

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 10.90 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.981	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 (September 30, 2022)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-4.76%	-14.25%	-14.55%	-10.00%	-7.37%	-1.90%
Annualized	n.a.	n.a.	-14.55%	-3.45%	-1.52%	-0.18%

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	4.87
Malaysia Government Bond 4.181% 07/15/2024	4.42
Philippine Government Bond 3.5% 04/21/2023	4.09
Korea Treasury Bond 2.375% 12/10/2031	4.04
Indonesia Treasury Bond 7.125% 06/15/2042	3.40
China Huaneng Group Hong Kong Treasury Management Holding Ltd 2.85% Perpetual	2.97
Australia Government Bond 3.25% 04/21/2025	2.97
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.86
China Minmetals Corp 3.75% Perpetual	2.78
Indonesia Treasury Bond 6.625% 05/15/2033	2.63

Sector Allocation[^]

	%
Treasuries	39.51
Corporate	33.60
Government-Related	23.87
Cash & Cash Equivalents	3.03

Geographical Allocation[^]

	%
South Korea	23.70
China	14.16
Indonesia	11.78
Australia	10.62
Philippines	9.77
Hong Kong	7.90
Singapore	6.47
Malaysia	5.97
New Zealand	4.58
United States	3.36
Supranationals	1.69

Currency Allocation[^]

	%
USD	48.17
AUD	11.21
KRW	10.77
IDR	9.83
PHP	6.03
NZD	4.58
MYR	4.42
SGD	3.28
INR	1.69

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

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Market Review

In the United States, the 10-year US Treasury yields traded near the 4% level during the month following aggressive tightening actions by global central banks before a stark reversal to close around the 3.8% level in September. The yield curve inversion deepened with 2-year US Treasury trading around 50bps in premium against 30-year US Treasury, a level last seen in 2000. During FOMC meeting, the Fed anticipated more hikes than previous expected alongside Powell acknowledging the difficulty of a soft-landing. Over the month, the 10-year Treasury yield ended higher from 3.19% to 3.83%.

In China, Caixin's Manufacturing Purchasing Managers' Index sunk into contractionary territory (49.5) in August from July (50.4), missing market forecasts, as manufacturing stoppages due to lockdowns and power supply cuts sapped growth. China local government bond (CGB) yields rose over the period amid headlines the Ministry of Finance might issue additional CGBs in Q4. In India, the Reserve Bank of India (RBI) raised key interest rates by 50 bps to 5.9% as inflationary pressures re-emerged. Consumer price index came at 7.0% year-on-year in August after a three-month deceleration. India local government bond yields rose over the period. In Indonesia, Bank Indonesia (BI) surprised markets with a larger-than-expected 50 bps rate hike to 4.25% as the central bank raised its 2022 year-end headline inflation forecast to peak above 6% due to the partial reduction of government price subsidies for rising fuel costs. Indonesia local government bond yield trended higher over the period.

Asian investment grade (IG) credit posted negative return in September 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 6bps; the J.P. Morgan Asian Investment Grade Corporate Bond Index decreased by 2.28% in US dollar terms. During the month, Asian credits overall traded on a cautious tone in line with global risk assets following hawkish central banks tightening. Risk appetite turned weaker given the recent rates move, US dollar strength and FX volatility. In China, property space saw some consolidation on the back of weaker sentiment and rating downgrades, as the market awaits signs of sector recovery from local government easing measures. In China asset management company (AMC) space, S&P downgraded all big four AMCs on deteriorating earnings prospects and revised their outlooks to stable. Primary market was largely quiet amid weak sentiment and volatile rates movement. New deals included several Korean quasi-sovereigns, one Indonesian sovereign and some China local government financing vehicles (LGFVs).

All major Asian currencies weakened against a resurgent US dollar in September while Asian currencies had mixed performance against the Singapore dollar. The South Korean won was an underperformer as the economy posted another record trade deficit (US\$9.5 billion) on the back of weak imports and higher commodity prices.

Outlook

Aggressive developed market central bank's monetary policy response will negatively impact global growth outlook with stagflation risk building. On the other hand, with relatively benign inflation environment and resilient supply-chain in Asia, we expect Asian central banks to generally normalize its monetary policy at a more gradual pace than developed markets. In the near term, we believe increasing geopolitical developments could impact global investors' sentiment. China's zero COVID-19 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 believe further policy measures are needed to have a positive impact on China's physical property market. Segments of Asia ex-China credit space is also attractive, as these issuers are trading at relatively attractive levels on an absolute yield basis after the correction among global credits spurred by rising macro headwinds and weak sentiment globally.

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