

Peso Bond Fund

An investment fund option for variable life insurance products of **The Manufacturers Life Insurance Co., (Phils), Inc.**

Investment Objective

The Fund seeks to achieve a stable and long-term growth by investing in government securities and/or high quality corporate debt securities and/or pooled fund/s that invest in these securities and other liquid fixed income instruments.

Fund Information

Inception Date April 2004	Fund Size PHP 753.01 million	Fund Currency Philippine peso	Dealing/Valuation Daily
Price (NAV/unit) PHP 2.916	Management Fee 1.50% per annum	Bloomberg Ticker MPPHBND	

Performance Return (December 31, 2021)

Peso Bond Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.07%	-2.74%	-2.74%	16.69%	12.33%	191.60%
Annualized	n.a.	n.a.	-2.74%	5.28%	2.35%	6.21%

Past performance is not an indication of future results. Information about the portfolio's holdings, asset allocation, or country diversification is historical and is not an indication of future portfolio composition, which will vary.

Monthly Net Asset Value per Unit

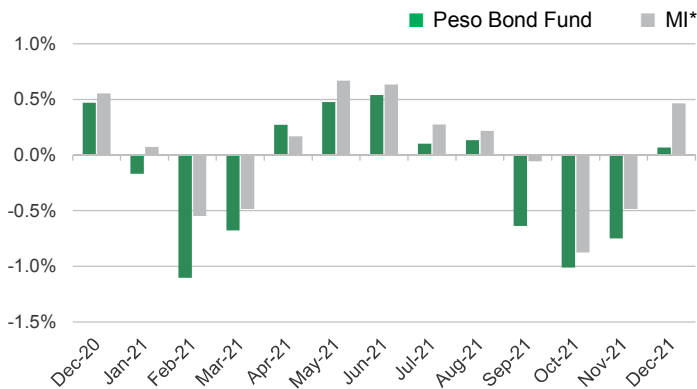


Top Five Holdings

Bond Pool		Short-Term Bond Pool	
FXTN 08/12/25	14.36%	Manulife Stable Income	
FXTN 03/09/24	13.45%	Fund Class I	37.50%
FXTN 09/09/25	7.91%	FXTN 03/09/24	7.88%
FXTN 02/11/23	7.73%	FXTN 02/11/23	5.49%
FXTN 03/12/24	6.93%	RTB 12/04/22	5.33%
		FXTN 07/04/22	5.23%

Notes:
FXTN - Fixed Treasury Notes or Peso-denominated debts of the Philippine Government
RTB - Retail Treasury Bonds of the Philippine Government

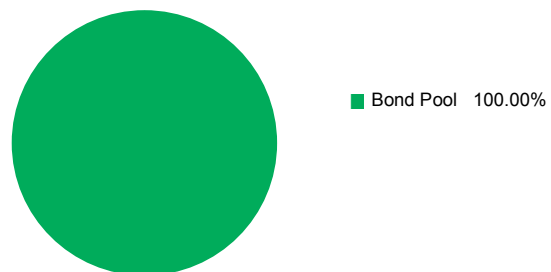
Monthly Performance



*Market Indicator = 10.0% Markit Iboxx ALBI Philippines Liquid + 90.0% Markit Iboxx ALBI Philippines 1-5

Portfolio Breakdown

Asset Allocation (at Market Value)



As per the fund's Investment Policy Statement, initial subscriptions are invested in fixed 90% Bond Pool and 10% Short-Term Bond Pool. The investments of these pools consist of the following:

- Peso Bond Pool: Peso-denominated bonds of the Republic of the Philippines and term deposits.
- Short Term Bond Pool: Peso-denominated bonds of the Republic of the Philippines with a term of up to three years and term deposits.

Peso Bond Fund

Market Review

Last year was a challenging environment for the local fixed income market amidst high inflation and large government borrowing. Full year inflation reached 4.5%, which is beyond the Bangko Sentral ng Pilipinas' (BSP) target range of 2-4% and higher than its latest inflation forecast of 4.4%. The BSP maintained its view that the uptick in inflation was transitory and driven by supply side disruptions while reiterating its commitment to an accommodative monetary policy until we see hard evidence of full recovery. Nevertheless, the elevated inflation throughout the whole year dampened the already fragile market sentiment. The external environment also did not help as the U.S. Federal Reserve started reducing the size of its monthly bond purchases and is expected to start hiking its policy rate this year.

Intermediate bonds bore the brunt of the sell-off as bond issuances by the Bureau of Treasury (BTr) were concentrated on the 5- to 10-year maturities. The frequency of bond issuance also increased from bi-monthly to weekly starting June, putting supply risk again on the spotlight. Furthermore, in November, the BTr surprised the market with a P360B 5-year Retail Treasury Bond (RTB) issuance, the second one for the year. The first RTB was a jumbo P463B 3-year bond issued in February.

The government estimates 2021 economic growth to fall within the range of 5 to 5.5%. While the economy has emerged from the unprecedented 9.5% contraction in 2020, 2021 had its share of wild swings with the government re-imposing Enhanced Community Quarantine (ECQ) in March/April and August on several areas in the Philippines, including Metro Manila, following spikes in Covid cases. Vaccine rollout started slow but eventually picked up in the second half of the year as vaccine supplies increased. As of the first week of January 2022, 65.6% of the adult population have been fully vaccinated and the inoculation of booster doses is underway.

Outlook

We expect supply risk to continue to dampen investor sentiment on the local bond market this year. While the BSP will likely keep policy rate at 2%, possible 2 to 3 rate hikes by the U.S. Federal Reserve may introduce another layer of uncertainties, including a potentially weaker Peso on the back of narrowing interest rate differential with the U.S. In terms of yield curve view, we think the belly might perform better this year as intermediate bonds hold significant premium over the short ends. On the other hand, performance of long-dated bonds will largely depend on BTr issuance behavior. Due to the very limited long-dated bond issuance in 2021, there seems to be some pent-up demand on this part of the curve. That said, the BTr may take advantage of this demand to focus its issuance on long-dated bonds this year to lengthen the duration of liabilities.

We expect inflation to moderate and fall within the BSP's target range of 2-4%; however, it may settle on the high end of the range as inflationary effects of supply bottlenecks linger. Furthermore, the likelihood of a weaker Peso vis-à-vis the U.S. Dollar this year, driven by an increase in economic activity and narrowing interest differential with the U.S., may increase cost of imports, including oil, adding to inflation risk.

Against this backdrop, we expect the macroeconomic environment to remain challenging for the local bond market but an improvement from last year. Supply risk remains to be the dominant risk in the local bond market.

The investment fund option for The Manufacturers Life Insurance Company's variable life insurance product is managed by Manulife Asset Management and Trust Corporation.

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