

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 15.03 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.112	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 (February 29, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-0.45%	0.09%	5.40%	7.23%	7.54%	11.20%
Annualized	n.a.	n.a.	5.40%	2.35%	1.47%	1.28%

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	4.68
Korea Treasury Bond 2.25% 12/10/2025	4.66
Export-Import Bank of Korea 6.75% 08/09/2022	3.87
Malaysia Government Bond 4.181% 07/15/2024	3.69
Indonesia Treasury Bond 7% 05/15/2022	3.63
Malaysia Government Bond 4.048% 09/30/2021	3.46
Philippine Government Bond 3.5% 04/21/2023	3.38
Indonesia Treasury Bond 8.375% 03/15/2024	2.96
Rizal Commercial Banking Corp 4.125% 03/16/2023	2.82
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.80

Sector Allocation[^]

	%
Treasuries	40.56
Corporate	33.81
Government-Related	25.02
Cash & Cash Equivalents	0.62

Geographical Allocation[^]

	%
South Korea	20.41
China	17.45
Indonesia	11.52
Philippines	9.64
Australia	8.59
Malaysia	8.57
United States	6.68
Hong Kong	5.34
New Zealand	4.85
Thailand	2.71
Supranationals	1.45
Others	2.79

Currency Allocation[^]

	%
USD	45.24
IDR	11.56
KRW	10.23
AUD	8.62
MYR	7.16
INR	5.32
PHP	5.20
NZD	4.09
THB	1.33
SGD	1.25

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

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Market Review

The spread COVID-19 across the globe introduced uncertainty, raised concerns of disruption across supply chains and global end-user demand. Global financial markets experienced significant sell-off, as the spread of the virus outside Asia weakened global investors' sentiment and led to flight-to-quality flows. Risky assets across all asset classes sold off amidst a broad risk-off environment. The 10-year US Treasury yield fell from 1.51% to 1.15% over the period, benefiting from safe haven flows.

In China, Caixin's manufacturing Purchasing Managers' Index in January fell to 51.1 from 51.5 in previous month, but remained in the expansion territory. Chinese onshore government bond yields were lower, as People's Bank of China cut the one-year medium term lending facility loan rate by 10bps to 3.15% as means to boost market liquidity. In Malaysia, the resignation by Prime Minister Mahathir Mohamad and subsequent dissolution of the cabinet surprised most market participants. Malaysian government bond yields movements were amplified from a combination of virus outbreak and increased political uncertainty. Indonesian government bond yields spiked towards the end of the month on the back of profit-taking activities and increased global market volatility, despite Bank Indonesia slashing key interest rates by 25bps and open market operations aimed to stabilize its domestic financial market. Indian government bond yields trended lower as the Reserve Bank of India purchased selective government bond maturities to prevent significant yield curve steepening.

Overall, Asian investment grade credit markets posted positive returns for the month due to significantly lower US Treasury yields and positive carry, which more than offset wider Asian credit spreads. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 10bps. The JP Morgan Asia Investment Grade Corporate Bond Index returned 1.28% in US dollar terms. Primary market pipeline continued to hold up during earlier part of the period, with high grade issuers being relatively more active, though performance in spread terms was mixed.

Most Asian currencies weakened against the US dollar over the period amid broad risk-off environment. Indonesian rupiah was one of the weaker performing currencies amid foreign outflows and profit-taking activities amid heightened volatility in global financial markets.

Outlook

The global economic activity is expected to face temporary pressure from COVID-19 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 are likely to provide a positive backdrop for the high quality Asian fixed income segment. Our base case for Asian credit remains that authorities to take three-to-six months to contain and stabilize the situation. Overall, we believe the COVID-19 would have a limited short-term impact on Chinese credits from a fundamental perspective whilst the impact on other markets like Indonesian and Indian credits should be relatively muted. We continue to monitor the situation very carefully and remain cautiously optimistic in the medium-term. We expect the current market dislocation to offer compelling long-term buying opportunities in fundamental 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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