AHAM CAPITAL
ASSET MANAGEMENT

**QUARTERLY REPORT**
30 November 2023

# AHAM **Flexible Maturity Income Fund 18** (Formerly known as Affin Hwang Flexible Maturity Income Fund 18)

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# AHAM FLEXIBLE MATURITY INCOME FUND 18
# (FORMERLY KNOWN AS AFFIN HWANG FLEXIBLE MATURITY INCOME FUND 18)

## Quarterly Report and Financial Statements
## As at 30 November 2023

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## QUARTERLY REPORT

### FUND INFORMATION

| | |
|---|---|
| Fund Name | AHAM Flexible Maturity Income Fund 18 (Formerly known as Affin Hwang Flexible Maturity Income Fund 18) |
| 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 | Five (5) years |
| Termination Date | 16 June 2025 |
| Benchmark | 5-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. |

## FUND PERFORMANCE DATA

| **Category** | **As at 30 Nov 2023** | **As at 31 Aug 2023** |
|---|---|---|
| Total NAV (RM'million) | 184.075 | 184.331 |
| NAV per Unit (RM) | 0.7784 | 0.7657 |
| Unit in Circulation (million) | 236.490 | 240.738 |

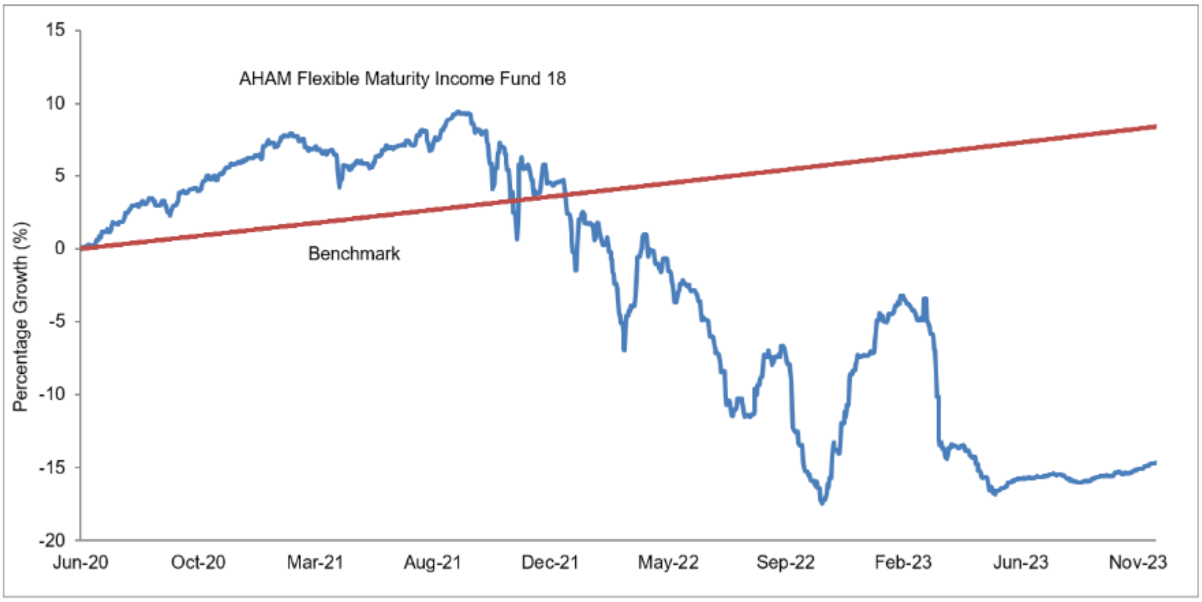
**Fund Performance**

Performance as at 30 November 2023

| | 3 Months (1/9/23 - 30/11/23) | 6 Months (1/6/23 - 30/11/23) | 1 Year (1/12/22 - 30/11/23) | 3 Years (1/12/20 - 30/11/23) | Since Commencement (16/6/20 - 30/11/23) |
|---|---|---|---|---|---|
| Fund | 1.66% | 2.15% | (3.50%) | (18.97%) | (14.64%) |
| Benchmark | 0.58% | 1.17% | 2.35% | 7.22% | 8.37% |
| Outperformance | 1.08% | 0.98% | (5.85%) | (26.19%) | (23.01%) |

Source of Benchmark: Bloomberg

Movement of the Fund versus the Benchmark




*"This information is prepared by AHAM Asset Management Berhad 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. Source of Benchmark is from Bloomberg."*
*Benchmark: 5-years Malayan Banking Berhad fixed deposit rate as at Investment Date*

***Past performance is not necessarily indicative of future performance and that Unit prices and investment returns may go down, as well as up.***

## Asset Allocation

Fund's asset mix during the period under review:

| | 30 November 2023 |
|---|---|
| | (%) |
| Fixed Income | 96.38 |
| Derivative | -1.14 |
| Cash & money market | 4.76 |
| Total | 100.00 |

## Strategies Employed

The Manager have implemented several key measures to enhance the risk profile and resilience of the Funds in response to prevailing market conditions. One of the pivotal decisions was the complete exit from China property bonds. This was premised on the liquidity and credit challenges faced by China property developers. Persistently weak property sales, coupled with government policies that have not fully addressed underlying issues, led the Manager to believe that these challenges were unlikely to be swiftly resolved. Furthermore, the decision of many issuers to prioritize onshore bonds over offshore bonds signalled prolonged and uncertain timelines for the restructuring of defaulted bonds, with anticipated low recovery values, if any.

At the inception of the Fund, it had approximately 20% exposure to China property bonds. The Manager took proactive measures starting from 2022, actively reducing holdings in the China property sector. By 2023, a strategic decision was made to exit entirely from China property bonds. Crucially, strategic divestments were made, including the complete exit from core holdings such as Country Garden and CIFI Holdings in the first half of 2023. These decisions were made during a period of relatively favourable market sentiment. Presently, the remaining position, that is in Times Property, is part of a planned exit strategy. The current exposures now stand minimally at less than 0.12% of NAV.

Secondly, the Manager has further overweight Investment Grade (IG) bonds for the Fund. By favouring IG assets over High Yield (HY) instruments, it aligns the portfolio with a more conservative risk profile. The High Yield exposures currently stand below 10% of the Fund's Net Asset Value (NAV). The Manager have also prudently reduced the portfolio duration of the Fund to mitigate the impact of rising rates on the Fund's performance. The Fund's duration closely matched the Funds' maturities.

Furthermore, exposure to domestic Ringgit bonds have also been increased. This shift reflects a preference for more defensive assets as the Ringgit bond market is less volatile (also less rate hikes by BNM). Besides diversifying bond holdings and focusing on stability, this also mitigates some of the impact of the foreign sourced income tax imposed on the Fund.

The Flexible Maturity Income Fund series have historically employed a more passive buy and hold to maturity strategy. The Manager would invest in a portfolio of bond with maturities that closely match the respective funds and monitor the credit fundamentals of these issuers throughout the life of the funds. However, given the heightened volatility and unprecedented rate hikes, the Manager has taken a more active style of investing, including progressively rebalancing the portfolios and focus on trading in new and existing issuances to improve the return potential.

**Market Review**

The past three years have indeed presented unprecedented challenges for the global fixed income market. The aftermath of the Covid-19 pandemic, coupled with supply chain disruptions and geopolitical events, sparked a period of high inflation and robust global growth. In response, central banks globally adopted an aggressive stance, leading to one of the most severe interest rate hike cycles in history. The US Federal Reserve, for instance, raised interest rates by over 500 basis points (bps) from March 2022. Moreover, central banks started Quantitative Tightening, reining in their balance sheets. These measures triggered market adjustments, causing bond prices to decline, and resulting in mark-to-market losses on portfolio holdings. Since January 2020, US Treasuries witnessed a negative return of -7%, while global Investment Grade bonds experienced a return of -12%.* On a positive note, the Federal Reserve has kept interest rates unchanged over the past 2 meetings in September and November. Some notable key economic developments contributing to this was the gradual softening in the US labour market coupled with lower inflationary data.

In the Asian credit landscape, the default crisis among China's property developers proved especially impactful. Majority of private developers defaulted on their bonds obligations, including offshore bonds. What initially began with Evergrande's default spread rapidly, affecting even high-quality developers. This situation led to a significant risk-off sentiment and widespread credit spread widening, not only in the High Yield sector but also among Investment Grade names in the same industry. Since January 2020, USD Asian High Yield bonds recorded a return of -21%*. Over the reporting period, overall home sales data in China had remained soft as policy easing measures in the China property space were insufficient to lift home-buyer sentiment.

Additionally, other challenges surfaced, such as the write-off of Credit Suisse Additional Tier 1 (AT1) securities by the Swiss regulator, FINMA, in March 2023. The Fund had an exposure to Credit Suisse AT1 securities at approximately 2.1% of the NAV. The write-off also had a spillover impact on the mark to market pricing of other AT1 securities in the market. Since then, we have seen a sizable recovery in bond prices during the period under review.

In Malaysia, Bank Negara Malaysia has continuously kept the Overnight Policy Rate unchanged at 3% since the last hike seen in May 2023, supported by the relatively benign inflation at around 2%. This has translated to relatively resilient local bond market yields over the period under review.

Lastly, the Malaysian Government implemented the foreign sourced income tax in 2022. As a transition measure, the foreign sourced income received in Malaysia from 1 January 2022 until 30 June 2022 was to be taxed at a 3% rate on a gross basis. The foreign sourced income received in Malaysia from 1 July 2022 was to be subject to tax based on the prevailing income tax rate which currently stands at 24%. This foreign sourced income tax on coupon and interest received affected the Fund's performance.

These events highlight the extreme volatility and complexity of the global financial landscape during this period. Despite these challenges, we continue to adapt our strategies to navigate this environment to secure the best possible outcomes for our investors. Kindly refer to the Strategies Employed section on measures that have been taken to manoeuvre the portfolio holdings during this period.

* Source: Bloomberg (As of November 30, 2023)

**Investment Outlook**

The current global economic landscape presents both challenges and opportunities. Despite the turbulence in the bond market and the unexpected sluggishness in China's recovery, several potential positive catalysts are in sight over the few quarters.

Firstly, the Federal Reserve is nearing the peak of its current rate hike cycle: As inflation trends move in a favourable direction and signs of a cooling labour market emerge, there is potential for stabilization in interest rates. There have been more central banks “pausing” in recent months notably Federal Reserve has paused since September. This stability could provide a more predictable environment for bond investments in the medium term. In addition, there is anticipation that central banks, including the Fed, might reduce interest rates if economic growth decelerates materially in 2024, thus supporting bond valuations. This could be driven by geopolitical events or a sharp deterioration in economic and labour market conditions.

Secondly, valuations of bonds have turned more attractive. After the sharp rise of interest rates in the last 2-3 years, bonds are offering an attractive yield carry and may benefit from rate cuts in 2024-2025. Th Fed Fund Rate today is at 5.5%. The Manager expects the short to medium part of yield curve to be more defensive against any potential yield curve steepening.

Finally, China's government is expected to unveil additional stimulus policies in the coming quarters to reignite economic growth. While the property sector remains a concern, improved growth prospects in China could enhance investor sentiment in the Asian region.

On the flipside, it is worth cautioning on some possible scenarios that may have adverse implications on bond investments. For example, one of the risks is reacceleration of inflation in 2024. This could be anchored by consumer spending if the labour market remains tight. There is also potential for sharp rise in commodity prices due to supply shortages. Besides that, there have been continued speculation that Japan could ‘exit’ from its yield curve control policies. Such event could translate to pressure on bond yields globally. On the geopolitical front, there are various conflicts that are unfolding and may have mixed implications for bonds. All these warrants closer monitoring and may require nimble adjustments to bond positioning.

The Manager would like to emphasize that the final performance upon the Funds’ maturity remain subject to various factors including market conditions. With the remaining tenure of the Fund, the Manager would continue to diligently monitor market dynamics, identify prudent investment opportunities, and employ risk management strategies with the aim of securing the best possible outcome for investors of the Fund.

## AHAM FLEXIBLE MATURITY INCOME FUND 18
**(FORMERLY KNOWN AS AFFIN HWANG FLEXIBLE MATURITY INCOME FUND 18)**

## UNAUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 30 NOVEMBER 2023

| | Financial period ended 30.11.2023 RM | Financial period ended 30.11.2022 RM |
|---|---|---|
| **INVESTMENT LOSS** | | |
| Interest income from financial assets at amortised cost | 84,419 | 50,326 |
| Interest income from financial assets at fair value through profit or loss | 6,739,567 | 9,581,173 |
| Net (loss)/gain on foreign currency exchange | (408,720) | 457,231 |
| Net loss on forward foreign currency contracts at fair value through profit or loss | (7,989,649) | (5,363,780) |
| Net loss on financial assets at fair value through profit or loss | (18,321,682) | (29,125,691) |
| | (19,896,065) | (24,400,741) |
| **EXPENSES** | | |
| Management fee | (285,158) | (331,764) |
| Trustee fee | (57,032) | (66,353) |
| Fund accounting fee | (9,750) | (9,750) |
| Auditors' remuneration | (6,232) | (6,231) |
| Tax agent's fee | (2,728) | (2,728) |
| Other expenses | (41,270) | (46,597) |
| | (402,170) | (463,423) |
| **NET LOSS BEFORE TAXATION** | (20,298,235) | (24,864,164) |
| Taxation | (956,091) | (1,252,341) |
| **NET LOSS AFTER TAXATION AND TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL PERIOD** | (21,254,326) | (26,116,505) |
| Net loss after taxation is made up of the following: | | |
| Realised amount | (35,535,841) | 3,427,259 |
| Unrealised amount | 14,281,515 | (29,543,764) |
| | (21,254,326) | (26,116,505) |

# AHAM FLEXIBLE MATURITY INCOME FUND 18
**(FORMERLY KNOWN AS AFFIN HWANG FLEXIBLE MATURITY INCOME FUND 18)**

## UNAUDITED STATEMENT OF FINANCIAL POSITION
## AS AT 30 NOVEMBER 2023

| | 2023<br>RM | 2022<br>RM |
|---|---:|---:|
| **ASSETS** | | |
| Cash and cash equivalents | 7,803,864 | 8,498,152 |
| Amount due from dealers | 11,190 | - |
| Financial assets at fair value through profit or loss | 179,255,807 | 192,164,131 |
| Forward foreign currency contracts at fair value through profit or loss | 172,917 | 6,181,438 |
| **TOTAL ASSETS** | 187,243,778 | 206,843,721 |
| **LIABILITIES** | | |
| Forward foreign currency contracts at fair value through profit or loss | 2,278,143 | 310,310 |
| Amount due to brokers | - | 2,415,976 |
| Amount due to Manager - management fee | 30,069 | 32,256 |
| Amount due to Trustee | 6,014 | 6,451 |
| Fund accounting fee | 1,083 | - |
| Auditors' remuneration | 6,232 | 6,231 |
| Tax agent's fee | 6,228 | 6,228 |
| Tax provision | 839,982 | 789,059 |
| Other payables and accruals | 900 | 985 |
| **TOTAL LIABILITIES** | 3,168,651 | 3,567,496 |
| **NET ASSET VALUE OF THE FUND** | 184,075,127 | 203,276,225 |
| **EQUITY** | | |
| Unitholders' capital | 239,873,278 | 247,277,508 |
| Accumulated losses | (55,798,151) | (44,001,283) |
| **NET ASSETS ATTRIBUTABLE TO UNITHOLDERS** | 184,075,127 | 203,276,225 |
| **NUMBER OF UNITS IN CIRCULATION** | 236,490,000 | 245,923,000 |
| **NET ASSET VALUE PER UNIT (RM)** | 0.7784 | 0.8266 |

## AHAM FLEXIBLE MATURITY INCOME FUND 18
**(FORMERLY KNOWN AS AFFIN HWANG FLEXIBLE MATURITY INCOME FUND 18)**

## UNAUDITED STATEMENT OF CHANGES IN EQUITY
## FOR THE FINANCIAL PERIOD ENDED 30 NOVEMBER 2023

| | Unitholders' capital RM | Accumulated losses RM | Total RM |
|---|---|---|---|
| Balance as at 1 March 2023 | 246,990,927 | (29,927,794) | 217,063,133 |
| Total comprehensive loss for the financial period | - | (21,254,326) | (21,254,326) |
| Distribution | - | (4,616,031) | (4,616,031) |
| Movement in unitholders' capital: | | | |
| Cancellation of units | (7,117,649) | - | (7,117,649) |
| Balance as at 30 November 2023 | 239,873,278 | (55,798,151) | 184,075,127 |
| | | | |
| Balance as at 1 March 2022 | 254,524,425 | (11,352,363) | 243,172,062 |
| Total comprehensive loss for the financial period | - | (26,116,505) | (26,116,505) |
| Distribution | - | (6,532,415) | (6,532,415) |
| Movement in unitholders' capital: | | | |
| Cancellation of units | (7,246,917) | - | (7,246,917) |
| Balance as at 30 November 2022 | 247,277,508 | (44,001,283) | 203,276,225 |

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