

# 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 76.95 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.707	<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.

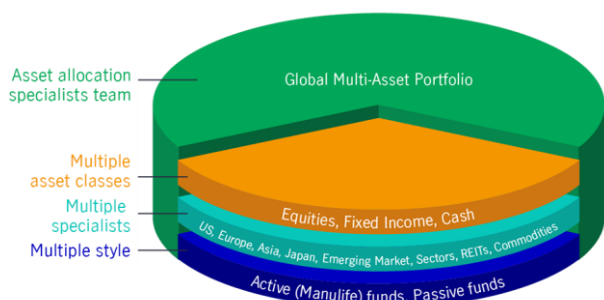
## Performance Return (September 30, 2022)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-4.98%	-17.48%	-15.26%	-4.52%	-8.67%	-3.30%
Annualized	n.a.	n.a.	-15.26%	-1.53%	-1.80%	-0.50%

## 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>51.60</b>
North American Equities	40.34
European Equities	5.68
Japanese Equities	3.67
Asia Pacific (ex-Japan) Equities	1.91
<b>Fixed Income</b>	<b>35.58</b>
US Bonds	20.39
International Bonds	9.93
Asian Bonds	5.26
<b>Others</b>	<b>5.12</b>
<b>Cash &amp; Cash Equivalents</b>	<b>7.70</b>

## Top Ten Holdings

	%
Lyxor S&P 500 UCITS ETF D USD	10.70
SPDR S&P 500 ETF Trust	8.64
MGF - U.S. Equity Fund	8.16
iShares 7-10 Year Treasury Bond ETF	7.16
Vanguard Total International Bond ETF	7.05
iShares Core S&P 500 ETF	4.74
Invesco QQQ Trust	4.56
iShares USD Corp Bond Interest Rate Hedged UCITS ETF	3.89
ICBC CSOP FTSE Chinese Government and Policy Bank Bond Index ETF HKD Counter	3.83
Xtrackers MSCI Japan Hedged Equity ETF	3.67

^Figures may not sum to 100 due to rounding.

# Global Target Income Fund

## Market Review

Fears of recession intensified over the third quarter, weighing heavily on global equity markets. This was particularly marked in September which saw developed markets post the steepest decline since the height of the pandemic-induced panic in March 2020. The MSCI World index fell 9.3% during the month and, notably, all 47 countries in the index ended the month in negative territory.

September saw a continued drawdown in risk assets, largely driven by an expected 75 bps Fed hike as well as two notable events over the month – the first being the higher than expected US inflation figures in mid-September, the second a fiscal event (unfunded tax cuts) in the UK, which was seen as very negative for the UK economy, and led to gilt distress and a gap down in Sterling, causing the BoE to intervene – the latter highlighting the vulnerabilities of economies and markets as UK pension funds saw their bond holdings collapse in value, whilst triggering margin calls for more collateral to be posted.

US Treasuries continue to push higher whilst 2/10s remain inverted by approx. 40 bps. Lagging inflationary data still remains too hot according to the US Federal Reserve Board (Fed) and the S&P 500 has retouched lows. Fears of Fed overtightening remain a dominant overhang, whilst US economic data is deteriorating with higher PCE and jobless claims falling to a five month low of 194,000. The Fed is looking at backward looking data when formulating forward looking monetary policy, and rhetoric remains on the tightening path.

Inflation however may be changing. WTI oil prices are now up just +6% YTD after a +60% gain in June 2022. Copper is down -23% YTD, Lumber -64% YTD and, according to Case-Shiller – a measure of home prices in 20 US cities – fell -0.44% in July – the first drop in over 10 years. The Fed remain laser focused on data including upcoming inflation figures and jobs data. If jobs do slow, and wage growth keeps moderating then, maybe the Fed can slow the pace of hikes.

Across Equities, MSCI World fell -9.3% and the S&P 500 fell -9.2%, whilst Europe was down- 8.7% and EM and APAC ex Japan were down -11.7% and -12.5%.

Asia was the worst performing region in the emerging markets (EM) during the third quarter, weighed down by China, Korea and Taiwan. The derating in Korea this year has been extreme, with the KOSPI index approaching levels last seen in 1989. ASEAN on the other hand was somewhat insulated from recession fears by economic re-opening and the promise of recovering tourism.

Sectorally, real estate, technology, communication services and utilities fell -12.7%, -11.9%, -11.8% and -11.5%. Healthcare and consumer staples performed better, only falling -3.9% and -7.7%.

Within Fixed Income, US 10yr Treasuries were up +67 bps to 3.80%, Government Bonds fell -5.1%, Global High Yield -5.1% and EM USD Aggregate -5.5%.

In terms of spreads, we saw a widening over the month of September in the Bloomberg Barclays US Corporate High Yield Average OAS to 550 bps vs 482 bps end of August.

In terms of a gauge for volatility, the VIX ended September 2022 at 32, vs 26 at the end of August 2022.

In foreign exchange, the US dollar strengthened again against all majors with the British pound weakening -5.2% vs the dollar over September. The euro went below parity with the dollar.

Governments and central banks continue to demonstrate a tough stance towards inflation whilst a focus on slowing growth is becoming more a concern for markets as market data deteriorates and Fed overtightening now exacerbating concerns. Escalated geopolitical issues 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 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, although this is not yet reflected in consensus earnings per share (EPS) forecasts. 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 US 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.

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 will 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 above 4%.

# Global Target Income Fund

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.

Pervasive geopolitical uncertainty, downside risks to growth, and upside pressures on inflation, albeit there are tentative signs of moderation, underpin caution regarding earnings and valuation expectations.

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 fourth quarter 2022 and into early 2023.

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.

Corporate fundamentals are varied across sectors. Markets remain sensitive to a host of factors including 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. 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.

---

## 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.

The Investment Funds ("Funds") mentioned in this document are specific to variable life insurance contracts and are not considered mutual funds. Yields depend on interest and foreign exchange rate levels, both of which may fluctuate. Other factors that affect yield include changes in the credit standing of the issuers and changes in the value of the stocks and dividends received. Further, investments of the Funds may provide that their values be determined based on prices or yields of other securities, instruments or foreign currencies, and such provisions may result in negative fluctuations in the value of these investments and, in turn, the Funds' yields. Thus, the performance of the separate account(s) is not guaranteed and the value of the policy could be less than the capital invested subject to any specified minimum guarantees. THE VARIABLE LIFE POLICYHOLDER SHALL BEAR ALL INVESTMENT RISKS. Past performance of the Funds is not necessarily indicative of future performance. Yields are not guaranteed. Yields indicated are exclusive of charges associated with the variable life policy.

Manulife Investment Management™ is the institutional asset management arm of Manulife Financial. Manulife Investment Management™ and its affiliates provide comprehensive asset management solutions for institutional investors and investment funds in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative investments such as real estate, timber, farmland, as well as asset allocation strategies.

The opinions and portfolio holdings expressed are those of Manulife Investment Management™ ("Manulife IM") as of the date stated in the document, and are subject to change based on market and other conditions. The information in this document including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Manulife IM disclaims any responsibility to update such information. Information about the portfolio's holdings, asset allocation, or country diversification is historical and is not an indication of future portfolio composition, which will vary. All overviews and commentary are intended to be general in nature and for current interest. While helpful, these overviews are no substitute for professional tax, investment or legal advice. Clients should seek professional advice for their particular situation. Neither Manulife Financial, Manulife Investment Management™, nor any of their affiliates or representatives is providing tax, investment or legal advice. Past performance does not guarantee future results. This material was prepared solely for informational purposes, does not constitute an offer or an invitation by or on behalf of Manulife IM to any person to buy or sell any security and is no indication of trading intent in any fund or account managed by Manulife IM. Investors should not make investment decisions based on this material alone. For details, please refer to the relevant investment policy and product key fact statements.