

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 15.71 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.192	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 (December 31, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.19%	7.29%	7.29%	11.09%	19.56%	19.20%
Annualized	n.a.	n.a.	7.29%	3.57%	3.64%	1.93%

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	4.89
China Huadian Overseas Development Management Co Ltd 4% Perpetual	3.99
Malaysia Government Bond 4.181% 07/15/2024	3.79
Export-Import Bank of Korea 6.75% 08/09/2022	3.66
Philippine Government Bond 3.5% 04/21/2023	3.58
Indonesia Treasury Bond 7% 05/15/2022	3.53
Malaysia Government Bond 4.048% 09/30/2021	3.44
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.92
Indonesia Treasury Bond 8.375% 03/15/2024	2.91
Australia Government Bond 3.25% 04/21/2025	2.78

Sector Allocation[^]

	%
Corporate	39.26
Treasuries	32.97
Government-Related	26.67
Cash & Cash Equivalents	1.11

Geographical Allocation[^]

	%
China	21.37
South Korea	14.57
Indonesia	14.03
Philippines	13.13
Malaysia	8.61
Australia	7.54
Hong Kong	7.25
New Zealand	5.42
Singapore	2.70
Taiwan	1.63
Supranationals	1.36
Others	2.39

Currency Allocation[^]

	%
USD	49.58
IDR	11.51
AUD	9.67
MYR	7.23
KRW	5.81
PHP	5.61
INR	5.03
NZD	2.92
THB	1.34
SGD	1.29

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

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Market Review

In the United States, Treasury yields seesawed over the period on the back of mixed economic data, vaccine launches, the Federal Reserve's pledge to continue its bond-buying programs and congressional passage of a US\$900 billion COVID-19 relief package. Economic data pointed to a slower-than-expected recovery; November retail sales fell 1.1% month-on-month while the US economy added 245,000 jobs in November, missing market expectations. The 10-year Treasury yield rose to 0.91% from 0.84% over the period.

In China, economic data continued to suggest an accelerating post-COVID recovery. Caixin's manufacturing Purchasing Managers' Index moved higher to 54.9 in November, the seventh consecutive month in the expansion territory and hitting a 10-year high. People's Bank of China injected 950 billion yuan of liquidity to ensure that market funding is adequate for year end. Chinese onshore government bond yields moved lower over the period. Indian local government bond yields trended lower over the period amid easing inflation and accommodative monetary policy. India's inflation eased by 0.7% to 6.9% in November, a three-month low and the Reserve Bank of India (RBI) pledged to continue to employ instruments including open market operations and bond purchase in the secondary market in order to ensure ample liquidity. In Indonesia, Bank Indonesia (BI) kept interest rates on hold and the government pledged to return to a 3% fiscal deficit limit of gross domestic product by 2023 after temporary relaxation last year. Indonesia local government bond yields moved lower amid inflows from foreign market participants.

Asian investment grade credit markets posted positive returns for the month primary due to tightened credit spreads and positive carry, offsetting the slightly higher US Treasury yields. Fitch downgraded Malaysia sovereign rating to BBB+, stable outlook from A-, citing fiscal deficit and higher debt level than peers. Malaysia credits held up well despite the downgrade was earlier than expected by some market participants. A Chinese University issuer confirmed default on its USD bond, though this event did not shock the market as the company had already indicated to the market difficulties around repayment. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 4bps. The J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 0.39% in US dollar terms. Primary market was quiet with only a handful of issuers tapping the market at year end.

Most of Asian currencies strengthened against the US dollar over the period. The Australian dollar and South Korean won were the better performing currencies amid rising commodity prices and strong inflows into equity markets respectively.

Outlook

North Asian economies demonstrated relatively better containment of COVID-19, which we believe is supportive for the region. Despite the implementation of large-scale vaccination program in major economies, we remained cautious of the wave of infections in Winter and viral mutations, as we see an increase in COVID-19 cases in US and Europe. Overall, we believe the accommodative monetary policies from global central banks are supportive for range bound US Treasury yields. We expect global and Asian credit markets to remain supported, though the pace and magnitude for further credit spread compression could ease given the rally from March last year. We believe Asia's resilient underlying fundamentals, strong government sponsorship in the corporate sector and relatively higher yields than developed bond markets, places Asian bonds in a unique position in the global context. Nonetheless, we believe fallen angel risk in Asia remains, as companies continue to navigate their way through the crisis, especially if much needed fiscal stimulus fails to materialize and if there is a negative turn in the COVID-19 vaccine developments. We continue to remain cognizant of both systemic and idiosyncratic risks while seeking out attractive opportunities and believe that bottom-up credit selection will be key in generating further returns in this low yielding environment. We favour markets such as China for its superior COVID-19 containment underpinning growth and relatively attractive yields in single-A space, and Indonesia for its compelling yields and credit rating resilience.

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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