

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 10.95 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.050	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, 2023)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.86%	2.34%	0.19%	-8.62%	2.14%	5.00%
Annualized	n.a.	n.a.	0.19%	-2.96%	0.42%	0.42%

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	5.56
Korea Treasury Bond 2.375% 12/10/2031	4.67
Malaysia Government Bond 4.181% 07/15/2024	4.49
United States Treasury Note/Bond 4% 11/15/2052	3.67
Indonesia Treasury Bond 7.125% 06/15/2042	3.66
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.10
Asian Development Bank 3.9% 02/17/2026	3.08
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	3.01
Indonesia Treasury Bond 6.125% 05/15/2028	2.76
Indonesia Government International Bond 5.25% 01/17/2042	2.76

Sector Allocation[^]

	%
Treasuries	39.47
Corporate	29.41
Government-Related	24.89
Cash & Cash Equivalents	6.22

Geographical Allocation[^]

	%
South Korea	23.53
Indonesia	12.67
China	9.81
Philippines	9.02
Australia	8.35
Hong Kong	8.16
Singapore	7.36
Malaysia	6.21
United States	5.24
New Zealand	4.93
Supranationals	4.75

Currency Allocation[^]

	%
USD	45.27
KRW	12.44
AUD	12.05
IDR	8.42
PHP	6.63
NZD	4.93
MYR	4.50
SGD	4.09
INR	1.66

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

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Market Review

In the United States, US Treasury yields trended higher amid decision by the Federal Reserve to hike rates by 25bps to a range of 5.25%-5.50% and resilient data pointed to the prospect of a soft economic landing. Markets were watching for signs that the rate hike could be the last before the Fed takes a break, but Chairman Powell reiterated the central bank will make data driven decisions on a meeting by meeting basis. US CPI in June fell to 3.0% (year-on-year), while second quarter GDP increased by 2.4% (quarter-on-quarter, annualized, first estimate). Over the month, the 10-year US Treasury yield trended higher from 3.84% to 3.96%.

In China, Caixin's Manufacturing Purchasing Managers' Index moved lower in June (50.5) from May (50.9), remaining in expansion territory but showing a decline in production. Second quarter GDP increased by 6.3% (year-on-year), below market expectations. Over the month, the Politburo meeting was held and policymakers reiterated proactive fiscal policy and prudent monetary policy. The focus remains on building up domestic demand primarily through targeted consumption policies, support for the private sector and infrastructure. China local government bond yield trended higher over the period. In India, the inflation reaccelerated in June (4.81% year-on-year), which is a three-month high. India local government bond yield trended higher over the period. In Indonesia, government bond yields fell over the period as Bank Indonesia continued to keep its policy rate unchanged at 5.75% amid continued decelerating inflation in June (3.52% year-on-year).

Asian investment grade (IG) credits posted positive performance for the month largely driven by tighter credit spreads. Credit spreads on the J.P. Morgan Investment Grade Corporate Bond Index tightened by 8bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 0.49%. China credit had a volatile month with idiosyncratic headlines and volatility in the property market weighing down sentiment but traded on a better sentiment later in the month as China politburo meeting pointed to further macro policy easing and supportive housing-related measures. Outside of China, Macau gaming sector traded on a stronger tone as Sands China was upgraded to investment grade status by S&P. On the other hand, frontier countries namely Sri Lanka and Pakistan continued to ride on the strong momentum fuelled by progress on debt resolution. New market issuance was primarily from Korean issuers and some Japanese financial institutions.

Asian currencies had mixed performance against the US dollar in July. The Thai baht was a regional outperformer on the back of increased tourists and a current account surplus in June. In contrast, the Indonesian rupiah underperformed due to the contracting exports in June (-21.2% year-on-year) which was below market estimate.

Outlook

Despite the hawkish comments from the Fed, markets are pricing in Fed fund rates to peak in 2023. 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 benign inflation environment; the increased foreign investment will likely drive sustained economic growth in this region. In China, we believe the path to recovery to be an uneven one as suggested by recent lukewarm economic data. While monetary stimulus started in June is supportive, the magnitude and effect of a broader demand side stimulus remains to be seen in the coming months. Furthermore, Chinese government recently set a more constructive tone towards the property sector, including extending the supportive measures rolled out in 4Q2022 and emphasizing the need of property policies in a timely manner in the politburo meeting. We believe incremental measures could be rolled out to support housing demand. While we are seeing early signs of stabilization in new home sales data, we are closely monitoring the pace of recovery and how the policy response can benefit the broader sector and respective developers.

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