

## CIMB - Principal Islamic Asset Management (Ireland) (PLC)

# Islamic ASEAN Equity Fund

| Class March 2019

### Market Review

The Dow Jones Islamic ASEAN index was down in March by -0.80%. For the month of March, Singapore and Philippines outperformed, whilst Indonesia, Thailand and Malaysia underperformed. Notable macro developments were:

- 1) Philippines President Duterte has appointed former Budget Secretary Benjamin Diokno as BSP Governor, replacing the late Nestor Espenilla, Jr. Diokno is the first non-BSP official to be elected since 1999;
- 2) The overnight lending and deposit facilities were also held steady. Philippines central bank, BSP, noted that inflation expectations have continued to stabilize within the target band. BSP cut its 2019 inflation forecast to 3.0%. They also highlighted risks to GDP growth from the on-going budget impasse;
- 3) Bank Indonesia kept its policy rate steady at 6.0%. However, Bank Indonesia has increased the macro prudential intermediation ratio (MIR) to 84-94% from 82-92%, effective July 1. JP Morgan economist now expects: 1) a reserve requirement cut, especially if the system liquidity does not rise, and 2) 7-day Repo Rate to be unchanged in FY2019, vs. previously a 25 basis points hike;
- 4) There were five Indonesia election surveys released in March: 1) Saiful Muljani Research & Consulting with Jokowi/ Prabowo at 57.6%/31.8%. 2) Kompas 49.2%/37.4%, while noting a gain for Prabowo-Sandiaga pair compared to Oct-18 survey. 3) Indo Barometer 50.2% and 28.9%. 4) CSIS 51.4% and 33.3%. 5) Charta Politika 53.6% and 35.4%;
- 5) Thailand held its first election since 2014 on Sunday, March 24. According to preliminary results reported by the Bangkok Post, Pheu Thai won the most seats, PPRP came in second with a slight differential from Pheu Thai, and Future Forward Party came in third place. The Election Commission reported on March 28 the pro-military Palang Pracharath Party won the popular vote with 8.4 million, topping 7.9 million for Pheu Thai Party. Voter turnout was 75%;
- 6) The Bank of Thailand held the benchmark policy rate at 1.75% as expected. In contrast to the prior meeting, the decision was unanimous, with two committee members who had voted for a hike in February no longer doing so;

### Fund Review

The Fund posted a return of -0.24% in March and +7.61% for the financial period under review. For the month of March, at the country level, the key outperformers came from Indonesia, Thailand and Malaysia. At the sector level, Industrials, Healthcare and REITs sectors contributed positively to performance in the month under review. Since the fund's inception, the Fund has outperformed the benchmark by +10.63%.

### Portfolio Outlook and Strategy

Thailand just concluded their first election since 2014. However, it is rather messy as both major parties, pro-military and anti-military aka pro-Thaksin, are claiming to be the new government. At the moment, no office results being released yet and based on latest count, General Prayut will still be the Prime Minister. However, it will be a weak coalition. This is one of the reasons for underperformance in Thailand market.

This month, all eyes will be on Indonesia Presidential election on 17 April 2019. Based on latest survey, incumbent President Joko Widodo is still leading by huge margin of 18.8%. Regardless, post the election, government will start focusing on growing the economy. As compared to 2018, Indonesia will face a much friendlier market condition. There is room for Bank Indonesia to cut rates in 2H19 and government to embark on fiscal spending. Similarly, economists are expecting rate cuts in Philippines. However, if the rally in crude oil prices sustain, then there is a risk to both Indonesia and Philippines.

With a rebound in China PMI that indicates a recovery in growth, Singapore is best positioned in ASEAN together with Vietnam. Lastly, foreigners continue to shun away from Malaysia due to lack of growth and rich valuations. However, there are pockets of opportunities in construction and energy sectors as we started to see contracts being awarded by government and Petronas.

MSCI ASEAN underperformed due to the foreign outflows to North Asia coupled with domestic issues. ASEAN ex Singapore saw net outflows of USD684mil for the month of March. However, Indonesia, Philippines and Vietnam saw inflows.

We deployed money into sectors that had corrected in Indonesia, Singapore and Thailand. We expect a short rally in JCI if President Joko Widodo manages to hold on to his position. We are watching closely on Malaysian market due to its underperformance and if the new government could get their acts together and focus on growing the economy, there is a chance for Malaysia to play a catch-up.

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