

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 10.74 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.968	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 (October 31, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-1.33%	-15.38%	-15.68%	-12.16%	-8.33%	-3.20%
Annualized	n.a.	n.a.	-15.68%	-4.23%	-1.73%	-0.29%

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	4.98
Malaysia Government Bond 4.181% 07/15/2024	4.42
Philippine Government Bond 3.5% 04/21/2023	4.14
Korea Treasury Bond 2.375% 12/10/2031	4.13
Indonesia Treasury Bond 7.125% 06/15/2042	3.33
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	3.02
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.98
Australia Government Bond 3.25% 04/21/2025	2.97
China Minmetals Corp 3.75% Perpetual	2.83
Indonesia Government International Bond 5.25% 01/17/2042	2.58

Sector Allocation[^]

	%
Treasuries	39.91
Corporate	33.14
Government-Related	23.87
Cash & Cash Equivalents	3.09

Geographical Allocation[^]

	%
South Korea	23.94
China	13.92
Indonesia	11.65
Australia	10.74
Philippines	9.86
Hong Kong	7.71
Singapore	6.67
Malaysia	5.87
New Zealand	4.80
United States	3.15
Supranationals	1.68

Currency Allocation[^]

	%
USD	47.35
AUD	11.37
KRW	10.95
IDR	9.66
PHP	6.23
NZD	4.80
MYR	4.42
SGD	3.52
INR	1.68

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

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Market Review

In the United States, US Treasury yields moved higher amid 75bps rate hike and expectations of more to come from the Federal Reserve as the domestic economy remained resilient amid persistent inflation. Third-quarter GDP grew by 2.6% (quarter-on-quarter, annualized, first estimate), ending two consecutive quarters of contraction, while consumer price inflation remained elevated at 8.2% in September (year-on-year), increasing (0.4% month-on-month) from August. Over the month, the 10-year Treasury yield ended higher from 3.83% to 4.05%.

In China, Caixin's Manufacturing Purchasing Managers' Index moved lower in September (48.1) from August (49.5), remaining in contraction territory, as COVID-19 lockdowns disrupted production and demand. China local government bond (CGB) yields fell over the period amid economic weakness, continued credit defaults in the property sector and equity market selloff. In India, inflation accelerated to a five-month high at 7.41% year-on-year in September and foreign investors turned net sellers after an announcement that Indian sovereign debt would not be included in the J.P. Morgan Emerging Debt index this year. India local government bond yields rose over the period. In Indonesia, Bank Indonesia (BI) hiked the policy rate by 50 bps to 4.75% due to inflation hitting a seven-year-high at 5.95% year-on-year in September and higher fuel prices fed through after the partial withdrawal of fuel subsidies last month. Indonesia local government bond yield trended higher over the period.

Asian investment grade (IG) credit posted negative return in October driven by higher US Treasury yields and wider credit spread, which more than offsetting positive carry. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 54bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 3.31% in US dollar terms. October was the single worst month in 2022 for Asian credit markets; we saw weakness amid a series of macro and idiosyncratic events, with China drawing the center of attention. China's 20th National Party Congress concluded with President Xi re-elected for the third term and appeared to have consolidated control over the Standing Committee. Xi reaffirmed "development as top priority" and signaled longer term commitment to common prosperity and zero-COVID policy, disappointing markets. China technology credit declined following a selloff in Hong Kong and China equities as market participants were increasingly concerned about slow recovery due to sporadic lockdowns and reopening not occurring as soon as some expected. China property sector underperformed amid credit default headlines, chairwoman resignation of a renowned China property developer and lack of concrete housing-related stimulus policies post China's National Congress, which some market participants hoped for. On the other hand, Southeast Asian credit generally outperformed in credit spreads terms, supported by a strengthened regional investor base.

Asian currencies had mixed performance against the US dollar in October. The Singapore dollar was an outperformer as the Monetary Authority of Singapore tightened monetary policy for the fourth time in nearly a year to combat surging inflation. In contrast, the Chinese renminbi was an underperformer due to a widened yield gap with the US and increased concerns over China's economic trajectory.

Outlook

Federal Reserve remains focused on inflation as it continues to rapidly adjust its monetary policy settings to a restrictive setting. Aggressive developed market central bank monetary policy tightening will likely weigh on global growth outlook with risk of recession building. China's zero-COVID policy is making the 5.5% GDP target more challenging to achieve; whilst the physical property sector remains stressed leading to dramatic repricing to the China property credit market. We expect more aggressive monetary and fiscal policy response. On the other hand, Asia ex-China region has generally adopted more flexible pandemic policies, which is expansionary for economic activity. Some Asian economies initiated various measures such as subsidies, tax cuts and trade restrictions to contain inflation. With relatively benign inflation environment and resilient supply-chain in Asia, we expect Asian central banks to tighten its monetary policy at a more gradual pace than developed markets.

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