

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 11.33 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 (December 31, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.48%	-10.31%	-10.31%	-7.65%	-4.38%	2.60%
Annualized	n.a.	n.a.	-10.31%	-2.62%	-0.89%	0.23%

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	5.34
Malaysia Government Bond 4.181% 07/15/2024	4.51
Korea Treasury Bond 2.375% 12/10/2031	4.49
Philippine Government Bond 3.5% 04/21/2023	4.11
Indonesia Treasury Bond 7.125% 06/15/2042	3.23
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.01
Australia Government Bond 3.25% 04/21/2025	2.98
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.85
Indonesia Government International Bond 5.25% 01/17/2042	2.66
Indonesia Treasury Bond 6.625% 05/15/2033	2.51

Sector Allocation[^]

	%
Treasuries	41.14
Corporate	30.86
Government-Related	18.83
Cash & Cash Equivalents	9.16

Geographical Allocation[^]

	%
South Korea	22.61
Indonesia	11.62
China	10.90
Australia	10.75
Philippines	9.69
United States	9.10
Singapore	7.00
Malaysia	6.15
Hong Kong	5.78
New Zealand	4.82
Supranationals	1.58

Currency Allocation[^]

	%
USD	48.03
KRW	11.97
AUD	11.40
IDR	7.58
PHP	6.18
NZD	4.82
MYR	4.51
SGD	3.94
INR	1.58

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

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Market Review

In the United States, US Treasury yields retraced to slightly higher levels post rally in prior month. The Fed noted they wanted to retain “flexibility and optionality” regarding rate decisions and “ongoing increases” in the overnight rate are likely still appropriate in 2023. Consumer price inflation decelerated to 7.1% (year-on-year) in November, decreasing 0.6% month on month from October. Over the month, the 10-year Treasury yield ended higher from 3.60% to 3.87%.

In China, Caixin's Manufacturing Purchasing Managers' Index moved higher in November (49.4) from October (49.2), marginally beating market expectations but was still in contractionary territory amid production disruptions related to COVID-19, before the government's decision to exit zero-COVID policy in December. China local government bond (CGB) yields trended lower over the period as the People's Bank of China injected liquidity to stabilize debt markets after an economy reopening selloff. In India, the Reserve Bank of India (RBI) raised the repurchase rate by 35 bps to 6.25% to fight inflation. India local government bond yields trended slightly higher over the period. In Indonesia, Bank Indonesia (BI) raised rates by 25 bps to 5.50%, while the Indonesian parliament passed a bill that would expand the central bank's mandate to include supporting sustainable economic growth and formalizing its direct purchase of sovereign bonds when the government declares a crisis. Indonesia local government bond trended slightly higher over the period.

Asian investment grade (IG) credits posted positive return in December amid the relaxation of Covid policy by the Chinese government. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 25bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 1.08% in US dollar terms. In December China credit notably outperformed as market sentiment was strong amid positive news on China's easing of Covid restrictions which includes reopening of China's borders and dropping quarantine times. Chinese property sector was also a notable outperformer continuing the rebound in November amid market expectations of a stronger commitment from the government to support the sector. Primary market activity was generally muted ahead of the holiday season.

Most Asian currencies strengthened against the US dollar in December. The South Korean won was a regional outperformer due to a relatively less hawkish Fed and more favorable yield differential with the US. In contrast, the Indian rupee was an underperformer as the economy posted a nine-year high current account deficit (4.4% of GDP) in the third quarter amid a widening merchandise trade deficit.

Outlook

Federal Reserve remains focused on inflation as it continues to rapidly adjust its monetary policy settings to a restrictive setting. Aggressive developed market central bank monetary policy tightening will likely weigh on global growth outlook with risk of recession building. We believe the supportive measures for the real estate sector announced by the Chinese government is positive and eases onshore debt refinancing risk of Chinese developers. To see a sustained recovery of the Chinese real estate sector, we would monitor the effective implementation of the announced measures and physical market sales recovery. On the other hand, Asia ex-China region has generally adopted more flexible pandemic policies, which is expansionary for economic activity. Some Asian economies initiated various measures such as subsidies, tax cuts and trade restrictions to contain inflation. With relatively benign inflation environment and resilient supply-chain in Asia, we expect Asian central banks to tighten its monetary policy at a more gradual pace than developed markets.

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