May 2018

Allianz Life Master ASEAN Plus Fund

Investment Objective

The fund aims to provide medium to long term capital appreciation by investing primarily in ASEAN equities and equity-related securities.

Investor Profile

The fund is suitable for investors who are looking for a fund that invests primarily in ASEAN investments, seek moderate to high capital appreciation, have moderate to high risk tolerance, and have medium to long term investment horizon.

Performance Indicator

	Master ASEAN Plus Fund	Benchmark: ASEAN40* (USD)	Benchmark: ASEAN40* (MYR)
1 month	-6.95%	-6.30%	-4.72%
6 months	-6.42%	2.21%	-0.39%
1 year	-2.38%	11.28%	3.63%
3 years	19.93%	9.72%	21.31%
YTD	-8.38%	-2.11%	-3.97%
Since Inception (Annualised)	6.03%	0.40%	5.64%

* Source: Bloomberg.

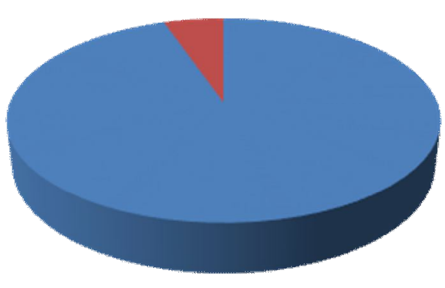
The above performance is calculated in Ringgit Malaysia on a NAV-to-NAV basis. It is strictly the performance of the investment fund and not the returns earned on the actual premiums paid of the investment-linked product. Past performance is not an indication of future performance.

Key Fund Facts

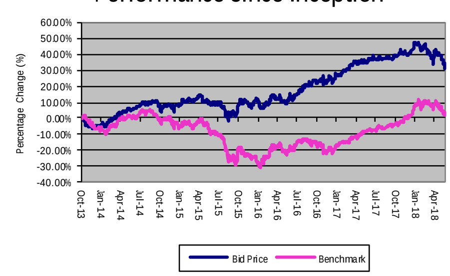
Fund Size	RM4.226 million
Risk Profile	Moderate to high
Launch Date	11th October 2013
Fund Currency	Ringgit Malaysia
Investment Manager	Allianz Life Insurance Malaysia Berhad
Pricing Frequency	Daily
Price per Unit[1] - Bid (as at 31st May 2018)	0.656
Management Fee	0.00% p.a
Other Charges[2]	Include 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
DBS GROUP HOLDINGS LTD	8.98%
UNITED OVERSEAS BANK (M) BERHAD	7.92%
TENAGA NASIONAL BERHAD	6.47%
OCBC BANK (MALAYSIA) BERHAD	6.18%
BANK CENTRAL ASIA TBK PT	4.13%

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Market Review & Outlook

Allianz

Bond Market Review

For the month under review, US Treasury (UST) yields initially sold-off on bear-steepening mode with the 10y UST touching a high of 3.11% on 17 May (the highest since 2011) despite FOMC staying pat on the Fed Funds Rate in early May. However, losses were reversed towards the last week of May as UST rallied when the market shifted towards a risk-off mode rattled by developments in international politics as President Trump expressed his dissatisfaction over trade deal with China followed by an announcement that he will no longer meet North Korean leader in Singapore in a June scheduled meeting. Concerns over a new Italian populist government also led to a jittery market in Europe which saw major sell-off in Italian assets. MoM UST yields fell 6-10bps with the 10y UST closing the month at 2.86%.

The Malaysian Government Securities (MGS) yields were higher post GE14 and also taking cue from UST sell-off in May. The benchmark 3y MGS moved within a range of 14bps before closing the month at the high of 3.79% whilst the much-watched 10y benchmark MGS saw a wider trading range of 13bps before closing at 4.18%. With the paradigm shift in the change of the government, investors and international rating agencies will focus on changes in fiscal policies. While BNM delivered no surprises in its bi-monthly policy meeting, the Malaysian government remains confident to achieve the previous 2.8% fiscal deficit target, eyeing additional revenues from oil prices and GLC dividends.

Foreign investors withdrew MYR12.9b of funds from local bonds in May (Apr: -MYR4.7b), which is the largest outflow in a single month since Mar 2017 after the ban on offshore Ringgit NDF trading. Foreign share of MGS+GII declined to 25.9% (Apr: 27.7%) as foreign investors cut risks in reaction to the Election and sentiment was cautious while pending for policy clarity. MTD outflows widened MYR8.2b at end-May but in the corresponding period the Ringgit only lost 1.4% in value against the USD, suggesting stabilization measures at play. Malaysia's forex reserves reduced by USD1bn to USD108.5bn as at end-May, after rising USD1.7bn in April.

Bond Market Outlook

We expect market tone to remain cautious for the coming months post GE14, whilst the much-watched UST 10y movements will remain a key market influence with the pending US rate hike(s). Investors are expected to look out for further leads as interest in government securities is gradually seen to pick-up amid a stable USDMYR backdrop, buoyed by anticipation of no rush in further rate hike by BNM. We would 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 upwards during the month under review as shown by the +0.31% mom increase in the MSCI World Index. In US, the Dow Jones Index rose by +1.05% mom on the back of positive US economic data as reflected by the expansionary Purchasing Managers' Index and ISM Manufacturing data as well as the relatively high consumer sentiment levels as revealed by the University of Michigan Consumer Sentiment Index. In addition, the Federal Reserve opted to keep interest rates steady at 1.75%. The Committee viewed that gradual monetary policy adjustments would lead to medium term moderate economic expansion and strong labour market conditions. However, in Europe, the Stoxx50 index fell by 3.67% mom due to uncertainties that arose post the Italian elections which raised the spectre of a potential EU exit by that country. In the East, China's Shanghai Composite Index rose by +0.43% mom as the market welcomed the inclusion of A- shares to the MSCI benchmark indices.
During the month under review, Brent crude oil maintained its upward trajectory and surged by +3.2% mom to USD77.59/ bbl. The positive momentum was driven by expectations that OPEC would maintain supply cuts in June 2018 and oil supply disruptions from Venezuela which experienced production delays and declines. Venezuela, an OPEC member with the world's largest oil reserves, had experienced a 6% mom drop in crude oil exports in May 2018 and a YTD crude oil export decline of 27% yoy. Crude palm oil (CPO) rebounded +4.4% mom to RM2427/ MT as it tracked an increase in soybean prices which rose on expectations of a trade war resolution between US and China as well as a supply disruption in Brazil due to truckers on strike.
Unlike the broader global market, the ASEAN markets were generally lacklustre in May 2018. The Indonesian Jakarta Stock Exchange eased 0.18% mom as its currency continued to remain relatively weak despite Bank Indonesia hiking its policy rate twice in May to 4.75% from 4.25%. This led to continued foreign equity net selling to the tune of USD460m during the month. The Stock Exchange of Thailand dipped 2.99% mom as it experienced yet another month of foreign equity outflow of USD1.6b in May (YTD USD4.1b). Its currency depreciated by 1.6% mom to THB32.066: USD1.00. Singapore's Straits Times Index slipped 5.14% mom, dragged by most sectors namely the telecom, real estate and financial sectors. Its currency also weakened by 0.9% mom to SGD1.338: USD1.00. Lastly, Malaysia's KLCI tumbled by 6.94% mom as the market reeled from the increased volatility brought about by the Pakatan Harapan shock victory over the incumbent which had ruled the country for 61 years. The market was afflicted by uncertainties surrounding the realignment of policies as well as the fate of several large infrastructure projects which were intended to anchor growth under the previous administration. Foreign equity outflow during the month surged in excess of RM5b which led to a YTD foreign equity net outflow as at end May as compared to the net inflow as at end Apr.

Equity Market Outlook

The recently concluded GE14 has witnessed the installation of a new Pakatan Harapan government. This could mean that the market may experience some short term volatility as the new government implements their economic as well as political reforms which should benefit the country over the longer term. As such, we could be embarking on some portfolio rebalancing as we reassess the country's economic trajectory based on the Pakatan Harapan's manifesto and their upcoming plans. Nonetheless, we do note that the Malaysian economic backdrop remains robust amid recovering commodity prices and several strong pump priming activities already in place. Thus, we would adopt cautious optimism in the light of rising Fed rates, Eurozone political uncertainties and global central banks' monetary policy normalizations. In summation, we would maintain our bottom – up strategy of selecting 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)