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# MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

Quarterly report  
For the financial period from 1 February 2019 to 31 July 2019

## **CORPORATE INFORMATION**

### **MANAGER**

Maybank Asset Management Sdn Bhd (421779-M)

### **BUSINESS OFFICE**

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## **MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

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## **MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

### **Manager's report**

**For the financial period from 1 February 2019 to 31 July 2019**

#### **A. Fund Information**

**1. Name of Fund**

Maybank Financial Institutions Income Fund (the "Fund")

**2. Type of Fund**

Income

**3. Category of Fund**

Wholesale fixed income fund

**4. Duration of Fund**

The Fund is an open-ended fund

**5. Fund launch date**

17 December 2009

**6. Fund's investment objective**

The objective of the Fund is to achieve regular income stream which is deriving from the portfolio. The Fund will be actively managed by investing in a diversified portfolio of bonds issued by financial institutions and/or bank guaranteed bonds and/or money market instruments and fixed deposits. The active management of the Fund aims to provide steady returns.

**7. Fund distribution policy**

The Fund intends to distribute income, if any, at least half-yearly on best effort basis. However, the Manager reserves the right not to distribute income, at its absolute discretion.

**8. Fund's performance benchmark**

12-month Maybank fixed deposit rate.

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

The Fund seeks to achieve its objective by investing up to 95% of its Net Asset Value ("NAV") in fixed income securities issued by financial institutions and/or bank guaranteed fixed income securities.

The Manager will also invest between 5% to 100% of the Fund's NAV in fixed deposits and/or money market instruments.

## MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

### Manager's report

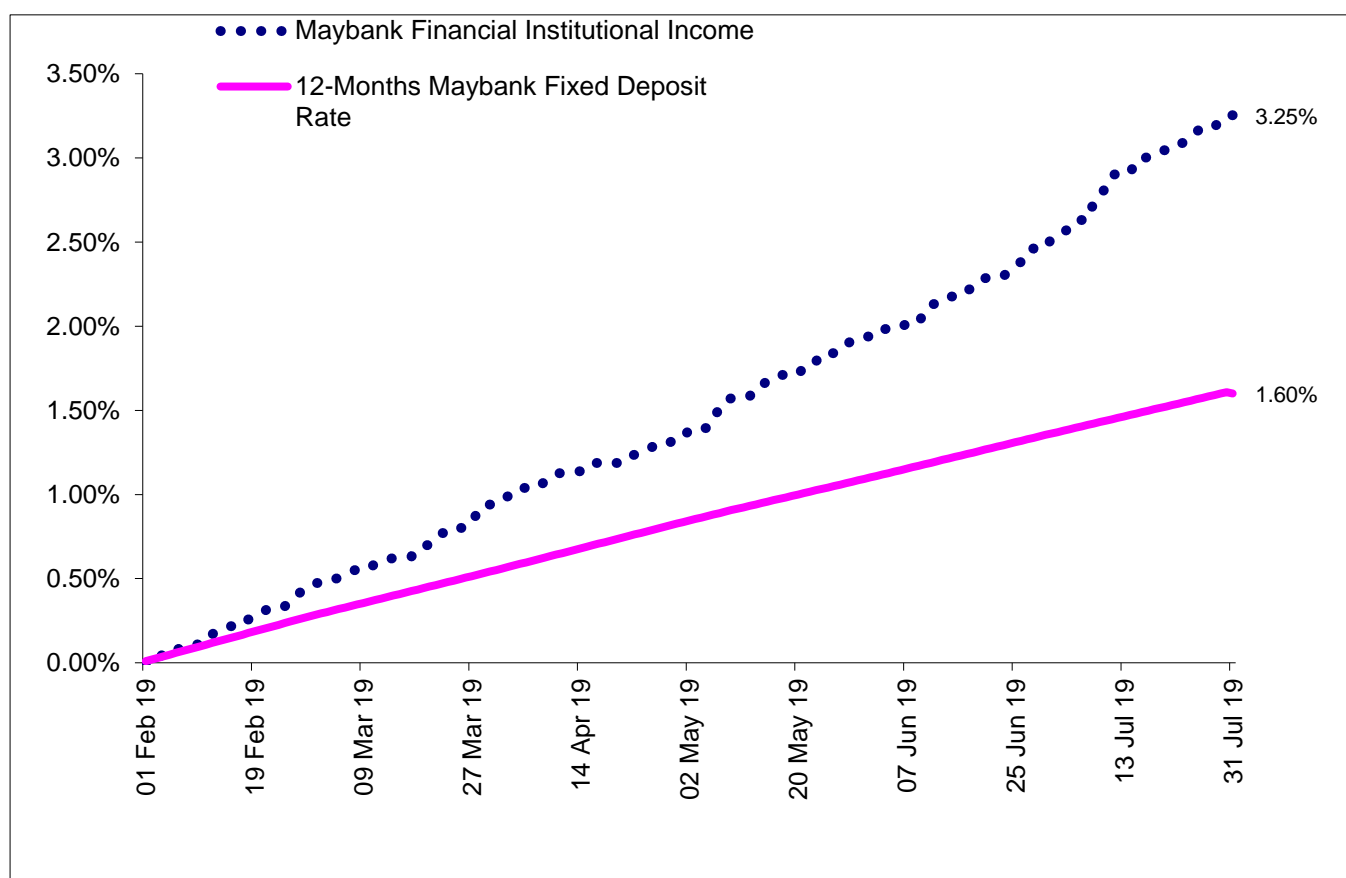
For the financial period from 1 February 2019 to 31 July 2019 (cont'd)

#### B. Performance Review

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

Period	The Fund %	Benchmark %
1 February 2019 to 31 July 2019	3.25	1.60

Performance of the Fund for the financial period from 1 February 2019 to 31 July 2019:



Source: Novagni Analytics and Advisory Sdn Bhd, as at 31 July 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.*

The Fund has generated a return of 3.25% for the financial period from 1 February 2019 to 31 July 2019, compared to the benchmark which registered a return of 1.60% over the same period.

## **MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

### **Manager's report**

**For the financial period from 1 February 2019 to 31 July 2019 (cont'd)**

#### **C. Market Review**

The Malaysian sovereign bond yields continued its rally into 2019 as the positive market sentiment was aided by concerns on slower global growth, rising expectation of a peaking United States ("US") Federal Fund Rate, and more dovish central banks globally. Central banks turned even more dovish in March 2019, with the US Federal Reserve signalled the likelihood of no hike in 2019 (down from expectation of 2 hikes) and indicated that it will conclude their balance sheet reduction in September instead of in December as generally expected. Bank Negara Malaysia also lowered their 2019 Gross Domestic Product ("GDP") growth projection to 4.3% - 4.8% from 4.9% previously, prompting market expectations of an Overnight Policy Rate ("OPR") cut in 2019. Malaysia Government Securities ("MGS") and Government Investment Issue ("GII") rallied further in March 2019, with yields down by 10bps-35bps since the start of 2019.

However, a slew of bad news in April 2019 (Norway's sovereign wealth fund pull-out from Emerging Market ("EM"), Malaysia's possible exclusion from World Global Bond Index, and Moody's negative statement on the government's aid to Felda) have caused a knee-jerk reaction and led to a sell-off in the bond market and the Malaysia Ringgit ("MYR"). Sovereign bond yields went up by about 10-20bps across the board on the news but have since recovered by 5-10bps. As a result of the bad news in April 2019, foreigners turned net sellers with outflows of -RM9.8 billion, erasing previous two months inflows (March 2019: +RM2.9b, February 2019: +RM4.5b). Consequently, foreign holdings of MGS and GII declined to 37.1% (March 2019: 38.7%) and 4.8% (March 2019: 5.8%) respectively. The outflow was in line with regional market's sentiment toward EM debts and stronger United States Dollar ("USD") for the month. Despite this outflow, the bond market remained supported by local players with yields recovered back to March 2019 levels, or even slightly lower, especially the yields for 15 years and below.

In May 2019, Bank Negara Malaysia (BNM) decided to cut the Overnight Policy Rate (OPR) by 25bps to 3.00% on external risks to growth mainly due to escalating US-China trade tensions, as well as low inflation rate outlook. The cut was seen as pre-emptive in nature in order to maintain its accommodative monetary policy stance. The Malaysian government bonds rallied from May 2019 to July 2019, in line with global bond markets on the back of safe haven flows as concerns grew over the trade war as well as dovish global central banks. As expected, Federal Open Market Committee ("FOMC") cut 25bps in end July 2019 and global easing policy bias continued and bullish rates market spurred strong buying interest across the board, where investors were hungry for yield pickup. Also supporting the rally is BNM's initiative to enhance market liquidity and accessibility announced in May 2019, which includes expansion of dynamic hedging programme and MYR liquidity beyond local trading hours. The initiative is to address the risk of the exclusion of MGS from the World Government Bond Index by Financial Times Stock Exchange ("FTSE") Russell.

Foreigners returned to Malaysia in June 2019 and July 2019 with a combined inflows of RM12.3 bln after previous two months of outflows, resulting in foreign holdings in MGS to 38.3% (May 2019: 36.9%) and MGS + GII to 23.0% (June 2019: 22.3%). The inflows in July 2019 brings the year-to-date cumulative foreign inflows to RM3.4 bln from RM8.9 bln total net outflows in May 2019. The inflow was in line with regional market's sentiment towards EM debts and firmer MYR for the month.

## MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

### Manager's report

For the financial period from 1 February 2019 to 31 July 2019 (cont'd)

#### D. Market Outlook

We expect Bank Negara Malaysia to maintain its Overnight Policy Rate (OPR) at 3.00% with a dovish bias after the "insurance" cut in May 2019 on continued resilience in domestic growth outlook and subdued inflation rate in the country barring significant negative headwinds from escalating trade disputes between the US and China and heightened risk aversion in emerging markets.

Meanwhile, the Federal Reserve in US cut its target rate in July by 25bps, first cut in more than a decade. Overall, the Fed sent a dovish signal by pointing out implications of global developments for the economic outlook and muted inflation pressures. It is also ready to act as appropriate to sustain the expansion. Meanwhile, expectations of a series of US Federal Fund rate cut has increased as uncertainties on the escalating US-China trade tension continue to weigh on risk sentiment and moderating growth prospect. We continue to believe that the local bond market will remain well supported by demand from local institutional investors such as pension funds, banks and asset managers as supply of medium to long bonds in the secondary market remain thin due to lack of replacements in a current dovish inclination by BNM.

#### E. Investment Strategies

We are neutral with our duration view given our expectations that OPR will be maintained in 2019, and continue to prefer corporate bonds over sovereign bonds to anchor the Fund's income in corporate bonds' coupons as they are less volatile and provide higher yields to buffer against potential mark-to-market losses in the event of a turnaround in sovereign bond yields. We will continue to trade opportunistically and also look into new primary issuances that offer higher yields to deliver the required performance.

#### F. Asset Allocation

The comparison of the Fund's asset allocation as at 31 July 2019 and 31 January 2019 are as follows:

Asset allocation	31.07.2019		31.01.2019	
	RM	%	RM	%
Unquoted fixed income	154,262,345	75.45	161,211,411	83.22
Cash, deposits with licensed financial institutions and other net assets	50,205,095	24.55	32,510,821	16.78
<b>Total</b>	<b>204,467,440</b>	<b>100.00</b>	<b>193,722,232</b>	<b>100.00</b>

## **MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

**For the financial period from 1 February 2019 to 31 July 2019 (cont'd)**

### **G. Soft Commissions and Rebates**

The Manager and its delegates will not retain any form of soft commissions or rebates from or otherwise share in any commission with any broker in consideration for directing dealings in the investments of the Fund unless the commissions received are 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 February 2019 to 31 July 2019, the Manager and its delegates did not receive any soft commissions and rebates from brokers or dealers.



## MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

### UNAUDITED STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 1 FEBRUARY 2019 TO 31 JULY 2019

	01.02.2019 to 31.07.2019 RM	01.02.2018 to 31.07.2018 RM
<b>INVESTMENT INCOME</b>		
Interest income	4,503,919	4,360,165
Net realised gain/(loss) on financial assets at fair value through profit and loss ("FVTPL")	475,340	(238,821)
Net unrealised gain/(loss) on financial assets at fair value through profit and loss ("FVTPL")	1,826,966	(73,873)
	<u>6,806,225</u>	<u>4,047,471</u>
<b>EXPENSES</b>		
Manager's fee	346,961	552,683
Trustee's fee	49,566	46,057
Auditors' remuneration	1,323	3,868
Tax agent's fee	1,736	1,590
Administrative expenses	3,623	28,116
	<u>403,209</u>	<u>632,314</u>
<b>Net income before tax</b>	6,403,016	3,415,157
Taxation	-	-
<b>Net income after tax, total comprehensive income for the period</b>	<u>6,403,016</u>	<u>3,415,157</u>
<b>Net income after tax is made up of the following:</b>		
Net realised gain	4,576,050	4,022,721
Net unrealised gain/(loss)	1,826,966	(607,564)
	<u>6,403,016</u>	<u>3,415,157</u>
<b>Disributions for the period:</b>		
Net distributions	3,338,669	3,121,285
Gross/net distributions per unit (sen)	<u>2.00</u>	<u>2.00</u>

**MAYBANK FINANCIAL INSTITUTIONS INCOME FUND****UNAUDITED STATEMENT OF FINANCIAL POSITION  
AS AT 31 JULY 2018**

	<b>31.07.2019</b>	<b>31.01.2019</b>
	<b>RM</b>	<b>RM</b>
<b>ASSETS</b>		
Financial assets at FVTPL	154,262,345	161,211,411
Deposits with financial institutions	47,800,000	39,231,000
Interest receivable	2,030,584	2,162,387
Cash at bank	374,511	147,058
<b>TOTAL ASSETS</b>	<u>204,467,440</u>	<u>202,751,856</u>
<b>LIABILITIES</b>		
Amount due to Manager	30,160,250	57,429
Amount due to Trustee	8,607	8,204
Amount due to Broker	-	5,115,651
Distributions payable	3,338,669	3,831,368
Other payables and accruals	10,727	16,972
<b>TOTAL LIABILITIES</b>	<u>33,518,253</u>	<u>9,029,624</u>
<b>NET ASSET VALUE ("NAV") OF THE FUND</b>	<u>170,949,187</u>	<u>193,722,232</u>
<b>EQUITY</b>		
Unitholders' capital	166,762,071	192,077,052
Retained earnings	4,187,116	1,645,180
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	<u>170,949,187</u>	<u>193,722,232</u>
<b>UNITS IN CIRCULATION (UNIT)</b>	<u>166,933,429</u>	<u>191,568,412</u>
<b>NAV PER UNIT (RM)</b>	<u>1.0241</u>	<u>1.0112</u>

## MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

### UNAUDITED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD FROM 1 FEBRUARY 2019 TO 31 JULY 2019

	Unitholders' capital RM	Retained earnings RM	AFS reserve RM	Total equity RM
At 31 January 2018	219,273,729	1,661,487	4,535	220,939,751
Effects arising from adoption of MFRS 9	-	4,535	(4,535)	-
Balance at 1 February 2018	219,273,729	1,666,022	-	220,939,751
Total comprehensive income for the period	-	3,415,157	-	3,415,157
Creation of units	4,540,744	-	-	4,540,744
Cancellation of units	(68,563,881)	-	-	(68,563,881)
Distribution	794,569	(3,915,854)	-	(3,121,285)
At 31 July 2018	<u>156,045,161</u>	<u>1,165,325</u>	-	<u>157,210,486</u>
At 1 February 2019	192,077,052	1,645,180	-	193,722,232
Total comprehensive income for the period	-	6,403,016	-	6,403,016
Creation of units	3,305,513	-	-	3,305,513
Cancellation of units	(32,670,378)	-	-	(32,670,378)
Reinvestments	3,527,473	-	-	3,527,473
Distribution	522,411	(3,861,080)	-	(3,338,669)
At 31 July 2019	<u>166,762,071</u>	<u>4,187,116</u>	-	<u>170,949,187</u>

## MAYBANK FINANCIAL INSTITUTIONS INCOME FUND

### UNAUDITED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL PERIOD FROM 1 FEBRUARY 2019 TO 31 JULY 2019

	01.02.2019 to 31.07.2019 RM	01.02.2018 to 31.07.2018 RM
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>		
Net proceeds from sale of financial assets at FVTPL	50,285,926	71,084,922
Net payment for purchase of investments	(46,477,449)	(4,242,162)
Interest received	4,962,967	4,792,698
Manager's fee paid	(344,141)	(596,272)
Trustee's fee paid	(49,163)	(49,690)
Payment of other fees and expenses	(12,927)	(40,294)
Net cash generated from operating and investing activities	<u>8,365,213</u>	<u>70,949,202</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received from units created	3,305,513	4,540,744
Cash paid on units cancelled	(2,570,378)	(83,563,881)
Distribution to unitholders	(303,895)	(4,380,616)
Net cash generated/(used in) financing activities	<u>431,240</u>	<u>(83,403,753)</u>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS FOR THE FINANCIAL PERIOD</b>	8,796,453	(12,454,551)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD</b>	<u>39,378,058</u>	<u>24,654,684</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	<u>48,174,511</u>	<u>12,200,133</u>
Cash and cash equivalents comprise of:		
Deposits with financial institutions	47,800,000	12,199,000
Cash at bank	374,511	1,133
	<u>48,174,511</u>	<u>12,200,133</u>