

# ASEAN Growth Fund

An investment fund option for variable life insurance products of **The Manufacturers Life Insurance Co., (Phils), Inc.**

## Investment Objective

The objective of this Fund is to generate long-term capital growth through investments in equity and equity-related securities of companies incorporated in countries which are members of ASEAN as well as companies incorporated outside ASEAN but with material exposure to ASEAN markets. The Fund may hold cash and fixed income instruments for liquidity management purposes.

## Fund Information

<b>Inception Date</b> November 2012	<b>Fund Size</b> USD 57.93 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.574	<b>Management Fee</b> 2.25% per annum	<b>Bloomberg Ticker</b> MPUSAGF	
<b>Investment Fund Manager (the "Manager")</b> Manulife Investment Management (Hong Kong) Limited			

## Performance Return (April 30, 2022)

ASEAN Growth Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-1.07%	-2.11%	0.77%	18.88%	42.57%	57.40%
Annualized	n.a.	n.a.	0.77%	5.93%	7.35%	4.93%

## Why ASEAN markets

- **We know the ASEAN markets well:** With presence in the key ASEAN-6\* and Greater China markets, we have in-depth knowledge and understanding of the region.
- **An under-appreciated side of Asia:** ASEAN\*\* markets' current growth and return opportunities are yet to be fully appreciated by the investment community.
- **Big market, young consumers:** With close to half the population of China, Southeast Asia's population of approximately 600 million constitutes a huge market with a perceived steadily increasing purchasing power. Observed rising income and high savings rates in the region highlight the potential to convert into investments and consumption.

\*ASEAN-6 includes Singapore, Thailand, Indonesia, Vietnam, Malaysia and Philippines.

\*\*Predominantly represented by Indonesia, the Philippines, Thailand, Malaysia, and Singapore

## Top Ten Holdings

	%
PT Medikaloka Hermina Tbk	3.33
Raffles Medical Group Ltd	3.30
SIA Engineering Co. Ltd.	3.14
Mapletree Industrial Trust	3.04
Com7 Public Co. Ltd.	3.00
Eastern Polymer Group Public Company Ltd	2.93
PT Sumber Alfaria Trijaya	2.88
Sheng Siong Group Ltd.	2.83
TIME dotCom Bhd.	2.76
Uchi Technologies Bhd.	2.72

## Sector Allocation<sup>^</sup>

	%
Real Estate	17.26
Consumer Staples	14.24
Healthcare	14.08
Industrials	11.11
Consumer Discretionary	9.38
Information Technology	8.35
Financials	7.64
Communication Services	5.28
Materials	4.18
Energy	3.26
Utilities	0.96
Cash & Cash Equivalents	4.26

## Geographical Allocation<sup>^</sup>

	%
Singapore	28.31
Thailand	20.84
Indonesia	19.50
Malaysia	15.69
Philippines	8.89
Vietnam	2.51
Cash & Cash Equivalents	4.26

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

ASEAN small cap equities moved lower on a negative cocktail of macro risks in April. The economic impact of the continued Russia-Ukraine conflict and a potentially more aggressive Federal Reserve dented appetite for equities globally. After posting an elevated 8.5% (year-on-year) inflation print in March, Federal Reserve governors assumed an aggressive stance towards inflation, leading many market observers to posit that rate hikes may be larger in size (50 basis points) and front-loaded to mitigate rising pricing pressure.

Indonesian equities were the only regional market to post gains for the month. Equities rose on the back of dual tailwinds: rising commodity prices continued to help support the economy and support the currency through improved terms of trade and a current account surplus, while economic reopening benefited sectors such as financials. Foreign portfolio inflows also served as a positive catalyst with an increase of US \$2.7 billion in April driven by earning upgrades. On the policy front, the government banned exports of crude palm oil for an indefinite period until domestic prices ease.

Malaysian equities posted losses for the month but outperformed regional peers. Although Malaysia moved lower like other emerging markets, several positive catalysts emerged. The market's strong commodity base has led to a stronger than expected trade surplus, posting a US\$ 6.4 billion trade surplus in March. In addition, Malaysian palm oil producers are expected to directly benefit from Indonesia's indefinite ban.

The Philippines equity market moved lower for the month. Concerns over inflation continued to overshadow themes of economic recovery. A REIT featuring shopping malls and office buildings filed for an IPO in April, which would be the largest since late 2021.

Singapore equities moved lower for the month. Real estate and industrials beat the market, telecom and consumer staples lagged. Equities moved lower on the back of macro and inflation concerns. In response, the Monetary Authority of Singapore further tightened its monetary policy by recentering the midpoint of the NEER and steepening the slope. On the economic front, GDP grew by 3.4% (year-on-year) in the first quarter.

Thailand's equity market moved lower for the month. The government continued to loosen restrictions on COVID-19 to boost tourism, dropping the requirement for a test for visitors to enter the country.

## Outlook

Global events took an unexpected turn in 1Q22. The Russia-Ukraine conflict and resulting geopolitical stress have further complicated the macro landscape for 2022. The extended disruption to global supply chains, exacerbated by the recent resurgence of COVID-19 cases in China and surge in commodity prices have amplified the risk of inflation. Many central banks in the developed countries are pushing ahead with monetary policy normalization. In fact, the Fed has doubled down on hawkishness. The pace of interest rate hike and quantitative tightening is expected to accelerate in subsequent months. In our view, the interaction of soaring inflation, rising interest rates, debt problems in the developing world and the lingering coronavirus could create unpredictable outcomes and create unanticipated problems. Tightening in this environment raising the downside risks to economic growth.

There are many factors rattling the financial system currently. There may be vulnerabilities lurking that are not immediately evident, and we would not know their nature until shocks expose them, and the financial ramifications should not be taken lightly, in our view. Liquidity growth has slowed markedly in recent months—from a record 21.5% in March 2021 to 5.4% by mid-March 2022, the slowest rate since April 2020 (source: MIM 2Q22 Global Macro Outlook Report). A declining global liquidity impulse is most relevant to emerging market (EM) GDP growth, earnings, and risk assets.

We expect positive earnings revision in equity markets leveraged to higher commodity prices and post-COVID recovery. ASEAN markets may see further earnings revisions upgrades amidst further recovery through reopening and double-digit retail sales growth.

Against the backdrop of heightened risk and greater uncertainty, the fund puts great emphasis on paying a reasonable price for stocks with strong fundamentals and good quality management. We like companies with the following attributes:

- Have strong market position,
- Operates in sectors with high entry barriers,
- Possess strong pricing power,
- Have the ability to defend or improve profitability through product upgrades and innovations and,
- Have spare cash to confront any untoward incidents from external shocks.

ASEAN remains the bright spot in the region. Thanks to high vaccination rates, most countries in the region are on track to re-open their borders and domestic economies. Economic activities have gathered pace and companies affected by lockdowns, particularly companies in the transportation sector, are seeing improvement in business operations. Banks across the region have seen improvement in asset quality and pick up in loan growth. We expect to see earnings upgrades among major banks in Indonesia, thanks to a better-than-expected improvement in asset quality. While banks in Singapore may receive a boost from rising interest rates, near term earnings may be dampened by lower fee income as capital market activities slowed during 1Q22. We expect domestic consumption in the region to recover from a low base in 2020 and 2021. In fact, a few of the consumer companies have delivered earnings that exceeded pre-COVID levels in FY21. Within the sector, we prefer retailers to producers as retailers have wider options in terms of managing cost inflation, either through procurement of lower cost merchandise from cheaper sources or a direct pass-through to consumers. Medical tourism is also expected to recover as borders reopen in ASEAN. Hospitals in Thailand are taking patients from the Middle East again and we expect recovery in Singapore hospitals to follow in due course. While commodity related stocks in ASEAN have performed strongly on the back of supply shock arising from the Russia-Ukraine conflict, we are reluctant to participate in this rally. Factors driving price reaction in the commodity space may change very quickly within a short period of time, as evidenced by the recent decline in oil prices. We are also wary investing in high growth stocks with long payback duration as growth may be disrupted by lack of access to cheap capital amid quantitative tightening and valuations may de-rate on the back of higher risk premiums.

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## Disclaimer

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