

Principal Islamic Asset Management (Ireland) (PLC)

Islamic Asia Pacific Dynamic Income & Growth Fund

I Class August 2022

Market Review

MSCI AC Asia ex Japan Islamic Index declined 0.5% in US\$ terms in August, largely due to Hong Kong, offset by India. The US 10-year bond yield risen 55bps to 3.20% while crude oil fell 11.5% to US\$85/ barrel.

Fund Review

In August, the Fund declined 0.37% in US\$ terms. China and Korea were detractors, offset by Australia. Sector wise, Information Technology was the main detractor offset by Energy.

Portfolio Outlook and Strategy

Outlook

As the Fed continues to tighten its monetary policy, most Asian central banks would have to follow a similar path. The resultant economic growth in reaction to the rate hike cycle would be keenly watched. The inflation trajectory would be the key determinant of the Fed's ability to slow down its pace of rate hikes or even reverse course depending on the extent of the economic and/ or financial market slowdown. Although still a distance from the Fed's target of 2%, the inflation as measured by the US core PCE is trending downwards in the right direction.

US-China relationship remains frosty, although some progress has been made with regards to allowing the US Public Company Accounting Oversight Board to vet the work of audit firms in mainland China and Hong Kong SAR for the first time. The Politburo also announced the much anticipated five-yearly congress will begin on Oct 16th. Clarity on wide-ranging policies and its approach toward zero-Covid post meeting would be key. We remain stock selective in China, favoring sectors that have secular tailwinds such as renewables or where regulatory headwinds are behind us.

Risks:

- a) Path of monetary policy normalization led by the US Fed and reaction from Asian central banks
- b) Geopolitics: US-China tensions which can range from company specific sanctions, financial markets such as Chinese listings in the US, military conflicts etc.

Strategy

We remain fully invested and diversified across sectors and geographies. During the month, we added more weight to India across the board at the expense of selected stocks in China which are more economic sensitive.

The Fund is positioned structurally in the following areas: 1) Innovators and market share consolidators that have a proven ability to innovate, e.g. semiconductor, internet, electric vehicles supply chain; 2) Consumption stocks in India which are positioned in growing sub-sectors, e.g. decorative paints, sportswear and jewellery.

Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed.

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