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 12.21 million

Fund Currency
US dollar

Dealing/Valuation
Daily

Price (NAV/unit)
USD 1.065

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 (May 31, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.00%	-6.91%	-8.58%	0.09%	1.14%	6.50%
Annualized	n.a.	n.a.	-8.58%	0.03%	0.23%	0.60%

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 indicies
- 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

Top Ten Holdings	%
Korea Treasury Bond 2.25% 12/10/2025	5.19
Export-Import Bank of Korea 6.75% 08/09/2022	4.44
Malaysia Government Bond 4.181% 07/15/2024	4.24
Philippine Government Bond 3.5% 04/21/2023	4.08
Indonesia Treasury Bond 8.375% 03/15/2024	3.43
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	3.03
Australia Government Bond 3.25% 04/21/2025	2.97
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.73
Indonesia Government International Bond 5.25% 01/17/2042	2.58
China Minmetals Corp 3.75% Perpetual	2.47

Sector Allocation^

Sector Allocation^	%
Corporate	33.90
Treasuries	31.62
Government-Related	30.20
Cash & Cash Equivalents	4.29

Geographical Allocation^

Geographical Allocation^	%
China	19.52
South Korea	19.46
Indonesia	11.67
Australia	10.54
Philippines	9.73
Hong Kong	7.38
Malaysia	5.79
New Zealand	4.88
Singapore	4.26
United States	3.47
Taiwan	1.74
Supranationals	1.56

Currency Allocation^

Currency Allocation^	%
USD	50.56
AUD	11.21
IDR	9.43
KRW	6.22
PHP	6.19
INR	6.01
NZD	4.88
MYR	4.25
SGD	1.25

^Figures may not sum to 100 due to rounding.

Asia Pacific Bond Fund

Market Review

In the United States, US Treasury yields hit 3.2% levels in early May for the first time in three years before retracing lower later the month. US inflation rose 8.3% year-on-year while non-farm payroll increased by 428k in April, better than market expectations. On the monetary policy front, the Federal Reserve hiked interest rates by 50bps to a range of 0.75% to 1% as expected and would begin shrinking its balance sheet in June. Later the month, US Treasury yields retraced from its highs as investors sought safety from global equity market sell-off. Over the month, the 10-year Treasury yield trended lower from 2.93% to 2.84%.

In China, economic data disappointed amid COVID-19 lockdowns; retail sales contracted by 11.1% year-on-year in April while industrial production was down 2.9% year-on-year, missing market expectations. To support the slowing economy, the People's Bank of China (PBoC) cut 5-year loan prime rate by 15bps to 4.45%. Premier Li Keqiang also called for actions to stabilise the economy and gradually ease COVID-19 curbs, boosting market sentiment. Chinese onshore government bond yields fell over the month. In India, consumer price index accelerated to 7.79% year-on-year in April, mainly due to higher food prices, breaching the 6% upper limit of the Reserve Bank of India's (RBI) inflation target for the fourth consecutive month. RBI surprised the financial market with an out-of-cycle rate hike by increasing the repo rate by 40bps and cash reserve ratio by 50bps. RBI's meeting minutes also offered hawkish guidance as it reinforced the need to frontload interest rate hikes in upcoming meetings. Indian local government bond yields trended higher over the month. In Indonesia, Bank Indonesia (BI) maintained its key interest rate unchanged at 3.5% in line with expectation but introduced phased increase of reserve requirement ratio for banks. On the other hand, the government lifted export ban of palm oil, which may ease pressure on food prices. Indonesian local government bond yields moved higher over the month.

Asian investment grade (IG) credit markets posted flat returns in May mainly due to wider credit spreads but was offset by lower US Treasury yields and positive carry. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 13bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 0.04% in US dollar terms. Asian credit markets was generally soft during the month on the back of US rates volatility and risk-off investors' sentiment. Market sentiment improved towards the end of month as US rates started to stabilize and China announced more details on fiscal and credit support to stimulate the economy, alongside COVID-19 restrictions easing in Shanghai and Beijing. Primary market turned active towards month end amid improved sentiment with deals coming from various countries and decent performance. We expect the primary market to be more active in June as previously postponed new deals may start to return.

The performance of Asian currencies against the US dollar was mixed. The South Korean won outperformed regional peers on improved market sentiment and rate hike expectations. On the other hand, the Indian rupee underperformed regional peers on higher oil prices.

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 Politburo pledges to step up policy support and more cities announced property policy relaxation are positive developments for the slowing economy, 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.