

# 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

<b>Inception Date</b> October 2011	<b>Fund Size</b> USD 14.21 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.162	<b>Management Fee</b> 2.00% per annum	<b>Bloomberg Ticker</b> MPUSAPB	<b>Average Credit Rating</b> A-
<b>Investment Fund Manager (the "Manager")</b> Manulife Investment Management (Hong Kong) Limited			

## Performance Return (August 31, 2021)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.52%	-2.52%	0.35%	13.37%	8.60%	16.20%
Annualized	n.a.	n.a.	0.35%	4.27%	1.66%	1.54%

## 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	5.00
Export-Import Bank of Korea 6.75% 08/09/2022	3.93
Malaysia Government Bond 4.181% 07/15/2024	3.92
Indonesia Treasury Bond 7% 05/15/2022	3.84
Philippine Government Bond 3.5% 04/21/2023	3.81
Malaysia Government Bond 4.048% 09/30/2021	3.64
Indonesia Treasury Bond 8.375% 03/15/2024	3.18
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.03
Australia Government Bond 3.25% 04/21/2025	2.86
Indonesia Government International Bond 5.25% 01/17/2042	2.67

## Sector Allocation<sup>^</sup>

	%
Corporate	34.94
Treasuries	32.91
Government-Related	30.00
Cash & Cash Equivalents	2.15

## Geographical Allocation<sup>^</sup>

	%
China	20.73
South Korea	15.31
Indonesia	15.21
Philippines	11.10
Australia	9.84
Malaysia	9.06
Hong Kong	8.00
New Zealand	3.03
Singapore	2.91
Taiwan	1.75
United States	1.52
Supranationals	1.52

## Currency Allocation<sup>^</sup>

	%
USD	48.85
IDR	12.61
AUD	9.29
MYR	7.56
KRW	5.94
PHP	5.88
INR	5.46
NZD	3.03
SGD	1.37

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

In the United States, Treasury yields moved higher on the back of positive economic data and expectations that the Federal Reserve (Fed) could taper bond purchases sooner. On the economic data front, unemployment rate fell by 0.5% month-on-month to 5.4% in July, better than market expectation and hit the lowest since March 2020. Towards end of the month, Fed Chairman Powell's dovish tone sent yields retracing slightly lower as he hinted at tapering bond purchases by year-end while interest rates to stay put with "much ground to cover". Over the period, the 10-year Treasury yield moved higher to 1.31% from 1.22%.

In China, economic data pointed to a decelerated economic growth; Caixin's Manufacturing Purchasing Managers' Index moved lower in July (50.3) from June (51.3), marginally in economic expansion territory (above 50) while industrial production (6.4%-year-on-year) and retail sales (8.5%-year-on-year) were both below market expectations. China onshore government bond yields remained steady over the month. In India, local government bond yields moved slightly higher amid improving COVID-19 situation and its strong Q2 GDP, which rose 20.1% year-on-year due to rebound in manufacturing and construction sectors. In Indonesia, local government bond yields moved lower on Bank Indonesia's announcement to extend the 'burden sharing' policy to purchase US\$31bn bonds in 2021-2022. In South Korea, local government bond yields trended higher as Bank of Korea raised its policy rate by 25bps to 0.75% to ease pressure from surging household debt and house prices, becoming the first in Asia to normalise policy rate.

Asian investment grade credit markets posted positive returns over the month owing to tighter credit spreads and positive carry, offsetting higher US Treasury yields. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 18bps; the JP Morgan Asian Investment Grade Corporate Bond Index increased by 0.97% in US dollar terms. China IG credit outperformed as investor sentiment broadly improved on the back of Huarong recapitalization news, and the bear case scenario of an unordered default is likely avoided for now. Meituan, a Chinese food delivery giant was fined around US\$1 billion for antitrust probe amid regulatory tightening; its bond price somewhat recovered over the month amid buying activities from a strong investor base. A US-based gaming issuer with Malaysian parentage was downgraded from BBB- to BB+ by S&P – remains rated BBB- by Fitch, resulting in a split credit rating– amid increasing concerns over the COVID-19 delta variant. Malaysia gaming bonds subsequently recovered most of the lost grounds on the back of buying activity by investors amid attractive valuations. Over the month, primary market activity was quiet, and we expect stronger pipeline in September after summer holiday.

The performance of Asian currencies was mixed against the US dollar. The Thai baht outperformed regional peers on expectations that Thailand's COVID-19 outbreak had peaked while the South Korean won underperformed due to equity outflow.

## 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. The Fed may be building the foundation for tapering to manage market expectations, at the same time likely 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. North Asian economies generally fared better in terms of economic recovery compared to South Asian counterparts, whilst we are not overly concerned over the new COVID-19 variants on Asian bond markets. On the other hand, the potential restructuring of Evergrande is likely to remain an overhang on the property sector, we view it as an idiosyncratic risk rather than systemic, with limited impact on IG property developers. Whilst the recent regulatory intervention in China have exceeded market expectations and triggered weakened sentiment towards Chinese assets, we believe the impact is more contained for China credit as most issuers have a robust financial profile. Overall, 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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