Manulife Asset Management

December 31, 2019

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 87.16 million

Fund Currency
US dollar

Dealing/Valuation
Daily

Price (NAV/unit)
USD 0.886

Management Fee
2.25% per annum

Bloomberg Ticker
MGLTRIN

Investment Fund Manager (the "Manager")
Manulife Asset Management (Hong Kong) Limited

* *The target payout is not guaranteed. Distribution may be made out of principal investment.*

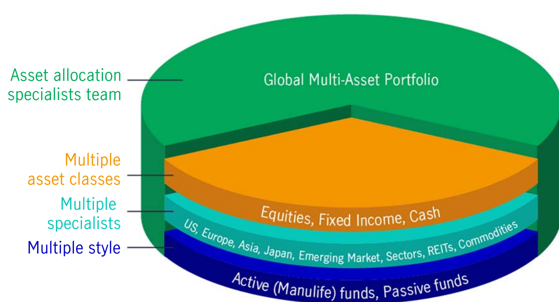
Performance Return (December 31, 2019)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	2.83%	8.93%	8.93%	7.69%	n.a.	6.32%
Annualized	n.a.	n.a.	8.93%	2.50%	n.a.	1.56%

Why this Fund?

The Fund is managed using the **3 "Ds"** Investment Philosphy: 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^

	%
Equities	**58.92**
North American Equities	27.11
European Equities	15.83
Asia Pacific (ex-Japan) Equities	7.47
Japanese Equities	4.67
Emerging Market Equities	3.84
Fixed Income	**31.46**
US Bonds	27.54
Emerging Market Bonds	2.95
Asian Bonds	0.97
Commodities	**4.58**
Cash	**5.04**

Top Ten Holdings

	%
iShares USD High Yield Corp Bond UCITS ETF	10.46
Vanguard Information Technology ETF	6.66
MANU-US EQU-I3 MANULIFE GLB-US EQUI-I3	6.07
iShares Core U.S. Aggregate Bond ETF	4.40
SPDR Gold Trust	4.20
MANU-EURO GR-I3$ MANULIFE GLBL-EURO GR-I	4.09
SPDR Bloomberg Barclays High Yield Bond ETF	3.97
SPDR S&P Software & Services ETF	3.94
iShares MSCI Emerging Markets ETF	3.84
iShares USD Corp Bond UCITS ETF	3.54

^Figures may not sum to 100 due to rounding.

Global Target Income Fund

Market Review

Momentum again continued in December for risk assets as central banks continued with their liquidity provisions, whilst macro PMI data out of Europe remained fragile and talks of a signing ceremony around a Phase 1 trade deal added to positive sentiment. While global manufacturing data remain weak, consumer confidence was strong and spending remained high. Despite slowing macro growth prospects, risk asset prices moved higher over the month.

The MSCI ACWI gained +3.6% with the S&P +3%. Emerging Markets outperformed Developed Markets in both equities and debt securities, with notable outperformance in Latam equities +10.4% driven by Brazil, whilst Chinese equities also performed well. Drilling down further saw buoyant commodity price gains with broad Energy +7.9% and Oil +12.3% over the month.

Growth stocks generally outperformed value stocks, supported by Energy, Tech and Materials gaining +5.4%, +4.2% and +4.2% respectively. Industrials were weak given continuing fragile manufacturing data.

EM debt outperformed DM debt with local outperforming hard currency.

US High-yield bond prices advanced sharply in December returning +2.3% in December, with yields moving 44 basis points lower to 5.91%. Along the quality spectrum, lower-rated issues outperformed, with CCC-rated issues returning +5.1%, while B-rated and BB-rated issues returned +2.4% and +1.4%, respectively. Europe High Yield names performed similarly.

The trend of US and China 'de-coupling' continues as non-trade barriers such as US blacklisting more Chinese companies, US involvement in Hong Kong and Taiwan domestic issues and the US pushing to limit US investments into Chinese financial assets continue to keep tensions fragile. Geopolitics in North Korea, Iran, UK, South America and peripheral Europe will ensure the continuing ebb and flow of market volatility into 2020.

Outlook

The 2019 calendar year was an interesting period for investors. Despite an inverted yield curve, concerns of a recession and a large volume of negative-yielding debt, global equities rebounded, with U.S. stocks posting some of their best returns in decades as the result of three Fed rate cuts. Posturing between the U.S. and China on trade issues moved markets, defying underlying fundamental concerns.

While a recession doesn't seem imminent, the MSCI World Index continues to trade at close to 15-year highs. The market to a large degree appears to be basing the high valuations we have been experiencing on perpetually low rates, as 2019's gains were almost all based on multiple expansion as earnings growth was only 0.1%. In addition, profitability levels measured by earnings-before-interest-and-taxes margins continue to be at historic highs, although this is starting to decline. It is our view that we remain in a high-margin, high-debt, low-growth market with high multiples to match.

Going into 2020, we are finding attractively valued opportunities outside the U.S., as the U.S. still trades at a 15-year peak relative multiple compared to international markets. While the profitability of international corporations is cyclically high, it still remains well below its U.S. equivalent on average. We are comfortable with our overweight in equities overall - at least, for the time being.

At the margin, sentiment has improved more recently towards risk assets, as markets continue to push towards new highs due to heightened probability of a partial phase one trade deal focused around US agricultural goods, higher probability of a no-deal Brexit off the table and central banks adding liquidity. Cyclically markets are looking better as some risks are alleviated, however the structural slow-down in global growth, earnings, a lack of higher inflationary pressures and geopolitics will remain as the backdrop and keep markets volatile.

Currencies, in particular the USD, will be key, as global central banks race to pre-empt Fed rate cuts by cutting themselves in order to support export growth and boost inflation.

As a result, rate cuts across EM are supporting local equity and debt markets. Significantly, when these are coupled with material market and economic reforms in important markets such as Brazil and India, we find ourselves remaining constructive on the EM asset class, which remains attractively valued from a medium to longer term perspective, however near term has been challenged by slowing global manufacturing and uncertainty on global trade.

The Fed, China and Trade will remain key market drivers, whilst other growing risks such as pockets of recessionary risks in Europe, UK trade deal with the EU by the end of 2020, Hong Kong protests and Iranian headlines have added to investor concerns.

Given the Fed's three 25bps reductions, we think one more cut will come through in March 2020, with a December 2019 pause, barring an unexpected weakening in the economy.

Central banks, globally, are signaling they are committed to positive growth support for economies, which should bode well for risk and higher yielding assets. Bouts of volatility however should be expected across currencies, spreads and equities on trade and or Fed uncertainty.

Any further easing from China could produce stabilization, rather than the kind of V-shaped recovery we saw in 2016. Nevertheless, even this more limited stimulus should help Chinese markets and overall global trade. A more prolonged trade discussion could continue to impact sentiment as well as adjustments seen in the CNY, which could also add pressure to the rest of EMFX and Emerging Market assets.

On the margin, we are reducing risk by selling winners in U.S. stocks to buy non-U.S. equities, and by taking profits in investment-grade corporate bonds in developed markets, but sticking with emerging market debt.

Longer term, rates should edge higher if we are right about global economic growth improving later into the year. High yield bonds could remain an attractive asset class if, as we expect, the environment for stocks remains broadly favorable. From a total-return perspective, emerging-market credit is one of our most preferred positions in the portfolio and remains a focal point for income-seeking investors. We continue our search for opportunities and will remain nimble in our asset allocation decision making into 2020.

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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.

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