March 2020

Allianz Life Master Bond Fund

Investment Objective

An open-ended investment fund which aims to provide a stable income stream and medium to long term capital appreciation by investing primarily in Malaysian fixed income securities.

Investor Profile

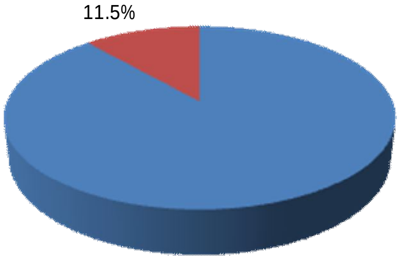
The Fund is suitable for investors who are seeking for potentially higher returns than fixed deposits, want to diversify their overall investment portfolio by including bonds as an asset class, seek stable income stream and have low risk tolerance.

Performance Indicator

	Master Bond Fund	Benchmark: 12-month FD*
1 month	-2.33%	0.23%
6 months	1.02%	1.50%
1 year	5.13%	3.14%
3 years	15.47%	10.04%
5 years	25.21%	17.38%
10 years	55.03%	37.10%
YTD	0.18%	0.71%
Since Inception (Annualised)	4.48%	3.17%

* Source: Maybank.
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

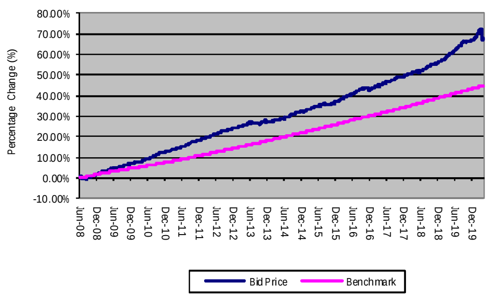


Key Fund Facts

Fund Size	RM606.625 million
Risk Profile	Low
Launch Date	2nd June 2008
Fund Currency	Ringgit Malaysia
Investment Manager	Allianz Life Insurance Malaysia Berhad
Pricing Frequency	Daily
Price per Unit[1] - Bid (as at 31st March 2020)	1.679
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 (Bonds)

	% NAV
MALAYSIA GOVERNMENT	15.92%
GENM CAPITAL BERHAD	5.95%
PUBLIC BANK BERHAD	5.04%
CELCOM NETWORKS SDN BERHAD	3.45%
DIGI.COM BERHAD	3.41%

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Market Review & Outlook

Allianz

Bond Market Review

It was a rough month with global markets dragged by a confluence of several unprecedented events, chief among which were the Covid-19 outbreak and the collapse in oil price. Covid-19, declared a pandemic by WHO in Mar 2020, had curtailed global economic growth due to a steep drop in consumer demand and a sharp rise in supply disruption, caused by the numerous city lockdowns such as those in Italy and China. Emergence of doubts on the USD safe haven status as Covid-19 made its way to the US as well as the Fed's two emergency inter-meeting rate cut totaling 150bps sent chills to the markets and dampened the USD. Adding to the volatility in March was the steep drop in Brent oil price which fell 55% mom to USD22.74/ bbl due to easing oil demand caused by the Covid-19 pandemic and also the failure between OPEC and Russia to agree on production cuts, which might lead to free unrestrained oil production starting 2Q20. Due to the risk-off sentiments, UST posted a strong rally with yields declining between 36bps to 66bps in a curve steepening manner.

In Malaysia, the sharp increase in Covid-19 cases had prompted the government to initiate a nationwide lockdown with travel restrictions which would undoubtedly result in lower consumption and productivity, thereby ultimately lower the GDP growth. Meanwhile, the low oil price would create complications for our economy as the Budget 2020 was predicated on oil price being at USD62/ bbl and this could have serious repercussions to our GDP growth and fiscal deficit. To combat the situation, the government announced a total RM250b economic stimulus package which measures included the optional withdrawal from EPF account 2 (RM40b), reduction of statutory EPF contribution (RM10b), BNM notice on loan moratorium (RM100b), additions to BNM financing facilities (>RM10b) and Danajamin loan guarantees (RM50b). During the month, MGS yields rose 17bp to 57bps higher, with lingering concerns over additional supply following the potential upward revision of the nation's fiscal deficit arising from the economic stimulus measures. The 10y MGS rose to a high of 3.619% before closing the month at 3.347%. Apart from the 25bps OPR cut to 2.50% on 3 March 2020, Bank Negara Malaysia (BNM) on 19 March 2020 announced a Statutory Reserve Requirement (SRR) ratio cut by 100bps from 3% to 2% to inject additional liquidity into the banking system. Some pressure was lifted off the bond market when FTSE Russell decided to keep Malaysia on its watch list at the March interim review, as they acknowledge the initiatives taken by BNM to improve both bond and FX liquidity.

Foreigners net sold -RM12.5b of MGS in March, the largest outflow in a single month since May 2018. Foreign share of MGS and MGS+GII fell to 36.8% (Feb: 39.6%) and 22.1% (Feb: 23.9%) respectively. Weighed by portfolio outflows, the Ringgit decreased in value against the USD by -2.5% mom with the USDMYR pair rising to 4.32 at end-March. Foreign reserves declined by USD1.7b mom to USD101.7b at end-March.

Bond Market Outlook & Strategy

The severity of the economic damage is still unclear due to uncertainty over the duration, intensity and the overall impact of the Covid-19 outbreak. Having cut the OPR by 50bps and SRR by 100bps in the first three months of the year, BNM might opt for more monetary easing in the near future to mitigate the economic impact of Covid-19. While the short end of the yield curve is expected to the supported, we expect the long end to come under pressure as there would be an increased supply of government bonds required to fund the economic stimulus package. We would continue to remain cautious of continued bond market volatility as corporate earnings come under pressure and credit spreads widen, with downgrading risk by rating agencies. We maintain our strategy to accumulate bonds at favorable valuations skewing towards good quality credits, but will only extend duration in liquid papers at fair valuations.

Equity Market Review

During the month under review, the MSCI World Index fell by 13.5% mom as Covid-19 became a worldwide pandemic. Investor confidence was hit, prompting a massive plunge in the global stock markets. The Dow Jones Index was down 13.7% mom. On the US' economic front, February Retail sales fell by 0.5% mom while February Industrial Production grew marginally by 0.6%. In efforts to combat Covid-19, US Fed had 2 rounds of Federal Fund Rate cut (50bps on 3rd March and 100bps on 15th March) to 0-0.25%. Over in Europe, the Stoxx 50 Index plummeted by 16.3% mom. Eurozone Aggregate 4Q19 GDP growth was slightly stronger at 1.0% yoy as compared to 0.9% yoy in 3Q19. As was in the US, Markit Eurozone Composite PMI fell further to 29.7 in March from 31.4 in February. Likewise, China's Shanghai Composite Index continued to decline by 4.5% mom in March, albeit at a slower phase due to the Covid-19 outbreak. China's industrial profits tumbled 38.3% in the January-February period from those in a year ago largely due to falling producer prices and increased costs from the Covid-19 outbreak. However, surprisingly, China's Caixin Composite PMI rebounded sharply to 46.7 in March from a record low of 27.5 in February amidst limited recovery from the Covid-19 outbreak. In March, China's central bank implemented the second targeted reserve requirement ratio (RRR) cuts of 100 bps this year for eligible banks which would release an additional 550bn yuan (US$78.6bn) of liquidity into the market as well as raising the potential of the loan prime rate reform to enterprises.

In March, Brent oil price dropped sharply by 55.0% mom to USD22.74/bbl after OPEC and Russia had failed to come to an agreement for an additional production cut. Crude palm oil price however rose by 8.2% mom to RM2,550/MT on the back of supply disruption from producing countries due to stricter containment measures caused by Covid-19 outbreak. As at end March, the USDMYR was RM4.32 vs RM4.22 in February.

Over at the ASEAN front, equity markets fell sharply during the month under review. Malaysia's FBMKLCI fell by 8.89% mom to close at 1350 points, its lowest monthly closing since June 2010. Net foreign equity outflow of RM5.5b in March was the highest outflow since May 2018 of RM5.6b, bringing YTD foreign equity outflow to RM7.6b. Malaysia's economy was grappling with the dual shocks of the Covid-19 outbreak and the sharp decline in oil prices. The Movement Control Order (MCO) announced from 18 March till 14 April 2020 will further the economic drag and given Malaysia's exposure to oil, the recent oil price decline will erode the fiscal and external balances. On 27 March, a stimulus package worth RM250b (17% of GDP) was announced to help cushion the economic blow from the Covid-19 outbreak. Of this, RM128b will be channelled to preserve the people's welfare, RM100b to support businesses (including SMEs) and RM2b to strengthen the economy. The direct fiscal injection amounts to RM25b or 10% of the headline stimulus. In Indonesia, the Jakarta Composite Index declined 16.8% mom as the Indonesian Rupiah continued to slide due to sharp downward revisions to the growth outlook and a widening fiscal deficit target caused by the Covid-19 outbreak. Singapore's Straits Times Index dropped by 17.6% mom as PMI fell to 48.7 in February from 50.3 in January. Lastly, the Stock Exchange of Thailand fell by 16.0% mom. February trade balance showed a surplus of US$5.4b compared to US$0.4b in January.

Equity Market Outlook

The Covid-19 outbreak has dealt a severe blow to the global economy. The severity of the economic damage is still unclear due to the uncertainty of the extent and duration of the pandemic. Therefore, equity markets are expected to remain volatile as risk aversion persists.

On the local front, the various stimulus packages announced by the government to date are positive developments to help bolster the economy. On the external front, investors will be tracking the news flows on the Covid-19 outbreak and the coordinated monetary policy and fiscal stimulus measures to help them develop appropriate strategies to mitigate any adverse economic impact caused by this outbreak. Other key events to note are the on – going discussions between OPEC, Russia and US on oil production cuts and also the outcome of the Fed meeting on 28 – 29 April 2020.

In conclusion, due to the volatile investment climate, we would adopt a prudent yet sensible posture towards our market's longer term growth trajectory and continue to direct monies into fundamentally good investments. Also, we will be mindful to realign our investment direction as necessary to be in sync with the changes in market environment.

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)