

# 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 81.69 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.746	<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.

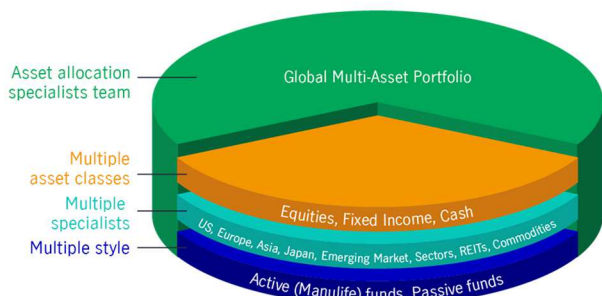
## Performance Return (June 30, 2022)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-4.59%	-13.96%	-13.64%	-0.64%	-3.14%	0.83%
Annualized	n.a.	n.a.	-13.64%	-0.22%	-0.64%	0.13%

## 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<sup>^</sup>

	%
<b>Equities</b>	<b>51.73</b>
North American Equities	33.34
Asia Pacific (ex-Japan) Equities	9.30
European Equities	5.64
Japanese Equities	3.44
<b>Fixed Income</b>	<b>32.39</b>
US Bonds	17.45
International Bonds	9.81
Asian Bonds	5.13
<b>Cash &amp; Cash Equivalents</b>	<b>15.88</b>

## Top Ten Holdings

	%
Lyxor S&P 500 UCITS ETF D USD	10.36
SPDR S&P 500 ETF Trust	8.51
MGF - U.S. Equity Fund	7.72
Tracker Fund of Hong Kong	7.59
iShares 7-10 Year Treasury Bond ETF	7.12
Vanguard Total International Bond ETF	6.83
ICBC CSOP FTSE Chinese Government and Policy Bank Bond Index ETF HKD Counter	3.76
iShares USD Corp Bond Interest Rate Hedged UCITS ETF	3.64
iShares MSCI Japan ETF	3.44
Utilities Select Sector SPDR Fund	3.25

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

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## Market Review

June 2022 was another brutal month as downward trending equity and debt markets continued. Recessionary concerns are becoming more prevalent as risk assets are once again repricing in a higher probability of slowing (negative) growth. The latest adjustments were translated in treasury yields falling, high yield spreads widening, lower equities and a stronger US dollar.

The US Institute for Supply Management report for June, like the other Purchasing Managers' Indexes, suggested the US economy is near stagnating, and the trend is decelerating. As the slowing economic data has come in as of late, treasury yields have started to fall. Treasury federal fund futures are now pricing in a 75 basis point (bps) rate hike in July, 50 bps in September, then 25 bps in both November and December.

Core Personal Consumption Expenditure (the US Federal Reserve Board (Fed)'s preferred inflation gauge) came in at 4.7% year-over-year in May decelerating three consecutive months from the peak in February of 5.3%. While oil prices remain stubbornly elevated, copper prices along with other commodities have fallen to near year-to-date lows.

The MSCI World Index was down 16.1% over the second quarter of 2022, the worst quarterly performance since the first quarter of 2020. The S&P 500, a broad proxy for the US stock market, posted its worst first half in more than fifty years.

In equities, for June, the MSCI World Index fell -8.6%, the S&P 500 fell -8.3%. Europe fell -9.9%, Asia Pacific ex Japan fell -5.7% whilst broad emerging markets (EM) fell -6.7%, driven by Latin America falling a significant -17%, driven by Brazil, Chile, and Colombia.

For the month of June, China was a significant outperformer as the country slowly reopened after the strict lockdown.

Sectorally within the MSCI World Index, energy fell -15.0%, materials fell -15.6% whilst consumer staples and healthcare were the relative outperformers falling -3.4% and -3.1% respectively.

Fixed income markets were also impacted, more so credit related areas as concerns around a recessionary environment impacting default rates saw US high yield fall -11.7%, global high yield fell -7.5%. The Barclays EM USD Aggregate fell -4.6% whilst the Citi World Government Bond Index fell -3.2%.

In foreign exchange, markets saw significant US dollar strength in the face of rising rates, as the British pound fell -14.8%, the euro -14.5%, the yen -19.5% and the renminbi -5.0%.

Governments and central banks continue to demonstrate a tough stance towards inflation whilst a focus on slowing growth is, for now, taking a back seat. 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

The first half of 2022 saw a meaningful change in the external environment further exacerbated by geopolitical risks from the Russia-Ukraine conflict. 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 developed markets (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.

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 will become more of 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, the rest of the world less so. 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.

The structural commodity supply/demand imbalances building before the invasion have been considerably exacerbated by supply chain disruptions and the removal of Russian and Ukrainian supply. Russia is the second largest commodity producer in the world after the US, accounting for 17% of natural gas (on which Europe is heavily dependent), 12% of global crude, and is a crucial source of precious metals including palladium and titanium. The loss of Ukraine from the global grain market now and in forthcoming harvests will risk critical shortages, with implications for food inflation particularly affecting the world's poorest regions, and even potential famine across sub-Saharan Africa.

Levels of uncertainty suggest continued heightened volatility lies ahead. In the current environment, it is as vital as ever to retain a clear, consistent strategic perspective while navigating extreme turbulence. This is not a temporary event, and we do not expect a swift resolution. Until complex geopolitical risks recede, we anticipate continuing heightened market volatility.

# Global Target Income Fund

We remain in a challenging environment for global markets - growth and earnings could disappoint due to growing global logistical challenges, but also due to the growing pressure on policymakers to reduce their stimulus efforts in the face of rising inflation. Across the largest DM, fiscal tailwinds are fading as the Fed tapers and raises interest rates. Similar moves are being executed by the EU and UK monetary authorities. Upward pressure on DM central banks to quickly raise rates is gathering increased momentum, albeit geopolitics is making this transition all the more trickier and could lead to slightly less hawkish language from central banks towards the latter part of 2022.

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.

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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