

# 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 11.83 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.037	<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 (June 30, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-2.63%	-9.35%	-10.45%	-4.69%	-1.71%	3.70%
Annualized	n.a.	n.a.	-10.45%	-1.59%	-0.34%	0.34%

## 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	4.99
Export-Import Bank of Korea 6.75% 08/09/2022	4.53
Malaysia Government Bond 4.181% 07/15/2024	4.36
Philippine Government Bond 3.5% 04/21/2023	4.01
Indonesia Treasury Bond 8.375% 03/15/2024	3.48
Korea Treasury Bond 2.375% 12/10/2031	3.22
Australia Government Bond 3.25% 04/21/2025	2.93
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.91
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.77
China Minmetals Corp 3.75% Perpetual	2.55

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

	%
Treasuries	33.59
Corporate	32.53
Government-Related	30.56
Cash & Cash Equivalents	3.32

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

	%
South Korea	21.61
China	18.33
Indonesia	11.72
Australia	10.50
Philippines	9.61
Hong Kong	7.48
Malaysia	5.92
New Zealand	4.70
Singapore	4.36
United States	2.42
Taiwan	1.77
Supranationals	1.59

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

	%
USD	48.61
AUD	11.09
IDR	9.58
KRW	8.20
INR	6.12
PHP	6.06
NZD	4.70
MYR	4.36
SGD	1.28

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

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## Market Review

In the United States, the Federal Reserve hiked interest rates by 75bps, its largest hike since 1994, to a range of 1.50% to 1.75%. The Federal Reserve also began shrinking its balance sheet to help curb inflation. The US yield curve flattened, reflecting the building expectations of a more aggressive Fed tightening path while market weighed on higher risk of an economic hard landing scenario. On the economic front, fears of stagflation deepened as inflation remained historically elevated at 8.6% year-on-year, an uptick from 8.3% last month. Non-farm payroll increased by 390k in May, down from 436k in April but better than market estimates. Over the month, the 10-year Treasury yield trended higher from 2.84% to 3.01%.

In China, economic data suggested an acceleration of economic activity as COVID-related restrictions were gradually lifted. The partial reopening of Shanghai came along with China's decision to shorten the quarantine period for international travellers. Caixin's Manufacturing Purchasing Managers' Index moved higher in May (48.1) from April (46.0) but remained in contractionary territory (a reading below 50). China local government bond yields range traded over the period. In India, the Reserve Bank of India (RBI) raised rates by 50 bps to 4.90% to stem rising inflationary pressures. Consumer price index decelerated from the previous month of 7.79% year-on-year to 7.04% year-on-year in May but still breached the central bank's target of 6% in May. India local government bond yields range traded over the period. In Indonesia, Bank Indonesia (BI) kept rates steady at 3.5%. The consumer price index reached the highest level at 3.55% year-on-year in May since December 2017. Indonesian local government bond yields rose over the period.

Asian investment grade (IG) credit markets posted negative returns in June mainly driven by higher US Treasury yields, but partly offset by positive carry. 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 1.39% in US dollar terms. During the month, Asian credit markets traded on a softer tone while outperforming global dollar credits amid broad risk-off sentiment and heightened US rates volatility. Higher credit quality credits from markets such as South Korea and Singapore generally outperformed its Asia peers. China and Hong Kong credits held up relatively well as local sentiment was buoyed with easing COVID-19 restrictions. Primary market activity slowly resumed in June with deals coming from various countries and sectors. We expect the primary market to remain active in July.

Most Asian currencies posted negative returns against the US dollar over the month amid the strong US dollar environment. The South Korean won underperformed regional peers on the back of weak domestic equity market in June.

## Outlook

The Russia-Ukraine situation remains fluid, but we expect to see mostly indirect impact on Asia fixed income. We believe Asia's credit fundamentals remain largely intact and supported by strengthened local and international investor base. Having said that, in the near term, investment sentiment should remain driven by global risk appetite and further geopolitical developments. In China, the physical property market is showing early signs of stabilization – June showed weekly gains, a narrowing of the year-on-year decline – as easing measures work their way through the system. China's Politburo pledges to step up policy support and more cities announced property policy relaxation are positive developments for the slowing economy, though we would continue to monitor for more concrete measures from the central government. Overall, we expect 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. 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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