

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 9.85 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.042	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, 2024)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.77%	-2.80%	0.10%	-10.02%	-4.23%	4.20%
Annualized	n.a.	n.a.	0.10%	-3.46%	-0.86%	0.32%

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	5.82
Indonesia Treasury Bond 6.125% 05/15/2028	5.49
Korea Treasury Bond 2.375% 12/10/2031	5.01
Malaysia Government Bond 4.181% 07/15/2024	4.82
Philippine Government Bond 6.125% 08/22/2028	4.33
United States Treasury Note/Bond 4% 11/15/2052	3.71
Indonesia Treasury Bond 7.125% 06/15/2042	3.54
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.38
United States Treasury Note/Bond 4.125% 08/15/2053	3.36
Inter-American Development Bank 7.35% 10/06/2030	3.11

Sector Allocation[^]

	%
Treasuries	49.31
Corporate	29.05
Government-Related	20.25
Cash & Cash Equivalents	1.39

Geographical Allocation[^]

	%
South Korea	17.80
Indonesia	15.62
Supranationals	11.21
Australia	10.20
Philippines	9.80
United States	7.99
China	6.17
New Zealand	5.43
Malaysia	4.82
Singapore	3.95
Hong Kong	3.24
Others	3.77

Currency Allocation[^]

	%
USD	34.16
KRW	13.28
AUD	12.91
IDR	11.00
INR	9.17
PHP	7.05
NZD	5.43
MYR	4.82
SGD	2.17

[^]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 June FOMC meeting, the Federal Reserve (Fed) held interest rate steady; dot plots indicate the possibility of one cut by the end of 2024. The personal consumption expenditure price index, the Fed's preferred measure of inflation, rose 2.6% year-on-year in May, in line with estimates, while non-farm payrolls increased by 272,000 in the same month, above market estimates. Over the period, the 10-year US Treasury yield dropped from 4.50% to 4.40%.

In China, Caixin Manufacturing Purchasing Managers Index (PMI) ticked up to 51.7 in May from 51.4 in April, remaining in expansionary territory (above 50-mark) and reaching its highest point since July 2022 on the back of expanded production. Over the month, PBoC governor Pan signalled they are planning to change the monetary framework and introduce new tools to boost the economic growth. China local government bond yields trended lower over the period. In India, Indian government bond yields had a volatile month in response to the general election result; the Modi party surprised the market by not winning a majority in the final election results; however, the market settled after cabinet appointments suggested policy continuity. Toward the end of the month, the Indian sovereign bonds were officially added to JP Morgan's GBI-EM index suite. Indian government bond yields trended higher over the period. In Indonesia, Bank Indonesia (BI) kept its key interest rate unchanged at 6.25% amid decelerated inflation in May (2.84% year-on-year). Over the month, there were fiscal concerns in the market as an article suggested President-elect Prabowo is planning to increase Indonesia's debt ratio to 50% of GDP from 39% over the next five years, which was then denied by Prabowo's team. Indonesia government bond yields trended higher over the period.

Asian investment grade (IG) credits posted positive performance for the month amid lower US Treasury yields more than offsetting wider credit spreads. Credit spreads on the J.P. Morgan Investment Grade Corporate Bond Index widened by 12bps over the month due to notable increase in new bond supply; the J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 1.08%. Indonesia IG credit spreads widened following market concerns around headlines on President-elect Prabowo's expansionary fiscal policy plan. On the other hand, Fitch took a series of rating actions on the Big Four China AMCs which should remove near-term overhang for the space. New issuance market picked up amid lower US rates; primary activities were seen in China, Hong Kong and Thailand. Notably, new issues of a Hong Kong insurance company and a Hong Kong bank were multiple times oversubscribed.

Asian currencies had mixed performance against the US dollar in June. The South Korean won was a regional outperformer amid robust capital inflows into its equity market and better-than-expected exports. In contrast, the Indonesian rupiah underperformed amid the selloff over the fiscal concerns and equity outflows.

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, 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. 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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