

Affin Hwang

Flexible Maturity Income Fund 10

Quarterly Report
31 August 2019

Out **think.** Out **perform.**



AFFIN HWANG
CAPITAL

MANAGER
Affin Hwang Asset Management Berhad (429786-T)

TRUSTEE
TMF Trustees Malaysia Berhad (610812-W)

AFFIN HWANG FLEXIBLE MATURITY INCOME FUND 10

Quarterly Report and Financial Statements As at 31 August 2019

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QUARTERLY REPORT

FUND INFORMATION

Fund Name	Affin Hwang Flexible Maturity Income Fund 10
Fund Type	Income
Fund Category	Fixed Income (Wholesale)
Investment Objective	The Fund aims to provide income through investments in fixed income instruments
Duration of the Fund	Three (3) years
Termination Date	4 January 2022
Benchmark	3-years Malayan Banking Berhad fixed deposit rate as at Investment Date
Distribution Policy	Depending on the level of income the Fund generates, the Fund will provide distribution on an annual basis

Performance Review

For the period under review from 1 June 2019 to 31 August 2019, the Fund has registered a return of 2.33%. Compared to the Benchmark return of 0.85%, the Fund thus outperformed its Benchmark by 1.48%. The Net Asset Value (NAV) per Unit of the Fund as at 31 August 2019 was RM1.0721 while the NAV per Unit as at 31 May 2019 was RM1.0477. On total NAV basis, the Fund's NAV stood at RM65.339 million as at 31 August 2019 (See Table 1 for performance of the Fund and Figure 1 for movement of the Fund versus the Benchmark respectively).

Table 1: Performance as at 31 August 2019

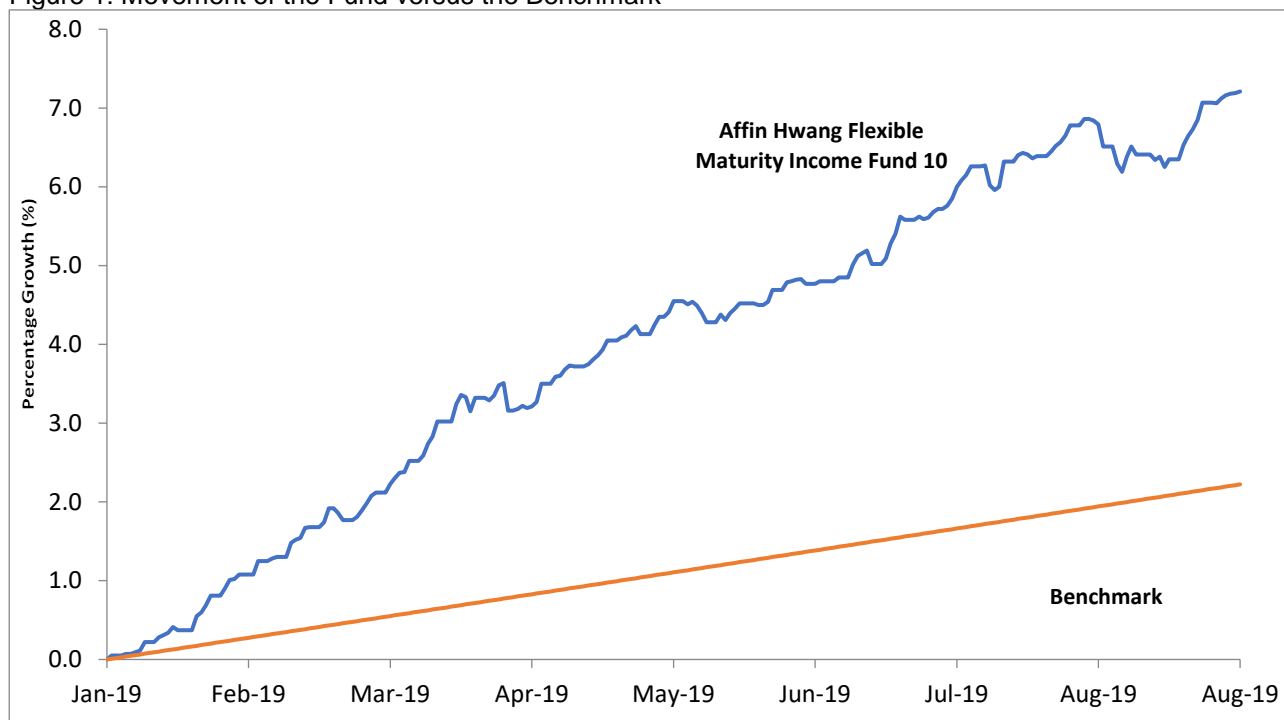
	3 Months (1/6/19 - 31/8/19)	6 Months (1/3/19 - 31/8/19)	Since Commencement (4/1/19 - 31/8/19)
Fund	2.33%	5.03%	7.21%
Benchmark	0.85%	1.70%	2.22%
Outperformance	1.48%	3.33%	4.99%

Table 2: Volatility as at 31 August 2019

	3 Year
Fund	N/A

The data for a 3-year annualized volatility as at 31 August 2019 is not available as the Fund has yet to record 3 years of performance data. A 3-year annualized volatility is a global standard used to report on Fund volatility as shorter time period would not provide a stable representation as well as being too sensitive to additional data points.

Figure 1: Movement of the Fund versus the Benchmark



"This information is prepared by Affin Hwang Asset Management Berhad (AFFINHWANGAM) for information purposes only. Past earnings or the fund's distribution record is not a guarantee or reflection of the fund's future earnings/future distributions. Investors are advised that unit prices, distributions payable and investment returns may go down as well as up."
 Benchmark: 3-years Malayan Banking Berhad fixed deposit rate

Asset Allocation

For a snapshot of the Fund's asset mix during the period under review, kindly refer to Figure 2.

Figure 2: Asset Allocation of the Fund

	31 Aug 2019	31 May 2019
	(%)	(%)
Fixed Income	95.65	98.66
Cash & money market	4.35	1.34
Total	100.00	100.00

Strategies Employed

Over the period under review, the Manager maintained a focus on high conviction credit names across both domestic and regional space. To date, the Fund's bond holdings have continued to meet their respective financial obligations in respect of their outstanding debt.

Market Review

"Sell in May and go away" has again proven to be a recurring theme this year after deteriorating trade relations between US and China wreaked further havoc across global financial markets in May. Trump raised the tariff on some US\$200 billion worth of Chinese imports to 25.0% from 10.0% earlier that month in an extreme bid to speed up trade negotiations. While the tariff hike was initially downplayed, things took a swift turn on when Trump banned Huawei with a national security order; thus prompting US companies to sever all business ties with the Chinese smartphone and telecommunications giant.

For the first time in more than a decade, the US Federal Reserve ("Fed") reduced interest rates by 25bps in July; effectively lowering the benchmark rate to a new range of 2.00-2.25%. Fed Chair Jerome Powell struck a neutral tone; explaining that the rate cut was a mid-cycle adjustment to better sustain the US' current

economic expansion. While it was also highlighted that the Fed would do whatever it takes to support the economy, Powell's statement stopped short of committing to a series of near-term interest rate cuts.

Asian markets retreated in August as trade tensions flared up again after a surprise tariff announcement from US President Donald Trump. The Hong Kong Hang Seng index fell 7.4%, whilst the broader MSCI Asia ex-Japan index closed 4.6% lower as the prolonged trade row takes another turn for the worse.

Trump tweeted in August that it would hike tariffs on \$250 billion worth of Chinese goods to 30% from 25%. Tariffs on another \$300 billion in Chinese products will also go up to 15% from 10%. The levies on the \$250 billion worth of goods are scheduled to kick in October 1, while the duties on the \$300 billion are set to go into effect in two stages on September 1 and December 15.

Meanwhile, Hong Kong continues to be plagued by protests which are starting to hurt businesses and dent economic growth. The unrest in Hong Kong started since early June when protesters took to the streets to oppose an extradition bill proposal. The demonstrations have shifted into a movement calling for more autonomy, full democracy and the ousting of Hong Kong's embattled leader Carrie Lam.

Within the domestic fixed income, the market sold-off on the back of news that index provider FTSE Russell may drop Malaysian bonds from its global index which triggered outflows. FTSE Russell said it would review Malaysia's market accessibility level in its World Government Bond Index (WGBI) due to concerns about market liquidity.

Malaysia could potentially face total outflows of US\$ 7-8 billion dollar in the event of an exclusion from the WGBI with Malaysia making up 40bps of the index. Passive outflows which is the more susceptible component could see outflows totalling US\$2-3 billion. However, ample domestic liquidity would be able to shore up the bond market and absorb any shocks due to foreign selling. A final review by the index provider is due on September '19.

On a side note, BNM cut the Overnight Policy Rate by 25 bps to 3.00% on 7 May – likely a pre-emptive measure against a weakening external environment as well as slowing domestic growth. The announcement was largely priced in by investors, which saw the MGS market rallied strongly in the few weeks prior to the announcement, though the buying subsequently eased up amid the addition of risks on the global trade front.

Investment Outlook

Despite Trump's mercurial and volatile nature, it is apparent that China President Xi Jinping is emerging as the dark horse in this protracted US-China trade war. It will be important to gauge the response from Beijing where President Xi has warned of a 'long march' and that it will be prepared to dig in to stave off a potential slowdown. The stakes are higher for Trump who faces a presidential re-election bid in 2020 if the tariffs begins to bite and his popularity wanes.

On monetary policy, the Fed is expected to make a 25bps at its September policy meeting where the central bank will also release its dot plot projection then. Recall at its July 30-31 FOMC meeting, the Fed made a 25bps rate cut, which was the first interest rate reduction since the 2008-GFC.

Fed funds futures are also partially pricing-in another rate cut before the year ends, though this may be slightly ahead of the curve due to underlying strength of the US economy and inflation still benign. Another factor at play is the Fed also wanting to assert its independence and not seen to be influenced by political pressure especially from Trump. Similarly, there may be room for Bank Negara Malaysia ("BNM") to cut rates if macro conditions deteriorate and if the protracted trade war becoming a drag on global growth. The trade impasse which has stretched into a yearlong skirmish between US and China shows no signs of abating yet with negotiations ongoing which could lead to more choppy market conditions.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 AUGUST 2019**

Financial
period ended
31.8.2019
RM

INVESTMENT INCOME

Interest income from financial assets at amortised cost	179,438
Interest income from financial assets at fair value through profit or loss	2,158,040
Net gain on foreign currency exchange	140,189
Net loss on forward foreign currency contracts at fair value through profit or loss	(1,868,853)
Net gain on financial assets at fair value through profit or loss	3,825,235
	<u>4,434,049</u>

EXPENSES

Trustee fee	(17,115)
Auditors' remuneration	(5,801)
Tax agent's fee	(2,537)
Other expenses	(13,352)
	<u>(38,805)</u>

NET PROFIT BEFORE TAXATION

4,395,244

TAXATION

-

**NET PROFIT AFTER TAXATION AND TOTAL
COMPREHENSIVE INCOME FOR THE
FINANCIAL PERIOD**

4,395,244

Net profit after taxation is made up of the following:

Realised amount	2,866,640
Unrealised amount	1,528,604
	<u>4,395,244</u>

**STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2019**

	<u>2019</u> RM
ASSETS	
Financial assets at fair value through profit or loss	63,554,935
TOTAL ASSETS	<u>67,220,540</u>
LIABILITIES	
Forward foreign currency contracts at fair value through profit or loss	1,868,853
Amount due to Trustee	2,208
Auditors' remuneration	5,801
Tax agent's fee	2,537
Other payables and accruals	1,897
TOTAL LIABILITIES	<u>1,881,296</u>
NET ASSET VALUE OF THE FUND	<u><u>65,339,244</u></u>
EQUITY	
Unitholders' capital	60,944,000
Retained earnings	4,395,244
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	<u><u>65,339,244</u></u>
NUMBER OF UNITS IN CIRCULATION	<u><u>60,944,000</u></u>
NET ASSET VALUE PER UNIT (RM)	<u><u>1.0721</u></u>

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 AUGUST 2019**

	Unitholders' <u>capital</u> RM	Retained <u>earnings</u> RM	<u>Total</u> RM
Balance as at 14 December 2018 (date of launch)	-	-	-
Total comprehensive income for the financial period	-	4,395,244	4,395,244
Movement in unitholders' capital:			
Creation of units arising from applications	60,944,000	-	60,944,000
Balance as at 31 August 2019	<u>60,944,000</u>	<u>4,395,244</u>	<u>65,339,244</u>

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