September 2018

Allianz Life Master Bond Fund

Allianz

Investment Objective

An open-ended investment fund which aims to provide a stable income stream and medium to long term capital appreciation by investing primarily in Malaysian fixed income securities.

Investor Profile

The Fund is suitable for investors who are seeking for potentially higher returns than fixed deposits, want to diversify their overall investment portfolio by including bonds as an asset class, seek stable income stream and have low risk tolerance.

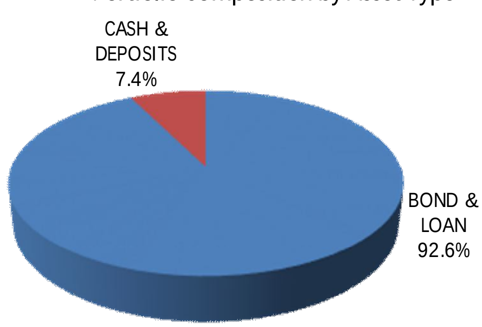
Performance Indicator

	Master Bond Fund	Benchmark: 12-month FD*
1 month	0.39%	0.27%
6 months	2.31%	1.68%
1 year	4.17%	3.33%
3 years	14.14%	10.11%
5 years	22.14%	17.49%
YTD	3.40%	2.54%
Since Inception (Annualised)	4.33%	3.17%

* Source: Maybank.

The above performance is calculated in Ringgit Malaysia on a NAV-to-NAV basis. It is strictly the performance of the investment fund and not the returns earned on the actual premiums paid of the investment-linked product. Past performance is not an indication of future performance.

Portfolio Composition by Asset Type

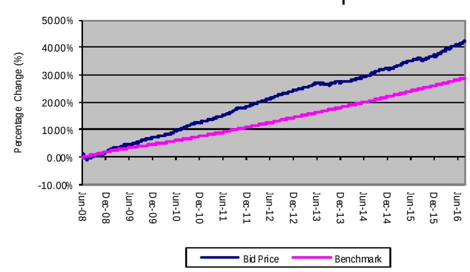


Key Fund Facts

Fund Size	RM495.089 million
Risk Profile	Low
Launch Date	2nd June 2008
Fund Currency	Ringgit Malaysia
Investment Manager	Allianz Life Insurance Malaysia Berhad
Pricing Frequency	Daily
Price per Unit[1] - Bid (as at 30th September 2018)	1.550
Management Fee	0.00% p.a
Other Charges[2]	Include but not limited to government tax, auditor fee, custodian fee, & transaction charge

1. The price per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. To ensure fair treatment to all unit holders, transaction costs of acquiring and disposing of assets of the Fund are recouped by making a dilution or transaction cost adjustment to the NAV per unit of the Fund. Allianz Life Insurance Malaysia Berhad retains the right to suspend issuance or redemption of units of the Fund under exceptional circumstances, e.g. temporary closure of any stock exchange, as disclosed in the fund brochure.
2. Expenses directly related to and necessary in operating the Fund.

Performance Since Inception



Top Holdings (Bonds)	% NAV
MALAYSIA GOVERNMENT	10.13%
GENM CAPITAL BERHAD	7.08%
PUBLIC BANK BERHAD	6.06%
CELCOM NETWORKS SDN BERHAD	4.12%
DIGI.COM BERHAD	4.06%

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Market Review & Outlook

Bond Market Review

The Fed raised fed funds rate to a target range of 2 to 2.25% on 26th September with the latest dot plot affirming a fourth hike in December, as well as three more hikes in 2019 and one hike in 2020. US Treasury (UST) yields trended higher by 20bps over the month as trade concerns and contagion risk loomed but managed to stage some comeback on the day after FOMC as investors focused on the Fed's confidence in the economy. The Fed also dropped the usual "accommodative" in reference to its monetary policy suggesting a somewhat hawkish tone but Fed Chair Jerome Powell managed to clarify that the removal of the wording did not signal any change to rates path and the Fed did not see inflation surprising to the upside, and this pushed the 10Y US treasuries yield down to 3.05% from a high of 3.10% during the month. The final reading of 2QGDP growth was unrevised at 4.2% QOQ, and the Conference Board Consumer confidence soared to an 18-month high.

In Malaysia, local bond market remained resilient, seemingly downplaying higher global yields and headwinds across the emerging markets. The MGS curve bear flattened during the month but improved domestic bids and better details in public policies resulted in some demand for duration especially in the longer end of the yield curve. Rising USDMYR pair from 4.10 to 4.13 did not dent the local market sentiment but there was lost of trading interest in MGS heading into the FOMC policy decision. On a MoM basis, MGS yields rose 13bps along the 1y3y as currency players off-loaded their positions, while the 7y-20y was 2-3bps higher. The 10y ended the month +3bps at 4.07%.

Foreign outflows from MYR bonds widened to MYR3b (Aug: MYR2.4b) in September partly due to bond maturity, with the foreign shares of MGS declined to 39.5% (Aug: 40%). On the macro front, Malaysia's economy expanded by 4.5% yoy in 2Q18 (below consensus: +5.2%, 1Q18: +5.4%), the weakest since 4Q16, partly due to supply shocks in agriculture (palm oil and rubber) and mining (natural gas). The contribution of net exports narrowed sharply (+0.1% pt in 2Q18 vs. +4.0% pts in 1Q18) as imports rebounded to meet stronger domestic demand (+5.2% yoy in 2Q18 vs. +3.8% yoy in 1Q18). The pick-up in domestic demand resulted in the current account (CA) surplus falling sharply to RM3.9bn or 1.1% of GDP in 2Q18. Meanwhile, Aug headline CPI was below consensus at 0.2% YoY (Jul: 0.9%).

Bond Market Outlook

We expect market tone to remain cautious with the downside risks stemming from continuous UST rate hike(s), heightened trade tensions, and domestic policy uncertainties. In addition, the recent emerging market sell-off caused by the contagion from Turkey right up to Indonesia commencing August onwards has somewhat seen resumption of slight outflows from Malaysia following earlier ones post GE14 in May this year. Locally, investors are expected to look out for fresh leads from the upcoming mid-term review of the 11th Malaysia Plan in October and 2019 budget in November.

We don't see any compelling reasons for foreign funds to return unless EM risk appetite recover strongly, nor do we expect any official measures to encourage more foreign flows to bond market. Domestic macro setting remains mildly supportive to bonds and there is also the risk of higher government bond supply for 2019. Meanwhile, we expect the overnight policy rate to remain unchanged at 3.25% for 2018. We would continue to remain cautious of possible bond market volatility arising from both local and global developments. We are more inclined to accumulate bonds skewing towards high quality and liquid names as yields trended higher

Equity Market Review

Global equity markets continued to move up in Sep 2018 with the MSCI World Index growing by +0.39% mom. The Dow Jones Index shot up +1.90% mom in September, aided by a strong tailwind which was the booming US economy. Initial jobless claims were still holding at trough levels not witnessed since 1970's and the ISM Manufacturing Index reading was expansionary at 61.3 for Aug 2018. Consumer confidence was also lofty with the University of Michigan's September consumer sentiment reading at 100.1, which was an increase over August's 96.2 and only the third time the monthly reading surpassed 100.0 since Jan 2004. Against that positive economic backdrop, the Federal Reserve raised fed fund rates to 2.25% which affirmed its confidence in the US economy. The US – China trade tensions were raised a notch higher during the month as US levied a 10% tariff on USD200b worth of Chinese products with the rate set to increase to 25% by end 2018. In response, China imposed 5 – 10% levies on USD60b worth of US imports. The Chinese Shanghai Composite Index also surged +3.53% mom as China's State Council announced tax cuts at end Aug 2018 to lower business costs and more could come as the government attempted to shield its economy against the effects of the trade war. Europe's Stoxx 50 Index only edged up +0.19% mom as the bloc was affected by concerns that the Italian Budget 2019 deficit proposal would cause friction among EU members and that there were no clear solutions in sight for an orderly Brexit.

During the month under review, Brent oil price rose strongly registering +6.8% mom to USD82.72/ bbl. Oil prices had been on a resurgent streak, catalysed by the potential reintroduction of US sanctions on Iranian oil and the declining Venezuelan production which was plagued by the country's economic woes. Oil price remained buoyant despite the fact that the world had been pumping at a record 100m barrels of oil per day in Aug 2018 according to the International Energy Agency (IEA). On the other hand, crude palm oil (CPO) declined 3.7% mom to RM2118/ MT as it tracked the easing of soybean prices which were dragged by USDA reports of higher than expected US soybean inventory for 2018/19 as well as the negative impacts of China's 25% tariff on US soybeans.

On the ASEAN front, the Stock Exchange of Thailand continued to experience an uptrend with a +2.02% mom. A catalyst for the market was the enactment of new laws which dictate that the election be called between 24 Feb 2019 and 5 May 2019. The Monetary Policy Committee of the Bank of Thailand also chose to keep its policy rate unchanged at 1.50%. However, 2 out of 7 voting members voted to raise rates as compared to only 1 in Aug 2018. Indonesia's Jakarta Composite Index reversed some of its previous month's gains by easing 0.70% mom. The Indonesian market continued to suffer from net equity foreign outflows of USD66m amidst unceasing pressure on the Rupiah. Despite the fact that the Bank of Indonesia raised its policy rate by 25 bps to 5.75%, its currency still depreciated to Rp14,870: USD1.00 from Rp14710: USD1.00 a month ago. On the local front, the FBMKLCI fell by 1.46% mom despite a net foreign equity inflow of RM66.2m during the month as compared to outflows of RM98.6m and RM1.7b in Aug 2018 and July 2018 respectively. Other than that, Bank Negara Malaysia elected to keep its overnight policy rate (OPR) at 3.25% and expected the Malaysian economy to remain on a steady growth path. Lastly, Singapore's Straits Times Index rebounded from its fall in the previous month by rising +1.30% mom, led by the financial and industrial sectors.

Equity Market Outlook

While we believe that Malaysia's economic fundamentals are generally still respectable, we are anxious to get more clarity as to the direction of the government in driving our economy during the mid – term review of the 11th Malaysia Plan in Oct and from the Budget 2019 to be tabled in Nov 2018. Though we take heart in the aforementioned rising oil prices and increasing domestic demand, we recognize some domestic and foreign headwinds which may introduce a measure of volatility into our markets. Examples include the escalation of the US – China trade tension, the scaling back of government pump priming activities and other potential economic reforms. Thus, we remain cautiously optimistic and will continue our bottom – up strategy of selecting fundamentally good long term investments during the coming months in step with the government's reprioritisation of its expenditure and economic growth drivers.

Investment Strategy & Approach

The investment approach would be a combination of 1) Top down analysis of the macroeconomic environment to determine asset allocation and sector exposure strategy and 2) Rigorous bottom up analysis which includes value analysis and financial analysis, to select individual stocks/credits to generate alpha return.

Investors should realize that there are risks of investing in the Funds as listed below:-

- **Market Risk** – The value of the Fund's investment assets may be affected by changes in economic fundamentals, interest rate movement, regulatory policy, political and industrial developments. These market factors may result in fluctuations in the value of the Fund's investment assets. This risk may be mitigated by ensuring a rigorous review of macroeconomic factors and asset allocation strategy.

- **Interest Rate Risk** – Interest rate risk arises when the value of the securities fluctuates due to interest rate movement. As prices of bonds move inversely with the interest rates, prices of bonds will decline when interest rate rise and vice-versa. Debt securities with longer maturity and lower coupon rate are more sensitive to interest rate changes. This risk may be mitigated by rigorous review of asset allocation and duration strategy.

- **Country/foreign investment risk** – This risk refers to the risks of investing in foreign markets. The value of the foreign investment assets directly or indirectly held by the Fund may be affected by country-specific factors, such as the country's economic fundamentals, social and political stability and regulatory policy. This risk may be mitigated by ensuring a rigorous review of macroeconomic factors and asset allocation strategy.

- **Sector Risk** – The value of the Fund's investment assets may be adversely affected by the changes in sector-specific factors, such as the business condition, industry outlook and demand/supply dynamic of the industry. This risk may be minimized through portfolio diversification and control on sector concentration risk.

- **Company specific Risk** – The value of the assets in particular of securities and money market instruments may be affected by company-specific factors, such as business situation, financial condition and corporate governance of the company.

- **Credit Risk** – The creditworthiness (solvency and willingness to pay) of the issuer of a fixed income security, counterparty to a derivative contract or money market instrument may subsequently fall. This usually leads to a decrease in the price of the asset greater than that caused by general market fluctuations. This risk is minimized through portfolio diversification, stringent credit selection and control on sector concentration risk.

- **Currency Risk** – For foreign investment, fluctuations in currency exchange rates may have an impact on the value of the Fund's investment assets. This risk may be minimized by engaging in foreign currency hedging.

- **Dividend Policy Risk –** This risk may occur when there is a significant deterioration in a company's business or if there is a change in management policy resulting in a reduction or removal of the company's dividend policy. Such risk is particularly relevant to a fund that focuses largely on dividend yielding stocks. This risk can be mitigated by investing mainly in companies with consistent historical record of paying dividends, companies operating in fairly stable industries or companies with strong cash flows.

- **Liquidity risk** – If an asset has insufficient liquidity, there is the risk that the asset cannot be sold or can only be sold at a significant discount to the purchase price. The lack of liquidity of an asset may cause its purchase price to increase significantly.

- **Risk of Non-Compliant with Shariah Requirements** – For Shariah-approved funds, there is the risk that the fund may hold securities which are Shariah non-compliant due to "Shariah-compliant securities" which are subsequently considered "Shariah non-compliant" and Investment in Shariah non-compliant securities.

Overall, on top of regulatory limits imposed by Bank Negara Malaysia, we have put in place tight internal investment limits for all asset class with oversight by risk officer to ensure that the Fund does not take on excessive risk, albeit we cannot guarantee the total elimination of risks associated with investing in the Fund.

Meanwhile, on the investment management of Master Funds, Master funds* are introduced to operate as a centralised investment vehicle for the Funds. It has its own NAV but it is not offered to the public. The objective of creating Master funds is to consolidate all different investment funds which have the same investment mandates and return objectives. Such consolidation aims to enhance the efficiency in investment management.

*(Allianz Life Master Equity Fund, Allianz Life Master Bond Fund, Allianz Life Master Dividend Fund, Allianz Life Master Dana Equiti and any other Allianz Life Master Funds)

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