November 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	-3.95%	-1.24%
6 months	-7.00%	-3.91%
1 year	-18.29%	-4.88%
3 years	5.34%	1.48%
5 years	8.45%	-6.68%
YTD	-20.26%	-8.99%
Since Inception (Annualised)	9.57%	3.09%

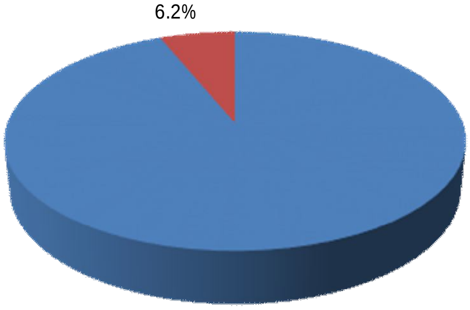
* Source: Bloomberg
The above performance is calculated in Ringgit Malaysia on a NAV-to-NAV basis. It is strictly the performance of the investment fund and not the returns earned on the actual premiums paid of the investment-linked product. Past performance is not an indication of future performance.

Key Fund Facts

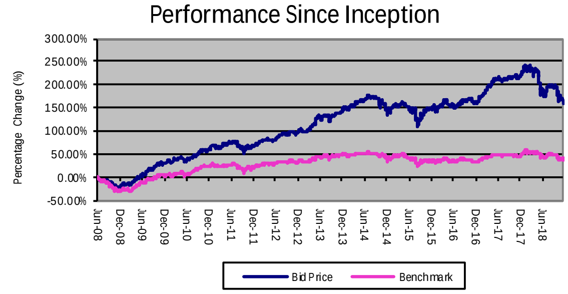
Fund Size	RM521.525 million
Risk Profile	Moderate to high
Launch Date	13th June 2008
Fund Currency	Ringgit Malaysia
Investment Manager	Allianz Life Insurance Malaysia Berhad
Pricing Frequency	Daily
Price per Unit[1] - Bid (as at 30th November 2018)	2.605
Management Fee	0.00% p.a
Other Charges[2]	Include 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
MALAYAN BANKING BERHAD	10.78%
TENAGA NASIONAL BERHAD	9.45%
CIMB BERHAD GROUP	7.70%
PETRONAS CHEMICALS GROUP BERHAD	6.01%
MY EG SERVICES BERHAD	3.82%

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Market Review & Outlook

Allianz

Bond Market Review

Fed Chair Jerome Powell's comment that US interest rates were "just below" neutral level was seen as a shift from hawkish to dovish bias, provided some relief to the bond markets. Global growth concerns have emerged and may cause the Fed to re-look its aggressive policy tightening stance. Despite a December rate hike being largely priced in, the interest rate path for 2019 is now uncertain and has been dialed back to about 1-2rate hikes. USTs rallied the next day after Powell's comment, with 10-year UST sliding below 3.0% to close the month at 2.99% i.e. 15bps lower MoM. US 3Q GDP growth was left unrevised in November. Although US consumers remained upbeat about the US economy and prospects for employment into 2019, the Conference Board said the November survey showed consumers were less optimistic about the outlook for business conditions and income in the near-term. The consumer confidence index dipped more than two points to 135.7 from the 18-year high of 137.9 last month with the view of the economy six months in the future falling four points. Meanwhile, crude oil prices were weaker throughout the month as Brent crude broke below $60/barrel while WTI neared $50/barrel. Market sentiments were also weighed down by uncertainties stemming from a prolonged US-China trade dispute.

In Emerging Asia, most local currency government bonds rallied as risk sentiment on EM assets improved towards the second half of November. In Malaysia, the yield curve bear flattened as the 3y Malaysian Government Securities (MGS) was up 3bps to 3.69% while the 20y fell 3bps to 4.75% with support from pension funds, GLC's and insurance companies for longer tenured MGS. Fund managers are seen reassessing the pace of tightening amid signs of faltering global growth but were also vary of Malaysia's expanded fiscal deficit of -3.4% of GDP in 2019 which will result in a higher bond supply and possibly downward pressure on Malaysia's sovereign ratings. The Overnight Policy Rate (OPR) was unchanged in November with the MPC statement overall neutral but with continued reference to headwinds from external trade. Malaysia's 3Q18 GDP fell below expectation at 4.4% YoY (con 4.6%) and 1.6% QoQ (con 2.0%).

The foreign holdings of Ringgit bonds declined by MYR5.2b in November (Oct: +MYR7.8b), contrasting the broad EM trend which shows the return of risk appetite in EM debts especially Indonesia. The foreign share of MGS and MGS+GII edged lower to 38.8% (Oct: 40.7%) and 24% (Oct: 25%) respectively. By instrument, almost all outflows were attributed to MGS with foreign holdings lower by MYR5.4b in November (Oct: +MYR4.7b), while the flows in other instruments, i.e. GII, PDS and discount instruments (including BNM notes and treasury bills) were not significant. Malaysia's foreign reserves rose marginally by USD0.3b to USD102b in November (Oct: USD101.7b). The USDMYR pair was almost unchanged at 4.184 MoM, but it was largely because of USD weakness as the Ringgit underperformed against most Asian currencies in November.

Bond Market Outlook

We expect market tone to remain cautious with the downside risks stemming from continuous UST rate hike(s), prolonged US-China trade disputes, and domestic policy uncertainties which will impact on bond supply and corporate results. Malaysia's sovereign outlook is also at a close call and it involves a certain degree of subjectivity by rating agencies based on the expanded debt to GDP level. 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. 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

Nov 2018 proved to be yet another month of volatility but the MSCI World Index managed to stage a mild rebound of +1.0% mom. Market concerns continued to focus on the potential ramifications of the US – China trade tension escalation on global growth as well as the pace of Fed rate hikes. The Dow Jones Index inched up by +1.7% mom as there were hopes that the meeting between leaders from US and China during the G20 meeting could lead to a de-escalation of the trade tensions which have been weighing on global growth. During the month, it was heartening to note that the Federal Reserve kept interest rate unchanged and the Fed Chair also stated that rates had already risen to a level "just below" neutral. On the other hand, the Stoxx 50 Index eased slightly by -0.8% mom as the Eurozone 3Q18 GDP came in at +1.6% yoy and +0.2% qoq which were -0.6 ppt qoq and -0.2 ppt qoq respectively, due to economy shrinkage in Germany. The loss of traction in the Eurozone GDP growth was the worst since 2Q14. In addition, worries surrounding the Italian economic stagflation continued as the European Commission had yet to resolve the country's deficit issue. China's Shanghai Composite Index also eased -0.6% mom as the country's leadership appeared to have no plans for "massive stimulus" to prop its flagging economy amid the US – China trade war but instead resorting to cutting taxes and taking policy steps to support private as well as small businesses.

Despite the -8.8% mom correction in Oct 2018, Brent oil price continued its downward spiral by falling -22.2% mom to USD58.71/ bbl. There were concerns that demand risk was on the rise due to global economic slowdown. Thus, all eyes would be focusing on an upcoming OPEC meeting in early December which could lead to an oil production curb that would help to stabilise oil price. Crude palm oil price also eased -5.8% mom to RM1872/ MT on qualms that inventories would continue to rise alongside strong production.

During the month under review, the ASEAN equity markets ended mixed. Singapore's Straits Times Index rebounded by +3.3% mom after its -7.3% mom collapse in the previous month. The rebound was driven by the consumer discretionary and financial sectors. From an economic standpoint, Oct industrial production rose by +4.3% yoy and +2.0% mom while NODX rose by +8.3% yoy and +4.2% mom. Meanwhile, Indonesia's Jakarta Composite Index also climbed +3.9% mom as it enjoyed its first net influx of foreign flow to the tune of USD609m in 18 months. In November, Bank of Indonesia raised its 7 day reverse repo rate by 25 bps to 6.00%, its 6th rate hike in 2018 to contain its current account deficit and to help bolster its weakened currency. However, the Stock Exchange of Thailand (SET) continued to slide, dropping -1.6% mom. While the Bank of Thailand opted to keep its policy rate pat at 1.5%, there was a growing sentiment from its voting members that a rate hike would soon to be on the cards. The Bank noted that it was necessary to monitor the vulnerabilities in the financial system "especially those resulting from prolonged period of monetary accommodation" and that the "need for currently accommodative monetary policy would be gradually reduced". The SET was also dragged by weakness in commodity prices. Foreign net equity outflow during the month was USD422m bringing the YTD net outflow to USD8.5b. Lastly, Malaysia's FBMKLCI also fell by -1.7% mom as the awaited Budget 2019 which focused more on supporting consumption than on fiscal spending had failed to excite the market. This led to continued foreign net equity outflows of RM0.7b during the month which meant YTD net foreign outflows would amounted to RM10.7b. Other than that, Bank Negara Malaysia announced that the country had recorded a 3Q18 GDP of +4.4% yoy underpinned by private consumption which enjoyed a tax free holiday and projected that the 2018 and 2019 GDP growths to be +4.8% and +4.9% respectively

Equity Market Outlook

After the unveiling of Budget 2019 and the government's economic recalibration plan, we shift our focus to some exogenous factors which may impact on our economy. They include global growth slowdown due to the potential escalation of the US – China trade war and global unwinding of monetary policy easing measures. Furthermore, doubt remains as to how much the recent OPEC 1.2m oil production curb plan can reign in the slide in oil price since our Budget 2019 was formulated premised on Brent oil price being at USD72/ bbl. There is a risk that a lower oil price could exacerbate our deficit issue. Nevertheless, the Malaysia economy is still generally deemed robust as Moody's recent reaffirmation of our A3 rating and stable outlook. We remain cautiously optimistic on the market and will stay our course in selecting fundamentally good long term investments. We will also realign our investment direction from time to time to be more in step with the new Budget 2019.

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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