

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 14.76 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.101	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 (May 31, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.19%	-0.90%	3.48%	4.56%	7.10%	10.10%
Annualized	n.a.	n.a.	3.48%	1.50%	1.38%	1.12%

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	4.72
Korea Treasury Bond 1.75% 06/10/2020	4.71
Export-Import Bank of Korea 6.75% 08/09/2022	3.83
Malaysia Government Bond 4.181% 07/15/2024	3.70
Philippine Government Bond 3.5% 04/21/2023	3.56
Indonesia Treasury Bond 7% 05/15/2022	3.51
Malaysia Government Bond 4.048% 09/30/2021	3.40
Indonesia Treasury Bond 8.375% 03/15/2024	2.81
Rizal Commercial Banking Corp 4.125% 03/16/2023	2.77
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.74

Sector Allocation[^]

	%
Treasuries	36.63
Corporate	33.55
Government-Related	27.42
Cash & Cash Equivalents	2.40

Geographical Allocation[^]

	%
South Korea	20.57
China	17.45
Indonesia	13.59
Philippines	9.84
Malaysia	8.46
Australia	7.26
Hong Kong	6.61
New Zealand	5.08
United States	4.22
Singapore	1.43
Japan	1.40
Others	4.09

Currency Allocation[^]

	%
USD	44.95
IDR	11.12
KRW	10.33
AUD	9.01
MYR	7.10
PHP	5.46
INR	5.23
NZD	4.25
THB	1.32
SGD	1.24

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

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Market Review

In the United States, Treasury yields were range trading in May as countervailing forces dominated the Treasury market. US Treasury yields generally rose on the back of the slowdown of new COVID-19 cases, optimism over COVID-19 vaccine and gradual reopening of businesses. However, yields retraced to lower levels towards the end of the month amid re-escalating US-China tensions. US economic data released over the period continued to show the toll of the pandemic; April unemployment rate surged to 14.7%, the highest level since the Great Depression. The 10-year US Treasury yield stayed relatively unchanged at 0.65% over the period.

In China, Caixin's manufacturing Purchasing Managers' Index in April fell to 49.4 in April from 50.1 in the previous month, indicating an economic contraction over the period. China held its annual parliament meeting "National People's Congress" from May 22-28; they abandoned gross domestic product target for the first time since 2002, mainly due to uncertainties from the COVID-19 situation, but instead set a target of creating 9 million new jobs in urban areas. Chinese onshore government bond yields rose over the period. India local government bonds yields fell as the Reserve Bank of India (RBI) cut its repurchase rate by 40 basis points to 4.00%, the lowest level since 2000, as means to support its economy. In Indonesia, Bank Indonesia (BI) kept the 7-day reverse repo rate unchanged at 4.5% as a way to further stabilise its currency. Indonesia local bond yields fell over the period amid a stronger currency and improved global investors' sentiment.

Asian investment grade credit markets posted positive returns for the month primarily due to positive carry and tighter credit spreads over the period. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 12bps. Indonesian sovereign and state-owned-enterprise credit generally outperformed in spreads terms amid improved investors risk sentiment and stable US Treasury yields. The JP Morgan Asian Investment Grade Corporate Bond Index increased by 1.38% in US dollar terms. Asian credit issuers continued to return to the primary market, whilst most new issues generally performed well. New issues from high quality Chinese companies in the insurance and technology sectors were notably well received by market participants.

The performance of Asian currencies was mixed against the US dollar over the period. Thai baht was one of the better performing currencies due to optimism over re-opening of its tourism-reliant economy. South Korean won was one of the weaker performing currencies amid an interest rate cut by the Bank of Korea (BoK).

Outlook

Global economic activity is expected to gradually resume as COVID-19 infection rates have generally fallen and some countries have begun or planning to reopen their economies. From the combination of a favourable global interest rate environment and programs from Federal Reserve and other central banks to stabilize financial markets, we expect global and Asian investment grade credit markets to continue to recover in the coming months. 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 current 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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