

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 15.16 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.117	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 (January 31, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.54%	0.54%	6.08%	8.98%	7.92%	11.70%
Annualized	n.a.	n.a.	6.08%	2.91%	1.54%	1.35%

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	4.72
Korea Treasury Bond 2.25% 12/10/2025	4.64
Export-Import Bank of Korea 6.75% 08/09/2022	3.82
Indonesia Treasury Bond 7% 05/15/2022	3.75
Malaysia Government Bond 4.181% 07/15/2024	3.71
Malaysia Government Bond 4.048% 09/30/2021	3.52
Philippine Government Bond 3.5% 04/21/2023	3.31
Indonesia Treasury Bond 8.375% 03/15/2024	3.08
Rizal Commercial Banking Corp 4.125% 03/16/2023	2.77
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.73

Sector Allocation[^]

	%
Treasuries	38.54
Corporate	33.48
Government-Related	24.85
Cash & Cash Equivalents	3.13

Geographical Allocation[^]

	%
South Korea	20.49
China	15.84
Indonesia	11.92
Philippines	9.46
Australia	8.64
Malaysia	8.63
United States	6.64
Hong Kong	6.58
New Zealand	4.97
Thailand	2.69
Supranationals	1.42
Others	2.72

Currency Allocation[^]

	%
USD	44.54
IDR	12.00
KRW	10.25
AUD	8.82
MYR	7.23
INR	5.25
PHP	5.11
NZD	4.20
THB	1.33
SGD	1.26

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

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Market Review

At the start of the year, Iran's political situation induced volatility into global financial markets, but proved to be short lived. US Treasury yields moved significantly lower over the period, as the outbreak of the coronavirus in China raised concerns over global growth prospects despite the US's fourth-quarter GDP print beating market expectations. The 10-year US Treasury yield fell from 1.92% to 1.51% over the period.

In China, Caixin's manufacturing Purchasing Managers' Index in December fell to 51.5 from 51.8 in previous month, but remained in the expansion territory. China government bond yields moved lower, as market participants expect People's Bank of China to provide additional policy support in coming months as means to counter the economic fallout from virus outbreak. In Malaysia, Bank Negara cuts its key interest rates by 25bps to 2.75%, as pre-emptive measure to secure improving growth trajectory amid price stability. Malaysian government bond yields fell over the period. In India, the consumer price index rose to 7.35% in December, driven by rising food prices. Indian government bond yields rose due to rising inflationary pressure. In Indonesia, Bank Indonesia kept its key interest rate unchanged at 5.00%, which was largely expected by market participants. Indonesian government bond yields fell over the period, as central bank governor Perry Warjiyo indicated there is still room for further rate cuts.

Asian credit markets posted positive returns for the month due to significantly lower US Treasury yields and positive carry. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 7bps. The JP Morgan Asian Investment Grade Corporate Bond Index increased by 1.48% in US dollar terms. Market activity was generally active at the start of the year, but declined towards the end of the month amid the Lunar New Year holiday (which was subsequently extended by the Chinese government) and weaker global investor's sentiment due to the virus outbreak.

The performance of Asian currencies was mixed against the US dollar over the period. The Indonesian rupiah was one of the better performing currencies amid foreign capital inflows and market intervention by its central bank at the start of the year to stabilize its currency amid tensions between Iran and US. Thai baht was one of the weaker performing currencies, as market participants expect the virus to weight on Thailand's tourism sector.

Outlook

The coronavirus outbreak is expected to temporarily dent global economic activity. Nevertheless, Asia is one of the few regions that still boast the capacity for both monetary and fiscal stimuli, providing Asian economies with sufficient policy ammunition for counter-cyclical measures. We expect more Asian central banks to ease its monetary policies as means to support their economies going forward, which is likely to provide a positive backdrop for high quality Asian fixed income segment. Despite the virus outbreak, we do not expect significant refinancing issues for the Asian credit holdings in the portfolio. We continue to monitor the situation and remain cautiously optimistic in the medium-term, as this environment may present price dislocation opportunities with proper credit selection.

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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