

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

Inception Date November 2012	Fund Size USD 43.02 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.472	Management Fee 2.25% per annum	Bloomberg Ticker MPUSAGF	
Investment Fund Manager (the "Manager") Manulife Investment Management (Hong Kong) Limited			

Performance Return (April 30, 2024)

ASEAN Growth Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-2.58%	-5.58%	-5.22%	-5.76%	11.18%	47.20%
Annualized	n.a.	n.a.	-5.22%	-1.96%	2.14%	3.44%

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

	%
Manulife Global Fund SICAV - ASEAN Equity Fund -I3-Distribution	5.82
Frasers Centrepoint Trust	3.67
United Overseas Bank Limited	3.56
Metropolitan Bank & Trust Co.	3.55
Sheng Siong Group Ltd.	3.23
IGB Real Estate Investment Trust	3.18
WHA Corporation Public Company Limited NVDR	3.10
Taokaenoi Food & Marketing Public Company Ltd NVDR	3.03
Chularat Hospital PCL	3.02
Sabina Public Co. Ltd. NVDR	2.97

Sector Allocation[^]

	%
Real Estate	22.09
Consumer Staples	16.80
Financials	11.70
Healthcare	10.03
Industrials	7.59
Consumer Discretionary	6.12
MUTUAL FUNDS/UNIT TRUSTS	5.82
Energy	2.64
Materials	2.49
Communication Services	1.64
Information Technology	1.53
Cash & Cash Equivalents	11.55

Geographical Allocation[^]

	%
Thailand	22.85
Singapore	21.21
Malaysia	16.47
Indonesia	13.48
Philippines	6.32
Unassigned	5.82
Vietnam	2.30
Cash & Cash Equivalents	11.55

[^]Figures may not sum to 100 due to rounding.

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Market Review

ASEAN small cap equities posted losses for the month. Regional equities faced headwinds as sticky inflation in the U.S., coupled with an arguably hawkish message from the U.S. Fed, catalyzed the market to recalibrate the number and timing of potential rate cuts, leading to higher yields.

Indonesia small cap equities moved lower, as the central bank unexpectedly hiked rates by 25 bps to 6.25% to support the weakening FX rate. On the other hand, March trade surplus came in better-than-expected.

Malaysia small cap equities posted gains, supported by inline Q1 2024 GDP growth (3.9% year-on-year) and continuous expansion in trade surplus.

Philippines small cap equities corrected. The central bank remained on pause as March inflation data accelerated.

Singapore small cap equities posted losses. On the economic front, Q1 2024 GDP growth (2.7% year-on-year) and non-oil domestic exports growth came in softer-than-expected.

Thailand small cap equities retreated amid moderating economic activities e.g. manufacturing production, exports. The central bank kept rates unchanged as expected.

Outlook

While the US Fed is expected to pause on further rate hike on the back of easing inflation, real interest rates are expected to remain elevated. The cumulative effects of restrictive monetary policy should not be underestimated as they work their way through to corporate and household balance sheets and international financial systems. Higher cost of servicing debt would deter consumption spending. It has also led business attitudes to gradually turning more cautious, leading to guarded capex and hiring plans.

The outlook of the global economy and markets is also clouded by political and geopolitical risks, which may be a source of volatility for ASEAN equities.

Against such backdrop, we would tread markets in the ASEAN region cautiously. Our strategy would be to invest in companies that are well-prepared for heightened uncertainties in global markets. We look for companies with the following attributes:

- Strong branding and market share.
- Strong capability in product innovation.
- Ability to expand market share either regionally, internationally, or globally.
- Strong internal cash flow generation and lowly geared with minimal USD debt exposure.
- Management who are focused on driving operational efficiency and disciplined allocation of capital for growth and shareholders' returns.

Southeast Asian economies are benefiting from global diversification of supply chain. The region attracted a record high of almost 17% of global FDI in 2022. Singapore, Malaysia, Vietnam are outperformers in FDIs in the technology industry, dominated by investments from the US. Thailand and Indonesia received investments in the electric vehicle (EV) supply chain, which is dominated by Chinese investors. More importantly, leaders and governments in this region are supportive FDIs, as evidenced by the roll-out of business-friendly policies and tax incentives. The growth in foreign capital investments in real asset is expected to fortify the region's balance of payment position and help mitigate the risk of external liquidity shocks. Separately, there is a noticeable trend of consumer companies expanding their presence in intra-ASEAN markets as well as international markets. The ability to expand market access and source of earnings beyond their home ground would make these companies bigger over time. More recently, a combination of business-friendly government in Malaysia and strength in the SGD has created an opportunity for a stronger than expected recovery in Johor. The availability of large parcels of land and cheaper cost of land have attracted cloud service providers to set up data centers in Johor. Further, lower cost of goods and services, thanks to stronger SGD, has activated retail spending and property sales in Johor. The relaxation of visa restrictions between China and ASEAN countries (Malaysia, Thailand, Singapore) is also expected to contribute positively to the retail and consumers services sectors in the region. Growth opportunities in ASEAN, in our view, remain underappreciated by investors and valuations of stocks remain at reasonable and attractive levels.

We observed a few soft spots emerging in the region in 2024:

- We remain wary of the effects of higher interest rate on the Real Estate Investment Trust (REIT) sector. Most of the REITs listed in Southeast Asia are highly geared and higher interest expense is expected to detract net property income. Asset recycling is expected to be more difficult amid an environment of higher cost of capital and valuation of assets face the threat of being discounted at higher rates.
- Earnings of most major banks in Singapore, Indonesia and the Philippines have benefited from expansion of net interest margin and lower credit cost in 2023. However, growth in 2024 is expected to be largely demand for loans. However, there are early indications of slowing loan growth as businesses turned more cautious in their investment plans amid a clouded outlook. Banks are also cautious in lending as they anticipate some worsening of credit quality as the cumulative effects of increases in interest rate ripple through the system. We would thus prefer to allocate capital from the banking sector to other sectors with stronger growth catalysts in 2024.
- We also expect to see some softness in domestic consumption in the region as the effect of higher cost of servicing debt and inflation erode consumers' wallet share. Consumers in the lower income group are downtrading. Our conversations with corporate revealed that the ability to raise selling price has reached its limit. However, profit margins remain defensible thanks to lower material and transportation costs.

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