

# 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

<b>Inception Date</b> January 2016	<b>Fund Size</b> USD 85.57 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.847	<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.

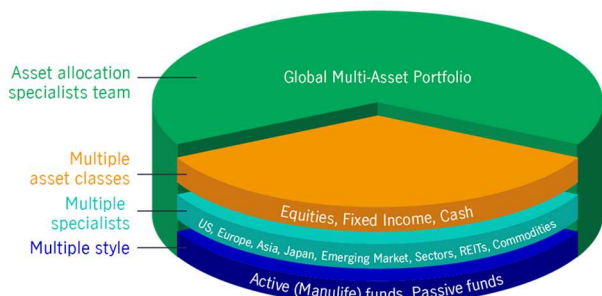
## Performance Return (July 31, 2020)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	4.86%	-1.71%	2.10%	-0.81%	n.a.	4.50%
Annualized	n.a.	n.a.	2.10%	-0.27%	n.a.	0.98%

## 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<sup>^</sup>

	%
<b>Equities</b>	<b>56.88</b>
North American Equities	35.85
Emerging Market Equities	10.62
Asia Pacific (ex-Japan) Equities	5.36
European Equities	5.04
<b>Fixed Income</b>	<b>40.86</b>
US Bonds	26.91
Emerging Market Bonds	7.92
International Bonds	2.52
Money Market Fund	2.03
Asian Bonds	1.49
<b>Commodities</b>	<b>0.72</b>
<b>Cash &amp; Cash Equivalents</b>	<b>1.55</b>

## Top Ten Holdings

	%
Vanguard Information Technology ETF	7.43
MGF-US EQ-I3 MGF-US EQTY-I3	6.44
iShares MSCI Emerging Markets ETF	6.43
Invesco Preferred Shares UCITS ETF	5.69
SPDR S&P 500 ETF Trust	5.41
iShares 3-7 Year Treasury Bond ETF	4.51
iShares PHLX Semiconductor ETF	4.39
VanEck Vectors J.P. Morgan EM Local Currency Bond ETF	3.65
iShares USD Corp Bond UCITS ETF	3.48
iShares USD High Yield Corp Bond UCITS ETF	3.27

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

Risk asset momentum continued into July 2020 following on from a strong Q220 as abundant financial liquidity continued to support markets. Geopolitical tensions remained high, with little sign of let up in US-China points scoring with tit-for-tat consular closures in Houston and Chengdu.

The Growth vs Value discussion remains a key debate, along with the direction of the US Dollar. Recent USD weakness over the month of July has supported EM including APAC. Notable equity performers in this region came from Brazil (+13.1%), China (+9.3%), Taiwan (+10.9%) and India (+10%). MSCI World gained +4.8% over the month, S&P500 +5.6% whilst MSCI EM, MSCI APAC ex Japan and MSCI Latam gained +9%, 8% and 11% respectively.

Sectorally, within MSCI World, Materials, Consumer Discretionary, Utilities outperformed gaining +7.3%, +7.2% and 6.9% respectively. Energy underperformed falling -3.8%.

Tech earnings growth has been one of the most resilient, less negative YoY earnings growth for the June quarter than most sectors except for REITs and Communications.

In Fixed Income, the Barclays Global High Yield gained +4.6%, Barclays Global Aggregate Corporates gained +4.2% and the Citi World Gov Bonds gained +3.6%. The US Treasury 10yr ended the month at 0.54% highlighting the trajectory of limited if not zero rate hikes over the medium term – the threat of deflationary forces is very relevant and one to watch as we head into year end.

Notable performance over July was in Precious Metals including Silver's strong gains, as well as Gold gaining +8.6%.

Likewise, performance of non-USD FX excelled, with GBP gaining +6.2%, Euro +5.3%, whilst in EM, the Brazilian Real and Mexican Peso gained +5.5% and 4.1%.

In terms of economic data, PMIs in Europe and ISMs in the US beat expectations highlighting a recovery in manufacturing. However income and spending data remain pretty grim as consumers hold back. COVID cases continue to rise globally, with the US still seeing 60k infections per day whilst Brazil and India struggle to mitigate the spread.

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 July, 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.

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.

Gross margins are decreasing from historical highs amid a tougher environment for companies to grow profits, at least in the short term. Corporate debt levels are at a new high of 249% of global gross domestic product (up from 222% in 2019), a situation that poses challenges for companies that do not have strong balance sheets. From a valuation perspective, the market is valuing 2021 global price/earnings at 23.5 times (up from 16 times in March), levels that have rarely been exceeded since the technology bubble of the late 1990s. Additionally, the price/earnings disparity between growth and value stocks is at its widest in over 20 years. While the market seems comfortable with the leadership of growth stocks, we believe these stark valuation differences cannot continue.

Earnings expectations have fallen significantly year-to-date, as global 2020 forecasts were cut by 36%.

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.

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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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