

Principal Islamic Asset Management (Ireland) (PLC)

Islamic ASEAN Equity Fund

I Class January 2021

Market Review

The Dow Jones Islamic ASEAN index gained in January by +0.29% and +0.29% for the year under review. For the month of January, Thailand (+1.30%) outperformed, whilst Indonesia (-0.84%), Malaysia (-0.20%), Philippines (-0.13%) and Singapore (+0.16%) underperformed. Notable macro developments were:

- 1) Singapore Purchasing Managers' Index ("PMI") was at 50.5 in the month of December compared to 50.4 in the month of November. Non-oil domestic exports expanded 6.6% month-on-month seasonally-adjusted ("m-o-m sa") in December compared to expansion of 3.7% m-o-m sa in November;
- 2) Indonesia's December trade balance came in at a surplus of USD2,101 million compared to a surplus of USD2,595 million in November.;
- 3) Malaysia's the trade balance printed a surplus of MYR20.7 billion in December, up from a surplus of MYR17.1 billion in November. Malaysia's industrial production contracted -2.2% over-a-year-ago ("oya") in November, down from -0.5% oya in October.;
- 4) Thailand's December trade balance printed a surplus of USD2.8 billion compared to a USD1.9 billion surplus in November. The current account balance for December came in at USD0.7 billion deficit compared to a deficit of USD1.5 billion in November.;
- 5) Philippines' Overseas foreign worker ("OFW") remittances came in at 0.3% oya in November. Trade balance in December printed a deficit of USD2.2 billion versus a deficit of USD1.7 billion in November. The foreign exchange reserves for December stood at USD110.1 billion compared to USD105 billion in November.;

Fund Review

The Fund posted a return of -1.17% in January and -1.17% for the period under review. For the month of January, at the country level, the key underperformer came from stock selection in Thailand. At the sector level, stocks selection in Industrials and Healthcare sectors contributed negatively to performance in the month under review. Since the fund's inception, the Fund has underperformed the benchmark by 2.95%.

Portfolio Outlook and Strategy

More COVID-19 vaccines have been approved and are now being administered by more countries. In the region, Singapore is the one of the earliest countries in terms of vaccination roll-out. Hence, 2021 is just the first year of multi-years of economy and earnings recovery. Malaysia, Thailand, Indonesia and Vietnam recently selectively re-tightened social distancing rules with varying degrees in selective locations, in response to new infections of COVID-19. The impact on economies will be less than that of last year, given the experience in handling COVID-19 to avoid a disruptive lockdown.

Agricultural prices continue to improve and countries such as Indonesia, Thailand, Malaysia and Philippines that are highly dependent on agricultural prices, will eventually start to see improving farm incomes. This will translate into better consumer spending in the future. As Indonesia continues to implement its reform, we expect to see more positive news from initiatives such as Omnibus Law and sovereign wealth fund, which would further promote job creation and facilitate foreign and domestic investment in Indonesia.

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

ASEAN markets saw foreign outflows in the month of January except Indonesia. ASEAN currencies and bond yields were generally stable.

Table 1: Foreign fund flows

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines~	Thailand	Vietnam^	Total
Jan21	(206.4)	775.2	(272.6)	(364.6)	(149.0)	(217.4)
YTD21	(206.4)	775.2	(272.6)	(364.6)	(149.0)	(217.4)
2009-YTD21	(5,715.4)	4,566.6	3,438.2	(22,421.0)	3,434.3	(16,697.4)

*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 14.1x 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 Price-to-Book Value, it is still trading below 10-year average.

For ASEAN absolute return strategy, 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 cyclicals 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 underperforming 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. Secondly, recent inflows into the bond markets in certain ASEAN markets like Indonesia, Malaysia and Thailand suggest to us that these are lead indicators for potential equity inflows.

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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