

Principal Islamic Asset Management (Ireland) (PLC)

Islamic ASEAN Equity Fund

I Class August 2020

Market Review

The Dow Jones Islamic ASEAN index gained in August by -0.19% and +1.48% for the period under review. For the month of August, Philippines (+6.58%), Thailand (+0.73%), Singapore (+0.73%) outperformed, whilst Malaysia (-1.05%) and Indonesia (-0.39%) underperformed. Notable macro developments were:

- 1) Singapore's June retail sales expanded by 51.1% month-on-month seasonally-adjusted ("m-o-m sa") compared to 21.4% m-o-m sa contraction in the month of May. PMI was at 50.2 in the month of July compared to 48 in the month of June. July CPI contracted 0.3% m-o-m sa, leaving headline inflation at -0.4% over-a-year-ago ("oya"). July IP contracted 8.4% oya compared to contraction of 6.5% oya in June. Non-oil domestic exports expanded 1.2% m-o-m sa in July compared to contraction of 1.4% m-o-m sa in June;
- 2) Indonesia's July trade balance came in at a surplus of US\$3263million compared to a surplus of US\$1249million in June. Exports contracted 9.9% oya and imports contracted 32.6% oya in July;
- 3) Malaysia's exports expanded 3.1% oya in July compared to expansion of 8% oya in June. The trade balance printed a surplus of MYR25.2billion in July, up from a surplus of MYR20.9billion in June. Malaysia's industrial production contracted 0.4% oya in June, up from -21.6% oya in May;
- 4) Thailand's July trade balance printed a surplus of US\$4.1 billion compared to a US\$2.3 billion surplus in June. The current account balance for July came in at US\$1.8billion surplus compared to a deficit of US\$0.2billion in June;
- 5) Philippines' Overseas foreign worker (OFW) remittances came in at 7.7% oya in June. Trade balance in June printed a deficit of US\$1.3billion versus a deficit of US\$1.3billion in May. The foreign exchange reserves for July stood at US\$98billion compared to US\$93billion in June;

Fund Review

The Fund posted a return of -0.03% in August and -7.92% for the period under review. For the month of August, at the country level, the key outperformer came from stocks selection in Indonesia and Malaysia. At the sector level, Basic Materials, Industrials and Oil & Gas sectors contributed positively to performance in the month under review. Since the fund's inception, the Fund has outperformed the benchmark by +0.83%.

Portfolio Outlook and Strategy

Movement control order is still in place in most of ASEAN countries, but it is slowly being relaxed, hence, activities continue to pick up. The next stage is on border control, whereby we started to see some sort of border opening with some SOP being imposed such as quarantine plus testing. We do not expect a surge in tourism activities but at least the worst is over. Consolidation in tourism sector is expected once government's subsidies expire.

All eyes on 2020 Jackson Hole Central Bank Symposium for new guidance on the interest rate and QE outlook. US Federal Reserve announced a major policy shift that it is willing to allow inflation run hotter than normal. This guidance will set the tone for the rest of the central bankers, especially EM nations, on their policy rates in the coming months. Expect for further easing.

Selective industries reported stronger than expected orderbook from existing clients plus new clients. This could be due to the US-China tensions and incentives by Japanese government to move capacity from China to elsewhere such as ASEAN.

Companies affected by lockdown reported weaker than expected earnings in sectors such as construction, tourism-related and retailers, meanwhile, exporters and selective banks especially large banks in Indonesia reported stronger than expected earnings. On a positive notes, despite being cautious, more and more companies are guiding for stronger than expected recovery.

ASEAN markets continue to see foreign outflows in the month of August. ASEAN currencies and bond yields were largely stable.

Table 1: Foreign fund flows

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines~	Thailand	Vietnam^	Total
Jan20-Jul20	(4,227.3)	(1,303.1)	(1,450.2)	(6,796.6)	(186.3)	(13,963.5)
Aug20	(326.2)	(503.2)	(227.2)	(764.9)	(90.5)	(1,912.0)
YTD20	(4,553.5)	(1,806.3)	(1,677.4)	(7,561.5)	(276.8)	(15,875.5)
2009-YTD20	(4,479.4)	5,128.1	4,459.2	(22,035.5)	4,118.7	(12,809.0)

*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 15.35x forward Price-to-Earnings Ratio which is now above the 10-year historical average of 13.5x, despite MSCI ASEAN has not recovered to the pre-COVID level, because of downward revision in earnings. In terms of Price to Book Value, MSCI ASEAN is still trading at 1.40x, well below the 10-year historical average of 1.78x.

News on the progress of vaccine trials will be more prominent as we enter September as various vaccine developers are in Phase 2 & 3 testing. Hope of an earlier than expected breakthrough on vaccine will help to lift sentiment across the board for risk assets. Hence, tactically, we expect sentiment towards sectors that were hit by COVID-19 outbreak to improve. The sustainability of the shift in flows to these sectors will depend largely on the availability of the vaccine to the masses especially to the vulnerable ones. Till then, the volatility is expected to increase as the market participants will be deciding between COVID-19 outbreak beneficiaries and losers amidst the development of vaccine globally.

For ASEAN ROI strategy, we continued to approach the markets with barbell approach through investing in high dividend yielders and companies with strong balance sheet to weather through the crisis. Recently, we added into bombed out stocks that were affected by COVID-19 outbreak such as airport. As sentiment improves from vaccine development and rising economic activity, we are looking to add into cyclical sectors namely infrastructure plays and cement producers.

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All figures shown in this document are in U.S. dollars unless otherwise noted.