

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 69.59 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.681	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.

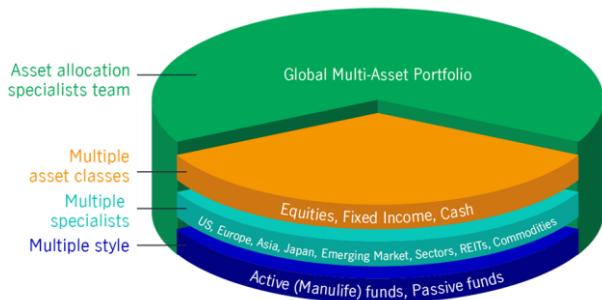
Performance Return (October 31, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-2.05%	-1.31%	-0.53%	-4.20%	-0.69%	-1.92%
Annualized	n.a.	n.a.	-0.53%	-1.42%	-0.14%	-0.25%

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	54.32
North American Equities	34.82
Asia Pacific (ex-Japan) Equities	7.33
European Equities	6.68
Japanese Equities	5.48
Fixed Income	29.55
US Bonds	15.28
International Bonds	11.35
Emerging Market Bonds	2.92
Commodities	6.49
Others	-0.04
Cash & Cash Equivalents	9.67

Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	10.62
SPDR Bloomberg International Treasury Bond ETF	10.21
SPDR Gold Shares	6.49
iShares Core S&P 500 ETF	6.10
MGF - U.S. Equity Fund	5.49
iShares MSCI Japan ETF	5.48
iShares 7-10 Year Treasury Bond ETF	5.27
Invesco QQQ Trust Series I	5.26
Tracker Fund of Hong Kong	5.17
Lyxor S&P 500 UCITS ETF D USD	4.71

^Figures may not sum to 100 due to rounding.

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Market Review

Markets continued their decline in October with equities and fixed income falling globally, as interest rates and financial conditions remain restrictive. Many economies are sluggish, even as inflation remains stubbornly persistent, increasing the likelihood of “higher-for-longer” interest rates. Geopolitical risk events are also a continuing source of concern, with the Russia-Ukraine conflict yet ongoing and the recent conflict between Hamas and Israel in the Middle East. Oil prices fell as demand faltered, whilst select defensive assets performed, including consumer staples, gold, and the US dollar.

The US economy maintained its position of relative strength, though signs of weakness have emerged. They include lower ISM survey results for manufacturing and new orders, higher unemployment, fewer new jobs in October, and revisions lower for prior months. A slowly cooling labour market is conducive to the preferred “Goldilocks” scenario in which the economy returns to low inflation without a collapse in employment or growth. Across the ocean, Europe has seen continued signs of slowdown including softening in housing, investment, and banking, as well as a looser labour market.

Meanwhile in Japan, there is mounting evidence that a virtuous cycle between wages and prices is finally starting to form. Tokyo CPI inflation is a leading indicator of national consumer price trends, as the October numbers came in higher than expected. The odds of the end of negative interest rates and official dismantling of yield curve control (YCC) may be growing amid accelerating inflation, a tight labour market, more ambitious wage hike demands, and strong corporate earnings. Already, we have seen easing in YCC with yields of the 10-year Japan government bond allowed to exceed 1%.

In China, the manufacturing PMI slipped back to contraction territory whilst services held on to expansion. Amid increasingly negative investor sentiment, the government took steps to support a flagging economy and instil greater consumer confidence, with key measures for the property sector. As the impacts of policy support filter through, markets are hoping for a reignition of the Chinese growth engine, which so far has failed to materialise.

Equities fell globally with MSCI ACWI down -2.98% in October. Developed markets fared slightly better, with MSCI World down -2.88% and the S&P 500 down -2.10% with a relatively stronger US. Meanwhile, emerging markets lagged and fell by -3.87%, pulled down by Latin America at -4.75%.

Within MSCI World, utilities was the only positive sector over the month, gaining +0.59%. Other sectors that also performed were technology down -0.83% and consumer staples down -1.65%, whilst other sectors all fell by more than 2%, with the greatest losses in consumer discretionary (-4.74%), energy (-4.35%), and industrials (-4.12%).

Fixed income returns were also negative across the board, though within a more contained range. The FTSE World Government Bond Index fell by -1.10% and similarly, the Bloomberg Global Aggregate Index was down by -1.20%. With less rate sensitivity, high yield performed with the Bloomberg Global index sliding -0.95% over the month.

In foreign exchange, most major currencies weakened against the USD in October, including the GBP (-0.58%), EUR (-0.17%), and JPY (-1.47%).

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 or close to peak rates. 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 Federal Reserve Board (Fed) is likely at (or very near) peak rates. We maintain our base case that the US economy should weaken in the coming months, and that the US Fed is done hiking. 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.

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 revives 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.

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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 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 activities pick up 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, and 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.

Disclaimer

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