December 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

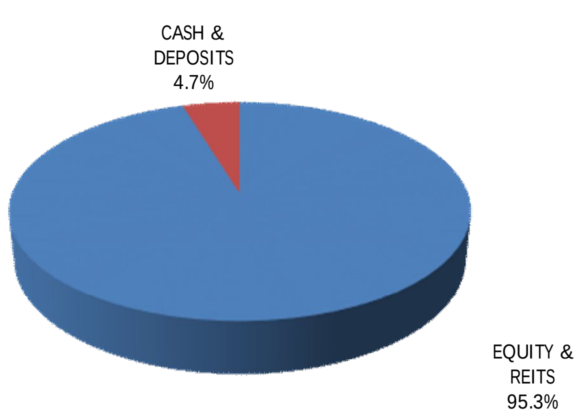
The fund is suitable for investors who seek moderate to high capital appreciation, have moderate to high risk tolerance and have medium to long term investment horizon.

Performance Indicator

	Master Equity Fund	Benchmark: FBM 100*
1 month	-2.80%	-0.32%
6 months	-8.89%	-2.67%
1 year	-22.50%	-9.28%
3 years	-0.51%	-0.24%
5 years	1.08%	-9.10%
YTD	-22.50%	-9.28%
Since Inception (Annualised)	9.20%	3.04%

* 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

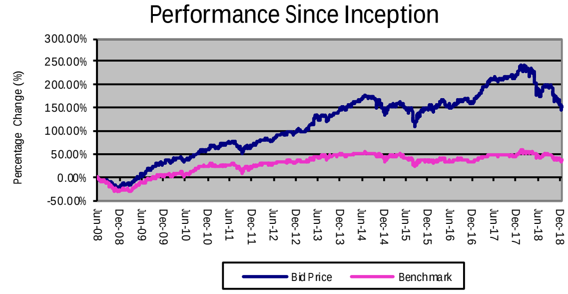


Key Fund Facts

Fund Size	RM522.463 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 31st December 2018)	2.532
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	10.87%
TENAGA NASIONAL BERHAD	8.99%
PUBLIC BANK BHD	8.83%
CIMB BERHAD GROUP	7.60%
PETRONAS CHEMICALS GROUP BERHAD	6.07%

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Market Review & Outlook

Bond Market Review

US Treasury (UST) posted their strongest monthly rally in December for 2018 as weakness in the US equity market sent UST yields to year-to-date (YTD) lows coupled with the expectations that the Fed may turn less aggressive in 2019. As widely expected, the Fed raised its benchmark interest rate by 25bps to 2.50% in December which marked the fourth increase this year and the ninth since they began normalizing rates in Dec 2015. However, the Fed has reduced its projection to only two rate hikes in 2019 compared an earlier expectation of three rate hikes back in September's FOMC meeting. The Fed signaled that they might not need to raise rates as quickly in 2019 as there were signs that the economy is softening. Job growth fell short of expectation in November as non-farm payrolls increased by only 155k compared to 250k in October and the consensus estimate of 198k. US GDP for 3Q18 grew at 3.4% versus an estimate of 3.5% largely due to weaker consumer spending of 3.5% versus an estimate of 3.6%.

In Malaysia, government bond yields tracked the downward movement in UST yield and trended lower by 6-10bps across the curve. The 10-year MGS ended the month 6bps lower at 4.07%. Onshore support has been strong despite the uncertainties in the global market as shown by the strong bid-to-cover ratios above 2.3x for the two final government bond tenders in December. Markets expects Bank Negara Malaysia to keep the policy rate unchanged in 2019 and could potentially shift to a dovish stance if growth falls short of expectation. 2019's auction calendar released in December shows a higher supply of duration as 14 out of the 32 auctions will be for tenures above 15y. Issuance profile continues to be front-loaded with 56% of total supply to be issued in1H19 and the remaining 44% in 2H19. Gross supply of government bond meanwhile is expected to be higher by RM2b to RM113b while net supply is expected to be unchanged at RM52b. Private placement will be a prominent feature in the auction calendar as 18 out of the 32 auctions will see supply being privately placed to subscribers identified by the Ministry of Finance especially for the longer end tenures.

Foreign funds sold a total of RM2.2b of Ringgit bonds in December (Nov: Outflow RM5.2b), bringing YTD outflows to RM21.9b which is the largest since 2008. Foreign share of MGS declined to 38.4% from 38.8% in November and 45.1% last year. Despite the outflows, Ringgit strengthened in December to 4.135 (Nov: 4.185). Foreign reserves declined slightly to USD101.4b (Nov: USD102b). Malaysia's CPI for November remained subdued at +0.2% yoy versus an estimate of +0.4% yoy and Oct's CPI of +0.6% yoy. IPI for October rose 4.2% yoy versus an estimate of +3.3% yoy and September's IPI of +2.3% yoy, driven by increase in the manufacturing (+5.4% yoy), electricity (+2.1% yoy) and mining (+1.4% yoy) sector..

Bond Market Outlook

We expect market tone to remain volatile 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 2019 but we do not discount the possibility of a rate cut should GDP growth trend lower than expected. 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

The final month of 2018 was indeed challenging for global equity markets with the MSCI World Index falling by 7.71% mom. Markets were plagued by a whole myriad of concerns ranging from US – China trade tensions, US rising interest rates, unwinding of global monetary policy easing measures, Brexit and slowing growth in China. During this month, the Dow Jones collapsed by 8.66% mom. While the Fed did lower its guidance to two rate hikes from three in 2019, the market perception was that the that FOMC meeting was not as dovish as had been expected. In addition, the meeting between Presidents Trump and Xi at the G20 summit early in the month failed to diffuse concerns of a potential trade war escalation, more so after a prominent Chinese corporate figure was arrested in Canada upon US' request. Against this background, the Chinese Shanghai Composite Index contracted by 3.64% mom as the country was hampered by the abovementioned trade dispute and a spate of negative economic data which included the contracting Manufacturing Purchasing Manager's Index (PMI) at 49.4, a 0.5 ppt mom easing in retail sales growth to +8.1% yoy, as well as a 0.5 ppt mom decline in industrial production growth to +5.4% yoy. Lastly, the European Stoxx 50 Index fell by 5.41% mom as the European Central Bank announced the end of the quantitative easing expansion. The ending of that measure, introduced in Mar 2015 to shore up confidence and spur inflation, would see the cessation of monthly bond purchases of EUR15b.

Brent oil price continued to fall for the third straight month by 8.4% mom to USD53.80/ bbl. The downward trend was caused by a combination of factors namely, the pressure of oil oversupply and concerns with regards to global growth which would in turn influence oil demand. Furthermore, the recently agreed upon production quota by OPEC and Russia along with selected partners, which would cut production of 1.2m bbl/ day, would only begin in Jan 2019. On the other hand, crude palm oil (CPO) price instead rebounded by +7.1% mom to RM2004/ MT. The rise was triggered by easing CPO production and stockpiles in Indonesia.

On the ASEAN front, the Indonesian Jakarta Composite Index rose +2.28% mom despite a net foreign outflow of USD354m in Dec 2018 as compared to an inflow in the previous month. The IDR depreciated to IDR14390: USD1.00 from IDR14302: USD1.00 a month ago. During the month, Bank Indonesia kept the 7 day reverse repo rate at 6.00% after a 25 bps increase in Nov 2018 and the country managed to chalk a Dec 2018 PMI reading of 51.2 as compared to 50.4 a month ago. In addition, its Finance Minister assured the market that its 2018 state budget deficit would come in at 1.86 – 1.87% of GDP, which was lower than their initial target of 2.19%. Malaysia's FBMKLCI also enjoyed a +0.6% mom uptick despite enduring a net foreign equity outflow of RM1.0b, i.e. +42.2% mom. The country had some favourable economic data in the form of Oct 2018's industrial production growth which came in at +4.2% yoy, +1.9 ppt mom. Also, the MYR regained some strength as it ended the month with RM4.1335: USD1.00 as compared to RM4.1842: USD1.00 in Nov 2018. However, Singapore's Straits Times Index slipped by 1.57% mom as its Nov 2018 Non – Oil Domestic Exports (NODX) fell 4.1% mom on the back of the US – China trade war uncertainties. The Stock Exchange of Thailand continued to slide, falling 4.75% mom, as the Bank of Thailand enacted its first benchmark interest rate 25 bps hike to 1.75% since 1H15.

Equity Market Outlook

We remain cognizant of the several exogenous factors that may have adverse impact on our economy such as the possible escalation of the US – China trade tension, ongoing tightening of global monetary policy measures, further economic growth slowdown in G3 and China as well as other geopolitical risks. However, on the domestic front, we note that the government projects that Malaysia's GDP would grow by a commendable +4.9% yoy while reigning in its fiscal deficit to 3.4% in 2019 driven by private sector expenditure. Moreover, we are keeping our vigil over any signs of diffusion of the US – China trade war being achieved in 1Q19 after the 90 day trade war truce. We maintain our cautious optimism on the market and will stay our course in selecting fundamentally good long term investments.

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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)