

The Year Ahead

This last year has been challenging for stocks in developing Asian countries as the US continues to maintain investors' focus driven by the magnificent 7. We had anticipated 2024 would be a year where investors would focus back to Asia as their growth rates would look increasingly attractive as Developed Market growth slowed. We were correct with growth continuing to be robust in Developing Asia but the US exceptionalism of seeing very little slowing in overall consumption along with the AI boom has kept investors in the US. There was a glimmer of how quickly markets can move when investor interest picks up for the markets we invest in. This occurred over the period from July to September as there was a shift in the direction and speed of interest rates in the US, and the talk was of 100bps cut in 2024 and at least another 100bps in 2025. This led to a weakening dollar and allowed countries in Asia whose Central Banks focus on currency stability against the USD to start to cut interest rates. Stock markets such as Indonesia, Philippines and Thailand subsequently responded with sharp moves upwards.

The USD subsequently strengthened again and the S&P 500 hit new highs after Donald Trump's win and investor enthusiasm for Asia has waned and we have seen outflows in October and November. We now await to see what policies are enacted and if and how he will carry out his threats on tariffs against all the US trading partners. For this reason investors we have spoken to maintain large US allocations and are in "wait and see mode" before they decide to allocate back to Asia.

As mentioned last year if investors consider valuations in combination with growth prospects, interest rates, government fiscal spending and low government leverage, then the markets we concentrate on all score highly. However, we observe an anomaly between the valuations of corporates exposed to these markets and their fundamental drivers and believe this should start to normalise during 2025. (We have shown the relative valuation of the key ASEAN markets we currently invest in as they stand today in the country section. Needless to say they are very cheap compared to history.)

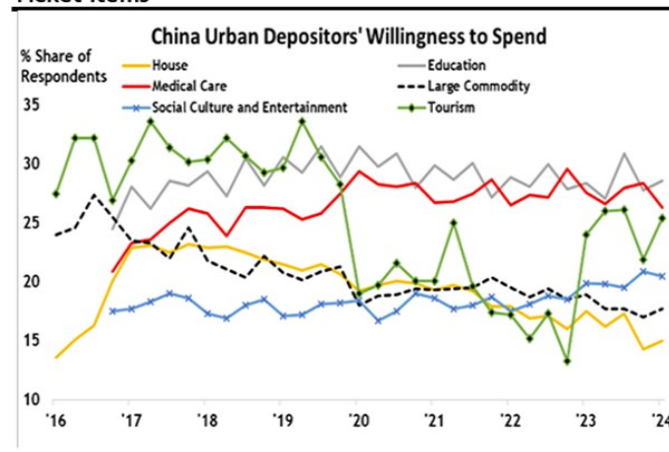
Inflation in the region is looking well anchored. Asian central banks, responding to the strength of the USD have not cut interests in any meaningful fashion and real rates are back to their historical highs in countries such as Indonesia and Philippines. We believe though as interest rates are cut further in the US this will provide room for Asian countries to reduce their rates by similar amounts. The added benefit will be if the USD subsequently weakens from its overvalued position today, as this will spur investors to reallocate away from the US, so leading to stock markets to rerate in developing countries. Our Fund is well positioned to benefit from such a move.

China

In 2025 we anticipate the focus to remain on stabilising the property market, which should lead to improved consumer confidence. Government stimulus will be an iterative process and we anticipate further announcements to come both with regards to helping local governments' with their

Spending preferences of Chinese Consumers

Fig 10: Households Are Prioritizing Education and Healthcare, But Less Inclined to Spend on Housing or Big Ticket Items



Source: CEIC

off balance sheet debt, allowing them to continue to repay corporate creditors, discouraging them imposing arbitrary fines on private enterprises, which certainly dampens entrepreneurial spirits. If they can stabilise the property market with prices having already fallen 30%, the property market is in oversupply, so we do not expect a stabilisation to have any positive impact on the commodity market. This is not about building new properties or infrastructure, but absorbing the current inventory by converting it to social housing, thereby removing excess supply, so hopefully removing the pressure for prices to fall further.

With 70% of the population's wealth in property, if they succeed, consumers who have amassed vast savings may feel more embolden to spend their earnings rather than save them.

We will look for more evidence that they aim to maintain a GDP target of around 5% in 2025 driven both through domestic consumption and investment in high tech sectors. If tariffs are imposed on Chinese goods imported to the US it is even more important the domestic economy becomes the growth engine. One thing to note though is their total exports to the US only account for 3% of GDP, (net exports are 2%), so the impact to the Chinese economy, although noticeable is unlikely to derail it materially, especially as we suspect it will initiate further domestic stimulus. Estimates I have seen from raising tariffs by 60% will impact GDP by no more than 0.5%. Although I do not believe all goods exported with have tariffs of 60% imposed on them, so the impact is likely to be even smaller.

Whilst maintaining a broadly underweight stance on China we still see areas of structural growth such as tourism. The tourism sector typically grows at 1.5-2x GDP growth. Indeed the stocks we own have reiterated this point and expect to capture further share, both within domestic tourism but also new areas of outbound tourism, where spending per capita is growing.

We also see structural demand for wealth management and savings products and have positioned our portfolio accordingly, to capture this opportunity.

ASEAN—Accelerating or resilient growth in 2025

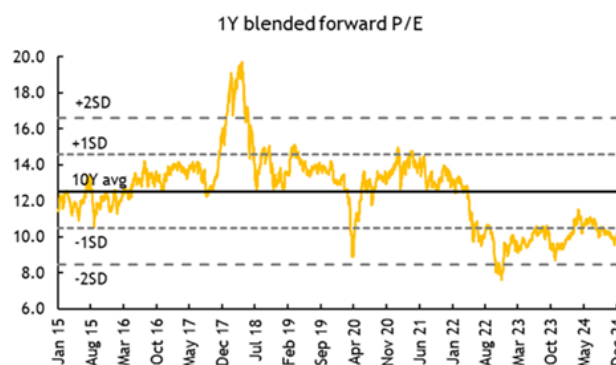
Our outlook towards countries in the region continues to be positive. Markets are starting from extremely depressed levels. 2024 has seen GDP growth continue at similar magnitude to 2023 even with high interest rates and a strong USD. This demonstrates to us the resilience of these

markets even if the stock markets have not reflected it. In 2024 the markets have been dominated by flows, initially outflows by foreigners in the first six months, then three months of inflows in Q3, followed by outflows in Q4 on the back of a stronger USD and expectations of less US Fed interest rate cuts in 2025. Although the interest rates cut expectations in ASEAN have been dampened for 2025, we still expect decent GDP expansion and corresponding consumption growth from the key developing countries. We therefore as discussed below, still expect double digit returns from consumer stocks and perhaps at some point a rerating of their stock markets, timing of which is hard to predict.

Vietnam

In the case of Vietnam, the Government has clearly set out a pro growth agenda, with the aim of attempting to attain an 8% GDP growth rate in 2025. This is going to be achieved by increasing the fiscal deficit to 3.8%, for which they have plenty of room, with debt to GDP currently at 35%. The property market which has seen a slow recovery in the North and remained fairly stagnant for most of 2024 in the South is now starting to show signs of life. The government has been pushing the local bureaucrats to sign off on new developments and issue the relevant licenses. It is not so much lack of demand but lack of supply. So we expect strong demand for new launches in 2025 as they are given the go ahead.

Vietnamese market forward P/E



source Maybank IBG Research

The government is also focused on increasing its regional competitiveness and are ramping up large infrastructure projects, such as the approval of the high speed rail from Hanoi to Ho Chi Minh, building expressways and enlarging

ports. This will boost employment which is already high and with wages rising 7-8% per annum, we expect consumer confidence to rebound from cautious levels seen in 2024.

What we can't understand given the outlook for the country remains positive is why foreign market participants have been selling. Domestic investors have consistently bought the market this year and we expect that to continue. With the market valuations remaining depressed and earnings growth for 2025 expected to witness high teens we see significant upside if valuations normalise.

Tariffs remain the wildcard and so far Vietnam maintains good relations and President Trump has not yet singled out Vietnam. Vietnam maintains its close friendship with the US and will aim to increase imports in large ticket items such as LNG, aircraft, security equipment and AI Chips. If China experiences rising tariffs and Vietnam does not, then we would expect further FDI into the country.

We think a lot of this is in the price when it comes to market valuations and in 2025 we anticipate FTSE to upgrade Vietnam from Frontier to Emerging Market, which will result in some ETF flows into the country. Our focus remains retail banking and consumer stocks and as the population has now rebuilt their savings post Covid, we do expect stronger consumption trends in 2025. The outlook remains positive and it is currently our second largest weighting in the Fund..

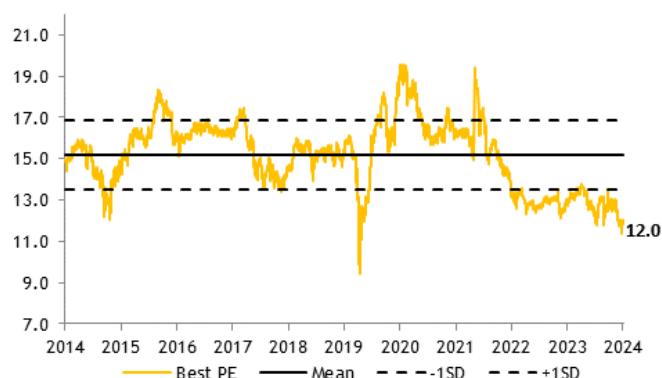
Indonesia

Indonesia yet again is expected to deliver 5% GDP growth in 2024 but consumption has remained less supportive. The cost of living and by which I mean food inflation has curtailed discretionary consumption, whose growth has been muted. The outlook for 2025 should see an improvement.

President Prabowo, aspires to achieve 8% GDP growth, but we believe this remains a dream for the moment as realistically Indonesia will continue to grow between 5-6% in 2025. The government is planning to increase the fiscal deficit and is going to roll out free school meals, estimated to cost 0.3% of GDP but the payback in the long run should be substantial, especially if funded by cutting fuel subsidies, which benefit the rich more than others. This should also be helpful to consumption, freeing up spending for families. Inflation is currently 2% and with interest rates at 6.25%, the real rate remains high. The Bank of Indonesia

(BI) though has a dual mandate of inflation and currency stability. Right now it is the strong USD that is preventing them cutting rates faster. If the Fed continues on the path of cutting 25bps per quarter and the Indonesia Rupiah remains stable, we expect the BI to follow suit. This should encourage an acceleration in consumption, especially as

Indonesia forward P/E



source Maybank IBG Research

wages are rising faster than inflation, with the minimum wage announced to rise by 6.5% in 2025.

With funding costs expected to decline, borrowing by corporates for investment will rise in 2025. This should be followed by increased spending both by the government and consumers and so we expect to see double digit returns for the market given its low starting point, which we expect to benefit our banking stocks and see stronger bottom line profit growth for our retail stocks.

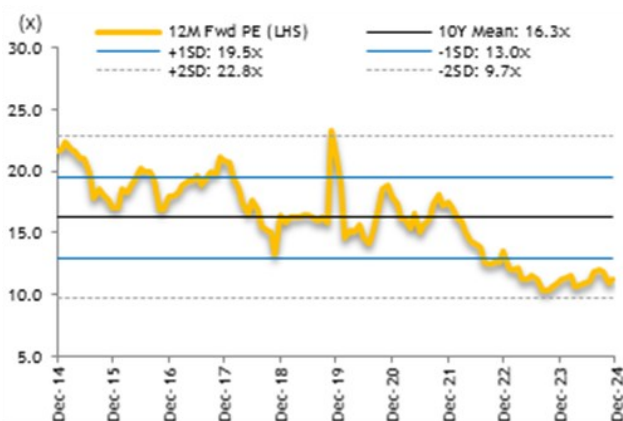
Philippines

2024 has been a year of stop start for infrastructure investment but we expect 2025 to see more evidence of Build-Better-More (BBM) with a target of infrastructure spending to be between 5-6% of GDP. There are also other factors which will ensure growth for 2025 is faster than 2024. Firstly interest rates are falling. We expect the Philippine central bank will cut interest in line with the Fed, if not faster given their more dovish stance as inflation is currently closer to the bottom of their 2-4% target range. Remittances, which in USD terms have been growing at 3%, translates into 8% in Pesos, due to its depreciation over the last 12 months. This will boost consumption, which similar to Indonesia has been squeezed in 2024 due to the cost of living from rising food prices. Rice prices are now down some 20% from their peak and will fall further as import

tariffs have been cut from 35% to 15%. With the minimum wage also growing by 6%, we shall see more of the population's income being spent on discretionary items.

With all of the above factors combined, we expect GDP growth to be above 6% in 2025 with consumption the primary driver. The market this year having delivered another year of double digit EPS growth has seen the market PE decline further. Perhaps 2025 with similar expectations for earnings growth, will a reversal of derating trend of the last 3 years. For this to happen foreigners will have to start buying the market along with local investors, who have the majority of their funds held in fixed interest. If interest rates and bond yields do decline as we expect then we may see local investors move out of fixed income back into the equity market, which represents great value today.

Philippine Market Forward P/E



Thailand

Thailand's government signature policy of cash handouts of THB 10,000 to all adults was delayed and the number of recipients reduced in 2024. As disbursements occurred in H2 2024, the economy started to pick up. But overall private consumption has been weak in 2024 after the strong revenge spending of 2023. The focus for the Government in 2025 is a pro growth strategy with further short term stimulus focusing on reducing household debt, which remains too high at 90% of GDP. Longer term the government is encouraging investment in integrated resorts and casinos, data centres and advanced manufacturing. They should also be a beneficiary of China +1 FDI.

The other driver remains tourism with visitation in 2024 expected to reach over 95% of pre Covid levels, with China

has only recovered to just over 60% of pre covid levels. We expect tourist visitation to exceed 2019 levels in 2025, in particular driven by increasing Chinese visitation.

Our investments in Thailand are geared towards tourist visitation and healthcare, with Thailand's population aging rapidly and medical tourism remains a growing trend.

India

India has experienced a cyclical slowdown in the last six months as tighter liquidity has curtailed lending in combination with government expenditure on infrastructure declining yony, with GDP growth at 5.5% in the quarter to September 2024, not being much different to China and very much below most of ASEAN. The Modi Government has recently won two state elections and we anticipate further populist measures, such as cash handouts to the poor, along with a refocus on accelerating infrastructure investment as we move into 2025. We may not see growth rates coming back to the 8% level, but 6-7% is eminently achievable.

The only issue has been persistently higher inflation in 2024, which has lead to interest rates remaining high and the prospect of cuts occurring in 2025 being pushed out, whilst the cutting cycle when it occurs, is likely to be shallow. The large domestic economy makes it less vulnerable to external shocks and is unlikely to be singled out by President Trump for tariffs. We expect to see economic activity pick up in H1 2025 from the slowdown in H2 2024.

Expectations for the market remain bullish with EPS growth predicted to be in the low teens for next year and there might be a risk of small cuts to these numbers. Valuations in India, although down from their peaks continue to look expensive. This is still being driven by domestic investor inflows, while foreigners have remained on the sidelines due to valuation parameters. We remain wary of overpaying and our allocation to India fell over 2024. We currently are broadly neutral and our largest holdings have been the private banks, whose multiples remain close to their long term average and should continue to deliver double digit growth in 2025. Returns for the market overall should be in line with EPS growth of high single to low double digit as the domestic investor inflows will support the current elevated valuations.

Conclusion– Focus on Long term opportunities

Our primary focus remains on the long-term shifts in consumption patterns across Asia. Our portfolio is strategically positioned to capitalize on these trends, with less emphasis on short-term fluctuations driven by macro factors such as US dollar strength. Rather than speculating on macroeconomic situations or specific policy actions, we base our investment decisions on the bottom-up fundamentals of each company. Our approach centres on identifying three-to-five-year opportunities that align with our rigorous assessment of individual businesses.

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