

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 78.18 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.718	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.

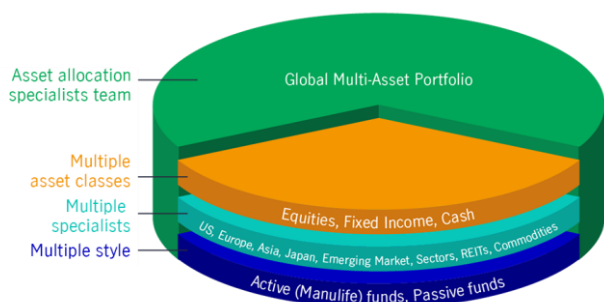
Performance Return (October 31, 2022)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.96%	-15.86%	-15.67%	-3.70%	-7.52%	-1.40%
Annualized	n.a.	n.a.	-15.67%	-1.25%	-1.55%	-0.21%

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	54.41
North American Equities	42.85
European Equities	5.88
Japanese Equities	3.77
Asia Pacific (ex-Japan) Equities	1.90
Fixed Income	34.28
US Bonds	19.69
International Bonds	9.70
Asian Bonds	4.89
Commodities	1.84
Others	3.03
Cash & Cash Equivalents	6.44

Top Ten Holdings

	%
Lyxor S&P 500 UCITS ETF D USD	11.04
SPDR S&P 500 ETF Trust	9.10
MGF - U.S. Equity Fund	8.06
Vanguard Total International Bond ETF	6.90
iShares 7-10 Year Treasury Bond ETF	6.86
iShares Core S&P 500 ETF	4.99
Invesco QQQ Trust	4.62
iShares USD Corp Bond Interest Rate Hedged UCITS ETF	3.86
Xtrackers MSCI Japan Hedged Equity ETF	3.77
ICBC CSOP FTSE Chinese Government and Policy Bank Bond Index ETF HKD Counter	3.61

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

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Market Review

Global equities were mostly positive over the month of October, apart from broad emerging markets (EM) and APAC ex Japan equities, the latter dragged down by China, which sold off aggressively post the 20th National Congress, as well as the Biden Administration announcing new restrictions on China's access to US semi-conductor technology. Developed markets have outperformed emerging markets by over +9% YTD.

September CPI in the US, released in October, showed no signs of a moderation in prices. Terminal rate expectations were adjusted higher to closer to 5% and confirms a US Federal Reserve Board (Fed) willing to hike into a recession. However recent retail sales data in the US held on well and suggest that US consumers did not enter into consumption patterns typically observed into a recession, yet. Similarly, industrial production for September beat consensus reaching record-levels. All major industries including autos, mining and utilities rebounded after a weak August.

Some surprises from central banks around the statements accompanying the European Central Banks (ECB) +75 bps hike decision as well as the Bank of China (BoC) going +50 bps instead of the +75 bps expected, turned markets risk on - and were seen as a potentially positive prelude to the Federal Open Market Committee (FOMC) decision in early November. After all, the mid-terms are just around the corner.

Some weak macro data from Europe and UK PMIs, which are now in contraction, highlight the challenges to the region. The largest misses were recorded in Germany and the UK where data deteriorated the most, on a month over month basis. The periphery appears to be holding up better than the core.

Global growth is likely to continue to be impacted by supply chain disruptions and higher inflation. Policymakers in the past have dealt with these risk separately, but it is the confluence of these risks which is unprecedented.

Across global equities we saw MSCI World gain +7.2%, driven by the S&P 500 gaining +8.1%, whilst Europe gained +7.2%, Japan +3% and Latin America +9.7%. Emerging markets and APAC ex Japan equities fell -3.1% and -4.2%, respectively, dragged lower by China which fell a significant -16.4%.

Sectorally, we saw energy equities outperform, gaining +20.1%, followed by industrials +10.4%, financials +9.3% and healthcare +8.4%. Underperformers were communication services gaining +1.2% and real estate +1.2%.

Value equities measured by the Russell 1000 Value outperformed the Russell 1000 Growth gaining +10.3% vs +5.8%.

Within fixed income, rate sensitives underperformed as the 10 year Treasury continued to push higher to 4.07% by the end of October 2022. The Citi World Gov Bond Index fell -0.5% and Barclays Global Aggregate -0.7%, whilst High Yield outperformed with Global High Yield gaining +2.2% and US High Yield +2.6%.

Within foreign exchange (FX), we saw some non-US dollar FX gains across the Brazilian real, Mexican peso, the Euro and GB pound, but saw US dollar appreciation vs the Renminbi (RMB) which depreciated -2.8% alongside the Japanese yen, depreciating -2.6%.

In terms of spreads, we saw spreads narrowing over the month of October in the Bloomberg Barclays US Corporate High Yield Average OAS to 464 bps vs 550 bps at the end of September.

In terms of a gauge for volatility, the VIX retreated to 26 at the end of October 2022 vs 32 at the end of September 2022.

Governments and central banks continue to demonstrate a tough stance towards inflation whilst a focus on slowing growth is becoming more of a concern for markets as market data deteriorates and Fed overtightening is now exacerbating concerns. Escalated geopolitical tensions add 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 Fed's decision to raise interest rates by another 75 bps at its November meeting comes against a backdrop of evidence that the most acute inflation problem in decades is not abating. Chairman Jerome Powell signalled that the Fed was prepared to slow down the pace of its campaign to tighten monetary policy but warned interest rates would have to rise to a higher level than previously anticipated.

The Fed remains hawkish and is still committed to tightening against a slowing economy. Investors are becoming more and more concerned with recession risk and a higher possibility of downward earnings revisions. Treasury yields remain elevated, credit spreads are pricing in little default risks, whilst equities have rallied more recently – asset markets are not yet pricing a recession. With global central banks normalising policy into slowing growth conditions, risk assets will remain under pressure.

Furthermore, the continuing conflict between market expectations surrounding the peak inflation narrative, and reality remains one that is driving near term volatility.

Tightening financial conditions, heightened geopolitical risks and fears of recession have enacted a heavy toll on valuations and positioning. 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 and emerging markets to be operating in a new normal of higher interest rates.

More indebted emerging markets 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, although the peak pace of tightening could likely already be upon us.

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.

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An 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, growth concerns become more 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 closer to 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 most vulnerable, whilst the US will also remain challenged.

Levels of uncertainty suggest continued market volatility ahead. However, 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.

The market is pricing in an aggressive 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 first quarter 2023 and into the year.

Tactical positioning will be more prevalent again into late 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 and stable spreads, but see yields keeping contained given the potential for macro data disappointments.

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-pandemic growth rates is likely to be pushed into 2023 and beyond. The lasting impact of the pandemic 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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