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 84.39 million

Fund Currency
US dollar

Dealing/Valuation
Daily

Price (NAV/unit)
USD 0.865

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.*

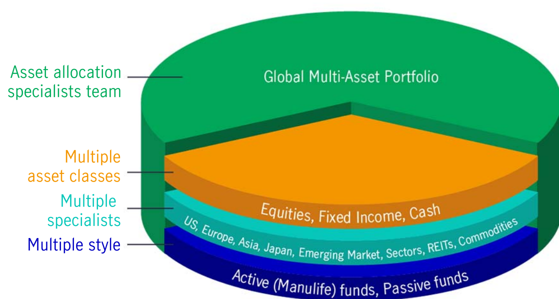
Performance Return (November 30, 2019)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.98%	5.93%	3.32%	4.47%	n.a.	3.40%
Annualized	n.a.	n.a.	3.32%	1.47%	n.a.	0.87%

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	**69.05**
North American Equities	37.04
European Equities	13.96
Japanese Equities	8.67
Asia Pacific (ex-Japan) Equities	5.55
Emerging Market Equities	3.82
Fixed Income	**26.14**
US Bonds	25.14
Asian Bonds	0.99
Commodities	**2.48**
Others	**0.00**
Cash	**2.33**

Top Ten Holdings

	%
iShares USD High Yield Corp Bond UCITS ETF	10.63
SPDR Bloomberg Barclays High Yield Bond ETF	7.05
Vanguard Information Technology ETF	6.56
MGF - American Growth Fund	6.13
848-816153-220 EUR H2564PLA	4.60
iShares Core S&P 500 ETF	4.49
SPDR S&P Software & Services ETF	4.16
MGF - European Growth Fund	4.08
Lyxor S&P 500 UCITS ETF D USD	4.02
iShares MSCI Emerging Markets ETF	3.82

^Figures may not sum to 100 due to rounding.

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Market Review

Momentum continued in November for risk assets (equities and high yield) despite what is a suppressed macro growth and inflationary environment. Clear divergence exists between asset markets and macro prospects. Global manufacturing purchasing managers indexes (PMIs) in aggregate are potentially showing a stabilisation in recent data points since July 2019, trending just above the expansionary 50 level versus a 49.3 recent low. US Institute for Supply Management (ISM) data disappointed in November at 48.1, indicating we won't see a meaningful reacceleration in S&P 500 earnings growth for the next few quarters. PMIs and ISM remain fragile.

The MSCI ACWI gained +2.5% with the S&P +3.6% – the S&P's strongest November gain since 2016. Developed markets broadly outperformed emerging markets (EM), both on the equity and fixed income side. MSCI EM fell -0.1% driven by a very weak MSCI Latam -4.1% given EM foreign exchange (EMFX) weakness in the Brazilian real (-5.8%), Colombian peso (-5.8%) and Chilean peso (-9.3%). Given Latam FX weakness, EM fixed income US dollar performed reasonably better than local currency fixed income with the Barclays EM USD Aggregate +0.03%.

November was an equity month – growth stocks generally outperformed value stocks, supported by information technology as the top-performing sector while utilities lagged. MSCI Info Tech, Healthcare and Industrials gained +5.4%, +4.8% and +3.2% respectively.

High-yield bonds returned 0.39%. Along the quality spectrum, high-yield investors generally favoured higher-quality companies and issues. BB-rated bonds returned 0.81%, outperforming CCC-rated bonds, which returned -1.61%. November was the seventh month in a row that BB-rated bonds outperformed CCC-rated bonds.

Over November, some of the macro geopolitics cyclically improved given some alleviation, as a partial phase one trade deal is becoming a better probability of happening, although a firmer commitment from the US in terms of rolling back previously implemented September tariffs and foregoing further December tariffs have yet to be confirmed.

The trend of US and China 'de-coupling' continues as non-trade barriers such as the US blacklisting more Chinese companies, US involvement in Hong Kong and Taiwan domestic issues, and the US pushing to limit US investments in Chinese financial assets continues to keep tensions fragile.

Outlook

Year-to-date, global equity and spread markets have been greatly impacted by increased tensions over trade policy and further guidance of an accommodative Fed. Most of US equity returns for 2019 have been driven by a Fed policy re-rating rather than an improving earnings outlook.

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 and a lack of higher inflationary pressures will remain as the backdrop and keep markets volatile.

Currencies, in particular the US dollar, 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.

Globally, the question remains as to whether the global economy is, in fact, experiencing a mid-cycle slowdown or is on the brink of a recession. Despite the protracted length of the economic cycle, we believe it is likely to be the former as there is little evidence that the global manufacturing downturn has infected the service sector to any significant degree. More recently, improving manufacturing data has helped push risk assets higher. Consumer data out of the US has remained robust.

The Fed, China and trade will remain key market drivers, whilst other growing risks such as pockets of recessionary risks in Europe, in particular Germany, UK elections and the Hong Kong protests have added to investor concerns.

Given the Fed's three 25 basis point reductions, we think one more cut will come through in March 2020, with a December 2019 pause, barring an unexpected weakening in the economy. Our relatively modest forecast for Fed easing is currently driving our preference for a slight underweight in US bonds versus equities, although we like US fixed income relative to foreign bonds.

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.

China has already engaged in substantial fiscal and monetary stimulus in the past year or so, and we expect further easing from China in an effort to stabilise interbank rates, bolster inflation, and support economic growth. We expect any further easing to produce stabilisation, 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 Chinese yuan, which could also add pressure to the rest of EMFX and EM assets.

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Longer-term, rates should edge higher if we are right about global economic growth improving later into next year. High-yield bonds could remain an attractive asset class if, as we expect, the environment for stocks remains broadly favourable. 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 yield and will remain nimble in our asset allocation decision making for the rest of 2019 and into 2020.

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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