Principal Islamic Asset Management (Ireland) (PLC)

Islamic ASEAN Equity Fund

I Class May 2020

Market Review

The Dow Jones Islamic ASEAN index gained in May by +6.91% and -10.77% for the period under review. For the month of May, Malaysia (+13.62%) outperformed, whilst Indonesia (-1.27%), Philippines (+0.07%), Thailand (+4.81%) and Singapore (6.64%) underperformed. Notable macro developments were:

1) March retail sales contracted by 1.3% month-on-month (m-o-m) seasonally adjusted compared to 8.4% month-on-month seasonally adjusted contraction in the month of February. Purchasing Managers Index was at 44.7 in the month of April compared to 45.4 in the month of March. Meanwhile, non-oil domestic exports contracted 5.80% m-o-m seasonally adjusted in April compared to expansion of 12.80% m-o-m seasonally adjusted in March;
2) Indonesia's April trade balance came in at a deficit of $345 million compared to a surplus of $716 million in March. Exports contracted 7.00% over a year ago and imports contracted 18.60% over a year ago in April;
3) Malaysia's trade balance printed a surplus of MYR12.3 billion in March, down from a surplus of MYR12.6 billion in February. Malaysia's industrial production contracted 4.90% over a year ago in March, down from 6.20% over a year ago in February;
4) Thailand's April trade balance printed a surplus of $2.5 billion compared to a $2.3 billion surplus in March. The current account balance for April came in at $0.7 billion deficit compared to a surplus of $0.7 billion in March. Exports contracted 3.30% over a year ago in April compared to contraction of 2.20% over a year ago in March while imports contracted 17.00% over a year ago in April compared to expansion of 4.40% over a year ago in March;
5) Philippines' trade balance in March printed a deficit of $2.4 billion versus a deficit of $1.7 billion in February. The foreign exchange reserves for March stood at $89 billion compared to $88 billion in February.

Fund Review

The Fund posted a return of +4.19% in May and -17.78% for the period under review. For the month of May, the key underperformer came from SEA Limited which is listed in the US market and partly due to high cash level. Due to the existing mandate, we are not allowed to invest in securities that are listed outside of ASEAN markets even though bulk of the business operation resides in ASEAN. SEA Limited is one of them and it accounts for 8.20% of the benchmark and it has gained 98.40% year-to-date. This one stock alone contributed 4.69% underperformance for the fund. Since the fund's inception, the Fund has outperformed the benchmark by +2.21%.

Portfolio Outlook and Strategy

COVID-19 outbreak is improving especially in Vietnam, Malaysia followed by Thailand. Most have passed the peak of infection. Now, governments in the region are looking to ease on the lockdown. Even though, the worst is not over but at least it is improving. Risks are people fail to stick to the social distancing measures and hygienic practices.

Anecdotal evidence showing there is pent up demands as economies restart being restaurant being booked out, auto sales stronger than expected or even property sales doing better than expected. Given COVID-19 is unprecedented, however, most ASEAN markets entered the crisis with much stronger positionings coupled with developed markets central bankers and governments committed to do all they can to save the economies from going into deflation.

Governments in the region continued to announced stimulus packages to further aid the small and medium-sized enterprises and the affected employees.

In terms of earnings, consensus are still in the midst of revising down their estimates and more and more companies are unavailable to provide any guidance as they are still assessing the impact of this outbreak.

FF Nett Flows (USD'mil)	Malaysia	Indonesia*	Philippines	Thailand	Vietnam	Total
Jan20-Mar20	(1,550.60)	(1,825.30)	(805.30)	(4,094.70)	(554.60)	(8,830.5)
Apr20	(689.0)	552.2	(165.5)	(984.1)	(78.7)	(1,365.1)
YTD20	(2,239.6)	(1,273.1)	(970.8)	(5,078.8)	(633.3)	(10,195.6)
2009-YTD20	(2,165.5)	1,661.3	5,165.8	(19,552.8)	3,761.7	(11,129.5)

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

** There were approx. inflows of $1.4bil in May 2020 due to Bank Permata acquisition by Bangkok Bank.

ASEAN markets continue to see foreign outflows in the month of May, but it is improving towards the end of the month. ASEAN currencies moved from stable to appreciation for the like of IDR, MYR and THB, meanwhile, Dollar Index is showing sign of pivoting, whereby risk appetites will increase as Dollar Index declines. Recently, it broke below 200 moving average. Individual country's spread, bond yield and FX movements continued to improve but not on equity earnings. The latter will likely trough as we get closer to COVID-19 containment.

As MSCI ASEAN continued to rebound, it is currently trading at 15.03x PER which is now above 10-year average. The countries that still trading below historical average are Singapore, Indonesia and Philippines. The rich valuations were largely driven by downward revision in earnings and partly by market movement. In terms of Price to Book Value, MSCI ASEAN is still trading below historical average.

As more and more countries looking to ease on the lockdowns, economic data in the coming months is expected to show recovery coming from the depressed level for March-May period. Taking a cue from China, cyclical sectors tend to outperform during this period of recovery and ASEAN markets being cyclical-biased will benefit the most in Asia region. Coupled with the negative correlation to USD movement and abundant liquidity in the system, we have upgraded ASEAN markets to a BUY.

Furthermore, despite the cuts in dividend, ASEAN markets still deliver one of the highest dividend yield globally and will stand out in a low interest rate environment. Lastly, ASEAN markets could be a hedge against China/ Hong Kong markets amidst geopolitical tensions between US-China.

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 deployed into Vietnam as the country was the first to report the peaking of COVID-19 infections in the region and one of the beneficiaries from the shift of FDIs out of China. Furthermore, we continue to add into companies with strong franchise names that managed to grab market shares from the peers given the strong balance sheet and cost management.

Disclosures