

# 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 15.19 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.154	<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 (October 31, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.35%	3.87%	4.72%	9.28%	15.40%	15.40%
Annualized	n.a.	n.a.	4.72%	3.00%	2.91%	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	4.94
China Huadian Overseas Development Management Co Ltd 4% Perpetual	4.17
Malaysia Government Bond 4.181% 07/15/2024	3.79
Export-Import Bank of Korea 6.75% 08/09/2022	3.68
Philippine Government Bond 3.5% 04/21/2023	3.63
Indonesia Treasury Bond 7% 05/15/2022	3.59
Malaysia Government Bond 4.048% 09/30/2021	3.43
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.85
Indonesia Treasury Bond 8.375% 03/15/2024	2.83
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.78

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

	%
Corporate	37.39
Treasuries	32.80
Government-Related	28.73
Cash & Cash Equivalents	1.08

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

	%
China	21.27
South Korea	16.20
Indonesia	13.87
Philippines	13.36
Malaysia	8.54
Australia	7.36
Hong Kong	6.12
New Zealand	5.25
Singapore	2.73
Taiwan	1.67
Supranationals	1.41
Others	2.22

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

	%
USD	48.33
IDR	11.41
AUD	9.30
MYR	7.23
KRW	5.87
PHP	5.72
INR	5.09
NZD	4.45
THB	1.33
SGD	1.28

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

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## Market Review

In the United States, Treasury yields moved higher over the period amid optimism over a large economic stimulus package, upbeat economic data and the upcoming US presidential election. Financial markets focused on the progress of reaching a roughly US\$1.9 trillion stimulus deal and continued to price in a “blue wave” Democratic sweep in the election which was expected to boost government spending and subsequently increase Treasuries’ supply significantly. Towards the end of the month, US Treasury yields extended their move higher on better-than-expected third-quarter GDP, which rose by 33.1% (annualized) quarter-on-quarter, above the market expectations of 32.0% and after the Federal Reserve’s announcement of lowering the barriers on Main Street Lending Program for small firms. The 10-year Treasury yield rose from 0.68% to 0.87% over the period.

In China, economic data suggested a mixed picture in October; Caixin’s manufacturing Purchasing Managers’ Index fell marginally to 53.0 in September from 53.1 in the prior month, though remained solidly in the economic expansion territory for the fifth consecutive month. However, third-quarter GDP showed that the economy expanded by 4.9% year-on-year, missing market expectations of 5.5%. Over the period, Chinese onshore government bonds yields moved higher. In India, September headline inflation rose to 7.3% year-on-year owing to broad-based rise in food and fuel prices, exceeding the Reserve Bank of India (RBI) ’s upper end inflation target for the sixth consecutive month. RBI scaled up the use of unconventional policy tools such as increasing the size of open market operations and targeted long-term repo operations. Indian local government bond yields moved lower over the period. In Indonesia, local government bond yields trended lower on the back of foreign inflows into the market and the parliament’s approval of a “job creation” law, otherwise known as the omnibus law.

Asian investment grade credit markets posted flat returns for the month amid higher US Treasury yields, offsetting the positive carry. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 8bps; Indian state-owned oil producer generally outperformed in spread terms over the period. The J.P. Morgan Asian Investment Grade Corporate Bond Index fell by -0.01% in US dollar terms. Primary market activity was generally active, with Asian and Chinese issuers tapping the primary market after returning China’s golden week holiday and before the upcoming US elections.

The performance of Asian currencies was mixed against the US dollar over the period. South Korean won was one of the better performing currencies and continued its upward momentum in recent months, led by strong inflows into its equity market. The Australian dollar was one of the weaker performing currencies amid monetary policy easing expectations and trade tensions with China.

## Outlook

North Asia economic activity has gradually picked up as COVID-19 situation remains somewhat stabilized and have reopened their economies to varying degrees. We remain mindful of potentially another wave of infections in Autumn and Winter, whilst beginning to see an increase in COVID-19 cases predominately in US and Europe. Furthermore, the US presidential election situation remains fluid, and could potentially spark market volatility on top of rising COVID-19 cases globally. Nevertheless, we believe the combination of the global low interest rate environment and quantitative easing programs is supportive for range bound US Treasury yields. We expect global and Asian investment grade credit to remain supported, though the pace and magnitude for further credit spread compression could be circumscribed given the rally from March this year. 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, making this segment well-placed to weather a COVID-19 induced economic slowdown. Strategy-wise, we focus on credit selection, capturing dislocations and mitigating key risks in the portfolio. We expect the 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 IG 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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