

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 77.78 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.739	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.

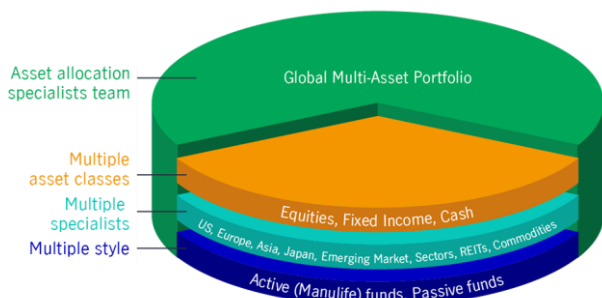
Performance Return (July 31, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.63%	5.83%	0.93%	0.65%	0.17%	5.18%
Annualized	n.a.	n.a.	0.93%	0.21%	0.03%	0.67%

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	62.70
North American Equities	34.64
European Equities	8.59
Asia Pacific (ex-Japan) Equities	7.55
Japanese Equities	6.83
Emerging Market Equities	5.10
Fixed Income	35.07
US Bonds	18.33
International Bonds	10.93
Emerging Market Bonds	5.82
Others	0.07
Cash & Cash Equivalents	2.16

Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	10.35
SPDR Bloomberg International Treasury Bond ETF	9.88
iShares 7-10 Year Treasury Bond ETF	8.89
Tracker Fund of Hong Kong	7.55
iShares MSCI Japan ETF	6.83
iShares Core S&P 500 ETF	5.95
VanEck J. P. Morgan EM Local Currency Bond ETF	5.82
Lyxor EURO STOXX 50 (DR) UCITS ETF	5.70
MGF - U.S. Equity Fund	5.47
iShares Latin America 40 ETF	5.10

^Figures may not sum to 100 due to rounding.

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Market Review

Markets continued their positive momentum across broad equities and fixed income in July, buoyed by economic surprises of resilient macro data in developed markets. This has raised hopes for a soft landing and supported a wider rally beyond the technology sector to more cyclical sectors across regions. The month saw expected central bank hikes, mixed signals of global economic activities, and positive market sentiment on China's potential stimulus and support for the property sector. These events have sent equities to year-to-date highs with an expectation of moderating inflation without a significant decline in economic activities, and the end of central bank's tightening cycles.

The US Federal Reserve Board (Fed) hiked interest rates by 25 bps to 5.25%-5.50% in July, which was largely expected by the market. The statement from the Federal Open Market Committee (FOMC) remained unchanged from the previous meeting, and Chairman Powell also retained the stance that market dynamics would take a while to bring inflation back to the US Fed's 2% target. September's decision would be data dependent: If the data warranted, there would be a possibility to raise funds again.

US economy data surprised to the upside showing a resilient economy amid cooling inflation. America's real GDP was stronger than expected, growing at a seasonally-adjusted annual rate (SAAR) of 2.4% in Q2, well ahead of consensus, reflecting robustness in consumer spending. Initial claims for unemployment benefits dropped to the lowest level in two months. The Consumer Confidence Index hit 117, the highest level since July 2021, with respondents increasingly optimistic about the labour market. On the inflation front, June's core PCE inflation printed 0.2% MoM and 4.1% YoY, which was the softest reading since September 2021. Whilst US PPI also came in below expectations at 0.1% MoM and 2.4% YoY, almost every data point showed disinflation in the pipeline equity markets have taken the data positively, whereas bond yields have continued to rally.

The European Central Bank (ECB) also hiked rates by 25 bps to 3.75% in July, which was in line with previous guidance. The euro-zone composite PMI fell to 48.9 preliminarily in July, falling into contractionary territory and manufacturing PMI fell to post-Covid low of 42.7. Regarding inflation data, July saw a moderation in headline inflation at 5.3% YoY, but core inflation remained unchanged at 5.5% YoY. The ECB might have the possibility of holding rates flat in September given falling euro-zone inflation and weaker economic activity. UK's June inflation data was still uncomfortably high with headline inflation rising 7.9% YoY though it was down from 8.7% YoY in May, whilst core inflation was 6.9% YoY. Markets have been expecting more hikes to come from the Bank of England (BOE).

In Asia, the Bank of Japan (BOJ) surprised markets by loosening yield curve control. Japanese inflation remained strong with its CPI rising 4.2% YoY. China faces risks of deflation as its economic recovery falters. June's CPI unexpectedly flattened at 0% YoY, while its PPI was worse than market estimates of -5.4% YoY. China's GDP came in weaker than expected at 6.3% YoY in Q2. In a surprise move, China's policymakers promised to step up support for the economy, signalling more "counter-cyclical policy" and raised expectations of cutting interest rates and loosening property policies. There was a relief rally in China's internet sector after Premier Li Qiang met with executives from major internet companies. Moreover, geopolitical tensions subsided after the high-profile visits of senior members of the US administration to Beijing. The confluence of good news led to a sharp rally in Chinese equities towards the end of the month.

Across global equities, MSCI World gained 3.38% over the month of July, whilst the S&P 500 gained 3.21%. Equity gains somewhat widened beyond the technology sector as cyclical pushed global stocks to year-to-date highs. Small and micro caps revised the recent trend and performed well. Emerging markets also performed well, gaining 6.29%, which was led by China on the headlines of policy easing and hopes for additional stimulus. Asia Pacific ex Japan and Latin America also showed outstanding performances adding +5.82% and 5.17%, respectively.

Within MSCI World, the energy and communication services sectors were the best performers, returning 6.53% and 6.31%, respectively. Financials also kept up with the upbeat trend by gaining 5.40%. Healthcare was the laggard returning +1.32%.

Style wise, value had a slight edge over growth, though both performed similarly, with the Russell 1000 Value gaining 3.52% and Russell 1000 Growth gaining 3.37%.

Within fixed income, returns were positive overall in July. The Citi World Government Bond Index and Barclays Global Aggregate Index ended the month +0.33% and +0.69%, respectively. Higher risk fixed income, particularly high yield performed well, with the Barclays Global High Yield Index gaining 1.96% over the month, whilst the Barclays US Aggregate Index ended flat, slipping marginally -0.07%.

In foreign exchange, most major currencies extended their strength in comparison to the USD in July, including the GBP (1.20%), EUR (1.06%), and CAD (0.53%). JPY also strengthened (+1.73%) given the guidance by the BOJ on its bond yield curve control (YCC) policy.

Outlook

The current tightening cycle in advanced economies is already the most aggressive in decades and central banks are continuing down their path of rate hikes. Hawkish language suggests the possibility of further hikes on the table even as ramifications for the global economy continue to unfold. Key to central bank decision making is the persistence of inflation, which has shown signs of moderation but remains too high relative to their stated goals. There is two-sided and substantial risk around central bank outlooks, and the slow improvement in inflation injects a non-negligible risk of continued further tightening that we feel is underappreciated in markets. Bond yields continued to push higher.

In July, the decision of the US Fed hiking rates met market expectations. The domestic US economy has remained resilient in the face of rising rates, with confident consumers and a particularly strong labour market. Other central banks were largely on the same page, with the Bank of Canada (BOC) to keep tightening after a previous hike, even if inflation fell, and the ECB to hike when moderating data came in. Other central banks that raised rates over the past month include the Swiss National Bank, and the Reserve Bank of New Zealand.

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Our base case is that most central banks are now either finished or close to completing their rate hike cycle, though action remains desynchronised. We believe central bank policy easing will be more gradual than consensus expectations. A potential almost end of central bank tightening does not necessarily translate towards a path of direction towards immediate rate cuts. Pockets of resilient macro is prolonging a pivot from the US Fed to ease.

Our attention is shifting towards assessing the effect that rate hikes will have on economic growth. We are forecasting recessionary conditions to envelop much of the globe, albeit we believe the recession has been postponed rather than cancelled, with expectations of continued near-term market volatility. Continued tight financial conditions, much more restrictive lending standards, slowing manufacturing production, a negative consumer wealth effect, and ongoing fiscal drags are all important headwinds to growth. That said, we are more concerned by the risk scenario of a prolonged period of low growth and sticky-high inflation than by a deflationary recession.

With global growth forecasts revised downwards, hope is fading for China to be an engine of growth. It appears that the service sector has stalled, factory output has declined, and exports are flagging, even as youth unemployment sets record highs. In a bid to inject liquidity into the system, policymakers have cut two benchmark lending rates whilst attempting to shore up investor confidence. In order for the cyclical rebound to strengthen beyond the mechanical boost, a sustained recovery in household consumption and property sales would be required. However, there's been limited evidence of either so far. Consumption indicators and growth rates remain below pre-pandemic levels. Meanwhile, property construction remains an important drag on the economy, with sales and construction activities remaining weak.

In markets, an uncertain macroeconomic landscape is a potential headwind for equities. That said, corporate earnings have remained strong, outpacing expectations. Given the uncertainty surrounding a number of factors—among them monetary policy, corporate earnings, 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 AI and the magnitude of its potential impacts on revenue monetisation, productivity, and cost cutting, and seek pockets of related growth opportunities.

Within credits, metrics remain supported by a thus far resilient US consumer and low leverage for most businesses, though companies with floating rate debt in their capital structures are more acutely experiencing declining interest coverage ratios. Earnings deterioration is also pressuring companies as demand for goods wanes and inflationary pressures impact margins. Most higher quality corporates should be able to withstand softening economic conditions. Companies of lower credit quality will have to carefully navigate worsening conditions compounded by increased required rates of return by the financial markets. Default rates will continue to rise from historically low levels, driven by a weakening economy, a growing number of bonds maturing over the next few years, and restrictive refinancing rates for many corporates.

Tactical positioning will be more prevalent again towards the end of 2023, 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 for longer rates, whilst seeing yields keeping contained, given the potential for macro data disappointments.

Disclaimer

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