

# 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 14.14 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.053	<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 (March 31, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-5.31%	-5.22%	-1.31%	1.15%	2.33%	5.30%
Annualized	n.a.	n.a.	-1.31%	0.38%	0.46%	0.61%

## 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	4.97
Korea Treasury Bond 2.25% 12/10/2025	4.92
Export-Import Bank of Korea 6.75% 08/09/2022	3.95
Malaysia Government Bond 4.181% 07/15/2024	3.78
Philippine Government Bond 3.5% 04/21/2023	3.53
Malaysia Government Bond 4.048% 09/30/2021	3.53
Indonesia Treasury Bond 7% 05/15/2022	3.35
Rizal Commercial Banking Corp 4.125% 03/16/2023	2.83
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.82
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.58

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

	%
Treasuries	38.22
Corporate	33.49
Government-Related	27.77
Cash & Cash Equivalents	0.52

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

	%
South Korea	21.09
China	17.94
Indonesia	12.82
Philippines	9.76
Malaysia	8.56
Australia	7.12
Hong Kong	6.98
New Zealand	4.84
United States	4.12
Thailand	2.67
Supranationals	1.44
Others	2.66

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

	%
USD	45.41
KRW	10.83
IDR	10.25
AUD	8.65
MYR	7.38
INR	5.39
PHP	5.34
NZD	4.10
THB	1.36
SGD	1.29

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

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## Market Review

The severe spread of COVID-19 across the globe, notably in US and Europe, intensified concerns for a potential global slowdown and sparked another wave of indiscriminate selling by global investors. Oil prices declined sharply to around US\$20 a barrel, as Saudi Arabia unexpectedly increased supply and initiated a price war with Russia, which introduced further volatility to global financial markets. In response, the Federal Reserve slashed the fed funds rate by a total of 150 bps, to a target range of 0.0%-0.25%, in two emergency announcements and launched a new quantitative easing programme to purchase US Treasuries, mortgage-backed securities and corporate bonds. The 10-year US Treasury yield fell from 1.15% to 0.67% over the period, benefiting from safe haven flows and heightened volatility.

In China, Caixin's manufacturing Purchasing Managers' Index in February fell to 40.3 from 51.1 in previous month, a record low and significantly below market expectations, due to the country's administrative lockdown against COVID-19. Chinese onshore government bond yields were lower over the period, benefiting from safe haven flows and expectation of further monetary easing measures. Indian government bond yields trended lower amid increased signs inflation has peaked and monetary easing by the Reserve Bank of India (RBI). India's consumer price index in February rose by 6.58% year-on-year, a decrease from previous month and lower than expected. RBI cut its key interest rate by 75bps to 4.40% and the cash reserve ratio by 100bps to 3.00%. In Indonesia, the central cut its key interest rates by 25bps to 4.50% as means to support its economy and maintained its triple intervention policy to stabilize its financial market. However, Indonesian government bond yields moved higher over the period as foreign capital outflows remained dominant amid global risk-off sentiment.

Asian investment grade credit markets posted negative returns for the month due to significantly wider Asian credit spreads, which more than offset lower US Treasury yields and positive carry. Credit spreads of the JP Morgan Asian Investment Grade Corporate Bond Index widened by 92bps. Chinese credit outperformed in spreads terms, supported by expectations of a relatively faster recovery from COVID-19 and resilient demand from domestic investors. Commodity related credit generally underperformed due to the oil shock and increased concerns of a global slowdown. The JP Morgan Asian Investment Grade Corporate Bond Index declined by -3.18% in US dollar terms.

Most Asian currencies weakened against the US dollar over the period amid broad risk-off environment. Philippine peso was one of the better performing currencies, as market participants expect the net importing oil economy to benefit from lower energy prices. Indonesian rupiah was one of the weaker performing currencies amid foreign outflows due to heightened volatility in global financial markets.

## Outlook

Global economic activity is expected to face pressure from the pandemic 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 should provide a positive backdrop for the high-quality Asian fixed income segment. Our base case for Asian credit is a gradual broad stabilization in credit spreads, while sectors such as energy will require close monitoring for credit risk. Overall, we believe the impact on Chinese credits is manageable in the near term, underpinned by strong government tie. We continue to monitor the situation carefully and remain cautiously optimistic in the medium term. We have made some idiosyncratic adjustments in credit and added selective high quality Southeast Asian state-owned enterprises aim to benefit from a gradual recovery in attractively valued companies. We expect the current market dislocation, combined with global monetary and fiscal stimulus, to trigger compelling long-term buying opportunities in fundamentally sound Asian credits and currencies.

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