Manulife Asset Management

Fund Commentaries (Monthly)

June 2017

Thailand Equity Market

Market Summary

June Review: The SET Index has moved up fairly steadily from support at 1560 in early June to close the month at 1574.74, +0.84%MoM, with foreign investors as net seller of 163 million Baht. Thai stock market did get some support from several items. 1) Construction Services sector were lifted by progress in government infrastructure projects, notably the Thai-China dual-track lines. 2) Recovery in ICT after a period of somnolence. 3) The government's "Thailand's Big Strategic Move" seminar aimed at boosting investor confidence and foreign investment. 4) SET Index is a laggard compared to other markets – but valuation is looking more attractive. There were few ripples in the month from the UK election, Trump's investigation, the expected Fed rate hike, and the inclusion of China A-Shares in the MSCI emerging index. More influence was made by the Sor Por Kor conflict related to PTTEP and EARTH's B/E default, pressured EARTH and related banks.

Monthly Strategy

July strategy: We expect the SET Index to move sideways, influenced by some factors. 1) The SET Index lags the region but valuation is attractive (YTD SET Index+2.1% vs MSCI Asia ex Japan Index+22%) and 2) We believe money flows in the market but rotate between sectors. It should still support the SET Index. We expect the SET Index to test key resistance at 1600. However, this month, there will be some pressures from 1) bank earnings – expect no recovery yet and 2) a dip in oil prices that will lead to inventory losses and pressure earnings of Energy stocks (PTT, PTTEP). Things to watch: 1) Central bank meetings: FOMC July 26, ECB July 20, and BoJ July 20; we expect no implication on the market as we see no material change in direction. 2) BoT's MPC on July 5; maintain policy rate and 3) Progress in government infrastructure projects, with the e-auction bid for the Bt7.3bn Huahin – Prachuab dual-track on July 27. This will induce good sentiment to the construction services sector.

Index and Trading Summary by Investor Types

SET Index closed at 1,574.74, increased by 0.84% from the previous month.

Investor Types	Buy (MB)	Sell (MB)
Institution	114,809	102,688
PropTrade	96,791	98,055
Foreign	276,096	276,259
Individual	404,898	415,593

Net position (MB)

WTD	MTD	YTD
2,968	12,121	50,922
(4,539)	(1,264)	(1,054)
4,860	(163)	13,453
(3,289)	(10,695)	(63,321)

Fixed Income Fund Market

Market Outlook

In June, Thai government bond yield curve flattened significantly as yields on the 2 year yield rose by 2 bps whereas the 10-year buckets plunged by 16 bps. In short, yield on the front end of the curve (1-2 year tenors) moved between -1 to +2 bps in the aftermath of supply reduction by Bank of Thailand (BOT) and flush liquidity in the banking system. Meanwhile, the yield of 10-15 year tenors plummeted by 11-16 bps as demand for long-term bonds emerged following a successful Bond Switching Programme. In short, yields at 0-3 year buckets, which closely linked to BOT policy rate, moved between +1 and -11 bps, whereas the yields between 7-10 yr tenors fell by 13 to 16 bps. As a consequence, the yield curve flattened markedly, and the 2-10 year spread collapsed to 102 bps from 119 bps in May 2017. Foreign flow wise, international investors were a net buyer of Thai bonds by THB 2.7 billion in June 2017 vs. a net buyer of Thai bonds by THB 33.6 billion in May 2017. As a consequence, net holding by international investors has edged up from THB 722 bln. to THB 723 bln. for the same period.

Economy

According to BOT, Thai economy continued on an expansionary path in May 2017 mainly driven by recovery in exports and tourism. Exports growth grew 10.6%YoY versus 5.5%YoY growth in previous month. Excluding gold, exports grew at a faster pace of 14.1%YoY (previously +5.9%YoY). Private consumption also expanded by 2.4%YoY thanks to improved spending in tourism-related service sectors. Moreover, domestic consumption was supported by strengthened durable goods orders, especially on the motorcycle sales, supported by better farm income outlook. Furthermore, tourist arrivals rebounded by 4.6%YoY in May, down from the 7.0%YoY growth earlier but still positive, primarily supported by tourists from China and Malaysia which propelled the number of tourist arrival to 2.6 million in May versus 2.8 million in April 2017. Nevertheless, government expenditure contracted last month due to decline in capital expenditures after an acceleration of disbursement earlier. Similarly, still lingered at a low level, due primarily to a continual decline in construction activities as reflected by a drop in permitted construction area and construction material sales, contracting by -0.5%YoY in May 2017. Overall we expect the Thai economy to grow gradually this year, with the BOT forecasting a 3.5%YoY growth this year and 3.7% in 2018.

June headline inflation continued to be negative at -0.05%YoY, compared to May's figures of -0.04%YoY and below the market's estimates of 0.00%YoY due to high base of vegetables and fruits prices last year that were affected by drought (vegetables and fruits -6.37%). Moreover, crude prices slowed in June, as a result the energy prices increased moderately at 0.93%YoY, slowed from 3.69%YoY last month. However, Core inflation remained positive at 0.45% in June 2017 In conclusion, for the first 6 months of this year, CPI is still averaging 0.67%, whilst Core CPI averages at 0.56%. The BOT, hence, cut its 2017 forecast of headline inflation from 1.2% to 0.8%.

Outlook for Bond market in July 2017

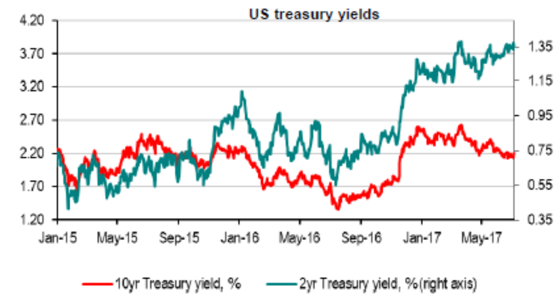
From the economic indicators, the US economic recovery continued at a measured pace, with the third reading of annualised US GDP in 1Q17 revised up from 1.2% to 1.4%, and higher than 1.2% expected but lower than 2.1% in 4Q16. In contrast, the US private job market surprised on the downside with the ADP private jobs in June, confirming new job creation of 158k vs. 188k estimated. However, U.S. nonfarm payrolls (NPF) were decidedly robust and surpassed the consensus in June 2017. The economy created 222K new jobs versus 178K jobs anticipated, whilst the unemployment rate increased to 4.4% from 4.3% in the previous month. The PCE Core decreased to 1.4% in May 2017, compared to Fed's target of 2%. Meanwhile, U.S. Initial jobless claims in the last week of June 2017 were higher than expected. Jobless claims recorded at 244K in the last week of June 17 (vs. 240K projected). Furthermore, US retail sales for May 2017 contracted -0.3%, below expectation at 0.0% and versus +0.4% in the previous month.

In addition, U.S. May durable goods orders shrank -1.1% vs. -0.6% expected, and -0.8% contraction in the previous month. Nevertheless, U.S. consumer confidence from Univ. of Michigan in June was slightly better than anticipated, registering at 95.1 against the consensus survey at 94.5. 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 5.67%YoY in April after a gain of 5.89%YoY in March. Likewise, U.S. existing home sale number in May also painted a brighter picture for housing market, with the data printing at +1.1%MoM in May versus -0.4% forecasted and a -2.3% decline in previous month. Similarly, US New Home Sales showed growth at measured pace, recording a 2.9% MoM growth in May 2017 compared to 3.7% estimated. In addition, the US ISM services sector in June strengthened to 57.4 from 56.9 in May, eclipsing the market expectation at 56.5. In the same fashion, U.S. ISM manufacturing was above consensus at 57.8 vs. 54.9 last month, and exceeding market's forecast at 55.3.

In addition, NY Fed consumer survey points towards better US consumer spending in the coming months. In its latest survey of consumer spending, nearly 35% of the 1,300 households surveyed said that they are better off economically than a year ago. This was the highest number in almost four years. The market is still of the view that Fed is going to hike one more time in 2017, possibly in December. As such, the possibility of rate hike in December 2017, as reflected in the Fed Fund Futures contract, has fallen to c. 48%, compared to c. 94% last month. Meanwhile, the market is slightly concerned by the Hawkish tone from ECB about removing liquidity injection, if need be. This comment pushed the Bund Yield up to over 0.5%--the highest in 18 months. On the contrary, the BOJ maintained its deposit rate at -0.10%, and its 10-yr yield target at 0%.

On the domestic front, the BOT hold rate unchanged at 1.5% as expected on July 5, 2017. Thus, we expect BOT to hold rate for the rest of the year whilst Fed will hike one more time in 2017. BOT has held the rate at 1.5% for the last 17-18 months. We, therefore, maintain our appreciating bias for USD/THB but revised down target for the pair to 35.0 by end 2017. For the bond side, demand for bond is quite strong following the successful result of bond switching programme. BOT revised up GDP forecast for 2017 from 3.4% to 3.5% but revised down inflation estimates from 1.2% to 0.8% for the same period due to softer energy price. Nevertheless, MPC members still express concern over "Yield Seeking Behavior" in the low interest rate environment, which entail higher default risk.

With regard to PDMO's Bond Switching result, the "Source Bonds" are: LB183B, LB193A, LB191A and LB196A. The "Destination Bonds" are: LB226A, LB25DA, LB316A, LB466A and LB666A. The Bond Switching was considered a successful exercise with robust participation from investors and primary dealers. In essence, the PDMO was able to allocate the full THB 90 billion as planned with BCR of c.1.17x. Furthermore, PDMO completed the refinancing and extended the bonds' average maturity from c.1.75 years to around 25.16 years, whilst reducing the average financing cost of 4.01% to 3.52% per annum. Finally, this Bond Switching programme increases market liquidity in the Destination Bonds, which are on-the-run benchmark 5, 15, 30 and 50-year Thai government bonds.



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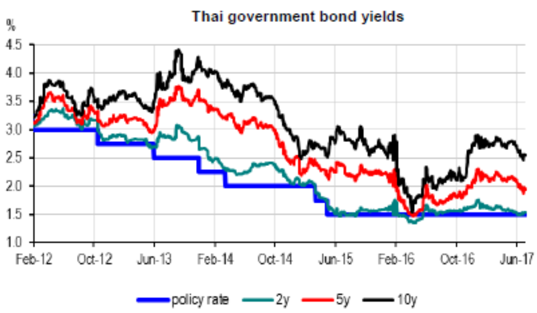

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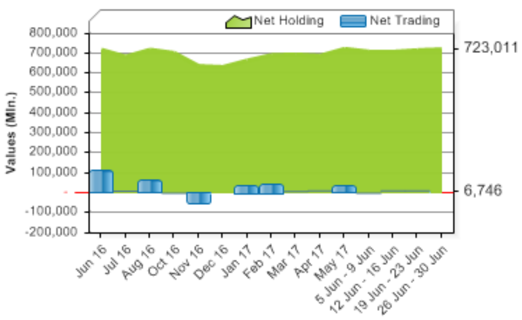

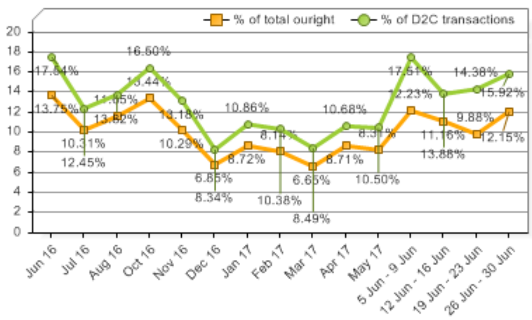

June 2017 Bond Switching Result:

Source Bonds	Term to Maturity	Transaction Amount (THBm)
1. LB183B	8m	11,694
2. LB191A	1y 6m	2,079
3. LB193A	1y 8m	14,318
4. LB196A	1y 11m	61,909
Total		**90,000**

Destination Bonds	Term to Maturity	Transaction Amount (THBm)
1. LB226A	4y 11m	6,636
2. LB25DA	8y 5m	11,417
3. LB316A	13y 11m	31,358
4. LB466A	28y 11m	14,318
5. LB666A	49y	26,271
Total		**90,000**

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

MGF-Asian Small Cap Equity Fund

Market Review

Asia Pacific ex Japan small cap equities continued to record gains led by strong performance from South Korea. Oil prices fell during the month despite the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC members' decision to continue their production cut for an additional nine months.

China's sovereign credit rating was downgraded by Moody's by one notch (to A1) due to expectations of a worsening debt situation along with slowing growth. However, its rating outlook was upgraded to stable from negative; investors' reaction was muted despite the downgrade.

Hong Kong's retail sales growth in April remained in positive territory for a second consecutive month after a two-year long decline. Moody's also downgraded the city's sovereign credit rating by one notch (to Aa2) given its close economic linkages with China. Taiwan's first quarter GDP growth registered at 2.6% year-on-year due to resilient domestic consumption and robust exports.

South Korea was the best performing market due to solid first quarter earnings results. Exports in April surged by 24.2% year-on-year, hitting a 6-year high and growing for a sixth consecutive month, driven by solid demand for semiconductors and higher overall shipments.

Singapore's first quarter GDP rose by 2.7% year-on-year on the back of the manufacturing sector's strong growth. Indonesia's sovereign credit rating was upgraded by S&P by one notch (to BBB-), achieving full investment grade status among the major credit rating agencies. Thailand's first quarter GDP expanded by 3.3% year-on-year, the fastest in three quarters, driven by the agricultural sector, exports, and household consumption. Malaysia's first quarter GDP growth was faster than expected at 5.6% year-on-year (relative to consensus forecast of 4.8%) due to strong private consumption and investments.

In India, the Goods & Services Tax (GST) rates were announced for most goods, where rates for several sectors were higher than expected. However, consumer staples were kept at the lowest tax bracket. The government passed an ordinance that authorises the central bank to take measures in expediting the resolution of stressed loans.

Australia's consumer confidence in May deteriorated due to a subdued outlook on wage growth and personal finances. The central bank kept the cash rate unchanged. It sees the current policy settings as appropriate to achieve economic growth and inflation targets.

Portfolio Review

The Fund underperformed its benchmark for the month on the back of stock selection at country and sector levels. Several of the Fund's best performing stocks in the first few months of the year experienced some short-term profit-taking. However, strong asset allocation decisions, including our overweight in Hong Kong/China and stock selection therein, provided a positive backdrop. The Fund's overweight in South Korea and in stock selection in South Korean information technology contributed positively, while stock selection in materials and consumer discretionary detracted from performance.

Early in May, we added to our Indian exposure. We believe the country is one of Asia's strongest structural growth stories. Many of the policy measures, including recent developments in affordable housing, will benefit our property and housing finance holdings.

Information technology exposure has been the largest sector contributor year-to-date for the Fund and continued to perform well this month. Several of the Fund's best performing holdings this month in Hong Kong/China, Taiwan, South Korea, and Singapore came from this sector. They include China's largest e-commerce solutions provider to global brands.

Market Outlook

Following the strong performance of Asian markets year-to-date, we expect some consolidation in the short-term. Nevertheless, we remain positive because valuations are not stretched, several 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 purchasing manager indices (PMIs). While some companies in certain sectors have begun to see a slowdown in earnings revisions, we have been encouraged by recent visits with companies in the Fund that the earnings outlook remains largely intact.

MGF-Dragon Growth Fund

Market Review

China and Hong Kong equity markets were up during the month led by the strong performance of China.

China's sovereign credit rating was downgraded by Moody's by one notch (to A1) due to expectations of a worsening debt situation along with slowing growth. However, its rating outlook was upgraded to stable from negative; investors' reaction was muted despite the downgrade. Robust property sales in Tier 3 cities resulted in the local equity market's strong performance and the real estate sector's outperformance. Producer Price Index (PPI) in April remains strong and was at its seventh consecutive month of expansion 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. The country signed a myriad of agreements during the Belt and Road Forum with about 40 countries. Total outbound investment for this initiative was expected to reach around US$600–800 billion.

Hong Kong's retail sales growth in April remained in positive territory for a second consecutive month after a 2-year long decline. Moody's also downgraded the state's sovereign credit rating by one notch (to Aa2) given its close economic linkages with China.

Portfolio Review

The Fund underperformed the benchmark during the month due to asset allocation. Stock selection in real estate and healthcare, and the overweight in materials negatively impacted performance. However, stock selection in financials, information technology, and consumer discretionary contributed positively to performance.

Some commodity-related companies negatively impacted performance. A Chinese cement-making equipment and engineering services provider negatively impacted performance. There was aggressive profit-taking on the materials sector driven by fears of tightening property policies affecting construction material demand in the coming quarters. However, this seems to be overdone as property sales in most cities are still healthy. Another detractor was a Hong Kong-listed offshore drilling services provider as oil prices fell. We continue to like the company – normalising oil prices increases the potential for better-than-expected earnings given its high operating leverage.

Our holdings in Chinese insurance companies performed well. Their profitability outlook improved given upward pressures on local interest rates.

The Fund increased its exposure in utilities, and reduced its exposure in financials.

Market Outlook

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

We bought into the gas distribution sector during the correction. We are positive on the government's push to convert energy for heating from coal to gas in many Greater Bohai area cities; this is with the aim of reducing winter air pollution. We expect more policies to be rolled out to support gas usage, and these should benefit gas distribution companies.

MGF-India Equity Fund

Market Review

On the macro front, industrial production (under the new series) grew by 2.7% in March after growing +1.9% in February, surpassing market expectations. The economy is starting to show signs of recovery as the after effects of demonetisation start to ebb. Sector-wise, mining surged 9.7% from 4.6% in February and electricity growth increased to 6.2%. Under the use-based category, production of primary goods largely comprising of minerals surged 17% year-on-year. Capital goods also registered the first positive reading in five months growing 30.5%. The production of consumer non-durable goods, a bellwether of rural demand, continued its uptrend at +19.5%, and durable goods production registered the first positive reading in five months. The new category of infrastructure and construction goods also picked up sharply by 13% from -8.7% in February. Consumer Price Index (CPI) inflation slipped to a record low of 2.99% in April compared to 3.89% in March, led largely by favourable base effect and slower pace in core inflation. Core inflation also recorded a lower print of 4.4% vs 4.8% in March. There was no Reserve Bank of India (RBI) policy meet during the month of May – next meeting is due in June.

Portfolio Review

The market had a decent rally and most sectors gave positive returns during the month. Consumer staples, information technology, and consumer discretionary were the big outperformers. On the other hand, healthcare, utilities, energy, and materials underperformed the markets. Telecom, industrials, and financials broadly performed in line with the markets. Consumer staples did well: a normal monsoon forecast by the IMD and lower-than-expected GST rates in several categories improved the volume growth outlook for the sector. Information technology did well on the back of improved sentiment as the largest company in the sector had a successful stock buyback. Consumer discretionary did well on the back of good performance of the auto stocks buoyed by the good monsoon forecast. Healthcare corrected after a string of lower-than-expected earnings print as generic drug pricing pressure intensified in the US because of buyer side consolidation. Utilities and materials underperformed on the back of stock specific corrections.

The Fund benefitted due to underweight in healthcare and energy as well as stock selection in financials. On the other hand, stock selections in industrials and consumer discretionary, as well as an underweight in information technology, were the main detractors of performance for the month.

Market Outlook

We remain optimistic on the domestically driven India story in times of global uncertainty. Due to prudent policymaking, both by the government and RBI with help from falling crude prices, India's macro has remained 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 despite the RBI's change of stance 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 recent sharp cool-off in inflation will 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. We also remain positive on the long-term implications of GST in creating a unified market for the entire India, increasing productivity, and widening the tax base of the country.

Keeping these themes in mind, we are overweight in financials, consumer discretionary, real estate, and cement stocks within materials. We have recently increased weight in cement and construction chemicals which will benefit from an increase in construction activity. 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 because it 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 stock market inched higher in May, held back by concerns involving President Trump's possible interference with an FBI investigation of his staff members' ties to Russia and that country's influence on the election. Investors feared the president's pro-growth agenda could be derailed. Sliding commodity prices were an added challenge. On the positive side, first-quarter corporate earnings reports were favourable, recent consumer spending data showed the fastest growth since December, and consumer sentiment was well above the five-year average. Within the broad-based S&P 500 Index, the information technology sector posted the strongest gain, while energy and financials sector stocks declined.

Portfolio Review

Positioning in the financials sector, a sizable overweight, detracted from relative performance. Individual disappointments included top holdings Goldman Sachs and JPMorgan. Both stocks retreated amid delayed expectations for looser regulations, lower corporate tax rates, and higher interest rates.

Stock picks in the consumer discretionary sector aided relative performance. Standouts included e-commerce giant Amazon.com and home builder NVR. Amazon's share price topped US$1,000 for the first time, as gains in the company's e-commerce and cloud-computing businesses fuelled strong first-quarter financial results.

Market Outlook

Despite the recent bout of choppiness, we believe the market's longer-term outlook remains encouraging. We still expect stocks to benefit as the US economy accelerates and the Fed raises the federal funds rate. We also think the bull market will likely continue, but will be led by earnings growth instead of monetary policy. Lastly, we're encouraged because we continue to find valuations that look attractive relative to earnings growth prospects. At period end, the Fund maintained sizable overweights in the economically sensitive financials and consumer discretionary sectors.

MGF-European Growth Fund

Market Review

During the period, European equities delivered strong returns in US dollar terms, helped by local currency gains, the French presidential election results, and rising Purchasing Managers' Indices (PMIs) in continental Europe. Aside from high valuations in some sectors, the environment for equities could hardly be more supportive. Monetary policy remains loose and inflation has bounced back from the lows of last year, for now averting fears that Europe is falling into a deflationary spiral. Furthermore, investors welcomed the defeat of extremist parties in recent elections in Europe. Money continued to flow out of the US into Europe, taking advantage of the improving macroeconomic situation as well as lower valuations and superior earnings growth.

The price of oil fell in response to the Organization of the Petroleum Exporting Countries' (OPEC) decision not to deepen production cuts. However, energy stocks held up relatively well as the market recognised that the biggest oil firms had redesigned their cost bases for the price of US$50 per barrel of oil. Bond yields compressed as the reflation trade unwound due to falling commodity prices, and scepticism that the developed world was about to embark on a globally coordinated round of fiscal stimulus. The utilities sector, which is viewed as a bond proxy, was the best-performing sector over the month.

Portfolio Review

Individual detractors from the Fund's performance during the period included Liberty Global, an international telecommunications and television company, and Akzo Nobel, a leading global paints and coatings company. Liberty Global's shares were weak due to its first quarter results, which showed that the company failed to impose price hikes on its UK cable customer base. Akzo Nobel underperformed after it rejected a second takeover bid from US peer PPG Industries.

The Fund's positions in Rio Tinto Group and BHP Billiton were increased after stress testing the free cash flow generation of the companies' iron ore assets. Our financial models indicated that under depressed long-term commodity price assumptions, these miners still trade on very attractive free cash flow yields.

Market Outlook

In our view, the extended valuations seen across many areas of the market, combined with low levels of volatility, make equities vulnerable to a sharp correction. We believe a pull-back could be trigged by factors including: any development that counters the narrative of an improving macroeconomic environment, the preservation of the political status quo, and lower interest rates for longer. For instance, investors are potentially underestimating the impact a stronger euro could have on European growth by cutting the competitiveness of its exporters.

We believe the Fund's process of buying companies with hard-to-replicate, enduring cash generative business models when out of favour will lead to outperformance for patient investors. We believe there has been a general flight out of stocks associated with Brexit risk, creating numerous value anomalies for the Fund to exploit. Of course, it is impossible to predict accurately when the market will recognise it has overly discounted the threat to earnings for these businesses, but we have rechecked our valuations and re-engaged with company management and remain confident that the Fund's holdings offer compelling upside for long-term investors.

MGF-Emerging Eastern Europe Fund

- Emerging European markets fell in aggregate terms in May, dragged lower by a poor performance from Russia and in the absence of any significant developments. The renewed accord between OPEC and other oil producers to extend their recently agreed output cut for a further nine months had little positive impact having been largely discounted beforehand by financial markets.

- Having jumped higher in April in expectation of an increase dividend payout on the back of a 50% IFRS earnings rule as laid down by Russia's Ministry of Finance, Gazprom sold off sharply when the announced dividend for 2016 came in below market expectations.

- Looking forward, we expect the current stable market conditions to continue. This is also evidenced by the increased capital markets activity we have been seeing more recently. As we always do, we will maintain our bottom-up stockpicking approach and try to identify the best opportunities available as and when they appear.

MGF-Healthcare Fund

Market Review

The healthcare sector slightly outperformed the broader equity market in May. While the MSCI World (Net) Total Return Index was up 2.12%, the MSCI World Health Care Total Return Index rose 2.27%. The pharmaceuticals sub-sector had the strongest return, while the biotechnology sub-sector had the weakest return.

Portfolio Review

The Fund's exposure to the life sciences tools and services sub-sector contributed to its performance over the period. While the biotechnology and pharmaceuticals sub-sectors detracted from its performance. Individual detractors from the Fund's performance included Biogen and Allergan. Biogen shares erased their gains from 2017 during the month of May. We continue to believe the stock is undervalued and we are getting the company's pipeline for free at this point. Allergan shares dropped given increased risks to legacy products.

Market Outlook

The market saw gains through the month of May. While other industries are trading at all-time high valuations, we continue to see investible opportunities in the healthcare sector. The sector made gains after US President Trump met with top healthcare sector executives and asked them to manufacture more drugs in the US and to lower drug prices. In return, Trump promised to ease regulations and streamline the US Food and Drug Administration (FDA) approval process. We have continued to make investments in companies with strong research and development, and meaningful pipelines.

Manulife Global Asset Allocation- Growth Fund

Market Review

In the month of May, markets focused on the last round of French elections, as well as President Trump's relationship with the Federal Bureau of Investigation (FBI) and Russia. In France, Emmanuel Macron was elected to succeed François Hollande as the French president, which was largely welcomed by the market. Meanwhile, data in Europe continued to surprise on the upside. Unemployment rate continued to fall in the broader eurozone area. Unemployment rate in April was recorded to be 9.3%, which is the lowest since March 2009. In the US, markets tumbled upon the turmoil in Washington. US first quarter GDP was revised upwards to an annual rate of 1.2% while unemployment rate in April dropped to 4.4%. This gave markets some support and the US equities market continued to hit all-time highs. Meanwhile, China announced the Bond Connect programme with Hong Kong as a follow-up to the Stock Connect programme that was launched in 2014. The Chinese regulator has, thus far, limited the programme to northbound investments, enabling overseas investors in Hong Kong to invest in the China Interbank Bond Market. While this was positive news for the market, China's sovereign credit rating was downgraded by Moody's to A1 with a stable outlook. Markets largely overlooked this news and edged up higher with the MSCI China Index registering a return of 5.3% in US dollar terms in May. The MSCI World Index recorded a gain of 2.2% in US dollar terms in the month of May whilst the Bloomberg Barclays Global Aggregate Index recorded a return of 1.6% in US dollar terms.

Portfolio Review

Over the month, the Fund recorded a return of 1.51% in US dollar terms. The Fund outperformed US equities and most bond asset classes apart from global bonds and US long term treasuries. The Fund recorded a lower volatility when compared to major equities and bonds asset classes.

All asset classes apart from non-US small cap equities contributed positively to the Fund's return. The Fund's exposure in Asia Pacific ex-Japan equities and European equities were the main performance contributors.

Market Outlook

We want to stay nimble with respect to maintaining our equity overweight, but we do not want to overlook the earnings uptrend that could sustain beyond the near term. On that note, 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 any policy headwinds. With respect to fixed income, our moderately cautious view on the asset class 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.

We expect global economic growth to be modest in absolute terms and relative to past business cycles. Although inflation rates have picked up, we think it is more a cyclical phenomenon, as dis-inflationary risks do not seem to be fully eliminated on a structural basis – especially in non-US developed market economies.