WEALTH INsight

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MESSAGE FROM CEO

Dear Valued Client,

Investment strategies vary according to your risk appetite. Some of you are conservative where you seek relative stability and steadiness, while others are willing to take on more risk for potential higher returns. For a steady stream of income, bonds are usually the popular choice among conservative investors. In this issue of *Wealth Insight*, we bring you insightful articles on all you need to know about bonds.

Singapore investors continue to favour investing in regular income products that can help cater to retirement needs and other financial objectives. The Manulife Income Series – Singapore Fund, the first fund for an investment-linked plan to provide a monthly income in Singapore, reached the S$30 million mark in fund size, in just 3 months following its launch period. We thank you for your support on making this possible.

As promised in the last issue, to help you build your wealth further, we are proud to introduce the second fund from the Manulife Income Series. The Manulife Income Series – Strategic Income Fund seeks to provide income and capital appreciation through flexible allocation to the three fixed income sectors - U.S. government and agency securities, U.S. high yield bonds, and foreign government and corporate debt securities from developed and emerging markets. Read all about it in this issue and leverage on the exclusive promotion we are offering for a limited time period.

At Manulife, we will continue to provide clear and timely information to help you make informed financial decisions to build your wealth.

Annette King
President & CEO
Manulife (Singapore) Pte Ltd

SPOTLIGHT

Bonds 101

By: Jenny Seat, Director, Wealth Management, Manulife Singapore

What is a bond?

Bonds are essentially a promise to pay (i.e. a loan) that are typically issued by either corporate entities or government bodies. When you purchase bonds, you are lending your money to the entity from which you bought the bonds from. In return, you receive a fixed rate of interest (coupon payment) over a set period of time (maturity or tenor).

Why invest in bonds?

The severe market upheaval and mass flight to safety in 2008/2009 saw unprecedented inflows into bonds. Many investors turned to bonds to add an element of stability to their portfolios and to help protect their investment portfolio from downside risks. Others chose bonds since they typically pay out a regular income and will not decrease in value if held to maturity. Some investors purchase bonds in the hope of achieving a combination of stability, a regular income and potential capital gains.

Bonds as an asset class in your investment portfolio

Bonds are an asset class that provides investors with steady coupon income and promised returns on the principal upon the bond's maturity, assuming no adverse credit event. It offers relative stability and steadiness as a conservative investment.

But an investment in bonds has more to offer than its stable and conservative nature. By tactically allocating to different types of bonds and strategically managing currencies and interest rates, a bond fund can add value to one's portfolio under both bull and bear market cycles.

Why invest in SGD-hedged for bonds?

This is an useful feature for investors who want to benefit from the long-term appreciation of the SGD against the USD. While the fund's underlying holdings are denominated in USD, the SGD-hedged class minimises currency risk for the investor in the event that the SGD appreciates against the USD.

If investors have a favourable view on the SGD vis-à-vis the USD, buying the SGD-hedged class of the fund will mean the investor receives returns on the underlying securities PLUS the appreciation of the SGD against the USD.

Manulife Income Series - Strategic Income Fund

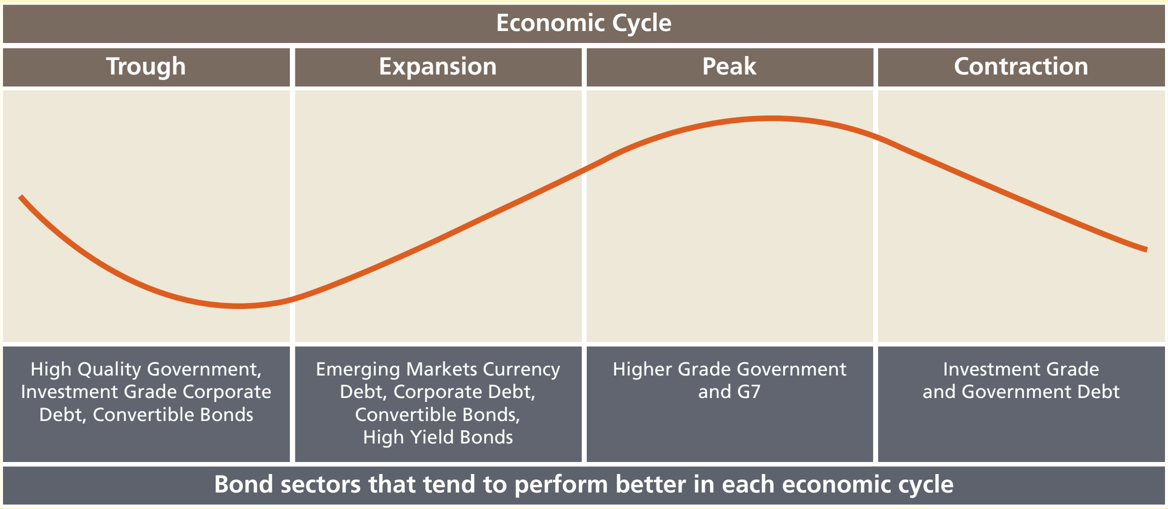
With their steady coupon income and stable nature, bonds are seen as a popular choice for conservative investors. In addition, bonds can offer you potentially greater returns under certain economic conditions by means of strategic asset allocation.

Manulife has recently launched a new fund for an investment-linked plan called the Manulife Income Series - Strategic Income Fund. It offers a regular payout of 4.2 cents (SGD)* per unit per annum or 0.35 cents (SGD)* per unit per month.

The Fund invests into different types of bonds which offer diversity, lower volatility and the potential of higher returns. Unlike single-sector bonds, the Strategic Income Fund invests in multi-sectors and allows the portfolio manager to shift allocations to different bond sectors as market conditions change. The philosophy behind the strategic income strategy is that the portfolio manager has the ability to invest in multiple types of bonds, focusing on the top investment opportunities available within each sector in different market cycles. Strategic Income Fund's strategy is designed to capture market opportunities by investing across three major classes of bonds:

- U.S. government and agency securities,
- Foreign government and corporate debt securities from both developed and emerging markets, and
- U.S. high-yield bonds.

The broad exposure to multiple bond sectors provides the Fund with a broader opportunity set and it offers the best possible chance of achieving higher returns over the long term.



Be rewarded with a **$50** Takashimaya Gift Voucher for every **$20,000** investment into the Manulife Income Series - Strategic Income Fund. Promotion ends on 30 November 2012.

To find out more about the Fund, speak to our friendly Manulife Financial Planners today!

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This article should not be construed as an offer, advice or recommendation to subscribe for units of the Manulife Income Series - Strategic Income Fund ("Fund") by the general public. Investors are advised to approach a Manulife Financial Planner for financial advice and obtain a copy of the Manulife Fund Summary, Product Summary and Product Highlights Sheet before deciding whether to subscribe for units of this Fund.

Inflation – Friend or Enemy?

By: Hon Wah Choi, Assistant Vice President, Asia Wealth Management, Manulife Financial

When I visited Singapore last year, I made a trip to one of the hotels on Orchard Road for their famous chicken rice. It set me back S$40 with a side order of vegetables with oyster sauce and their homemade barley drink. It was clearly an expensive plate of chicken rice, but how much is S$40 worth nowadays?

To put this amount into perspective, one of the leading banks in Singapore is offering 0.2% interest for a one-year S$ fixed deposit, so keeping S$20,000 with this bank for one year will allow you to have this chicken rice set once.

The low interest rate environment is now a global phenomenon, and even before QE3 (Quantitative Easing 3) was announced in September, most major economies in the world are stricken with a malaise called negative real interest rate, a situation where keeping your money in a bank deposit will actually reduce your purchasing power.

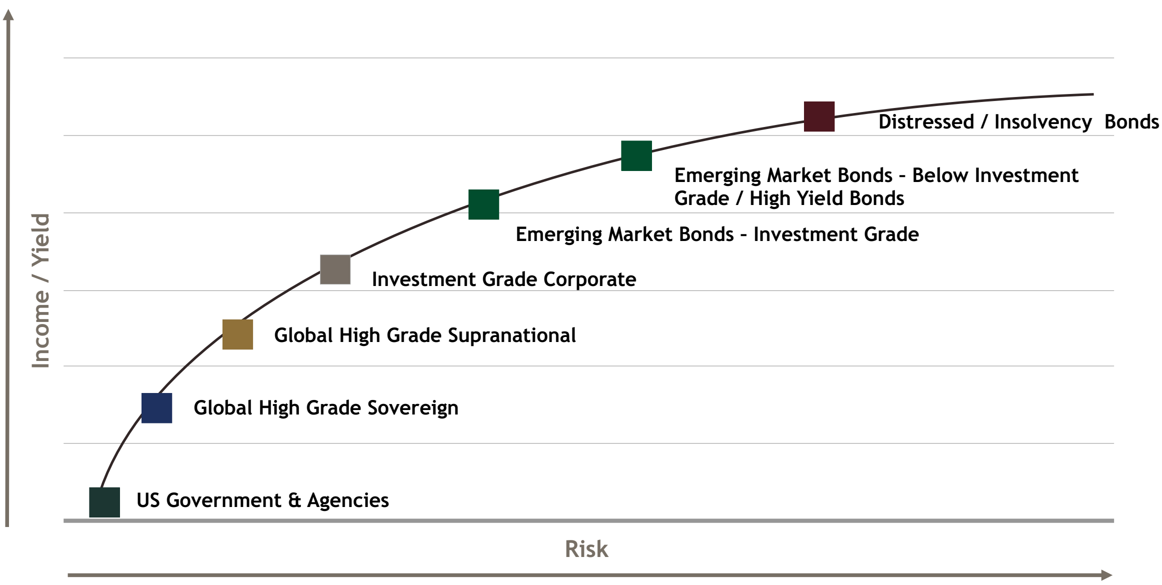
In the last issue of Wealth Insight, I mentioned that bond funds in Singapore recorded a net inflow of nearly S$170 million in the first quarter of 2012, compared to a net outflow of almost S$450 million in equity funds according to data compiled by the Investment Management Association of Singapore and Lipper. The popularity of bond funds was even more pronounced in the second quarter as bond funds pulled in almost S$800 million comparing to a net outflow of almost S$320 million for equity funds. The volatile stock markets as well as uncertain global economic outlook certainly have a hand in investors' dramatic shift to bond funds, but a search for yield ultimately underscores investors' desire to "pick up" higher yield comparing the low interest rate with a reasonable increase in risk taken on.

Bonds come in all shapes and forms – in hard currencies like US dollar or local currencies, issued by governments or corporations in developed or emerging markets, and in different tenor, the time to maturity of a bond. Investing in bonds often involves making a decision to trade off between higher yield and the associated higher risk.

At any given stage of an economic cycle, some types of bonds may generally do better, but there is no hard and fast, or foolproof rule on successfully selecting the right types of bonds at any given time. What an investor needs is an experienced bond investment team which can successfully canvass the full spectrum of bonds available globally for a well constructed portfolio which offers reasonable level of yield, capital appreciation opportunity, with an appropriate level of risk at any given point in time.

While the common perception is that inflation is the enemy of bond investors, the beauty of investing across different types of bonds globally is that a portfolio manager can look for opportunities in credit quality, duration (or the sensitivity of the bond price to interest rate change), and currency exposure. A well diversified source of returns can more than offset the negative impact from higher inflation amidst a low interest rate environment.

As no single bond sector can be an all-time winner, why not consider a multi-sector bond strategy in your portfolio to capture global investment opportunities?



* For illustrative purposes only.

Chasing Yield:

A look at global fixed income in an age of easy monetary policy and economic uncertainties

By: Toby Tan, Director, Product Advisory, Manulife Asset Management Singapore

Economic stimulus efforts continue across major economies, including the US Fed's recently implemented QE3 (Quantitative Easing 3), Europe's Outright Monetary Transactions programme and Japan's expanded asset purchase programme.

It is widely understood that Europe plays an important part in terms of its influence on expectations for global economic growth and, hence, interest rates – in particular, Greece's sovereign debt crisis and potential euro zone exit have taken centrestage. At Manulife Asset Management, we see the potential for four scenarios to play out in the investment market (Table 1). The most likely of these is that European governments muddle through the debt crisis, avoid a Greek exit and eventually establish firewalls and settle on limited banking and fiscal union to prevent contagion to other weak member states, particularly Spain and Italy.

In the US, we see the economy continuing along a path of slow, sustainable growth. Considering that various risks still exist, including the impact of further household deleveraging, potential contagion from Europe, the looming 'fiscal cliff' and the increasing price of oil, we expect US growth to be around 2% in 2012.

We anticipate major governments worldwide will maintain easy monetary policy. This situation translates into continued low Treasury bond yields and sets the stage for investors to chase higher yields in broader markets and asset classes.

Against this backdrop, we believe the opportunity sets lies in these areas:

- High-yield corporate bonds, which we expect to continue offering attractive returns based on strong corporate balance sheets, large cash balances and favourable medium-term debt maturity schedules. In the US market, for example, high-yield issues currently yield approximately seven per cent return, or about five times the yield of a 10-year Treasury bond.

- Emerging market bonds, particularly in Asia, where economies continue to outperform global averages. Although sovereign fundamentals in these markets have improved significantly, particularly in Asia, where many governments are now rated investment grade, investors are still being rewarded for the lingering stigma of high risk.

- Strategic currency positions, which facilitate active currency risk management and potentially increase return. This includes local currency denominated bonds in cases where currency appreciation is likely.

We see a fixed income portfolio that embraces multiple regions and asset classes delivering significant benefits: the potential for higher yield and returns and the flexibility to reduce the impact on capital when interest rates begin to rise.

S/N	Scenario	Probability	Monetary policy	Economy	Market impact
1	Muddle along; gradually establish a firewall and settle on limited banking and fiscal union	High	Easy	Mild recession	+ Bond - Equity
2	After sufficient firewall has been put in place, Greece exits monetary union without much impact on other countries	Low to medium	Easy	Modest recession	+ Bond - Equity
3	Disruptive exit of Greece followed by exits of Spain and Italy; sharp rise in risk aversion	Low	Easy	Severe recession	++ Bond -- Equity
4	High degree of fiscal and banking union	Very low	Easy then tight	Mild recession then recovery	+ then -- Bond ++ Equity

Table 1
Source: Bank of America Merrill Lynch, Manulife Asset Management (Singapore) Pte. Ltd.

Manulife Asset Management

Market Views

Global Equity

- Markets got off to a rocky start into the summer, but then rebounded in the lead up to the US' September announcement of QE3 and the indication that interest rates will remain low into 2015.

- Low growth rates continue to bedevil economies around the world, with the relative exception of Asia. On equity markets this has led investors to chase growth and reward it handsomely.

- Our outlook is mixed. We are concerned about uncertainties still facing the market, including the US year-end fiscal cliff, implementation of the European bond-buying programme and the situation in Iran. On a more positive note, corporate earnings are strong and stock valuations remain reasonable.

Global Fixed Income

- The outlook for global growth going into 2013 has been revised downwards. Although the outlook for Asia has also softened, it will still deliver two to three times higher growth than developed and other emerging markets.

- We expect US high-yield corporate bonds to continue offering attractive returns in the coming months as corporate balance sheets are strong, cash balances are high and debt maturity schedules are favourable for the coming year. We also see default rates remaining low. With risk premiums for high-yield corporate bonds still above long-term averages, the sector remains attractive.

- The euro zone continues to hold the potential for further sovereign troubles. Thus, we do not believe that peripheral nation bonds offer an attractive risk/return profile at the current time.

Asia Equity

- QE3 will bring liquidity to Asian markets, potentially driving short-term stock valuation rallies. However, it will also exacerbate some of the challenges facing the region, such as food inflation and other cost increases.

- We continue to see policy risk as a key factor influencing regional markets. China and Korea are currently cases in point: in the former, banks represent a risk factor as they have lent significant sums at the behest of local governments. In the latter, the upcoming legislative and presidential elections have led to populist policies directed against large corporates in favour of small and medium-sized enterprises.

- The immediate outlook for Asian equity markets is likely to remain somewhat volatile and murky over the next couple of months as European concerns linger and international organisations such as the World Bank have lowered growth forecasts for the region.

Asia Fixed Income

- While we see the positive impact of the US Fed's QE3 programme and the ECB's Outright Monetary Transactions programme being short-lived, these stimulus measures should offer some support to Asian bond markets by helping improve risk sentiment towards emerging market debt.

- Asian economic fundamentals are expected to remain strong going forward and the Asian region will remain the highest quality emerging market in the world. Sovereign fundamentals have improved significantly in most Asian countries, and we see this trend continuing.

- We believe value may continue to be found in Asian corporate bonds amid continued low interest rates and inflation in the region. However, we see little value left in interest rate markets such as Taiwan and Hong Kong and we are cautious on regional currencies in the near term, keeping a balance of hard currency assets and Asian local currency denominated assets.

Singapore Fixed Income

- Three factors have been exerting strong influence on the financial markets in the third quarter of 2012. Firstly, the European debt crisis. Secondly, a synchronised slowdown in growth momentum in the US, Europe and China. Thirdly, downward revisions of corporate earnings. These three factors are positive for the bond market.

- Major central banks have responded by implementing concertedly, even bolder monetary policy easing measures. This has helped to improve the sentiment in risky assets.

- Among the various central banks easing measures, the European Central Bank's plans to purchase unlimited amount of sovereign debt in the secondary market has reduced significantly the probability of a catastrophic tail risk possibly triggered by European sovereign debt crisis.

- We expect economic numbers to stay weak in the near term. Many of the tax incentives in the US would expire by end of 2012. The market could increasingly focus on large fiscal drag (fiscal cliff) in the US. Therefore, the bond markets would still be supported by easy global monetary policies.

Singapore Equity

- Following the announcement of QE3 in September, the Singapore market rose 1.3% in that month.

- Property developers generally outperformed on asset inflation prospects. The telecommunications sector was hurt by the weakness in Singtel after the placement by Temasek Holdings.

- Notable news included the final approval of F&N's sale of Asia Pacific Breweries to Heineken after the long tussle. The Ministry of Trade and Industry also announced that Singapore would continue hosting the F1 Grand Prix till 2017.

- Although economic data has been weak, we do not expect nasty surprises in earnings for the third quarter as consensus expectations have been moderate. The equities market is currently fairly valued.

For more information: www.manulifeam.com

Manulife (Singapore) Pte Ltd. Reg. No. 198002116D
Main Office: 51 Bras Basah Road, #09-00, Manulife Centre, Singapore 189554 Tel: 6737 1221 • Fax: 6884 5868 • www.manulife.com.sg
Client Service Centre: 51 Bras Basah Road, #01-02C, Manulife Centre, Singapore 189554