

# 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 53.32 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 1.493	<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 (July 31, 2022)

ASEAN Growth Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	0.81%	-7.15%	-5.80%	11.25%	31.66%	49.30%
Annualized	n.a.	n.a.	-5.80%	3.62%	5.65%	4.23%

## 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

	%
Raffles Medical Group Ltd	3.42
Sheng Siong Group Ltd.	3.42
Mapletree Industrial Trust	3.42
PT Medikaloka Hermina Tbk	3.17
Venture Corporation Limited	3.16
SIA Engineering Co. Ltd.	3.07
TIME dotCom Bhd.	3.02
Uchi Technologies Bhd.	2.88
Eastern Polymer Group Public Company Ltd	2.81
PT Blue Bird Tbk	2.78

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

	%
Real Estate	17.10
Consumer Staples	16.08
Healthcare	13.29
Industrials	10.46
Information Technology	9.99
Financials	8.71
Consumer Discretionary	6.84
Communication Services	4.56
Materials	4.04
Energy	2.64
Cash & Cash Equivalents	6.29

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

	%
Singapore	27.13
Thailand	18.52
Malaysia	18.34
Indonesia	18.34
Philippines	8.92
Vietnam	2.46
Cash & Cash Equivalents	6.29

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

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## Market Review

ASEAN small cap equities were higher in July despite the Federal Reserve (“Fed”) raising the fed funds rate by 75 bps for a second consecutive meeting to a range of 2.25-2.50%. Equities encountered a marginally more accommodative macro environment. The second successive quarter of US GDP contraction (-0.9%- quarter-on-quarter) raised market expectations that the Fed may ultimately hike rates at a slower pace or end at a lower terminal level. These expectations led to a notable decline in 10-year Treasury yields, which coupled with stronger-than-expected second-quarter earnings in the US, benefitted Asian equities across the region.

Indonesia equities moved higher for the month. Bank Indonesia left interest rates on hold but announced that it would gradually draw down its balance sheet of government debt- a potential precursor to rate hikes. On the economic front, inflation hit a high of 4.35%-a five-year high, the first time in 2022 it exceeded the central bank’s upper-end target.

Malaysia equities gained as the country continued to benefit from rising energy and food prices via exports. On the economic front, the central bank raised rates by 25 bps to 2.25%.

Philippines equities were marginally lower as the central bank unexpectedly raising rates by 75 bps to 3.25% in an off cycle move.

Singapore equities moved higher for the month. The Monetary Authority of Singapore unexpectedly tightened monetary policy to combat inflation in an off-cycle move by recentering the mid-point of the Singapore dollar NEER to its prevailing level but did not change the slope or width of the band. On the economic front, second-quarter GDP grew by 4.8% (year-on-year), below market expectations.

Thailand equities moved lower for the month. The country reported a narrower current account deficit in June (month-on-month) due to an increase in exports. On the policy front, the government is planning to extend property support measures, including the 100% loan-to-value ratio threshold and reduced fees; the cabinet is also planning to table a new law allowing foreigners to own land in Thailand.

## Outlook

US Fed rate hike cycle and the Covid lock-down in Shanghai, China dominated headlines and caused market turbulence in 2Q22. As we enter 3Q22, the market rout fatigue has been quickly replaced by the desire for a relief rally. The narrative has shifted from the pessimism over growth in China to optimism towards a recovery driven by re-opening of Shanghai, easing of regulatory and policy risk and supported by economic stimulus policies. The fear of an accelerated rate hike cycle amid surging price pressures in developed economies has turned to expectations of recessions in 2023, which may lead to a pivot back towards easing by central banks.

Consensus expectations aside, we believe current market conditions remain highly uncertain and warrants great caution when navigating around risks and opportunities in the market. The war between Russian-Ukraine has evolved into a protracted conflict. The supply chain disruptions from the war are expected to keep fuel and food prices high. The side-effect of COVID-19, in particular the change in workers’ mentality and work culture has contributed to a tight labour market globally. As a result, wage pressure is unlikely to dissipate in the near term. While normalizing demand imbalances associated with earlier stages of the pandemic and easing supply chain pressures may provide some relief, we believe higher fuel, food and wage costs will keep inflation elevated. We do not expect central banks to turn dovish in the very near term.

In addition to central bank tightening, the US began a program of quantitative tightening (QT) in June 2022, reducing its balance sheet by US\$45 billion per month over the summer. It plans to accelerate the winding down to US\$90 billion per month starting September 1. We remain vigilant on the financial ramifications of a concurrent interest rate hike and quantitative tightening cycle. The ripple effect should not be taken lightly, in our view. A declining global liquidity impulse is most relevant to emerging-market growth and earnings and risk assets.

As we move past the expectations for higher interest rates, earnings growth outlook is expected to come into the spotlight in 3Q22. ASEAN markets are likely to see earnings upgrades, thanks to support from exports growth and domestic retail sales are also showing double-digit growth in Singapore and Indonesia.

Overall, we believe growth in ASEAN region will remain uneven both across different markets and different sectors for the rest of the year. In such circumstances, stock selection will become even more relevant in identifying risks and opportunities amid an environment filled with uncertainties. We are mindful of liquidity and credit risks as central banks tighten liquidity. We believe firms with a combination of strong cashflow, high dividend yield and steady profit growth will outperform in the second half of the year.

Domestic reopening in ASEAN has progressed in-line with our expectations. The recovery in domestic consumption is expected to contribute to robust GDP growth in 1H22. Going forward, growth in the region will be underpinned by international border reopening. Air passenger traffic and tourist arrivals in Singapore, Thailand and Malaysia have continued to improve since the governments in these countries relaxed Covid-control measures and re-open their borders to foreign travelers. Over the longer term, we are seeing more evidence that the region has become one of the preferred destinations for supply-chain diversification. Apart from Vietnam, Malaysia, Indonesia and Singapore continue to attract FDIs from manufacturers and win orders and domestic companies winning orders redirected from China. While we remain optimistic about the digitalization of economies in ASEAN, reasonably priced opportunities remain scarce. We are tracking progress in this industry closely and would look for opportunities to ride on this structural growth trend over time.

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