

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 11.16 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 (February 28, 2023)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-3.57%	0.00%	-8.23%	-7.73%	-3.21%	2.60%
Annualized	n.a.	n.a.	-8.23%	-2.65%	-0.65%	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	5.21
Malaysia Government Bond 4.181% 07/15/2024	4.45
Korea Treasury Bond 2.375% 12/10/2031	4.37
Philippine Government Bond 3.5% 04/21/2023	4.23
United States Treasury Note/Bond 4% 11/15/2052	3.68
Indonesia Treasury Bond 7.125% 06/15/2042	3.39
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.02
Asian Development Bank 3.9% 02/17/2026	2.98
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.93
Indonesia Government International Bond 5.25% 01/17/2042	2.67

Sector Allocation[^]

	%
Treasuries	41.97
Corporate	31.47
Government-Related	24.17
Cash & Cash Equivalents	2.39

Geographical Allocation[^]

	%
South Korea	22.50
Indonesia	12.08
China	11.21
Philippines	9.88
Australia	7.99
Hong Kong	7.95
Singapore	6.93
Malaysia	6.05
United States	5.99
New Zealand	4.82
Supranationals	4.59

Currency Allocation[^]

	%
USD	47.70
KRW	11.69
AUD	11.63
IDR	7.97
PHP	6.34
NZD	4.82
MYR	4.46
SGD	3.77
INR	1.61

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

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Market Review

In the United States, the 10-year US Treasury yields trended higher to near the 4% level during the month amid persistent inflationary pressures and the Federal Reserve (Fed) hiked interest rate by 25 bps. Consumer price inflation remain elevated at 6.4% (year-on-year) in January, increasing by 0.5% (month-on-month) from December, while the unemployment rate decelerated to 3.4% in January. The yield curve inversion deepened with the 2-year US Treasury trading around 90 bps in premium against the 30-year US Treasury, a level last seen in 2000. Over the month, the 10-year Treasury yield trended higher from 3.51% to 3.92%.

In China, Caixin's Manufacturing Purchasing Managers' Index moved higher in January (49.2) from December (49.0), remaining in contractionary territory for the sixth consecutive month, but showing reduced strain on production and demand due to continued reopening story. China local government bond yields ranged over the period. In India, local government bond yields rose amid a higher-than-expected inflation print and rate hike by the central bank. Inflation increased in January (6.52% year-on-year), above the central bank's target range of 4%-6%. The Reserve Bank of India (RBI) maintained a hawkish stance and hiked rates by 25bps to 6.50%. In Indonesia, local government bond yields moved higher in line with US Treasury yield movements. Bank Indonesia (BI) left its policy rate unchanged at 5.75% as expected and noted that inflation has eased due to tightened monetary policy.

Asian investment grade (IG) credits posted negative performance for the month. Credit spreads on the JP Morgan Investment Grade Corporate Bond Index tightened by 12bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 1.23%. Asian credit had murky performance mainly due to higher US Treasury yields. Chinese credit, such as high quality property developers and financials, outperformed towards the end of the period amid improvements in manufacturing PMI and home sales data. Indian credit stabilized amid headlines an Indian conglomerate secured additional credit facility to repay maturing bonds and was well received by market participants. Primary market activity was active with a slew of Asian financials issuing bonds which were generally well received.

All major Asian currencies weakened against the US dollar in February. The Indian rupee was a regional outperformer due to the narrowing merchandise trade deficit in January and the Reserve Bank of India's intervention to sell dollars in onshore and offshore markets. In contrast, the South Korean won underperformed amid continuing record monthly trade deficits in January and the Bank of Korea's decision to pause on interest rate hikes which may cause a widening yield gap with the US.

Outlook

While the Fed is slowing down its aggressive policy tightening to reassess the impact of its previous rate hikes, other developed market central banks such as BOJ and ECB could be more aggressive on its monetary policy tightening if inflation persists. In contrast, we expect Asia ex-China region is closer to the end of its monetary policy tightening cycle. We believe China's shift away from its zero-Covid policy would help boost its growth trajectory. We also expect a positive spillover effect to other Asian economies in a varying degree and see pockets of opportunities across Asia. Economies such as Indonesia and Thailand are expected to benefit from China's reopening via increased trade and tourism. Furthermore, we believe the supportive measures for the real estate sector announced by the Chinese government is positive for easing 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.

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