

# 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

<b>Inception Date</b> October 2011	<b>Fund Size</b> USD 9.90 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.054	<b>Management Fee</b> 2.00% per annum	<b>Bloomberg Ticker</b> MPUSAPB	<b>Average Credit Rating</b> A+
<b>Investment Fund Manager (the "Manager")</b> Manulife Investment Management (Hong Kong) Limited			

## Performance Return (July 31, 2024)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.15%	-1.68%	0.38%	-8.82%	-3.48%	5.40%
Annualized	n.a.	n.a.	0.38%	-3.03%	-0.71%	0.41%

## 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	5.81
Indonesia Treasury Bond 6.125% 05/15/2028	5.56
Korea Treasury Bond 2.375% 12/10/2031	5.06
Philippine Government Bond 6.125% 08/22/2028	4.37
United States Treasury Note/Bond 4% 11/15/2052	3.83
Indonesia Treasury Bond 7.125% 06/15/2042	3.59
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.30
United States Treasury Note/Bond 4.125% 08/15/2053	3.26
Inter-American Development Bank 7.35% 10/06/2030	3.12
Indonesia Government International Bond 5.25% 01/17/2042	3.02

## Sector Allocation<sup>^</sup>

	%
Treasuries	44.68
Corporate	29.18
Government-Related	20.20
Cash & Cash Equivalents	5.94

## Geographical Allocation<sup>^</sup>

	%
South Korea	17.87
Indonesia	15.73
United States	12.44
Supranationals	11.18
Australia	10.09
Philippines	9.79
China	6.31
New Zealand	5.35
Singapore	4.07
Hong Kong	3.31
Taiwan	2.09
Thailand	1.76

## Currency Allocation<sup>^</sup>

	%
USD	38.93
KRW	13.38
AUD	12.71
IDR	11.12
INR	9.18
PHP	7.06
NZD	5.35
SGD	2.26

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

In the United States, US Treasury yields trended lower as economic data pointed to moderating inflation. During the July FOMC meeting, the Federal Reserve (Fed) held interest rates steady as the market expected; but Fed chairman Powell suggested a rate cut in September is possible provided the inflation data continues to be encouraging. The personal consumption expenditure price index, the Fed's preferred measure of inflation, rose 2.5% year-on-year in June, in line with estimates, while non-farm payrolls increased by 206,000 in the same month, above market estimates. Over the period, the 10-year US Treasury yield dropped from 4.40% to 4.03%.

In China, Caixin Manufacturing Purchasing Managers Index (PMI) ticked up to 51.8 in June from 51.7 in May, remaining in expansionary territory (above 50-mark) and hitting a three-year peak on the back of rising output and expanding purchasing levels. Over the month, the Third Plenum of the 20th People's Congress was held, which reaffirmed the annual growth target ('around 5%') and catalysed the release of new consumer subsidies for home appliances, commercial vehicles, and large-scale equipment. Shortly after, PBoC cut various key interest rates to boost the economic growth, including cutting 7-day Reserve Repo Rate by 10 bps to 1.70%, 1-year and 5-year Loan Prime Rate by 10 bps to 3.35% and 3.85% respectively, and the 1-year Medium-term Lending Facility Rate by 20 bps to 2.30%. China local government bond yields trended lower over the period. In India, inflation in June re-accelerated at 5.08% year-on-year but still below central bank's target. Over the month, the India government announced FY25 fiscal budget to be 4.9% of GDP against an expectation of 5%. Indian government bond yields trended lower over the period. In Indonesia, Bank Indonesia (BI) kept its key interest rate unchanged at 6.25% amid decelerated inflation in June (2.51% year-on-year). The BI governor revealed that they expected the Fed to cut in November and suggested there could be room for BI's policy rate cut in Q4 this year. Indonesia government bond yields trended lower over the period.

Asian investment grade (IG) credits posted positive performance for the month mainly driven by lower US Treasury yields. Credit spreads on the J.P. Morgan Investment Grade Corporate Bond Index marginally widened by 2bps over the month; the J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 1.32%. Credit spreads marginally widened amid continued active new bond issuances. Corporate earnings were the main drivers of the price actions; a South Korean semiconductor manufacturer outperformed on strong AI-led demand which may lead to a rating upgrade, while a Chinese asset management company and a South Korean battery maker underperformed following disappointing results. New issuance market picked up amid lower US rates; primary activities were seen in China, South Korea, Philippines, Hong Kong. New supply continued to be well digested by the market; notably, new issues for a Chinese auto dealer and several financials were mostly oversubscribed by investors.

Asian currencies had mixed performance against the US dollar in July. Thai baht was a regional outperformer amid a softer US dollar and gold strength. In contrast, the Taiwanese dollar underperformed amid the heavy foreign net selling of equities in June amid rising Sino-US trade tensions.

## Outlook

We believe the Fed and other global central banks transitioning to end their rate hike cycles in 2024, would help underpin global and Asian bond markets. In Asia ex-China region, we view Asian central banks, such as India, South Korea and Philippines, to have room to cut rates in 2024 amid benign inflationary environment. At National People's Congress, Chinese authorities kept its growth target of around 5% level, inflation target of around 3%, and fiscal deficit target at 3% for 2024. China also began the issuance of one trillion yuan of ultra-long special government bonds to support the budget. After the Third Plenum, PBoC cut various key interest rates to boost economic growth. We expect additional monetary policy easing and more targeted measures from authorities to support its economy. Furthermore, to see a sustained recovery of the Chinese property sector, we would monitor the effective implementation of the announced measures and market sales recovery.

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