

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 48.73 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 1.518	Management Fee 2.25% per annum	Bloomberg Ticker MPUSAGF	
Investment Fund Manager (the "Manager") Manulife Investment Management (Hong Kong) Limited			

Performance Return (September 30, 2023)

ASEAN Growth Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-3.50%	0.33%	6.53%	24.53%	23.92%	51.80%
Annualized	n.a.	n.a.	6.53%	7.59%	4.38%	3.92%

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

	%
PT Selamat Sempurna Tbk	3.62
IGB Real Estate Investment Trust	3.60
Raffles Medical Group Ltd	3.57
Frasers Centrepoint Trust	3.53
Taokaenoi Food & Marketing Public Company Ltd NVDR	3.45
Chularat Hospital PCL	3.39
PT Blue Bird Tbk	3.28
Century Pacific Food, Inc.	3.25
Sabina Public Co. Ltd. NVDR	3.01
Heineken Malaysia Bhd.	3.00

Sector Allocation[^]

	%
Real Estate	21.57
Consumer Staples	19.70
Healthcare	14.37
Financials	11.89
Consumer Discretionary	11.11
Industrials	8.83
Materials	2.57
Communication Services	2.39
Energy	2.37
Information Technology	2.35
Cash & Cash Equivalents	2.86

Geographical Allocation[^]

	%
Thailand	25.88
Singapore	22.11
Indonesia	19.75
Malaysia	17.21
Philippines	9.74
Vietnam	2.45
Cash & Cash Equivalents	2.86

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

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Market Review

ASEAN small cap equities posted losses for the month. In the U.S., the Fed held policy rates on pause, but reemphasized 'higher for longer' rates with a more hawkish dot plot. Markets responded by sending bond yields significantly higher, denting equities and risk assets globally and regionally.

Indonesian equities posted losses. Bank Indonesia kept rates on hold as expected at 5.75%. On the economic front, August trade surplus was higher-than-expected at US\$ 3.1 billion, driven by commodity exports.

Malaysia equities moved lower. That said, surging energy and oil prices helped to stabilize the market compared with regional peers. On the economic front, despite softer-than-expected August exports, tech exports demonstrated resilient growth, thanks to its rising dominance in semiconductor testing and packaging.

Thai equities retreated as Bank of Thailand unexpectedly hiked rates by 25 bps. On the other hand, the government announced fiscal stimulus measures of US\$15.2 billion, including cash handouts. On the economic front, August trade balance turned into surplus, with broad-based contribution from exports in auto, tech, machinery and raw materials.

Philippines equities posted gains due to attractive valuations. The central bank paused on rates as expected. On the economic front, August headline inflation was higher-than-expected due to spike in food prices, but core inflation continued to decelerate.

Singapore equities posted losses. Consumer discretionary outperformed while information technology underperformed. On the economic front, exports fell by 20.1% (year-on-year) in August.

Outlook

During Q3 2023, we saw the acknowledgement and acceptance of two major paradigm shifts in global markets. Firstly, interest rate will stay higher for longer. This is reflected by the America's ten-year Treasury yield hitting a 16-year high of 4.8% on 3 October 2023. Secondly, China's growth is expected to slow down amid its transition from a real estate led investment growth model to one that focuses on supply chain security, technology advancement, living standard upgrade, development of renewable infrastructure and digitization of its economy.

Higher interest rate is expected to affect equities in the following ways:

- Valuation of equities – a higher discount rate will result in a lower present value of future cash flows. This would have a bigger negative impact of companies who only expect to generate cash flows far into the future.
- Profitability and growth – a swath of corporations will be hurt by higher interest rates when they have to refinance at a much higher interest rate. Companies sitting on high debt are expected to suffer erosion of profit if revenue growth fails to keep up with higher borrowing costs. Furthermore, companies would be more cautious when evaluating investment opportunities amid higher cost of capital.
- Access to capital – Start-ups and companies who rely heavily on external funding to drive growth may face difficulty in raising cheap capital to sustain growth.

We expect the effects of higher interest rates to ripple through the global markets in the coming months. We remain watchful on financial stability risks as rates adjust higher within a very short period. We expect a bumpier road ahead. Against such backdrop, we continue tread the market cautiously and would position ourselves in companies with strong and sustainable cash flow and capital structure.

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 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 under-appreciated by investors and valuations of stocks remain at reasonable and attractive levels. On a less positive note, we are 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.

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