

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 13.11 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.118	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 (February 28, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-0.53%	-2.27%	-4.85%	5.97%	7.81%	11.80%
Annualized	n.a.	n.a.	-4.85%	1.95%	1.52%	1.08%

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	5.07
Export-Import Bank of Korea 6.75% 08/09/2022	4.21
Malaysia Government Bond 4.181% 07/15/2024	4.13
Indonesia Treasury Bond 7% 05/15/2022	4.06
Philippine Government Bond 3.5% 04/21/2023	3.95
Indonesia Treasury Bond 8.375% 03/15/2024	3.38
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.00
Australia Government Bond 3.25% 04/21/2025	2.93
Indonesia Government International Bond 5.25% 01/17/2042	2.58
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.56

Sector Allocation[^]

	%
Corporate	36.97
Treasuries	31.57
Government-Related	29.40
Cash & Cash Equivalents	2.06

Geographical Allocation[^]

	%
China	20.21
South Korea	17.27
Indonesia	15.74
Australia	10.13
Hong Kong	9.61
Philippines	9.58
Malaysia	5.63
Singapore	3.06
New Zealand	3.00
United States	2.45
Taiwan	1.75
Supranationals	1.55

Currency Allocation[^]

	%
USD	50.73
IDR	13.34
AUD	9.45
PHP	6.05
KRW	6.04
INR	5.77
MYR	4.14
NZD	3.00
SGD	1.48

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

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Market Review

In the United States, Treasury yields moved higher early in the month on the back of stronger-than-expected economic data and heightened inflationary pressure. On the economic data front, consumer price inflation remained elevated at 7.5% year-on-year in January, driven primarily by surging energy and food prices, while nonfarm payrolls increased by 467k jobs in January, well ahead of market expectations of 150k. Later in the month, the Russian-Ukraine conflict halted the climb in US bond yields as safe-haven buying accelerated. Over the month, the 10-year Treasury yield trended higher from 1.78% to 1.83%.

In China, economic data suggested a mixed picture; Caixin's Manufacturing Purchasing Managers' Index moved to the contractionary territory in January (49.1) from December (50.9), its lowest reading since February 2020, moving back into economic contraction territory on the back of increased COVID-19 lockdowns while inflation slowed to 0.9% year-on-year in January. On the other hand, China's credit growth picked up in January as banks extended record US\$626bn of new loans, its highest record since 1992. China onshore government bond yields moved higher over the month. Indian local government bond yields moved higher on the back of a significant fiscal stimulus and higher deficit forecast in the Union Budget. Surging oil prices on Russia-Ukraine conflict also heightened inflationary pressure for import-reliant India. In Indonesia, local government bond yields fell over the period. Q4 GDP rose 5.02% year-on-year, beating estimates. Bank Indonesia kept key interest rates unchanged at 3.5% and the governor reiterated that the central bank would consider rising rates when inflation fundamentally rises above their target range of 2-4% and may start unwinding debt monetisation in 2023.

Asian investment grade (IG) credit markets posted negative returns over the month owing to higher US Treasury yields and wider credit spreads. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 24bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 1.61% in US dollar terms. As Ukraine situation escalated, there was some knee-jerk weakening in global credit markets, though overall selling activities was relatively contained as investors stayed on the side-lines awaiting further developments. Within the Asian credit space, issuers generally do not have direct exposure to Ukraine or surrounding areas therefore direct impact is limited. Primary market remained relatively quiet with deals coming from China and Korea after the Chinese lunar new year holidays. Asian investment grade supply mainly came from China financials and local government financing vehicles (LGFVs) with tenors in the 3 to 5 years space, as market participants looked for high new issue premium for long end bonds amid rising rates expectation.

The performance of Asian currencies against the US dollar was mixed. The Thai baht outperformed regional peers on continued optimism in tourism. On the other hand, the Indian rupee underperformed on higher oil prices and foreign outflows.

Outlook

The escalation of the current brinkmanship observed in the Russia-Ukraine situation would 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 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 remains an uncertainty. In China, the property sector was heavily sold off last year due to negative news flow and concerns about rising defaults. This year, 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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