

# 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

<b>Inception Date</b> October 2011	<b>Fund Size</b> USD 10.04 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.986	<b>Management Fee</b> 2.00% per annum	<b>Bloomberg Ticker</b> MPUSAPB	<b>Average Credit Rating</b> A
<b>Investment Fund Manager (the "Manager")</b> Manulife Investment Management (Hong Kong) Limited			

## Performance Return (October 31, 2023)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-1.89%	-3.90%	1.86%	-14.56%	-1.69%	-1.40%
Annualized	n.a.	n.a.	1.86%	-5.11%	-0.34%	-0.12%

## 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	5.74
Indonesia Treasury Bond 6.125% 05/15/2028	5.58
Asian Development Bank 6.2% 10/06/2026	5.02
Korea Treasury Bond 2.375% 12/10/2031	4.67
Malaysia Government Bond 4.181% 07/15/2024	4.66
Philippine Government Bond 6.125% 08/22/2028	4.34
Indonesia Treasury Bond 7.125% 06/15/2042	3.63
United States Treasury Note/Bond 4% 11/15/2052	3.39
Fontterra Co-operative Group Ltd 5.08% 06/19/2025	3.20
Asian Development Bank 3.9% 02/17/2026	3.10

## Sector Allocation<sup>^</sup>

	%
Treasuries	47.22
Corporate	25.64
Government-Related	25.37
Cash & Cash Equivalents	1.77

## Geographical Allocation<sup>^</sup>

	%
South Korea	22.46
Indonesia	15.26
Supranationals	9.95
Philippines	9.55
Hong Kong	8.32
Australia	8.06
United States	7.81
China	5.31
New Zealand	4.97
Malaysia	4.67
Singapore	3.65

## Currency Allocation<sup>^</sup>

	%
USD	39.11
KRW	12.53
AUD	11.73
IDR	11.19
PHP	6.93
INR	6.84
NZD	4.97
MYR	4.67
SGD	2.03

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

In the United States, US Treasury yields remained elevated on the back of robust economic data and sticky inflation data. Chairman Powell reiterated that inflation is still high and may take a few months of positive data to build confidence that inflation is moving down during his speech at the Economic Club of New York. Markets widely expect the Federal Reserve to hold off on additional rate hikes, though there are dispersions over when officials might begin cutting rates. US third-quarter GDP grew by 4.9% (quarter-on-quarter, annualised, first estimate), beating market estimates while US CPI in September rose by 3.7% (year-on-year), slightly above market expectations. Over the month, the 10-year US Treasury yield trended higher from 4.57% to 4.93%.

In China, Caixin's Manufacturing Purchasing Managers' Index receded in September (50.6) from August (51.0) but remains in expansionary territory. Meanwhile, third quarter GDP increased by 4.9% (year-on-year), above market expectations. China local government bond yield trended higher over the period. In India, inflation decelerated in September (5.02% year-on-year). The Reserve Bank of India (RBI) paused its interest rate hike cycle for the fourth straight meeting but indicated a hawkish statement on the need to maintain a tight monetary policy stance. India local government bond yield trended higher over the period. In Indonesia, Bank Indonesia (BI) increased its policy rate by 25bps from 5.75% to 6.00% to support its currency. Meanwhile, inflation decelerated in September to 2.28% year-on-year. Indonesia local government bond yield moved higher over the period.

Asian investment grade (IG) credits posted negative performance for the month amid higher US Treasury yields and weak market sentiment. Credit spreads on the J.P. Morgan Investment Grade Corporate Bond Index was largely unchanged over the month; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 0.56%. Credit spreads of higher beta Asian issuers widened amid weaker-than-expected Q3 earnings, particularly with disappointing margins and demand outlook. China investment grade property developers underperformed due to some idiosyncratic credit headlines on ongoing credit events and slower than expected recovery in new home sales data. In Hong Kong, policy address by the Chief Executive did not offer a quick fix on the challenges faced by issuers in the property space, including housing price decline and oversupply of office space. Elsewhere in Asia, an Indian natural resource company was downgraded by a local rating agency for the uncertainty in refinancing despite its demerger plan. On the other hand, frontier sovereigns traded on firmer tone led by Sri Lanka, as debt restructuring talks progressed. Over the period, new market issuance was generally subdued and mostly came from South Korean issuers.

Most Asian currencies weakened against the US dollar in October amid the risk off investors sentiment. The Thai baht was a regional outperformer amid optimism over increasing tourist arrivals and rising current account surplus in September. In contrast, the Indonesian rupiah underperformed amid concerns on capital outflows linked to higher-for-longer US interest rates.

## Outlook

We believe the path of Fed policy will be increasingly data dependent going forward and view that US Treasury yields offer increasingly attractive valuations. 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 downward inflation trend environment; the increased foreign investment will likely drive sustained economic growth in this region. In China, we have seen signals of the central government's commitment to contain systematic risk, particularly related to the Local Government Financing Vehicle (LGFV). While we are not expecting the policymaker to roll out a massive stimulus by leveraging the nation's balance sheet, we expect more similar measures to contain systematic risk and provide ongoing support to other important economic drivers such as consumption and infrastructure to stabilize growth. With the property sector, we believe the measures will likely be piecemeal and require time to gradually resolve the structural issues, such as oversupply of residential housing and weak funding access by non-state-owned developers. We expect policies to continue to center in stimulating demand by lowering the borrowing cost and rebuilding homebuyer's confidence, which in turn stabilizes primary home sales gradually.

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