

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 40.85 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.420	Management Fee 2.25% per annum	Bloomberg Ticker MPUSAGF	
Investment Fund Manager (the "Manager") Manulife Investment Management (Hong Kong) Limited			

Performance Return (June 30, 2024)

ASEAN Growth Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-1.87%	-8.92%	-7.31%	-10.18%	5.81%	42.00%
Annualized	n.a.	n.a.	-7.31%	-3.52%	1.14%	3.07%

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

Sector Allocation[^]

	%
MUTUAL FUNDS/UNIT TRUSTS	97.99
Industrials	0.00
Cash & Cash Equivalents	2.01

Geographical Allocation[^]

	%
MUTUAL FUNDS/UNIT TRUSTS	97.99
Cash & Cash Equivalents	2.01

Top Ten Holdings

	%
Manulife Global Fund SICAV - ASEAN Equity Fund -I3-Distribution	97.99

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

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Market Review

ASEAN equities posted marginal gains in June. In the US, despite moderating inflation and consumer spending data, the US Federal Reserve Board (Fed) held interest rates unchanged for the seventh consecutive meeting and lowered its forecast to only one rate cut by the end of 2024.

Indonesian equities moved higher. Bank Indonesia continued to stay on pause as inflation further eased. On the economic front, exports came in better than expected for May.

Malaysian equities were flat. The government cut blanket subsidies on diesel to help shore up government finances. On the economic front, strong exports continued, raising the geographic location's trade surplus in May.

Philippine equities posted gains. Inflation remained high in May, but the central bank maintained the possibility for a rate cut in August before the cuts by the US Fed.

Singaporean equities moved higher. On the economic front, non-oil domestic exports marginally contracted but were better than expected in May.

Thai equities moved lower, despite numerous proposed measures to boost retail stock investment, including increased tax breaks on investments in ESG (environmental, social, and governance) funds and a reduction in the holding period for those holdings. On the economic front, exports continued to accelerate in May and boosted trade accounts.

Outlook

Optimism that began with positive news on US inflation and growth delivered a very powerful rally in risk assets in 1H 2024. The optimism around a soft landing of the US economy and expectations of rate cuts promoted a sharp recovery in equity prices. While the multiple US rate cuts that were priced in at the start of this year have since faded, equities have been buoyed by a string of positive macro surprises and optimism around artificial intelligence (AI).

As we enter into 2H 2024, we would tread equity markets cautiously, taking the following factors into consideration:

- Consumption and investments are expected to slow as the full impact of past monetary policy tightening continues to flow through the system;
- Election concerns in the US and Europe may also hit consumer and business confidence in coming months;
- Elevated valuations also leave equities more vulnerable to disappointments, particularly in the AI-tech-related supply chain; and
- While the market priced in rate cuts before the US Fed has actually acted, we believe the impact of higher interest rates on earnings has yet to be discounted and this could spring negative earnings surprises in the upcoming earnings reporting season.

Interest rates staying high for longer in the US limits space for policy easing in most ASEAN regions as central banks give priority to maintaining the stability of local currencies. Surging yield of risk-free asset classes in USD and the depreciation of local currencies have led to portfolio outflows from ASEAN.

Further, higher interest rates are now weighing on both consumers and corporates in ASEAN, which we expect to remain as a key challenge going into 2H 2024. The common driver among ASEAN regions for weak consumption was high interest rate and sticky inflation, which has weighed on big-ticket categories like auto sales. On the corporate front, the average interest cost of ASEAN companies has moved up by more than 100 bps in 2023 to arrive at 5.7%, the highest since 2008. This pressure would likely remain as a sizeable amount of mature loans and needs refinancing in 2024.

Against such backdrop, we remain vigilant in our stock selection. Despite higher interest rate and inflation hitting consumption in the near term, we remain sanguine on the longer-term outlook of domestic consumption in the region. This is supported by continuous growth in income, as measured by nominal GDP (gross domestic product) per capita in the region, which has hit the sweet spot of middle-income levels. We would thus select companies with brand premium, strong pricing power, and with growing market share domestically and internationally. Most of the companies we invested in are also expected to enjoy the tailwind of improving profit margins, thanks to lower raw material costs and improvement in operational efficiencies. The normalization of inventories at the distribution and customer ends should also contribute to volume growth going forward. In addition, we prefer companies that generate healthy cash flows and have lowly geared balance sheets, as they can continue to expand and grow profits without the burden of higher cost of funds and cost of capital.

Despite the completion of elections in Thailand and Indonesia, both markets are clouded by political uncertainties. In Thailand, political uncertainties have created negative impacts on Thailand's economy (slowed fiscal disbursement) and investors' sentiment. However, things are beginning to improve as we expect fiscal disbursement to commence in 2H 2024. Measures have also been taken to stabilize and restore confidence in the stock market. The Thai Finance Ministry plans to introduce a new Vayupak Fund worth THB150 billion, and revise investment conditions for Thai ESG funds to help boost turnover in 2H 2024. Thailand's Stock Exchange has also announced additional regulatory amendments on short selling and program trading aimed at strengthening market supervision and enhancing investor confidence.

In Indonesia, the new government's slow transition has led to a wait-and-see attitude among corporates, stifling the propensity to spend and invest. Newly elected President Prabowo Subianto will be sworn in as the next Indonesian president on October 20, 2024 and the announcement of new cabinet and policy agenda should help clear uncertainties in the market. We expect the new government to maintain its fiscal prudence and maintain budget deficit limits at 3%. We also expect fiscal disbursement in 2H 2024 to revive domestic consumption. We expect the new government to remain supportive of economic and infrastructure development and attracting foreign investment flows.

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Malaysian equities performed well in 1H 2024 as policy reforms, e.g. reallocation of subsidies, began to take shape. More importantly, data center investment and infrastructure build-out have progressed at a much stronger-than-anticipated pace. The government has also laid out its plans to develop the Malaysia National Semiconductor Strategy and attract MYR500-billion worth of investments, focusing on integrated circuit (IC) design, advanced packaging, and wafer fabrication. Such developments bode well for the geographic location and its economy. However, we noticed that stock prices of many companies have run ahead of their ability to deliver realistic growth targets amid the AI and data center buildout frenzies. We would rather participate in the growth trend through companies with realistic and sustainable growth profile.

Banks in Singapore and the Philippines are expected to demonstrate earnings resilience through 2024. Net interest margins of banks are expected to expand further on the back of repricing of loans to higher rates and the easing of cost of attracting deposits. The credit quality environment remains benign. As a result, the accumulation of capital has enabled banks in both to maintain a decent dividend payout to shareholders.

Overall, we believe the current global economic and geopolitical environment warrant caution. The impact of restrictive monetary policy tightening has not been fully felt yet. While risk appetite of investors rose in 1H 2024 in anticipation of multiple rate cuts, it becomes clear that interest rates will remain high for the rest of the year. We would thus be mindful of the price we pay for growth and will stick with companies with good management and the ability to navigate through a challenging business environment. Most importantly, companies with healthy cash flows and balance sheets are in better position to withstand any shocks arising from higher cost of funds and cost of capital.

Disclaimer

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