

# 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 47.71 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.559	<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 (December 31, 2023)

ASEAN Growth Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	4.84%	3.04%	3.04%	12.40%	33.82%	55.90%
Annualized	n.a.	n.a.	3.04%	3.97%	6.00%	4.08%

## Why ASEAN markets

- **We know the ASEAN markets well:** With presence in the key ASEAN-6<sup>#</sup> and Greater China markets, we have in-depth knowledge and understanding of the region.
- **An under-appreciated side of Asia:** ASEAN<sup>##</sup> 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.

<sup>#</sup>ASEAN-6 includes Singapore, Thailand, Indonesia, Vietnam, Malaysia and Philippines.

<sup>##</sup>Predominantly represented by Indonesia, the Philippines, Thailand, Malaysia, and Singapore

## Top Ten Holdings

	%
Frasers Centrepoint Trust	3.84
IGB Real Estate Investment Trust	3.65
Chularat Hospital PCL	3.41
Sheng Siong Group Ltd.	3.28
Raffles Medical Group Ltd	3.26
Eastern Polymer Group Public Company Ltd	3.24
United Overseas Bank Limited	3.16
Heineken Malaysia Bhd.	3.10
Bangkok Chain Hospital Public Co., Ltd.	3.09
Century Pacific Food, Inc.	3.08

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

	%
Real Estate	24.61
Consumer Staples	17.85
Healthcare	13.60
Financials	12.16
Consumer Discretionary	10.26
Industrials	7.38
Materials	3.24
Energy	2.87
Communication Services	2.48
Information Technology	1.98
Cash & Cash Equivalents	3.56

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

	%
Thailand	26.89
Singapore	23.37
Indonesia	19.59
Malaysia	16.97
Philippines	7.39
Vietnam	2.25
Cash & Cash Equivalents	3.56

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

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## Market Review

ASEAN small cap equities posted positive performance for the month along with global equities. The U.S. Fed revealed the FOMC's 'dot plot', which forecasts 3 rate cuts in 2024. Market participants interpreted this as not only the implication of a long-awaited monetary policy 'pivot' and earlier-than-expected rate cuts, but also a potential economic soft landing. The resulting global risk-on environment led all ASEAN markets higher.

Indonesia small cap equities moved higher. Bank Indonesia kept rates on pause, but suggested rate cuts would not occur until the second half of 2024.

Malaysian small cap equities posted gains thanks to positive macro and policy news, as the Prime Minister Ibrahim reshuffled his cabinet. On the economic front, exports fell in November, but the country maintained a trade surplus.

Thai small cap equities moved higher with broad-based gains across sectors, as the number of tourist arrivals in November notably increased.

Philippines small cap equities also moved higher on the back of global macro tailwinds, despite the central bank holding rates steady and stating rate cuts are not likely to occur soon. On the policy front, President Marcos signed the 2024 budget into law, totaling US\$103.5 billion, a 9.5% increase from the previous year.

Singapore small cap equities posted gains as well, led by REITs and tech names amid lower interest rate expectation.

## Outlook

The global economy and most stock markets in Asia and ASEAN have shown resilience to the cumulative effects of increases in short and long-term interest rates over the past years. While the U.S. 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. Important elections will be held in 2024, including Taiwan, Indonesia, Korea and the U.S.. This is expected to deter investment plans as businesses awaits clarity on policies and continuation of existing policies. Furthermore, any escalation of geopolitical tensions in the Middle East (Israel-Hamas conflict) or the Russia-Ukraine conflict may pose further upside risks to energy prices and inflation, creating downside risks to financial stability, global economic and business outlook.

Separately, the cycling of low base effect from the post-COVID19 reopening has played out in most economies in 2023. We expect growth trend to return to normal in 2024. This will put the resilience of earnings growth of many companies to test heading into the new year. 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 U.S.. Thailand and Indonesia received investments in the EV supply chain, which is dominated by Chinese investors. More importantly, leaders and governments in this region are supportive of 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 interestingly, such growth opportunities 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.

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· 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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