

# 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 13.56 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.144	<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 (December 31, 2021)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.62%	-4.03%	-4.03%	10.75%	13.94%	14.40%
Annualized	n.a.	n.a.	-4.03%	3.46%	2.65%	1.33%

## 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	5.03
Export-Import Bank of Korea 6.75% 08/09/2022	4.10
Malaysia Government Bond 4.181% 07/15/2024	4.08
Indonesia Treasury Bond 7% 05/15/2022	3.94
Philippine Government Bond 3.5% 04/21/2023	3.83
Indonesia Treasury Bond 8.375% 03/15/2024	3.28
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.96
Australia Government Bond 3.25% 04/21/2025	2.88
Indonesia Government International Bond 5.25% 01/17/2042	2.83
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.48

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

	%
Corporate	36.88
Government-Related	30.91
Treasuries	29.79
Cash & Cash Equivalents	2.42

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

	%
China	21.47
South Korea	17.00
Indonesia	15.75
Australia	10.13
Hong Kong	9.65
Philippines	9.52
Malaysia	5.63
Singapore	3.04
New Zealand	2.96
Taiwan	1.79
United States	1.54
Supranationals	1.52

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

	%
USD	51.59
IDR	12.94
AUD	9.46
KRW	5.97
PHP	5.93
INR	5.62
MYR	4.08
NZD	2.96
SGD	1.44

<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 over the month amid continued inflationary pressure and monetary policy tightening despite Omicron fears. US consumer price inflation remained elevated in November at 6.8% year-on-year, hitting a four-decade high. On the monetary policy front, the Federal Reserve (Fed) said it would end its pandemic-era bond purchase programme by March 2022, paving the way for three 25bps rate hikes in 2022 as expected by most of the Fed members. Over the month, the 10-year Treasury yield trended higher from 1.44% to 1.51%.

In China, economic data pointed to a continued slowdown amid sluggish consumption recovery and property sales slump; Caixin's Manufacturing Purchasing Managers' Index slipped into contraction territory at 49.9 (November) from 50.6 (October) for the first time in three months. On the other hand, the People's Bank of China cut the bank reserve requirement ratio (RRR) by 50bps, releasing US\$188bn worth of long-term liquidity into the interbank system, and cut its one-year loan prime rate by 5bps to 3.80%. China onshore government bond yields fell over the period. In India, local government bond yields were higher on the back of inflationary pressure and the Reserve Bank of India's surprised introduction of an out-of-calendar three-day variable rate reverse repo to reduce liquidity. In Indonesia, local government bond yields trended higher over the month, tracking the US Treasury yield movement. Bank Indonesia left its benchmark rate unchanged to maintain rupiah stability.

Asian investment grade (IG) credit markets posted negative returns over the month mainly owing to higher US Treasury yields. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 6bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 0.26% in US dollar terms. In the Chinese property sector space, state-owned and some high quality private-owned property developers were supported by policies such as reserve requirement ratio (RRR) cut. On the other hand, more positive progress on a state-owned Chinese asset management company's capital raising including onshore bond issuance and asset sales further boosted the asset management sector sentiment. Primary market was muted in year-end amid the holiday season.

The performance of Asian currencies against the US dollar was mixed. The Singapore dollar outperformed regional peers on positive economic data, especially strong rebound in its imports supported by semiconductor demand. On the other hand, the Philippine peso underperformed due to current account deficit and typhoon damage.

## Outlook

Looking into 2022, US gradual economic recovery and the Federal Reserve tapering process would support a higher US yield curve environment. North Asian economies have generally fared better in terms of economic recovery compared to South Asian counterparts in 2021. 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 could spark market volatility. In China, the property sector was heavily sold off in 2021 due to negative news flow and concerns about rising defaults. In 2022, we are likely 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.

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