

APAC Investing: A pan-regional approach

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The Asia Pacific (APAC) region stands out in the global market with compelling diversification benefits and growth potential. The region encapsulates a multitude of dynamic sectors and structural themes in both emerging and developed economies, which we believe offers an unparalleled opportunity set for portfolio construction.

While APAC investing is traditionally explored in silos divided by countries and sub-regions, in our view only a “pan-regional” strategy can effectively harness APAC’s opportunities. From artificial intelligence (AI) enablers in Taiwan and South Korea, to corporate governance reforms in Japan, to world-class commodity companies in Australia—a holistic APAC approach in our view has the greatest potential to combine an array of uncorrelated drivers in a single portfolio that can generate resilient returns across the market cycle.

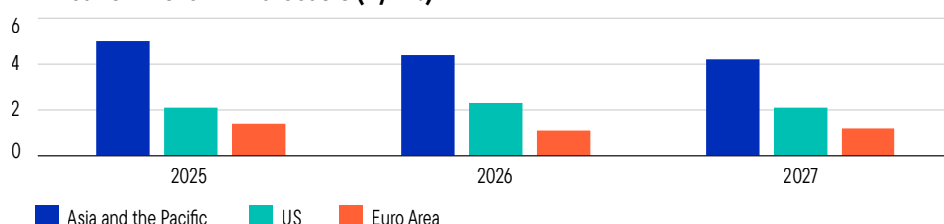
Leading in growth, driven by innovations

Stellar economic growth has long been a key part of APAC’s investment case. That remains true in 2026, when the region appears likely to have real gross domestic product (GDP) growth of 4.4%, versus the United States’ 2.3% and the euro area’s 1.1% (see Exhibit 1).¹

At the heart of APAC’s growth engine is a high level of industry innovations, along with economic productivity. The Economic Complexity Index, which measures the diversity and sophistication of the productive capabilities embedded in each country’s exports, provides the empirical evidence. Five of the top-10 countries on the Index are in APAC (see Exhibit 2).²

Exhibit 1: APAC Leads in Economic Growth

IMF Real GDP Growth Forecasts (Y/Y %)



Source: International Monetary Fund forecasts. As of April 2026. There is no assurance that any estimate, forecast or projections will be realized.

Exhibit 2: APAC Dominates the 2024 ECI Ranking

1	Japan		5	Singapore		8	Israel	
2	Switzerland		6	Germany		9	Slovenia	
3	Taiwan		7	Czechia		10	China	
4	South Korea							

Source: Complexity Rankings and Growth Projections. Growth Lab, Harvard. As of February 2026.

1. Source: International Monetary Fund forecasts. As of April 2026. There is no assurance that any estimate, forecast or projection will be realized.

2. Source: Complexity Rankings and Growth Projections. Growth Lab, Harvard. As of February 2026.

Driving the regional innovations and growth is APAC’s industry and supply chain leadership across several fronts:

• **Critical enablers in the AI value chain**

Taiwan and South Korea are home to leading-edge semiconductor producers, producing some 80% of AI chips. With peerless fabrication technologies and a world-class production ecosystem scaled up through decades of refinement, these companies are essential to the advancement and adoption of AI solutions. Meanwhile, Japan is among the leaders in the semiconductor production equipment sector, with 60%-90% of the global market share in single-wafer cleaning, coater development and heat treatment equipment.³

• **Trailblazers in new-age industries**

APAC is not only leading in new technologies such as robotics, automation and electrification, but has also developed interconnected supply chains that enable global product deployment. From Japanese precision engineering companies renowned for industrial automation, to Chinese and South Korean companies pioneering in humanoid robots, to the massive electric vehicle and battery complex spanning Australian commodity exporters and Chinese manufacturers—APAC is the beating heart of the future economy.

For investors, we believe accessing this groundswell of technological and industry advancements in totality can position portfolios for compelling growth potential. This “pan-regional” approach has often been neglected, but in our view, that should not be the case.

APAC’s evolution as an asset class

In asset allocation terms, investors have historically carved up APAC investing into regional clusters, such as Asia ex-Japan or emerging Asia, or single-country strategies, such as Japan, China or India. This has resulted in relatively narrow exposures to parts of APAC, as shown by MSCI indexes (see Exhibit 3).⁴

Exhibit 3: Assets Under Fund Management in Regional MSCI Indexes (US\$ billion)

MSCI Indexes	Total Passive AUM	Total Active AUM	Total AUM
AC Asia ex Japan	8	57	64
Emerging Markets Asia	7	6	13
AC Asia Pacific	0	9	9

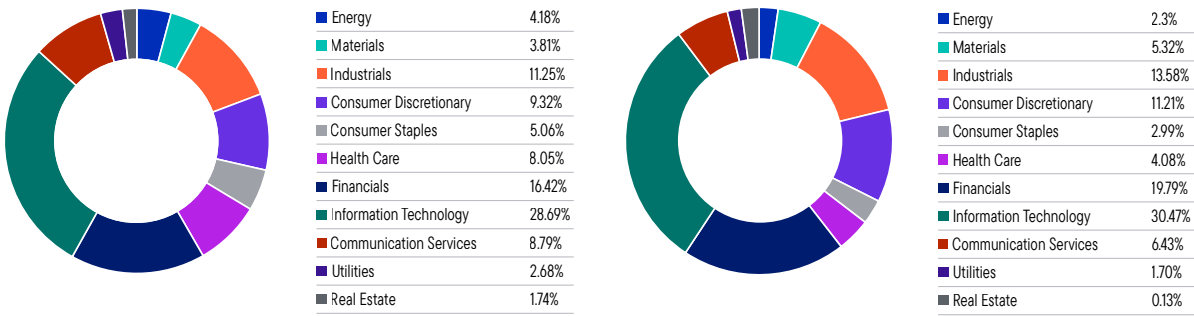
Source: EPFR, Goldman Sachs Global Investment Research. June 2025. Please see footnote 4 for more information on MSCI indexes.

The siloed approach was typically motivated by perception of growth profiles, with Japan’s dominance over the MSCI AC APAC Index pushing investors to seek smaller pockets of regional growth separately. We believe that is no longer an issue today. The APAC universe has evolved to become much more balanced, in tandem with economic and industry developments across regional countries.

At the MSCI AC APAC Index level, Japan’s weighting has dropped from around 55% in 2006 to 30% in 2025, while other markets are catching up. China and Hong Kong have grown from 10% to 22% over the same period; Taiwan from 6% to 14%; and India from 3% to 11%.⁵ In terms of sector composition, the index is also fully diversified, at a level comparable to the global benchmark (see Exhibit 4).

3. Source: US International Trade Administration. As of November 2025.
4. The MSCI AC Asia ex Japan Index captures large and mid-cap representation across two of three developed market (DM) countries (excluding Japan) and eight emerging market (EM) countries in Asia. The MSCI EM Asia Index captures large and mid-cap representation across eight EM countries in Asia. The MSCI AC Asia Pacific Index captures large and mid-cap representation across five DM countries and eight EM countries in the Asia Pacific region. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges.
5. Source: Bloomberg. As of April 2026.

Exhibit 4: Sector Diversification of MSCI AC APAC (right) vs MSCI ACWI (left)



Source: MSCI. As of April 2026. Indexes are unmanaged and one cannot invest directly in an index. Indexes do not include fees, expenses or sales charges.

The diversification at the Index level is much more than a statistical fact—it evidences the economic diversity, industry growth and policy shifts in APAC, as the region evolves into a vibrant universe that offers exposure to multiple independent drivers of investment returns.

Capturing uncorrelated returns from the whole of APAC

At Templeton Global Investments (TGI), we maintain high conviction on several APAC themes that have the potential to generate uncorrelated returns across different parts of the market cycle, provided they are accessed in full. These include:

A AI supply chain and APAC’s leadership
As we have discussed above, APAC houses a group of semiconductor majors across Taiwan, South Korea and Japan. Investors can additionally find globally-leading server manufacturers, passive component providers and power-related industrial companies in the region. Collectively, APAC’s technology and industrial ecosystem form the backbone of the global AI supply chain.

B Boardrooms and accelerating corporate governance reforms
Multiple APAC markets are pushing for corporate reforms that will enhance shareholder returns, boost valuations and attract capital to their shores. Corporate governance reforms have particularly gained momentum in Japan since 2015, effectively removing its “ex-growth” reputation as companies ramp up efforts to improve balance sheet efficiency, boost margins and return more capital to shareholders, driving significant return on equity (ROE) improvement. This is reflected in the record-high levels of share buybacks, rising from JP¥10 trillion in FY2023 to JP¥22.3 trillion in FY2025 (12 months to March 2026).⁶

In South Korea, regulators are updating its Commercial Act—notably with the expansion of director fiduciary duty and mandatory cumulative voting⁷—to incentivize stronger corporate governance, aiming to narrow the “Korea discount,” or valuation gap, caused by perceived weaknesses in governance standards. In Singapore, the Value Unlock Program went live in January 2026, part of the regulatory efforts to develop corporate governance capabilities and infrastructure that may uplift shareholder value. Across the region, these corporate reform initiatives are generating “self-help” return drivers that investors should consider for portfolio upgrades.

C Consumer and the power of domestic stalwarts
Consumption is part of the economic cornerstones of APAC, where investors can find many high-quality companies serving resilient domestic demand with innovative products and services. Among them are leading Japanese lifestyle and pharmaceutical retailers; e-commerce and online travel platforms in China; and quick commerce leaders in India. In the financials sector, major banks in countries such as China, India, Japan and Singapore are leveraging on digital

6. Source: Japan Equity Strategy, J.P.Morgan. As of May 11, 2026.
7. Cumulative voting is a type of voting system that helps strengthen the ability of minority shareholders to elect a director.

banking to deepen their roots in both domestic and regional markets. Collectively, these consumption-oriented companies are domestic stalwarts firmly positioned to benefit from APAC's demographic tailwinds, policy support and rising income levels. Their potential for resilience against external macroeconomic headwinds adds another key dimension to an APAC portfolio, complementing global companies in a “domestic—global” positioning that offers diversified growth and risk mitigation.

D Dividends and the stability of income yield

As investors explore APAC for growth, they can also benefit from the stability of income generation. APAC offers a large ecosystem of mature and defensive companies, many of which have the balance-sheet strength and cash reserves to sustain high and growing dividend payouts. These defensive companies—such as the domestic stalwarts mentioned above, and world-class names in Australia across the commodities and financials sectors—offer the stability of income yield that investors can utilize as a potential downside cushion. A dual-pronged approach of “growth + income” investing has the potential to deliver all-weather performance, and we believe APAC is the hunting ground for these compelling opportunities.

Conclusion

When explored in its entirety, APAC has the potential to deliver uncorrelated returns driven by a large spectrum of macroeconomic catalysts and industrial dynamics. Whereas a siloed approach to Asia investing may yet serve specific investor needs, we believe the “pan-regional” approach provides the optimal way to access the full opportunity set in the region.

As investors navigate the new normal of heightened geopolitical and trade uncertainties, the significant diversification benefits granted by this holistic approach may help compound long-term returns. We think the track record speaks for itself—the MSCI AC APAC Index has a 10-year maximum drawdown of around 36%,⁸ among the lowest in comparison to major single-market and carved-out regional indexes, supporting our confidence that the time for investing in APAC as a whole is now.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Past performance is not an indicator or guarantee of future results.

Equity securities are subject to price fluctuation and possible loss of principal.

Commodity-related investments are subject to additional risks such as commodity index volatility, investor speculation, interest rates, weather, tax and regulatory developments.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. Investments in companies in a specific **country or region** may experience greater volatility than those that are more broadly diversified geographically.

The government's participation in the economy is still high and, therefore, investments in **China** will be subject to larger regulatory risk levels compared to many other countries. There are special risks associated with investments in **China, Hong Kong and Taiwan**, including less liquidity, expropriation, confiscatory taxation, international trade tensions, nationalisation, and exchange control regulations and rapid inflation, all of which can negatively impact the portfolio. Investments in Hong Kong and Taiwan could be adversely affected by its political and economic relationship with China.

The portfolio's investment strategies incorporate the identification of **thematic investment opportunities**, and its performance may be negatively impacted if the investment manager does not correctly identify such opportunities or if the theme develops in an unexpected manner. By focusing its investments in information technology-related industries, the portfolio carries much greater risks of adverse developments and price movements in such industries than a portfolio that invests in a wider variety of industries.

Small- and mid-cap stocks involve greater risks and volatility than large-cap stocks.

8. Source: Bloomberg. As of April 2026.

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