

## HLMT i-INCOME FUND

August 2018

### Fund Features

#### 1. Investment Objective

The objective of HLMT i-INCOME FUND ("The Fund") is to preserve capital while achieving regular income stream through an investment portfolio containing predominantly fixed income securities and a small proportion in equity securities.

#### 2. Investment Strategy & Approach

The Fund seeks to generate a stable income stream by investing in mainly fixed income securities with a small investment in equity securities.

#### 3. Asset Allocation

The indicative asset allocation for The Fund is to invest a minimum of its NAV in fixed income securities, Islamic money market instruments and liquid assets. Generally, The Fund may invest up to a maximum of 20% of its NAV in equities.

Asset	Ranges
Shariah-Compliant Equities	0%-20%
Islamic Fixed income securities/cash	80%-100%

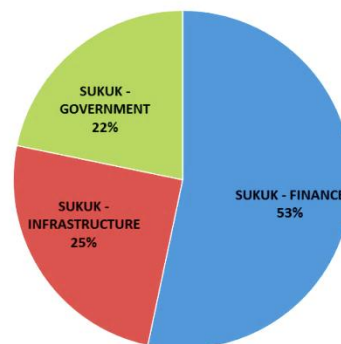
#### 4. Target Market

This fund is suitable for investors with low to moderate risk horizon and medium to long term investment horizon.

### Fund Details

Unit Price (30/08/2018)	RM 1.4560
Fund Size (30/08/2018)	RM 3,473,901.33
Fund Management Fee	1.00% p.a
Fund Manager	Hong Leong Assurance Berhad
Fund Category	Sukuk
Fund Inception	April 2007
Benchmark	20% FBM Emas Shariah Index + 80% GIA
Frequency of Unit Valuation	Daily

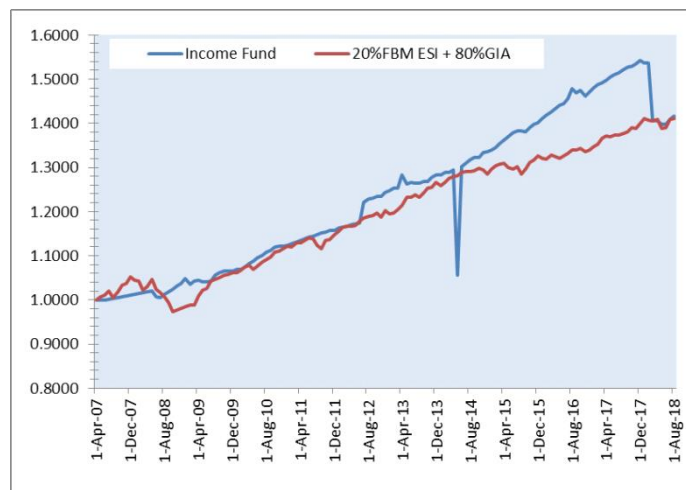
Asset & Sector Allocation of HLMT i-Income as at 30 August 2018



### Top Holdings

1	PUTRAJAYA BINA SDN BHD 24.03.2023	23%
2	P. TABUNG PENDIDIKAN TINGGI 26.03.2021	15%
3	RHB ISLAMIC BANK BERHAD 15.05.2024	15%
4	HONG LEONG ISLAMIC BANK 17.06.24	15%
5	PROJEK LEBUHRAYA USAHASAMA BERHAD 120138	14%

### Historical Performance



	1 month	YTD	1 year	3 years	5 years	since inception
i-Income	0.58%	-6.12%	-6.84%	0.82%	2.30%	7.18%
Benchmark	0.20%	2.75%	2.49%	3.19%	2.74%	6.71%
Relative	0.38%	-8.87%	-9.33%	-2.37%	-0.44%	0.47%

\*Source: Bloomberg

## **Market Review, Outlook & Strategy**

### **Equities Market**

Sentiment in regional markets continued to be weak during the month. Despite upbeat US economic data and the strong corporate earnings season, markets remained range-bound. Investor sentiment was weighted down by escalation of trade tensions, sharp sell-off in Turkish assets which in turn precipitated an outflow in emerging markets with sharp sell downs in Argentina, Brazil, South Africa and Indonesia. Meanwhile the ongoing US-China trade war tensions look set to intensify with US potentially imposing 25% tariffs on another US\$200b of China imports, setting in motion retaliation by the Chinese. Crude oil prices strengthened to US\$69.88/ barrel, as falling Iranian output will tighten markets once US sanctions against them take effect in November.

Investors were generally still cautious on the back of weaker than expected 2Q GDP growth and the disappointing 2Q18 results. Earnings disappointment came mainly from the construction, property, media and plantation sectors. The street has also started to reflect some short-term policy uncertainties post-GE 14 into corporate earnings forecasts. The Ringgit depreciated by 1.1% mom to RM4.1090/ US\$.

FTSE Emas Shariah declined marginally by 0.03% mom, underperforming the FBM KLCI. The FBM KLCI recovered by 2% mom to close at 1,819.66pts, recovering most of its losses from GE 14 and has generated a positive YTD return of 1.3% as at end Aug 18. FTSE Emas recorded a smaller return of +0.7% mom in August and FTSE Bursa Small Cap index was down by 2.2% mom.

Going into September, investors will be keeping a close watch on newsflow on US-China trade tensions as well as the outcome of the FOMC and ECB meetings. In the local market, key events are the reimplementing of the Sales and Services Tax (SST) 2.0 on 1 Sep 18 and its impact on consumption. Newsflow on the minimum wage review and the new National Housing Policy will also be awaited. However, we note the disconnect between the recent outperformance of the bigger cap stocks against weak GDP growth and poor corporate results. Hence we continue to be defensive going forward, focusing on blue-chips with sustainable earnings and steady dividend yield and exporters benefiting from the US-China trade tensions such as the technology sector. We will continually re-look sectors that have de-rated substantially post the outcome of the general election that continue to have positive earnings growth.

### **Fixed Income Market**

Generally UST yields pulled back and settled in a tighter range after acceleration in the yields from mid-July till 1st August where it peaked slightly above the psychological threshold of 3%. The reversal was due to safe haven flows triggered by escalating trade tensions after US President Trump announced double tariffs on Turkish's steel and aluminum imports. This sparked a plunge in the Turkish lira and consequently reignited concerns over the country's weak economic fundamentals. In particular the twin deficit was called into question and the ability to honour its foreign currency debt obligations. The sharp weakening of the Lira also prompted some emerging market central banks to raise interest rates to battle depreciation pressures. The unresolved American- China trade talks also left the market uncertain about trade prospects going forward.

Despite the largely negative tone on the external front, local govies were surprisingly resilient. The MGS yield curve concluded the month slightly flatter as domestic factors remained supportive. Negative spillover from the Turkish crisis that affected most EM countries was balanced out by lower GDP growth guidance by BNM of 5% for full year 2018. This was following the release of Malaysia's 2Q 2018 GDP growth which came in at 4.5%, 0.9% lower than that of the previous quarter which led the local bond market to rally.

Akin to government papers, yields of corporate bonds maintained a downtrend in August amid a lack of fresh bond supply. Interest was clustered around government guaranteed papers to the AA-part of the curve with preference for the mid-long end tenures. Reacting to appetite for the aforementioned corporate papers, it was unsurprising that some of the prominent issuers such as Danainfra, Cagamas Berhad, IJM Corporation, Gamuda, Hong Leong Financial Group, PKNS, Sabah Development Bank, Telekom Malaysia Berhad and Tenaga Nasional Berhad tapped the market during the month.

The Fed has provided guidance of a rate hike in September and that is expected to put some pressure on local govies as the spread differential narrows further. While a full-blown EM crisis remains a concern, EM Asia which includes Malaysia is still a little more removed from the source of the risk. Meanwhile Malaysia-Turkey trade linkages are thin and more importantly, Malaysia's financial institutions have limited exposure to the Turkish financial market. While some volatility may be felt, we opine that the magnitude would be tamer in contrast to regions such as EM Latin America and EM Europe which have closer direct trade and financial linkages to Turkey.

Besides the anticipated Fed rate hike in September, risk of foreign outflows lie with the chunky maturities of MGS and GILs in the next few months. Given that foreign participation stands at about 40%, fiscal uncertainties remain the driving factor that may drive foreign investor outflow when these papers mature. That said, we opine that the pressure on MGS yields would continue to be mitigated by Malaysia's strong domestic institutional participation. Private debt securities issuance is expected to remain subdued for the rest of the year given rising lingering uncertainties surrounding major restructuring in most of the government-linked entities.

As planned, we have participated in a few primary issuances recently, thus our position is close to our target. Since there is less pressure to increase our holdings, we will stay sidelined and cherry pick on good quality PDS with decent yield for the moment. Should yields rise, we will seize the opportunity to average up the portfolio yield by maximizing our exposure, deploying the unutilized cash from other assets.

### **Actual Annual Investment Returns for the Past Five (5) Calendar Years**

<b>Year</b>	<b>Net Annual Returns</b>
2013/2014	1.59%
2014/2015	5.91%
2015/2016	4.79%
2016/2017	4.47%
2017/2018*	3.08%

Notice: Past performance of the fund is not an indication of its future performance.

- Referring to the return on 2017/2018\*, the actual return on the fund performance is captured at 3.08%. There were adjustments arising from the timing differences in recognition of fees expenses which resulting in an unfavorable return on the fund performance of -7.35%.

- Net returns are adjusted for tax and fund management fees. Those are the actual returns in the past five (5) years, or since inception if shorter, and are strictly the performance of the investment-linked fund. Thus, the returns are not earned on the actual premium paid of the investment-linked product.

### **Investment Risks**

All investments carry risks. Investors must be prepared to accept a certain degree of risk when investing in this Fund. The following are some but not an exhaustive list of all the potential risks associated with this Investment.

#### **1. Market Risk**

Due to price fluctuations of securities invested in by the funds, the value of the investment may go up as well as down. The movement in securities prices is influenced by a number of factors, which include changes in economic, political and social environment.

#### **2. Credit Risk**

Applies to debt-type investments such as bonds, debentures and fixed income instruments. The institution invested in may not be able to make the required interest payments or repayment of principal.

#### **3. Country Risk**

The foreign investments made by the Fund is subjected to risks specific to the country in which it invests. Such risks include changes in a country's economic fundamentals, social and political stability, currency movements, foreign investment policies and etc. The risk may be mitigated by closely monitoring the developments in the countries in order to identify any changes that potentially occur immediately.

#### **4. Currency Risk**

Applies to foreign investment and the investment may rise or fall due to fluctuations in the foreign currencies. Adverse movements in currencies exchange rates can result in a loss to the investment. To mitigate the risk, the Fund should limit its investments in the number of countries so that specific country risk is minimized or undertake hedging activities.

#### **5. Interest Rate Risk**

Applied to fixed income securities, prices move in the opposite direction of interest rates. If interest rates rise and the security prices fall, this will lower the value of your investment and vice versa.

#### **6. Liquidity Risk**

Defined as the ease with which a security can be sold at or near its fair value. This risk occurs in thinly traded or illiquid securities. Should the Fund need to sell a relatively large amount of such securities, such action itself may significantly depress the selling price.

- b. In the case of securities for which market values are not readily available, the price at which, in our Investment Manager's opinion, the asset may have been purchased on the business day before the valuation date; plus any expenses which would have been incurred in its acquisition.

4. To ensure fair treatment to all unit holders, the cost of acquiring and disposing of assets is recouped by making a transaction cost adjustment to the net asset value per unit.

### **Exceptional Circumstances**

The Takaful Operator reserves the right to defer the payment of benefits (other than death benefit) under this Certificate for a period not exceeding six (6) months from the date the payment would have been normally effected if not for intervening events such as temporary closure of any Stock Exchange in which the fund is invested which the Takaful Operator, in its discretion, may consider exceptional.

### **Basis of Calculation of Past Performance**

The historical performance of the fund is calculated based on the price difference over the period in consideration compared to the older price of the period in consideration.

$$Investment\ Return = \left\{ \left[ \frac{NAV\ 30th\ June\ Year\ X}{NAV\ 30th\ June\ Year\ (x-1)} \right] - 1 \right\} \times 100$$

### **Others**

HLTMT i-Income Fund is managed by Hong Leong MSIG Takaful Berhad. Any amount invested in this fund is invested by HLM Takaful on behalf of Participant in equity, fixed income, collective investment scheme, foreign asset, derivatives and money market instrument/s. If the financial institutions and/or corporations issuing the equity, fixed income, collective investment scheme, foreign asset, derivatives and money market instruments defaults or insolvent, the Participant risks losing part or all of his/her amount that were invested into the instruments on his/her behalf by HLM Takaful.

**THIS IS A TAKAFUL PRODUCT THAT IS TIED TO THE PERFORMANCE OF THE UNDERLYING ASSETS, AND IS NOT A PURE INVESTMENT PRODUCT SUCH AS UNIT TRUSTS.**

### **Disclaimer:**

You must evaluate your options carefully and satisfy yourself that the investment-linked fund chosen meets your risk appetite. Past performance of the fund is not an indication of its future performance. The intention of this document is to enable Participant to better understand the fund features.

### **Basis of Unit Valuation**

1. The assets of every fund are to be valued to determine the value at which units of a particular fund can be liquidated or purchased for investment purposes.
2. The unit price of a unit of a fund shall be determined by the Company but in any event shall not be less than the value of fund of the relevant fund (as defined below), divided by the number of units of the given fund in issue on the business day before the valuation date, and the result adjusted to the nearest one hundredth of a cent.
3. The maximum value of any asset of any fund shall not exceed the following price:
  - a. The last transacted market price at which those assets could be purchased or sold on the business day before the valuation date; or