

Principal Islamic Asset Management (Ireland) (PLC)

Islamic Asia Pacific Dynamic Income & Growth Fund

I Class February 2021

Market Review

Asian equities as measured by the MSCI AC Asia ex Japan Islamic Index rose +1.3% in February, led by India and Taiwan while China and Malaysia lagged. Crude oil and copper rose meaningfully by 18% and 16% respectively during the month. The US 10-year bond yield increased 34 basis points (bps) due to rising inflation expectations and this triggered a sell-off in the equities markets towards the end of the month.

Fund Review

In February, the Fund posted a return of -1.2% in USD terms, with only Information Technology and Communication Services posting positive returns. Consumer Discretionary and Healthcare detracted the most value. In particular, SEA Ltd and Nvidia added significant value to the portfolio performance, while exposure to Alibaba Group and LG Chem weighed on performance. Since inception, the Fund posted a return of 14.1% in USD terms.

Portfolio Outlook and Strategy

Outlook

Despite concerns of rising bond yields impacting equities, we see the recent market correction as temporary. The Fed and all other central banks are not even thinking about raising interest rates, nor reducing balance sheet size. This is because the focus remains on achieving high employment rate, attaining inflation target of about 2% and ensuring economic growth trajectory. We anticipate that the soonest possible date for a tapering of balance sheet would be more than a year away. Liquidity will continue to be ample and we expect fund flows to move to Asia given that it is under-owned, earnings momentum is strong and a weak USD.

While there are reasons to be positive, the risks are: a) a persistent rise in risk-free rate beyond a certain level could trigger a correction in risk assets and b) the pace and degree of recovery in earnings and economic activities as market participants have priced in some of these.

Strategy

We are fully invested and favour growth-oriented stocks. As we think the rally will broaden out this year, we have been adding stocks beyond the well-known tech companies in the areas of consumer spending and suburban malls in Hong Kong. We have been deploying cash from inflows amidst the market correction which we deem as temporary to ensure we are fully invested. Our focus is on (1) innovators in their respective fields such as in internet (education, digital healthcare, ecommerce) and hardware (semiconductors and electric vehicle batteries), (2) market share gainers in subsectors such as consumer, industrial automation, semiconductor, etc and (3) companies with stable earnings growth and good dividend yield.

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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