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MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND

Quarterly report

For the financial period from 1 June 2019 to 31 August 2019

CORPORATE INFORMATION

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MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND

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MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND

Manager's report

For the financial period from 1 June 2019 to 31 August 2019

A. Fund Information

1. Name of the Fund

Maybank Financial Institutions Income Asia Fund (the "Fund")

2. Type of Fund

Income

3. Category of Fund

Fixed income

4. Duration of the Fund

The Fund is an open-ended fund.

5. Fund launch date

26 August 2014

6. Fund's investment objective

The Fund aims to provide unitholders with income through investing in a portfolio of fixed income securities.

7. Fund distribution policy

Subject to availability of income, distribution shall be at least on a semi-annual basis. Income distribution will be made from the realised income of the Fund.

8. Fund's performance benchmark

The benchmark of the Fund is the 12-month Maybank fixed deposit rate + 1.50% per annum.

9. The Fund's investment policy and principal investment strategy

To achieve the Fund's objective, the Fund will invest between 70% to 98% of its NAV in Malaysian Ringgit ("MYR") denominated and/or non-MYR denominated fixed income securities issued by financial institutions which are domiciled and/or located in the Asian region whilst the balance of between 2% to 30% of its NAV will be invested in liquid assets.

MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND

Manager's report

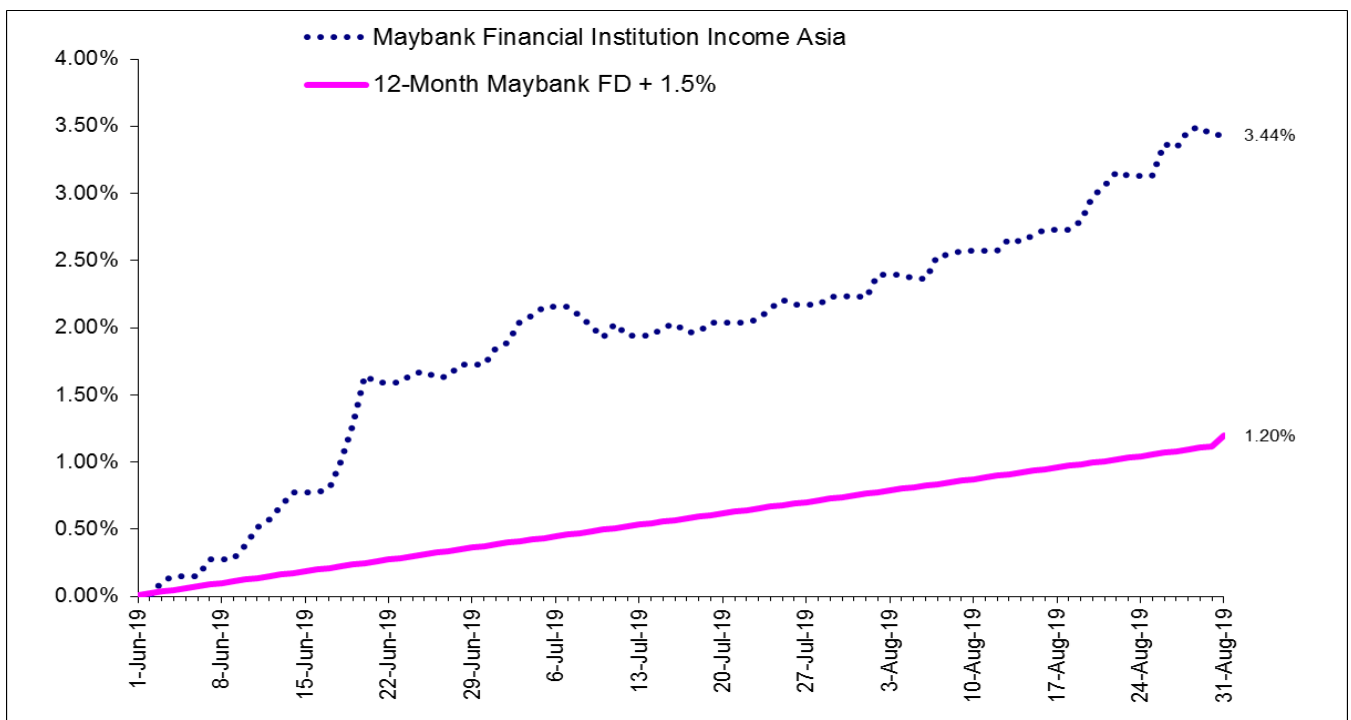
For the financial period from 1 June 2019 to 31 August 2019 (cont'd)

B. Performance Review

Returns of the Fund and its benchmark for the financial period from 1 June 2019 to 31 August 2019 are as follows:

Period	The Fund %	Benchmark %
1 June 2019 to 31 August 2019	3.44	1.20

Performance of the Fund for the financial period from 1 June 2019 to 31 August 2019:



Source: Novagni Analytics and Advisory Sdn Bhd, as at 31 August 2019

Investors are reminded that past performance of the Fund is not necessarily indicative of its future performance and that unit prices and investment returns may fluctuate.

MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND

Manager's report

For the financial period from 1 June 2019 to 31 August 2019 (cont'd)

C. Market Review

The start of 2019 seemed promising as markets turned out to be more bullish than expected in January 2019, with Jerome Powell being pro-market, further easing from China starting with a Reserve Requirement Ratio ("RRR") cut to a tax cut on 15 January 2019 and the announcement of the People's Bank of China ("PBOC") swap tool for onshore Bank's Tier-1 papers. The feel good factor spilled into February 2019 as it turned out to be an exceptionally busy month on both the primary and secondary front, as issuers rushed out to print while investors' buying momentum remained intact. The positive momentum continued in March 2019 underpinned by a potential pause in United States ("US") interest rate hike and favourable progression of the US-China trade talk. Although several credit negative news have surfaced during the month, no spill-over effect was seen.

There were no signs of slowing down in spread compressions for Asian credits in the first three months of 2019, until the last week of March 2019, where the market saw a mild pull-back in the wake of a weaker economic outlook. Meanwhile, activity in the primary market remained strong with April 2019 being the second strongest month in 2019 to date. A total of USD34.1 billion ("bn") new United States Dollar ("USD") notes were raised across Asia in April 2019, bringing total supply to USD109.6bn. As a result, the market began to show moderate signs of indigestion due to hefty supply, along with reduced participation in the Chinese, Hong Kong and Japanese markets due to holidays in April 2019. Sentiment turned increasingly cautious towards the Asian credit market in May 2019 on souring trade negotiations between the Chinese and US authorities. The failure to reach a trade deal resulted in the US administration raising the tariff on existing Chinese manufacturing goods with effect from 1 June 2019, which led to a tit-for-tat reaction from the Chinese authorities. Investor confidence was further rattled by the US administration's unexpected decision to prohibit certain interactions between US companies and China's Huawei.

Nevertheless, risk appetite picked up again in June 2019 after a soft May 2019, due to dovish sentiment by the US Federal Reserve ("Fed") and European Central Bank ("ECB") as hopes of a near-term rate cut overrode concerns about geopolitical tensions and signs of economic weakness. The resumption of trade talks between the US and China and the pause in additional tariffs also helped ease earlier concerns. Despite this, uncertainty originating from the anticipation of the Trump-Xi meeting in G20 along with Fed Chair Powell's Congress testimony gave July 2019 a weak kick-off, which was then made up for after comments signalling a rate cut came out later during the month. Later on, US representatives were sent to Shanghai to negotiate trade terms, which brought the Asia credit market onto another roller-coaster ride. 10-year US Treasury touched a low of 1.95% at the beginning of July 2019 before closing the month at 2.01%.

At the beginning of August 2019, following the Fed's decision to cut interest rates by 25bps, the Fed Chairman's remarks against a lengthy US monetary easing cycle drove the 10-year US Treasury yield down to 1.88%. This was also amidst headlines of another 10% tariff on USD300bn worth of Chinese imports which brought yields further down to as low as 1.47%, before it settled the month at 1.5%. In addition to this, new issuances in the Asia credit market took a breather after the 10% tariff was announced and issuers did not return to the market until a week later, resulting in August 2019 being the weakest month in terms of issuance in 2019.

MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND

Manager's report

For the financial period from 1 June 2019 to 31 August 2019 (cont'd)

D. Market Outlook

Market volatility is expected to persist over the near term, due to escalating US-China trade tensions as the US government unleashed a new round of tariff hikes and uncertainties over major central banks' policies – particularly the pace of easing that the Fed may take in 2019. Worsening trade frictions between the US and China could significantly impact the growth prospects of the export-driven surplus economies, with open economies being the most exposed to a global trade war.

Renewed concerns over contagion effects emanating from Emerging Market ("EM") countries could also influence movement in bond yields across global markets, although such contagion effects remain contained for now.

On US monetary policy, we expect the Fed to shift to a monetary accommodation bias in 2019, the Bank of Japan ("BoJ") to remain firmly attached to yield curve control and the ECB to deliver further monetary accommodation in response to the sustained slowing of domestic economic conditions. On the back of this, we think most major Asian countries will also look to provide monetary stimulus before year-end. In the case of China, stimulus may take the form of RRR cuts and direct short and medium-term liquidity injections into the financial system, plus targeted action for specific financial entities, if required. Overall, in an environment that remains unpredictable, we feel that bonds still offer attractive investment value with 4% for investment grade and 7% for high yield bonds.

E. Investment Strategy

The Fund invests mainly in USD and Singapore Dollar ("SGD") Asia-Pacific corporate fixed income securities. The Manager employs a prudent fixed income securities selection strategy to create a strategic mix between investment grade and high-yield securities to generate returns that will outperform the benchmark. Foreign currency exposures are hedged against the MYR to minimise foreign exchange risks.

F. Asset Allocation

The Fund's asset allocation as at 31 August 2019 is as follows:

Asset allocation	31.08.2019		31.05.2019	
	RM	%	RM	%
Fixed income securities	57,115,492	91.04	54,688,127	94.14
Cash, deposit with a licensed financial institution and other net assets	5,618,997	8.96	3,402,996	5.86
Total NAV	62,734,489	100.00	58,091,123	100.00

MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND

Manager's report

For the financial period from 1 June 2019 to 31 August 2019 (cont'd)

G. NAV as at 31 August 2019

	31.08.2019	31.05.2019	Changes (%)
NAV (RM)	62,734,489	58,091,123	7.99
Units in circulation (units)	58,073,913	55,631,838	4.39
NAV per unit (RM)	1.0803	1.0442	3.45

H. Soft Commissions and Rebates

The Manager and its delegates will not retain any form of soft commissions and rebates from or otherwise share in any commission with any broker in consideration for directing dealings in the investments of the Fund unless the commission received is retained in the form of goods and services such as financial wire services and stock quotations system incidental to investment management of the Fund. All dealings with brokers are executed on best available terms.

During the financial period from 1 June 2019 to 31 August 2019, the Manager and its delegates did not receive any soft commissions and rebates from brokers or dealers.

MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD FROM 1 JUNE 2019 TO 31 AUGUST 2019**

	01.06.2019 to 31.08.2019 RM	01.06.2018 to 31.08.2018 RM
INVESTMENT INCOME		
Interest income	667,162	706,527
Net gain/(loss) on financial assets at fair value through profit and loss ("FVTPL")		
- Realised gain/(loss)	134,284	(15,837)
- Unrealised gain/(loss)	1,383,127	(95,592)
Net gain on foreign exchange and forward currency contracts	21,134	235,537
	<u>2,205,707</u>	<u>830,635</u>
EXPENSES		
Manager's fee	150,353	155,970
Trustee's fee	6,014	6,239
Auditors' remuneration	2,513	2,319
Tax agent's fee	880	882
Administrative expenses	8,370	4,534
	<u>168,130</u>	<u>169,944</u>
Net income before taxation	2,037,577	660,691
Taxation	-	-
Net income after taxation, total comprehensive income for the financial period	<u>2,037,577</u>	<u>660,691</u>
Net income after tax is made up of the following :		
Net realised loss	(206,011)	(1,275,782)
Net unrealised gain	2,243,588	1,936,473
	<u>2,037,577</u>	<u>660,691</u>

MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND**UNAUDITED STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2019**

	31.08.2019	31.05.2019
	RM	RM
ASSETS		
Financial assets at FVTPL	57,115,492	54,688,127
Deposit with licensed financial institutions	2,516,273	5,602,670
Derivative assets	5,940	17,529
Interest receivable	774,905	600,846
Amount due from Manager	1,888,132	-
Cash at bank	2,647,901	1,380,334
TOTAL ASSETS	68,151,347	62,289,506
LIABILITIES		
Derivative liabilities	484,880	1,019,018
Amount due to Manager	203,636	1,213,770
Amount due to Trustee	2,046	2,050
Amount due to brokers	4,718,400	-
Distribution payable	-	1,947,114
Other payables and accruals	7,896	16,431
TOTAL LIABILITIES	5,416,858	4,198,383
NET ASSET VALUE ("NAV") OF THE FUND	62,734,489	58,091,123
EQUITY		
Unitholders' capital	61,430,901	58,825,112
Retained earnings/(Accumulated losses)	1,303,588	(733,989)
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS	62,734,489	58,091,123
NUMBER OF UNITS IN CIRCULATION (UNIT)	58,073,913	55,631,838
NAV PER UNIT (RM)	1.0803	1.0442

MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND

**UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD FROM 1 JUNE 2019 TO 31 AUGUST 2019**

	Unitholders' capital RM	(Accumulated losses)/ Retained earnings RM	AFS reserve RM	Total equity RM
At 1 June 2019	58,825,112	(733,989)	-	58,091,123
Total comprehensive income for the financial period	-	2,037,577	-	2,037,577
Creation of units	6,228,866	-	-	6,228,866
Reinvestment of units	1,947,114	-	-	1,947,114
Cancellation of units	(5,570,191)	-	-	(5,570,191)
At 31 August 2019	<u>61,430,901</u>	<u>1,303,588</u>	<u>-</u>	<u>62,734,489</u>
At 31 May 2018	63,375,831	877,237	(1,947,783)	62,305,285
Effects arising from adoption of MFRS 9	-	(1,947,783)	1,947,783	-
At 1 June 2018	<u>63,375,831</u>	<u>(1,070,546)</u>	<u>-</u>	<u>62,305,285</u>
Total comprehensive income for the financial period	-	660,691	-	660,691
Reinvestment of units	1,210,369	-	-	1,210,369
Cancellation of units	(4,654,522)	-	-	(4,654,522)
At 31 August 2018	<u>59,931,678</u>	<u>(409,855)</u>	<u>-</u>	<u>59,521,823</u>

MAYBANK FINANCIAL INSTITUTIONS INCOME ASIA FUND**UNAUDITED STATEMENT OF CASH FLOWS****FOR THE FINANCIAL PERIOD FROM 1 JUNE 2019 TO 31 AUGUST 2019**

	01.06.2019 to 31.08.2019 RM	01.06.2018 to 31.08.2018 RM
CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES		
Net proceeds from sale of financial assets at FVTPL	10,846,897	4,242,108
Net payments for purchases of financial assets at FVTPL	(10,031,763)	(9,925,299)
Interest received	410,423	527,515
Net loss on forward foreign exchange contracts	(625,761)	(1,647,064)
Manager's fee paid	(150,461)	(153,824)
Trustee's fee paid	(6,018)	(6,325)
Payment of other fees and expenses	(20,298)	(87,083)
Net cash generated from/(used in) operating and investing activities	<u>423,019</u>	<u>(7,049,972)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from units created	4,340,731	-
Cash paid on units cancelled	(6,580,222)	(4,172,953)
Net cash used in financing activities	<u>(2,239,491)</u>	<u>(4,172,953)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE FINANCIAL PERIOD	(1,816,472)	(11,222,925)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD	6,983,004	16,118,877
Effects of foreign exchange	(2,358)	90,374
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	<u>5,164,174</u>	<u>4,986,326</u>
Cash and cash equivalents comprise:		
Cash at bank	2,647,901	3,410,938
Deposit with licensed financial institutions with original maturity of less than 3 months	2,516,273	1,575,388
	<u>5,164,174</u>	<u>4,986,326</u>