

Global Target Income Fund

An investment fund option for the 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 87.29 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.864	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.

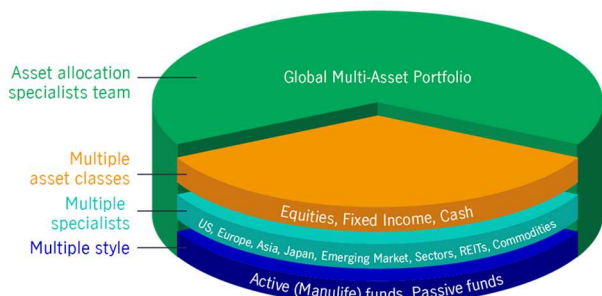
Performance Return (August 31, 2020)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	2.42%	0.66%	6.60%	1.49%	n.a.	7.03%
Annualized	n.a.	n.a.	6.60%	0.49%	n.a.	1.48%

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	64.98
North American Equities	31.87
Asia Pacific (ex-Japan) Equities	18.60
European Equities	10.13
Japanese Equities	3.90
Emerging Market Equities	0.48
Fixed Income	32.53
US Bonds	21.88
Emerging Market Bonds	4.69
International Bonds	4.50
Asian Bonds	1.47
Commodities	1.61
Cash & Cash Equivalents	0.88

Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	7.30
MGF-US EQ-I3 MGF-US EQTY-I3	6.85
Lyxor EURO STOXX 50 (DR) UCITS ETF Act -Dist-	5.99
Invesco Preferred Shares UCITS ETF	4.66
Vanguard Information Technology ETF	4.61
iShares Core MSCI Asia ex Japan ETF	4.60
Invesco China Technology ETF	4.59
SPDR Bloomberg Barclays International Treasury Bond ETF	4.50
iShares iBoxx \$ High Yield Corporate Bond ETF	4.44
Xtrackers MSCI Japan Hedged Equity ETF	3.90

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

Global Target Income Fund

Market Review

August saw continued momentum in risk assets, ending with a dovish shift from the Fed during the Jackson Hole speech. Geopolitical tension slightly heightened with the Chinese intervention over the sale of TikTok – a government approval on the transaction is now needed which could lead to a delay in negotiations until after the US presidential election.

Developed markets outperformed by a wide margin for the month despite the continuous weakness in the US Dollar. Chinese equities (+5.8%) supported EM performance, along with positive performance in Korea, India and Indonesia, while Brazil (-8.4%), Turkey (-7.4%) and Chile (-7.2%) detracted from the region.

MSCI World gained +6.7% over the month, S&P500 +7.2% whilst MSCI EM and MSCI APAC ex Japan gained +2.2% and +3.8% respectively. MSCI Latam did not participate in the market rally with a month end performance of -6.2% as the region is still struggling with the effects of a continuing health crisis on public finances, currencies and economic activity.

Looking at the sectors within MSCI World, Consumer Discretionary, Information Technology and Industrials are the main contributors which gained +12.2%, +10.7% and +8.7% respectively. Utilities moved in a opposite direction compared with the broader market with a month end performance of -1.4%.

Fixed Income had weaker performance vs last month, as shown by Barclays US Aggregate (-0.8%), Citi World Gov Bonds (-0.5%) and Barclays Global Treasury (-0.4%). Riskier assets remained strong as Barclays Global High Yield and Merrill Lynch High Yield Master II gained +1.64% and +0.98% respectively. The US Treasury 10yr increased 17 bps and stood at 0.70% for the month amid market optimism on favorable economic data.

In the commodity space, natural gas and energy posed notable returns at +32.0% and +13.1%. Gold (-0.4%) marginally detracted from performance.

Non-USD FX continued to deliver strong performance, with Norwegian Krone (+4.6%), Australian Dollar (+3.1%) and Canadian Dollar (+2.8%) leading the way. The Brazilian Real remained weak (-5.1%).

In the US job market, US jobless claim fell below 1 million for the first time since March but numbers improved towards the month end data point. The US unemployment rate fell, but the growth in job creation slowed as reflected by nonfarm payrolls. Manufacturing data showed a mixed picture with US ISM rising well above the 50 level, indicating an expansion, while the PMIs from Europe were not as strong amid the resurgence of coronavirus infections. COVID-19 cases increased in Spain, recording the highest number of new cases per capita after Brazil. The outbreak remains persistent in the US and worldwide, with India showing a record-breaking increase in infections.

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. Further escalation of US China tensions particularly around technology is likely to bring further tit for tat reaction from both sides.

Outlook

Despite the markets' continued recovery in August, we continue to be cognisant that they can suddenly change course, as there are still underlying risks at play. While there have been small rotations into value stocks, growth stocks continue to benefit from COVID-19-related demand for globally digital business practices. Uncertainty is likely to remain high into late Summer and the November US election. Global economies could be moving towards Phase 2 where we see a stall-out in markets and a pick up in the credit default cycle.

Given underlying risks, part of our ongoing analysis focuses on the causes of stock market increases. Markets appear to be factoring in expectations that the U.S. economy will rebound quickly over the third quarter of 2020 and beyond, with the lifting of lockdowns and resumption of modest economic activity in many parts of the country. A statement from the Fed in mid-August reinforced the expectation that it would maintain very low interest rates for a while, which could continue to drive market prices up.

The question remains, however, as to how much further market prices can go. From a valuation perspective, the market is valuing 2021 global earnings at approximately 24.9-times (up from 16-times in March) and climbing. These valuations represent levels rarely exceeded since the information technology bubble of the 1990s. Furthermore, the dispersion between the price-earnings ratios of growth stocks and value stocks continues to widen, reaching its widest level in over 20 years as of the end of August. While markets seem to have accepted this growth leadership, we question how long markets can ignore the stark valuation differences between growth and value stocks.

Corporate fundamentals are varied across sectors, with defensive business models holding up relatively well and cyclical/commodity businesses facing the most challenges. Markets are nervous for a host of factors, including COVID-19 concerns, slowing global growth and concerns of a recession as well as the rising US/China tensions. We expect global stimulus efforts to remain a focus into year-end as central banks globally rush to fill liquidity gaps and relieve economic pressure. Further fiscal stimulus is likely in the US.

US/China tensions remain the most underappreciated geopolitical risk although it is likely more of a bark than a bite at least until the US election.

In our view, equity markets today do not reflect the current state of the global economy. Following the second-quarter reporting period, we observed that many companies were increasing debt and storing cash, which indicates a more defensive stance in preparation for future economic weakness. Consequently, company debt ratios, which were already high coming into the pandemic, are far above historical averages and interest coverage has continued to decline. As of the end of August, debt was at a high of approximately 249% of gross domestic product in 2020 (up from 222% in 2019), which could pose challenges for companies that do not have strong balance sheets.

Global Target Income Fund

The global growth profile, whether a V, W, L, reverse J or “Nike swoosh” remains under debate. What is clear is not all economies have the financial fire power to implement unique fiscal stimuli and will have to wait for a more broad-based opening up of the global economy.

The key issue is that we are moving further and further away from getting back to the pre-COVID trend, let alone the long-term trend growth path.

Disclaimer

The Global Target Income Fund is an investment fund option for The Manufacturers Life Insurance Co. (Phils.), Inc.’s Affluence Max, Affluence Max Gold and Affluence Builder Series, 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.