Asian Bond Absolute Return Fund

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Fund Update

The fund was slightly down for the month of August.

The portfolio's exposure to Asian credit detracted from performance as the market lagged the US Treasury rally and experienced wider credit spreads. Asian credit spreads widened by 8bps in the Investment Grade space and by 60bps in the High Yield space based on the JPMorgan Asia Credit Index "JACI" reference. The portfolio's bond swap position in India detracted due to technicals fuelled by the absence of USD-denominated sovereign issuance, fiscal concerns and the Indian rupee's weakness. Long currency positions in some Asian currencies such as the Indian rupee, Korean won, Malaysian ringgit and Chinese yuan were negatively impacted amid a broad risk-off environment.

In contrast, the portfolio benefited from its defensive stance established through financial derivative instruments. The fund's macro hedge via a long S&P500 put option helped to protect the portfolio against downside risk and generated a profit of 50 bps. Similarly, the credit beta protection through Credit Default Swap (CDS) long positions in the iTraxx Asia ex-Japan index, Korea, Indonesia, and HSBC Bank helped returns. Lastly, the portfolio's Malaysia 2-year swap receiving position also contributed positively.

With regards to portfolio activities in August, the fund's overall US dollar duration was increased through 10-year Treasury futures on the back of a deteriorating macro environment. We bought a US Treasury put option in parallel for risk management purposes and we sold a US 10-year Treasury covered call in order to enhance the portfolio's yield. We added to the existing India bond swap trade due to historically attractive valuations and we bought a currency call option on the Korean won as a tactical short-term trade.

Market Review

During the month US Treasury yields moved notably lower on the back of further escalation in Sino-US trade tensions and increasing concerns over slowing global growth. The US announced plans to impose tariffs on the remaining US$300bn of Chinese goods on 1 September, but were later partially deferred to 15 December. The 10-year US Treasury yield fell from 2.01% to 1.50% over the period.

In China, Caixin's manufacturing Purchasing Managers' index in July remained below the 50 neutral mark, signalling an economic contraction. China government bond yields declined amid weak economic data and the re-escalation of trade tensions. In India, the Reserve Bank of India cuts its benchmark repurchase rate by 35bps to 5.4%, the magnitude was slightly higher than expected. However, Indian government bond yields trended higher as investor sentiment was impacted by increased concerns over slowing global growth and speculation the India government may announce fiscal measures to boost the economy. In Indonesia, government bonds yields moved slightly lower for the month as Bank Indonesia cut its key interest rates by 25bps to boost growth amid rising external uncertainty.

Asian investment grade credit markets outperformed Asian high yield for the month due to significantly lower US Treasury yields and safe haven flows. The JP Morgan Asia Credit Index widened over the month.

Asian currencies generally weakened against the US dollar over the period amid risk-off sentiment globally. The Thai baht was one of the better performing currencies, supported by a strong current account surplus, which was US$1.8bn as of July. The Chinese renminbi broke through the physiological 7.0 level against the US dollar amid heightened trade tensions and was one of the weaker performing currencies in the region.

Market Outlook

In our view, developments of Sino-US trade tensions are likely to take the limelight of financial markets and potentially be the catalyst for 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 the number of negative yielding DM government bonds. Both factors in combination may continue to put pressure on US Treasury yields. Asian economies face external headwinds arising from softer global demand and the potential for a widening trade war. In this environment, we favour Asia bond markets with supportive economic fundamentals and attractive yields, which may also be appealing in a negative DM bond yield backdrop.

From a regional perspective, in our opinion Asian central banks have room to adopt further accommodative monetary policies to offset the negative impact from trade tensions. This is expected to be a supportive backdrop for Asian local currency bond markets. High quality Asian credits are likely to be well supported in the near term during periods of uncertainty. However, we believe market volatility may provide opportunities to add fundamentally sound Asian high yield corporate bonds at attractive valuations to enhance positive performance.

Fund Facts

Fund Inception:	8 September 2015
Base Currency:	USD
Fund AUM:	USD 39.5m (base currency) GBP 32.4m EUR 35.8m
Domicile:	Ireland
Dealing Deadline:	4.00pm Dublin Time (Daily)

	August 2019 (%)	YTD (%)	2018 (%)	Since inception (Annualised %)
Asian Bond Absolute Return Fund Class R USD Acc	**-0.16**	**4.99**	**0.25**	**2.49**
Asian Bond Absolute Return Fund Class X USD Acc	**-0.09**	**5.51**	**1.01**	**3.27**
Asian Bond Absolute Return Fund Class R GBP Acc (Hedged)	**-0.33**	**3.78**	**-1.31**	**0.76**
Asian Bond Absolute Return Fund Class R EUR Acc (Hedged)	**-0.42**	**2.99**	**-2.53**	**-0.30**

Source: Manulife Investment Management. Fund inception 8 September 2015. Performance is net of fees (R Class OCF 0.90%, X Class OCF 0.15%).

Past performance is not indicative of future results

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The fund will invest in derivatives which involves risk greater than the risks associated with investing directly in securities and other traditional investments. In a down market these instruments could become harder to value and sell at a fair price. Derivatives transactions, including futures and options, are complex and carry a high degree of risk.

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