

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 15.16 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.150	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 (September 30, 2020)

Asia Pacific Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-0.69%	3.51%	5.50%	8.59%	17.83%	15.00%
Annualized	n.a.	n.a.	5.50%	2.79%	3.34%	1.58%

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	4.81
China Huadian Overseas Development Management Co Ltd 4% Perpetual	4.18
Malaysia Government Bond 4.181% 07/15/2024	3.76
Philippine Government Bond 3.5% 04/21/2023	3.69
Export-Import Bank of Korea 6.75% 08/09/2022	3.66
Indonesia Treasury Bond 7% 05/15/2022	3.51
Malaysia Government Bond 4.048% 09/30/2021	3.43
Fonterra Co-operative Group Ltd 5.08% 06/19/2025	2.85
Huarong Finance 2019 Co Ltd 3.75% 05/29/2024	2.78
Rizal Commercial Banking Corp 4.125% 03/16/2023	2.76

Sector Allocation[^]

	%
Corporate	37.56
Treasuries	32.44
Government-Related	27.48
Cash & Cash Equivalents	2.52

Geographical Allocation[^]

	%
China	19.99
South Korea	16.01
Indonesia	13.62
Philippines	13.34
Malaysia	8.51
Australia	7.47
Hong Kong	6.16
New Zealand	5.30
Singapore	2.76
United States	2.45
Taiwan	1.69
Others	2.70

Currency Allocation[^]

	%
USD	48.72
IDR	11.08
AUD	9.48
MYR	7.19
PHP	5.72
KRW	5.72
INR	5.07
NZD	4.45
THB	1.30
SGD	1.28

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

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Market Review

In the United States, Treasury yields range traded over the period on the back of an accommodative Federal Reserve (Fed), presidential election uncertainties and vaccine optimism. On the monetary policy front, the Fed's dot plot and September statement signalled they would keep rates near zero through 2023 until the US economy has achieved maximum employment and inflation has risen to 2% for some time. Towards the end of the month, financial markets shifted focus to the first Presidential debate and uncertainties going into the US presidential election. The 10-year Treasury yield fell slightly from 0.70% to 0.68% over the period.

In China, economic data surprised to the upside; Caixin's manufacturing Purchasing Managers' Index rose to 53.1 in August from 52.8 in July, marking its fourth consecutive month of expansion and reflecting improving external demand amid reopening of major economies. FTSE Russell announced that it will add Chinese government bonds to its flagship World Government Bond Index (WGBI) from October 2021, paving the way for capital inflows into China's bond market and could help the renminbi climb higher. Over the period, Chinese onshore government bonds yields moved higher. In India, August headline inflation rose +6.7% year-on-year, above the RBI's upper-end inflation target of 6% for the fifth consecutive month. Standard and Poor's global rating (S&P) affirmed India's sovereign credit rating at BBB- with a stable outlook; the credit rating agency cited they expect India's GDP growth to recover from 2021 fiscal year onwards. Indian local government bond yields moved lower over the period. In Indonesia, local government bond yields trended higher as Bank Indonesia (BI) held interest rates steady and indicated its desire to maintain currency stability in its rate decision.

Asian investment grade credit markets posted flat returns for the month amid widened credit spreads, offsetting the positive carry and stable US Treasury yields. Towards the end of the period, investors' sentiment weakened on rumors of liquidity concerns of a high-yield Chinese property developer, along with S&P revising its outlook to negative. Credit spreads on the JP Morgan Asian Investment Grade Corporate Bond Index widened by 7bps; short-dated investment-grade Asia sovereign issuers outperformed in spread terms. The J.P. Morgan Asian Investment Grade Corporate Bond Index increased by 0.01% in US dollar terms. Primary market activity was active despite the volatile market environment; new issuance was led by investment grade issuers and generally received strong interest.

The performance of Asian currencies was mixed against the US dollar over the period. South Korean won was one of the better performing currencies, buoyed by strong foreign buying and the improved risk sentiment with the North Asia economic recovery. The Australian dollar was one of the weaker performing currencies amid growing expectations for further monetary policy easing.

Outlook

Global and notably North Asian economic activity has gradually picked up as COVID-19 infection rates have generally stabilized and some countries have reopened their economies to varying degrees, though we are mindful of potentially the next wave of infections in Autumn and Winter. The combination of a favourable global interest rate environment, programs from Federal Reserve and global central banks to stabilize financial markets is supportive for a 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. Furthermore, Asian IG credit has relatively lower exposure to commodities sector compared to global credit, hence under less pressure as global economy slows down. Strategy-wise, we focus on credit selection, capturing dislocations and mitigating key risks in the portfolio. We expect 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.

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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