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# **MAYBANK ENHANCED CONSTANT INCOME FUND**

**Quarterly report**

**For the financial period from 1 September 2021 to 28 February 2022**

## **CORPORATE INFORMATION**

### **MANAGER**

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## **MAYBANK ENHANCED CONSTANT INCOME FUND**

<b>CONTENT</b>	<b>PAGE</b>
Manager's report	1 - 5
Unaudited statement of comprehensive income	6
Unaudited statement of financial position	7
Unaudited statement of changes in equity	8
Unaudited statement of cash flows	9

## MAYBANK ENHANCED CONSTANT INCOME FUND

### Manager's report

For the financial period from 1 September 2021 to 28 February 2022

#### A. Fund Information

**1. Name of Fund**

Maybank Enhanced Constant Income Fund (the "Fund")

**2. Type of Fund**

Income

**3. Category of Fund**

Fixed income fund (close-ended)

**4. Duration of Fund**

The Fund is a close-ended fund which matured on 29 January 2024.

**5. Fund launch date**

30 June 2020

**6. Fund commencement date/ maturity date**

29 July 2020/ 29 January 2024

**7. Fund's investment objective**

The Fund aims to provide unitholders with income through investments in a portfolio of Fixed Income Securities.

**8. Fund distribution policy**

Distribution will be made on annual basis, subject to availability of income.

**9. Fund's performance benchmark**

The prevailing 3-year Maybank fixed deposit rate as at the Commencement Date.

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

The Fund will invest a minimum of 80% of its net asset value ("NAV") in RM denominated Fixed Income Securities and/or foreign currency Fixed Income Securities and up to 20% of its NAV in liquid assets and/or collective investment scheme.

The Fund may also invest up to 60% of its NAV in non-investment grade or high yield Fixed Income Securities.

The Fund may employ currency hedging strategies to fully or partially hedge the foreign currency exposure to manage the currency risk. Furthermore, the Fund may also fully or partially hedge the interest rate risk inherent in the investment of Fixed Income Securities.

## MAYBANK ENHANCED CONSTANT INCOME FUND

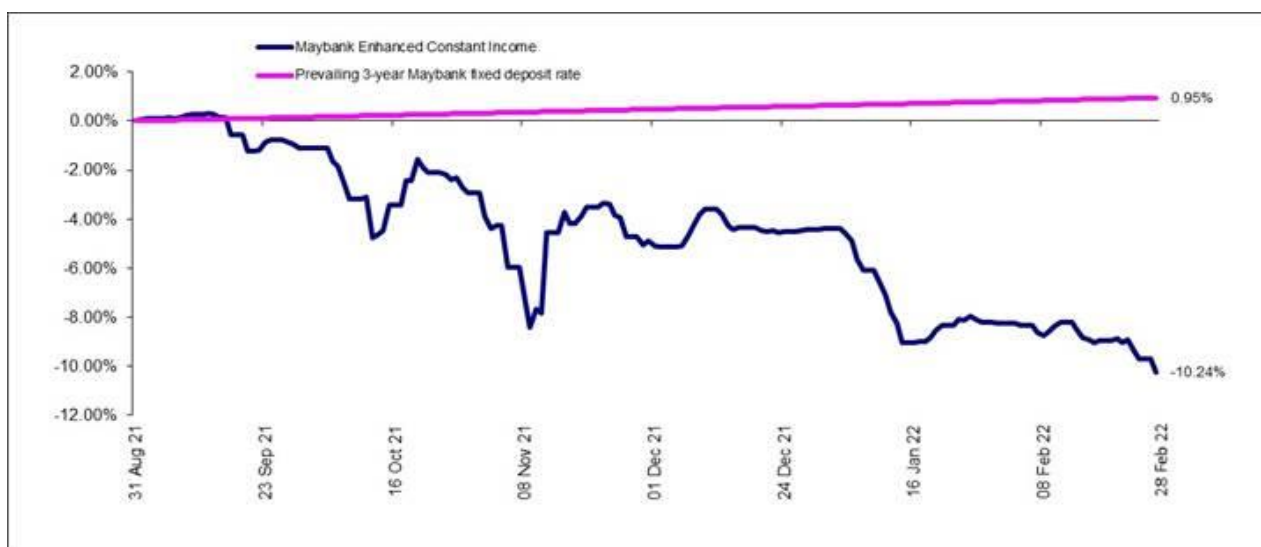
### Manager's report

For the financial period from 1 September 2021 to 28 February 2022 (cont'd)

#### B. Performance Review

Performance of Maybank Enhanced Constant Income Fund for the financial period from 1 September 2021 to 28 February 2022 are as follows:

Period	The Fund %	Benchmark %
1 September 2021 to 28 February 2022	(10.24)	0.95



*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.*

J.P. Morgan Asia Credit Index ("JACI") continued its rout into February as the index posted monthly returns of -2.20%, with both Investment Grade ("IG") and High-Yield Bond ("HY") markedly lower, returning -1.70% and -4.41%, respectively. This marked the largest 2-month total return percentage loss since March 2020. The move was mainly driven by wider credit spreads (JACI spread to worst: +30 basis point month to month) amidst a repricing of global risk assets resulting from the Russian-Ukraine tension as well as weak sentiment on Chinese HY property.

## MAYBANK ENHANCED CONSTANT INCOME FUND

### Manager's report

For the financial period from 1 September 2021 to 28 February 2022 (cont'd)

#### B. Performance Review (cont'd)

China property woes continue in view of trust default concerns, increasing cases of exchange offers, change in auditors, and reported lower contracted sales for February. We will continue to remain cautious in the Chinese real estate space as we believe the inflection point remains elusive at this stage. Despite seeing easing regulation gradually being implemented in the form of lower down payment requirement for several cities and lower mortgage rates, we are cognisant of the looming refinancing wall from Chinese developers against relatively weak refinancing backdrop (i.e. liquidity channel remained shut for weaker players). As such, we will continue to stick with high quality investment grade ("IG") and BBB names to our portfolio and will only look to add exposure as and when deemed appropriate.

#### C. Market Review

December 2021 - Notwithstanding the challenges posed by spread of new variant, Omicron and decidedly more hawkish monetary policies, credits outperformed rates, registering positive total return for the final month of 2021. Strong investors' sentiment is a testament of strong global growth expectations in 2022 as well as the strength of the global economies will be able to weather tighter liquidity conditions and higher interest rates environment. The milder Omicron variant also gives hope that the future mutated covid variants could be less harmful to human bodies. Global equities in particular, closed near record highs despite surge in covid cases from omicron variant. Brent closed the year at \$77.78 and \$75.21 per barrel on hopes of milder covid variant and falling United States ("US") crude oil inventories. US treasuries ("UST") ended lower with 10 years UST closed at 1.50% on forthcoming policy tightening.

January 2021 – This month saw U.S Fed chairman Jerome Powell suggested a rate hike in March is extremely likely due to high inflation and strong labor market. Chair Powell said: "reducing our balance sheet will occur after the process of raising interest rates has begun. Reductions will occur over time in a predictable manner primarily through adjustments to reinvestments so that securities roll off our balance sheet." On the inflation outlook, he noted that, while the base case remains that inflation will decline substantially in the second half of 2022, there are risks that it could continue to surprise on the upside. In the meantime, early estimates put Q4 Gross Domestic Product ("GDP") growth at 6.9% (quarter on quarter, annualised), above expectations of a 5.5% increase.

February 2021 – Investors continue to process the implications of Russia's invasion of Ukraine. The US imposed a broad range of severe sanctions on Russia after the invasion. In collaboration with other major governments, they banned transaction with Russian central bank to stop it from deploying reserve. Restrictions have been placed on the nation's key financial institutions – including Sberbank and Vendor Take Back ("VTB")- as well as its wealthiest individuals and families. The US has also cut Russia out of the Swift International Payments System, along with similar exclusions from the system by other major economic powers. Beyond these events, the US economic picture remained broadly unchanged. US growth continues to look robust while inflation is elevated. Industrial activity – as represented by the flash composite purchasing managers' index ("PMI") - rose to 56 this month from 51.1 in January. US inflation, released early in the month, surprised to the upside. Headline Consumer Price Index ("CPI") rose to 7.5% year on year in January; the fastest pace since 1982. Rising prices are a key contributor to weaker consumer confidence.

## MAYBANK ENHANCED CONSTANT INCOME FUND

### Manager's report

For the financial period from 1 September 2021 to 28 February 2022 (cont'd)

#### D. Market Outlook and Strategies

China property bonds continue to underperform. Despite seeing easing regulations gradually being implemented in the form of lower down-payment requirements for several cities and lower mortgage rates, contract sales remain very weak in the first two months of FY2022, dampening investor sentiment. Sales is expected to remain weak with increased lock-downs as cases have risen dramatically. Property developers continue to face liquidity stress as we are approaching high refinancing needs in 2Q2022. Contagion risks has spread over to stronger investment grade developer, even state owned enterprise linked names, as short sellers sell any property bonds that are priced in the 80 and above area and investors have lost confidence to buy.

Other than China property, bonds in general also sold off due to risk-off sentiment from the Russia-Ukraine invasion. Investment grade spreads widened, especially China SOE and Technology, Media and Telecommunication bonds, as investors worry about possible US sanctions on China should China support Russia in the war. Even commodity issuers, which should benefit from recent high commodity prices, experienced bond price drops as investors sell any bonds that have dropped the least to raise cash. Usually in a risk-off environment, Treasuries would rally as a flight to safety trade and bond yields would fall. However in the past week, US 10 years Treasury rose and pierced through 2.1% as inflation fears mount. Russia is a huge exporter of oil and gas and Ukraine is a large supplier of grain globally. Supply has been severely disrupted due to US sanctions and war.

The current Russia-Ukraine war has resulted in US and Europe imposing economic sanctions on Russia. Unfortunately this added another facet of risk to a global economy that is still struggling to recover to pre-covid levels amid high commodity prices – risk of recession/stagflation. Europe is heavily dependent on Russia for oil and gas and any retaliation from Russia could derail Europe's recovery. A slowdown in Europe would cause a drag on Asia both in exports and tourism. Persistent high oil prices would add another dampener to the airlines industry that is trying to open up travel lanes again after two years of lock down.

In summary, market conditions have turned extremely challenging for investments recently. We believe one has to be patient this year and hold short end bonds till maturity. Current yields are attractive in the range of 4% for investment grade bonds and high yield bonds at 7%. However, we expect market volatility to continue and wait for more stable markets before adding any risks. The portfolio has 16% cash.

#### E. Asset Allocation

Asset allocation	28.02.2022		31.08.2021	
	RM	%	RM	%
Financial assets at FVTPL	31,053,568	82.06	39,601,816	92.64
Cash and cash equivalents, and other net assets	6,790,935	17.94	3,144,602	7.36
<b>Total NAV</b>	<b>37,844,503</b>	<b>100.00</b>	<b>42,746,418</b>	<b>100.00</b>

## **MAYBANK ENHANCED CONSTANT INCOME FUND**

### **Manager's report**

**For the financial period from 1 September 2021 to 28 February 2022 (cont'd)**

#### **F. 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 soft 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 September 2021 to 28 February 2022, the Manager and its delegates did not receive any rebates from the brokers or dealers but have retained soft commissions in the form of goods and services such as research materials and advisory services that assist in decision making process relating to the investment of the Fund (i.e. research materials, data and quotation services, computer hardware and software incidental to the investment management of the Fund and investment advisory services) which were of demonstrable benefits to the unitholders.



**MAYBANK ENHANCED CONSTANT INCOME FUND**

**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE FINANCIAL PERIOD FROM 1 SEPTEMBER 2021 TO 28 FEBRUARY 2022**

	<b>01.09.2021</b> to <b>28.02.2022</b> RM	<b>30.06.2020</b> (date of launch) to <b>28.02.2021</b> RM
<b>INVESTMENT (LOSS)/INCOME</b>		
Interest income	1,226,784	1,230,776
Net loss from financial assets at fair value through profit or loss ("FVTPL"):		
- realised loss	(2,706,891)	(1,092,940)
- unrealised (loss)/gain	(3,125,175)	495,553
Net gain on foreign currency exchange and derivatives	311,027	140,900
Other income	-	3,735
	<u>(4,294,255)</u>	<u>778,024</u>
<b>EXPENSES</b>		
Trustee's fee	5,985	7,742
Auditors' remuneration	4,959	5,378
Tax agent's fee	1,736	1,881
Administrative expenses	12,281	7,525
	<u>24,961</u>	<u>22,526</u>
<b>Net (loss)/income before taxation</b>	(4,319,216)	755,498
Taxation	-	(1,432)
<b>Net (loss)/income after taxation, total comprehensive (loss)/income for the financial period</b>	<u>(4,319,216)</u>	<u>754,066</u>
<b>Net (loss)/income after taxation is made up of the following:</b>		
Net realised (loss)/income	(1,194,041)	1,829,346
Net unrealised loss	(3,125,175)	(1,075,280)
	<u>(4,319,216)</u>	<u>754,066</u>

**MAYBANK ENHANCED CONSTANT INCOME FUND****UNAUDITED STATEMENT OF FINANCIAL POSITION  
AS AT 28 FEBRUARY 2022**

	<b>01.09.2021</b> to <b>28.02.2022</b> RM	<b>30.06.2020</b> (date of launch) to <b>31.08.2021</b> RM
<b>ASSETS</b>		
Financial assets at FVTPL	31,053,568	39,601,816
Derivative assets	93,771	355,113
Deposit with licensed financial institution	-	661,846
Tax recoverable	534	-
Interest receivable	514,346	401
Cash at bank	6,220,907	4,694,150
<b>TOTAL ASSETS</b>	<u>37,883,126</u>	<u>45,313,326</u>
<b>LIABILITIES</b>		
Derivative liabilities	16,788	803,733
Amount due to Manager	-	77,382
Amount due to Trustee	885	1,090
Amount due to broker	-	1,661,160
Provision for taxation	-	466
Other payables and accruals	20,951	23,077
<b>TOTAL LIABILITIES</b>	<u>38,624</u>	<u>2,566,908</u>
<b>NET ASSET VALUE ("NAV") OF THE FUND</b>	<u>37,844,503</u>	<u>42,746,418</u>
<b>EQUITY</b>		
Unitholders' capital	42,261,984	42,844,683
Accumulated losses	(4,417,481)	(98,265)
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>	<u>37,844,503</u>	<u>42,746,418</u>
<b>NUMBER OF UNITS IN CIRCULATION (UNIT)</b>	<u>42,258,289</u>	<u>42,840,814</u>
<b>NAV PER UNIT (RM)</b>	<u>0.8956</u>	<u>0.9978</u>

**MAYBANK ENHANCED CONSTANT INCOME FUND****UNAUDITED STATEMENT OF CHANGES IN EQUITY****FOR THE FINANCIAL PERIOD FROM 1 SEPTEMBER 2021 TO 28 FEBRUARY 2022**

	<b>Unitholders' capital RM</b>	<b>(Accumulated losses)/ Retained earnings RM</b>	<b>Total equity RM</b>
At 1 September 2021	42,844,683	(98,265)	42,746,418
Total comprehensive loss for the period	-	(4,319,216)	(4,319,216)
Cancellation of units	(582,699)	-	(582,699)
At 28 February 2022	<u>42,261,984</u>	<u>(4,417,481)</u>	<u>37,844,503</u>

At 30 June 2020 (date of launch)

Total comprehensive income for the period	-	754,066	754,066
Creation of units	43,481,590	-	43,481,590
Cancellation of units	(118,045)	-	(118,045)
At 28 February 2021	<u>43,363,545</u>	<u>754,066</u>	<u>44,117,611</u>

**MAYBANK ENHANCED CONSTANT INCOME FUND****UNAUDITED STATEMENT OF CASH FLOWS****FOR THE FINANCIAL PERIOD FROM 1 SEPTEMBER 2021 TO 28 FEBRUARY 2022**

	<b>01.09.2021</b>	<b>30.06.2020</b>
	<b>to</b>	<b>(date of launch)</b>
	<b>28.02.2022</b>	<b>to</b>
	<b>RM</b>	<b>28.02.2021</b>
		<b>RM</b>
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>		
Net payment for purchase of investments	(12,544,142)	(55,984,264)
Net proceeds from sale of investments	13,309,099	17,146,798
Interest income received	773,787	1,191,294
Net realised gain on forward foreign exchange contracts	15,685	1,686,631
Trustee's fee paid	(6,189)	(6,727)
Other income received	-	3,735
Payment of other fees and expenses	(22,258)	(7,525)
Net cash generated from/(used in) operating and investing activities	<u>1,525,981</u>	<u>(35,970,058)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received from units created	-	43,481,590
Cash paid on units cancelled	(660,082)	(118,045)
Net cash (used in)/generated from financing activities	<u>(660,082)</u>	<u>43,363,545</u>
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS FOR THE FINANCIAL PERIOD</b>		
	865,899	7,393,487
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD</b>		
	5,355,996	-
Effect on foreign exchange	(988)	(290,909)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>		
	<u>6,220,907</u>	<u>7,102,578</u>
Cash and cash equivalents comprise:		
Cash at bank	6,220,907	6,519,529
Deposits with licensed financial institutions with original maturity of less than 3 months	-	583,049
	<u>6,220,907</u>	<u>7,102,578</u>