Manulife Asset Management

March 31, 2021

Asia Pacific Bond Fund

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

Investment Objective

The Fund seeks to maximize returns from a combination of capital appreciation and income generation. The Fund primarily invests in a diversified portfolio of fixed income securities, issued by governments, agencies, supra-nationals and corporate issuers in the Asia Pacific region.

Fund Information

Inception Date October 2011	**Fund Size** USD 14.95 million	**Fund Currency** US dollar	**Dealing/Valuation** Daily
Price (NAV/unit) USD 1.163	**Management Fee** 2.00% per annum	**Bloomberg Ticker** MPUSAPB	**Average Credit Rating** A-

Investment Fund Manager (the "Manager")
Manulife Investment Management (Hong Kong) Limited

Performance Return (March 31, 2021)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-1.02%	-2.43%	10.45%	9.41%	11.61%	16.30%
Annualized	n.a.	n.a.	10.45%	3.04%	2.22%	1.61%

Asian Countries

- show robust fiscal conditions
- offer higher growth prospects than developed markets
- have potential to benefit from favorable monetary policies
- have strengthened their credit worthiness
- sit on a large foreign cushion

Asia Bonds

- have risen rapidly since 1997 to over USD 10 trillion and are expected to continue to grow
- are diversified and highly rated but still underrepresented in global indicies
- have delivered outstanding risk-adjusted returns over the past decade

Strategy Highlights

- A unique and balanced approach to investing in Asian bonds, mixing local currency and hard currency strategies.
- A rigorous and multi-dimensional risk management process from product design to portfolio construction and performance reporting.
- A direct access to the fast growing Asia bond market, leveraging expertise from over 50 dedicated fixed income professionals located in 10 countries and territories across Asia.

Top Ten Holdings

Top Ten Holdings	%
Korea Treasury Bond 2.25% 12/10/2025	4.89
China Huadian Overseas Development Management Co Ltd 4% Perpetual	4.24
Export-Import Bank of Korea 6.75% 08/09/2022	3.86
Malaysia Government Bond 4.181% 07/15/2024	3.76
Philippine Government Bond 3.5% 04/21/2023	3.70
Indonesia Treasury Bond 7% 05/15/2022	3.63
Malaysia Government Bond 4.048% 09/30/2021	3.45
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.96
Australia Government Bond 3.25% 04/21/2025	2.86
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.84

Sector Allocation^

Sector Allocation^	%
Corporate	39.04
Treasuries	32.74
Government-Related	27.48
Cash & Cash Equivalents	0.74

Geographical Allocation^

Geographical Allocation^	%
China	23.89
South Korea	14.86
Indonesia	13.84
Philippines	10.68
Malaysia	8.65
Australia	7.65
Hong Kong	7.37
New Zealand	5.56
Singapore	2.70
Taiwan	1.62
Supranationals	1.43
Others	1.75

Currency Allocation^

Currency Allocation^	%
USD	49.01
IDR	11.47
AUD	9.82
MYR	7.22
KRW	5.83
PHP	5.75
INR	5.29
NZD	2.96
THB	1.35
SGD	1.30

^Figures may not sum to 100 due to rounding.

Asia Pacific Bond Fund

Market Review

US Treasury yields continued their upward momentum over the month, hitting 14-month high, lifted by growing optimism over the US economy and increased government bond supply expectations. February nonfarm payroll employment surprised to the upside with a print of 379k, surpassing the 200k estimates by a big margin. On the fiscal policy front, President Biden signed the US$1.9trn COVID-19 relief package into law and proposed a US$2.25trn infrastructure bill. On 17 March, the Federal Reserve (Fed) kept the interest rate on hold and reiterated the dovish stance. Over the period, the 10-year Treasury yield rose to 1.74% from 1.40%.

In China, economic data suggested a mixed picture; manufacturing recovery continued to lose momentum in recent months with Caixin's Manufacturing Purchasing Managers' Index edging down to 50.9 in February from 51.5 in the previous month but remained in economic expansion territory. Meanwhile, January-February retail sales rose 33.8% y/y, better than market expectations of 32.0%. FTSE Russell confirmed inclusion of China government bonds in its flagship World Government Bond Index (WGBI), start from October 2021 over a 36-month inclusion period with estimated inflow of US$130bn into China's government bond market by one of the market participants. China onshore government bond yields moved lower over the month, supported by reduced expected bond issuance in 2021. In India, local government bond yields edged lower amid Reserve Bank of India's commitment to maintain Operations Twist and resurgence of COVID-19 cases. In Indonesia, government bond yields moved higher amid capital outflows and a weaker-than-expected government debt auction result.

Asian investment grade credit markets posted negative returns over the month amid higher US Treasury yields, though partially offset by tightened credit spreads and positive carry. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 6bps. The J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by -0.42% in US dollar terms. There were negative headlines around two Chinese local government financing vehicles with USD bond outstanding; one defaulted while the other one got reported to be potentially segregated from its parentage. A Chinese high yield property issuer underperformed following negative idiosyncratic headlines regarding disclosure, however, the negative sentiment did not spill-over to the Chinese investment-grade property space. Primary issuance activity was active with mixed performance.

Most of the Asian currencies weakened against the US dollar in March. The Indian rupee outperformed regional peers, boosted by seasonality factors into fiscal year end and strong equity inflows. In contrast, Thai baht underperformed regional peers owing to downward revision of its 2021 growth forecast from 3.2% to 3.0% by Bank of Thailand and extension of regional travel restriction.

Outlook

We believe the Fed is committed to a relatively accommodative monetary policy despite signs of recovery in the US economy amidst steady vaccine rollout. In contrast to past cycles, the Fed and other central banks should be more inclined to keep interest rate volatility low, and for financial conditions to remain stable to promote economic recovery. North Asian economies, especially China, so far have demonstrated better containment of COVID-19 compared to their South Asian counterparts. Overall, we believe Asia's resilient underlying fundamentals, strong government sponsorship in the corporate sector and spread premium over developed bond markets, places Asian bonds in a unique position in the global context. Nonetheless, we believe fallen angel risk in Asia remains, as companies continue to navigate their way through the crisis. We continue to remain cognizant of both systemic and idiosyncratic risks while seeking out attractive opportunities and believe that bottom-up credit selection will be key in generating further returns going forward. We favour markets such as China for its superior COVID-19 containment underpinning growth and relatively attractive yields in single-A space, and Indonesia for its compelling yields and credit rating resilience.