

Asia Pacific Bond Fund

An investment fund option for the 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 14.61 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.088	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 (April 30, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	3.32%	-2.07%	2.54%	4.41%	4.72%	8.80%
Annualized	n.a.	n.a.	2.54%	1.45%	0.93%	1.00%

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 1.75% 06/10/2020	4.83
Korea Treasury Bond 2.25% 12/10/2025	4.80
Export-Import Bank of Korea 6.75% 08/09/2022	3.87
Malaysia Government Bond 4.181% 07/15/2024	3.76
Indonesia Treasury Bond 7% 05/15/2022	3.57
Philippine Government Bond 3.5% 04/21/2023	3.55
Malaysia Government Bond 4.048% 09/30/2021	3.45
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.78
Rizal Commercial Banking Corp 4.125% 03/16/2023	2.75
Indonesia Treasury Bond 8.375% 03/15/2024	2.74

Sector Allocation[^]

	%
Treasuries	36.82
Corporate	33.48
Government-Related	27.34
Cash & Cash Equivalents	2.36

Geographical Allocation[^]

	%
South Korea	20.86
China	17.54
Indonesia	13.32
Philippines	9.72
Malaysia	8.54
Australia	7.23
Hong Kong	6.74
New Zealand	5.05
United States	4.11
Supranationals	1.44
Singapore	1.40
Others	4.05

Currency Allocation[^]

	%
USD	44.74
IDR	11.01
KRW	10.55
AUD	8.96
MYR	7.22
PHP	5.37
INR	5.32
NZD	4.24
THB	1.33
SGD	1.26

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

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Market Review

After a wave of indiscriminate selling in March, most global risk assets rebounded in April. In the United States, Treasury yields were slightly lower as the Federal Reserve (Fed) announced new policies to support the economy and financial markets. The 10-year US Treasury yield fell from 0.67% to 0.64% over the period. Fed Chairman Jerome Powell reiterated the central bank would “do whatever it takes” to keep the economy away from collapsing and expanded the scope of bond-buying programme to include some “fallen angels” downgraded from investment-grade to high-yield since 22 March 2020. Economic data showed the initial toll of the pandemic; US first-quarter GDP contracted by 4.8% quarter-on-quarter, while the March unemployment rate increased to 4.4% from 3.5% in the prior month. Oil prices plunged into negative territory for the first time in history; the West Texas Intermediate (WTI) May contract fell to a record low of around negative US\$40 per barrel, as global lockdowns dried up oil demand and trading activity to avoid delivery of physical oil and subsequent storage costs. The OPEC+ agreed to slash oil outputs by 9.7 million barrels per day, which represents about 10% of global supply.

In China, Caixin’s manufacturing Purchasing Managers’ Index rebounded to 50.1 in March, returning to expansionary territory after posting a record low of 40.3 in February. However, China’s first-quarter GDP declined by 6.8% year-on-year, due to COVID-19 led economic disruptions. China onshore government bond yields declined as the People’s Bank of China (PBoC) reduced various interest rates including the 1-year targeted medium-term lending facility and loan prime rate to support its economy. Indian government bond yields trended lower amid monetary easing by the Reserve Bank of India (RBI) and inflation conditions further softened. RBI cut its key interest rates by 25bps to 3.75%, whilst March consumer price index fell to 5.91% year-on-year from 6.58% in prior month. In Indonesia, Bank Indonesia (BI) purchased around US\$108 million of sovereign bonds during an auction as means to stabilize its financial markets; the central governor pledged to be the “buyer of last resort” should the market fails to absorb all the offers. Though BI kept its interest rate unchanged at 4.5%, it lowered its reserve requirement ratio by 200bps.

Asian investment grade credit markets posted positive returns for the month primarily due to positive carry, whilst US Treasury yields and credit spreads was generally stable over the period. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index was unchanged over the month. Indian credit generally outperformed in spreads terms, as they retraced after significant credit spread widening from the indiscriminate selling in the prior month. The JP Morgan Asian Investment Grade Corporate Bond Index increased by 0.74% in US dollar terms. Asian credit issuers gradually returned to the primary market; we saw new issues from Indonesian and Philippines sovereign, as well as some high quality Asian investment grade issuers, whilst performance was decent against re-offer with two-way interest.

The majority of Asian currencies strengthened against the US dollar and recovered most of the losses incurred during the prior month amid improved market sentiment. The Indonesian rupiah and the Australian dollar were notably the top performing currencies during the month.

Outlook

Global economic activity is expected to face pressure from the pandemic and containment measures. Within Asia, we believe the Chinese government and other Asian economies will introduce additional monetary easing and fiscal support as counter-cyclical measures, which should provide a positive backdrop for the high-quality Asian fixed income segment. Our base case for Asian credit is a gradual broad stabilization in credit spreads, while sectors such as energy will require close monitoring for credit risk. Overall, we believe the impact on Chinese credits is manageable in the near term, underpinned by strong government tie. We continue to monitor the situation carefully and remain cautiously optimistic in the medium term. We have made some idiosyncratic adjustments in credit and added selective high quality Southeast Asian state-owned enterprises aim to benefit from a gradual recovery in attractively valued companies. We expect the current market dislocation, combined with global monetary and fiscal stimulus, to trigger compelling long-term buying opportunities in fundamentally sound Asian credits and currencies.

Disclaimer

The Asia Pacific Bond Fund is an investment fund option for The Manufacturers Life Insurance Co. (Phils.), Inc.’s Affluence Max and Affluence Max Gold, and is managed by Manulife Investment Management (Hong Kong) Limited.

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