

# 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 90.16 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.831	<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.

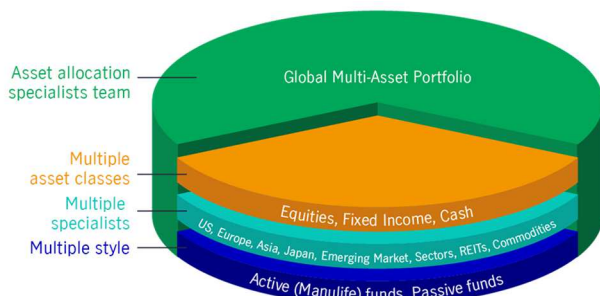
## Performance Return (March 31, 2022)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-0.08%	-5.29%	-2.41%	10.41%	9.69%	10.98%
Annualized	n.a.	n.a.	-2.41%	3.36%	1.87%	1.70%

## 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>59.06</b>
North American Equities	41.16
European Equities	7.53
Asia Pacific (ex-Japan) Equities	3.63
Japanese Equities	3.61
Emerging Market Equities	3.13
<b>Fixed Income</b>	<b>33.72</b>
US Bonds	21.80
International Bonds	8.57
Asian Bonds	3.35
<b>Commodities</b>	<b>3.89</b>
<b>Cash &amp; Cash Equivalents</b>	<b>3.33</b>

## Top Ten Holdings

	%
Lyxor S&P 500 UCITS ETF D USD	11.27
SPDR S&P 500 ETF Trust	9.17
MGF - U.S. Equity Fund	8.77
Vanguard Total International Bond ETF	5.56
Invesco Senior Loan ETF	5.40
iShares 7-10 Year Treasury Bond ETF	4.75
iShares PLC - iShares Core FTSE 100 UCITS ETF Accum Hedged USD	4.30
iShares MSCI Canada ETF	3.93
SPDR Gold Shares	3.89
iShares MSCI Indonesia ETF	3.63

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

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## Market Review

Risk assets stabilised mid-month on positive sentiment towards further US Federal Reserve Board (Fed) balance sheet expansion and the expectation that NATO would not place boots on the ground nor planes in the air, in and over Ukraine. Nevertheless, concerns around commodity, energy and food prices as well as Europe's reliance on Russian gas remain strong enough to keep markets volatile. The trending of the yield curve towards inverting began back in October 2021 whilst accelerating into February 2022, points towards weak macro conditions ahead. Nevertheless for the month, overall broad equities outperformed broad fixed income.

Within emerging markets (EM) two key themes are prevalent – the flight to safety and the flight to commodities.

The former led to weakness in stocks with any direct exposure to Russia, while the latter contributed to the exceptionally strong performance of the Brazilian market which gained 15% in March. Saudi Arabia and South Africa were beneficiaries of the same trend but to a lesser extent. Oil retraced some of its gain towards the end of March when the US committed to releasing one million barrels per day of strategic reserves for a period of six months from May, but remains stubbornly high.

Year-to-date 2022, most markets – equity and debt remain negative, although March saw some positive performance. In equities, MSCI ACWI gained +2.2%, whilst MSCI US gained +3.5%. Europe was slightly negative, whilst broad MSCI Emerging Markets fell -2.2%, Asia ex Japan fell -0.62% whilst the notable outperformer was MSCI Latin America gaining a significant +13.1% (led by Brazil +15%), placing the region's year-to-date gains at +27.3%.

Commodity and food exporters have been the key beneficiaries of the higher energy and commodity price rises we have seen, exacerbated by the Russia-Ukraine conflict.

Sectorally within MSCI World, energy equities gained +7.8%, followed by materials, utilities and real estate, gaining +5.4%, +5.3% and +5.2% respectively. Underperformers were communication services and consumer staples gaining +0.8% and +0.3%.

Fixed income was negative across the board as 10-year Treasury yields moved from 1.84% to 2.32%, with the Citi World Gov Bonds down -3.4%, the Bloomberg Barclays Global Aggregate fell -3%, Barclays EM USD Aggregate and Barclays Global High Yield fell -2.3% and -0.9%.

Governments and central banks continue to demonstrate readiness to stand-in with monetary and fiscal tools to mitigate the risk of economic damage arising from the pandemic and the potential for an escalated geo. 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 broader EM.

## Outlook

The global economy had some momentum at the beginning of the year, driven by the post-Covid recovery, strong labour markets and excess savings. As a result of the Russia/Ukraine conflict, lower growth and higher inflation resulting from high commodity prices and uncertainty are likely to derail this momentum. Global growth forecasts are being reduced, with Europe 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 disruption and 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.

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.

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 developed markets (DM), fiscal tailwinds are fading as the Fed tapers and raises interest rates. Similar moves appear to be being readied by the EU and UK monetary authorities. Upward pressure on DM central banks to quickly raise rates is gathering increased momentum, albeit geopolitics are making this transition all the more trickier and could lead to slightly less hawkish language from central banks.

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 the year-end look less than solid.

The market is pricing in a less hawkish Fed versus two months ago. 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.

Strong growth in 2021, as economies re-opened, creates a high base for 2022 and with interest rates expected to start rising in DM, and continue rising in several EM countries, it is reasonable to expect slower growth in 2022. China stands out in this regard. Monetary policy tightened through 2021, most notably in the property sector, and domestic demand is subdued. This provides the authorities with headroom to support demand in 2022 through targeted policy easing.

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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. Volatility has picked-up.

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 as well as multiple questions around vaccine hesitancy in some populations. A vaccine will be a game-changer for the economies of Latin America, Indonesia, and India – however, a medical solution is unlikely to drive a robust, rapid economic solution. 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 2022 and beyond. The lasting impact of Covid-19 on the global economy is not the only factor to monitor. Rising geopolitical tensions in Ukraine, decelerating growth rates post-stimulus, supply chain disruptions and a general deglobalisation and decoupling trend all raise questions about the future trajectory of global debt and equity markets.

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