

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 11.87 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.048	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 (July 31, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.06%	-8.39%	-9.34%	-4.03%	-1.60%	4.80%
Annualized	n.a.	n.a.	-9.34%	-1.36%	-0.32%	0.44%

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	5.08
Export-Import Bank of Korea 6.75% 08/09/2022	4.52
Malaysia Government Bond 4.181% 07/15/2024	4.22
Philippine Government Bond 3.5% 04/21/2023	3.98
Indonesia Treasury Bond 8.375% 03/15/2024	3.49
Korea Treasury Bond 2.375% 12/10/2031	3.37
Australia Government Bond 3.25% 04/21/2025	3.00
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.97
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.76
Indonesia Government International Bond 5.25% 01/17/2042	2.58

Sector Allocation[^]

	%
Corporate	34.23
Treasuries	33.98
Government-Related	25.85
Cash & Cash Equivalents	5.94

Geographical Allocation[^]

	%
South Korea	23.64
China	13.24
Indonesia	11.86
Australia	10.80
Philippines	9.49
Hong Kong	7.55
Malaysia	5.73
United States	5.07
New Zealand	4.85
Singapore	4.38
Taiwan	1.80
Supranationals	1.60

Currency Allocation[^]

	%
USD	47.98
AUD	11.48
IDR	9.61
KRW	8.45
INR	6.12
PHP	6.00
NZD	4.85
MYR	4.23
SGD	1.28

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

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Market Review

In the United States, the Federal Reserve raised the fed funds rate by 75bps to a range of 2.25%-2.50% at its July meeting as widely expected, but Powell's message in the press conference was considered dovish by the market which triggered global risk assets to rally. On the economic front, fears of stagflation continued to influence market sentiment as a disappointing 2Q GDP report and elevated print on initial claims raised recessionary concerns. US second-quarter GDP contracted by 0.9% (first reading, annualised, quarter-on-quarter), the second successive quarter of decline, while inflation accelerated to 9.1% year-on-year in June. Non-farm payroll increased by 372k in June, down from 384k in May but better than market estimates. Over the month, the 10-year Treasury yield ended lower from 3.01% to 2.65%.

In China, economic data suggested a mixed economic picture as the country emerged from COVID-19 lockdowns. Caixin's Manufacturing Purchasing Managers' Index surged higher in June (51.7) from May (48.1), moving into expansion territory for the first time in four months. While second-quarter GDP expanded by only 0.4% year-on-year, reflecting earlier movement restrictions. China local government bond yields declined over the period. In India, government bond yields moved lower in July as the Reserve Bank of India's governor stated that monetary policy tightening wouldn't sacrifice economic growth too much and monthly inflation data indicated a potential deceleration trend, declining for the second consecutive month (7.01%-June versus 7.79%-April year-on-year). In Indonesia, bond yields trended higher but ended the month lower as Bank Indonesia stayed on hold, but global risk-on sentiment countervailed the central bank's announcement that it would gradually sell its government debt holdings, a precursor to raising rates.

Asian investment grade (IG) credit posted slightly negative return in July driven wider credit spread, more than offsetting the lower US Treasury yields. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 43bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 0.09% in US dollar terms. During the month, Asian IG credits overall traded weaker amid heightened recessionary fears; sentiment generally improved towards the end of month. In China, market stabilized from the rural bank scandal in Henan and concerns on rising mortgage servicing suspension on the back of the government's supportive tone to stabilized property market and unfinished project delivery. Some media reported Beijing may create a real estate fund to provide support to selected developers and offer special program for shanty town development. Outside of China, India and Indonesia credits saw the biggest recovery among its Asia peers from earlier weakness. Primary market activity turned more active towards the end of month as sentiment improved.

The performance of Asian currencies was mixed against the US dollar in July. The Singapore's dollar outperformed as the Monetary Authority of Singapore unexpectedly tightened monetary policy in an off-cycle announcement to combat rising inflation. On the other hand, Thai baht underperformed amid relatively low interest rates and fear of further lockdowns in China and delayed tourism.

Outlook

Aggressive developed market central bank's monetary policy response will negatively impact global growth outlook with stagflation risk building. On the other hand, with relatively benign inflation environment and resilient supply-chain in Asia, we expect Asian central banks to generally normalize its monetary policy at a more gradual pace than developed markets. In the near term, we believe increasing geopolitical developments could impact global investors' sentiment. China's zero COVID-19 policy is making the 5.5% GDP target more challenging to achieve. Whilst the physical property sector remains stressed leading to dramatic repricing to the China property credit market, we believe further policy measures are needed to have a positive impact on China's physical property market. Segments of Asia ex-China credit space is also attractive, as these issuers are trading at relatively attractive levels on an absolute yield basis after the correction among global credits spurred by rising macro headwinds and weak sentiment globally.

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