hospital and healthcare systems across Asia.

Outlook

Tighter financial conditions, recessionary fears and heightened geopolitical risks have exerted a heavy toll on the economic outlook and valuations. Elevated inflation persists, albeit prices have moderated since last summer, as we are currently operating in a period of energy and commodity-supply shortages. As Fed officials have consistently stated their unconditional commitment to fight high inflation, investors have finally come to terms with the reality of a higher-interest rate environment in both developed and EM. However going forward the market is expecting rate cuts by the end of 2023, which is somewhat not as explicit as current Fed guidance.

CPI data suggests further moderation in prices but the Fed Chairman Jerome Powell still remains hawkish, reiterating the need to combat persistent inflation with appropriate and sufficiently restrictive rate hikes. Markets are pricing in a 25 bps hike in March amidst softer inflation figures after the 50 bps and 25 bps hikes at the December and the February meeting, respectively. Inflation seems to be showing easing signs, whilst labour market conditions remain too tight for the Fed to consider cutting rates anytime soon. Despite some positive developments in price stability, interest rates likely need to stay at restrictive levels for longer until the full effect of tightening this year is felt in the US economy well into 2023. Looking ahead, we expect a pause in the Fed's aggressive rate hike cycle and a pivot to eventually occur as the narrative shifts to growth concerns. It is anticipated that a terminal rate may reach closer to 5.25% before the end of the first half 2023.

Global Target Income Fund

Furthermore, more recently the Fed have highlighted that rate cuts are unlikely in 2023, which is contrary to the market (and ourselves) currently pricing in rate cuts by year end. We believe the Fed guidance is likely anchored around the potential concern for inflation to possibly return in 2024, should the Fed choose to pivot towards easier monetary conditions by year end. We believe this is a reasonable concern and historically is evidenced by the inflation profile in the mid 1970s, where victory was announced on inflation, only for it to return the following year as policy was loosened. The disjuncture between market expectations and Fed guidance will keep volatility expectations heightened into 2023.

Many of the world's largest economies—including the US, China, and especially now the UK and Euro zone—are facing slowing growth and lower economic growth forecasts. Global Gross Domestic Product (GDP) expectations have been revised lower. Preliminary PMIs (timely global business surveys) showed global economic growth should continue decelerating in the first half of 2023. Our outlook suggests that the US, Canada, and Europe are expected to slip into recession in 2023. Stagflationary dynamics remain in play. Given slow progress on inflation rates, central banks are now poised to amplify recessionary dynamics, knowingly hiking into a global contraction. We are less concerned about the binary “recession or no recession” call than we are about the risk of a 4-6 quarter period of very slow growth.

Given tightening liquidity conditions, weaker economic growth momentum, coupled with ongoing geopolitical uncertainty, we expect equity markets to experience heightened volatility. The continuing conflict between market expectations surrounding the peak inflation narrative, and reality remains one that is driving near term volatility. Going forward into 2023, there will be a macro battle between the China reopening hope being priced into markets and global central banks raising rates curtailing growth to fight inflation.

With the recent announcement of policy support and reopening measures, we believe that sentiment will continue to drive these markets higher in the short run. We expect a disruptive transition from zero-covid over a 1-3 month investment horizon as covid cases soar, which could hinder mobility rates and consumption. We need to see an improvement in economic activity, a sustained recovery in property sales, an orderly recovery of outbound travel and a revival of consumer confidence.

The rally in cyclical sectors across global equities in the fourth quarter 2022 suggests that markets are not pricing much of an economic slowdown. We need to be careful over emphasising a risk-on view in portfolios as monetary policy works with a lag and central banks have just turned on one of the most aggressive monetary tightening policies in history, that will likely be felt well into 2023.

Markets with significant exposures to energy, materials and agricultural commodities (as inflation hedges) and the low volatile, defensive attributes of consumer staples, utilities, broad dividend names as well as investment grade credits may find some insulation. We also like income-themed portfolios that offer resilience whilst keeping pace with inflation.

Tactical positioning will be more prevalent again into 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 rates and stable spreads, but see yields keeping contained given the potential for macro data disappointments.

A rising number of questions are growing around Fed policy. Fiscal stimulus is unlikely to be enough for a rapid economic recovery, as getting back to pre-pandemic growth rates is likely to be pushed into 2023 and beyond. The lasting impact of the pandemic on the global economy is not the only factor to monitor. Rising geopolitical tensions in Ukraine, decoupling 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.

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.

The Investment Funds (“Funds”) mentioned in this document are specific to variable life insurance contracts and are not considered mutual funds. Yields depend on interest and foreign exchange rate levels, both of which may fluctuate. Other factors that affect yield include changes in the credit standing of the issuers and changes in the value of the stocks and dividends received. Further, investments of the Funds may provide that their values be determined based on prices or yields of other securities, instruments or foreign currencies, and such provisions may result in negative fluctuations in the value of these investments and, in turn, the Funds’ yields. Thus, the performance of the separate account(s) is not guaranteed and the value of the policy could be less than the capital invested subject to any specified minimum guarantees. THE VARIABLE LIFE POLICYHOLDER SHALL BEAR ALL INVESTMENT RISKS. Past performance of the Funds is not necessarily indicative of future performance. Yields are not guaranteed. Yields indicated are exclusive of charges associated with the variable life policy.

Manulife Investment Management™ is the institutional asset management arm of Manulife Financial. Manulife Investment Management™ and its affiliates provide comprehensive asset management solutions for institutional investors and investment funds in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative investments such as real estate, timber, farmland, as well as asset allocation strategies.

The opinions and portfolio holdings expressed are those of Manulife Investment Management™ (“Manulife IM”) as of the date stated in the document, and are subject to change based on market and other conditions. The information in this document including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Manulife IM disclaims any responsibility to update such information. Information about the portfolio’s holdings, asset allocation, or country diversification is historical and is not an indication of future portfolio composition, which will vary. All overviews and commentary are intended to be general in nature and for current interest. While helpful, these overviews are no substitute for professional tax, investment or legal advice. Clients should seek professional advice for their particular situation. Neither Manulife Financial, Manulife Investment Management™, nor any of their affiliates or representatives is providing tax, investment or legal advice. Past performance does not guarantee future results. This material was prepared solely for informational purposes, does not constitute an offer or an invitation by or on behalf of Manulife IM to any person to buy or sell any security and is no indication of trading intent in any fund or account managed by Manulife IM. Investors should not make investment decisions based on this material alone. For details, please refer to the relevant investment policy and product key fact statements.