

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 10.54 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.026	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 (August 31, 2023)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-2.29%	0.00%	-0.39%	-11.40%	0.10%	2.60%
Annualized	n.a.	n.a.	-0.39%	-3.95%	0.02%	0.22%

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	5.59
Korea Treasury Bond 2.375% 12/10/2031	4.67
Malaysia Government Bond 4.181% 07/15/2024	4.54
Indonesia Treasury Bond 7.125% 06/15/2042	3.75
United States Treasury Note/Bond 4% 11/15/2052	3.70
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	3.14
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.10
Asian Development Bank 3.9% 02/17/2026	3.04
Indonesia Treasury Bond 6.125% 05/15/2028	2.84
Indonesia Government International Bond 5.25% 01/17/2042	2.83

Sector Allocation[^]

	%
Treasuries	39.55
Corporate	28.41
Government-Related	25.41
Cash & Cash Equivalents	6.64

Geographical Allocation[^]

	%
South Korea	23.89
Indonesia	12.95
China	10.08
Philippines	9.17
Hong Kong	8.37
Australia	7.99
Singapore	7.26
United States	6.05
New Zealand	4.89
Supranationals	4.77
Malaysia	4.55

Currency Allocation[^]

	%
USD	45.53
KRW	12.44
AUD	11.65
IDR	8.65
PHP	6.68
NZD	4.89
MYR	4.55
SGD	3.87
INR	1.72

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

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Market Review

In the United States, US Treasury yields trended higher amid stronger than expected economic data and sticky inflation. During the annual Jackson Hole Economic Symposium, Chairman Powell called for more vigilance in the fight against inflation and warned that additional interest rate increase could be yet to come. He also reiterated the FOMC will base its decision on data and the evolving outlook. Markets have been pricing in little chance of another hike in the September FOMC meeting with many indicating one final hike in November. US CPI in July rose to 3.2% (year-on-year), slightly above market expectations. Over the month, the 10-year US Treasury yield trended higher from 3.96% to 4.11%.

In China, Caixin's Manufacturing Purchasing Managers' Index moved lower in July (49.2) from June (50.5). Over the month, the People's Bank of China (PBoC) cut the one-year medium-term lending facility (MLF) by 15 bps to 2.50% and the one-year loan prime rate by 10 bps to 3.45%. China local government bond yield trended lower over the period. In India, the inflation reaccelerated in July (7.44% year-on-year) mainly driven by food prices, while the Reserve Bank of India (RBI) paused on the current interest rate hike cycle for the third straight meeting. Second quarter GDP grew by 7.8% (year-on-year), driven by strong services activity and robust demand. India local government bond yield range traded over the period. In Indonesia, Bank Indonesia (BI) continued to keep its policy rate unchanged at 5.75% amid decelerating inflation in July (3.08% year-on-year). Meanwhile, second quarter GDP grew by 5.17% (year-on-year), above market expectations. Indonesia local government bond yield trended higher over the period.

Asian investment grade (IG) credits posted negative performance for the month amid wider credit spreads and higher US Treasury yields. Credit spreads on the J.P. Morgan Investment Grade Corporate Bond Index widened by 14bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 0.44%. China high yield credit had a volatile month as Country Garden missed its coupon payments, liquidity stress faced by Zhongzhi Group and weak July economic data release further weighed on sentiment. However, China TMT companies generally managed to report better than expected earnings on proactive cost cutting and service recovery, which improved performance. On the other hand, issuers in Adani complex and Macau gaming reported robust earnings, supporting overall sentiment outside of China. Furthermore, the political impasse in Thailand ended with a newly elected prime minister, Thailand credit issuers generally traded on a firmer tone. New market issuance remained muted besides from an Indian HY renewable company returning to primary market, however South Korean issuers are preparing roadshow to return to primary market in September.

All major Asian currencies weakened against the US dollar in August amid the risk off investors sentiment. The Indonesia rupiah was a regional outperformer on the back of benign inflation data. In contrast, the South Korean won underperformed amid soaring US Treasury yields in August ahead of the Jackson Hole Economic Symposium.

Outlook

Despite the hawkish comments from the Fed, markets are pricing in Fed fund rates to peak in 2023. In Asia ex-China region, we believe most Asian central banks, such as Indonesia and India, are close to the end of its monetary tightening cycle amid downward inflation trend environment; the increased foreign investment will likely drive sustained economic growth in this region. In China, the weaker-than-expected economic recovery, sluggish housing data and lingering liquidity challenge faced by home builders continued to weigh on market confidence. While the government has gradually rolled out support for private enterprises and the housing market, we are closely monitoring how these measures could stabilize the housing market and restore confidence.

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