

Principal Islamic Asset Management (Ireland) (PLC)

Islamic ASEAN Equity Fund

I Class December 2020

Market Review

The Dow Jones Islamic ASEAN index gained in December by +2.26% and +10.06% for the year under review. For the month of December, Thailand (+7.35%), Indonesia (+4.53%) and Philippines (+3.18%) outperformed, whilst Malaysia (-1.59%) and Singapore (+0.94%) underperformed. Notable macro developments were:

- 1) Singapore Purchasing Managers' Index ("PMI") was 50.4 in November compared to 50.5 in October. Non-oil domestic exports expanded 3.80% month-on-month seasonally-adjusted ("m-o-m sa") in November compared to contraction of 5.40% m-o-m sa in October;
- 2) Indonesia's November trade balance came in at a surplus of USD2,613 million compared to a surplus of USD3,576 million in October. Exports expanded 9.50% over-a-year-ago ("oya") and imports contracted 17.50% oya in November;
- 3) Malaysia's trade balance printed a surplus of MYR16.8 billion in November, down from a surplus of MYR22.1 billion in October. Malaysia's industrial production contracted 0.50% oya in October, down from 1.00% oya in September.;
- 4) Thailand's November trade balance printed a surplus of USD1.9 billion compared to a USD3.5 billion surplus in October. The current account balance for November came in at a USD1.5 billion deficit compared to a surplus of USD1 billion in October;
- 5) Philippines' Overseas foreign worker ("OFW") remittances came in at 2.90% oya in October. The trade balance in October printed a deficit of USD1.8 billion. The foreign exchange reserves for November stood at USD104.8 billion compared to USD104 billion in October;

Fund Review

The Fund posted a return of +1.02% in December and -1.37% for the period under review. For the month of December, at the country level, the key underperformer came from stock selection in Thailand. At the sector level, stocks selection in Industrials sector contributed negatively to performance in the month under review. The underperformance for the month was largely due to one stock, Delta Electronics (Thailand) Public Co. Ltd. which became one of the Top 5 index stocks in Thailand in a matter of one month. This particular stock accounted for 1.96% of underperformance and if we exclude it, the Fund actually outperformed the benchmark. Since the fund's inception, the Fund has underperformed the benchmark by -0.55%.

Portfolio Outlook and Strategy

A few vaccines were approved, and it is now being administered in a few countries. It is expected to take at least more than 6 months for the world to reach herd immunity. Hence, 2021 is just the first year of multi-years of economy and earnings recovery.

Agricultural prices continue to improve and countries such as Indonesia, Thailand, Malaysia and Philippines that are highly dependent on will eventually start to see improving farm incomes. This will translate better spending in the future.

Both Indonesia and Philippines cut interest rate by 25 basis points to 3.75% and 2.00% in November, respectively. Market continue to expect another cut by Bank Indonesia in the coming months.

Results reported are better than expected especially from the financial sector followed by technology and plantation sectors. Hence, earnings were being revised upwards.

ASEAN markets reverted to foreign outflows in the month of December but in smaller amount compared to earlier months. ASEAN currencies continued to strengthen while bond yield stable. Seasonally, ASEAN markets perform best from November to January period based on historical performance.

Table 1: Foreign fund flows

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines~	Thailand	Vietnam^	Total
Jan20-Nov20	(5,435.1)	(2,863.7)	(2,255.1)	(7,663.9)	(633.2)	(18,851.0)
Dec20	(148.0)	(279.3)	(170.7)	81.5	(179.0)	(695.5)
YTD20	(5,583.1)	(3,143.0)	(2,425.8)	(7,582.4)	(812.2)	(19,546.5)
2009-YTD20	(5,509.0)	3,791.4	3,710.8	(22,056.4)	3,583.3	(16,480.0)

*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 14.25x forward Price-to-Earnings Ratio which is now above the 10-year historical average of 13.6x. Earnings were being revised upwards. Meanwhile, in terms of Price-to-Book Value, it is still trading below 10-year average.

In term of 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 companies that are benefiting from the US-China tension and rising e-commerce trade such as Electronic Manufacturing Services company and logistic provider. As sentiment continues to improve from vaccine development and rising economic activity, we continue to add into cyclical sectors namely infrastructure plays, coal miners and cement producers.

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