Principal Islamic Asset Management (Ireland) (PLC)

Islamic Global Responsible Equity Fund

I Class February 2024

Market Review

MSCI ACWI Islamic Index appreciated by 3.27% in USD terms in February, mainly driven by outperformance of Information Technology and Industrials. The US 10-year bond yield rose 34bps higher to 4.25%. The Dollar Index rose to 104.15 while Brent oil price rose 2.3% to US$83.62/ barrel.

Fund Review

In February 2024, the Fund value appreciated by 3.34% in USD terms. On relative basis, the fund added value through our stock selection in Information Technology, Healthcare, Industrials and Materials. From a country allocation perspective, positive stock selection results in the US added most value, more than offset the value detracted from Japan, Belgium, and Finland.

Portfolio Outlook and Strategy

Outlook

The US Fed is staying patient in its approach to cutting rates. US inflation is easing slowly with core PCE in January at +2.8% yoy (Dec +2.9%, Nov +3.2%). Labor markets still appear tight, and the US consumer is healthy. Real GDP will probably grow at +1.8% annual rate (a slowdown from +3.2% in 4Q23) but still slightly above trend.

In Europe, ECB President Lagarde noted underlying inflation has continued to decline and is expected to moderate further over the course of the year. As Europe is barely avoiding recession, it is likely that the rate cuts will be more urgent than the US, aimed at stabilising the economic growth.

In Asia, markets could be rangebound in the first quarter as earnings revision for 2024 continue to trend south and China's economy remains pressured by weak property markets and soft confidence. Downside appears limited because sentiment is subdued and positioning is light.

China's economy is soft and the outlook hinges critically on government policies. With the economy in deflation, the People's Bank of China (PBoC) has some room to cut rates more aggressively. In Feb, it cut the 5-yr loan prime rate (LPR) by 25bp, which was the largest cut since the LPR reform in 2019. The central bank's claims on commercial banks has also risen significantly since 4Q23. The PBoC is expanding its balance sheet, using various lending facilities to pump liquidity into the banking system. China set its 2024 GDP growth target at 5% at the recent National People's Congress policy meeting in March. The official fiscal deficit target is 3.0% in 2024 (vs ~3.8% in 2023). The growth target will be challenging to meet unless more fiscal and monetary stimulus is carried out, which we think is likely over the next 6 months.

Strategy

As we look to 2024, we expect to see increasing divergence in performance between companies as they contend with the tension between growth and interest rates. With a playbook that is no more certain this year than last, our dominant eye remains on company-level fundamentals and investing in advantaged businesses that can:- maintain a strong balance sheet, grow their sales, generate ample free cash flow, outmaneuver the competition, invest in long term growth, and/or consistently return capital to shareholders.

We see structural change opportunities such as in de-globalization/near-shoring and decarbonisation. We believe we are in the midst of a generational change in global trade flows, as the West reduces its reliance on China and Russia. The U.S., Japan, and Europe should all experience expanding manufacturing bases. As the re-shoring trend accelerates and duplication in global supply chains increases, it will be a net benefit to global companies with the expertise in the capital equipment that will be needed to drive a manufacturing renaissance outside China.

Despite Japan experiencing some economic slowdown, there are increasing signs that inflation and wage increases may be sustainable in 2024. Sustainable nominal wage growth is expected to lift household real income and support a virtuous cycle between wage and price increases. This may lead to the BOJ exiting its Negative Interest Rate Policy, although the shift is anticipated to be gradual to prevent market disruption. Although short-term volatility in currency markets is likely, Japan remains attractive with corporate governance reforms and a virtuous cycle between wage and price increases as the key drivers.

In our opinion, artificial intelligence (AI) is a structural trend but following a significant valuation re-rating for many known to be "intertwined" in the opportunity, earnings growth will remain the key over the long run. As the technology improves and additional features / functionalities are developed, generative AI will be embedded across wide swaths of the economy. The total addressable market remains very large globally with sizable monetization potential. Generative AI is highly computer-intensive from both an algorithm training and content creation perspective. This level of data creation necessitates the need for significantly more GPUs relative to other computational / training workloads. The long-term structural change remains relevant, but the key will be picking the winners from the losers as so many have significant aspirations.

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.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

This material may contain 'forward-looking' information that is not purely historical in nature and may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

The interest rate used is a general economic indicator that will have an impact on the management of the Fund regardless whether it is a Shariah-compliant Fund or otherwise. It does not in any way suggest that the Fund will invest in conventional financial instruments. All the investments carried out for the Fund are in accordance with Shariah requirements.

Proprietary model output is based upon certain assumptions that may change, are not guaranteed and should not be relied upon as a significant basis for an investment decision. Forecasts for each asset class can be conditional on economic scenarios; in the event a scenario comes to pass, actual returns could be significantly higher or lower than forecasted. Because of the inherent limitations of all models, potential investors should not rely exclusively on the model when making an investment decision. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice
Indices are unmanaged and do not consider fees, expenses and transaction costs are not available for direct investment. The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is intent for use in:

• **The United States** by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.

• **Germany, Austria and the Netherlands** by Principal Global Investors (EU) Limited, Sobo Works, Windmill Lane, Dublin D02 K156, Ireland. Principal Global Investors (EU) Limited is regulated by the Central Bank of Ireland. **For all other European countries**, this document is issued by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority("FCA"). **In Europe**, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID). The contents of the document have been approved by the relevant entity. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (EU) Limited ("PGI EU") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGI EU, PGIE or PGI EU may delegate management authority

to affiliates that are not authorized and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority ,or the Central Bank. of Ireland.

• **In Dubai** by Principal Global Investors LLC, a branch registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as a representative office and is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organization. This document is intended for sophisticated institutional and professional investors only.

• **Singapore** by Principal Global Investors (Singapore)Limited (ACRAReg.No.199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act (Chapter 289). This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

• **Australia** by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission. This document is intended for sophisticated institutional investors only.

• **Switzerland** by Principal Global Investors (Switzerland) GmbH.

• **Hong Kong SAR (China)** by Principal Global Investors (Hong Kong) Limited, which is regulated by the Securities and Futures Commission and is directed exclusively at professional investors as defined by the Securities and Futures Ordinance.

• **Other APAC Countries**, this material is issued for institutional investors only(or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

• **India** by Principal Asset Management Private Limited (PAMC). PAMC offers only the units of the schemes of Principal Mutual Fund, a mutual fund registered with SEBI.

© 2024 Principal Financial Services, Inc. Principal, Principal and symbol design and Principal Financial Group are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company. Principal Global Investors leads global asset management at Principal®. Principal Global Asset Allocation is a specialized investment management group within Principal Global Investors.

Disclosures

The information in this document has been derived from sources believed to be accurate. It contains general information only on investment matters and should not be considered as a comprehensive statement on any matter and should not be relied upon as such. The information it contains does not take account of any investor's investment objectives, particular needs or financial situation. You should consider whether an investment fits your investment objectives, particular needs and financial situation before making any investment decision.

The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment.

All expressions of opinion and estimates in this report are subject to change without notice. This report is not intended to be, nor should it be relied upon in any way as a forecast or guarantee of future events or investment advice regarding a particular investment or the markets in general.

Persons wishing to rely upon this information should consult directly with the source of information or obtain professional advice.

All figures shown in this document are in U.S. dollars unless otherwise noted. This advertisement had not been reviewed by the Securities Commission Malaysia.