Manulife Asset Management

Fund Commentaries (Monthly)

April 2017

Thailand Equity Market

Market Summary

April review - The SET moved to test resistances at 1590, supported by foreign fund flow towards the end of the month. News about the US studying its trade deficit with 16 trade partners, including Thailand, and the Fed's discussion about balance sheet normalization moved the SET a little. After testing a resistance of 1590, the SET steadily moved down for no discernible reason as foreign markets were recovering. In France, Macron and Le Pen led the first round and passed to the May 7th final round. The markets were expecting Macron to win, eliminating any concerns that France might exit the EU. As the month came to a close, Trump finally announced the details of his tax reduction policies, but the markets remained skeptical. The SET closed the month at 1566.32, -0.6%MoM. Foreign investors were net buyers of Bt1.8bn.

Monthly Strategy

May strategy - May has arrived and there are still no real supports for the SET. We anticipated the SET index will move in a narrow range on news about the remaining earnings reports. After that the volume will thin out as there are no more news items with impacts to the market. Factors to watch: 1) Earnings reports from mid and small caps, on which we have a neutral view; 2) Thai 1Q17 GDP (May 15th), which is expected to grow at 3.0–3.3%YoY: a beat will be positive, a miss negative; 3) BOT MPC meeting (May 24th), at which no change in the interest rate of 1.5% is anticipated; 4) MSCI rebalance announcement on May 15th; and 5) As one of the 16 countries under investigation for a trade deficit with the US, Thailand will send a detailed report to the US as clarification.

Index and Trading Summary by Investor Types

SET Index closed at 1,566.32, decreased by -0.56% from the previous month.

Investor Types	Buy (MB)	Sell (MB)
Institution	80,922	73,135
PropTrade	77,770	74,019
Foreign	219,076	217,270
Individual	268,666	282,010

Net position (MB)

WTD	MTD	YTD
6,565	7,787	35,286
104	3,751	3,371
3,560	1,806	8,093
(10,230)	(13,344)	(46,750)

Fixed Income Fund Market

Market Outlook

In April, Thai government bond yield curve steepened slightly as yields on the 2 year bucket went down by 3 bps whereas the tail-end of the curve (i.e. the 10-15 year buckets in particular) surged by 1-9 bps. In essence, yield on the front end (2-3 year tenors) of the curve declined only 1 to 3 bps following the reduction in short-term bond supply from Bank of Thailand (BOT). In short, BOT has curtailed the supply of short-term BOT bond (3-6 mths.) from THB 40 billion to THB 30 billion per week to discourage speculators that often park fund in these instruments. In the meantime, the yield of 10-15 year tenors soared by 1-9 bps on the ground of lower geopolitical risk and favourable outcome from the French election which pushed the US Treasuries yields up. In short, yields at 0-3 year buckets, which closely linked to BOT policy rate, decreased between 1 and 5 bps, whilst the yields between 7-10 yr tenors rose by 1 to 6 bps. As a consequence, the yield curve steepened marginally, and the 2-10 year spread edged up to 120 bps from 115 bps in March 2017. Foreign flow wise, international investors were a net buyer of Thai bonds by THB 12.6 billion in Apr. 2017 vs. a net buyer of Thai bonds by THB 16.9 billion in Mar. 2017. As a result, net holding by international investors has fallen from THB 697 bln. to THB 691 bln. for the same period.

Economy

According to BOT, Thai economy continued to expand in March 2017, propelled by broad-based improvement in exports. Exports growth expedited to 10.8%YoY versus only 0.7%YoY growth in previous month. Excluding gold, exports grew at a faster rate by 12.1%YoY (previous +8.4%YoY). Consumption also boosted by 3%YoY thanks to durable goods consumption, particularly on the new passenger car sales. Furthermore, tourist arrivals rebounded by 2.0%YoY in March, up from the 3.2%YoY contraction earlier, mainly driven by tourists from China, Russia and Malaysia as the number of tourists arrival reached 3.0 million in March 2017. Government expenditure continues to be a driver for the economy, especially capital spending which rose 11.9% YoY in March to THB 54 billion. Nevertheless, private investment dropped by 2.2%YoY. Overall we expect the Thai economy to grow gradually this year, with the BOT forecasting a 3.4%YoY growth this year and 3.8% in 2018.

April headline inflation decelerated further to 0.38%YoY, lower than March's data of 0.76%YoY and well below the market's estimates of 0.72%YoY. Inflation primarily declined owing to the softening of energy prices together with fruit and vegetables' prices. According to BOT, energy inflation dampened in line with the decrease in domestic oil prices. Fruit and vegetables' prices subsided as new supply flooded the market thanks to favourable weather condition. The BOT revised down its 2017 forecast of headline inflation from 1.5% to 1.2%.

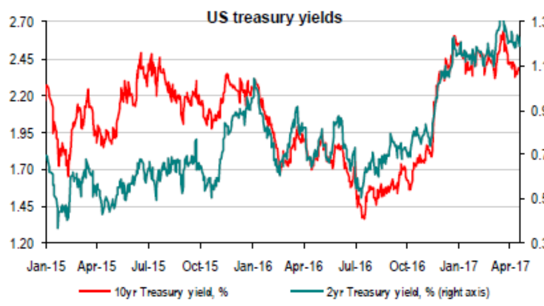
Outlook for Bond market in May 2017

From the global macro perspective, the pace of US economic recovery seems to taper off, with the advance reading of annualised US GDP in 1Q17 registered at only 0.7% versus 1.0% expected and lower than 2.1% in 4Q16. However, the US private job market was comparatively solid with the ADP private jobs in April, confirming new job creation of 177k vs. 175k estimated. By the same token, U.S. nonfarm payrolls (NPF) were relatively robust and exceeded the consensus in April 2017. The economy created 211K new jobs versus 190K jobs forecasted, and the unemployment rate declined to 4.4%- almost 10 years low, from 4.5% in the previous month. The CPI index, although less monitored by Fed compared to PCE, has decelerated to 2.4% in March whilst the PCE Core decreased to 1.6% in March 2017, compared to Fed's target of 2%. Meanwhile, U.S. Initial jobless claims in the last week of April 2017 surprised on the upside. Jobless claims recorded at 257K in the last week of April 17 (vs. 245K projected). Moreover, US retail sales for March 2017 have been in line with expectation at -0.2% vs. 0.1% in the previous month and versus -0.2% anticipated.

Furthermore, U.S. March durable goods orders rose a mere 0.7% vs. 1.3% expected, and 1.8% in the previous month. Nonetheless, U.S. consumer confidence from Univ. of Michigan in April was better than anticipated, registering at 98.0 against the consensus survey at 96.5. Meanwhile, U.S. house prices in 20 main cities as represented by the S&P CoreLogic CS index rose consistently from last month. House price index soared by 5.85%YoY in February after a gain of5.73%YoY in January. Likewise, U.S. existing home sale number in March indicated that the housing momentum was upbeat, with the data printing at 4.4%MoM in March versus -1.9% forecasted and a -3.7% shrinkage in previous month. Similarly, US New Home Sales surprised on the upside, showing a 5.8% MoM jump in March 2017 compared to -1.4% estimated. In addition, the US ISM services sector in April strengthened to 57.5 from 55.2 in March, eclipsing the market expectation at 55.8. In contrast, U.S. ISM manufacturing was below forecast at 54.8 vs. 57.2 last month, and falling short of market's consensus at 56.5.

Subsequent to the FOMC meeting on 3-4 of May 2017, the Fed kept interest rates unchanged but downplayed the weak GDP figures in 1Q2017. Instead the Fed focuses on the strength of labour market, hinting that it could tighten as early as June. The FOMC unanimously views weakness in 1Q2017 GDP as likely to be transitory. As such, the possibility of rate hike in June 2017, as reflected in the Fed Fund Futures contract, has risen to c. 94%, compared to c. 67% last month, and the probability of rate hike in December 2017 is currently c. 96%. The view was later confirmed by the relatively sanguine comment in Fed Minutes regarding balance sheet reduction. In an interview with Bloomberg TV, Ben Bernanke—the former Fed Chairman-- was quoted as saying that the US economy is still on track for recovery and the core PCE is running close to Fed's target of 2%. He also comments that Fed is likely to raise the policy rate a couple of times before embarking on the path of unwinding its massive balance sheet so that the Fed has some buffer to cut the rate to counter the effect from the balance sheet contraction, if needed. In addition, Mr. Bernanke mentioned that it is likely to take 4-5 years for the Fed to return its balance sheet to normalcy. Meanwhile, the ECB maintained the size of the asset purchasing at EUR 60 bn. per month from April to December 2017. However, the market suspects that the QE size will be further reduced to EUR 40 bn. per month afterward. On the political side, Macron's lead on the first round of French election has considerably curbed the fear of France exiting the Euro. Subsequently, Macron was declared the new French President with 65% majority votes and restored the risk on sentiment. On the contrary, the BOJ maintained its deposit rate at -0.10%, and its10-yr yield target at 0%.

On the domestic front, from the MPC's minutes, the committee assessed that Thailand's growth outlook improved and that the headline inflation would continue to rise gradually and return to the midpoint of the target in the future. Going forward, the committee opined that accommodative monetary policy remains necessary given that economic growth was still in early stage and not yet broad-based. The BOT hold rate unchanged at 1.5% as expected on March 29, 2017. Thus, we expect BOT to hold rate whilst Fed will hike 2 more times in 2017. We, therefore, maintain our appreciating bias for USD/THB and anticipating the pair to rise to 36.0 by end 2017.



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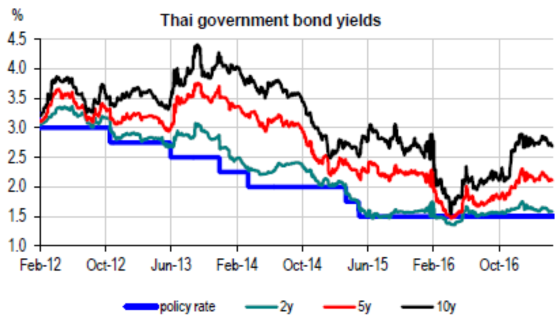

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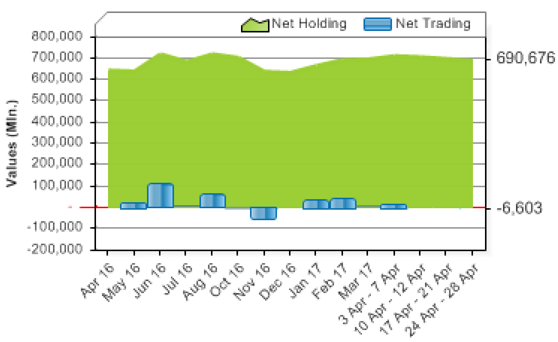

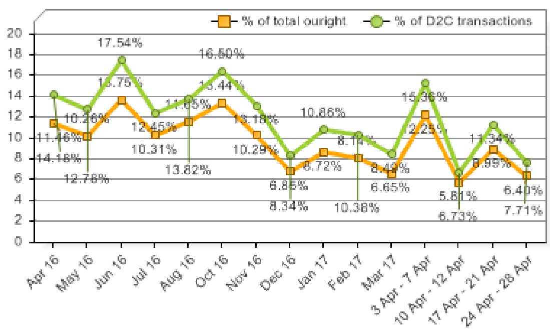

Manulife Asset Management

Fund Commentaries (Monthly)

Fund Managers' Comment of Master Funds (As of March 2017)

MGF-Asian Small Cap Equity Fund

Market Review

Asia Pacific ex Japan small cap equities continued to post gains during the month, with all countries except New Zealand recording positive returns. Oil prices declined at the start of the month due to increasing stockpiles in the US. However, the market rallied after the Fed hiked policy rates by 25 basis points (bps) to 1.0%, as the central bank maintained a dovish outlook on the tightening cycle.

China's Producer Price Index (PPI) in February recorded its strongest gain at 7.8% year-on-year since rising out of a 55-month deflation last September; this is supportive of pricing power returning to corporates, as well as improvement of the banking industry's asset quality. Economic activity in March continues to be robust as seen in its expanding manufacturing and non-manufacturing Purchasing Managers' Indexes (PMIs) coming in at 51.8 and 55.1, respectively. However, inflation in February was lower than expected at 0.8% year-on-year given soft food prices and distortions from the Chinese New Year holiday.

Hong Kong's exports in February surged by 18.2% year-on-year on the back of improving external demand. Retail sales growth in February remained in negative territory due to lacklustre tourist spending. The central bank raised the base rate by 25bps to 1.25% following the Fed's move. Taiwan's exports in February grew at its fastest pace in six years at 27.7% year-on-year, the sixth consecutive month of growth, driven by solid demand for electronics exports.

South Korea's GDP in the fourth quarter of 2016 rose 2.4% year-on-year on the back of construction spending; full year GDP growth for 2016 was 2.8%. Exports in February jumped by 20.2% year-on-year, the fastest in five years, as electronics exports remain strong.

In India, the market performed strongly year to date given favourable support and the ruling party's dominant victory in the most recent state elections. The markets saw this as a positive development given strengthened policy continuity and a bigger scope to push for more reforms and government spending.

Australia's GDP in the fourth quarter of 2016 grew faster than expected at 2.4% year-on-year (relative to market estimate of 2.0%). This was driven by a recovery in exports, as well as sustained government and consumer spending. The central bank kept the cash rate unchanged as it sees the current policy settings appropriate to achieve economic growth and inflation targets.

Portfolio Review

The Fund strongly outperformed its benchmark for the month on the back of stock selection at country and sector levels. The outperformance was broad-based, with stock selection in South Korea, Hong Kong, and Taiwan particularly strong. Stock selection in real estate, information technology, materials, and healthcare all added alpha to the Fund for the month. The one market that lagged during the month was Australia, where our holding in a fast food company witnessed a negative price reaction to its acquisition of franchised shops in Europe.

Weaker performers were generally smaller positions in Hong Kong and Australia which broadly lagged the upturn in the markets.

Most of the Fund's holdings (particularly in Hong Kong/China, Taiwan, and Australia) reported earnings above expectations. Analysts also revised up prospective earnings for several of these companies.

Market Outlook

Following the strong performance of Asian markets year to date, we expect some consolidation in the short-term. Nevertheless, we remain positive as valuations are not stretched, some companies are reporting better-than-expected earnings, and flows continue returning to the region. The weaker US dollar provides a positive backdrop for the region, as does the export recovery and improvement in PMIs.

MGF-Dragon Growth Fund

Market Review

China and Hong Kong equity markets gained during the month on the back of continually improving economic data.

China's Producer Price Index (PPI) in February recorded its strongest gain at 7.8% year-on-year since rising out of a 55-month deflation last September; this is supportive of pricing power returning to corporates, as well as an improvement of the banking industry's asset quality. Economic activity in March remains robust as seen in its expanding manufacturing and non-manufacturing Purchasing Managers' Index (PMIs) coming in at 51.8 and 55.1, respectively. The central bank lifted its short-term policy and medium-term facility rates by 10 basis points (bps) post the Fed's rate hike. However, inflation in February was lower than expected at 0.8% year-on-year (relative to consensus forecast and to the prior month's figure at 1.7% and 2.5%, respectively) given soft food prices and distortions from the Chinese New Year holiday.

Hong Kong's exports in February surged by 18.2% year-on-year on the back of improving external demand. Retail sales growth in February remain in negative territory due to lacklustre tourist spending. The central bank raised the base rate by 25bps to 1.25% following the Fed's move.

Portfolio Review

The Fund outperformed the benchmark during the month due to stock selection at country and sector levels. Stock selection in China contributed positively to performance. However, this was partly offset by the underweight in Hong Kong.

The Fund's holdings in the consumer discretionary sector were among the largest contributors to performance. The top contributor was a Hong Kong-listed Chinese automotive parts manufacturer that reported better-than-expected earnings due to robust sales growth, especially of SUVs, and an expanding client base in China. A US-listed Chinese educational services provider contributed positively to performance given expectations of stronger fiscal third quarter earnings on the back of robust enrolment during autumn and winter.

The main detractor was a Hong Kong-listed offshore drilling services provider after reporting earnings in-line with its previous profit warning. We believe the company should benefit as normalising oil prices increases the potential for better-than-expected earnings given its high operating leverage.

At the sector level, the outperformance was attributable to stock selection in information technology, consumer discretionary, and financials. However, stock selection in healthcare and industrials, and the overweight in materials, negatively impacted performance. The Fund increased its holdings in information technology and consumer discretionary.

The Fund maintains its overweight in China and underweight in Hong Kong.

Market Outlook

We remain constructive on China and Hong Kong equities despite the good year-to-date performance as upward revisions on earnings are still stronger than expected. US and European macroeconomic data show resilience, while China continued to surprise investors with higher PMIs and corporate earnings.

We are adding to consumer companies that see a potential turnaround in sales given improving retail sentiment, a higher PPI, and better inflation expectations.

MGF-India Equity Fund

Market Review

Indian equities gave positive returns in the month of March 2017.

On the macro front, industrial production rebounded with a growth of 2.7% in January after declining -0.1% in December, partly due to base effect, but also due to remonetisation picking up through January after the disruption in November and December post demonetisation. Manufacturing grew +2.3% after a contraction of -1.7% in December. Within manufacturing, capital goods (+10.7%) and consumer durables (+2.9%) bounced back after posting large declines in December. Consumer Price Index (CPI) inflation inched up to 3.7% in February from 3.2% in January. The uptick was primarily due to base effect in food inflation. Core inflation eased to 4.8% from 5% in January, and remains in a stable band. There was no Reserve Bank of India (RBI) policy meet in the month of March 2017.

On the political side, state assembly elections concluded in five states – Uttar Pradesh, Punjab, Uttarakhand, Manipur, and Goa. The Bharatiya Janata Party (BJP), the lead party of the National Democratic Alliance (currently in power at the centre), made significant gains in the state assembly polls. It won the politically-important Uttar Pradesh (UP), India's largest state, in a landslide. It is also set to form the government in another three states. Although BJP was expected to do well, the scale of victory was much better than expected. This will cement Mr Modi's authority within BJP and Government.

With these results, 55% of India's GDP and 60% of India's population will be under BJP-led State Governments. This should be positive for implementation of Central Government agenda, which is centred around anti-corruption, indirect tax reform, and state spending on infrastructure/housing/rural development. Apart from the state elections, key legislations related to the Goods & Services Tax (GST) bill got passed in the upper house. This paves the way for July implementation in line with government targets.

Portfolio Review

The market had a broad-based rally and almost all sectors gave positive returns during the month. Financials, industrials, consumer staples, and materials were the biggest outperformers. On the other hand, telecommunication, healthcare, information technology, utilities, and consumer discretionary underperformed the markets. Energy broadly performed in line with the markets. Financials, industrials, and materials rallied as the government expanded the scope of the credit linked subsidy scheme under their affordable housing policy.

The Fund benefitted due to stock selection in healthcare, consumer discretionary, and information technology. The Fund also benefitted from an overweight position in financials and from an underweight position in telecom, information technology, and healthcare. On the other hand, stock selection in financials, an overweight in real estate, and an underweight in industrials were the main performance detractors for the month.

Market Outlook

We remain optimistic on the domestically-driven India story amid global uncertainty. Due to prudent policy-making by the government and RBI (and with help from falling crude prices), India's macro has continued to remain stable. India's Current Account Deficit (CAD) is much lower than earlier and its foreign reserves are at an all-time high. We also believe that, despite the change of stance by the RBI from accommodative to neutral, rates will remain lower for longer as more financial savings join formal avenues like bank deposits, equities, bonds, insurance (as opposed to real estate and gold earlier), and cost of funds come off. The government's focus on rural India through key reforms like a unified agriculture produce market; crop protection scheme; capex on roads and rail; and the added element of normal rainfall should also increase rural income. We also remain positive on the long-term implications of the GST creating a unified market for the entire India, increasing productivity, and widening India's tax base.

Keeping these themes in mind, we are overweight in financials, consumer staples, consumer discretionary, and real estate. We have recently increased weight in organised retailing plays which will benefit from increasing formalisation. We have also increased weight in construction related stocks and real estate, which can benefit from the expanded affordable housing scheme. We are underweight in technology owing to the sector facing disruption-led challenges and a weak near term earnings outlook. We also remain negative and underweight on telecom, which is capital intensive and seeing disruptive competition. We are underweight in healthcare where large players are seeing generic drugs price erosion in US and regulatory challenges. We are also underweight on global cyclicals like energy and materials.

MGF-American Growth Fund

Market Review

The US stock market made little progress in March. Equities were initially lifted by optimism that the Trump administration would push through policies to bolster economic growth. However, stocks retreated mid-month, hurt by a slide in oil prices and the failure to pass healthcare reform – even as the Fed inched its federal funds rate higher. A rebound in oil prices and the late-period release of strong fourth quarter economic growth data helped spur a recovery by month end. Within the broad-based S&P 500 Index, the information technology and consumer discretionary sectors led the way with modest gains, while financials stocks ended in the red.

Portfolio Review

Positioning in the financials sector and stock picks in the healthcare sector nicked the Fund's relative performance. Individual detractors included investment bank Goldman Sachs and diversified financials company Bank of America. Both stocks declined amid worries about whether the Trump administration could garner the necessary support for deregulation and tax reform.

By contrast, security selection - and an overweight in consumer discretionary and real estate sectors – helped relative performance. Standouts in the former included e-commerce giant Amazon and homebuilder NVR. Amazon's stock ended the quarter at an all-time high, buoyed by the strength of its cloud-computing business and online retail businesses. NVR, which is not in the S&P 500 Index, gained from favourable US housing trends, as demand outstripped below-average inventory.

Market Outlook

Although the current US economic recovery is already one of the longest on record, we expect growth to accelerate over the next 12 to 18 months. We think the foundation is in place for strong consumer spending trends, an improved housing market, and robust financial system. If Congress passes pro-growth initiatives – whether lower taxes, less regulation, or increased infrastructure spending – that also could spur economic growth. With that view in mind, the Fund ended the month with a continued tilt toward the economically sensitive financials and consumer discretionary sectors.

MGF-European Growth Fund

Market Review

European equity markets were buoyed in March by the victory for the centrist candidate in the Dutch elections, countering fears that anti-EU parties were gaining ascendancy in Europe.

The euro strengthened against the US dollar after President Trump failed to win Republican support to repeal the Affordable Care Act, casting doubt on his ability to implement his infrastructure and tax reform agenda, and weakening the outlook for US growth.

The energy sector underperformed this month due to two main reasons: US oil inventories appeared to be nearing record levels, and there was evidence that the world's largest oil exporter Saudi Arabia was increasing production. The latter move is seemingly in defiance of the 2016 agreement by the Organization of the Petroleum Exporting Countries (OPEC) to curtail production.

Portfolio Review

Akzo Nobel contributed to the Fund's performance as shares rose sharply following a takeover approach by North American paint giant PPG. Akzo Nobel rejected the bid, but there is a strong possibility that PPG will return with a higher offer.

BT detracted from the Fund's performance after the regulator imposed a fine for poor service standards. The size of the fine was relatively small, but it came after an accounting scandal in a small overseas division and the loss of some high-margin government contracts. This created significant negative news for the company. We believe that if investors cut through the noise, the recent regulatory agreement reached on the separation of its Openreach business and new price regulations are positive developments for shareholders. BT also trades on an anomalous free cash flow yield relative to the European telecommunication services sector.

Market Outlook

We recognise that European equities offer a compelling value opportunity relative to US equities, as well as a historically wide premium over government bonds. However, we are also cognisant of the many macroeconomic and political risks that markets face over the short to medium term. The main near-term risk is that the far-right Front National is successful in the upcoming French general elections. Another growing concern is that inflation in Germany and the UK has started rising above 3%, which could force central banks to tighten monetary policy. This would make equities appear less attractively valued, and it could lead to a difficult trade-off between economic recovery and price stability. On a stock market level, we also see many momentum trades that are in danger of over-extending. The Fund therefore has increased its exposure to fallen-behind areas of the market, such as domestic UK names, where we perceive the market has overestimated political risk and undervalued companies relative to their cash flow generation.

Manulife Asset Management

Fund Commentaries (Monthly)

MGF-Emerging Eastern Europe Fund

- March was fairly quiet across the region with markets producing low single-digit returns and no major top-down events or newsflow.

- Russia continued to show signs of economic recovery, helping to underpin share prices despite a 5% fall in the oil price. Although Russia recorded a negative quarter overall this should not detract from its continuing attractive. With valuations remaining undemanding, there is no reason why the Russian market should not recommence its upward trajectory over the remainder of the year.

- Turkey was broadly flat over the month with all eyes are now on the referendum scheduled for 16 April. Broad consensus in the market continues to be that the Yes vote will win. We believe that such an outcome will be perceived as broadly positive. Markets seem to hate nothing more than uncertainty and at least a Yes vote will provide a clearer picture of how politics will develop in Turkey over the coming years.

MGF-Healthcare Fund

Market Review

The healthcare sector underperformed the broader equity market in March. The MSCI World (Net) Total Return Index rose 1.07%, while the MSCI World Health Care Total Return Index gained 0.46%. The medical devices and equipment industry had the best return, while the healthcare services industry had the worst return.

Portfolio Review

Healthcare services companies contributed to the Fund's performance. From an individual securities perspective, AstraZeneca and Merck contributed to the Fund's performance. AstraZeneca shares rose due to increased confidence in the company's oncology pipeline. The company had good data for a small molecule product in a burgeoning area called "DNA Damage Response". It will initially be used in ovarian cancer, and a niche segment of breast cancer. It also has potential uses for other tumours. Merck's quarterly results were decent, with strong performance from the pharmaceuticals division. Moreover, Merck received US Food & Drug Administration (FDA) approval for avelumab (Bavencio) for Merkel cell carcinoma. This should be a significant drug for Merck, with potential approval for other types of cancer.

Biotechnology companies detracted from the Fund's performance. From an individual securities perspective, Biogen and Shire detracted from the Fund's performance. Biogen declined in March due to slower-than-expected launch of its new drug. We believe the slow initial launch is part of the commercialisation pattern and it will normalise once the doctor community becomes more familiar with the drug.

Market Outlook

The market has been volatile due to political pressure. In our view, the political pressure is more about political posturing than the beginning of real policy initiatives. However, we do see increased pricing pressure from private payers on biotechnology and pharmaceutical industries. In response to this trend, we picked companies that focus on research and development, with truly meaningful pipelines. Also, the stocks of many truly innovative companies declined along with the entire sector, irrespective of quality. We believe the current environment represents an attractive entry point for many high-quality companies.

Manulife Global Asset Allocation- Growth Fund

Market Review

In the month of March, the Federal Open Market Committee (FOMC) raised the federal funds rate by 25 basis points (bps) to a range of 75bps–100bps. Markets had largely expected the rate hike given forward guidance from the FOMC over the past two months.

Moving beyond the rate hike, investors quickly shifted attention to the US' healthcare bill. There were growing concerns about the Trump administration's ability to deliver on its policy agenda, as Republican Party (GOP) lawmakers failed to repeal and replace Obamacare (one of Trump's first main agenda items).

At the end of March, US fourth quarter GDP was revised upwards to annual growth rate 2.1%, up from an earlier number of 1.9%. Elsewhere in Europe, the UK formally triggered Article 50 on 29 March, confirming UK's intention to leave the EU. Shortly after that, the Scottish parliament authorised a second referendum over independence from the UK. On the other hand, Germany's unemployment rate hit a record low of 5.8%. Over the month of March, the MSCI World Index registered a return of 1.14% in US dollar terms while the Bloomberg Barclays Global Aggregate Index registered a return of 0.15% in US dollar terms.

Portfolio Review

During the month, the Fund recorded a return of 0.47% in US dollar terms on a net of fee basis. The Fund outperformed US equities, Japanese equities, and all major bond asset classes. The Fund recorded a lower volatility when compared to major equities and bonds asset classes.

All asset classes apart from North American equities, international bonds and US bonds contributed positively to the Fund's return. In particular, the Fund's exposure in European equities was the major performance contributor.

Market Outlook

We believe the global macro backdrop currently favours the equity asset class, at the expense of fixed income. We remain concerned about equity's expensive valuations. However, we note that the recent equity leg-up has not been driven by a significant re-rating, but by an improved earnings outlook. Overall, while we want to stay nimble with respect to maintaining our equity exposure, we do not want to overlook the earnings uptrend that could sustain beyond the near term. We continue to focus on controlling downside risks and selectively allocating within the equity asset class. We prefer regions where there is sustainable support from economic growth, shareholder returns have room to improve, earnings are more stable, and there is less susceptibility to policy headwinds under Trump.

With respect to fixed income, our cautious view stems from the view that a better outlook for US/global economic growth and higher inflation should detract fixed income's attractiveness relative to equity. Trump's debt-prone attitude may add further pressure onto the long end for US Treasuries. Despite the recent pickup in global bond yields, absolute yield levels remain subdued. This makes duration risk elevated and the fixed income asset class (in aggregate skewed toward government bonds) still unattractive on a valuation basis. This is a key reason why we prefer higher-yielding corporate and sovereign credit, on a relative basis versus government bonds.

That said, fixed income plays an invaluable role for downside protection, given our expectation that policy uncertainty brought by the new US administration fattens not just the right tails, but also the left tails, of both the economic growth distribution and equity's return distribution. Outside of the US, we expect global economic growth to be modest in absolute terms, and dis-inflationary risks don't seem to be fully eliminated in non-US developed markets economies.