COVER STORY

Asean becoming a compelling investment destination

BY **KUEK SER KWANG ZHE**

In recent years, Asean, the regional grouping that forms the fifth-largest economy in the world, has become a compelling destination for foreign direct investments (FDIs). The region is a prime beneficiary of the China-plus-one strategy, in which multinational corporations are moving their supply chains away from China due to the intensifying geopolitical tensions with the US.

As new manufacturing plants, service centres and business offices are built or relocated to Asean countries, is now a good time for equity investors to put money in the region?

While fund managers have different views on the prospects of Asean, the consensus is that large amounts of FDIs are flowing into Southeast Asian countries, a structural trend that will continue in the years to come. Sectors that could benefit from such a trend include semiconductor, tourism, consumer, e-commerce, banking and commodities like nickel.

Pheim Asset Management Sdn Bhd founder and chief strategist Dr Tan Chong Koay says the region received significant FDI inflows last year. He cites the *World Investment Report 2023*, which states that US$223.307 billion in FDIs flowed into Asean in 2022 — the highest since 2010 and an increase of 27.44% from 2021.

The country that received the largest FDI inflows last year was Singapore (US$141.21 billion), followed by Indonesia (US$21.97 billion) and Malaysia (US$16.94 billion).

According to Tan's findings, six Asean countries — Vietnam, Thailand, Malaysia, Singapore, Indonesia and the Philippines — saw FDI inflows of US$58.2 billion in the first quarter of this year (1Q2023). The top three recipients during that period were Singapore (US$29.5 billion), Indonesia (US$12 billion) and Vietnam (US$10 billion). Malaysia came in fourth with US$2.7 billion, slightly ahead of Thailand and the Philippines at US$2 billion each.

From a trade perspective, Asean is benefiting mostly from China, said Prof Kishore Mahbubani, distinguished fellow at the Asia Research Institute of the National University of Singapore, during the UOB Asset Management (UOBAM) Mid-year Outlook 2023 Forum held in Kuala Lumpur on July 5.

During the session titled "US-China crossfire: Emergence of China Plus One", he said the trading value between Asean and China in 2022 amounted to US$975 billion, compared to US$40 billion in 2000. For comparison, the trading value between Asean and the US was US$440 billion last year and US$135 billion in 2000.

However, there is no denying that exports from Asean countries to Western markets, including the European Union (EU), have rapidly increased in recent years. Patrick Chang, chief investment officer for Asean equities at Principal Asset Management Bhd, cites Vietnam as an example.

"If you look at the share of US and EU electronic imports [from Vietnam], it was between 0% and 3% ten years ago. Today, you're talking about over 30%. And that has accelerated from about 10% in the last five years."

He adds that the positive investor sentiment on Asean has been partly reflected in the performance of the stock markets, evidenced by their outperformance against the Chinese and Hong Kong stock market indices in recent years.

As at June 30, the FTSE Asean USD Index's three-year performance was up 9.73% while the Shanghai Shenzhen CSI 300 Index was down 3.54% and the Hang Seng Index had fallen 21.17%.

Clement Chew, CEO of Astute Fund Management Bhd (previously known as Apex Investment Services Bhd), says Asean is a stable region with a population of more than 500 million, about half of whom are below 30 years old. It is a vital source of young and relatively cheap labour for multinational corporations.

"Asean also has supportive policies, cost competitiveness, rising affluence and established manufacturing linkages. As a result, its share of global FDI rose to 13.7% in 2020 from 5.8% in 2015, led by investments in manufacturing such as electric vehicles (EVs), batteries and electronics. Asean has also overtaken the EU as China's top trading partner," he adds.

"At the same time, the US is buying more from Asean. Between 2018 and 2022, the share of US imports from Asean grew to 2% from 0.5%, particularly from countries such as Vietnam, Thailand and Indonesia."

MOHD SHAHRIN YAHYA/THE EDGE

"It is a very under-rated boom happening in Asean."

> Chang, Principal Asset Management

FUND MANAGERS FAVOUR TECHNOLOGY HARDWARE SECTOR

Semiconductor and EV companies are generally favoured by fund managers as they are direct beneficiaries of the massive FDIs flowing into Asean.

"FDI inflows into the region in 2022 were mainly driven by strong investment in the manufacturing, services and technology sectors. Some companies that are seeking to diversify their supply chains away from China see Asean as an attractive destination," says Pheim's Tan.

"In Malaysia, sectors that have attracted the most FDIs include tech, manufacturing, mining and oil and gas. All this will benefit owners and operators of industrial land due to the potential increase in demand for industrial land and buildings," he adds.

For example, Texas Instrument plans to invest up to RM9.6 billion to build two new assembly and test factories in Kuala Lumpur and Melaka, while Amazon Web Services plans to invest RM25.5 billion in Malaysia by 2037.

Principal's Chang also favours local semiconductor companies, especially the recently listed ones that are moving up the global value chain. "My team likes some of the newly listed counters on the back of what some have called the 'renaissance' of the local semiconductor sector. Typically, we do the back-end semiconductor work.

"But what happened after the pandemic was that we realised that we have to move up the value chain. Some local companies started going up the value chain to do things such as the design [of integrated circuits], which are more value added. We like these companies as they are getting higher margins and so forth."

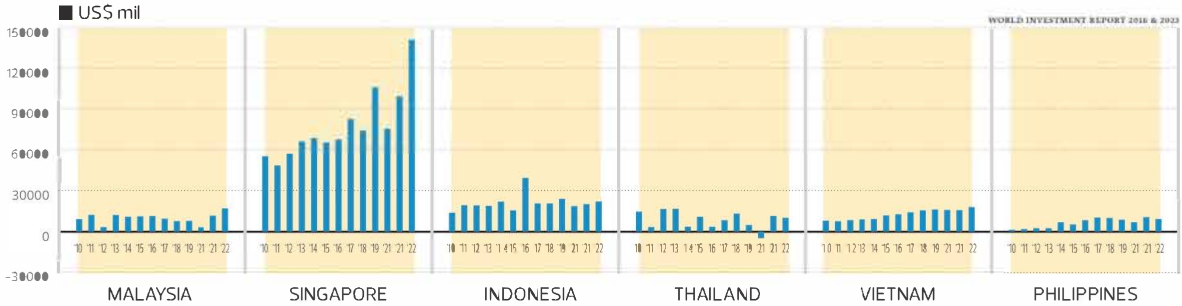
Astute's Chew says local investors are in a good position to invest in the technology hardware sector, including semiconductor companies, as many of them can be found in Malaysia. These companies are also part of the global supply chain of artificial intelli-

MOHD IZWAN MOHD NAZAM/THE EDGE

"A strong US dollar has almost always been associated with weaker Asean equities. Asean's interest rate differential with the US may widen further as the US Federal Reserve is expected to raise rates by up to 50 basis points in the second half of this year before it pauses."

> Chew, Astute Fund Management

Flows of inward foreign direct investments (FDIs) to six Asean countries (US$, million)



"We see the prospect of the Asean markets improving, benefiting from the better economic growth these markets are expected to achieve in 2023 and 2024. Hence, we see room for increased allocation to Asean."

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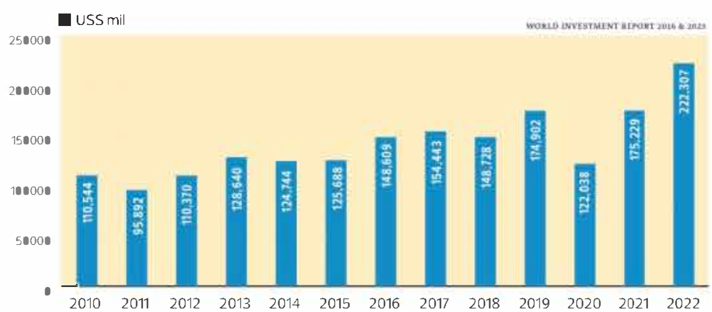
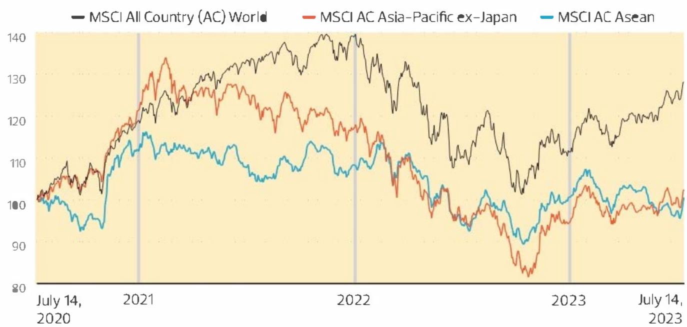


Three-year performance of MSCI World, Asia-Pacific ex-Japan & Asean



gence-related multinational corporations.

According to a research report by a foreign bank, the greatest number of technology hardware companies in Asean are based in Malaysia, amounting to about 40 of them, says Chew. Another 15 to 20 of such public-listed companies can be found in other Asean countries.

The weighting of technology hardware stocks in Asia is expected to grow. "The estimated weighting of the technology hardware sector in Malaysia, Thailand, Singapore and the Philippines is about 5%, 7%, 2% and below 2% respectively. The sector weighting, as a percentage of the market capitalisation of the overall stock market in each country, has grown. In Malaysia, it has tripled in the last decade from about 1% to 2% ten years ago," he says.

Chew favours EV battery parts and components and semiconductor companies in Malaysia, Indonesia and Thailand. In Vietnam, he says, investors can spot companies that are closely linked to the performance of Apple products. In Indonesia, they should keep an eye on nickel mining and smelting stocks, as nickel is an important raw material for the manufacturing of EV batteries, he adds.

However, more public-listed technology hardware companies could be found in other Asean countries moving forward, encouraged by the huge FDI inflows.

During the UOBAM Mid-year Outlook 2023 forum, Francis Eng, its chief investment officer, said: "We think there are a lot of opportunities in the manufacturing space, especially in the area of technology hardware. Closer to home, you only have to take a drive to Penang. It's booming. There are a lot of businesses there that have grown quite significantly. We think it is an area where there are a lot of opportunities in Asean.

"Currently, most of the public-listed companies in this space are in Malaysia. But we think that as time goes on, because of more FDIs flowing into the region, this will change."

OTHER COUNTRIES AND SECTORS

Besides technology hardware companies, Eng favours the consumer sector, especially in Vietnam and Indonesia. Both countries, he said, are experiencing a rise in their GDP per capita.

"The ratio is reaching a threshold where their disposable income will start to go up and accelerate much faster moving forward. That provides us with a lot of opportunities in the consumer space," he said at the conference.

Principal's Chang favours the tourism sector in Thailand, which could benefit from the influx of Chinese tourists following the reopening of its economy.

"We like Thailand's tourism sector as it accounts for about 15% of its economy. There are also a few industrial estate plays in the country."

Vietnam is a "classic play" on FDI, he adds. Unfortunately, investors find it hard to invest directly in certain sectors in the country, such as industrial real estate, due to the rules and regulations. But they can buy companies that are proxies to the nation's growing wealth and economic boom.

"For instance, we believe the Vietnamese stock market can only go up in the future. So, we can talk about stockbroking companies in the country," he says.

Unsurprisingly, banking stocks are Chang's favourites when it comes to investing in Singapore. "A lot of money is coming out from China and Hong Kong due to geopolitical risk and into Singapore. You just have to track the number of family offices that were set up recently in Singapore. It is at a record high," he points out.

In Indonesia, Chang favours companies in the digital economy that are benefiting from the country's large population, increasing spending power and rising number of smartphone users. These companies may not be making a profit at the moment but their prospects seem bright and he is willing to buy into them at the right price.

"Everybody argues that a lot of these e-commerce [companies] don't make money. But the statistics, which I was quite interested in, based on a report published by UBS two years ago, was that the total addressable market for the digital economy in Southeast Asia was going to rise from US$220 billion in 2018 to about US$660 billion in the years to come," he says.

"So, you just imagine. Our e-commerce penetration rate is a shade off the US, EU and China. What happens there can happen in this region. I think previous valuations were not real. But the reality is that valuations are more real now to reflect its long-term potential, which the investors will start to focus on.

"The Grabs of this world [are worth looking at]. I'm not going to mention all the names. But you know they are e-hailing companies and e-commerce companies. Not just in Indonesia, these companies in Thailand, the Philippines and Vietnam will continue to survive. I think this is where the excitement is. We want to build a portfolio with them because these are beneficiaries of the long-term structural trends."

NOT EVERYONE IS BULLISH

For Chang, now is the best time for investors to invest in Asean as it is at the start of a boom cycle. "It is a very under-rated boom happening in Asean."

The region has always been overshadowed by North Asian markets such as China, South Korea and Taiwan that house some of the larger and more advanced e-commerce and semiconductor

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INVESTING

Standard Chartered launches Signature CIO Funds

BY KUEK SER KWANG ZHE

Standard Chartered Malaysia's Signature CIO Funds, which was unveiled on July 13, allows retail investors to put money in a portfolio of funds with a more balanced investment strategy.

Standard Chartered Group chief investment officer Steve Brice says these funds leverage the asset management capabilities of Amundi, one of the largest European fund houses with assets under management of €2 trillion (RM10.2 trillion).

The Signature CIO Funds consist of four globally diversified, multi-asset fund of funds' portfolios: the Signature CIO Income Fund, Conservative Fund, Balanced Fund and Growth Fund. Each fund caters for the different risk-return profiles of the investors.

For instance, the Signature CIO Conservative Fund is designed for investors who are looking to achieve moderate capital growth through asset appreciation and income accumulation over time by investing more in fixed income. Meanwhile, the CIO Growth Fund is for investors with a higher risk appetite who want to achieve growth over time mainly through capital appreciation. It has a higher allocation towards equities.

"Our Signature CIO Funds will help investors make well-informed decisions against the constantly evolving economic landscape." > Brice

According to Standard Chartered's recent Global Market Outlook report, in the second half of this year, financial markets will present investors with a challenge as two conflicting narratives jostle for the attention of market players. Some market players foresee a "no-landing" scenario that is beneficial for riskier assets, such as equities, as the US avoids a recession altogether. But others are convinced that risky assets are not worth holding at all, as a deep recession awaits.

The Signature CIO Funds aim to address these market uncertainties by adopting its CALM strategy, which means capitalising on market opportunities (C), allocating broadly (A), leaning towards Asia (L) and managing volatility (M).

"Our Signature CIO Funds will help investors make well-informed decisions against the constantly evolving economic landscape," says Brice.

Sammeer Sharma, managing director and head of consumer, private and business banking at Standard Chartered Malaysia, is confident that the Signature CIO Funds can help investors achieve their financial goals.

"The funds' strong backing by the CIO Office's view will help investors avoid behavioural biases such as 'analysis paralysis' or excessive trading, which may be detrimental to long-term investment returns," he says.

During the press conference to launch the fund, Standard Chartered Malaysia head of managed investment and advisory Ng Shin Seong explained that the bank's CIO Office is in charge of the funds' asset allocation strategy while leveraging Amundi's asset management capability.

"We take the position on asset allocation ,and we pick and choose the funds. Our fund specialists interview the different fund managers and decide on the asset allocation for them, depending on the performance of the funds. That's where we add value," said Ng.

He added that Standard Chartered provides a foundation portfolio to investors, but investors can pick and choose which of the four Signature CIO Funds they want to invest in and how much money they want to put into each of them. "They can allocate [their money] into different buckets depending on their needs and what they are investing for." E

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Top five holdings of three best-performing Asean funds
(as at July 12)

No	United Asean Discovery Fund	Public Asean Growth Fund	Principal Asean Dynamic MYR
1	AMMB Holdings Bhd	DBS Group Holdings Ltd	DBS Group Holdings Ltd (Aa1)
2	Landlease Global Commercial REIT	United Overseas Bank Ltd	United Overseas Bank Ltd
3	Berjaya Food Bhd	Ptt PCL	Airports of Thailand- Nvdr
4	Kasikornbank PCL	PT Bank Central Asia Tbk	Overseas-Chinese Banking Corp Ltd
5	Yinson Holdings Bhd	Overseas-Chinese Banking Corp Ltd	Bank Negara Indonesia

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Top five local holdings of the three best-performing Asean funds
(as at July 12)

No	United Asean Discovery Fund	Public Asean Growth Fund	Principal Asean Dynamic MYR
1	AMMB Holdings Bhd	Public Bank Bhd	GentingBhd
2	Berjaya Food Bhd	P.I.E Industrial Bhd	Genetec Technology Bhd
3	Yinson Holdings Bhd	Frontken Corp Bhd	Yinson Holdings Bhd
4	Datasonic Group Bhd	Pentamaster Corp Bhd	Hibiscus Petroleum Bhd
5	Heineken Malaysia Bhd	Malaysian Pacific Industries Bhd	QL Resources Bhd

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Performance of Asean funds (as at July 12)

No	Name	Fund size (MYR million)	Base currency	5-year total annualised return (%)	3-year total annualised return	1-year total return	Year-to-date total return
1	United Asean Discovery Fund	76.33	MYR	11.56	9.64	1.50	3.99
2	Public Asean Growth	108.93	MYR	5.98	12.50	12.69	4.95
3	Principal Asean Dynamic	118.53	MYR	5.96	11.04	7.84	3.04
4	Public Islamic Asean Growth	298.28	MYR	5.19	7.80	0.88	-1.52
5	PB Asean Dividend	769.97	MYR	4.93	11.32	14.42	6.15
6	Kenanga Asean Tactical Total Return	14.36	MYR	4.37	7.24	8.86	3.33
7	Public South-East Asia Select	1,365.19	MYR	3.58	9.98	12.56	5.28
8	Hong Leong SEA-5 Equity Class A	3.82	MYR	2.79	4.40	3.88	0.85
9	PB Asean Dividend Sequel	631.12	MYR	2.10	7.36	8.76	4.11
10	Asean Equity (Saturna)	21.93	MYR	1.52	2.30	4.95	1.53
11	TA South East Asia Equity	54.66	MYR	0.41	5.61	7.63	2.74
12	Am Asean Equity	0.67	MYR	0.34	-2.02	-2.33	-2.69
13	Asean Corporate Governance	67.48	MYR	0.13	4.21	6.45	2.45
14	RHB Islamic Asean Megatrend A1 USD	11.37	USD	-0.45	8.10	0.00	0.00
15	PMB Shariah Asean Stars Equity MYR Acc	3.43	MYR	-0.62	5.13	8.35	3.04
16	RHB Asean	9.91	MYR	-0.76	2.62	10.56	4.45
17	Manulife Asean Equity USD	88.85	USD	-	4.54	4.83	-2.94
18	Principal Asean Islamic MYR	6.52	MYR	-	2.56	4.08	0.08
19	Pheim Asean Islamic MYR	2.55	MYR	-	-	-1.70	-1.35

Some have more cautious view on Asean

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companies. But this dynamic is changing, he says.

However, other fund managers have a more cautious view on Asean despite the impressive FDI inflows. Astute's Chew, for example, says the firm has holdings in Asean, but is not overweight on the region from an asset allocation perspective.

The main concerns are interest rate movements in the US and the further strengthening of the greenback. Emerging markets such as Asean do not do well when the US dollar is strong.

Chew says foreign investors who invested in Asean in the last three months (as of July 10) would have suffered currency losses, as the rupiah, Singapore dollar, Philippine peso, baht and ringgit weakened against the US dollar by 0.6%, 1.4%, 2.2%, 2.7% and 5.3% respectively.

"A strong US dollar has almost always been associated with weaker Asean equities. Asean's interest rate differential with the US may widen further as the US Federal Reserve is expected to raise rates by up to 50 basis points in the second half of this year before it pauses. This will likely result in net outflows from Asean equity markets. Certain currencies like the ringgit and baht may be weighed down by a weaker yuan too."

Citing a US bank research report, Chew says there have been nine occasions since 2008 when the US dollar appreciated by more than 5%. On all occasions, the returns from investing in Asean were negative. In contrast, a weaker greenback was partly the reason why the Asean Index peaked in 2013.

Back then, the US Dollar Index (DXY) was around 83. However, it has strengthened since last year. As at mid-July, the DXY was at 102, which is not good news for Asean equities.

It also does not help that many foreign investors perceive Asean to be populated by old economy stocks.

"Moving forward, North Asian markets are likely to continue overshadowing Asean due to their size, liquidity, growth opportunities and larger exposure to technology stocks. We observed that apart from a brief period in 2013, Asean has rarely outperformed Asia ex-Japan in the last 10 years," says Chew.

Still, he says the advantage of Asean is that investors can find listed companies that are exposed to global tech players. "It is about valuations and being invested at the right stage of the cycle."

Meanwhile, Pheim's Tan points out that the Taiwan Stock Exchange Weighted Index recorded a return of 17.2% at end-June, while South Korea's Kospi returned 12.28%. In contrast, the MSCI All Country Asean USD Index fell 3.89%.

"The Taiwan and South Korean markets are benefiting from the positive sentiment in the tech sector. However, we see the prospect of the Asean markets improving, benefiting from the better economic growth these markets are expected to achieve in 2023 and 2024. Hence, we see room for increased allocation to Asean," he says. E