

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 12.26 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.065	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 (April 30, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-3.27%	-6.91%	-7.95%	0.38%	2.21%	6.50%
Annualized	n.a.	n.a.	-7.95%	0.13%	0.44%	0.60%

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	5.09
Export-Import Bank of Korea 6.75% 08/09/2022	4.46
Indonesia Treasury Bond 7% 05/15/2022	4.31
Malaysia Government Bond 4.181% 07/15/2024	4.23
Philippine Government Bond 3.5% 04/21/2023	4.08
Indonesia Treasury Bond 8.375% 03/15/2024	3.40
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.99
Australia Government Bond 3.25% 04/21/2025	2.92
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.70
Indonesia Treasury Bond 6.625% 05/15/2033	2.52

Sector Allocation[^]

	%
Corporate	35.99
Treasuries	32.08
Government-Related	30.11
Cash & Cash Equivalents	1.82

Geographical Allocation[^]

	%
China	21.01
South Korea	17.69
Indonesia	15.92
Philippines	9.83
Hong Kong	9.66
Australia	8.50
Malaysia	5.78
Singapore	4.22
New Zealand	3.00
Taiwan	1.72
Supranationals	1.61
United States	1.05

Currency Allocation[^]

	%
USD	50.14
IDR	13.77
AUD	9.18
PHP	6.26
KRW	6.09
INR	6.08
MYR	4.24
NZD	3.00
SGD	1.24

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

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Market Review

In the United States, US Treasury yields jumped over the month, hitting 3-year high on the back of the Federal Reserve (Fed)'s hawkish tone. US inflation accelerated to 8.5% year-on-year in March, driven by higher energy and food prices while the unemployment rate dropped to 3.6% in March, the lowest since February 2020. On the other hand, first quarter GDP fell 1.4% (annualised, quarter-on-quarter), weaker than market expectation of 1% growth. From the Fed's March policy meeting minutes and Powell's comments, most Fed officials agreed to shrink balance sheet by US\$95bn a month and hike interest rate by 50bps at times to tame inflation. Over the month, the 10-year Treasury yield trended higher from 2.34% to 2.93%.

In China, economic data suggested a mixed picture; first quarter GDP expanded by 4.8% year-on-year, beating market expectations while new home sales fell 29% year-on-year in March. On the policy front, the degree of monetary stimulus disappointed the market as the People's Bank of China (PBoC) only cut reserve requirement ratio (RRR) by 25bps, which was smaller than market expectations, and kept loan prime rates on hold. Later in the month, China's Politburo, its highest decision-making body chaired by President Xi, pledged to step up policy support amid lockdowns which lifted sentiment. Chinese onshore government bond yields rose over the month. In India, consumer price index soared to 6.95% year-on-year in March, breaching the 6% upper limit of the Reserve Bank of India's (RBI) inflation target for the third consecutive month. RBI kept key policy rates on hold in the April meeting and revised its inflation forecast to 5.7% for the current fiscal year, from the earlier 4.5% citing oil price pressure. Indian local government bond yields trended higher over the month. In Indonesia, Bank Indonesia (BI) maintained its key interest rate unchanged at 3.5% in line with expectation. On the other hand, government broadened the scope of the palm oil export ban. S&P has revised up outlook for Indonesia from negative to stable and affirmed BBB rating on economic recovery and better terms of trade. Indonesian local government bond yields moved higher over the month.

Asian investment grade (IG) credit markets posted negative returns in April mainly driven by higher US Treasury yields which was slightly offset by positive carry and tighter credit spread. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 3bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 1.77% in US dollar terms. Asian credits saw weakness due to China's COVID-19 resurgence and global rates volatility. Market sentiment recovered towards the end of the month following China's Politburo pledges. During the month, we saw investment grade supply from a South Korea quasi-sovereign with strong new issue performance, while the rest of new issue performance was mixed.

Most of the Asian currencies weakened against the US dollar. The Chinese renminbi and South Korean won underperformed regional peers on prolonged COVID-19 lockdowns and equity outflows respectively.

Outlook

The Russia-Ukraine situation remains fluid, but we expect to see mostly indirect impact on Asia fixed income. We believe Asia's credit fundamentals remain largely intact and supported by strengthened local and international investor base. Having said that, in the near term, investment sentiment should remain driven by global risk appetite and further geopolitical developments. North Asian economies have generally fared better in terms of economic recovery compared to South Asian counterparts last year. Increasingly more South Asian economies are adopting a coexisting approach with COVID-19, reopening borders with higher vaccination rates and could be positive for their growth trajectories. However, the widespread of Omicron variant remains an uncertainty. In China, the property sector was heavily sold off due to negative news flow and concerns about rising defaults. China's Politburo pledges to step up policy support and more cities announced property policy relaxation are positive developments for the slowing economy, though we would monitor for more concentrate measures from the central government. Overall, we expect to see greater consolidation in the sector and believe the market has priced in excessive default risks. Many quality companies are now being offered at compelling valuations; we see it an opportune time and environment for active investors to navigate the cycle, as market weakness is likely to bring out value opportunities in fundamentally strong issuers. 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.

Disclaimer

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