

Peso Dynamic Allocation Fund

An investment fund option for **Affluence Max, Affluence Max Gold, Affluence Builder Series, Horizons** and **FlexiSure** variable life insurance products of **The Manufacturers Life Insurance Co., (Phils), Inc.**

Investment Objective

The Fund seeks to achieve long-term capital growth through investments in diversified portfolios of peso-denominated fixed income securities and securities listed on the Philippine Stock Exchange and/or pooled fund/s that invest in these securities and other liquid fixed income instruments. It shall generally maintain a balanced allocation between fixed income and equity investments and may shift asset allocation between the two as risk/reward dynamics warrant but in no case shall the fund's equity or fixed income allocation exceed 70% of its assets.

Fund Information

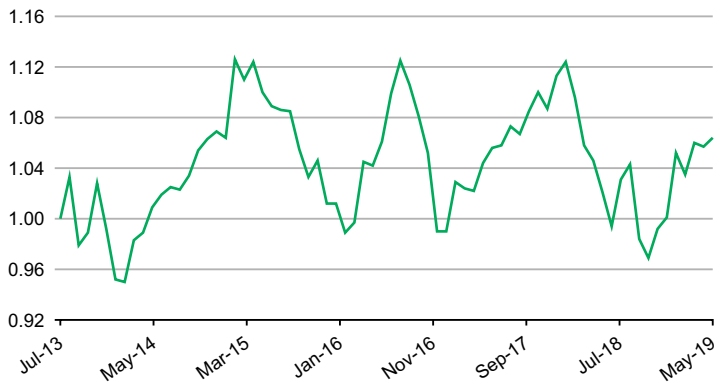
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|--------------------------------------|--|---|-----------------------------------|
| Inception Date July 2013 | Fund Size PHP 4.95 billion | Fund Currency Philippine peso | Dealing/Valuation Daily |
| Price (NAV/unit) PHP 1.064 | Management Fee 2.25% per annum | Bloomberg Ticker MPPHDYN | |

Performance Return (May 31, 2019)

| Peso Dynamic Allocation Fund (net of management fee) | 1 Month | YTD | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---------|-------|--------|---------|---------|-----------------|
| Absolute | 0.66% | 6.29% | 4.21% | 0.28% | 4.42% | 6.40% |
| Annualized | n.a. | n.a. | 4.21% | 0.09% | 0.87% | 1.05% |

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

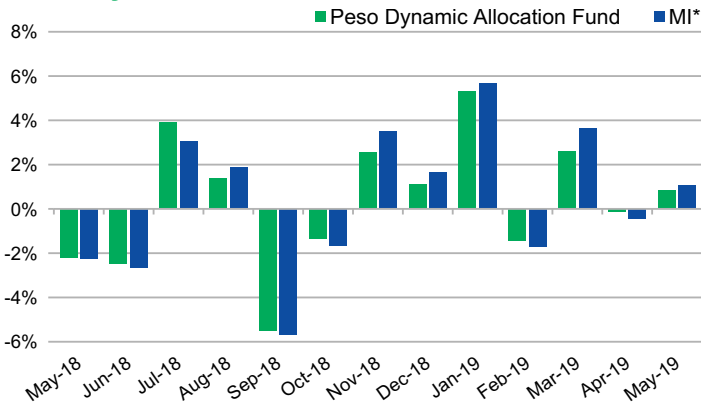


Top Five Holdings

| Bond Pool | | Equity Pool | |
|---------------|-------|-------------------------------------|-------|
| FXTN 03/12/24 | 18.7% | Manulife Equity Wealth Fund Class I | 12.7% |
| RTB 12/04/22 | 14.8% | SM Investments | 11.4% |
| FXTN 01/10/29 | 6.4% | Ayala Land | 9.8% |
| FXTN 03/20/21 | 5.7% | SM Prime Holdings | 8.3% |
| RTB 06/13/21 | 5.6% | BDO Unibank | 8.0% |

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

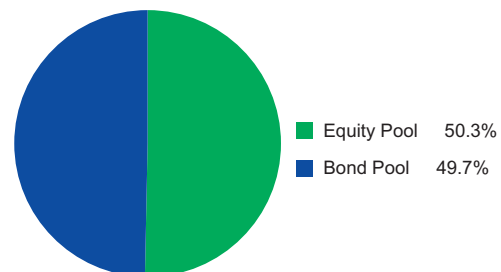
Monthly Performance



*Market Indicator = 50% Markit iBoxx ALBI Philippines Liquid Index + 50% PSEi

Portfolio Breakdown

Asset Allocation (at Market Value)



As per the fund's Investment Policy Statement, initial subscriptions are invested in fixed 40% Bond Pool and 60% Equity Pool. The investments in these pools consist of:
- Peso Bond Pool: Peso-denominated bonds of the Republic of the Philippines and term deposits.
- Equity Pool: Various stocks listed on the PSE and term deposits

Peso Dynamic Allocation Fund

Market Review

The local stock market index closed at 7,970, only up slightly by 0.22% for the month of May. The first of three tranches of the MSCI rebalancing took effect last May 28. The rebalancing saw the Philippines' country weight reduced to 1.04% from 1.07%. The Philippines saw manageable outflows of only USD12 million during the day of the rebalancing versus the anticipated USD70 million to USD200 million. Positive demand for Philippine stocks from international investors has helped cushion the anticipated outflows, with the Philippines being a domestic-driven economy amidst trade war tensions. First quarter earnings season concluded during the month, with the PSEI showing 18.6% earnings growth year-on-year, coming in-line with expectations. Market valuations have come down to 18.7x P/E from 19.2x last month, and is now trading at par with its 10-year average.

Philippine GDP grew at 5.6% in 1Q19, the slowest growth in four years, and the first quarterly print below 6% in 16 quarters. This growth print was below consensus estimate of 6.0%. The slowdown was due to the delayed enactment of the 2019 budget, which prevented the government from awarding new infrastructure construction contracts. The combination saw capital formation growth decelerate to 6.8%, from 10.3% in 1Q18. Government spending grew 7.4%, sharply slower than the 13.6% growth in 1Q18.

Meanwhile, Philippine inflation continued to slow, falling to 3% in April from 3.3% in March. The latest figure trims average inflation for the year for the 4-month period to 3.6%. Furthermore, the BSP further cuts its 2019 full-year inflation forecast down to 2.9% from 3%, previously. Easing inflation gave the Central Bank some leeway to slash the reserve requirement ratio for banks by 200bps to 16% from 18%, currently. The reduction will be implemented in 3 batches, with the last one by July 2019.

The bond market had a slow start in May despite of very supportive economic numbers and policy easing by the BSP early in the month. April inflation printed at 3% while 1Q GDP growth slowed more than expected to 5.6%. Following the release of these economic numbers, the BSP cut its policy rate by 25bps and announced a 2% phased reduction in the Reserve Requirement Ratio (RRR) to be executed in 3 tranches- 100bps in May, 50bps in June and July, respectively.

Trading picked up in the second half of May, with 10 and 20-year yields declining by up to 25bps. The market finally acknowledged the more dovish stance by the BSP and repositioned for a more bullish environment for the bond market. Indeed, BSP Governor Diokno expressed intent to implement more RRR cuts and welcomed the possibility of further policy rate cuts should inflation continue to trend lower. Furthermore, weak government spending due to the delay in this year's budget approval reduces the supply risk in the market.

Outlook

Following the 2019 midterm elections, we expect the President's legislative agendas to be passed easier. Possible changes to the business environment include lower corporate taxes, deregulation of the sugar industry to allow unimpeded imports, higher taxes on sin products, and liberalization of foreign investments in the utilities sector.

We continue to have a neutral outlook in the near-term. FTSE index rebalancing was just recently announced, with the Philippines expected to see some USD75 million outflows from passive flows by June. While the market lacks a positive catalyst in the near-term, we expect GDP to recover in the following quarters following the passage of the government budget, and should lead to a recovery in spending and infrastructure rollout.

The fund continues to position in names with undemanding valuations and look to rotate out of industries that may be negatively affected by potentially stricter regulations.

Evidencing the strong market sentiment, bond yields continued lower even with the unexpected increase in inflation to 3.2% in May. The market brushed aside the higher inflation print as it was perceived to be a one-off uptick. Base effects would likely pull inflation to sub-3% levels in the coming months. While we subscribe to this optimistic sentiment, we start to become cautious with current levels and will be more opportunistic when entering the 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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