

# 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> January 2016	<b>Fund Size</b> USD 84.15 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.768	<b>Management Fee</b> 2.25% per annum	<b>Bloomberg Ticker</b> 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.

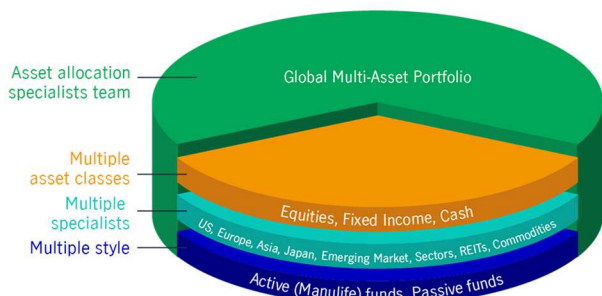
## Performance Return (July 31, 2022)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	3.36%	-11.07%	-10.41%	1.81%	-1.09%	4.21%
Annualized	n.a.	n.a.	-10.41%	0.60%	-0.22%	0.63%

## 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 - **Macro**economic, **Fundamental**, **Sentiment** and **Technical** 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<sup>^</sup>

	%
<b>Equities</b>	<b>48.83</b>
North American Equities	36.96
European Equities	5.70
Japanese Equities	3.54
Asia Pacific (ex-Japan) Equities	2.62
<b>Fixed Income</b>	<b>34.10</b>
US Bonds	19.41
International Bonds	9.78
Asian Bonds	4.91
<b>Others</b>	<b>5.93</b>
<b>Cash &amp; Cash Equivalents</b>	<b>11.14</b>

## Top Ten Holdings

	%
Lyxor S&P 500 UCITS ETF D USD	10.78
SPDR S&P 500 ETF Trust	9.01
MGF - U.S. Equity Fund	8.45
iShares 7-10 Year Treasury Bond ETF	7.10
Vanguard Total International Bond ETF	6.83
ICBC CSOP FTSE Chinese Government and Policy Bank Bond Index ETF HKD Counter	3.62
iShares USD Corp Bond Interest Rate Hedged UCITS ETF	3.60
iShares MSCI Japan ETF	3.54
Lyxor EURO STOXX 50 (DR) UCITS ETF	3.10
Invesco QQQ Trust	2.95

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

July saw a reasonable bounce in developed market (DM) equities and debt, on the back of a very weak June, whilst emerging markets (EM) and Asia underperformed. Inflation concerns are still a focus for the US Federal Reserve Board (Fed), although the peak pace of tightening is already upon us, whilst recently the Fed has highlighted that they would no longer be providing forward guidance; instead, it would be going 'meeting by meeting' and would be 'data-dependent'. Many parts of the market interpreted this as a 'pivot': equities and credits rallied, EM saw reprieve, break-evens boomed.

The binary 'recession or no recession' call is not what drives markets – it's growth that drives markets. And growth is materially slower, with a high likelihood of 4-6 quarters of very slow growth, which would make for a challenging market environment.

In equities, we saw the strongest monthly rally since November 2020 as the market pivoted from value to interest rate sensitive growth stocks. The MSCI World Index rallied +8% over the month of July 2022, the S&P 500 gained +9.2%, Europe gained +5% whilst the MSCI EM and Asia Index underperformed falling -0.2% and gaining +0.1% respectively. EM and Asia were driven by a -11% fall in the MSCI China Index over the month.

Sectorally, within the MSCI World Index, growth sectors outperformed, as consumer discretionary and technology gained +15.5% and +13.1%. Underperformers were healthcare and consumer staples gaining +3.3% and +3.9% respectively.

Fixed income markets were also buoyant as yields came back – the Citi World Government Bond Index fell gained +1.8%, the Barclays EM USD Aggregate Index gained +2.1%, global high yield gained +4% and US high yield gained +5.9%.

In foreign exchange, markets saw US dollar weakness across most majors. The euro, however, depreciated another 2.5% versus the US dollar over July.

Governments and central banks continue to demonstrate a tough stance towards inflation whilst a focus on slowing growth is becoming more a concern for markets. Escalated geo adds 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

Tightening financial conditions, heightened geopolitical risks and fears of recession have enacted a heavy toll on valuations and positioning. We are currently operating in a period of energy and commodity supply shortages, tight labour markets, and disrupted supply chains. This is leading to unprecedented levels of inflation, not seen in decades. Due to this above trend inflation, we expect both DM and EM to be operating in a new normal of higher interest rates.

More indebted EM will need to maintain positive real yields to retain capital flows and avoid currency depreciation. Consequently, the pace of rate increases from the Fed is something we continue to closely monitor, although the peak pace of tightening of likely already upon us.

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 latter part of the year are still not yet being overly felt.

Aggressive rhetoric is likely to continue from the Fed over the near-term, rather than any finessing of the hike profile. We do believe, however, that growth concerns are becoming more a dominating factor on decision-making in the latter part of the year which will push a Fed pivot towards guiding for a slowdown in their already aggressive move towards a terminal rate which we see at around 3.5%.

As a result of the 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 the 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 signaling weaker macro conditions.

Pervasive geopolitical uncertainty, downside risks to growth, and upside pressures on inflation underpin caution regarding earnings and valuation expectations.

Levels of uncertainty 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.

Indeed, initially we expected the year to begin with the uncomfortable combination of sticky, high inflation and a moderation in growth before transitioning to a higher growth profile with more moderate levels of inflation in the second half of 2022. However, another stagflation shock makes the prospect of a return to Goldilocks conditions by year-end look less than solid.

The market is pricing in an aggressively hawkish Fed, whilst sentiment is arguably at extreme bearishness. We believe the Fed will eventually have to pivot away and guide for less hikes than the market is pricing, as growth begins to moderate in the second half of 2022.

Tactical positioning will be more prevalent again into 2022, to be able to nimbly add and de-risk portfolios as well as add to yield opportunities as they arise.

Overall, we are tilted towards higher rates from here and stable spreads, but see yields remaining contained given the potential for macro data disappointments.

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Corporate fundamentals are varied across sectors. Markets remain sensitive to a host of factors including Covid-19 vaccine success and fears of inflationary pressures. We expect global stimulus efforts to remain a focus whilst central banks divergent policies will keep market participants second-guessing policy responses.

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-Covid growth rates is likely to be pushed into 2023 and beyond. The lasting impact of Covid-19 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.

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