

Affin Hwang

Target Maturity Income Fund

Quarterly Report
31 May 2021

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



AFFIN HWANG
CAPITAL

MANAGER
Affin Hwang Asset Management Berhad
199701014290 (429786-T)

TRUSTEE
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AFFIN HWANG TARGET MATURITY INCOME FUND

Quarterly Report and Financial Statements As at 31 May 2021

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QUARTERLY REPORT

FUND INFORMATION

Fund Name	Affin Hwang Target Maturity Income Fund
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 and a half (3.5) years
Termination Date	19 December 2023
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 and the first income distribution will be made on the eighteen (18) months from the Investment Date.

FUND PERFORMANCE DATA

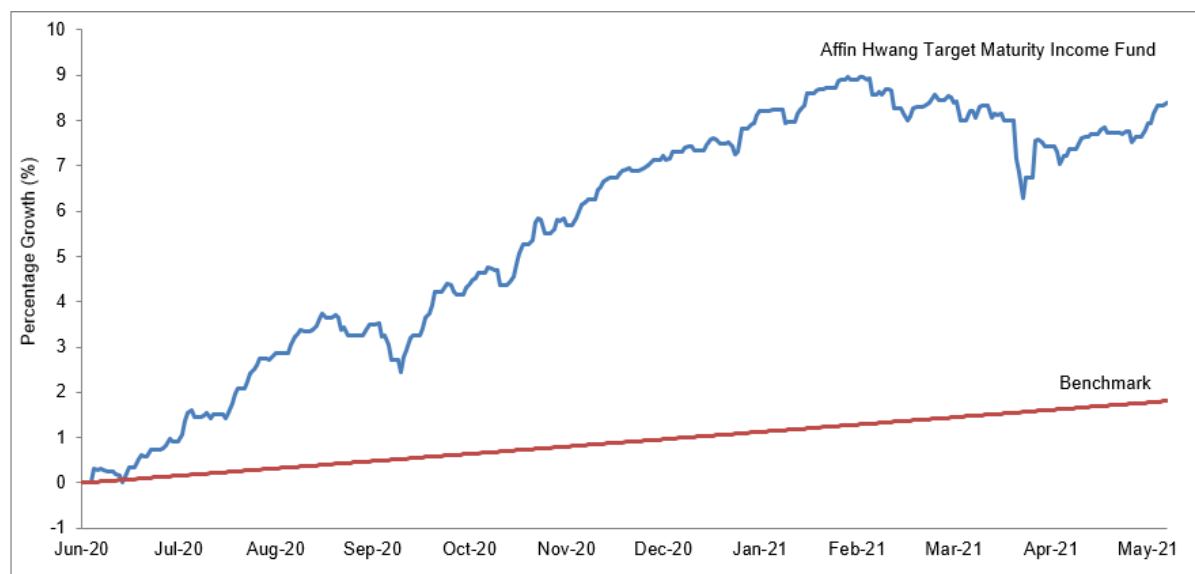
Category	As at 31 May 2021	As at 28 Feb 2021
Total NAV (RM'million)	122.008	122.271
NAV per Unit (RM)	1.0839	1.0863
Unit in Circulation (million)	112.561	112.561

Performance as at 31 May 2021

	3 Months (1/3/21 - 31/5/21)	6 Months (1/12/20 - 31/5/21)	Since Commencement (19/6/20 - 31/5/21)
Fund	(0.22%)	1.80%	8.39%
Benchmark	0.48%	0.94%	1.81%
Outperformance	(0.70%)	0.86%	6.58%

Source of Benchmark: Bloomberg

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. Source of Benchmark is from Bloomberg."
Benchmark: 3-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:

	31 May 2021
	(%)
Fixed Income	90.35
Derivative	1.78
Cash & money market	7.87
Total	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

Global equities started 2021 on a strong note as policy easing, and global vaccine rollouts went underway. At the start of January, US markets saw strong optimism. The storming of the US Capitol in early January had little effect over the broader market. However, a black swan event at the end of the month saw retail investors selectively targeting underperforming stocks (e.g. GME and AMC) that resulted in a short squeeze and pushing their share prices to new highs.

US equity markets ended the month of February with modest gains though sentiment was tested as surging bond yields and inflation fears took precedence. Whilst equities and bonds tend to move in opposite directions, the reality is that equity outperformance in the past year has largely come from growth-centric stocks and "stay at home" trades, which were facing short-term squeezes on their profit margins from rising rates. Another factor is the shift from growth to value, with value stocks performing better over the period.

Global equities endured a mixed session in March as US-China tensions boiled over dampening sentiment. The S&P 500 index rose 4.4% higher as the latest US labour data showed signs of a rebound. In Asia, the MSCI Asia ex-Japan index fell 2.5% as increased regulatory scrutiny prompted a selloff in Chinese technology stocks. The Hong Kong Hang Seng index dropped 1.8% in March. With recovery still in a fragile state, global central banks including the Fed are expected to keep monetary policy accommodative to nurse the economy through the pandemic. Meanwhile, rising bond yields continue to unsettle markets. Earnings season continues with technology and banking stocks leading way in terms of results. Banks are enjoying higher trading fees and lower provision costs as the economy gradually regains its footing.

Global markets shrugged off inflation fears to climb higher in June as investors start to buy-in to the Fed's dovish testimony. The S&P 500 index closed 2.4% higher reaching an all-time high of 4,280.70 points in the last week of the month. The Nasdaq index rose 5.6% buoyed by stimulus optimism after early indication of bipartisan support of the proposed US\$1.2 trillion infrastructure bill in the US Congress.

US Fed Chair, Jerome Powell testified in the House of Representatives to reiterate the central bank's view that inflation is transitory and that the FOMC will not rush to hike rates. The yield on the 10-year Treasury note tumbled from 1.60% to close at 1.46% in June as the Fed affirmed that it would not pre-emptively hike rates before signs of a recovery.

In Asia, the MSCI Asia ex-Japan index was marginally weaker down 1.1% in June as sentiment was dampened on geopolitical tensions and consolidation seen in China's economy. The Group of Seven ("G7") nations and North Atlantic Treaty Organisation ("NATO") held its annual summit in June with political leaders from US and Europe vowing to toughen its stance on China.

China had also reported weaker than expected retail sales and industrial production data. Industrial production grew 8.8% y-o-y in May, which came below consensus expectations of 9.2%. Weaker upstream production as well as a power shortage in the Yunnan province which is an aluminium production hub led to lower factory output. May retail sales which rose 12.4% y-o-y also fell market expectations of 14.0%. However, weaker economic data could push back any chance of further tightening in China as policymakers look to sustain growth.

The commodity market saw multiple consecutive periods of increased market inflow, particularly across crude oil, grain & oilseed, and livestock markets in January. This rally continued in February, as copper saw its largest monthly gain in over four years and oil prices hitting new one-year highs. The S&P GSCI posted a return on 14.15% in the quarter. Overall, the commodities saw strong return in 1H2021, buoyed by vaccination programs and normalization of the economy.

In February and March, the local equity market's performance was muted relative to regional peers, gaining by 0.8% and 1.0% in the respective months. February was also results season in the local market, with the tech sector largely reporting earnings beat on the back of robust demand. Meanwhile, Finance Minister Tengku Zafrul clarified in an interview that the government is not looking to impose capital gains tax on stocks. The government is mulling new taxes to widen its revenue base once the economy is on a more stable footing.

The Malaysian bond market saw an unwinding of "rate cut" bets at the end of January following BNM's announcement to keep interest rates unchanged at 1.75% highlighting that recovery of the local economy was underway. The shorter-end of the MGS curve saw yields rise whilst longer-tenured papers remained resilient that month.

Yields trended higher in tandem with US treasury movement in the quarter. Undoubtedly, the performance of the local bond market has been subpar since the start of the year; especially given the volatility in US Treasury yields, as well as the lack of support from EPF due to its ongoing commitment to the i-Sinar and i-Lestari programme. However, we were seeing some demand returning in March, as more investors – including insurance players and asset managers – are seen nibbling into the market given the more attractive yield levels.

Benchmark KLCI fell 3.2% in June as daily new COVID-19 cases remain stubbornly high. Phase One of the movement control under the National Recovery Plan ("NRP"), which was initially scheduled to end on 28 June 2021 has been extended as cases has not fallen below the 4,000 threshold.

To provide aid to affected communities and businesses, the government unveiled the PEMULIH stimulus package worth RM150 billion. However, the direct fiscal injection of the stimulus package amounts to RM10 billion which includes cash handouts targeted at lower income groups as well as salary subsidies. The Prime

Minister also announced an opt-in blanket loan moratorium for individual borrowers as well as the i-Citra initiative to allow contributors to withdraw up to RM5,000 from their EPF as a lifeline for households.

The local bond market was similarly in a cautious mood ahead of the Fed's meeting and persistently high cases in the country. The 10-year MGS benchmark yield edged 7bps higher in the month to close at 3.28%. Malaysia's GDP forecast was slashed from 6.0% to 4.0% given the extension in lockdown.

With that, fiscal deficit is expected to breach above the government's target of 6.0%. With the newly unveiled PEMULIH stimulus package, we could see the debt ceiling be raised to 65.0% from 60.0%. This could translate to more government bond supplies, which may put further pressure on Malaysia's sovereign rating.

On the monetary policy side, Bank Negara Malaysia (BNM) may see more pressure to further slash the Overnight Policy Rate ("OPR") to cushion the economic impact of COVID-19. Malaysia's inflation figure came in at 4.4% in May 2021 as compared to the 4.7% in the preceding month.

Investment Outlook

Global markets have rallied sharply from their lowest, supported by fiscal and monetary stimulus. The economy is still recovering, albeit at a slow pace, as consumers' confidence return. Recovery plays will be the most obvious theme for the year of improving macroeconomic conditions and the inevitable rollout of vaccines has everyone looking to the future and letting go of 2020's miseries. We have already seen the rotation from growth to value take place in the start of 2021.

Earnings momentum will continue in 2021 with earnings growth projected to rise by 38.0% in Asia ex-Japan (ex-Financials) according to estimates by some sell-side analysts. Key sectors leading the recovery include the energy, consumer discretionary and industrials. Though, this is tempered by moderately higher valuations which has crept up above historical averages. Liquidity conditions remain positive and with earnings visibility from Asian companies that are riding along a China-led economic recovery, Asia continues to be an ocean of growth potential as the region continues to grow.

Back home, economic recovery continues to be delayed by Covid-19 as cases surge throughout the country. From a bottom-up perspective, the domestic focus will be on the recovery beneficiaries and exporters in the technology and EMS segment which have strong earnings visibility in the near term as well increasing demand.

ESG funds have also been gathering plenty of interest and we will expect this investor shift to ESG-focused funds to be more commonplace across the industry. The Biden administration's foray into building stronger climate change initiatives also signals a shift for the investment industry as this will generate more opportunities across asset classes. The wider implications of this on the economy will take time to materialise, but will continue to be observed.

AFFIN HWANG TARGET MATURITY INCOME FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 31 MAY 2021

Financial
period ended
31.5.2021
RM

INVESTMENT INCOME

Interest income from financial assets at amortised cost	99,848
Interest income from financial assets at fair value through profit or loss	5,729,512
Net loss on foreign currency exchange	(83,926)
Net gain on forward foreign currency contracts at fair value through profit or loss	2,085,063
Net gain on financial assets at fair value through profit or loss	1,716,315
	<u>9,546,812</u>

EXPENSES

Trustee fee	(45,490)
Fund accounting fee	(10,833)
Auditors' remuneration	(6,322)
Tax agent's fee	(2,766)
Other expenses	(34,856)
	<u>(100,267)</u>

NET PROFIT BEFORE TAXATION

9,446,545

Taxation

-

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

9,446,545

Net profit after taxation is made up of the following:

Realised amount	7,372,098
Unrealised amount	2,074,447
	<u>9,446,545</u>

AFFIN HWANG TARGET MATURITY INCOME FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 MAY 2021

2021
RM

ASSETS

Cash and cash equivalents	7,910,199
Financial assets at fair value through profit or loss	111,939,184
Forward foreign currency contracts at fair value through profit or loss	2,893,942
TOTAL ASSETS	122,743,325

LIABILITIES

Forward foreign currency contracts at fair value through profit or loss	722,249
Amount due to Trustee	4,123
Auditors' remuneration	6,322
Tax agent's fee	2,766
Other payables and accruals	320
TOTAL LIABILITIES	735,780

NET ASSET VALUE OF THE FUND	122,007,545
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EQUITY

Unitholders' capital	112,561,000
Retained earnings	9,446,545
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	122,007,545

NUMBER OF UNITS IN CIRCULATION	112,561,000
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NET ASSET VALUE PER UNIT (RM)	1.0839
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AFFIN HWANG TARGET MATURITY INCOME FUND

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MAY 2021

	Unitholders' <u>capital</u> RM	Retained <u>earnings</u> RM	<u>Total</u> RM
Balance as at 27 May 2020 (date of launch)	-	-	-
Total comprehensive income for the financial period	-	9,446,545	9,446,545
Movement in unitholders' capital:			
Creation of units arising from applications	112,561,000	-	112,561,000
Balance as at 31 May 2021	<u>112,561,000</u>	<u>9,446,545</u>	<u>122,007,545</u>

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