

# 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

|   |  |                                    |                                    |
|---|--|------------------------------------|------------------------------------|
| <b>Inception Date</b><br>October 2011   | <b>Fund Size</b><br>USD 15.39 million    | <b>Fund Currency</b><br>US dollar  | <b>Dealing/Valuation</b><br>Daily  |
| <b>Price (NAV/unit)</b><br>USD 1.111  | <b>Management Fee</b><br>2.00% per annum | <b>Bloomberg Ticker</b><br>MPUSAPB | <b>Average Credit Rating</b><br>A- |
| <b>Investment Fund Manager (the "Manager")</b><br>Manulife Asset Management (Hong Kong) Limited |  |                                    |                                    |

## Performance Return (December 31, 2019)

| Asia Pacific Bond Fund<br>(net of management fee) | 1 Month | YTD   | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---------|-------|--------|---------|---------|-----------------|
| Absolute  | 1.09%   | 7.55% | 7.55%  | 10.66%  | 7.86%   | 11.10%          |
| Annualized  | n.a.    | n.a.  | 7.55%  | 3.43%   | 1.53%   | 1.29%           |

## 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             | 4.78 |
| Korea Treasury Bond 2.25% 12/10/2025             | 4.68 |
| Malaysia Government Bond 4.048% 09/30/2021       | 4.26 |
| Export-Import Bank of Korea 6.75% 08/09/2022     | 3.74 |
| Malaysia Government Bond 4.181% 07/15/2024       | 3.69 |
| Indonesia Treasury Bond 7% 05/15/2022            | 3.58 |
| Philippine Government Bond 3.5% 04/21/2023       | 3.31 |
| Indonesia Treasury Bond 8.375% 03/15/2024        | 2.91 |
| Rizal Commercial Banking Corp 4.125% 03/16/2023  | 2.70 |
| Fonterra Co-operative Group Ltd 5.08% 06/19/2025 | 2.67 |

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

|                                 | %     |
|---------------------------------|-------|
| Government & Government-Related | 67.82 |
| Corporate                       | 31.65 |
| Cash & Cash Equivalents         | 0.54  |

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

|               | %     |
|---------------|-------|
| South Korea   | 20.44 |
| China         | 16.97 |
| Indonesia     | 13.66 |
| Malaysia      | 9.35  |
| Philippines   | 9.33  |
| Australia     | 8.58  |
| Hong Kong     | 6.43  |
| New Zealand   | 5.06  |
| United States | 4.13  |
| Thailand      | 2.68  |
| Others        | 3.38  |

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

|     | %     |
|-----|-------|
| USD | 41.27 |
| IDR | 13.71 |
| KRW | 10.36 |
| AUD | 8.96  |
| MYR | 7.96  |
| INR | 5.77  |
| PHP | 5.10  |
| NZD | 4.26  |
| THB | 1.37  |
| SGD | 1.25  |

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

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## Market and Portfolio Review

In the US, Treasury yields generally rose on optimism over an announced phase-one Sino-US trade deal and stronger-than-expected US labour economic data. The 10-year US Treasury yield rose from 1.78% to 1.92% over the period.

In China, Caixin's manufacturing Purchasing Managers' Index in November rose to 51.8, beating market expectations. China government bond yields range traded over the period. Standard and Poor Global Ratings said India's sovereign rating could be downgraded in the future if structural economic growth prospects significantly deteriorated. Towards the end of the month, Reserve Bank of India announced an "Operation Twist" strategy, where they would purchase long-tenor bonds and sell short-term debt to reduce term premium and improve the transmission of earlier easing. In Indonesia, the central bank kept its interest rate stable and affirmed its monetary easing bias. Indonesia government bond yields fell slightly over the period.

Overall, Asian investment grade credit markets posted positive returns for the month due positive carry and slightly tighter credit spreads. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 1bps. The JP Morgan Asia Investment Grade Corporate Bond Index returned 0.19% in US dollar terms. Primary and secondary market activities have declined during the December holiday season. We expect overall activities should resume back in January when investors return from holidays, acknowledging that many issuers are ready in the pipeline awaiting a window to print.

Majority of Asian currencies strengthened against the US dollar over the period. Export-based currencies, such as the South Korean won strengthened as Sino-US trade risks subsided. The Malaysian ringgit appreciated on the back of expectations of improving terms of trade; OPEC announced crude oil supply cuts in early December, coupled with rising palm oil prices.

## Outlook

Moving into 2020, we expect the fundamentals of Asia to remain intact and for the region to grow faster than other areas of the world in the medium to longer term. Furthermore, Asia is one of the few regions that still boast the capacity for both monetary and fiscal stimulus. Interest rates in Asian markets are generally higher than in developed markets. We believe this provides room for further and effective monetary policy easing before a move towards fiscal policy. Overall, we believe Asian fixed income may continue to be a beneficiary of a favorable macro backdrop in 2020. Amid an accommodative global monetary policy environment, we expect demand for high-quality Asian credits to remain buoyant in 2020. Furthermore, we do not expect refinancing issues in the Asian investment-grade space, which in turn should support credit spreads. We continue to remain constructive on fixed income opportunities in Indonesia given the country's compelling yields in a global context.

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