February 2018

Allianz Life Master Equity Fund

Investment Objective

An open-ended investment fund which aims to provide medium to long term capital appreciation by investing in equities and equity-related securities.

Investor Profile

The fund is suitable for investors who seek moderate to high capital appreciation, have moderate to high risk tolerance and have medium to long term investment horizon.

Performance Indicator

	Master Equity Fund	Benchmark: FBM 100*
1 month	-0.12%	-1.07%
6 months	8.14%	5.22%
1 year	21.12%	11.01%
3 years	31.25%	5.63%
5 years	69.37%	16.27%
YTD	3.73%	2.45%
Since Inception (Annualised)	13.38%	4.61%

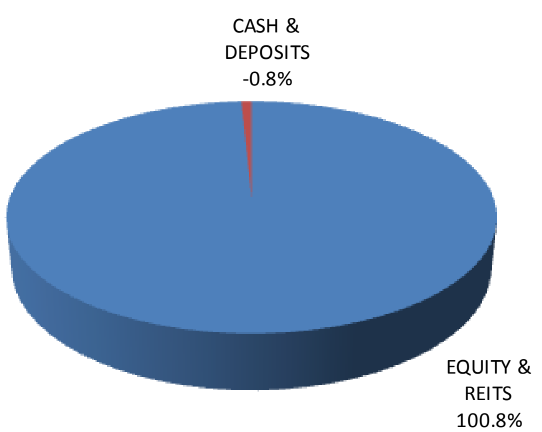
* Source: Bloomberg
The above performance is calculated in Ringgit Malaysia on a NAV-to-NAV basis. It is strictly the performance of the investment fund and not the returns earned on the actual premiums paid of the investment-linked product. Past performance is not an indication of future performance.

Key Fund Facts

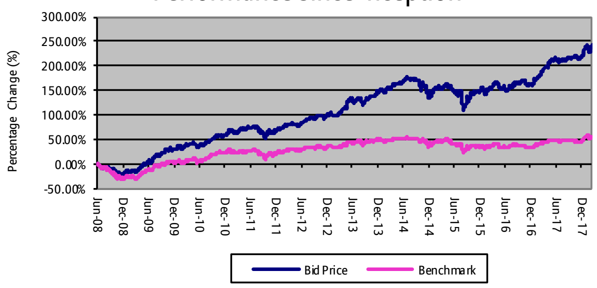
Fund Size	RM601.49 million
Risk Profile	Moderate to high
Launch Date	13th June 2008
Fund Currency	Ringgit Malaysia
Investment Manager	Allianz Life Insurance Malaysia Berhad
Pricing Frequency	Daily
Price per Unit[1] - Bid (as at 28th February 2018)	3.389
Management Fee	0.00% p.a
Other Charges[2]	Include 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.

Portfolio Composition by Asset Type



Performance Since Inception



Top Holdings (Equities)

Top Holdings (Equities)	% NAV
TENAGA NASIONAL BERHAD	10.01%
MALAYAN BANKING BERHAD	9.93%
CIMB BERHAD GROUP	7.85%
PUBLIC BANK BHD	4.62%
GEORGE KENT (MALAYSIA) BERHAD	4.47%

Allianz Life Insurance Malaysia Berhad (104248-X)
Level 29, Menara Allianz Sentral , 203 , Jalan Tun Sambanthan, Kuala Lumpur Sentral , 50470 Kuala Lumpur.
Allianz Life Call Centre : 603-2264 1188
www. allianz.com.my

Market Review & Outlook

Bond Market Review

US Treasury (UST) yields continue to rise for a second straight month in February following the higher-than-expected increase in hourly wages and consumer price index. Shortly after the release of FOMC meeting minutes on 21 February which affirmed the Fed's commitment towards a higher rate, UST yields reached multi-year highs with the 2y at 2.28% (highest since 2008), 5y at 2.69 (highest since 2010), 10y at 2.95 (highest since 2014) and 30y at 3.23 (highest since 2015). On 5 February, Jerome Powell succeeded Janet Yellen as the new Fed chairman. Powell's rosy outlook in the congressional testimony on 27 February pointed towards the possibility of four rate hikes this year.

As expected, after raising the Overnight Policy Rate (OPR) by 25bps to 3.25% at the Monetary Policy Committee (MPC) meeting on 25 January, Bank Negara Malaysia (BNM) kept the OPR unchanged at 3.25% at the MPC meeting on 7 March. The MPC statement sounded less hawkish as BNM was of the view that the current level of OPR and the degree of monetary accommodativeness was consistent with the policy stance to ensure the domestic economy continues to grow on a steady path amid lower inflation. Following the increase in UST yields, the Malaysian Government Securities (MGS) yield curve were largely up by 3-8bps MoM with 10y MGS up 7bps at 4.03%.

As the ringgit weakened to 3.9170 (Jan: 3.8985), foreign funds sold a total of RM3.9b of domestic debt securities in February versus an inflow of RM4.5b in January. Partly contributing to the outflow was the RM15.1b MGS maturity in February. Foreign share of MGS hence declined to 45.4% (Jan: 45.7%). External reserves however remains healthy as it were unchanged MoM at USD103.7b.

Bond Market Outlook

Despite looming risks of Fed normalization and ongoing balance sheet reduction, the MYR sovereign curve remains supported by onshore real money investors where liquidity remains high. Buying opportunities may emerge with investors looking for bargain levels from a relative higher yield perspective, buoyed by anticipation of no rush in further rate hike by BNM. Nevertheless, we would remain cautious of possible bond market volatility arising from developments in the US and global surprises. Key factors would be the Fed's interest rate normalization process which may accelerate outflows from Emerging Markets. We are more inclined to accumulate bonds skewing towards high quality and liquid names.

Equity Market Review

The global equity market, after a 5 month consecutive uptrend streak, eased with the MSCI World Index falling 4.30% mom, being dragged by a broad spectrum of regional market declines. The Dow Jones Index fell by 4.28% mom despite announcing a slew of positive macroeconomic data which included a steady 4Q17 GDP growth of 2.5%, falling jobless claims and rising wage rates. However, the high wage rate growth prompted some concerns of rising inflation which in turn led to rising 10 year bond yields and this could potentially lead the Federal Reserve to reassess their interest rate hike strategy. Similar to the US, the Eurozone's Stoxx50 Index contracted by 4.72% mom even though the region posted robust macroeconomic data, i.e. healthy 4Q7 GDP growth and an expansionary Purchasing Manager's Index. Meanwhile, the Bank of England noted that rates could rise "somewhat earlier and by a somewhat greater extent". Nearer home, the China's Shanghai Composite Index also dropped 6.36% mom even with its commendable 4Q17 GDP growth data of +6.8% as it was being weighed down by the volatility in the US markets.

On the commodities front, Brent crude oil traded down by 4.7% mom to USD65.78/ bbl after having enjoyed a steady uptrend from Aug 2018. This was brought about by market concerns due to the US record oil production and rising inventory. Crude Palm Oil (CPO) continued to rise by +3.3% mom as a results of inventory declines as it was a seasonally low output period.

The ASEAN markets performed mixed relative to their global peers. Notwithstanding the volatility permeating the global markets, the Stock Exchange of Thailand emerged the top performer with a gain of +0.18% mom. The country has had economic indicators which pointed towards accelerating domestic demand and an improving investment cycle. Meanwhile, the Bank of Thailand elected to keep its policy rate at 1.5% and opined that its economy would benefit from the strong export growths but also highlighted that the domestic demand recovery and strengthening oil prices could result in a gradual increase in inflation. In Indonesia, the Jakarta Stock Exchange eased 0.13% mom as there was a mom reversal of foreign fund flows in February 2018 to an outflow of approx. USD760m. In spite of this, the 4Q17 Indonesian GDP growth figure of +5.2% yoy was a good indicator that the country's GDP was still on a healthy growth trajectory. Singapore's Straits Times Index also dipped by 0.45% mom as it was dragged by all market sectors save the financial sector which recorded a positive return. Nonetheless, its underlying economy was still robust with its above expectations 4Q17 GDP growth of +3.6% yoy and with its industrial production growing at +17.9% yoy in Jan 2018. Lastly, the FBMKLCI plummeted by 0.66% mom as it was affected by the volatilities spurred by the Dow correction and rising US bond yields. During the month under review, there were several initiatives launched aimed at improving the vibrancy of the market by introducing new trading rules and establishing the Malaysia – Singapore Connect, a trading link to connect both countries' markets.

Equity Market Outlook

Market volatility is expected to remain elevated given the Risks of US rate hikes, global central banks' monetary policy normalisations and a faster than expected increases in inflation continue to remain prevalent. However, the fundamentals underpinning our economic growth are strong with a host of pump priming initiatives and a recovery in commodity prices, which would inexorably lead to positive corporate earnings growth. Thus, we maintain our strategy of a bottom – up approach to select fundamentally good investments for the longer term.

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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