

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 10.92 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.041	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 (June 30, 2023)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.10%	1.46%	0.39%	-7.55%	1.56%	4.10%
Annualized	n.a.	n.a.	0.39%	-2.58%	0.31%	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	5.38
Korea Treasury Bond 2.375% 12/10/2031	4.53
Malaysia Government Bond 4.181% 07/15/2024	4.42
United States Treasury Note/Bond 4% 11/15/2052	3.77
Indonesia Treasury Bond 7.125% 06/15/2042	3.64
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.04
Asian Development Bank 3.9% 02/17/2026	3.03
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	3.00
Indonesia Government International Bond 5.25% 01/17/2042	2.80
Indonesia Treasury Bond 6.125% 05/15/2028	2.77

Sector Allocation[^]

	%
Treasuries	39.14
Corporate	29.34
Government-Related	24.90
Cash & Cash Equivalents	6.61

Geographical Allocation[^]

	%
South Korea	23.06
Indonesia	12.71
China	9.80
Philippines	9.02
Hong Kong	8.27
Australia	8.24
Singapore	7.41
Malaysia	6.16
United States	5.78
New Zealand	4.85
Supranationals	4.70

Currency Allocation[^]

	%
USD	45.98
KRW	12.04
AUD	11.84
IDR	8.43
PHP	6.62
NZD	4.85
MYR	4.43
SGD	4.15
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 hawkish comments by Federal Reserve Chairman Powell after the US central bank paused on rates, as well as sticky inflation and strong economic data. US CPI in May fell to 4.0% (year-on-year) but core inflation remained elevated, while first quarter GDP was revised significantly higher by 0.7 percentage point to 2.0% (quarter-on-quarter, annualized, third estimate). Over the month, the 10-year US Treasury yield trended higher from 3.64% to 3.84%.

In China, Caixin's Manufacturing Purchasing Managers' Index moved higher in May (50.9) from April (49.5), beating market expectations and moving back into expansionary territory due to an increase in production. Over the month, China cut its medium-term lending facility rate by 10 bps to 2.65%, aiming at boosting its slowing economy, followed by the cuts on one- and five-year loan prime rates by 10 bps to 3.55% and 4.20% respectively. Market viewed this as a signal of Chinese government's awareness and willingness to support the economy. China local government bond yield trended lower over the period. In India, the Reserve Bank of India (RBI) continued to keep its repo rate unchanged at 6.50%, however the RBI Governor warned about the lingering weather-related uncertainties and inflationary risks. 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 May (4.00% year-on-year).

Asian investment grade (IG) credits posted negative performance for the month largely driven by higher US Treasury yield movement, but partially offset by tighter credit spreads. Credit spreads on the J.P. Morgan Investment Grade Corporate Bond Index tightened by 13bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 0.10%. China credit generally performed well amid building market expectations of further policy support from the Chinese government for the property sector after People's Bank of China slashed policy rates such as the 7-day reverse repo and medium-term lending facility rate. Frontier markets saw near-term uncertainties were mitigated with debt restructuring plan announced for Sri Lanka was less harsh than expected and Pakistan getting an initial IMF approval for a US\$3bn loan program. A handful of high-quality South Korea corporate issuers tapped primary markets over the month and was generally well received by market participants.

Asian currencies had mixed performance against the US dollar in June. The Philippine peso was a regional outperformer on the back of strong economic growth, decelerating inflation and the positive yield differential with the US and most emerging markets. In contrast, Chinese renminbi underperformed as China announced its monetary stimulus measures which led to widening yield differential with the US.

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, we believe China government will likely reinforce the supportive measures for the real estate sector rolled out in 4Q2022 to stabilize new home sales and moderate developers' stretched liquidity situation. 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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