

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 15.87 million | Fund Currency US dollar | Dealing/Valuation Daily |
| Price (NAV/unit) USD 1.090 | Management Fee 2.00% per annum | Bloomberg Ticker MPUSAPB | Average Credit Rating A- |
| Investment Fund Manager (the "Manager") Manulife Asset Management (Hong Kong) Limited | | | |

Performance Return (August 31, 2019)

| Asia Pacific Bond Fund (net of management fee) | 1 Month | YTD | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---------|-------|--------|---------|---------|-----------------|
| Absolute | -0.18% | 5.52% | 6.34% | 1.87% | 2.93% | 9.00% |
| Annualized | n.a. | n.a. | 6.34% | 0.62% | 0.58% | 1.10% |

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 | 4.43 |
| Korea Treasury Bond 2.25% 12/10/2025 | 4.40 |
| Malaysia Government Bond 4.048% 09/30/2021 | 4.06 |
| Export-Import Bank of Korea 6.75% 08/09/2022 | 3.57 |
| Malaysia Government Bond 4.181% 07/15/2024 | 3.44 |
| Indonesia Treasury Bond 7% 05/15/2022 | 3.38 |
| Philippine Government Bond 3.5% 04/21/2023 | 3.12 |
| Bank of China Ltd 5% 11/13/2024 | 2.79 |
| Indonesia Treasury Bond 8.375% 03/15/2024 | 2.77 |
| Rizal Commercial Banking Corp 4.125% 03/16/2023 | 2.64 |

Sector Allocation[^]

| | % |
|---------------------------------|-------|
| Government & Government-Related | 66.43 |
| Corporate | 31.92 |
| Cash & Cash Equivalents | 1.65 |

Geographical Allocation[^]

| | % |
|----------------|-------|
| South Korea | 20.65 |
| China | 20.43 |
| Indonesia | 11.64 |
| Malaysia | 10.87 |
| Philippines | 8.85 |
| Australia | 8.07 |
| Hong Kong | 6.30 |
| New Zealand | 4.77 |
| United States | 3.77 |
| Supranationals | 1.36 |
| Others | 3.29 |

Currency Allocation[^]

| | % |
|-----|-------|
| USD | 44.62 |
| IDR | 13.01 |
| KRW | 9.67 |
| AUD | 8.40 |
| MYR | 7.50 |
| INR | 5.55 |
| PHP | 4.71 |
| NZD | 4.01 |
| THB | 1.30 |
| SGD | 1.22 |

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

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Market and Portfolio Review

US Treasury yields moved notably lower on the back of further escalation in Sino-US trade tensions and increasing concerns over slowing global growth. US announced plans to impose tariffs on the remaining US\$300bn of Chinese goods on 1 September, but were later partially deferred to 15 December. The 10-year US Treasury yield fell from 2.01% to 1.50% over the period.

In China, Caixins manufacturing Purchasing Managers index in July remained below the 50 neutral mark, signaling an economic contraction. China government bond yields declined amid weak economic data and re-escalation of trade tensions. In India, the Reserve Bank of India cuts its benchmark repurchase rate by 35bps to 5.4%, the magnitude was slightly higher than expected. However, Indian government bond yields trended higher as investors sentiment were impacted by increased concerns over slowing global growth and speculation the India government may announce fiscal measures to boost the economy. In Indonesia, government bonds yields moved slightly lower for the month as Bank Indonesia cut its key interest rates by 25bps to boost growth amid rising external uncertainty.

Overall, Asian investment grade credit markets posted positive returns for the month due significantly lower US Treasury yields. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 8bps amid heightened market volatility. From a geographic perspective, Korean credit outperformed in credit spread terms amid flight to quality flows, whilst Hong Kong credit underperformed amid ongoing social unrest and protest. The JP Morgan Asia Investment Grade Credit Index returned 1.76% in US dollar terms.

Asian currencies generally weakened against the US dollar over the period amid risk-off sentiment globally. Thai Baht was one of the better performing currencies, supported by a strong current account surplus, which was US\$1.8bn as of July. The Chinese renminbi broke through the physiological 7.0 level against the US dollar amid heightened trade tensions and was one of the weaker performing Asian currencies in the region.

Outlook

Developments of the Sino-US trade tensions are likely to take the limelight of financial markets and potentially catalyst further market volatility. Developed market (DM) central banks have generally responded by adopting monetary policy easing measures to offset the rising external uncertainty, subsequently leading to a rise in number of negative yielding DM government bonds. Asian economies face external headwinds arising from softer global demand and potential for a widening trade war. High quality Asian credits are likely to be well supported during periods of uncertainty, whilst we also favor Asia bond markets with supportive economic fundamentals and attractive yields. Both present compelling opportunities in a negative DM bond yield backdrop. From a regional perspective, Asian central banks are likely to adopt accommodative monetary policies to offset impact from trade tensions and amid lower domestic inflation conditions.

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 Asset Management (Hong Kong) Limited.

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