

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 49.54 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.425	Management Fee 2.25% per annum	Bloomberg Ticker MPUSAGF	
Investment Fund Manager (the "Manager") Manulife Investment Management (Hong Kong) Limited			

Performance Return (September 30, 2022)

ASEAN Growth Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-6.13%	-11.38%	-9.92%	8.78%	21.48%	42.50%
Annualized	n.a.	n.a.	-9.92%	2.84%	3.97%	3.66%

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	4.20
PT Medikaloka Hermina Tbk	3.76
Sheng Siong Group Ltd.	3.61
Venture Corporation Limited	3.20
Mapletree Industrial Trust	3.11
Eastern Polymer Group Public Company Ltd	3.03
SIA Engineering Co. Ltd.	2.95
PT Astra International Tbk	2.94
TISCO Financial Group Public Co. Ltd. NVDR	2.90
Frasers Centrepoint Trust	2.87

Sector Allocation[^]

	%
Real Estate	17.30
Consumer Staples	17.15
Healthcare	14.37
Financials	9.29
Industrials	8.93
Consumer Discretionary	8.25
Information Technology	8.05
Materials	4.29
Communication Services	4.23
Energy	2.58
Cash & Cash Equivalents	5.57

Geographical Allocation[^]

	%
Singapore	26.31
Thailand	20.54
Malaysia	18.46
Indonesia	17.03
Philippines	9.51
Vietnam	2.58
Cash & Cash Equivalents	5.57

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

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Market Review

ASEAN small cap equities moved lower for the month. Aggressive Federal Reserve monetary policy was the main driver as the central bank raised rates by 75 bps to a range of 3.0-3.25% and offered hawkish guidance forecasting a fed funds rate of 4.6% in 2023. Increased Russia-Ukraine geopolitical tension and associated concerns over energy supply also amplified global risk-off sentiment.

Indonesia equities were lower on the month amid a larger-than-expected 50 bps hike, which raised policy rate to 4.25%, due to the partial removal of fuel subsidies on diesel and gasoline that had moderated domestic inflation levels. Inflation was up by 1.17% MoM in September, lifting the annual inflation to 5.95% YoY from 4.69% YoY in the previous month. Fuel price hike was the largest contributor to the monthly inflation followed by transportation. Food prices, on the other hand, recorded deflation due to the price normalization of cooking oil and spices. Core inflation increased 3.21% YoY from 3.04% YoY in the same period.

Malaysian equities posted losses for the month but broadly outperformed ASEAN. The central bank hiked interest rates by 25 bps to 2.50%. Net foreign selling (US \$337 million) added downward pressure. Due to commodity demand and tech exports, the country is only one of few in the region to run a widening trade surplus (US \$3.72 billion) in August.

The Philippines equity market posted the worst performance among ASEAN markets in September. All sectors posted losses for the month on the back of further hawkish moves by the central bank: the BSP hiked rates by 50 bps to 4.25%, as inflation in August (6.3%) remained elevated above the central bank's target inflation upper limit of 4%. On the economic front, the trade deficit hit a new record high in July (US \$5.93 billion) on the back of surging imports, putting pressure on the current account, and sending the Peso to hover around all-time lows versus the greenback.

Singapore equities posted losses for the month but outperformed other ASEAN markets. While financials outperformed, REITs lagged the market. On the economic front, exports accelerated to 11.4% in August. On the policy front, the nation-state launched its Financial Services Industry Transformation Map (ITP) 2025, which includes SGD 400 million in funding and aims to develop it as the main financial centre in Asia.

Thailand's equity market trended lower for the month but broadly in line with other ASEAN markets. Equities moved lower as Bank Thailand raised rates by 25 bps to 1%. Foreign net selling (US\$655 million) also put pressure on the market. In politics, the Constitutional Court ruled that current Prime Minister Prayuth Chan-ocha had not exhausted an eight-year term limit and could remain in office. On the economic front, the country's trade deficit (US \$4.2 billion) in August reached the highest level since April 2013- putting further pressure on the Baht to depreciate.

Outlook

As the US central bank's officials have consistently stated their unconditional commitment to fight high inflation, investors have finally come to terms with the reality of a higher interest rate environment. Amid a tighter liquidity environment, companies are finding it increasingly difficult to obtain funding to sustain growth, asset prices become more volatile, and investors are less willing to take on risk. Private companies have been unable to list their shares publicly and banks have had to withdraw planned debt financings for their clients after investors turned more cautious and become more risk averse.

Further, rising geopolitical conflict and tension around the world and moderating global growth outlook have induced risk-off sentiment and increased demand for dollar assets. Currencies of other major economies have depreciated against the US dollar. Financial vulnerabilities have certainly increased as successive bouts of tumult in stocks and bonds, tightening of liquidity, and a surging dollar cause rising levels of stress in the financial system.

After seven consecutive quarters during which commodities outperformed other asset classes (on a USD-denominated basis), commodities are overall retreating. Demand for commodities is expected to soften as growth in China and the rest of the world decelerate on the back of increasing stress in the financial system and geopolitical risks. While lower commodity prices bode well for manufacturers of goods, it presents risk to earnings of miners and countries relying on commodity exports.

As the world and financial markets are in disarray, we expect companies to shift their focus from growth to preservation of capital, and from gaining market share through aggressive marketing spend to product and service differentiation. Companies who suffered from higher raw material and freight costs during the earlier part of year are expected to get some relief from softening commodity prices and freight rates.

ASEAN markets have held up well relative to other Asian markets. The region is mainly supported by resilient financial and economic conditions relative to their emerging market peers and relative to historical period of 1997 and 2013. Further, the market is largely represented by the financial sector, whose earnings are expected to grow on higher net interest margins (thanks to a rising interest rate trend) and lower credit cost (economy re-opening), and the material and energy sector, whose earnings are boosted by strong commodity prices. However, we are turning more cautious in the commodity sector and watching credit quality of banks more closely as liquidity tightens on aggressive Fed rate hikes. We believe a lot has been priced in in both sectors. Going forward, we prefer to invest in companies with proven management track record, strong balance sheet and cash flow and sell products or services with sustainable demand, particularly in the health care and consumer sectors. Earnings of these companies are also improving as economic activities normalize after re-opening. More importantly they remain under-appreciated and attractively priced.

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