

# Incorporating Sustainability and Shariah-compliant Considerations While Investing in the Asia Pacific Region

Investors seeking to capitalise on the growth potential of the Asia Pacific region over the long term while incorporating environmental, social & governance (ESG) and Shariah-compliant considerations may look to invest in Public Islamic Regional ESG Fund (PIRESGF, or the Fund).

PIRESGF is the first Islamic regional equity fund under the Public Series of Shariah-based Funds with the objective to achieve capital growth over the long term by investing in Shariah-compliant stocks of companies which incorporate ESG considerations in their business practices.

To achieve capital growth over the long term, 75% to 98% of PIRESGF's net asset value (NAV) will be invested in Shariah-compliant shares or securities equivalent to shares, with the balance invested in Islamic money market instruments and deposits.

Given that PIRESGF is an Asia Pacific equity fund, the Fund will focus its investments primarily on the regional markets of North and South-East Asia as well as Australia. The Fund may also invest up to 25% of its NAV in other eligible foreign markets outside of the Asia Pacific region such as the U.S. and Europe to tap into the broader array of sustainable investment opportunities globally.

## Incorporating ESG in Investing

PIRESGF caters to investors who are concerned about the impact of their investments on the environment and the community and wish to incorporate Shariah-compliant and sustainability considerations into their investments.

Companies around the world are increasingly compelled by governments, regulators and stakeholders to deliver sustainable long-term growth. In addition, companies with higher ESG scores tend to be equal-opportunity employers with enhanced workers' rights<sup>1</sup>; and these companies may also be less likely to be subject to monetary fines and/ or reputational damage as a result of environmental shortcomings<sup>1</sup>.



## Leveraged to the Resilient Growth of Asia Pacific

Countries within Asia Pacific are continuing to recover from the pandemic at a steady pace amid the re-opening of their respective economies. Domestic demand and services are driving growth, while many economies are also benefiting from a strong recovery in tourism.

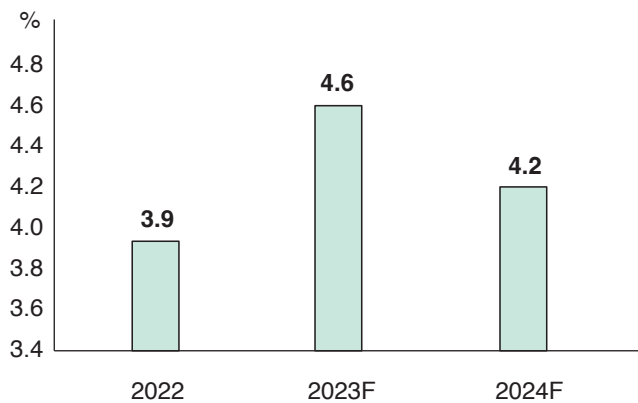
After registering an economic growth of 3.9% in 2022, the *International Monetary Fund (IMF)* projects Asia and the Pacific to grow by 4.6% in 2023 and 4.2% in 2024<sup>2</sup>.

In North Asia, China's economic growth is projected to accelerate from 3.0% in 2022 to 5.2% in 2023 on the back of higher consumer spending amid the re-opening of China's economy. For 2024, the country's real gross domestic product (GDP) growth is expected to moderate to 4.5% as domestic demand stabilises to a more moderate pace. Over the longer term, China's economy is expected to be underpinned by its increasing capital investments in advanced technologies and renewables, as well as the nation's ongoing transition from an export-driven economy to one that is consumption-led.

<sup>1</sup> Financial materiality: Understanding the financial performance of ESG strategies <https://www.thomsonreuters.com/en-us/posts/investigation-fraud-and-risk/financial-materiality-esg/>

<sup>2</sup> Regional Economic Outlook for Asia and Pacific, October 2023, IMF

Figure 1: Asia and the Pacific's Real GDP Growth



Source: IMF

Meanwhile, South Korea and Taiwan's GDP growth is projected to slow from 2.6% and 2.4% in 2022 to 1.4% and 0.8% in 2023 before subsequently rebounding to 2.2% and 3.0% respectively in 2024 in tandem with the semiconductor cycle. For Japan, its economic growth momentum is envisaged to improve from 1.0% in 2022 to 2.0% in 2023 amid robust domestic demand and a rebound in automobile exports before normalising to 1.0% in 2024.

On the other hand, South-East Asian economies are expected to remain resilient in 2023 and 2024, supported by sustained domestic consumption and the continued recovery of tourist activities in the region. For Australia, its economy is anticipated to register a more moderate growth of 1.8% and 1.2% in 2023 and 2024 respectively after expanding strongly by 3.7% in 2022 amid its economic re-opening.

### Sectors PIRESGF May Invest In

PIRESGF may look to invest in selected Shariah-compliant stocks of sustainability-focused companies involved in the segments of sustainable energy solutions, consumer, healthcare, industrial, communication services and technology.

#### i) Sustainable Energy Solutions

The supply chains of renewable energy and clean technology infrastructure, electric vehicles and energy storage systems offer long-term growth opportunities and are set to gain traction in the coming years amid the rise in environmental awareness and the global transition towards a lower-carbon economy.

#### ii) Consumer

The long-term demand for consumer goods is projected to be underpinned by the continued population growth, rising disposable income and increasing urbanisation across the world. Within this segment, the Fund may look to focus on established consumer companies with wide product portfolios and stable growth profiles.

#### iii) Healthcare

The ageing demographic profile of the global population, increasing demand for improved healthcare services, as well as innovations in robotic surgery and new drug discoveries should lend support to the long-term outlook for the healthcare sector. As such, the Fund may look to be positioned in companies which stand to benefit from these developments.

#### iv) Industrial

The continued push for improved productivity and higher cost savings is expected to underpin the long-term industrialisation of economies globally. Consequently, the Fund may look to invest in companies which provide industrial automation solutions in terms of infrastructure (i.e. machinery automation or robotics), software and services.

#### v) Communication Services

Leading communications-related companies are expected to benefit from the increasing adoption of Internet-connected devices and services as more consumers and businesses move to online activities.

#### vi) Technology

The Fund may look to invest in technology companies within the software, hardware, semiconductor and Internet-related segments with earnings that are underpinned by the structural digitalisation trend. The Fund may also explore newer growth areas such as artificial intelligence, cloud computing, 5G and autonomous driving.

### The Fund's Benchmark

The benchmark of PIRESGF is a customised index by S&P Dow Jones Indices, LLC based on constituents of the S&P Global LargeMidCap ESG Shariah Index comprising Japan, China 'H' Shares, Hong Kong, Taiwan, South Korea, Malaysia, Singapore, Thailand, Indonesia & Philippines; which is designed to highlight companies within the region that demonstrate a leading approach to embracing ESG considerations.