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 13.28 million

Fund Currency
US dollar

Dealing/Valuation
Daily

Price (NAV/unit)
USD 1.124

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 (January 31, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-1.75%	-1.75%	-5.39%	6.74%	9.66%	12.40%
Annualized	n.a.	n.a.	-5.39%	2.20%	1.86%	1.14%

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 indicies
- 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

Top Ten Holdings	%
Korea Treasury Bond 2.25% 12/10/2025	4.99
Export-Import Bank of Korea 6.75% 08/09/2022	4.18
Malaysia Government Bond 4.181% 07/15/2024	4.07
Indonesia Treasury Bond 7% 05/15/2022	4.00
Philippine Government Bond 3.5% 04/21/2023	3.94
Indonesia Treasury Bond 8.375% 03/15/2024	3.32
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.89
Australia Government Bond 3.25% 04/21/2025	2.83
Indonesia Government International Bond 5.25% 01/17/2042	2.66
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.54

Sector Allocation^

Sector Allocation^	%
Corporate	36.85
Government-Related	30.98
Treasuries	29.93
Cash & Cash Equivalents	2.24

Geographical Allocation^

Geographical Allocation^	%
China	21.77
South Korea	17.04
Indonesia	15.64
Australia	10.06
Hong Kong	9.69
Philippines	9.59
Malaysia	5.58
Singapore	3.05
New Zealand	2.89
Taiwan	1.79
Supranationals	1.55
United States	1.34

Currency Allocation^

Currency Allocation^	%
USD	51.45
IDR	13.10
AUD	9.31
PHP	6.01
KRW	5.95
INR	5.73
MYR	4.08
NZD	2.89
SGD	1.47

^Figures may not sum to 100 due to rounding.

Asia Pacific Bond Fund

Market Review

In the United States, Treasury yields moved materially higher over the month driven by positive economic data and the Federal Reserve's (Fed) hawkish pivot. Consumer price inflation climbed 7% year-on-year in December, the highest rate in nearly 40 years, while the fourth quarter GDP grew by 6.9% (quarter-on-quarter, annualised), beating market estimates. On the monetary policy front, the Fed reaffirmed plans to end its bond purchase programme in March and signalled March rate hike with "quite a lot of room" to raise rates without threatening the labour market. Over the month, the 10-year Treasury yield trended higher from 1.51% to 1.78%.

In China, economic data suggested a mixed picture; Caixin's Manufacturing Purchasing Managers' Index returned to expansionary territory at 50.9 (December) from 49.9 (November), reaching its highest level since June 2021. Exports continued its upward trajectory with current account surplus climbing to US$224bn in 2021, the highest since 2013. On the other hand, the fourth quarter and full year GDP came in at 4.0% and 8.1% year-on-year respectively, decelerating from the third quarter. To support economic recovery, the People's Bank of China continued monetary loosening by cutting the 1-year medium-term lending facility rate and loan prime rates. China onshore government bond yields fell over the period. In India, local government bond yields were higher on the back of inflationary pressure and concerns over higher bond supply due to anticipated expansionary government budget in February. In Indonesia, local government bond yields trended higher as Bank Indonesia raised banks' reserve requirement ratio for banks, sending hints of policy normalisation.

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 widened by 2bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 1.55% in US dollar terms. In the China property space, bond price actions across the credit curve were volatile in the beginning of the month as more developers proposed exchange offers and growing concerns on refinancing ahead of maturity. This was soon followed by a rebound amid headlines the regulator is drafting rules that will give developers more access to presale funds in escrow accounts, echoing China macro loosening policy via loan prime rates cut. The primary market was packed with new issuances from a diverse group of issuers across Asia ahead of Chinese New Year, including several jumbo deals. Notably, the new issuance of a China asset management company managed to perform which supported the rest of the sector tighter in the secondary market.

The performance of Asian currencies against the US dollar was mixed. The Thai baht outperformed regional peers as the government reintroduced quarantine-free travel scheme. On the other hand, the South Korean won underperformed on equity outflow and record COVID-19 cases.

Outlook

Above trend US economic growth, a high prevailing level of inflation, and Fed normalization should support a higher US yield curve environment. However, fiscal drag will contribute to a more moderate growth outlook in the second half of 2022. North Asian economies have generally fared better in terms of economic recovery compared to South Asian counterparts last year. 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.