Manulife Asset Management

Fund Commentaries (Monthly)

September 2017

Thailand Equity Market

Market Summary

September review: The SET Index started the month off well, rising from 1,620 to 1,670 by middle of the month. The market became more bullish after surpassing 1,600 level. Investors bought into big-cap stocks in energy (thanks to higher oil prices), banks (laggard), commerce (improved consumption outlook), and the industrial estate sector (pinning hope on EEC). Interest began to flag after the SET Index approaches 1,670. The standoff between North Korea and the US did not have much effect on investor sentiment. The SET Index closed at 1,673.16, up 3.5% MoM. Only individual investors were net sellers of Bt18.17bn.

Index and Trading Summary by Investor Types

SET Index closed at 1,673.16, rising by 3.53% from the previous month.

Investor Types	Buy (MB)	Sell (MB)
Institution	132,602	129,722
PropTrade	138,480	130,154
Foreign	385,404	378,437
Individual	577,385	595,556

Net position (MB)

WTD	MTD	YTD
3,172	2,879	62,523
(155)	8,326	10,073
(2,296)	6,966	9,661
(720)	(18,171)	(82,257)

Monthly Strategy

October strategy: We expect the SET Index to move sideways after fund inflows slowed at end-September. Resistances are seen at 1690 levels. Short-term support may come from the energy sector as oil prices climb to USD54-55/bbl. Moreover, slowing fund inflows could lead to a dip in the SET Index. Foreign investors could turn net sellers in October as the THB weakens and the US strengthens, spurred by several factors: 1) The Fed is ready to bump up its interest rate in December. 2) US tax reforms may begin to turn into reality with a cut in corporate income tax. 3) Narrower gap in US-TH bond yields (Fed balance sheet normalization starting October will push up US bond yields upward). Supports are at 1650 levels. Key issues to look out for this month are: 1) Trump's tax reform 2) Japan's election on October 22 3) ECB meeting on October 26 4) BoJ's meeting on October 31 (no change expected) 5) Oct 31 FOMC meeting, with a clearer signal of a pending rate hike in December expected. 6) Banks' earnings, no real change expected QoQ. 7) Progress in the EEC.

Fixed Income Fund Market

Market Outlook

In September, Thai government bond yield curve continued to flatten as yields on the 2 year yield fell by 2 bps whilst the 10-year maturity edged down by 2 bps as well. However, the 15-20 year buckets plunged by 4-11 bps. All in all, yield on the very short end of the curve (0-1 year tenors) fluctuated between -1 and -6 bps as a result of supply squeeze by Bank of Thailand (BOT) and flush liquidity in the local banking system. Meanwhile, the yield of 10-15 year tenors subsided by 2-41 bps as demand for long-term bonds from off-shore investors surged on the premise of heightened geopolitical risk surrounding North Korea vs. USA In essence, yields at 0-3 year buckets, which closely linked to BOT policy rate, moved between -1 and -6 bps, whilst the yields between 7-10 yr tenors dropped by 9-10 bps. As such, the yield curve flattened marginally, and the 2-10 year spread widened slightly to 97 bps versus 96 bps in August 2017. Foreign flow wise, international investors remain a robust net buyer of Thai bonds by THB 50.8 billion in September 2017 vs. a net buyer of Thai bonds by THB 36.8 billion in August 2017. As such, net holding by international investors has risen from THB 765 bln. to THB 815 bln. for the same period.

Economy

According to BOT, Thai economy recovery gain traction in August 2017 in tandem with steady improvement in external demand (i.e. exports and tourism). Exports growth jumped 15.8%YoY versus 8.0%YoY growth last month. Excluding gold, exports still rose 12.7%YoY (previously +12.2%YoY). Private consumption moderated to 1.9%YoY as durable goods spending picked up at slower pace due to subdue farm income. In addition, tourist arrivals recorded an 8.7%YoY increase in August, up from the 4.7%YoY growth in prior month, mostly dominated by tourists from China and ASEAN. Moreover, the number of South Korean and Japanese tourists increased as they shifted their travel destination from China to Thailand, which boosted the number of tourist arrival to 3.13 million in August versus 3.09 million in July 2017. Furthermore, government expenditure was a boon to the economy last month, particularly the current expenditures (+13.4%YoY in August 2017), whereas the capital spending contracted by 9.7%. Nevertheless, private investment indicators remained lacklustre as reflected by the decline in domestic machinery sales and permitted construction area. Overall we expect the Thai economy to grow gradually this year, with the BOT revised up the GDP projection from 3.5%YoY to 3.8%YoY growth this year and from 3.7% to 3.8% in 2018.

September headline inflation accelerated to 0.86%YoY, much higher than August's number of 0.32%YoY and well above the market's expectation of 0.50%YoY. Inflation mainly surged owing to the recovery of oil prices as well as the rise in tobacco and alcoholic beverage prices as a result of increased Excise Tax. However, for the first 9 months of this year, CPI is still averaging 0.60%, whilst Core CPI, remain stable, averaging at 0.54%. Thus, the BOT cut its 2017 forecast of headline inflation from 0.8% to 0.6%.

Outlook for Bond market in October 2017

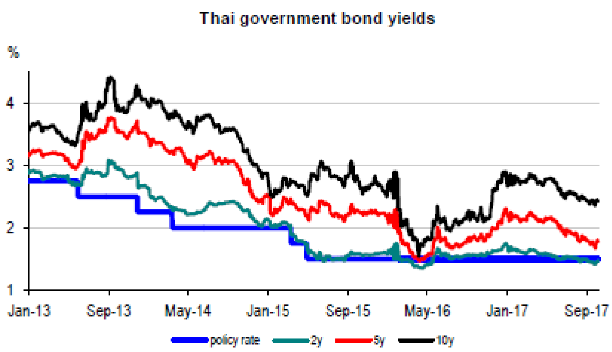
From the US economic indicators, the US economic recovery continued at a solid pace, with the 3rd reading of annualised US GDP in 2Q17 revised up to 3.1% vs. 3.0% earlier, and higher than 3.0% expected and only 1.4% in 1Q17. In addition, the US private job market maintained its momentum with the ADP private jobs in September, registering new job creation of 135k vs. 135k expected. Nonetheless, U.S. nonfarm payrolls (NPF) were bleak and fell short of the forecast in September 2017. In fact, the economy lose 33K jobs versus 80K new jobs creation expected. However, the unemployment rate plummeted from 4.4% in the previous month to 4.2%--a 16-year low. Nevertheless, the unusually weak job data is primarily attributable the one-time economic repercussion of two devastating Hurricanes—Harvey and Irma--that hit the US last month. Furthermore, the Average Hourly Earnings spiked up 2.9% YoY vs. 2.6% YoY projected and is consistent with full employment market and sign of rising wage in the future. Moreover, Fed comment in September 2017 still indicated gradual normalisation of the policy rate and the balance sheet unwinding shall commence in October. Thus, the market has significantly raised the probability of Fed rate hike in this coming December to 76% from sub 50% last month. The PCE Core dropped to 1.3% in August 2017, compared to Fed's target of 2%. Meanwhile, U.S. Initial jobless claims in the last week of September 2017 were slightly higher than expected. Jobless claims recorded at 272K in the last week of September 17 (vs. 270K anticipated). However, US retail sales for August 2017 edged up by only 0.2%, below expectation at 0.5% and versus 0.5% in the previous month.

On the contrary, U.S. August durable goods orders soared 1.7% vs. 1.0% expected, and -6.8% contraction in the previous month. Likewise, U.S. consumer confidence from Univ. of Michigan in September was better than expected, registering at 95.3 against the consensus survey at 95.0. Meanwhile, U.S. house prices in 20 main cities as represented by the S&P CoreLogic CS index continued to grow consistently from last month. House price index expanded by 5.81%YoY in July after a gain of 5.65%YoY in June. Nonetheless, U.S. existing home sale number in August continued to depict a gloomy outlook for housing market, with the data recording at -1.7%MoM in August versus 0.2% forecasted and a -1.3% in previous month. Similarly, US New Home Sales showed contraction, recording a -3.4% MoM decrease in August 2017 compared to 2.5% projected. In contrast, the US ISM services sector in August indicated expansion and penciled in at 59.8, exceeding the market consensus at 55.5. By the same token, U.S. ISM manufacturing also surpassed the expectation markedly, rising to 60.8 vs. 58.8 last month, and above market's consensus at 58.1.

After recent Hawkish comment from FOMC member that promises the start of Fed's balance sheet unwinding in October 2017, the market has substantially increased the likelihood of another rate hike in 2017. Hence, the possibility of rate hike in December 2017, as reflected in the Fed Fund Futures contract, has risen to c. 76%, compared to c. 29% last month. On the contrary, the BOJ maintained its deposit rate at -0.10%, and its 10-yr yield target at 0%. In the meantime, ECB kept monetary policy unchanged, but hint at QE tapering in its October meeting. The amount of assets purchased under the QE program was maintained at a monthly pace of EUR 60 billion, but is likely to be cut to EUR 40 billion in the future. Meanwhile, USD was hindered by geopolitical risk associated North Korea, Trump's lower approval rating and adverse effect from Hurricane Harvey and Irma in US. However, recent political development has renewed the hope that Congress might be able to pass some form of Tax Bill.

On the domestic front, we are still of the view that BOT will hold rate for the rest of the year whilst Fed will hike one more time in 2017. Given the fact that BOT just revised up GDP forecast for 2017 from 3.5% to 3.8% and also raised the projection for 2018 from 3.7% to 3.8% as well, we opine that it is unlikely for BOT to consider any rate cut this year. Although the BOT has slashed Headline Inflation for both this year and next to 0.6% and 1.2% from 0.8% and 1.6%, respectively, we believe that BOT is still comfortable with this level and foresee the rise of inflation to the lower bound of inflation target of 1-4% in the midst of 2018.

Locally, political risk has declined significantly after the ex-PM Yingluck decided to not show up for the court verdict on rice pledging corruption case on the 25th of August 2017. The imminent protest was aborted and ex-PM Yingluck has subsequently fled Thailand and become a fugitive. Afterward, the Court has passed the verdict and sentenced ex-PM Yingluck to a 5-year imprisonment in her absence. Furthermore, the fact that PM General Prayuth announced the schedule for new election in November 2018 also boost the political clarity and bolster the market confidence.



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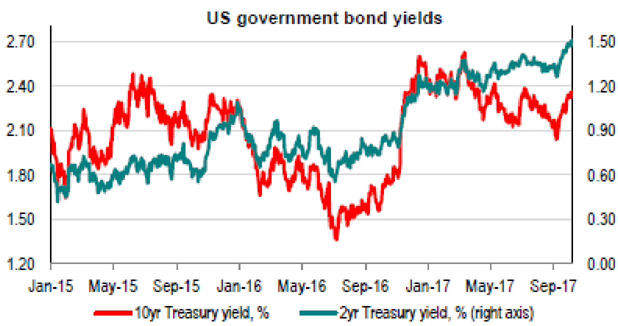

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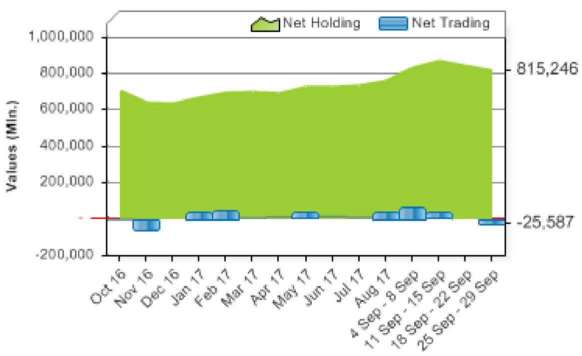

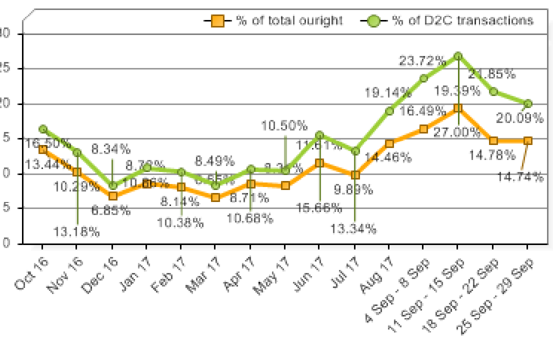

Fund Managers' Comment of Master Funds (As of August 2017)

MGF-Asian Small Cap Equity Fund

Market Review

The Asia Pacific ex Japan small cap equity markets recorded gains in August despite heightened geopolitical concerns from North Korea during the first half of the month. The markets recovered by the latter half on the back of good second quarter earnings results and continued resilient economic activity. Furthermore, persistently low inflation in the US and other key developed economies extended optimism in the region as monetary policy normalisation of major central banks may proceed slower than expected.

China's economic activity in July proved resilient through a broad range of indicators. Manufacturing Purchasing Managers' Index (PMI) in August was better than expected at 51.7 (relative to consensus forecast of 51.3 and the prior month's 51.4) due to the strong production and new orders borne from domestic infrastructure spending; this was supportive of prices for some heavy metals for the month. In July, producer price index (PPI) remains in positive territory, and industrial production and exports continue to expand. A new set of guidelines on offshore investments was released by the government.

The Hong Kong equity market's good performance was led by banks and property developers given solid second quarter earnings results. Second quarter GDP growth was faster than expected at 3.8% year-on-year due to strong exports and private consumption. Taiwan's exports and export orders in July grew due to higher orders from Apple for the upcoming new iPhone and solid demand for smartphones and other gadgets.

South Korea's equity market was negatively affected by escalating tensions with North Korea and by concerns on the Government's new policies – such as corporate tax rate hikes, tariff cuts among telecoms, and mortgage tightening. Exports in July jumped to 19.5% year-on-year, expanding for nine months straight, on the back of strong semiconductor shipments.

The Southeast Asia equity markets were flat for the month despite healthy economic growth. Second quarter GDP growth for the ASEAN-5 was robust with all countries reporting better-than-expected figures except for Indonesia. In this regard, Indonesia's equity market was supported by the local central bank's first rate cut (by 25 basis points, or bps) of the year as growth remains lacklustre. Thailand's equity market was one of the better performers for the month as it lagged its regional peers early in the year, and on the back of a better outlook for the second half. Singapore and the Philippines underperformed due to profit taking amid good performance during the first half of the year.

India's equity market was weighed by mixed second quarter earnings results and geopolitical tensions with China. The central bank cut policy rates by 25 bps as inflation remains below target. Second quarter GDP slowed to 5.7% year-on-year due to the transition towards the goods and services tax (GST) system.

Australian small cap equities were higher on the month on the back of strong performance from the energy and material sectors.

Portfolio Review

Stock selection was a positive contributor in virtually every market. Asset allocation decisions at the sector level also contributed positively. Stock selection in Singapore, China, Taiwan, and India were the largest contributors to outperformance. Earnings season is particularly important for the Fund as positive earnings surprises are among the catalysts we identify for individual stocks. Some of the Fund's top performers in August were those reporting stronger-than-expected earnings and forward guidance. Many of the China-related names in the Fund had both earnings beats and subsequent target price upgrades by analysts. These include upstream materials stocks (paper, glass, laminates) which experienced volume growth and better pricing due to limited industry supply growth. The stock price of the world's largest supplier of optical fibre preforms (as well as second largest supplier of optical cables globally) advanced strongly after announcing a 60% profit increase. The company will be a key beneficiary of 5G investment by China's telecom companies beginning next year.

The largest contributor during the month was a refractory supplier to South Korea's largest steel company. The company's subsidiary produces needle coke, the raw material for artificial graphite electrodes used in more environmentally friendly electric arc furnaces. The shares advanced significantly as graphite electrode prices soared. Demand for the company's secondary battery anode materials is also benefitting from demand for lithium ion batteries used in electric vehicles.

In Taiwan, the world's largest electronic paper display manufacturer reported strong second quarter earnings. The company is witnessing growth from its traditional e-reader segment from new and expanding educational markets. But what is more exciting is the growth from its electronic shelf label tags that synchronise real-time price adjustments across the retail online/offline supply chain. The company continues to add new clients. Another contributor in Taiwan was one of the top three makers globally of thermal modules. Its micro cooling fans can be used in virtual reality and drones, and the company is well positioned to capture fast-growing opportunities in automobiles (the world's leading electrical vehicle manufacturer) and datacentres.

While the Fund has historically held an underweight position in the Singapore market due to the lack of liquidity in some of the small cap companies in that market, our single holding performed well. This technology company outperformed after it announced earnings that were much stronger than expected.

In Australia, the resource and technology holdings contributed positively to performance.

In India, outperformance came from companies engaged in cement, shoes, textiles, fertilisers, retail, and non-bank rural finance. In our view, the country is one of the best long-term structural growth stories in Asia. Domestic mutual funds have healthy allocations to Indian small cap equities, and the country is likely still in the early stages of retail investment in mutual funds. The market should thus remain well-supported.

Market Outlook

We remain positive on Asian small cap equities. We see ample grounds for careful stock picking, as several companies remain at attractive valuations, particularly relative to large cap equities. The weaker US dollar provides a positive backdrop for the region, as does the export recovery and improvement in PMIs. Fundamentals throughout the region support continued outperformance of Asian equities generally, together with potential for catch-up by small cap equities. We would regard any weakness as a buying opportunity.

MGF-Dragon Growth Fund

Market Review

Hong Kong and Chinese equity markets recorded solid performance in August with MSCI Zhong Hua returning 3.6% in US dollar terms. This is mainly attributed to China's strong performance, as the best performing market across Asia on the back of good second quarter earnings results and continuously resilient economic activity. Furthermore, persistently low inflation in the US and other key developed economics extended optimism in the Greater China region as monetary policy normalisation of major central banks may proceed slower than expected.

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Portfolio Review

For the month of August, strong stock selection contributed positively to the Fund's performance. Stock selection in information technology was by far the most notable contributor for the month. The Fund benefited from various IT related holdings, such as a Taiwanese electrical components manufacturer being buoyed by the demand of the upcoming iPhone 8's launch; China's third largest social platform supported by increased active users which leads to well-targeted marketing; and a leading vertically-integrated electronic materials manufacturer in China on the back of favourable earnings results, to name a few. Furthermore, stock selection in utilities also added value. Within the sector, a specialty environmental protection service provider company staged a rally as supported by strong interim earnings results.

On the other hand, stock selection in consumer discretionary detracted value. Within the sector, a leading luxury auto dealership group in China, despite its positive first half of 2017 interim earnings results, experienced a drop in share price with investors taking profit given that the stock has rallied 96% year-to-date. We remain positive on the company, underpinned by its improving business fundamentals in terms of sales volume growth with new product line-ups.

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.e have added our exposure to technology stocks on weakness. Their prospects are strong despite rich valuations. We believe they are long-term winners in new developments such as 3D-sensing and auto electronic components for smarter cars.

MGF-India Equity Fund

Market Review

On the macro front, industrial production (under the new series) growth was subdued at -0.1% in June, compared to +2.8% in May, primarily due to pre-goods and services tax (GST) destocking in the trade channel which affected primary sales across sectors. Sector-wise, manufacturing growth was at -0.4% after 1.2% in May. On use-based basis, capital goods production growth slumped to -6.8% after a contraction of -3.9% in May. Meanwhile, consumer durables production saw a growth of -2.1% compared to -4.5% in May. This is the seventh consecutive negative print and summarises the weakness in the sector following demonetisation and GST. Consumer price index (CPI) inflation inched up to 2.4% in July compared to the record low of 1.5% in June, led largely by surge in food inflation. Core inflation remained relatively steady with a print of 3.8% in July vs 3.7% in June. In its bimonthly policy meeting on 2 August, the Reserve Bank of India's (RBI) "Monetary Policy Committee" (MPC) decided to cut the repo rate by 25 basis points (bps) in line with street estimates. The rate cut was expected against the backdrop of inflation undershooting RBI's targets. The Indian Meteorological Department stated that rainfall is tracking at 96% of "Long Period Average" which is at the lower end of the range, but the heavy rainfall in western India in last week of August could improve the metrics. Central and Southern regions have received below normal rainfall while North and East are in-line.

GST collection data for July (the first month under the new tax regime) came out at the end of August. As per latest data, INR923 billion has been collected for the month of July. This is already over the required run rate of the Union Budget and to that extent positive, given that only 64% of the potential tax payers have filed GST till now. We need to await data over the next two to three months for better clarity.

Portfolio Review

The market gave negative returns for the month. Materials, energy, utilities, and consumer staples were the big outperformers. On the other hand, healthcare, consumer discretionary, and information technology underperformed the markets. Telecommunication, industrials, and financials broadly performed in line with the markets. Materials did well, driven by metal stocks as aluminium prices remain on an uptrend. Energy did well, driven by stronger refining margins on the back of weather-affected capacity closures in the US. Consumer staples did well on the back of better-than-expected results in key companies. Utilities did well due to their defensive nature in a weak market during the month. Healthcare underperformed as most of the companies in the sector posted weak results on the back of pricing pressure in the US market. Consumer discretionary underperformed driven by the globally exposed auto stocks, as the view on conventional automobiles turned incrementally cautious driven by technological disruptions. Information technology underperformed due to an unexpected management change in a major company in the sector.

The Fund benefitted from stock selection in consumer discretionary, industrials, financials, and consumer staples. An underweight in healthcare and overweight in materials also contributed to performance. On the other hand, stock selection in information technology and an underweight in energy were the main detractors from performance.

Market Outlook

We remain optimistic on the domestically driven India story in times of global uncertainty. Due to prudent policy-making both by the government and RBI (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 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 the cost of funds come off. Despite lower nominal rates, real rates are also at a high due to falling inflation, which has touched a new low in the latest reading.

The recent sharp cool-off in inflation, as well as RBI's dovish language in the recent policy meet, also support our view on rates being lower for longer. The focus of the government on rural India through key reforms like a unified agriculture produce market, crop protection scheme, capex on roads and rail, along with normal rainfall should also help increase rural income. Furthermore, we remain positive on the long-term implications of GST in creating a unified market for the entire India, increasing productivity, and widening the country's tax base.

We are bullish on financials like mid-sized private banks, wealth managers, and insurance. We also like autos as affordability improves with lower financing costs. We are also optimistic that, because of reforms, the Indian economy will formalise and become more efficient and tax compliant. This also opens opportunity for the organised sector to gain market share. There are substantial opportunities in organised retail, apparels, jewellery, and light electrical and we are bullish on them.

Keeping these themes in mind, we are overweight in financials, consumer discretionary, real estate, building material stocks within materials, and discretionary stocks within the industrials sector. We are underweight in technology owing to the sector facing disruption-led challenges and 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.

MGF-American Growth Fund

Market Review

The US equity market made little headway in August. Solid corporate earnings releases in late July lifted the stock market to a new high early on, prompting investors to start locking in profits. Rising tensions with North Korea; reaction from President Trump's remarks on protests in Charlottesville, Virginia; staffing changes at the White House; and the approaching deadline to raise the US debt ceiling further hindered equity returns. Hurricane Harvey especially hurt the energy sector, the weakest performer in the S&P 500 Index this month. Late-period encouraging US economic data helped offset these challenges.

Portfolio Review

Security selection in the healthcare sector detracted from performance relative to the benchmark. The biggest individual disappointments were Ireland-based pharmaceuticals companies Allergan and Shire. Allergan, best known for its Botox anti-wrinkle treatment, posted strong second-quarter financial results. However, the stock declined due to some pending legal settlements and uncertainty around the value of new business deals. Shire, which focuses on treatments for rare diseases and is not in the benchmark, saw its share price fall to a three-year low, as investors favoured higher-quality pharmaceutical firms. A sizable overweighting in the financials sector further hindered the Fund's relative result.

Stock picks in the consumer discretionary sector aided performance versus the benchmark. Top contributors included mattress company Tempur Sealy. The stock, which is not in the S&P 500 Index, rallied as the company recovered from its decision earlier this year to terminate a low-margin contract with bedding retailer Mattress Firm (not in the Fund). Elsewhere, a sizable overweighting in consumer technology leader Apple, the Fund's top holding, rose as excitement mounted ahead of the mid-September launch of the new iPhone 8.

Market Outlook

We remain optimistic about the market's prospects, given strong consumer balance sheets, improving economic growth, and potential legislative changes. We continue to find attractive opportunities among large-capitalisation stocks, ending the period with continued sizable overweights in the financials and consumer discretionary sectors and an underweight in the information technology sector.

MGF-European Growth Fund

Market Review

European markets drifted sideways in August as investors warily eyed geopolitical developments on the Korean peninsula. Closer to home, investors pondered the impact of the euro's appreciation against the US dollar on monetary policy. The telecommunication services sector underperformed as some of its largest constituents generate significant revenues in US dollar-linked currencies. As a result, these stocks suffered earnings downgrades, given the euro's strength. Materials was the best-performing sector over the period, helped by a sharp recovery in commodity prices that was partially fuelled by China's attempt to curb heavily polluting industries like steel and aluminium production, as well as by US dollar weakness and robust global demand for construction materials.

Portfolio Review

Stock selection in the information technology sector contributed to the Fund's performance. The Fund's holdings in mining companies BHP Billiton and Rio Tinto, contributed to performance due to rising metal prices. Investors also welcomed BHP Billiton's decision to dispose of its US shale assets.

Stock selection in the consumer staples, consumer discretionary, and industrials sectors detracted from the Fund's performance. Individual detractors included Dixons Carphone, Ahold Delhaize, and Andritz.

Dixons Carphone underperformed after the company revealed that weakness in the pound sterling had dampened consumer demand for new handsets. Ahold Delhaize underperformed after news that Whole Foods, which was recently acquired by Amazon.com, was implementing price cuts on selected items. We believe this announcement has garnered undue attention given that the price reductions will only apply to basic goods and that Whole Foods is structurally too high cost to effectively compete on price.

In the industrials sector, Andritz underperformed because of an unexpected downturn in orders for its metals division, indicating that global auto capital investment had reached its peak. Andritz asserted that the second half of the year should see a recovery in orders, driven by its hydro and pulp and paper divisions.

We added to the Fund's position in Imperial Tobacco on the view that the recent share price decline, triggered by the US Food and Drug Administration's consultation on nicotine reduction to non-addictive levels, was unwarranted as the chances of such legislation being enacted are negligible.

Market Outlook

The European economic recovery continues to gather steam, which has resulted in a sharply stronger euro. This may relieve pressure on the European Central Bank (ECB) to tighten its monetary policy. We also believe the region's earnings growth looks attractive relative to other developed markets; however, valuations are running above their long-term average. As a result, in a rising interest rate environment or on a stronger euro exchange rate, equities risk are entering an extended sideways period. However, we believe there are many companies that have strong competitive positions and offer long-term enduring cashflows, but are mispriced due to operational errors by previous management. We expect that judicious investment in misunderstood businesses like these can help deliver compelling returns, even in a flat market environment.

MGF-Emerging Eastern Europe Fund

- August was a good month for all major Eastern European markets though Russia came through the strongest, supported by a stronger rouble. This was despite little change in the oil price over the period, even though Hurricane Harvey in the US caused significant damage and led to higher fuel prices in the States. Turkey also had a good month, due to an exceptionally strong second quarter reporting season, underlining the improving growth dynamics there.
- The Russian banking sector was in the spotlight in August due to the failure of leading private bank, Otkritie, which is now under Central Bank of Russia conservatorship.
- We continue to believe that the ingredients remain in place for major Eastern European markets to continue to perform well. Stronger commodity prices should bode well for Russia while accelerating growth and earnings revisions should support the momentum in Turkey. Strong growth and reflation continue to remain the main theme in central Europe.

MGF-Healthcare Fund

Market Review

The healthcare sector outperformed the broader equity market in August. The MSCI World (Net) Total Return Index rose 0.14%, while the MSCI World Health Care Total Return Index was up 1.03%. The biotechnology sub-sector had the strongest return, while the pharmaceutical sub-sector had the weakest return.

Portfolio Review

Biogen and Novo Nordisk contributed to the Fund's performance. Biogen's stock rose along with the rest of the biotechnology sub-sector. The company had previously reported strong quarterly earnings and its base business continued to perform well. Novo Nordisk's stock also rose after the company reported strong earnings, which boosted investor confidence.

Shire and Allergan detracted from the Fund's performance. Shire's stock declined due to negative reactions to the departure of its chief financial officer, and the chief executive officer's decision to spin off the company's neurology business. We think Shire's stock is trading at a low valuation and there is limited downside. Allergan's stock declined in sympathy with the entire specialty pharmaceutical sub-sector after Teva Pharmaceuticals reported results that were much worse than expected. We believe Allergan is a fundamentally different company from Teva and its stock should not be treated the same way.

Market Outlook

The healthcare sector had been volatile due to political pressure. We previously stated that the political pressure was more about posturing than actual policy and the market has since proved us correct. With the latest US Senate version of the healthcare bill favourable to the industry, the healthcare sector continues to recover. We still see increased pricing pressure from private payers on the biotechnology and pharmaceutical industries. In response to this trend, we have picked companies that focus on research and development, and have truly meaningful product pipelines. Also, the stocks of many truly innovative companies declined along with the entire sector, including lesser-quality companies. We believe the current environment represents an attractive entry point for many high-quality companies.

Manulife Global Asset Allocation- Growth Fund

Market Review

Over the month of August, markets initially tumbled upon the political tension between North Korea and the US. The Asia Pacific market was especially impacted by the political turmoil, with equities market suffering the most in the first half of the month while retrieving grounds in the latter part of the month due to positive corporate earnings result.

Another focus of the month was the Jackson Hole Symposium. However, central bankers did not give much colour on monetary policy in the meeting. Instead, Janet Yellen turned her attention to financial stability while Mario Draghi commented on boosting productivity to strengthen potential output growth.

Another notable development over the month was the proposed tax reform in the US, where the Trump administration was starting to push for a lower tax rate with a more simplified tax system. However, there was scepticism on whether the White House can successfully achieve the reform without facing political tensions from Congress. Despite uncertainties in the political arena as well as monetary policies, generally positive macroeconomic data supported the equity market. In the US, annualised GDP grew by 3.0% quarter-on-quarter while nonfarm payroll grew by 209,000, both ahead of expectations. In the eurozone, both inflation and GDP were in line with expectations. Against these backdrops, the MSCI World returned 0.19% in US dollar terms over the month while the Bloomberg Barclays Global Aggregate Index returned 0.99% in US dollar terms.

Portfolio Review

Over the month of August, the Fund increased exposure to fixed income and commodities while decreasing exposure to equities and cash.

European equities, Japanese equities, international bonds and US bonds contributed negatively to the Fund's return. However, all other asset classes contributed positively to the Fund's return.

Market Outlook

The global macro backdrop currently favours the equity asset class, at the expense of fixed income. We remain concerned about equity's expensive valuations as real rates have been on the rise year-to-date. That said, we note that this year's leg-up in equity prices has not been driven entirely by re-rating, it has also been driven by an improved earnings outlook. We want to stay nimble with respect to maintaining our equity overweight, but do not want to overlook the earnings uptrend that could sustain beyond the near term.

We continue to approach asset allocation with full appreciation for downside risks and are focused on selectively allocating within the equity asset class, preferring regions where there is sustainable support from economic and sales growth, where shareholder returns have room to improve, and where earnings are more stable and less susceptible to any fiscal or monetary policy headwinds. However, in the nearer term, policy turns (especially involving large amounts of money) always tend to pose risks. Therefore, tactically, hedges and/or equity overweight reductions may be necessary as investors look to take profit as equities are near all-time highs.

With respect to fixed income, our moderately cautious view on the asset class stems from the understanding that more sustainable US/global economic growth and diminishing deflation risks should detract fixed income's attractiveness relative to equity. The asset class continues to be subject to central bank comments, which have recently appeared more varied. There are concerns about the impact of balance sheet shrinkage "back to normal", triggering a sharp fall in investor sentiment and spiking yields across global bond markets. However, we hold a much less extreme view than that, largely because we believe any balance sheet pare-backs to be measured, orderly (given central bank worries about disrupting the economy and markets too much), and assisted by plenty of forward guidance.

On the other hand, absolute yield levels remain subdued. This makes duration risk elevated and the fixed income asset class still unattractive on a valuation basis. This is a key reason why we prefer higher-yielding corporate/sovereign credit, on a relative basis versus government rates: For extra yield pick-up as long as credit conditions and quality are not deteriorating.

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