

Peso Target Income Fund

An investment fund option for **Affluence**, **Affluence Gold** and **Affluence Builder** variable life insurance products of **The Manufacturers Life Insurance Co., (Phils), Inc.**

Investment Objective

The Fund aims to provide periodic payouts of up to 3% per annum* while providing the potential for capital appreciation and limiting the risk of capital erosion by investing in a diversified portfolio of fixed income and equity investments based on an active asset allocation strategy.

Fund Information

| | | | |
|--------------------------------------|--|---|-----------------------------------|
| Inception Date April 2014 | Fund Size PHP 196.29 million | Fund Currency Philippine peso | Dealing/Valuation Daily |
| Price (NAV/unit) PHP 0.890 | Management Fee 2.00% per annum (of which 0.2% will go to the investment advisor, MAM Hong Kong Ltd.) | Bloomberg Ticker MPPHINC | |

* The 3% per annum payout rate is not guaranteed.

Performance Return (December 31, 2019)

| Peso Target Income Fund (net of management fee) | 1 Month | YTD | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---------|-------|--------|---------|---------|-----------------|
| Absolute | 0.59% | 8.15% | 8.15% | 7.49% | 1.88% | 4.98% |
| Annualized | n.a. | n.a. | 8.15% | 2.44% | 0.37% | 0.85% |

Past performance is not an indication of future results. 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.

Monthly Net Asset Value per Unit

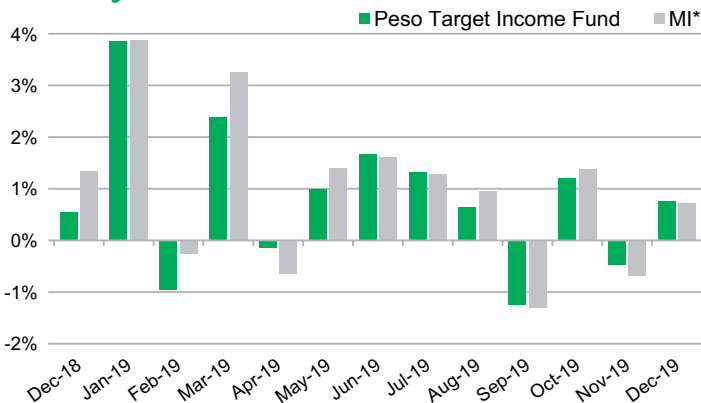


Top Five Holdings

| Bond Pool | | Short-Term Bond Pool | |
|--------------------------------------|-------|-------------------------------------|-------|
| FXTN 03/12/24 | 18.2% | Manulife Stable Income Fund Class I | 32.5% |
| RTB 12/04/22 | 15.7% | FXTN 01/26/22 | 18.1% |
| FXTN 04/21/23 | 5.9% | RTB 06/13/21 | 14.1% |
| FXTN 01/10/29 | 5.7% | FXTN 01/19/22 | 11.4% |
| Manulife Income Builder Fund Class I | 5.4% | FXTN 07/04/22 | 9.7% |
| Equity Pool | | | |
| SM Investments | 13.6% | Ayala Land | 8.4% |
| Manulife Equity Wealth Fund Class I | 12.2% | BDO Unibank | 7.8% |
| SM Prime Holdings | 9.7% | | |

Notes:
FXTN - Fixed Treasury Notes or Peso-denominated debts of the Philippine Government
RTB - Retail Treasury Bonds of the Philippine Government

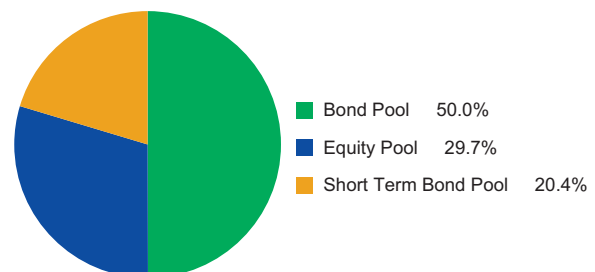
Monthly Performance



*Market Indicator = 30.0% PSEi + 4.9% Markit Iboxx ALBI Philippines Liquid + 44.3% Markit Iboxx ALBI Philippines 1-5 + 20.8% Markit Iboxx ALBI Philippines 1-3

Portfolio Breakdown

Asset Allocation (at Market Value)



As per the fund's Investment Policy Statement, initial subscriptions are invested in fixed 70% Bond Pool, 10% Short-Term Bond Pool and 20% Equity Pool. The investments of these pools consist of:

- Peso Bond Pool: Peso-denominated bonds of the Republic of the Philippines and term deposits.
- Short Term Bond Pool: Peso-denominated bonds of the Republic of the Philippines with a term of up to three years and term deposits.
- Equity Pool: Various stocks listed on the PSE and term deposits

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Market Review

The Philippine stock market index (PSEI) rose by 1% in December to end the year at 7,815. The PSEI gained 4.7% in 2019. Major positive developments on the US-China talks managed to push the market into positive territory. The limited agreement calls for China to purchase more products from American farmers and other exports. In return, the U.S. put the brakes on new tariffs set to take effect Sunday and agreed to reduce some existing levies. As part of the deal, the U.S. canceled plans to impose fresh tariffs on \$156 billion in annual imports of Chinese-made goods, including smartphones, toys and consumer electronics that were set to go into effect this December. In exchange, China agreed to increase American agricultural purchases by \$32 billion over previous levels over the next two years.

Locally, investor confidence in the Philippines took a hit during the month as the government put pressure on water concessionaires in Metro Manila, citing unfavorable contract terms for the government. MWSS canceled the 15 year contract extensions for Manila Water and Maynilad that would have allowed companies to supply water through 2037. The event came following Manila Water winning Php7.4bn in claims versus the Philippine government in the International Court of Arbitration in Singapore.

November inflation print came in at 1.3%, slightly higher than the 0.8% in October. Food and non-alcoholic beverage CPI was flat year-on-year versus October's 0.9% decline. Furthermore, housing & utilities prices picked up 1.2% year-on-year vs 0.6% in October. As such, the Central Bank kept rates steady at 4.00% during the Monetary Board's last rate-setting meeting of the year, which was largely within expectations. The 2019 inflation forecast was kept steady at 2.4% YoY. The BSP has also maintained its inflation forecasts for 2020 and 2021 at 2.9%.

During its December meeting, the Bangko Sentral ng Pilipinas (BSP) kept policy rates steady at 4% to allow the full transmission into the economy of the total 75bps rate cuts executed in 2019. However, BSP Governor Diokno announced that a policy cut is on table in 1Q20 given the benign inflation path and the need to support the Philippine's growth targets. Against this backdrop, local bond yields trended lower for the month of December as investors opted to end the year generally fully invested in peso bonds.

Outlook

We continue to be optimistic on the Philippine economy's 2020 outlook amidst accommodative monetary policy supporting domestic demand, coupled with the resurgence in government spending. However, due to the increased risk in regulated industries, the Philippines will likely have an increased country risk premium from an investor standpoint. The higher risk premium may offset any monetary easing, with foreign flows likely remaining muted in the near-term as a result. There is also an increased likelihood of downside risk to corporate earnings as this may lead to more tempered expansion plans, which in turn may slow down economic expansion as well.

As such, the portfolio will tilt in favor of industries that are least likely to be affected by government regulations, particularly the consumer sector, and the banking sector which should continue to benefit from more loose monetary policies going forward.

Due to the recent typhoons, December inflation at 2.5% surprised on the upside, bringing full year 2019 inflation average at 2.5%, in line with BSP's forecast. Following the recent eruption of the Taal Volcano, concerns on its effect on inflation dominate the market. Coupled with the supply risk stemming from a possible Retail Treasury Bond (RTB) Issuance, peso bond yields trended higher as investors trim overweight positions in anticipation of a large RTB issue size. In light of these concerns, we will be opportunistic in taking positions as we remain cautious on inflation and the possible RTB issuance.

The investment fund option for The Manufacturers Life Insurance Company's variable life insurance product is managed by Manulife Asset Management and Trust Corporation.

The Fund mentioned in this document is specific to variable life insurance contracts and is not considered a mutual fund. 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 Fund 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 Fund's 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. THE VARIABLE LIFE POLICYHOLDER SHALL BEAR ALL INVESTMENT RISKS. Past performance of the Fund is not necessarily indicative of future performance. Yields are not guaranteed.

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