

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 12.70 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.101	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 (March 31, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-1.52%	-3.76%	-5.33%	3.19%	5.76%	10.10%
Annualized	n.a.	n.a.	-5.33%	1.05%	1.13%	0.93%

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	5.14
Export-Import Bank of Korea 6.75% 08/09/2022	4.34
Malaysia Government Bond 4.181% 07/15/2024	4.25
Indonesia Treasury Bond 7% 05/15/2022	4.20
Philippine Government Bond 3.5% 04/21/2023	4.04
Indonesia Treasury Bond 8.375% 03/15/2024	3.36
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.14
Australia Government Bond 3.25% 04/21/2025	3.07
Indonesia Government International Bond 5.25% 01/17/2042	2.66
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.62

Sector Allocation[^]

	%
Corporate	35.93
Treasuries	32.13
Government-Related	29.96
Cash & Cash Equivalents	1.98

Geographical Allocation[^]

	%
China	20.41
South Korea	17.62
Indonesia	16.05
Philippines	9.71
Hong Kong	9.60
Australia	8.75
Malaysia	5.77
Singapore	4.51
New Zealand	3.14
Taiwan	1.75
Supranationals	1.58
United States	1.11

Currency Allocation[^]

	%
USD	49.75
IDR	13.55
AUD	9.55
PHP	6.15
KRW	6.13
INR	5.92
MYR	4.26
NZD	3.14
SGD	1.54

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

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Market Review

In the United States, US Treasury yields rose in March as global risk sentiment improved towards the second half of the month, the Federal Reserve increased the federal funds rate by 25 bps to a range of 0.25%-0.50% and the market pricing in additional rate hikes after the latest FOMC meeting. On the economic data front, US consumer price inflation rose by 7.9% (year-on-year) in February, the highest reading since January 1982. The market remains focus on inflation figures and clues on potential fed balance sheet reduction. Over the month, the 10-year Treasury yield trended higher from 1.83% to 2.34%.

In China, economic data suggested a mixed picture; Caixin's Manufacturing Purchasing Managers' Index increased in February (50.4) from January (49.1), moving back into expansion territory. On the policy front, the Chinese government set the 2022 GDP target at around 5.5% and Vice Premier Liu He pledged to boost the economy. On the other hand, government has imposed lockdown in some cities on COVID-19 outbreak. Chinese onshore government bond yields remained stable over the month. In India, consumer price index in February rose by 6.07% year-on-year, hitting an eight-month high and breaching the upper limit of the Reserve Bank of India's (RBI) inflation target (6%) for the second consecutive month. Indian local government bond yields trended slightly higher over the month. In Indonesia, Bank Indonesia (BI) maintained its key interest rates unchanged at 3.5% in line with expectation and 2022 GDP growth target at 4.7-5.5%. Inflation conditions remains contained, with February consumer price rising 2.06% year-on-year. Indonesian local government bond yields followed global rates higher.

Asian investment grade (IG) credit markets posted negative returns in March mainly driven by higher US Treasury yields which was slightly offset by positive carry. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 1bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 2.24% in US dollar terms. Asian credits experience heightened market volatility during the month on the back of geopolitical developments from Russia-Ukraine and regulatory concerns on China tech companies. Market sentiment recovered towards the second half of the month as the Ukraine-Russia engaged in peace talks while China officials called for actions to stabilize the financial markets and proactive monetary response to revive economic growth. Primary market remained light with deals mainly coming from China and Korea. During the month, we saw investment grade supply from China state-owned-enterprises and local government financing vehicles (LGFVs) as well as quasi-sovereign names from Thailand and Malaysia. As sentiment improved in the later part of the month, high yield issuance pipeline reopened with a deal from an India renewable company. We expect the primary markets to turn active in April as US Treasury yields stabilized.

Most of the Asian currencies weakened against the US dollar. The Taiwanese dollar and Thai baht underperformed regional peers on equity outflow and concerns over a sluggish tourism recovery respectively.

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. North Asian economies have generally fared better in terms of economic recovery compared to South Asian counterparts last year. Increasingly more South Asian economies are adopting a coexisting approach with COVID-19, reopening borders with higher vaccination rates and could be positive for their growth trajectories. However, the widespread of Omicron variant remains an uncertainty. In China, the property sector was heavily sold off due to negative news flow and concerns about rising defaults. China's Vice Premier Liu He comments to stabilized financial markets and revive economic growth is a positive development, though we would monitor for more concentrate 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. Overall, we remain cognizant of both systemic and idiosyncratic risks while seeking out attractive opportunities and believe that bottom-up credit selection will be key in generating further returns going forward.

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