

# 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 10.74 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.072	<b>Management Fee</b> 2.00% per annum	<b>Bloomberg Ticker</b> MPUSAPB	<b>Average Credit Rating</b> A

**Investment Fund Manager (the "Manager")**  
Manulife Investment Management (Hong Kong) Limited

## Performance Return (December 31, 2023)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	3.28%	4.48%	4.48%	-10.07%	3.78%	7.20%
Annualized	n.a.	n.a.	4.48%	-3.48%	0.74%	0.57%

## 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	5.69
Indonesia Treasury Bond 6.125% 05/15/2028	5.41
Korea Treasury Bond 2.375% 12/10/2031	4.91
Asian Development Bank 6.2% 10/06/2026	4.79
Malaysia Government Bond 4.181% 07/15/2024	4.55
Philippine Government Bond 6.125% 08/22/2028	4.26
United States Treasury Note/Bond 4% 11/15/2052	3.68
Indonesia Treasury Bond 7.125% 06/15/2042	3.58
United States Treasury Note/Bond 4.125% 08/15/2053	3.33
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.25

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

	%
Treasuries	48.45
Government-Related	25.67
Corporate	23.36
Cash & Cash Equivalents	2.53

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

	%
South Korea	20.80
Indonesia	15.48
Supranationals	9.68
United States	9.35
Philippines	9.31
Hong Kong	8.52
Australia	8.22
New Zealand	5.21
China	5.12
Malaysia	4.56
Singapore	3.75

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

	%
USD	38.78
KRW	13.01
AUD	12.09
IDR	10.94
PHP	6.82
INR	6.48
NZD	5.21
MYR	4.56
SGD	2.12

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

In the United States, US Treasury yields trended lower as the Federal Reserve held rates on pause for a third consecutive meeting and economic data indicated easing inflation pressure. During the December FOMC meeting the Federal Reserve held interest rate steady; dot plots indicate the possibility of three cuts coming in 2024. The consumer price index rose 3.1% in November (year-on-year), while retail sales rebounded and rose by 0.3% (month-on-month) for the same month. Over the month, the 10-year US Treasury yield fell from 4.33% to 3.88%.

In China, Caixin's Manufacturing Purchasing Managers moved higher in November (50.7) from October (49.5), crossing into economic expansion territory (a reading of greater than the 50 mark). China local government bond yields moved lower over the period. In India, local government bond yields fell as the Reserve Bank of India held rates on pause at 6.50% for the fifth conservative meeting. Inflation moved higher to 5.55% (year-on-year) in November but remained within the central bank's inflation target at 6%. In Indonesia, local government bond yields moved lower on the back of plunging US Treasury yields. Bank Indonesia (BI) held rates unchanged at 6.00% for the second conservative month. Inflation remained elevated in November (2.86% year-on-year) but stayed within inflation target of 2% to 4%.

Asian investment grade (IG) credits posted positive performance for the month amid lower US Treasury yields and positive investors sentiment globally. Credit spreads on the J.P. Morgan Investment Grade Corporate Bond Index tightened by 5bps over the month; the J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 2.23%. Asian sovereign, quasi-sovereign, and long-dated high-quality corporates generally outperformed benefiting from lower US Treasury yields. Moody's outlook downgrade on China sovereign from stable to negative also trickled down with a series of negative outlook changes for related credits, including Hong Kong sovereign, SOEs, LGFVs, financials and other high-quality corporates with rating capped by China sovereign rating. An Indian conglomerate bond issuer outperformed amid the positive news on the group raised funds for debt refinancing. Primary market activity was generally muted ahead of the holiday season.

Most Asian currencies strengthened against the US dollar in December amid the global risk-on investors sentiment. The Thai baht was a regional outperformer on the back of increased tourism revenue from high season arrivals. The Taiwanese dollar also outperformed on the back of a rebound in exports in November supported by tech industry; exports rose by 3.8% year-on-year, the fastest pace of growth since 2022.

## Outlook

We believe the path of Fed policy will be increasingly data dependent going forward and view that US Treasury yields offer increasingly attractive valuations. 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, we have seen signals of the central government's commitment to contain systematic risk, particularly related to the Local Government Financing Vehicle (LGFV). While we are not expecting the policymaker to roll out a massive stimulus by leveraging the nation's balance sheet, we expect more similar measures to contain systematic risk and provide ongoing support to other important economic drivers such as consumption and infrastructure to stabilize growth. With the property sector, we believe the measures will likely to be piecemeal and require time to gradually resolve the structural issues, such as oversupply of residential housing and weak funding access by non-state-owned developers. We expect policies to continue to center in stimulating demand by lowering the borrowing cost and rebuilding homebuyer's confidence, which in turn stabilizes primary home sales gradually.

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