

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 15.41 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.158	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 (August 31, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.78%	4.23%	6.24%	8.63%	17.56%	15.80%
Annualized	n.a.	n.a.	6.24%	2.80%	3.29%	1.67%

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	4.62
China Huadian Overseas Development Management Co Ltd 4% Perpetual	4.09
Malaysia Government Bond 4.181% 07/15/2024	3.70
Philippine Government Bond 3.5% 04/21/2023	3.63
Export-Import Bank of Korea 6.75% 08/09/2022	3.61
Indonesia Treasury Bond 7% 05/15/2022	3.52
Malaysia Government Bond 4.048% 09/30/2021	3.43
Indonesia Treasury Bond 8.375% 03/15/2024	2.88
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.85
Rizal Commercial Banking Corp 4.125% 03/16/2023	2.76

Sector Allocation[^]

	%
Corporate	40.89
Treasuries	32.30
Government-Related	25.92
Cash & Cash Equivalents	0.89

Geographical Allocation[^]

	%
China	19.76
South Korea	15.75
Indonesia	13.83
Philippines	13.15
Hong Kong	9.48
Malaysia	8.44
Australia	7.66
New Zealand	5.33
United States	2.52
Singapore	1.40
Supranationals	1.38
Thailand	1.29

Currency Allocation[^]

	%
USD	48.69
IDR	11.30
AUD	9.75
MYR	7.13
PHP	5.63
KRW	5.49
INR	5.00
NZD	4.45
THB	1.29
SGD	1.26

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

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Market Review

In the United States, Treasury yields moved higher in August amid record auctions of government bonds, strong economic data and COVID-19 vaccine hopes. During the start of the month, Treasury yields jumped following the Treasury's announcement to increase auction sizes for government bonds across the curve over August-October quarter. Economic data continued to point to recovery; US unemployment rate fell to 10.2% in July, a 0.9% drop from the previous month, while nonfarm payrolls increased by 1.8 million, higher than market expectation of 1.5 million. Furthermore, core CPI rose 0.6% month-on-month in July, marking the largest monthly rise since July 1991 and suggesting gradual economic recovery. Towards the end of the month, on the monetary policy front, Federal Reserve (Fed) Chair Powell announced a major policy shift to "average inflation targeting" at the annual Jackson Hole Economic Symposium, allowing the Fed to run inflation above its 2% target for a sustained period before hiking interest rates. The 10-year Treasury yield rose from 0.53% to 0.70% over the period.

In China, economic data indicated continued economic expansion; Caixin's manufacturing Purchasing Managers' Index rose to 52.8 in July from 51.2 in June, marking its third straight month of expansion and reaching its highest level since January 2011. Exports surged higher by 7.2% year-on-year while industrial production rose by 4.8% year-on-year. Chinese onshore government bond yields edged up over the period on the back of robust economic data and issuance of special government bonds. In India, July headline inflation soared to 6.93% year-on-year, above the RBI's upper-end inflation target of 6%. Reserve Bank of India (RBI) kept the interest rates on hold, citing inflation risks and the need to preserve firepower. Indian local government bond yields moved higher over the period. In Indonesia, local government bond yields trended higher as Bank Indonesia (BI) held interest rates steady and indicated it would be on "stand-by" to purchase additional government debt until 2021.

Asian investment grade credit markets posted positive returns for the month primarily due to positive carry and tighter credit spreads, offsetting the higher US Treasury yields. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 6bps. BBB rated Chinese and selective South East credit outperformed in absolute terms, benefit from relatively higher carry in the investment grade space. The J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 0.14% in US dollar terms. The primary market in Asia remained active, with new issuance activity mainly led by financial and property issuers from China.

Most of the Asian currencies strengthened against the US dollar over the period on the back of Fed's dovish stance and improved global risk sentiment. Australian dollar was one of the better performing currencies on the back of higher commodity prices and China's upbeat economic data. Japanese Yen was one of the weaker performing currencies amid political uncertainty amid improved risk sentiment.

Outlook

Global and notably North Asian economic activity has gradually picked up as COVID-19 infection rates have generally fallen and some countries have reopened their economies to varying degrees, though we are mindful of potential wave of infections in Autumn and Winter. The combination of a favourable global interest rate environment, programs from Federal Reserve and global central banks to stabilize financial markets is supportive for a range bound US Treasury yields. We expect global and Asian investment grade credit to remain supported, though the pace and magnitude for further credit spread compression could be circumscribed given the rally from March this year. Asian credit consists of state-owned-enterprises, which can benefit from potential government support and policies, and they typically have relatively lower fallen angel risks. Furthermore, Asian IG credit has relatively lower exposure to commodities sector compared to global credit, hence under less pressure as global economy slows down. Nevertheless, we continue to monitor the developments of US and China trade talks. Strategy-wise, we focus on credit selection, capturing dislocations and mitigating key risks in the portfolio. We expect primary market pipeline to continue to hold up predominately with Asian high grade issuers and may provide opportunities under the current credit market conditions. Overall, we believe current valuations of Asian high grade credit are attractive in the global context, considering Asia's more resilient underlying fundamentals and strong government sponsorship in the corporate sector.

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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