Tapping into undervalued Asian markets

MAYBANK ASSET MANAGEMENT (MAM) has launched its AsiaPac Ex-Japan Equity-I Fund, which offers investors an opportunity to tap into the potential of the Asian markets.

The fund was established in 2014 and has generated about 80% in total returns in the past 10 years, which is equivalent to an annualised return of 6.07%. Its annualised return over the past five years has been even higher at 7.4%.

LSEG Lipper, a provider of global fund performance data, has ranked the fund in the top quartile in the past five years.

Muhammad Riduan Jasmi, Chief Investment Officer at Maybank Islamic Asset Management, the external investment manager of the Fund, says the fund's outperformance comes from the bottom-up selection of stocks based on detailed fundamental analysis.

The analysis and investment decision-making process involves fundamental screening, talking to the companies' management and determining the valuation with the firm's own financial model.

"The fund is overweight India in capital goods and healthcare stocks. We favoured the consumer sector companies in Indonesia, and the telecommunications and energy stocks in China. They have all delivered strong returns, contributing to the fund's outperformance," Riduan says.

The fund has an annual management fee of up to 1.5% and an annual trustee fee of 0.6%. The minimum initial investment amount is RM1,000 and the minimum additional investment amount is RM100.

It is also a shariah-compliant fund that invests in shariah-compliant equities listed on Asia-Pacific ex-Japan markets.

Other than returns, investors of the fund enjoy the benefit of country diversification, as it allocates its money in more than eight Asian countries.

So, what is the fund manager's market outlook for the year and how is it positioning the fund for another year of outperformance?

Riduan expects the US Federal Reserve to start cutting interest rates in the later part of the first half of 2024 (1H2024) by 75 basis points.

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He expects Asian markets to do well as US interest rates fall because stock market valuations are, by and large, currently lower than historical levels at one standard deviation below the mean.

Raising bets on China equities with bottom-up stock picking

While the US economy could experience a slowdown, Asian economies that are more domestically focused would continue to do well, such as India and Indonesia.

China, a market that many foreign investors have shied away from for now, is looking attractive to Riduan from a valuation perspective.

"We expect the Hong Kong and China market to recover, as they have fallen to a 14-year low," says Riduan.

In fact, Riduan and his team have been increasing the fund's exposure in China recently after a sharp 20% correction in its market in the past year. But they are selective about the companies they invest in.

"We are overweight in China's internet and telecommunications sectors. Most of the stocks we own have very strong cash flows and business models," he says.

"They either have an attractive dividend yield of more than 7% or are doing stock buybacks. This also helps us in limiting our downside while positioning for potential gains."

Riduan is aware of the risk in China's property market. He believes, however, that government supportive policies, in terms of running a higher fiscal deficit, and the central bank's loose monetary policy will continue to support the country's overall economy.

The Chinese government could also support its property sector with an injection of RM2 trillion in the market through the stabilisation fund, which will help improve market sentiment.

On the other hand, the market in India saw a run-up in prices last year and some investors view it as overvalued. Riduan is not too worried about it, as the firm invests only in companies with strong fundamentals and that are undervalued.

"We follow a bottom-up stock selection approach and, therefore, are not concerned about the strong performance of the Indian market in 2023.

"The Indian government is spending a lot of money on building infrastructure such as railways, renewable power capacity, roads and ports. It is making India a manufacturing hub for global companies.

"India is a multi-year growth story. We have a number of stocks that are benefiting from this trend and trading at reasonable valuations. We also constantly look out for new ideas to replace those that have achieved our price targets," he says.

As the fund has very limited exposure in the Malaysian market, it is a good diversifier for local investors.

Riduan says the fund does not invest much in the local market mainly because of political uncertainties and its relatively higher valuation versus other Asian countries.

Yet, Malaysia is starting to look attractive, with the launch of new government policies such as the New Energy Transition Roadmap (NETR) and New Industrial Master Plan 2030 (NIMP).

"We are looking for stock ideas in the utilities, construction and data centre space in Malaysia," says Riduan.

The biggest market risk this year would be a hard landing in the US economy, which would go against market consensus that the country is experiencing a soft landing.

Riduan and his team are, however, mostly putting investors' money in domestic-oriented economies such as India and Indonesia, which will soften the impact of such a risk if it does materialise.

On top of that, their bets on technology stocks focus on structural growth trends, such as generative artificial intelligence, which are expected to be less affected by an economic downturn than other "plain-vanilla tech stocks", he says.

FUND PERFORMANCE

Period	Rank	Return	Quartile
FY2023	#1	+16.89%	1st
Annualised 3-Year	#1	+1.36% p.a	1st
Annualised 5-Year	#2	+7.39% p.a	1st
Since Inception*	#2	+6.11% p.a	1st

Source: Maybank Asset Management, as at 31st December 2023

TOP OVERWEIGHT POSITIONS AND TOP HOLDINGS

Our Top Overweight Positions

STOCK NAME	Country
MAP AKTIF ADIPERKASA PT	Indonesia
CNOOC LTD	China
ALIBABA GROUP HOLDING LTD	China
TENCENT HOLDINGS LTD	China
JINDAL STAINLESS LTD	India
FINOLEX CABLES LTD	India
AMBUJA CEMENTS LTD	India
SHARDA MOTOR INDUSTRIES LTD	India
NARAYANA HRUDAYALAYA LTD	India
SANOFI INDIA LTD	India

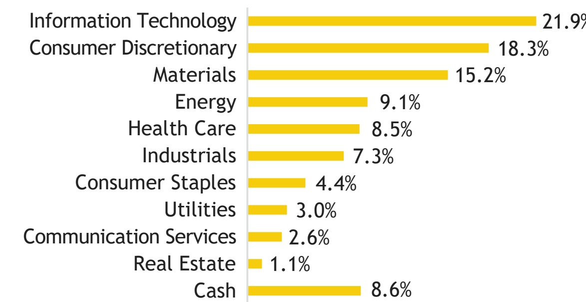
Our Top 5 Holdings

TOP 5 HOLDINGS	Country	Holdings %
TSMC CO LTD	Taiwan	9.78
SAMSUNG ELECTRONICS CO LTD	Korea	8.43
BHP GROUP LTD	Australia	4.33
MAP AKTIF ADIPERKASA PT	Indonesia	4.17
RELIANCE INDUSTRIES LTD	India	3.91

ASSET ALLOCATION

Equities	91.38%
Cash	8.62%

SECTOR ALLOCATION



COUNTRY ALLOCATION