January 2019

Allianz Life Master Bond Fund

Allianz

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

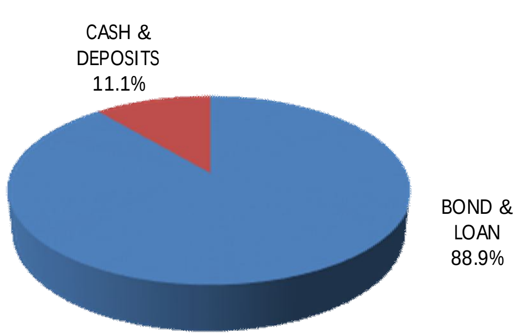
The Fund is suitable for investors who are seeking for potentially higher returns than fixed deposits, want to diversify their overall investment portfolio by including bonds as an asset class, seek stable income stream and have low risk tolerance.

Performance Indicator

	Master Bond Fund	Benchmark: 12-month FD*
1 month	0.57%	0.28%
6 months	2.74%	1.70%
1 year	4.79%	3.42%
3 years	13.79%	10.14%
5 years	23.61%	17.57%
10 years	52.57%	36.20%
YTD	0.57%	0.28%
Since Inception (Annualised)	4.35%	3.18%

* 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

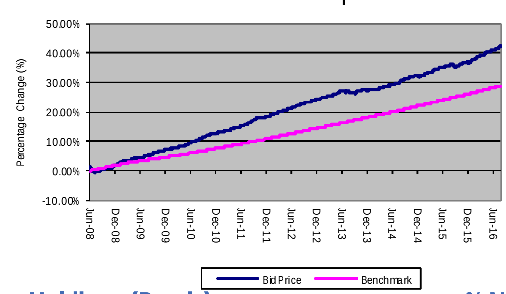


Key Fund Facts

Fund Size	RM531.548 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 January 2019)	1.576
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	11.47%
GENM CAPITAL BERHAD	6.63%
PUBLIC BANK BERHAD	5.66%
CELCOM NETWORKS SDN BERHAD	3.86%
MALAYSIA INVESTMENT ISSUE	3.80%

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Market Review & Outlook

Allianz

Bond Market Review

Global sovereign yields mostly fell over the month of January, partly attributed to rising expectations that US Treasury (UST) yields will be capped, a function of markets' re-pricing Fed's rate hike expectations this year. Rising concerns over the health of the US economy, and the medium-term impact of the longest shutdown of the US government in history, also weighed on yields. 10y UST yields traded flat with the 10-2yr spread flattening -2bps and the 10y UST closed the month 5bps lower at 2.63%.

In Malaysia, government bond yields tracked the downward movement in UST yield and trended lower by 2-9bps with the 7y MGS and 20y MGS rallying the most. The 10-year MGS ended the month unchanged at 4.07% due to the replacement of its new benchmark stock in February. Foreign investors remained net sellers for a 3rd consecutive month in January 2019 with MYR2.3b outflows from domestic debt securities (Dec 2018: -MYR2.2b). This brought total foreign holding lower to MYR182.5b (Dec 2018: MYR184.8b). The foreign share of MGS declined to 37.6% (Dec 2018: 38.4%) as well as for MGS+GII down to 23.1% (Dec 2018: 23.7%). Despite the portfolio outflows, Ringgit stayed strong against the USD with the USDMYR moving down to 4.089 (Dec 2018: 4.1385). Malaysia's foreign reserves increased USD0.7b to USD102.1b in January (Dec 2018: USD101.4b). BNM's FX forward position in Dec 2018 narrowed further to USD20.9b net short (Nov: USD21.7b net short position). Net reserves after offsetting the net short positions edged up to USD80.5b in Dec 2018 (Nov: USD80.3b).

As widely expected, Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3.25% for the sixth straight meeting. The MPC statement made a more cautious assessment on global economic outlook as trade tensions began to impact global trade performance and investment activity in late-2018. As a result, BNM assessed that the external sector is likely to soften amid moderating global growth, a downgrade from its previous assessment which indicated that "exports are projected to provide an additional lift to growth, albeit to a lesser extent." On the domestic front, BNM projected sustained expansion in private consumption and private investment to offset consolidation in public spending.

Bond Market Outlook

We expect the market tone to remain volatile with the downside risks stemming from slower growth expectations, the quantum of UST rate hike(s), prolonged US-China trade disputes, and domestic policy uncertainties which will impact on bond supply and corporate results. While we do expect the overnight policy rate to remain unchanged at 3.25% for 2019, we do not discount the possibility of a rate cut should GDP growth trend much 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

Despite the International Monetary Fund (IMF) lowering its world economy forecast for the second time in three months to a 3-year low level of 3.5%, the MSCI World Index managed to rise by +7.7% mom in Jan 2019. The Dow Jones Index also increased by +7.2% mom in anticipation of a more dovish Federal Reserve (Fed) as well as easing US-China trade tensions. In its January FOMC meeting, the Fed was more dovish as compared to its previous meeting by introducing the word "patient" in its statement and dropped guidance that the next move likely would be a hike. Job data in January was robust, recording an increase of 304,000 jobs as compared to previous months' revised 222,000 additions, suggesting little spill over from the government shutdown to the broader economy. Over to the Europe region, EU GDP slowed down to +1.2% yoy and +0.2% qoq in 4Q18 mainly dragged by Germany's muted growth despite Spain and France recording better growth due to higher exports. At its January meeting, the European Central Bank (ECB) left its policy rates and forward guidance unchanged. In addition, the ECB president, Mario Draghi, said risks to the outlook have moved to the downside due to "softer external demand and some country and sector-specific factors". Notwithstanding the less optimistic developments, the Stoxx 50 Index managed to trend in-line with regional markets by recording a gain of +5.3% mom. Meanwhile, China's Shanghai Composite Index climbed by +3.6% mom on the back of easing US-China trade tensions and ramping up of domestic easing policies. The People's Bank of China further cut RRR by 100bps while the central government introduced CNY200 billion tax cut for SMEs and CNY1.4 trillion quotas for new local government debt.

Brent oil price rebounded in Jan 2019 by surging +15.0% mom to USD61.89/ bbl, breaking previous continuous three months' decline streak. Oil rig count by Baker Hughes in the US saw a reduction of 21 rigs to 852 and US producers have also given initial indications of lower capex spending in 2019 relative to 2018. At the end of January, US announced sanctions on Venezuela's state owned oil firm Petróleos de Venezuela S.A. (PdVSA), which could potentially remove supply by around 500k barrels per day. Crude palm oil price continues to gain by +9.8% mom to RM2,200/ MT on the back of seasonally lower production and expectations of increased imports from India helped by recent import duty cuts.

During the month under review, the ASEAN equity markets performed better with the exception of Malaysia. Singapore's Straits Times Index advanced by +4.0% mom, led by the consumer discretionary and real estate sectors. From an economic standpoint, December Industrial Production growth decelerated to +2.7% yoy and -5.6% mom. In addition, Singapore recorded a GDP growth of +2.2% yoy in the 4Q18, similar to 3Q18. Indonesia's Jakarta Composite Index also climbed by +5.5% mom amidst net influx of foreign flow totalling USD977 million in January. The rupiah appreciated by +2.9% mom to USDIDR 13,973. In December, its central bank's consumer confidence index moved higher to 127.0 as compared to 122.7 in November. Similarly, the Stock Exchange of Thailand (SET) gained +5.0% mom in anticipation of favourable pre-election policies, with consumer staples and consumer discretionary stocks leading the gains. Foreign investors also turned net buyer in January to the tune of USD213 million, the first time in six months. Domestic demand continued to strengthen with private consumption rising +1.1% mom in December on the back of strong services related spending. On the contrary, Malaysia's FBMKLCI retraced slightly by -0.4% mom as the market awaits clearer policy direction from the government. Concerns still linger on uncertain decision making regarding mega projects such as the East Coast Rail Link (ECRL). Malaysia business and consumer sentiments continued to slip for the second consecutive quarter in 4Q18 to 95.3 and 96.8 respectively. At the end of January, The Housing and Local government ministry has unveiled the National Housing Policy 2018-2025 and plans to clear RM22.5 billion (c. 22k units) worth of real estate at an expo planned for 1 to 3 March 2019.

Equity Market Outlook

We take comfort that the US-China trade tension seems to have further de-escalated after a three-day talk in Beijing in early January, one day longer than planned. A spokesman for China's Commerce Ministry commented that the length of the meeting indicated that both sides were serious and honest. Moreover, both sides agreed to continue to keep in close contact. Worries on tightening of global monetary policy has also eased slightly after recent Fed's dovish statement as well as cautious outlook from the ECB President. We remain constructive on Brent oil as December data reported by IEA and OPEC saw decline in production driven mainly by Saudi Arabia. Russia oil ministry also commented to scale back production as quickly as possible and reaching the targeted cut as agreed in Vienna last year. Nonetheless, we are aware that these exogenous factors remain fluid and will constantly reassess the impact to our economy and market. Malaysia's economy is still healthy with December exports beating expectations with a growth of +4.8% yoy, ringgit strengthening to USDMYR 4.0953 at the end of January as compared to previous month of USDMYR 4.1335, and supported by foreign inflows of RM1.0 billion in January as compared to outflow of RM11.7 billion in 2018. 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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