October 2018

Allianz Life Master Dividend Fund

Allianz

Investment Objective

An open-ended investment fund which aims to provide a steady income stream and medium to long term capital appreciation by investing in equity and equity-related securities skewed towards potential dividend yielding equities.

Investor Profile

The fund is suitable for investors who are seeking moderate capital appreciation, seek stable income stream, have moderate risk tolerance and have medium to long term investment horizon.

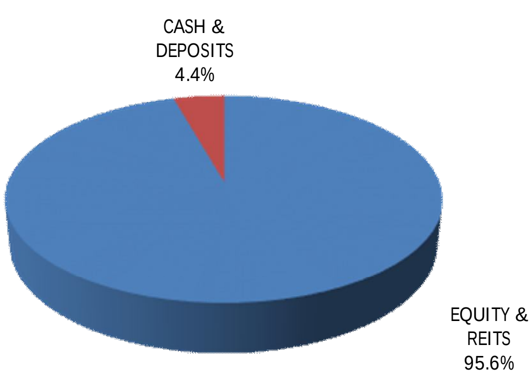
Performance Indicator

	Master Dividend Fund	Benchmark: FBM 100*
1 month	-7.69%	-5.78%
6 months	-16.25%	-9.55%
1 year	-13.12%	-4.98%
3 years	12.80%	3.27%
5 years	14.35%	-5.20%
YTD	-14.81%	-7.85%
Since Inception (Annualised)	9.56%	3.24%

* 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.

Portfolio Composition by Asset Type

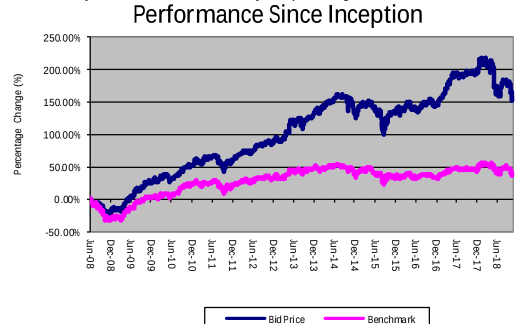


Key Fund Facts

Fund Size	RM66.457 million
Risk Profile	Moderate
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 31st October 2018)	2.582
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 (Equities)	% NAV
MALAYAN BANKING BERHAD	11.03%
TENAGA NASIONAL BERHAD	9.93%
CIMB BERHAD GROUP	6.61%
PETRONAS CHEMICALS GROUP BERHAD	5.35%
GENTING BERHAD	5.00%

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Market Review & Outlook

Allianz

Bond Market Review

US Treasury (UST) yields trended higher in October as stronger US economic data pushed yields to year-to-date highs. The 10y UST yield reached its highest level since May 2011 at 3.25% early October but recovered some grounds to close the month at 3.15% as the decline in US equity markets helped spur demand for UST. Rate hike expectations for 2018 and 2019 have declined following the correction in the equity markets coupled with the negative comments from Trump about the Fed's rate-hike decisions. The market is fully pricing in one final rate hike in December but less than three rate hikes for 2019 although the Fed expects three hikes for 2019. US unemployment rate fell to a 48-year low of 3.7% in September but October's payrolls were unexpectedly weak at 134k as the East Coast hurricane reduced payrolls at restaurants and other employers. 3Q GDP was better-than-expected at 3.5% QoQ (survey: 3.2% QoQ, 2Q: 4.2% QoQ) as positive contributions from consumer spending and private inventory investment helped to offset the negative contribution from exports.

In Malaysia, the yield curve rose 10-20bps along the 3y to 20y but pared down some of the losses as we saw stronger buying support for key benchmark MGS especially the 10y towards end-October due to index-driven flows and portfolio rebalancing which turned sentiments around. The 10y MGS and 10y MGII were added to JPM's GBI-EM index constituents on month-end to replace to MGS 11/19. Meanwhile, the Budget 2019 tabled on 2nd November reaffirmed the government's commitment towards a long-term fiscal consolidation. The fiscal deficit is expected to be at -3.7% in 2018 versus an earlier target of -2.8%. The target is now to achieve the -2.8% fiscal deficit by 2021. With the announcement that Government Guaranteed (GG) bonds will now only be issued for existing projects such as MRT2 and LRT3, the market is projecting a higher MGS/GII supply in 2018 to meet the government's funding need.

Foreign flow returned in October with an inflow of RM7.8b (Sept: outflow RM3.0b) which narrowed year-to-date outflow to -RM14.4b. This inflow is in-line with regional flow as Indonesia also received an inflow of USD0.9b in October. Correspondingly MGS foreign share of MGS increased 1.2 ppts MoM to 40.7%. On the macro front, the USDMYR weakened mom to 4.1842 (Sept: 4.1383) which is the weakest level year-to-date as investors await the Budget 2019 announcement on 2nd November for the government's take on its fiscal deficit. Sept's CPI rose at a slower pace of 0.3% YoY (survey: 0.6% YoY, Aug: 0.2% YoY) due to the impact of the unchanged RON95 fuel price which remained at RM2.20/litre since March 2018. Aug's IPI rose 2.2% yoy (survey: 2.3% YoY, July: 2.6% YoY) largely due to weaker manufacturing growth.

Bond Market Outlook

We expect market tone to remain cautious with the downside risks stemming from continuous UST rate hike(s), heightened trade tensions between US-China, 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 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 but there is 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

Oct 2018 was a month marked by significant volatility with the MSCI World Index falling by 7.42% mom and equity markets being rocked by fears of an escalation of the US – China trade tensions. It was reported that the US was preparing to announce further tariffs on all remaining Chinese imports by early Dec should potential talks between the US and Chinese heads of states in November fail to diffuse the trade war. In addition, there was also concerns of further Fed rate hikes as Fed Chair Powell noted in Oct that rates needed to gradually move up and also raised the possibility of raising the rates past 'neutral'. Lastly, the International Monetary Fund cut its 2018 and 2019 global growth projections to 3.7% from 3.9% on the back of rising trade protectionism/ tensions which have started to hamper global economic activities. The Dow Jones Index dropped 5.07% mom despite the American economy was still showing signs of robustness. For e.g., the US unemployment rate fell to 3.7% in Sep 2018, the lowest since 1970 and the 3Q18 annualised GDP was +3.5% qoq, above consensus expectations. China's Shanghai Composite Index dived by 7.75% mom on account of worries of a slowdown due in part to the aforementioned trade tensions. China's 3Q18 GDP was reported as +6.5% yoy which slightly trailed expectations. The Chinese authorities have reacted and reduced PBOC's Reserve Requirement Ratio by 100 bps to ensure that credit growth and the economy would continue to be supported. In Europe, the Stoxx 50 Index plummeted by 5.93% mom. While the ECB maintained its benchmark interest rate in Oct, they confirmed that it was on track to end its monetary easing by end 2018. They also reaffirmed that interest rates would likely remain until the summer of 2019. Apart from that, political friction in Europe continued unabated as the European Commission rejected an Italian Budget plan that would result in a higher deficit.

After a strong surge in Sep 2018, Brent oil price corrected by 8.8% mom to USD75.47/ bbl. The oil price rally took a breather in Oct after US announced that they were actively considering waivers on Iran oil sanctions and after Saudi Arabia claimed that they would increase oil production output to soothe the upward pressure on oil prices. Moreover, US' Department of Energy Crude Oil Total Inventory Data (excluding Strategic Petroleum Reserves) also recorded a +5.5% mom increase to 426.0m bbl. Crude palm oil (CPO) price continued its slide with a 6.1% mom drop to RM1988/ MT. CPO remained weak due to burgeoning supply/ inventory on the back of robust production.

The ASEAN equity markets were also not spared the pullbacks encompassing their global peers. Malaysia's FBMKLCI fell 4.68% mom due to uncertainties surrounding the Budget 2019. It was feared that the Budget would be austere and would incorporate a number of new taxes (i.e. digital, inheritance & capital gains taxes) which could have weighed on investor sentiments. Coupled with the ongoing review of government projects as well as the weakening MYR (MYR eased to RM4.1842: USD1.00 as at end Oct 2018 from RM4.1383: USD1.00 as at end Sep 2018), this led to net foreign equity outflow of approx. RM1.4b during the month (net inflow of RM66.2m in Sep). Indonesia's Jakarta Composite Index also tumbled 2.42% mom. Global headwinds saw the IDR declining to a record IDR15,203: USD1.00 as at end Oct 2018 from IDR14,903: USD1.00 as at end Sep 2018, which consequently caused another month of continued net foreign equity outflow of USD224m, +239.4% mom. Bank of Indonesia kept its policy rate pat at 5.75% during the month but predicted that the 2018 national economic growth would come in at the lower range of 5.0 – 5.4%. The Stock Exchange of Thailand also dove by 4.97% mom. Like most ASEAN countries, the Thai Baht also declined to THB33.109: USD1.00 as at end Oct 2018 versus THB32.323: USD1.00 a month ago. From an economic standpoint, Thailand's Sep exports fell 5.5% yoy. This was the first decline in 22 months and the Commerce Ministry attributed the drop to a decrease in automobiles and gold shipments as Thai trading partners shifted to new markets amid the escalating US – China trade war. Lastly, Singapore's Straits Times Index plunged 7.31% mom as fears of the US – China trade friction took its toll. Sep industrial production eased 0.2% yoy and 4.9% mom while electronics exports declined by 0.9% yoy.

Equity Market Outlook

The recently unveiled Budget 2019 has the effect of fine tuning of the country's fiscal position with the Ministry of Finance (MoF) prudently revising down 2018 and 2019 GDP growths to +4.8% yoy and +4.9% yoy respectively. The MoF predicated the growth to be anchored by household spending and private investments. We opine that short term recalibration was indeed necessary for longer term economic growth supported by a strengthened fiscal position. Notwithstanding that, we are also cognizant of a number of exogenous headwinds which may result in a heightened sense of risk aversion, namely escalation of the US – China trade war and the global unwinding of monetary policy easing measures. In conclusion, we maintain our cautiously optimistic disposition on the market amid near – medium term volatility with a bottom – up strategy of selecting fundamentally good long term investments.

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)