Manulife Asset Management

Fund Commentaries (Monthly)

October 2017

Thailand Equity Market

Market Summary

October review: The SET index moved up to surpass 1,670 and 1,700 points in mid-October as the market turned risk-on especially with big cap companies that are highly linked to the Thai economy after PM Prayuth announced that a general election is set to be held in 2018. This help lifts investors' confidence as listed companies announce Q3 2017 earnings. Banks' earnings were a disappointment with little visible recovery in asset quality however there was little impact on markets. The ECB announced QE reduction as expected, cutting QE from EUR60bn per month to EUR30bn from January 2018 through September 2018. Subsequently, the EUR depreciated – as it does every time the ECB announces a QE reduction. The SET Index faced its most severe profit-taking thus far this year after a two-month surge. It hit a base rest at 1673 and then recovered above 1,700, closing on the final day of October at 1,721.37, +2.9%MoM. Foreign investors were net sellers of Bt7.3bn.

Index and Trading Summary by Investor Types

SET Index closed at 1,721.37, gaining by 2.88% from the previous month.

Investor Types	Buy (MB)	Sell (MB)
Institution	117,766	112,243
PropTrade	136,446	134,295
Foreign	344,785	352,082
Individual	581,156	581,533

Net position (MB)

WTD	MTD	YTD
3,502	5,523	68,046
(815)	2,151	12,224
(3,593)	(7,297)	2,364
906	(377)	(82,634)

Monthly Strategy

November strategy: The SET is expected to move sideways. Foreign fund inflows are expected to slow in line with the expected weakening of the THB. We expect some volatility as companies release earnings. Things to watch this month are: 1) Nov 8 – BOT's MPC meeting, in which interest rate is expected to remain at 1.50%; 2) Nov 20 – 3Q17 Thai GDP growth announcement – market expects 3.8-4.0%YoY from 3.7%YoY in 2Q17. 3) EEC is expected to come closer to fruition in November. 4) Nov 30 – OPEC meeting, at which oil production is expected to be maintained. If there is a discussion during the meeting about more production cuts, it would be positive to oil prices. 5) Politics in Spain –this has not affected global markets so far. 6) Trump's tax reform, new Fed chair, and expected Fed rate hike in December.

Fixed Income Fund Market

Market Outlook

In October, Thai government bond yield curve steepened marginally since yields on the 2 year yield remained unchanged whereas the 10-year maturity edged up by 4 bps. However, the 28-30 year tenors fell by 4 bps. All in all, yield on the very short end of the curve (0-1 year tenors) declined by 1-3 bps due to flush liquidity in the local banking system. In contrast, the yield on 10-15 year maturities soared by 2-4 bps on profit taking after relatively solid economic data from US and ECB's decision to curb asset purchasing from EUR 60 billion/month to EUR 30 billion/month. In short, yields at 0-3 year buckets, which closely linked to BOT policy rate, moved between -3 and +3 bps, whilst the yields between 7-10 yr tenors surged by 1-4 bps. Therefore, the yield curve steepened slightly, and the 2-10 year spread widened to 97 bps versus 97 bps in September 2017. Foreign flow wise, international investors reversed trend and became a net seller of Thai bonds by THB 26.2 billion in October 2017 vs. a net buyer of Thai bonds by THB 50.8 billion in September 2017. Thus, net holding by international investors has fallen from THB 815 bln. to THB 788 bln. for the same period.

Economy

According to BOT, Thai economic recovery gain further traction in September 2017 driven by solid demand in exports and tourism. Exports growth rose 13.4%YoY versus 15.8%YoY growth last month. Excluding gold, exports still expanded 8.9%YoY (previously +12.7%YoY). Private consumption moderated to 1.9%YoY as spending on durables goods increased, particularly on commercial and passenger car sales. In addition, tourist arrivals recorded a 5.7%YoY increase in September, down from the 8.7%YoY growth in prior month, mainly from Chinese tourists and high base effect last year. Moreover, the number of South Korean and Japanese tourists increased as they shifted their travel destination away from tension in the Korean Peninsula to Thailand. However, the number of tourist arrival fell to 2.56 million in September versus 3.13 million in August 2017. In addition, government expenditure was mixed last month, with the current expenditures contracted (-4.2%YoY in September 2017), whereas the capital spending expanded by 9.5%. Nonetheless, private investment indicators remained subdue as reflected by the decline in real 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.

October headline inflation remain flat at 0.86%YoY, slightly higher than the market expectation of 0.83%YoY. Inflation uptick was primarily attributable to the surge in food price due to recent flood and the recuperation of oil prices. Core CPI was also comparatively stable at 0.58% versus 0.53% previous month. However, for the first 10 months of this year, CPI is still averaging 0.63%, whilst Core CPI remains 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 November 2017

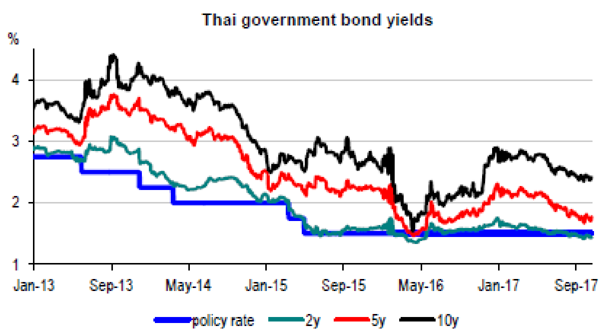
From the Macro perspective, the US economic recovery remains resilient despite two Hurricanes, with the advance reading of annualised US GDP in 3Q17 recorded at 3.0% and higher than 2.6% estimated, but slightly lower than 3.1% in 2Q17. In addition, the US private job market maintained its momentum with the ADP private jobs in October, registering new job creation of 235k vs. 200k expected. However, U.S. nonfarm payrolls (NPF) were somewhat disappointing and fell short of the expectation in October 2017. Essentially, the economy added 261K jobs versus 313K new jobs creation expected. Nevertheless, the unemployment rate dipped from 4.2% in the previous month to 4.1%--a 17-year low. Moreover, Fed comment in October 2017 still hinted at gradual normalisation of the policy rate and the balance sheet reduction shall commence in October. Thus, the market has markedly raised the probability of Fed rate hike in this coming December to 92% from 76% last month. The PCE Core stay flat at 1.3% in September 2017, compared to Fed's target of 2%. In the meantime, U.S. Initial jobless claims in the last week of October 2017 were slightly lower than projected. Jobless claims recorded at 233K in the last week of October 17 (vs. 235K anticipated). Likewise, US retail sales Ex Auto for September 2017 accelerated to 1.0% MoM, above expectation at 0.9% and versus only 0.2% in the previous month.

By the same token, U.S. September durable goods orders surged 2.2% vs. 1.0% expected, and 2.0% expansion in the previous month. Similarly, U.S. consumer confidence from Univ. of Michigan in October was in line with forecast, registering at 100.7 against the consensus survey at 100.7. 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 5.92%YoY in August after a gain of 5.81%YoY in July. In addition, U.S. existing home sale number in September has bottomed out, with the data recording at 0.7%MoM in September versus -0.9% estimated and a -1.7%decrease in previous month. In the same manner, US New Home Sales expedited massively, recording a jump of 18.9% MoM in September 2017 compared to -1.1% projected. Furthermore, the US ISM Non-Manufacturing sector in October pointed to expansion and penciled in at 60.1, exceeding the market consensus at 58.5. In contrast, U.S. ISM manufacturing did not meet the expectation, falling to 58.7 vs. 60.8 last month, and below market's anticipation at 59.5.

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. 92%, compared to c. 76% last month. On the contrary, the BOJ voted 8:1 to maintain its deposit rate at -0.10%, and its 10-yr yield target at 0%. In the meantime, ECB kept monetary policy unchanged, but the ECB cut the liquidity injection from EUR 60 billion per month to EUR 30 billion per month, starting Jan. 2018. Meanwhile, USD was supported by strong US economic data in spite of damages from Hurricanes. Moreover, recent political development has renewed the hope that Congress might be able to pass some form of Tax Bill. Besides, President Trump has confirmed Jerome Powell to be the successor of Janet Yellen as FED's Chairman, which is viewed as positive for it would ascertain policy continuity of gradual normalisation. Jerome Powell is perceived as a consensus builder since he has never dissent once as a FED Governor.

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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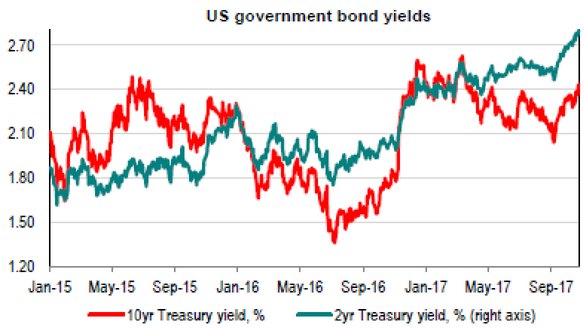

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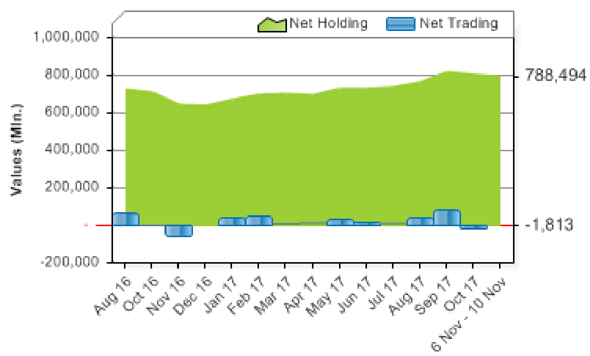

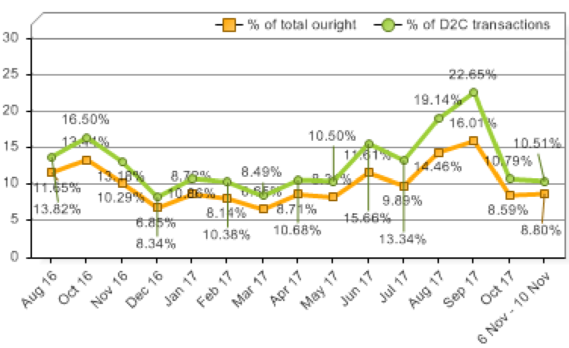

Fund Managers' Comment of Master Funds (As of September 2017)

MGF-Asian Small Cap Equity Fund

Market Review

The Asia Pacific ex Japan small cap equity markets continued to move higher despite volatility in the markets during the month. During the first week, escalating geopolitical concerns from North Korea weighed on investor sentiment. Performance then recovered after several economies, including the US and China, posted stronger-than-expected inflation prints and spurred optimism on global growth. Gains were eventually erased by a strong US dollar driven by: 1) US President Trump's updates on the long-awaited tax reform, which improved prospects for the US economy; 2) the Fed's Chair Yellen's hawkish remarks on policy rates for the year; and 3) the confirmation of the Fed's balance sheet reduction plan.

China/Hong Kong outperformed during the month by strong consumer performance. In China, Standard & Poor's downgraded the sovereign credit rating by one notch to A+ and changed the outlook from negative to stable due to risks borne from heavy credit growth; investor reaction was muted despite the downgrade. South Korea was one of the better performers during the month primarily due to the strong technology sector. Taiwan underperformed, especially Apple component suppliers, given potential disappointments in demand and delays for Apple's latest product releases. India was plagued by macroeconomic concerns such as a slowdown in growth and a widening fiscal deficit.

Portfolio Review

Stock selection in China, Singapore, and Australia were the largest contributors to performance. Stock selection in healthcare positively contributed to performance, particularly the Fund's holdings in China and Australia. A Chinese developer of cancer drugs, which completed its tie up with one of the US's largest healthcare companies specialising in cancer and inflammatory-related therapies, performed strongly. Recent data indicates that its products have efficacy in a broad range of cancers. In Australia, shares in a biotechnology company performed strongly after announcing positive Phase 1 results for its cancer drug delivery platform. The company stands to benefit from milestone and royalty payments from one of the largest pharmaceutical companies globally.

Also continuing to contribute in China was a leading global supplier of optical fibre preforms and cables. The company will be a key beneficiary of 5G investment by China's telecom companies beginning next year.

Some of the Fund's South Korean investments were subject to profit taking. These stocks have contributed strongly to the Fund's year-to-date performance. One was a South Korean materials company with exposure to more environmentally friendly electric steel production and materials used in lithium ion batteries, which benefitted from ongoing electric vehicle demand. Another was one of the largest exporters of botox. We believe that both companies are fundamentally strong as demand for their products continue to grow.

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 purchasing manager indices. Fundamentals throughout the region support continued outperformance of Asian equities in general, 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

The Hong Kong/Chinese equity markets managed to land in positive territory in September, with MSCI Zhong Hua returning 0.69% in US dollar terms. Year-to-date, it is worth noting that the MSCI Zhong Hua index still recorded a +39.1% gain.

For the month of September, Chinese equities saw a rotation into laggard sectors such as consumer staples (dairy, as well as food & beverage companies) and consumer discretionary sectors on stronger retail sales. On the other hand, insurance companies lagged largely due to profit taking. Investor reaction was largely muted with Standard & Poor's downgrading China's sovereign credit rating by one notch to A+ and changed the outlook from negative to stable due to risks borne from heavy credit growth. On the positive side, there have been US$78 billion cumulative inflows to Southbound since the Stock Connect launched. In Hong Kong, Macau gaming names were the best performing constituents in MSCI Hong Kong index amid solid growth in both mass and VIP gross gaming revenue.

Portfolio Review

Within the healthcare sector, our selection in two leading biopharmaceutical companies in China was the notable contributor to performance. One of the companies delivered solid second quarter 2017 revenue, particularly in hepatitis drugs, as well as high R&D expenses as a percentage of sales. For the latter company, it is uniquely positioned to develop promising preclinical studies on differentiated oncology drugs.

Within the consumer discretionary sector, a luxury auto dealership in China benefited from the higher new car sales gross profit margin, as well as strict expense control. A natural gas company in China, within the utilities sector, also added value. It benefited from the strong volume growth momentum, driven by the Chinese government's dedication on environment protection by banning coal usage for key cities for this upcoming winter.

On the other hand, performance was dragged by investors' profit taking on Apple supply chain names, after a strong year-to-date rally. The fundamentals of the smartphone supply chain names we hold remain intact. It is also worth noting that we have exposure in the supply chain companies that do not only focus on Apple, but also Android phones.

Market Outlook

We remain constructive on Chinese/Hong Kong equities. Despite the strong rally year-to-date, we believe the markets are well justified by the sound corporate fundamentals as reflected in the solid first half of 2017 earnings results as well as continuous upward earnings revision. Valuations remain reasonable and not overvalued, relative to historical standards and other developed markets.

With the upcoming 19th Party Congress, we believe policy direction will likely remain largely unchanged, and efforts in deleveraging and cutting capacity made to date should continue after the Congress. We expect existing policies of deleveraging the off-balance sheet financing and cooling measures for housing market to continue. That said, we believe excessive slowdown should be limited due to government's support in infrastructure and the industrial sector. The government's focus will be to sustain GDP growth of at least 6.5% year-on-year. Focus will be on the quality of growth and the transformation of economy to be more domestic consumption oriented.

Over the month, we have taken opportunities of price weakness to increase insurance weighting. We remain positive on the insurance companies selling longer-term regular premium products that are more profitable in the long run.

MGF-India Equity Fund

Market Review

The Indian equity markets corrected during the month of September on the back of macro concerns on growth and fiscal discipline fronts. GDP growth for the first quarter of fiscal year 2018 (April–June 2018) data came in at 5.7%, which was below expectations. There were speculations based on media articles that the government might announce fiscal stimulus. This led to fears of expansion of fiscal deficit, and caused a correction during the last two weeks of the month in the equity, bond, and currency markets. We must highlight that on date of writing, there has been no such announcement from the government. Foreign investors were net sellers in the Indian markets in September in line with other regional markets as the US dollar strengthened. In contrast, domestic flows into the equity markets remained strong and were the highest ever in September 2017 in India Rupee terms, on the back of record inflows received by the domestic mutual funds in the month of August.

Portfolio Review

Utilities, healthcare, consumer discretionary, and industrials outperformed the markets. On the other hand, telecommunication, consumer staples, and energy were the big underperformers. Information technology, materials, and financials broadly performed in line with the markets. Utilities did well on the back of a potential upward tariff revision in the gas utilities. Healthcare outperformed as stock specific optimism along with a severe correction in the last year fuelled a rally. However, the main headwind for the sector – pricing pressure in US generics – shows no sign of abating. Consumer discretionary outperformed driven by the globally exposed auto stocks as the India Rupee depreciated during the month. Telecommunication stocks corrected as interconnect rates were cut by the regulator, which will affect the profitability of the industry incumbents. Consumer staples underperformed on the back of stock specific corrections. Energy underperformed as higher crude oil prices affected the oil marketing companies' marketing margins in India.

The Fund benefitted from stock selection in industrials, information technology, consumer staples, and financials. It also benefitted from an underweight in telecommunication. On the other hand, stock selection in materials, healthcare, and utilities, as well as an underweight in healthcare, were the main detractors from performance.

Market Outlook

We remain optimistic on the domestically driven India story. We believe due to formalisation of the economy, new markets for credit in retail and SMEs will open. We are bullish on financials like mid-sized private banks, diversified lenders, etc. Also, due to formalisation, we have seen financial savings go up. This should be positive for wealth managers and insurance. We also like autos and white goods as affordability improves with lower financing costs. We are also optimistic that, because of reforms, the Indian economy will formalise, therefore becoming 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, logistics, light electrical, temp staffing, and real estate. We are bullish on these areas.

We believe that because of supply side reforms in China, global excess supply in global materials is in better balance and we are selectively bullish on certain names.

Keeping these themes in mind, we are overweight in financials, real estate, consumer discretionary, materials, and discretionary stocks within the industrials sector. 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.

MGF-American Growth Fund

Market Review

After a slow start, stocks market rallied in September, buoyed by encouraging economic data, improved oil prices, slightly higher long-term interest rates, and the hope of tax reform. These positives outweighed concern over escalating tensions with North Korea, devastation from recent hurricanes, and a major hack at credit bureau Equifax. For the month, value stocks, particularly in the energy and financials sectors, outperformed growth stocks and more defensive, dividend-oriented sectors.

Portfolio Review

Picks in the healthcare, industrials, and information technology sectors and positioning in the energy sector nicked performance. Stock picks and a sizable overweight in the financials sector helped relative performance. Top individual contributors included large diversified financials companies Citigroup and Goldman Sachs, both top holdings and sizable overweights. Financials stocks benefited from expectations that the Fed would reduce its portfolio of government bonds, boosting long-term interest rates, and that the US Congress would pass tax reform that would spur economic growth. Picks in the consumer discretionary sector, notably a non-benchmark position in recreational vehicle manufacturer Polaris, also aided relative performance. Polaris' stock rose after management disclosed that orders for its 2018 model-year products were ahead of expectations.

Market Outlook

We believe the market backdrop remains favourable. The US economy continues to recover. Consumer balance sheets are in good shape. Housing starts remain well below their long-term average, with growing demand from millennial household formation. The financial system is healthy. Lastly, there is the potential for regulatory changes and tax reform that could boost earnings growth, and in turn, stock prices.

MGF-European Growth Fund

Market Review

European equities gained 3% over the month, helped by an improving macroeconomic situation and increasing commodity prices. Energy was the best-performing sector as firm Chinese demand and lower output from important oil-producing regions drove up the oil price.

The announcement by the European Central Bank (ECB) of its intention to wind down quantitative easing helped push the euro to its highest level against the US dollar in over two years. The British pound was also strong after the Bank of England (BoE) indicated that it would reverse the interest rate decrease announced after the UK referendum to exit the EU (known as "Brexit"). With UK inflation running ahead of target and the economy holding up better than the BoE had initially forecast, the recommencement of monetary tightening looks likely.

The British Prime Minister fleshed out the government's negotiating position on Brexit, which showed an increased willingness to compromise on key issues such as the final exit bill. In the German elections, Chancellor Angela Merkel won another term in office, while her pro-immigration policy also led to sizable electoral gains for the far right.

Portfolio Review

Stock selection in the financials, materials, and industrials sectors detracted from the Fund's performance. Vestas, the world's largest turbine manufacturer, reported weak performance on pricing pressure in recent wind turbine auctions in Germany. Counterintuitively, we believe falling prices are positive for Vestas as they will help wean the industry off subsidies, the continuance of which are a major source of uncertainty for investors. Rio Tinto and BHP Billiton reversed some of their recent gains as the iron ore price pulled back from short-term overbought levels. Our model assumes an iron ore price 10% below current levels, so the downward move does not affect our price targets and we maintain a positive view on these stocks for the long term. In the financials sector, Standard Chartered pulled back from a short-term peak in August. We continue to see a great deal of value in this company for the long term.

Market Outlook

The European economic recovery continues to gather steam, which has resulted in a sharply stronger euro. This may relieve pressure on the ECB to tighten its monetary policy in the short term. We also believe earnings growth for the region looks attractive relative to other developed markets. However, valuations are at their long-term average, so the market no longer looks inexpensive. As a result, in a rising interest rate environment or on a stronger euro exchange rate, where earnings rise at a moderate pace, we believe equities may also offer moderate returns at best.

We believe the Fund is well positioned to deliver strong returns even in a flat market. This is because we are finding what we consider to be quality, cash-generative businesses at attractive prices in the more traditional value sectors that tend to benefit from rising interest rates, such as materials, energy and financials. Many of the companies in our portfolio also have "self-help" restructuring potential that may unlock shareholder value irrespective of market levels.

MGF-Emerging Eastern Europe Fund

- September was Russia's month to shine in Eastern Europe. While other markets had a tough month, Russia was one of the world's best performing markets. The case for Russia was helped by buoyant oil prices, rising on the back of good demand, strong OPEC cohesion and the impact of hurricanes in the US. Brent ended the month close to USD57 per barrel, its highest monthly close in more than two years.

- Gains in Russia were not however sufficient to pull the region as a whole into positive territory with the MSCI EM Europe Index closing the month down some 1%.

- The Turkish stockmarket had its first monthly fall of the year as Turkey's opposition to the Kurdish independence referendum raised the geopolitical heat across the region with new issuance and tax increases further weighing on the market. The lira also suffered, losing 3% against the US dollar as the Fed signalled a possible rate hike in December.

MGF-Healthcare Fund

Market Review

The Health Care sector underperformed the broader equity market in September. The MSCI World (Net) Total Return Index rose 2.24%, while the MSCI World Health Care Total Return Index was up 1.38%. The biotechnology sub-sector had the strongest return, while the healthcare services sub-sector had the weakest return.

Portfolio Review

AstraZeneca and Halozyme contributed to the Fund's performance. AstraZeneca's stock gained after positive lung cancer data was presented at a medical conference in September. Halozyme signed Bristol-Myers as a new customer for its ENHANZE technology. Upon approval from the US Food and Drug Administration (FDA), this technology will allow Bristol-Myers' immuno-oncology drugs to be administered subcutaneously instead of infused in the hospital. This would save both patient time and healthcare costs. It also would significantly extend a patient's life and allow the company to collect a 5% royalty.

Allergan and The Cooper Companies detracted from the Fund's performance. Allergan's stock declined in sympathy with the broader specialty pharmaceutical category. We believe Allergan is a company focused on research and development (R&D), and should not be treated the same way as other specialty pharmaceutical stocks. Cooper Companies underperformed in September mostly due to hurricane activity in Puerto Rico, which is where its largest plant is located. The company has since given business updates in October, and it appears there will be a limited impact on the business. Furthermore, Cooper Companies tends to underperform when tax reform is in the news. The company already has a low tax rate and would not benefit to the extent that others would.

Market Outlook

The healthcare sector had been volatile because of political pressure. We previously stated that this pressure is more posturing than actual policy, and the market has since proved us correct. With the latest version of the health bill favourable to the industry, the sector continues to recover. We still see the increased pricing pressure from private payers on biotechnology and pharmaceutical industries. In response to this trend, we have picked companies that focus on R&D and have meaningful product pipelines. Also, many truly innovative companies' stocks declined along with those of lesser quality. 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 September, global equities market continued to edge higher despite political turmoil in Spain and natural disasters that occurred in the US. Instead, markets focused on central banks' monetary policy decisions. In the eurozone, monetary policy remained unchanged while the European Central Bank (ECB) adjusted the region's growth outlook upwards to 2.2% for 2017. However, inflation outlook remained subdued with the central bank adjusting its forecast downward to 1.2%. A similar move was taken by the Fed where rates were held unchanged. However, expectation on growth was adjusted upward while inflation outlook was rather muted. As markets widely expected, the Fed also announced plans for unwinding the balance sheet. Markets also started to suspect the possibility for another rate hike before the end of this year. On the other hand, in terms of fiscal policy, President Trump revealed a plan to simplify the tax code to three tax brackets with corporate tax rate reduced from 35% to 20%. In Japan, the Bank of Japan also held interest rates steady at 0.1%. With growth expectations being more optimistic, the MSCI World returned 2.28% in US dollar terms over the course of September while the Bloomberg Barclays Global Aggregate Index returned -0.9% in US dollar terms.

Portfolio Review

Over the month of September, the Fund increased exposure to equities while decreasing exposures to fixed income and commodities. European equities and North American equities were the major performance contributors over the month.

Market Outlook

The global macro backdrop currently favours the equity asset class, at the expense of fixed income. For now, macro-economic data continues to indicate at-trend global growth. Although economic surprises have been mixed, and inflation readings have been rather soft. We remain concerned about equity's valuations that appear to be pricing for perfection – especially concerning as real rates have been on an upward trend year-to-date. That said, we note that this year's leg-up in equity prices has not been driven entirely by re-rating but improved earnings outlook. Whilst we want to stay nimble with respect to maintaining our equity overweight, we 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 stay focused on selectively allocating within the equity asset class, preferring regions where there is sustainable support from economic and sales growth, shareholder returns have room to improve, earnings are more stable, and there is less susceptibility to any policy headwinds. However, in the nearer term, policy turns tend to pose risks. Therefore, tactically, hedges and overweight positioning reductions may be necessary as investors look to take profit as equities are near all-time highs.

With respect to fixed income, we have a moderately cautious view on the asset class because sustainable 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 less extreme view. We believe any balance sheet pare-backs to be measured will be orderly 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 (in aggregate skewed toward government bonds) still unattractive on a valuation basis. We prefer higher-yielding corporate/sovereign credit on a relative basis versus government rates due to extra yield pick-up as credit conditions and quality are not deteriorating. That said, fixed income plays an invaluable role for downside protection and diversification over time. This useful role has recently been highlighted by bond rallies on the back of heightened geopolitical risks. We expect global economic growth and inflation rates will stay modest in absolute terms and relative to past business cycles, so such an outlook is unlikely to push yields up significantly over time.

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