

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 15.26 million | Fund Currency US dollar | Dealing/Valuation Daily |
| Price (NAV/unit) USD 1.126 | 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 (June 30, 2020)

| Asia Pacific Bond Fund (net of management fee) | 1 Month | YTD | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---------|-------|--------|---------|---------|-----------------|
| Absolute | 2.27% | 1.35% | 3.49% | 6.73% | 10.50% | 12.60% |
| Annualized | n.a. | n.a. | 3.49% | 2.19% | 2.02% | 1.38% |

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 | 4.62 |
| China Huadian Overseas Development Management Co Ltd 4% Perpetual | 4.05 |
| Export-Import Bank of Korea 6.75% 08/09/2022 | 3.75 |
| Malaysia Government Bond 4.181% 07/15/2024 | 3.64 |
| Philippine Government Bond 3.5% 04/21/2023 | 3.54 |
| Indonesia Treasury Bond 7% 05/15/2022 | 3.52 |
| Malaysia Government Bond 4.048% 09/30/2021 | 3.34 |
| Indonesia Treasury Bond 8.375% 03/15/2024 | 2.84 |
| Rizal Commercial Banking Corp 4.125% 03/16/2023 | 2.73 |
| Fonterra Co-operative Group Ltd 5.08% 06/19/2025 | 2.70 |

Sector Allocation[^]

| | % |
|-------------------------|-------|
| Corporate | 38.58 |
| Treasuries | 31.69 |
| Government-Related | 25.68 |
| Cash & Cash Equivalents | 4.05 |

Geographical Allocation[^]

| | % |
|----------------|-------|
| China | 19.81 |
| South Korea | 15.66 |
| Indonesia | 13.60 |
| Philippines | 11.07 |
| Hong Kong | 9.35 |
| Malaysia | 8.33 |
| Australia | 7.31 |
| United States | 5.79 |
| New Zealand | 5.02 |
| Singapore | 1.39 |
| Supranationals | 1.39 |
| Thailand | 1.29 |

Currency Allocation[^]

| | % |
|-----|-------|
| USD | 49.88 |
| IDR | 11.19 |
| AUD | 9.12 |
| MYR | 6.98 |
| KRW | 5.48 |
| PHP | 5.45 |
| INR | 5.14 |
| NZD | 4.24 |
| THB | 1.29 |
| SGD | 1.23 |

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

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Market Review

In the United States, Treasury yields seesawed in June on the back of positive economic data yet overshadowed by soaring COVID-19 cases. During the start of the period, Treasury yields climbed following the stronger-than-expected May job report; US added 2.5 million jobs in May and unemployment rate fell to 13.3%. However, yields fell to lower levels and retraced most of its earlier rise towards the end of the month as the Federal Reserve (Fed) decided to hold rates steady and signalled no rate hike through 2022. Record high COVID-19 cases in the United States also threatened reopening of the economy. The 10-year Treasury yield was 0.66% at the end of the period.

In China, economic activity continued to pick up over the period and COVID-19 cases appeared under control. Caixin's manufacturing Purchasing Managers' Index in May rose to 50.7, indicating expansion over the period. Chinese onshore government bond yields edged up over the period amid increased bond supply from issuance of special government bonds to help recover from the pandemic, despite the 14-day reverse repo rate cut by 20 basis points to 2.35%. In India, Moody's downgraded India's sovereign credit rating to Baa3, putting it inline with S&P and Fitch, amid concerns of slowing economic growth and rising fiscal deficit. India local government bond yields rose slightly over the period. In Indonesia, local government bond yields edged lower as Bank Indonesia (BI) slashed the 7-day reverse repo rate by 25 basis points to 4.25%.

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 16bps; Indonesian sovereign and state-owned-enterprise credit generally outperformed in spreads terms amid improved investors risk sentiment. The J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 1.57% in US dollar terms. Asian credit issuers continued to return to the primary market, whilst the performance of the new issues was mixed.

Most of the Asian currencies strengthened against the US dollar over the period amid Fed's dovish stance and improved global risk sentiment. South Korean won was one of the better performing currencies and recovered last month's losses on the back of improved investors' sentiment. Thai baht extended gains over the period on optimism over economic recovery as the tourism-reliant country set to reopen the border.

Outlook

We believe the COVID-19 situation may continue to weigh on investors' sentiment. While the situation in China remained broadly under control, daily infection cases in the United States reached new highs and paused reopening plans in some regions. Mindful of a potential second wave of infections, we expect global and Asian investment grade credit markets to continue to recover in the coming months amid a favourable global interest rate environment, programs from global central banks to stabilize financial markets and expansionary fiscal policies. Asian credit consists of some state-owned-enterprises which can benefit from potential government support and typically feature relatively lower fallen angel risks. Furthermore, Asian credit has a relatively lower exposure to the commodities' sector compared to global credit and is expected to remain more resilient amid a global economic slowdown. We expect primary market pipeline to continue to hold up and provide opportunities predominately with Asian high grade issuers. Overall, we believe valuations of Asian investment grade credit are attractive in the global context, considering Asia's more resilient underlying fundamentals and strong government support in the corporate sector.

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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Manulife Investment Management™ is the institutional asset management arm of Manulife Financial. Manulife Investment Management™ and its affiliates provide comprehensive asset management solutions for institutional investors and investment funds in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative investments such as real estate, timber, farmland, as well as asset allocation strategies.

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