AHAM CAPITAL
ASSET MANAGEMENT

QUARTERLY REPORT
31 May 2024

AHAM **Flexible Maturity Income Fund 16**

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AHAM FLEXIBLE MATURITY INCOME FUND 16

Quarterly Report and Financial Statements
As at 31 May 2024

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QUARTERLY REPORT

FUND INFORMATION

Fund Name	AHAM Flexible Maturity Income Fund 16
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	7 November 2024
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 31 May 2024**	**As at 29 Feb 2024**
Total NAV (RM'million)	146.327	145.959
NAV per Unit (RM)	0.8772	0.8669
Unit in Circulation (million)	166.818	168.379

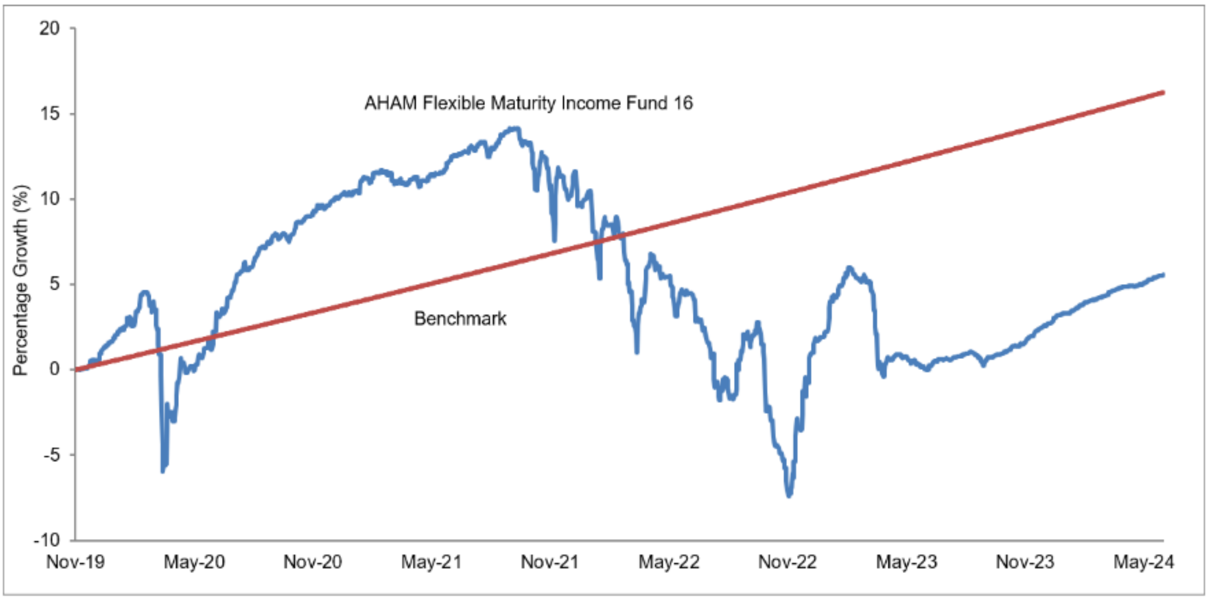
<u>Fund Performance</u>

Performance as at 31 May 2024

	3 Months (1/3/24 - 31/5/24)	6 Months (1/12/23 - 31/5/24)	1 Year (1/6/23 - 31/5/24)	3 Years (1/6/21 - 31/5/24)	Since Commencement (7/11/19 - 31/5/24)
Fund	1.19%	2.89%	5.45%	(5.91%)	5.55%
Benchmark	0.83%	1.67%	3.36%	10.40%	16.25%
Outperformance	0.36%	1.22%	2.09%	(16.31%)	(10.70%)

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:

	31 May 2024
	(%)
Fixed Income	80.44
Derivative	0.35
Cash & money market	19.21
Total	100.00

Income Distribution Breakdown

No distribution was declared by the Fund over the financial period under review.

Strategies Employed

The Flexible Maturity Income Fund series has historically employed a more passive buy-and-hold to-maturity strategy. The Manager would invest in a portfolio of bonds with maturities that closely matching those of the respective funds and monitor the credit fundamentals of these issuers throughout the remaining tenure of the funds. However, in response to heightened volatility and unprecedented rate hikes, the Manager has adopted a more active investing approach. This includes progressively rebalancing the portfolios and focusing on trading in new and existing issuances to enhance return potential.

The Manager has 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 by many issuers to prioritize onshore bonds over offshore bonds signaled prolonged and uncertain timelines for the restructuring of defaulted bonds, with anticipated low recovery values, if any.

The Manager began taking proactive measures in 2022, actively reducing holdings in the China property sector. By 2023, a strategic decision was made to completely exit 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, and the exit from this segment was mostly completed by July 2023. Presently, the Fund holds no position in China property bonds.

Secondly, the Manager has increased the allocation to 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. Additionally, the Manager has prudently rebalanced the portfolio duration of the Fund to mitigate the impact of rising rates on the Fund's performance, ensuring that it closely matches the Fund’s maturities.

Furthermore, exposure to domestic Ringgit bonds has also been expanded throughout 2023. This strategic shift reflects a preference for defensive assets, as the Ringgit bond market is less volatile (with fewer rate hikes by BNM). In addition to diversifying bond holdings and prioritizing stability, this adjustment also mitigates some of the impact of the foreign sourced income tax (FSI) imposed on the Fund in 2022 and 2023.

On a positive note, we wish to highlight that FSI has been exempted starting from 1 January 2024. In response to this development, there has been a rebalancing out of MYR credits into more regional credits denominated in hard currencies. The Manager has identified higher interest rates in some key currencies such as USD and AUD, which offer better yield carry. Moreover, with previous high inflation now tapering off, there are prospects for interest rate cuts in the medium term. This is expected to benefit the bonds within the Fund’s portfolio throughout its remaining tenure.

Market Review

The global sentiment has improved since the 4th quarter of 2023. Credit spreads of corporate bonds have tightened over the past 6 months, which contributed positively to bond performance. As a recap, the global fixed income market has faced unprecedented challenges over the past 3 years. The aftermath of the Covid-19 pandemic, along with supply chain disruptions and geopolitical events, triggered 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. For instance, the US Federal Reserve raised interest rates by over 500 basis points (bps) from March 2022 to July 2023. Moreover, central banks began Quantitative Tightening, reining in their balance sheets. These measures triggered market adjustments, causing bond prices to decline. On a positive note, the Fed has stopped raising interest rates since mid-2023. Some notable key economic developments contributing to this include a gradual softening in the US labour market coupled with lower inflationary data.

The year 2024 began with the US government bond market initially pricing in high expectations of 6-7 interest rate cuts for the full year, which were later adjusted down to 1-2 cuts. Despite economic data in the US showing signs of gradual softening, it proved to be more resilient overall than markets had anticipated. Consequently, there was a scaling back of market expectations regarding interest rate cuts. US Treasury yields started at 4.25% and ended May at 4.5%. The increase in global bond yields during this period was counterbalanced by the tightening in credit spreads, fueled by strong demand for corporate bonds. Over the period under review, US Treasury yields rose from 4.25% in early March, peaked at 4.74% in April, and ended May at 4.5%. Meanwhile, the JPM Asia Credit Index delivered a 1.2% return from March to May 2024 (USD).
After the period under review, US Treasury yields have declined by 30 basis points (bps) from 4.5% to 4.2% as of 16 July 2024. The market is currently pricing in 2-3 rate cuts by December 2024 due to weaker-than-expected US data in June 2024.

In the Asian credit landscape, the default crisis among China's property developers proved especially impactful. From late 2021 to 2023, majority of China private developers defaulted on their bond obligations, including offshore bonds. What 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. Over the reporting period, overall home sales data in China had remained subdued as policy easing measures in the China property space were insufficient to lift home-buyer sentiment. Outside of the troubled property sector in China, bonds from other segments such as the State Owned Enterprises and Tech sector have seen strong demand.

Overall, secondary and primary bond issuances in the broader Asia-Pacific region have continued to be well supported, driven by resilient credit profiles and improving demand-supply dynamics.

As for the global banking segment, in March 2023, global financial markets faced challenges with the collapse of US regional banks such as Silicon Valley Bank and the unprecedented write-off of Credit Suisse AT1, a globally systemically important bank (G-SIB). However, investor sentiment quickly rebounded as bond prices of banks substantially recovered, with market participants viewing these events as isolated incidents. Financial results of global banks continued to show resilience, suggesting healthy underlying fundamentals.

In Malaysia, Bank Negara Malaysia has maintained the Overnight Policy Rate at 3% since the last hike in May 2023, supported by the relatively moderate inflation and the central bank’s stance to support growth. This stability, coupled with strong demand for MYR-denominated bonds, contributed to relatively resilient local bond market yields over the period under review.

Lastly, the Malaysian Government implemented the foreign sourced income tax (FSI) applicable in 2022 and 2023. As a transitional measure, foreign sourced income received in Malaysia from 1 January 2022 to 30 June 2022 was taxed at a 3% rate on a gross basis. Income received from 1 July 2022 until the end of 2023 was subject to tax based on the prevailing income tax rate. This foreign sourced income tax on coupon and interest received affected the Fund’s performance. It is noteworthy that FSI has been exempted starting from 1 January 2024, removing a significant headwind to the Fund’s performance moving forward.

Investment Outlook

The current global economic landscape presents both challenges and opportunities for bond investments. Despite turbulence in the bond market and slower-than-expected recovery in China, several potential positive catalysts are anticipated over the coming quarters.

Firstly, the Federal Reserve is nearing or has reached 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. Many central banks, including the Federal Reserve, have paused rate hikes recently, suggesting a more predictable environment for bond investments in the medium term. Additionally, there is anticipation that central banks might consider reducing interest rates if economic conditions soften further in 2024, which could support bond valuations amidst geopolitical uncertainties or economic downturns. After the period under review, the European Central Bank (ECB) cut its key deposit rate by 25 basis points (bps) to 3.75% in June 2024. This was the first interest rate cut by the ECB since 2019.

Secondly, bond valuations have become more attractive after the significant rise in interest rates over the past few years. Bonds now offer appealing yield spreads and could benefit from potential rate cuts in 2024-2025. The Fed Fund Rate currently stands at 5.5%, and the Manager expects the short to medium part of the yield curve to provide a defensive position against potential yield curve steepening.

The Fund is primarily comprised of diversified corporate bonds across regions and sectors. Strong demand for corporate bonds relative to supply since the fourth quarter of 2023 has supported credit spreads.

Looking ahead, China's government is anticipated to introduce additional stimulus measures to stimulate economic growth, which could bolster investor sentiment across the Asian region, despite ongoing concerns in the property sector.

On the flipside, it is worth cautioning on some possible scenarios that may have adverse implications on bond investments. One such risk is the reacceleration of inflation in 2024, possibly driven by robust consumer spending amidst tight labor market conditions. Additionally, volatile commodity prices amid mixed demand and supply dynamics in a moderating global economic growth environment pose challenges. Furthermore, the Bank of Japan's exit from negative interest rates and yield curve control policy raises speculation about further normalization of monetary policy, potentially exerting pressure on bond yields globally. On the geopolitical front, various conflicts 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 of the Funds upon maturity will depend on various market conditions. Throughout the Fund's remaining tenure, the Manager will continue to monitor market dynamics closely, identify prudent investment opportunities, and implement risk management strategies aimed at achieving the best possible outcomes for investors.

AHAM FLEXIBLE MATURITY INCOME FUND 16

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD ENDED 31 MAY 2024

	Financial period ended 31.5.2024 31.5.2023 RM	Financial period ended RM
INVESTMENT INCOME		
Interest income from financial assets at amortised cost	54,549	62,349
Interest income from financial assets at fair value through profit or loss	3,741,066	4,288,768
Net (loss)/gain on foreign currency exchange	(1,558,349)	59,635
Net loss on forward foreign currency contracts at fair value through profit or loss	(640,884)	(5,438,170)
Net gain on financial assets at fair value through profit or loss	2,889,824	4,713,836
	4,486,206	3,686,418
EXPENSES		
Management fee	(145,890)	(160,899)
Trustee fee	(29,178)	(32,180)
Fund accounting fee	(6,500)	(7,583)
Auditors' remuneration	(4,101)	(4,148)
Tax agent's fee	(1,793)	(1,814)
Other expenses	(23,611)	(19,944)
	(211,073)	(226,568)
NET PROFIT BEFORE TAXATION	4,275,133	3,459,850
Taxation	(145,866)	(710,345)
NET PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD	4,129,267	2,749,505
Net profit after taxation is made up of the following:		
Realised amount	899,124	(19,225,685)
Unrealised amount	3,230,143	21,975,190
	4,129,267	2,749,505

AHAM FLEXIBLE MATURITY INCOME FUND 16

UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 31 MAY 2024

	2024 RM	2023 RM
ASSETS		
Cash and cash equivalents	22,044,861	11,758,042
Amount due from dealers	4,341,828	1,747,734
Financial assets at fair value through profit or loss	119,403,497	149,209,823
Forward foreign currency contracts at fair value through profit or loss	537,617	77,173
Tax recoverable	64,312	-
TOTAL ASSETS	146,392,115	162,792,772
LIABILITIES		
Forward foreign currency contracts at fair value through profit or loss	22,113	4,046,067
Amount due to dealer	-	2,745,586
Amount due to Manager		
- management fee	24,831	26,373
Amount due to Trustee	4,966	5,275
Fund accounting fee	1,083	1,083
Auditors' remuneration	4,101	4,148
Tax agent's fee	5,294	5,315
Tax payable	-	1,541,562
Other payables and accruals	2,430	1,757
TOTAL LIABILITIES	64,818	8,377,166
NET ASSET VALUE OF THE FUND	146,327,297	154,415,606
EQUITY		
Unitholders' capital	167,532,072	171,239,708
Accumulated losses	(21,204,775)	(16,824,102)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	146,327,297	154,415,606
NUMBER OF UNITS IN CIRCULATION	166,818,000	171,026,000
NET ASSET VALUE PER UNIT (RM)	0.8772	0.9029

AHAM FLEXIBLE MATURITY INCOME FUND 16

UNAUDITED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MAY 2024

	Unitholders' capital RM	Accumulated losses RM	Total RM
Balance as at 1 December 2023	169,956,595	(25,334,042)	144,622,553
Total comprehensive income for the financial period	-	4,129,267	4,129,267
Movement in unitholders' capital:			
Cancellation of units	(2,424,523)	-	(2,424,523)
Balance as at 31 May 2024	167,532,072	(21,204,775)	146,327,297
Balance as at 1 December 2022	176,696,558	(19,573,607)	157,122,951
Total comprehensive income for the financial period	-	2,749,505	2,749,505
Movement in unitholders' capital:			
Cancellation of units	(5,456,850)	-	(5,456,850)
Balance as at 31 May 2023	171,239,708	(16,824,102)	154,415,606

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