

Principal Islamic Asset Management (Ireland) (PLC)

Islamic ASEAN Equity Fund

I Class April 2021

Market Review

The Dow Jones Islamic ASEAN index strengthened, up 1.29% month-on-month (m-o-m) and 0.85% year-to-date (YTD) for the period under review. For the month of April, Malaysia (+2.01%), Singapore (+0.60%), Thailand (+0.55%) Philippines (+0.03%) recorded growth while Indonesia (-0.46%) lagged behind. Notable macro developments were:

- 1) Singapore's Purchasing Manager's Index (PMI) was at 50.9 in the month of April, further improvement from 50.8 in March. While March Consumer Price Index (CPI) expanded 0.2% m-o-m translating to a headline inflation at 1.3% year-on-year (y-o-y).
- 2) Indonesia's consumer prices went up 1.4% y-o-y in April the same as compare to 1.4% y-o-y in March. April CPI increased to 0.13% m-o-m compared to 0.08% m-o-m in March. March trade balance came in at a surplus of \$1.91 billion compared to a surplus of \$2.00 billion in February. Both exports and imports expanded 30.5% and 25.7% y-o-y, respectively in March.
- 3) Malaysia's March consumer prices went up 1.7% y-o-y, compared to 0.1% y-o-y in February. Exports expanded 31.0% y-o-y in March stronger than 17.6% y-o-y in February. The trade balance was at a surplus of MYR24.2 billion in March, up from a surplus of MYR17.9 billion in February.
- 4) Thailand's CPI came in at -0.08% y-o-y in March, with core inflation flat at 0.1% y-o-y. Exports was stronger at 15.8% y-o-y in March after a contraction of -0.2% y-o-y in February, while imports expanded by 15.1% y-o-y in March, decelerating from expansion of 23.9% in February.
- 5) Philippine's consumer prices declined 0.2% m-o-m in March from a marginal rise of 0.2% m-o-m in February. Trade balance in January remained in deficit of \$2.9 billion, after a deficit of \$2.5 billion recorded in December.

Vaccination continues to be rolled out with more government allowing private vaccination program. So far, Thailand, Indonesia and Malaysia governments indicated they will allow private sector procurement of the COVID-19 vaccines. The concern is the availability of vaccine, hence, populations vaccinated so far has been slower than expected. Coupled with resurgence of new infection, it has led to extension of mobility restriction in selective nations such as Philippines and Malaysia.

Currencies volatility coupled with rising bond yield are affecting the equity performance in Indonesia and Philippines and will continue to underperform other ASEAN markets until these two stabilize. Earnings revision has been rather mixed. Countries that managed to contain new infection are seeing upgrades and vice versa. In addition, companies exposed to commodities continued to see upgrade in earnings, in line with rising commodity prices.

Fund Review

The Fund posted a return of -0.44% in April and -2.67% YTD for the period under review. For the month of April at the country level, the key underperformance came from stock selection in Malaysia and Thailand. At the sector level, Healthcare and Industrials contributed negatively to performance while contributor was only from Utilities. Since the fund's inception, the Fund underperformed the benchmark by 3.38%.

Portfolio Outlook and Strategy

MSCI ASEAN has been trendless since February. Countries that managed to contain the COVID-19 outbreak outperformed, namely, Singapore and Vietnam. Thailand was outperforming until lately the cases started to surge largely driven by the on and off-street protests against the government. One of our key overweight, Indonesia, underperformed largely due to high active COVID-19 cases and recently due to the spike in bond yield.

The rollout of vaccine is key for the rest of ASEAN markets to recover. So far, Singapore is leading the pact followed by Indonesia. Because it is rather difficult to predict the pace of vaccine rollout within ASEAN, we construct the portfolio based on sectors and stock specific reasons, except. On sectoral basis, we remain positive on financials, energy and stocks that could benefit from the shift of manufacturing capacity from China. On top of that, we continue to lookout for companies that are exposed to digital banking, e-commerce, renewables and premiumization.

Table 1: Foreign fund flows

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines~	Thailand	Vietnam^	Total
Apr21	(276.8)	(211.3)	(265.7)	(168.1)	(49.4)	(971.3)
YTD21	(705.4)	635.6	(1,212.2)	(1,154.6)	(858.4)	(3,295.0)
2009-YTD21	(6,214.4)	4,426.9	2,498.7	(23,211.1)	2,724.9	(19,775.0)

*1 There were approximate inflows of \$4 billion in 2019 due to BDMN acquisition by MUFJ and MAPA IPO.

*2 There were approximate inflows of \$1.4 billion in May 2020 due to Bank Permata acquisition by Bangkok Bank.

^ A consortium led by KKR invested \$650 million of Vinhomes in June 2020.

~ KKR acquired \$192 million stake in First Gen Corporation in late June 2020.

Source: Bloomberg

MSCI ASEAN is currently trading at 14.3x forward Price-to-Earnings Ratio which is slightly above the 10-year historical average of 13.6x. Earnings were being revised upwards. Meanwhile, in terms of P/BV, it is still trading below 10-year average. Due to the correction, Indonesia market is beginning to look attractive again.

We believe ASEAN equities will provide investors a combination of recovery plays and long-term structural themes. Hence, we have adopted a barbell approach of cyclical and growth. As economic activities continue to improve and vaccination progresses, we are increasingly more positive on cyclical sectors and stocks benefiting from reopening such as tourism-related. Cyclical sectors include financials, consumer, energy, basic materials, real estates. We continue to like structural growth themes of ASEAN e-commerce and technology & supply chain shift. From a technical viewpoint, ASEAN has been under-performing North Asia since 2018 and we do think that 2021 will be a year where this asset class will shine simply because it is under-owned and foreign investor positioning is too underweight.

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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