Manulife

December 31, 2022

Peso Stable 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 long-term growth by investing in government securities and/or high quality corporate debt securities, stocks listed on the Philippine Stock Exchange and/or in pooled fund/s that invest in these securities and other liquid fixed income instruments.

Fund Information

Inception Date April 2004	**Fund Size** PHP 648.51 million	**Fund Currency** Philippine peso	**Dealing/Valuation** Daily
Price (NAV/unit) PHP 2.771	**Management Fee** 1.75% per annum	**Bloomberg Ticker** MPPHSTB	

Performance Return (December 31, 2022)

Peso Stable Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-0.43%	-3.85%	-3.85%	-3.42%	0.69%	177.10%
Annualized	n.a.	n.a.	-3.85%	-1.15%	0.14%	5.59%

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

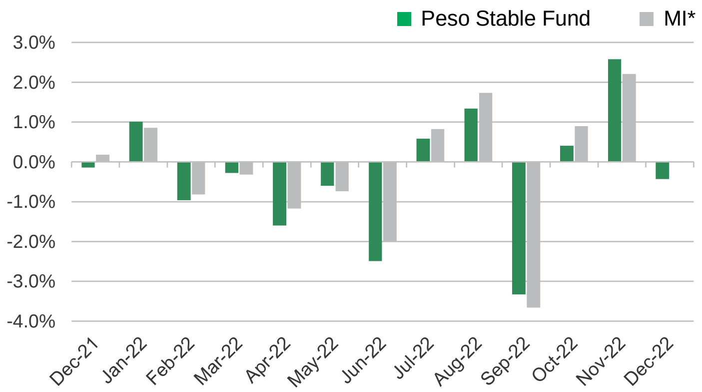
Top Five Holdings

Bond Pool		Short-Term Bond Pool	
FXTN 03/04/27	14.74%	Manulife Stable Income Fund Class I	35.75%
FXTN 08/12/25	13.27%	FXTN 08/12/25	7.93%
FXTN 04/08/26	7.47%	FXTN 03/09/24	7.67%
FXTN 09/09/25	7.37%	FXTN 03/12/24	3.99%
FXTN 02/14/26	6.14%	FXTN 09/09/25	3.63%

Equity Pool	
SM INVESTMENTS CORPORATION	12.58%
SM PRIME HOLDINGS INC	10.13%
Manulife Equity Wealth Fund Class I	9.26%
BANK OF THE PHILIPPINE ISLANDS	7.18%
BDO UNIBANK INC	6.93%

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

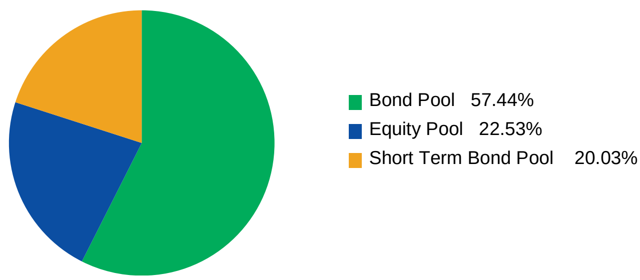
Monthly Performance



**Market Indicator = 20.0% PSEi + 6.0% Markit Iboxx ALBI Philippines Liquid + 54.0% Markit Iboxx ALBI Philippines 1-5 + 20.0% Markit Iboxx ALBI Philippines 1-3*

Portfolio Breakdown

Asset Allocation (at Market Value)



As per the fund's Investment Policy Statement, initial subscriptions are invested in fixed 60% Bond Pool and 20% each Short-Term Bond and Equity Pools. 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.*
- *Equity Pool: Various stocks listed on the PSE and term deposits*

December 31, 2022

Peso Stable Fund

Market Review

The Philippine Stock Equity index (PSEi) declined by 3% from the prior month to end the year at 6,733. The decline in December was driven mostly by profit taking following a 15% in the prior two months. For 2022, PSEi lost 5.9%. The Philippine peso for 2022 was weaker by 9%, mostly due to the strong US Dollar coupled with our widening trade deficit.

December inflation was persistently high at 8.1% year on year, from November's 8% print. According to the Bangko Sentral ng Pilipinas (BSP), there is a likelihood that we'll see inflation peak already in December. In addition, BSP raised policy rates by another 50bps in December, following the move of the US Federal Reserve. The BSP raised rates by a cumulative 350 bps for 2022. With easing pressure on inflation, the BSP indicated that we could see a slowdown in rate hikes in 2023. This reduced the pressure on currency, bringing it to the P55 level to the US$. Recall it was trading closer to P59 to the dollar back in October.

2022 continued to be a very challenging for the local fixed income market as inflation averaged 5.8% for the year. In the fourth quarter, inflation hovered around 8%, breaching the recent high of 6.9% in 2018. Both the Russia-Ukraine war and zero-COVID policy in China brought about significant broad based supply shock implications, leading to a massive increase in food and commodity prices. Crude oil prices surged above US$100/barrel around mid-year, before moderating to around US$80/barrel towards the yearend. These supply shocks, exacerbated by a weak currency, translated to second-round effects, including wage and transport fare hikes, which further fanned domestic inflation.

The short-end of the yield curve bore the brunt of the sell-off as initial hesitation from both the Federal Reserve (Fed) and the Bangko Sentral ng Pilipinas (BSP) to tighten monetary policy necessitated more aggressive rate hikes during the year. The Fed and the BSP raised policy rates by 425bps and 350bps, respectively, during the year. Two Retail Treasury Bond (RTB) issuance amounting to almost PhP900bio also flooded the market with massive additional supply, which proved to be difficult to digest given the weak market sentiment.

Outlook

We have a positive view on Philippine Equities as attractive valuations and strong corporate earnings would provide tailwinds to market. Currently, the Philippine Equity Index is trading at around 13.5x forward price to earnings, a slight discount to historical average of around 15x. The Philippines is a consumption driven economy and would be more defensive amidst slowing global trends. It helps that the macroeconomic picture is improving with inflation likely to peak in the near term in the Philippines, reducing the pressure on further rate hikes.

We expect economic growth to remain robust. The government estimates 2023 economic growth to fall within the range of 6-7%. Barring an escalation in the Russia-Ukraine war, we expect inflation to start moderating in the second quarter. While it may be too early to conclude that domestic inflation has peaked, the BSP's latest statement that it is nearing the end of its tightening cycle is reasonable as it takes a while for the economy to fully respond to monetary policy actions.

Furthermore, emerging recession risks in the U.S. urged the market to pare back Fed rate hike expectations. With the BSP closely following the Fed's actions, this also translates to smaller hikes from the BSP. As more attention shift to U.S. recession risks, the resulting decline in U.S. interest rates may also encourage foreign flows to domestic assets as investors search for yield.

Against this backdrop, we expect the macroeconomic environment to be more supportive for the local bond market than last year. Nevertheless, we will continue to monitor negative effects from supply and inflation risks.
