

# 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> October 2011	<b>Fund Size</b> USD 15.36 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.149	<b>Management Fee</b> 2.00% per annum	<b>Bloomberg Ticker</b> MPUSAPB	<b>Average Credit Rating</b> A-
<b>Investment Fund Manager (the "Manager")</b> Manulife Investment Management (Hong Kong) Limited			

## Performance Return (July 31, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	2.04%	3.42%	5.22%	7.89%	13.88%	14.90%
Annualized	n.a.	n.a.	5.22%	2.56%	2.63%	1.60%

## 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	4.66
China Huadian Overseas Development Management Co Ltd 4% Perpetual	4.09
Export-Import Bank of Korea 6.75% 08/09/2022	3.80
Malaysia Government Bond 4.181% 07/15/2024	3.65
Philippine Government Bond 3.5% 04/21/2023	3.60
Indonesia Treasury Bond 7% 05/15/2022	3.48
Malaysia Government Bond 4.048% 09/30/2021	3.37
Indonesia Treasury Bond 8.375% 03/15/2024	2.83
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.80
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.75

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

	%
Corporate	39.57
Treasuries	31.98
Government-Related	26.06
Cash & Cash Equivalents	2.39

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

	%
China	18.52
South Korea	15.88
Indonesia	13.76
Philippines	13.07
Hong Kong	9.49
Malaysia	8.36
Australia	7.55
New Zealand	5.21
United States	4.15
Singapore	1.40
Supranationals	1.35
Thailand	1.27

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

	%
USD	49.18
IDR	11.13
AUD	9.50
MYR	7.03
PHP	5.55
KRW	5.54
INR	5.16
NZD	4.38
THB	1.27
SGD	1.25

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

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## Market Review

In the United States, Treasury yields drifted lower in July as rising COVID-19 cases, escalating US-China geopolitical tensions and concerns over economic recovery in the US boosted demand for safe-haven assets. COVID-19 cases in the US continued to surge in July, hitting 4.5 million and affecting the reopening plans of many states. Furthermore, rising US-China tensions weighed on investor sentiment. China ordered the closure of US consulate in Chengdu as a tit-for-tat retaliation to the forced closure of the Chinese consulate in Houston, which was one of China's six diplomatic missions in the US. On 29 July, the Federal Reserve (Fed) left the Fed funds target rate unchanged at 0-0.25% as expected and kept the quantitative easing measures in place. Chair Powell reiterated that the central bank would do whatever they can and for "as long as it takes", maintaining the dovish stance. In addition, second-quarter GDP fell by 9.5% quarter-on-quarter (32.9% annualised), which was the worst quarterly contraction since the 1940s and further intensified concerns over economic slowdown. The 10-year Treasury yield fell from 0.66% to 0.53% over the period, benefitting from safe-haven flows.

In China, economic data suggested further normalisation; second-quarter GDP growth came in stronger-than-expected at 3.2% year-on-year. Moreover, Caixin's manufacturing Purchasing Managers' Index rose to 51.2 in June. Chinese onshore government bond yields edged up over the period and hovered near six-month highs on the back of brighter economic backdrop and issuance of special government bonds. In India, June inflation data surprised to the upside at 6.1% year-on-year due to higher food prices, above the Reserve Bank of India's (RBI) upper-end inflation target of 6%. Indian local government bond yields range traded over the period. In Indonesia, local government bond yields moved lower as Bank Indonesia (BI) further slashed the 7-day reverse repo rate by 25bps for the second consecutive month to 4%.

Asian investment grade credit markets posted positive returns for the month primarily due to positive carry and tighter credit spreads. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 18bps. Long-dated South East Asian state-owned-enterprise bonds outperformed in absolute terms, benefitted from lower long-term yields. The J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 1.70% in US dollar terms. The primary market in Asia remained active, with issuers from China, Korea and Philippines tapping the market.

Most of the Asian currencies strengthened against the US dollar over the period on the back of Fed's dovish stance. Australian dollar was one of the better performing currencies on the back of higher commodity prices. Indonesian rupiah was one of the weaker performing currencies amid interest rate cut.

## Outlook

Global economic activity has gradually picked up as COVID-19 infection rates have generally fallen and some countries have begun to reopen their economies to varying degrees, though we are mindful of a potential second wave of infections. From the combination of a favourable global interest rate environment, programs from Federal Reserve and global central banks to stabilize financial markets and expansionary fiscal policies, we expect global and Asian investment grade credit to continue to slowly recovery in the following months. 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. 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.

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