

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 15.83 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.090	Management Fee 2.00% per annum	Bloomberg Ticker MPUSAPB	Average Credit Rating A-
Investment Fund Manager (the "Manager") Manulife Asset Management (Hong Kong) Limited			

Performance Return (September 30, 2019)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.00%	5.52%	7.18%	1.87%	4.71%	9.00%
Annualized	n.a.	n.a.	7.18%	0.62%	0.92%	1.09%

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	4.54
Korea Treasury Bond 2.25% 12/10/2025	4.49
Malaysia Government Bond 4.048% 09/30/2021	4.01
Export-Import Bank of Korea 6.75% 08/09/2022	3.59
Malaysia Government Bond 4.181% 07/15/2024	3.47
Indonesia Treasury Bond 7% 05/15/2022	3.41
Philippine Government Bond 3.5% 04/21/2023	3.12
Bank of China Ltd 5% 11/13/2024	2.80
Indonesia Treasury Bond 8.375% 03/15/2024	2.70
Rizal Commercial Banking Corp 4.125% 03/16/2023	2.61

Sector Allocation[^]

	%
Government & Government-Related	66.33
Corporate	33.35
Cash & Cash Equivalents	0.33

Geographical Allocation[^]

	%
South Korea	20.91
China	20.48
Indonesia	11.60
Malaysia	10.93
Philippines	8.86
Australia	8.04
Hong Kong	7.78
New Zealand	4.78
United States	1.96
Supranationals	1.35
Others	3.33

Currency Allocation[^]

	%
USD	44.27
IDR	12.98
KRW	9.89
AUD	8.42
MYR	7.57
INR	5.57
PHP	4.74
NZD	4.01
THB	1.30
SGD	1.24

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

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Market and Portfolio Review

In US, the Federal Reserve (Fed) cut its key interest rate by 25bps to a range of 1.75% to 2.00% at its September meeting due to growing concerns over trade tensions and potential global slowdown; this was the second rate cut in 2019. The Fed's post meeting comments reiterated that they will "act as appropriate", but also noted labor market conditions was strong and unemployment was low. US Treasury yields generally moved higher on the back of stronger-than expected growth economic data. The 10-year US Treasury yield rose from 1.50% to 1.67% over the period.

In China, Caixin's manufacturing Purchasing Managers' index in August rose to 50.4, which was stronger-than-expected and indicating an economic expansion. China government bond yields rose amid strong economic data. In Indonesia, government bonds yields moved lower for the month as Bank Indonesia cut its key interest rates by 25bps to 5.25%, the third rate cut in 2019, as pre-emptive measures to promote growth amid rising external uncertainty. In India, the government announced plans to reduce its basis corporate tax rate from 30% to 22% to stimulate its economy. The announcement reignited market concerns over potential fiscal slippage, leading Indian government bond yields to rise over the period.

Overall, Asian investment grade credit markets posted negative returns for the month due to higher US Treasury yields. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index tightened by 5bps. China property credit outperformed in total returns terms supported by the carry component, whilst Indonesian sovereign and state-owned-enterprises underperformed due to its longer duration profile. The JP Morgan Asia Investment Grade Corporate Bond Index returned -0.19% in US dollar terms.

The performance of Asian currencies was mixed against the US dollar over the period. The Malaysian ringgit strengthened, as it received a fillip from the FTSE Russell's decision to keep Malaysia on a watch list rather than exclude the country's government bonds from its global bond indices. Thai baht was one of the weaker performing currencies, as market expectations for interest rate cuts were building.

Outlook

Developments of the Sino-US trade tensions are likely to take the limelight of financial markets and potentially catalyst further market volatility. Developed market (DM) central banks have generally responded by adopting monetary policy easing measures to offset the rising external uncertainty, subsequently leading to a rise in number of negative yielding DM government bonds. Asian economies face external headwinds arising from softer global demand and potential for a widening trade war. High quality Asian credits are likely to be well supported during periods of uncertainty, whilst we also favor Asia bond markets with supportive economic fundamentals and attractive yields. Both present compelling opportunities in a negative DM bond yield backdrop. From a regional perspective, Asian central banks are likely to adopt accommodative monetary policies to offset impact from trade tensions and amid lower domestic inflation conditions.

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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