

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 14.40 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.158	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 (June 30, 2021)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-0.60%	-2.85%	2.84%	12.98%	10.18%	15.80%
Annualized	n.a.	n.a.	2.84%	4.15%	1.96%	1.53%

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	5.05
Export-Import Bank of Korea 6.75% 08/09/2022	4.01
Malaysia Government Bond 4.181% 07/15/2024	3.94
Philippine Government Bond 3.5% 04/21/2023	3.82
Indonesia Treasury Bond 7% 05/15/2022	3.69
Malaysia Government Bond 4.048% 09/30/2021	3.59
Indonesia Treasury Bond 8.375% 03/15/2024	3.04
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.99
Australia Government Bond 3.25% 04/21/2025	2.88
Indonesia Government International Bond 5.25% 01/17/2042	2.64

Sector Allocation[^]

	%
Treasuries	33.87
Corporate	32.64
Government-Related	29.57
Cash & Cash Equivalents	3.91

Geographical Allocation[^]

	%
China	20.38
South Korea	15.39
Indonesia	14.63
Philippines	11.06
Australia	10.60
Malaysia	9.02
Hong Kong	7.79
New Zealand	2.99
Singapore	2.86
Taiwan	1.72
Supranationals	1.45
Others	2.11

Currency Allocation[^]

	%
USD	47.21
IDR	12.04
AUD	10.10
MYR	7.53
KRW	6.00
PHP	5.92
INR	5.47
NZD	2.99
THB	1.38
SGD	1.35

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

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Market Review

In the United States, Treasury yields declined on the back of mixed economic data and FOMC meeting. The May nonfarm payrolls report came in short of market expectations that US economy added 559k jobs, while headline consumer price index rose by 5% y/y in May, hitting the highest monthly gains since 2008. The Fed was generally viewed as hawkish after they kept rates unchanged and hinted higher rate hike likelihood. Fed's dot plot pointed to two hikes in 2023, but the Fed did not issue guidance on tapering its asset purchases. Post-Fed meeting, Fed officials eased inflation fears and expected inflationary pressure to be transitory. Over the period, the 10-year Treasury yield fell from 1.59% to 1.47%.

In China, economic data suggested a mixed picture; Caixin's manufacturing Purchasing Managers' Index ticked higher to 52.0 in May, from 51.9 in the previous month, while retail sales rose 12.4% y/y, below market expectations. Over the month, China onshore government bond yields held steady into the Chinese Communist Party's 100th anniversary. In India, local government bond yields range traded; headline inflation rose +6.3% y/y, above the Reserve Bank of India (RBI)'s target range, whilst RBI pledged to buy more government bonds. In Indonesia, local government bond yields moved higher on policy normalisation expectations and foreign selling despite Bank Indonesia kept policy rate unchanged at 3.5% and reiterated that it would keep rates stable until clear signs of inflation pick up.

Asian investment grade credit markets posted positive returns over the month owing to lower US Treasury yields, tighter credit spreads and positive carry. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 8bps. The J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 0.82% in US dollar terms. Asian and Chinese investment grade credit remained relatively resilient, despite softer sentiment towards the China high yield space amid financing pressure and policy tightening concerns on Chinese property sector. In Malaysia, S&P affirmed its A- sovereign rating and maintained negative outlook due to renewed COVID-19 cases, though it did not induce significant price action. An India shipping port operator experienced volatility following a report that its foreign investors funds may be potentially frozen by the authority, its bond prices retraced some of the detraction after the company's denial and clarification. Primary market activity was active as interest rate environment stabilised, with new issues from diversified issuers across Asia and various sectors.

Most of the Asian currencies weakened against the US dollar in June. The Thai baht underperformed regional peers due to the renewed COVID-19 outbreak and its impact on Thailand's tourism.

Outlook

US economic recovery trajectory is expected to extend amid steady vaccine rollout, despite higher number of COVID-19 cases due to new variants. With hospitalization and fatality rates under control, investors are turning their focus to economic recovery and strong corporate earnings. Default rates year-to-date also came lower than previously expected amid abundant global liquidity. We continue to expect the Fed to maintain a relatively accommodative monetary policy amid slack in US labour market and commitment to its average inflation targeting policy framework. Furthermore, the Fed and other central banks are more inclined to keep interest rate volatility low and for financial conditions to remain stable to promote economic recovery. Most North Asian economies fared better in terms of economic recovery compared to South Asian counterparts. Notably, China's economic growth momentum continues amid increasing signs of improving domestic consumption. While we are not overly concerned over the new COVID-19 variants on Asian bond markets, we 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.

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