

# 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 72.08 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.709	<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.

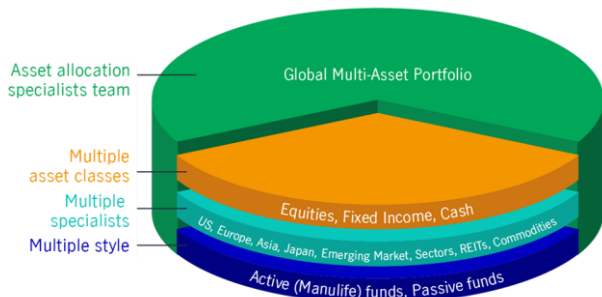
## Performance Return (November 30, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	4.53%	3.16%	2.43%	-6.63%	2.45%	2.52%
Annualized	n.a.	n.a.	2.43%	-2.26%	0.48%	0.32%

## 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^

	%
<b>Equities</b>	<b>58.89</b>
North American Equities	38.11
European Equities	8.98
Japanese Equities	6.52
Asia Pacific (ex-Japan) Equities	5.27
<b>Fixed Income</b>	<b>36.79</b>
International Bonds	19.48
US Bonds	14.36
Emerging Market Bonds	2.95
<b>Commodities</b>	<b>2.38</b>
<b>Others</b>	<b>0.04</b>
<b>Cash &amp; Cash Equivalents</b>	<b>1.91</b>

## Top Ten Holdings

	%
SPDR Bloomberg International Treasury Bond ETF	19.48
SPDR S&P 500 ETF Trust	13.18
Invesco QQQ Trust Series I	7.60
iShares MSCI Japan ETF	6.52
iShares Core S&P 500 ETF	6.40
MGF - U.S. Equity Fund	5.99
Amundi EURO STOXX 50 II UCITS ETF	5.91
iShares 7-10 Year Treasury Bond ETF	5.28
Lyxor S&P 500 UCITS ETF D USD	4.95
iShares USD Corp Bond Interest Rate Hedged UCITS ETF	3.58

^Figures may not sum to 100 due to rounding.

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## Market Review

Markets rallied in November and ended its 3-month losing streak, with equities posting the best month of the year so far. Market sentiment has improved, thanks to a softening labour market and a moderation in inflation data across developed markets, which have recently repriced towards an ending of the tightening cycle. Fixed Income assets also rallied as the US 10-year Treasury yield dropped from a peak of 5% in October to 4.35% by the end of November. Lower treasury yields and a weaker USD drove the broad risk asset rally. This month saw major central banks leave their policy rates unchanged and amidst a continuation of economic resilience, particularly in the US. In commodities, Brent Crude oil prices fell, despite the production cut by OPEC+.

Activities in the US cooled in October with a modest rise in initial and continuing jobless claims. The US ISM came in weaker than expected, which was unchanged from the prior month at 46.7. The employment and production subcomponents declined, but new orders ticked up to 48.3 from 45.5 last month. On the inflation data front, the CPI reading for October came in cooler than expected, with headline and core inflation down to 3.2% YoY and 4.0% YoY, respectively. The decline in inflation data was largely driven by lower energy and gasoline prices. The Federal Open Market Committee (FOMC) minutes made it clear that the US Federal Reserve Board (Fed) was careful not to rule out the possibility of further rate hikes, whilst retaining the “higher for longer” mantra.

The UK and European economy remained stagnated, but the timelier Composite PMIs improved in November in both the UK (50.1) and the euro zone (47.1). UK headline inflation fell more than 2% to 4.6% YoY in October, whilst the euro zone headline and core CPI estimate for November declined further to 2.4% YoY and 3.6% YoY, respectively. Lower energy prices were the major contributor to the decline. The Bank of England held its base rates unchanged at 5.25%, whilst the European Central Bank stayed vigilant on upside inflation risks.

In China, the manufacturing PMI came in stronger than expected at 50.7 and retail sales were up 7.6% YoY. However, the property sector remained a drag on economic growth. The authorities continue to introduce pro-growth measures as set out in the July politburo meeting, with efforts concentrated on stemming falling property prices and company defaults. US-China tensions could be seen to improve, as the series of visits by high-ranking US officials to China over the summer culminated with a meeting between President Xi and President Biden on the sidelines of the APEC summit in San Francisco.

Elsewhere, the Japanese economy shrank 0.5% QoQ in Q3 2023, amid elevated cost pressures and mounting global headwinds. Japan's Prime Minister Fumio Kishida announced a stimulus package of more than USD113 billion, which includes temporary tax cuts and benefits for low-income households.

Equities posted strong gains globally with MSCI ACWI up +9.28% over the month of November. Both the S&P 500 and the Nasdaq Composite saw their biggest monthly gains since July 2022, which rose +9.1% and 10.8%, respectively. Latin America performed well in the market gaining +14.07%, followed by Canada rising +10.46%. Asia Pacific ex Japan lagged but still gained +7.44% over the period.

Within MSCI World, information technology (IT) led the gains by +13.69% in November. A laggard sector, real estate, rebounded by +11.76% on the potential easing of the US Fed policy. Financials were also on the top of November's rankings, gaining +10.8%. Defensive sectors including utilities (+6.87%), healthcare (+5.77%), and consumer staples (+4.35%) lagged, as investors had more risk appetite over the month. Energy detracted from performance, returning only +0.49% as an expected increase in supply dragged down oil prices.

Fixed income returns were also positive across the board, as yields plunged over the month. The FTSE World Government Bond Index gained +4.88% and the Bloomberg Global Aggregate Index was up +5.04%. The Bloomberg Global Corporate and Global High Yield performed well, rising +5.72% and +5.36%, respectively.

In foreign exchange, most major currencies strengthened against the USD in November, including the GBP (+4.33%), EUR (+3.23%), and JPY (+2.44%).

## Outlook

The current tightening cycle in advanced economies is already the most aggressive in decades and central banks are continuing down their path of higher interest rates, albeit we believe we are at peak rates or close to them. Resolute language has not ruled out the possibility of further hikes, even as ramifications of higher rates and tighter financial conditions 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. As the world's biggest economies show increasing signs of weakness, we believe the conversation has shifted from “how much” to “how long” as bond yields continue to remain elevated. The US, UK, and euro zone all kept interest rates unchanged over the past weeks.

Recent data releases support the view that the US Fed is likely at (or very near) peak rates, and hopes for a soft landing are growing. We maintain our base case that the US economy will slip into a mild to moderate recession within the next six months. Simply put, we expect to see two consecutive quarters of negative GDP growth, accompanied by a rise in the unemployment rate. Whether or not economic activity has contracted to the extent that it fits the official definition of recession is much less important than the decline in growth momentum that lies ahead. In our view, lending, consumer activity, capital investment, and, among other things, earnings will weaken in the coming six months. Yields have reacted to a scenario of slowing growth on the horizon with an anticipation that rates will remain high but potentially be cut in 1H24.

Whilst recent developments support this view, we are acutely aware that the narrative is unlikely to unfold in a linear manner. Areas that could add uncertainty in the coming weeks and tilt the narrative back towards our risk case of higher-for-longer interest rates include how markets react to the data, whether inflation continues to move in the right direction, and how lending conditions evolve. That said, we still believe that deteriorating economic conditions will push the US Fed into cutting rates in the second half of 2024. We continue to forecast recessionary conditions enveloping 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, slowing manufacturing production, a negative consumer wealth effect, and ongoing fiscal drags are all important headwinds to growth.

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With China's growth forecasts revised downwards, hope is fading for the world's second-largest economy to be an engine of growth. Negative sentiment has been dominated by a faltering structural trend in aggregate growth, with particularly persistent tail risks to the property sector. In our view, the negative sentiment has likely run ahead of itself for the time being. The gloom belies the green shoots of a cyclical rebound: car sales and commodity demand have been a bright spot, and the lagged effects of incremental policy easing should generate some recovery in credit growth. Whilst we do not expect the cyclical rebound to be as large as previous cycles, we see tactical upside for Chinese risk assets into the Third Plenum in October/November, as market hopes for a more meaningful support package to be revived into the event. However, for the cyclical rebound to strengthen itself beyond the mechanical reopening boost, we would need to see a sustained recovery in household consumption and property sales.

In markets, an uncertain macroeconomic landscape is a potential headwind for equities. Oil prices have fallen against lacklustre demand, though the escalating Hamas-Israel conflict in the Middle East has the potential for wide-ranging impacts should other regional players get drawn in. Meanwhile, corporate earnings have generally remained strong. Given the uncertainty surrounding several 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 artificial intelligence (AI) and the magnitude of its potential impacts on revenue monetisation, productivity, and cost-cutting, and seek pockets of related growth opportunities.

High yield bonds and loans, and spread sectors more broadly, have continued to benefit from comparatively high levels of carry and current yield from a historical basis, and from positive investor sentiment and spread levels that have moved tighter year-to-date.

Companies of lower credit quality will have to carefully navigate worsening conditions compounded by increased required rates of return by financial markets. We have seen new issue activity pickup in the latter half of the third quarter, but from very weak levels recorded earlier in the year and in 2022. Default rates have also picked up, particularly for CCC-rated issuers. We believe this trend will likely continue, driven by a potentially weakening economy, a growing number of bonds maturing over the next few years, and restrictive refinancing rates facing many corporations.

Tactical positioning will be more prevalent again as we wind down 2023, 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.

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## Disclaimer

The Global Target Income Fund is an investment fund option for The Manufacturers Life Insurance Co. (Phils.), Inc. and is managed by Manulife Investment Management (Hong Kong) Limited.

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