Manulife Asset Management

FAQs for

Manulife SGD Income Fund (the Fund)

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I. The Product

A. Why invest in the Fund?

Q1. Why invest in the Fund in the current market environment?

The Fund is designed to provide regular Singapore Dollar (SGD) income from Asian fixed income investment opportunities. This may be appealing for investors who seek stable fixed income returns, a steady income stream, and participation in Asia's growth story through Asian bonds.

B. Investment objective

Q2. What is the Fund's investment objective, and what investment strategies will be employed to achieve it?

The objective is to provide long-term capital appreciation and/or income in SGD terms through investing mainly in Asian investment-grade fixed income or debt securities.

Returns are expected to come from allocation between the following sources:

- Interest rate strategies (interest rate duration and yield curve)
- Credit positioning (sector allocation and name selection)

C. Key benefits of the Fund

Q3. What are the key benefits of investing in the Fund?

- Potential quarterly income[1]
- Single currency exposure – The Fund is managed in SGD
- Participate in Asia's economic growth story
- Diversified portfolio compared to investing in a single bond, which may have higher concentration risk
- Maximize stability and yield:
  - At least 70% of the portfolio invests in investment-grade bonds for stability
  - Maximum 30% of the portfolio invests in high-yield bonds for better yields
- Benefit from a selected portfolio of bonds being closely monitored by specialised investment professionals

D. The Fund and the Fullerton SGD Income Fund

Q4. What are the similarities and differences between this Fund and the Fullerton SGD Income Fund?

The closest competitor is the Fullerton SGD Income Fund, which adopts similar investment guidelines and parameters.

However, we believe our product leverages on broader credit research resources across our 10 countries in Asia. We believe our Asia Fixed Income footprint, with over US$40 billion of assets under management, together with more than 60 fixed income professionals working on the ground in 10 Asian markets (as of 30 June 2016), gives us an informational advantage over our peers.

E. Investor suitability

Q5. Which types of investors are suitable for investing in the Fund?

The Fund's suitability depends on investors' risk profiles. It may be suitable if investors:

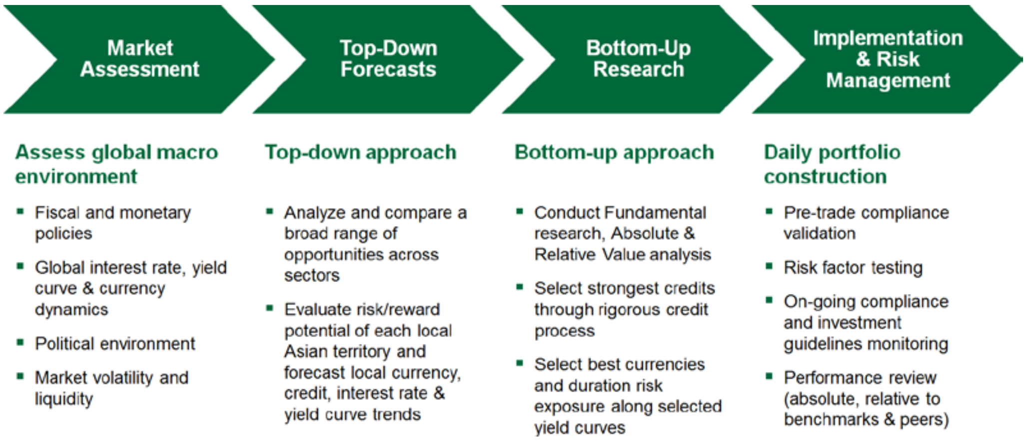
- Are looking for exposure to a bond portfolio with income payout feature[1]
- Are looking for a fund managed in SGD, with minimal foreign currency exposure
- Have a long-term investment horizon

[1] Manulife Asset Management (Singapore) Pte. Ltd. ("the Manager") shall have the absolute discretion to determine whether a distribution is to be made. The intention of the Manager to make the quarterly distribution for each Class is not guaranteed, and the Manager may in future review the distribution policy depending on prevailing market conditions.

F. Investment process and portfolio construction

Q6. What is the Fund's investment process, and how does the team generate new investment ideas?

The Fund follows a four-stage investment process that combines top-down macro views and bottom-up research. The process is consistent with the approach used across the Asian Fixed Income team's broader fixed income strategies, but with more emphasis on portfolio implementation and risk management (fourth stage). The lead portfolio manager gathers insights and forecasts from on-the-ground fixed income experts located throughout Asia. Communication and idea sharing between the teams are fluid and ongoing.



Q7. Can you describe the security selection process and how the portfolio is constructed?

With regard to bottom-up security selection, the portfolio management team will run relative value analysis and implement sector allocations. The portfolio managers will select individual securities offering the strongest risk/reward profiles within the various countries and industries. Fundamentals, valuations, and technical factors of the securities are constantly monitored.

Weights will be assigned according to the following factors: credit quality of the issuer, idiosyncratic and concentration risks, interest rate risks, and valuation. The overriding consideration of selection is credit quality. Safeguarding clients' capital is of utmost importance to the manager.

Portfolio construction is the fourth step of the four-stage investment process outlined in response to Q6.

G. Investment risk and risk management

Q8. What are the key investment risks associated with the Fund, and how does the portfolio manager manage these risks?

Bond investments typically come with three main types of risk: (1) interest rate risk; (2) currency risk; and (3) credit risk.

- Currency risk: the portfolio is SGD focused, minimising foreign currency exposure. At least 50% of the portfolio holdings are in SGD-denominated bonds. Any foreign currency bond exposure in the Fund is hedged back to SGD.
- Interest rate risk: the portfolio is adaptable to different interest rate environments. The Fund's duration range is from 0 to 5 years.
- Credit risk: The Fund invests primarily in high-quality credit issuers. At least 70% of the portfolio invests in investment-grade bonds for stability.

Q9. How does the portfolio manager mitigate credit default risk?

Credit risk is a key uncertainty. Thus, the Fund seeks to manage it by mainly investing in high-quality credit issuers, with a maximum exposure of 30% to non-investment grade bonds.

Unlike some fixed income managers who focus more on short-term credit value, we are long-term credit buyers who are fully cognizant of market forces. In essence, we treat each and every fixed income investment as a long-term extension of credit. We thoroughly assess the risk of not being repaid before investing. The credit decision is a binary decision first, followed by full consideration of relative value and technical market factors. Each credit eligible for investing must be individually rated and approved by the Manulife Asia Credit Committee (MACC), a dedicated committee of senior fixed income professionals across the region. The committee was set up to ensure that each credit is rigorously examined and challenged before the name is added to our eligible credit coverage universe.

In addition, the Fund seeks to mitigate credit risk by leveraging Manulife Asset Management's well-established credit research resources. They include:

- One of the largest specialist Asian fixed income teams in the industry.
- A unique footprint of more than 60 fixed income experts and over 20 credit analysts working out of 10 Asian investment offices, covering a broad array of more than 500 Asian credit issuers. (as of 30 June 2016)
- A trusted pension heritage and insurance pedigree that ensures a strong risk management culture.

<u>II. The Asset Class</u>

A. Why Asian bonds?

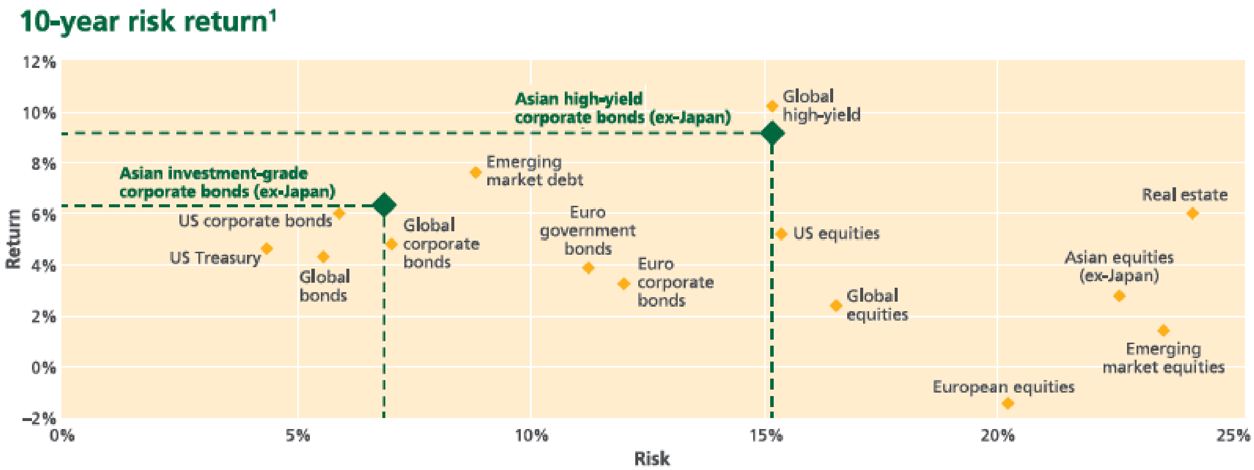
Q10. Why should investors consider Asian fixed income in their portfolio?

Asian bonds are favoured by investors for the following reasons:

1. **Asian economies continue to grow faster than developed markets.**
    - With stronger fiscal positions, lower debt-to-GDP ratios, and better growth potential, Asia is expected to remain the bright spot of the global economy.
    - Strong credit ratings and considerable foreign reserves allow Asian countries to maintain fiscal strength and buffer against future crises.
2. **Asian bond markets are growing rapidly.**
    - As of 31 August 2016, the fast growing Asian dollar credit market totalled US$674 billion in size. This represents a compound annual growth rate of 18% over the past five years. It is also a diversified market including 16 countries and 12 sectors.[2]

[2] Source: Manulife Asset Management, JPMorgan Asia Credit Index (JACI). Data as of 31 August 2016.

3. **Asian bonds offer attractive yields relative to developed markets.**
   - As of 31 August 2016, the credit spread of the Asian Investment Grade Corporate Index was 218 basis points (bps), which was higher than the US Investment Grade Corporate Index (162 bps) and the Euro Investment Grade Corporate Index (118 bps).[3]
4. **Asian bonds have delivered better risk-adjusted returns versus other asset classes over the past decade.**
   - As of 31 August 2016, Asia (ex-Japan) investment-grade and high-yield corporate bonds delivered better risk-adjusted returns than most other asset classes over the past 10 years.[4]



5. **Asian bonds provide stable income and risk diversification benefits.**

Q11. How is the Asian bond market's liquidity condition?

The liquidity condition of Asian bonds has improved and markets have deepened over time, amid improved economic fundamentals, extended yield curves, and a more diversified investor base. Some bond markets in the region such as Vietnam, however, remain relatively illiquid. To address liquidity risk, we typically size bonds positions to avoid concentration risk. For non-investment grade bonds, each positioning sizing is typically below 1% of the portfolio.

[3] Source: Bloomberg, BofA Merrill Lynch & JP Morgan indices, as of 31 July 2016. Credit spreads for the Asian investment grade corporate index, US investment grade corporate index are versus the US 5-year Treasury yield; credit spreads for the euro investment grade corporate index are versus the German 5-year bond.

[4] Source: Bloomberg, 31 August 2016. Data from 29 September 2006 to 31 August 2016. Asian Investment Grade Corporate Bonds (ex-Japan) = JACI Investment Grade Corporates Total Return; Asian High Yield Corporate Bonds (ex-Japan) = JACI Non-Investment Grade Corporates Total Return; Asian Equities (ex-Japan) = MSCI AC Asia Pacific excluding Japan Index; Emerging Market Debt = JPMorgan EMBI Global Total Return Index; Emerging Market Equities = MSCI Emerging Markets Index; Euro Government Bonds = BofA Merrill Lynch Euro Government Index; Euro Corporate Bonds = BofA Merrill Lynch Euro Corporate Index; European Equities = MSCI Europe Index; Global Bonds = BofA Merrill Lynch Global Broad Market Index; Global Corporate Bonds = BofA Merrill Lynch Global Corporate Index; Global Equities = MSCI World Index; Global High Yield = BofA Merrill Lynch Global High Yield Index; Real Estate = Dow Jones Composite REIT Total Return Index; US Corporate Bonds = BofA Merrill Lynch US Corporate Index; US Equities = S&P 500 Index; US Treasury = BofA Merrill Lynch US Treasury Index. Returns in USD. Past performance is not indicative of future results.

B. Why hold SGD-denominated bonds?

Q12. What are the advantages of holding SGD-denominated bonds?

This Fund is designed to provide income and potential capital appreciation in SGD terms. To minimise currency risk, the Fund is managed with 100% SGD exposure. Key advantages of investing in SGD denominated bonds are mitigation of currency risk and receiving steady income in SGD terms. Additionally, the Singapore government bonds are AAA-rated market, making it one of the highest credit quality bond markets in Asia. On the back of the high sovereign credit quality and sound economic fundamentals in Singapore, anecdotally, SGD denominated bonds have experienced strong investor demand and exhibited low volatility in SGD terms.

Q13. How do you hedge non-SGD currencies?

The Fund has the flexibility to invest in Asian bonds denominated in US dollars or the local currency. Currency derivatives such as FX forwards and NDFs are used to hedge unwanted Asian currency risks to ensure the portfolio's net currency exposure is 100% SGD.

C. Market outlook

Q14. What is the outlook for Asian fixed income markets for the remainder of 2016 and beyond?

In the short term, we expect demand for high quality investment-grade Singaporean and Asian corporate bonds to remain well supported in the current low interest rate environment. This should keep credit spreads in a relatively tight band with returns driven mainly by yield in the investment-grade space. For Asian high-yield bonds, current spreads tend to provide a decent buffer compared to investment-grade bonds. This compensates for their higher risk. However, we believe credit selection and a bottom-up, fundamental research approach is key in the current economic environment. This is partly because we expect more differentiation across countries, sectors, and individual issuers.

In the medium term, we believe that the Asia region will continue to be an important driver of global economic growth. We also believe the Asian corporate bond market will continue to benefit from healthy issuance; issuers continue seeking alternative sources of funding to bank lending and investors continue seeking yield from high quality and well-performing companies.

III. Why Manulife Asset Management?

Q15. Why should investors consider Manulife Asset Management?

The Asia ex-Japan US dollar corporate bond market had a market capitalisation exceeding US$600 billion at the end of August 2016. It has been growing at a compound annual growth rate of 18% for the past five years. To navigate and keep pace with this fast-growing market, investors should consider an asset manager with extensive credit research capabilities.

Manulife Asset Management's extensive credit research capabilities include:

- One of the largest fixed income teams in Asia; over 60 fixed income professionals including over 20 credit analysts based across 10 Asian territories, covering a broad array of more than 500 Asian credit issuers (as of 30 June 2016).
- Over US$40 billion of fixed income assets under management (AUM) in Asia as of 30 June 2016.
- A trusted pension heritage and insurance parentage ensures a strong risk management culture.

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Information is correct as of 14 October 2016