Asia Pacific Bond Fund

An investment fund option for the 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 15.66 million

Fund Currency
US dollar

Dealing/Valuation
Daily

Price (NAV/unit)
USD 1.188

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 (January 31, 2021)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-0.34%	-0.34%	6.36%	10.10%	19.16%	18.80%
Annualized	n.a.	n.a.	6.36%	3.26%	3.57%	1.88%

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	4.77
China Huadian Overseas Development Management Co Ltd 4% Perpetual	4.00
Malaysia Government Bond 4.181% 07/15/2024	3.72
Export-Import Bank of Korea 6.75% 08/09/2022	3.69
Philippine Government Bond 3.5% 04/21/2023	3.59
Indonesia Treasury Bond 7% 05/15/2022	3.54
Malaysia Government Bond 4.048% 09/30/2021	3.43
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.94
Indonesia Treasury Bond 8.375% 03/15/2024	2.92
Australia Government Bond 3.25% 04/21/2025	2.77

Sector Allocation^

Sector Allocation^	%
Corporate	39.31
Treasuries	32.72
Government-Related	26.73
Cash & Cash Equivalents	1.24

Geographical Allocation^

Geographical Allocation^	%
China	21.49
South Korea	14.44
Indonesia	14.02
Philippines	13.13
Malaysia	8.52
Australia	7.55
Hong Kong	7.25
New Zealand	5.43
Singapore	2.69
Taiwan	1.63
Supranationals	1.36
Others	2.49

Currency Allocation^

Currency Allocation^	%
USD	49.77
IDR	11.54
AUD	9.64
MYR	7.15
KRW	5.67
PHP	5.60
INR	5.06
NZD	2.94
THB	1.34
SGD	1.29

^Figures may not sum to 100 due to rounding.

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Market Review

In the United States, Treasury yields moved higher after the Democrats captured two Senate seats in Georgia, confirming the party's control of US Congress and potentially a more robust fiscal policy response as domestic COVID-19 cases surged. Economic data were mixed in December; retail sales were lower by 0.7% (seasonally adjusted, month-on-month), below market expectations, while unemployment remained flat at 6.7% from the previous month. Towards the end of the period, Treasury yields retreated amid potential roadblocks to Joe Biden's proposed US$1.9 trillion stimulus package. Overall, the 10-year Treasury yield rose to 1.07% from 0.91% over the period.

In China, economic data suggested a continued recovery. Caixin's manufacturing Purchasing Managers' Index dropped in December (53.0), although still in economic expansion territory, from a 10-year high in November (54.9). The country reported fourth quarter GDP (6.5% year-on-year), above market expectations, but annual growth rate (2.3%-year-on-year) was the slowest since 1976; however, it was likely the only major economy to post growth in a difficult 2020. Chinese onshore government bond yields moved higher over the period. In India, local government bond yields trended higher over the period as the Reserve Bank of India announced phased measures to scale back emergency liquidity accommodations, including a 14-day reverse repo operation (US$27.3 billion) in mid-January. In Indonesia, Bank Indonesia held its key interest rates steady for the second consecutive month, in line with market expectations and left door open for rate cut in 2021. The central bank governor cited they expect the economy to gradually recover and grow by 4.8%-to-5.8%, with inflation within the 2%-to-4% target range this year. Indonesia bond yield rose over the period, retracing to higher levels amid strong yield movement in prior month and higher US Treasury yields in January.

Asian investment grade credit markets posted flat-to-positive returns for the month primary due to tightened credit spreads and positive carry, offsetting the higher US Treasury yields. China credit on the US sanction list generally outperformed by credit spread terms, as the Biden administration delayed the investment ban, originally imposed Donald trump, for some companies to 27 May. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 7bps. The J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 0.06% in US dollar terms. Primary issuance activity picked up immediately from a quiet year-end, from a diverse group of financial and corporate issuers across Asia. New issue performance was mixed as investors were largely being more selective amid massive supply.

The performance of Asian currencies was mixed against the US dollar over the period. The Chinese renminbi was the better performing currency and continued its upward momentum in recent months amid generally positive economic data. In contrast, South Korean won was one of the weaker performing currencies amid increased Korean equity market volatility towards the end of the period despite better-than-expected fourth quarter GDP print.

Outlook

North Asian economies demonstrated relatively better containment of COVID-19, which we believe is supportive for the region. Despite the implementation of large-scale vaccination program in major economies, we remained cautious of the wave of infections in Winter and viral mutations, as we see an increase in COVID-19 cases in US and Europe. Overall, we believe the accommodative monetary policies from global central banks are supportive for range bound US Treasury yields. We expect global and Asian investment grade credit markets to remain supported, though the pace and magnitude for further credit spread compression could ease given the rally from March last year. We believe Asia's resilient underlying fundamentals, strong government sponsorship in the corporate sector and relatively higher yields than 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, especially if much needed fiscal stimulus fails to materialize and if there is a negative turn in the COVID-19 vaccine developments. 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 in this low yielding environment. 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.