

Principal Islamic Asset Management (Ireland) (PLC)

Islamic Asia Pacific Dynamic Income & Growth Fund

I Class October 2021

Market Review

MSCI AC Asia ex Japan Islamic Index was flat in US\$ terms in October. The 10-year bond yield rose marginally by 7bps to 1.55%, its third month of ascent as we approach the US bond tapering program towards yearend. Most energy prices across oil, coal and natural gas rose during the month on continued shortage but attempts are made to cool off prices such as that observed in coal in China.

Fund Review

In October, the Fund rose 2.5% in US\$ terms. Most countries posted positive returns for the fund except for India and South Korea. Sector wise, Consumer Discretionary, Information Technology and Communication Services performed the best. Year-to-date, the Fund posted a return of 5.2% in US\$ terms.

Portfolio Outlook and Strategy

Outlook

- 3 key points for Asian equity markets in 2022:-
 - ✓ China is key, and our view is that peak regulatory risk has passed. Government intervention has been extraordinarily broad and appears mostly done in reasserting authority of the state, restraining the power of the super rich, re-directing investments and reforming policies to encourage common prosperity.
 - ✓ Investor positioning is light, particularly in China. Compared with 3 months ago, there is now some risk to being very underweight in China given idiosyncratic factors could drive markets. Indeed, no further news would be good news for the market.
 - ✓ Valuations look undemanding considering an improving growth outlook. Economic growth should recover post re-opening. FY22 P/E is at 14x and Asian earnings growth is forecast at 9%
- Risks:-
 - ✓ A growth scare due to Covid or policy mistake.
 - ✓ Credit issues in the offshore Chinese property sector could spread to the onshore market. We believe the People's Bank of China will intervene should this happen.
 - ✓ US Treasury yields could jump if higher inflation proves sticky.
 - ✓ US-China relations remain frosty

Strategy

We remain fully invested and continue to diversify our holdings across countries and businesses to improve our portfolio's resilience. During the month, we topped up on renewables exposure, ASEAN telco and initiated position in a niche tech hardware company in electronic displays. We funded these purchases by right-sizing certain exposures where valuations are getting lofty.

The Fund is positioned structurally in the following areas: 1) Innovators and market share consolidators in their respective fields e.g Asian Internet and semiconductor and power tools in the US 2) Consumption oriented stocks in China and India which are positioned in growing sub-sectors (e.g. duty-free, jewellery, athleisure). These are countries which have deep domestic economies with population and demographic advantages; 3) Defensives, e.g. ASEAN telcos, fiber broadband network operator in Singapore, HK suburban mall operator.

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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