

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 14.68 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.165	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 (May 31, 2021)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.69%	-2.27%	5.81%	11.38%	13.55%	16.50%
Annualized	n.a.	n.a.	5.81%	3.66%	2.57%	1.60%

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 indices
- 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

	%
Korea Treasury Bond 2.25% 12/10/2025	5.07
Export-Import Bank of Korea 6.75% 08/09/2022	3.98
Malaysia Government Bond 4.181% 07/15/2024	3.88
Philippine Government Bond 3.5% 04/21/2023	3.80
Indonesia Treasury Bond 7% 05/15/2022	3.67
Malaysia Government Bond 4.048% 09/30/2021	3.54
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.13
Indonesia Treasury Bond 8.375% 03/15/2024	3.00
Australia Government Bond 3.25% 04/21/2025	2.92
China Huadian Overseas Development Management Co Ltd 4% Perpetual	2.84

Sector Allocation[^]

	%
Corporate	36.24
Treasuries	33.77
Government-Related	28.95
Cash & Cash Equivalents	1.05

Geographical Allocation[^]

	%
China	21.30
South Korea	15.38
Indonesia	14.37
Philippines	10.97
Malaysia	8.88
Australia	7.93
Hong Kong	7.54
New Zealand	5.82
Singapore	2.78
Taiwan	1.65
Supranationals	1.44
Others	1.94

Currency Allocation[^]

	%
USD	47.21
IDR	11.95
AUD	10.16
MYR	7.43
KRW	6.05
PHP	5.92
INR	5.43
NZD	3.13
THB	1.37
SGD	1.35

[^]Figures may not sum to 100 due to rounding.

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Market Review

US Treasury yields range traded amid robust auction demand for government bonds, Biden administration introduced a US\$6 trillion fiscal year 2022 budget and higher-than-expected US inflation data. US economic data were mixed; retail sales were flat (month-on-month) in April after stimulus payments ceased, while the consumer price index rose by 4.2% (year-on-year). Over the period, the 10-year Treasury yield fell from 1.63% to 1.59%.

In China, economic data suggested a continued two-speed economic recovery. Caixin's Manufacturing Purchasing Managers' Index rose in April (51.9) from March (50.6), reversing a two-month slide and moving further into economic expansion territory. Whilst, retail sales rose by 17.7% (year-on-year) but missed market expectations. China onshore government bond yields fell over the month. In India, local government bond yields range traded over the month. First quarter GDP rose by 1.6% (year-on-year) above market expectations, amid government spending and manufacturing sector growth. Moody's slashed India's FY22 GDP growth to 9.3% from 13.7%, citing COVID-19 concerns, while Fitch also warned about India's slow pace of vaccination. In Indonesia, local government bond yields edged lower as Bank Indonesia kept the key interest rates unchanged at 3.5%, in line with market expectations. The central bank intervened in the FX and NDF markets to smooth the currency volatility.

Asian investment grade credit markets posted positive returns over the month amid lower US Treasury yields and positive carry, offsetting wider credit spreads. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 4bps. The J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 0.28% in US dollar terms. Selective India credit outperformed driven by yield-seeking investors and increased optimism over the COVID-19 situation, as new cases in India were off from its recent peak. A Chinese high beta property name slumped after local media reported suspected related party transactions and potential regulator investigation; this weighted on investors sentiment towards Chinese high yield property sector, whilst investment-grade Chinese property credit remained relatively resilient. US administration expanded investment bans on Chinese companies and provided more clarity to investors in terms of coverage, though the new list was mostly in line with the previous one. Primary market activity was robust over the month, with new issuance from a diverse base of issuers across Asia and various sectors.

Most of the Asian currencies strengthened against the US dollar in May. The Indian rupee outperformed regional peers and recovered last month's losses, driven by equity inflows and improving COVID-19 situation. On the contrary, the Malaysian ringgit underperformed due to nationwide movement restrictions.

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.

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