

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 76.85 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.730	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.

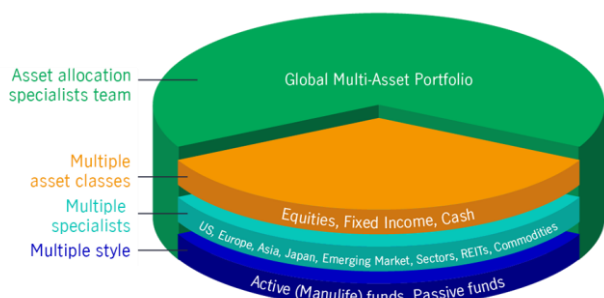
Performance Return (June 30, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	2.51%	4.13%	2.64%	3.84%	-0.63%	3.49%
Annualized	n.a.	n.a.	2.64%	1.26%	-0.13%	0.46%

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[^]

	%
Equities	52.72
North American Equities	36.53
European Equities	8.47
Asia Pacific (ex-Japan) Equities	2.91
Japanese Equities	2.79
Emerging Market Equities	2.03
Fixed Income	39.21
US Bonds	25.21
International Bonds	10.16
Emerging Market Bonds	3.85
Others	4.22
Cash & Cash Equivalents	3.84

Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	10.62
iShares 7-10 Year Treasury Bond ETF	9.08
Lyxor S&P 500 UCITS ETF D USD	6.45
iShares Core S&P 500 ETF	5.83
Lyxor EURO STOXX 50 (DR) UCITS ETF	5.61
iShares 3-7 Year Treasury Bond ETF	5.60
MGF - U.S. Equity Fund	5.35
Vanguard Total International Bond ETF	5.10
SPDR Bloomberg International Treasury Bond ETF	5.06
iShares USD Corp Bond Interest Rate Hedged UCITS ETF	4.10

[^]Figures may not sum to 100 due to rounding.

Global Target Income Fund

Market Review

Markets returned to positive territory across broad equities or were close to flat for broad government and aggregate bonds during June, shaking off negative developments and resuming their upwards climb. The month saw expected central bank pauses but also surprise rate hikes, more signs of a global economic slowdown, as well as political tensions boiling to the surface both domestically and on the global stage. Despite such events—amongst them an attempted mutiny in Russia by the mercenary Wagner group, and protests in France that descended into riots—market participants remained upbeat and sent leading indices higher, with an expectation of moderating inflation and looser monetary conditions ahead.

All eyes were on the US Federal Reserve Board (Fed) in June, which held interest rates steady as economic data sent mixed signals. Whilst the US manufacturing index continued to signal recessionary conditions, services and the labour market remained resilient. On the inflation front, May's total and core consumer price index (CPI) grew in line with expectations at +0.1% month-on-month (MoM) and 0.4% MoM, respectively, and increasingly propped up by shelter costs. May's purchasing price index (PPI) came in significantly below expectations, leaving a path for faster services disinflation going forward. Industrial production also fell in May after a rebound that started in February. That said, consumption still showed no signs of weakness with retail sales beating expectations both on the headline and the core figures in May.

A slew of other central banks echoed hawkish messaging and raised interest rates in June. One of them was the Bank of Canada, which had previously hit pause, as it saw April inflation and retail sales numbers beating expectations. The Bank of England also raised interest rates, bumping them up by 50 bps which was more than expected, as UK inflation stayed stubbornly high at 8.7% in May. As worries over stagflationary dynamics resurface for Europe, persistent Eurozone inflation has pushed the European Central Bank on a more hawkish path as it raised rates as expected; at 5.5% year-on-year (YoY) headline inflation has remained high for the preliminary June numbers, though more worryingly core inflation accelerated to 5.4% YoY.

In contrast, China faces risks of deflation as its economic recovery falters. May's CPI rose 0.2% YoY, while its PPI fell more sharply than expected clocking in a decline of 4.6% YoY. In a bid to inject liquidity into the system, jumpstart activity, and spur demand, policymakers have cut short- and medium-term interest rates and extended tax breaks to key sectors.

Across global equities, MSCI World gained 6.09% over the month of June, whilst the S&P 500 gained 6.61% as big tech maintained its dominance. As further evidence of technology's dominance this year, Apple became the first company to surpass a market value of US\$ 3 trillion, even as equity gains somewhat widened beyond the technology sector. Emerging markets (EM) underperformed developed markets, with the former gaining 3.89%. LatAm's stellar performance of 12.11% over June was led by Brazil, which showed signs of policy easing in the coming months. However, it was not enough to bring overall EM into positive territory, as it saw detractors from Turkey, Thailand and Malaysia, amongst others.

Sectorally within MSCI World, consumer discretionary and industrials were the best performers, returning 10.45% and 8.98%, respectively. Technology fell from the top spot to third, gaining 6.18% over the month, with possibilities of an overextension.

Style wise, growth had a slight edge over value though both performed similarly, with the Russell 1000 Growth gaining 6.84% and Russell 1000 Value gaining 6.64%.

Within fixed income (FI), returns were mixed as markets debated the trajectory of interest rates. The Citi World Government Bond Index and Barclays Global Aggregate Index ended the month close to flat, both slipping marginally by -0.01%. Higher risk fixed income, particularly high yield was a strong performer, with the Barclays Global High Yield Index gaining 2.55% over the month, whilst the Barclays US Aggregate Index fell -0.36%.

In foreign exchange (FX), most major currencies strengthened in comparison to the US dollar (USD), including the euro (EUR) (2.34%), British pound (GBP) (2.58%), and Canadian dollar (CAD) (2.72%), contrary to the bullish trajectory of the USD seen in May. The Japanese yen (JPY) weakened (-3.33%) as the Bank of Japan maintained its dovish stance and left yield curve controls unchanged.

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 further hikes are 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.

In June, the Fed held interest rates steady in what can be seen as merely a slowdown in the speed of policy tightening rather than a pause or reversal. The domestic US economy has remained resilient in the face of rising rates, with confident consumers and a particularly strong labour market. Higher-than-expected inflation prompted the Bank of Canada to resume tightening after previously hitting pause, and for the Bank of England to tighten more than markets anticipated. Other central banks that raised rates over the past month include the European Central Bank, Swiss National Bank, Royal Bank of Australia, as well as the Reserve Bank of New Zealand. Our base case is that most central banks are now either finished or close to completing their rate hike cycle, though action remains desynchronised. 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 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 in the second half of the year, with 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.

Global Target Income Fund

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 in recent weeks while attempting to shore up investor confidence. The cuts however were hardly significant, and were more signalling rather than an effort to substantially help shore up pockets of weakness in the Chinese economy. Much-anticipated stimulus, especially for the troubled property sector, has yet to materialise though a growing chorus is calling on the government to be more forthcoming.

In markets, an uncertain macroeconomic landscape is a potential headwind for equities. That said, corporate earnings have remained strong, outpacing expectations. Equities are more attractive now than they were at the peak of the market over the last 18 months. Given the uncertainty surrounding a number of factors—amongst 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.

Our broad asset allocation is tilted towards defensive, quality assets which provide a ballast to the portfolios in times of increased uncertainty. Low-volatility, defensive attributes of consumer staples, utilities, as well as a broad dividend names may find some insulation. We still remain cautious overall risk assets at this juncture.

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 for longer rates whilst seeing yields keeping contained given the potential for macro data disappointments.

Disclaimer

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