

Bond Market Review

In August, US Treasury (UST) yields climbed higher on vaccine hopes and better-than-expected economic data. The US economy added 1.8 million jobs in July after a strong increase of 4.8 million in June, as the unemployment rate continued to decline from 11.1% in June to 10.2% in July. Meanwhile, the US ISM Manufacturing index rose from 52.6 in June to 54.2 in July (highest since March 2019), boosting optimism over the US' economic recovery. Demand for UST was also dampened by the increased supply of government bonds during the month, to fund the US government's fiscal stimulus plans, as 10-year UST yields climbed from 0.53% as at end-July to 0.72% on 13th August.

Towards month-end, demand for UST remained supported by the US Fed's minutes for its July monetary policy meeting, which reiterated policymakers' concerns over the highly uncertain path for US economic recovery, as the ongoing public health crisis poses considerable risks to the medium term outlook. The Fed also announced its new approach to monetary policy, which will likely keep interest rates low for the next few years. Month-on-month (M-o-M), the UST yield curve rose across the board, with 2Y and 10Y UST yields ending the month at 0.13% and 0.70% respectively (end-July: 0.11% and 0.53%).

Locally, the Malaysian Government Securities (MGS) market remained active despite the holiday-shortened month. Buying momentum was driven by investors' expectations of an upcoming interest rate cut after the Malaysian economy contracted by -17.1% year-on-year (y-o-y) in 2Q20 as compared to an expansion of +0.7% y-o-y in 1Q20. Nonetheless, MGS yields subsequently trended higher towards month-end, tracking similar movements in global bond yields. Demand for primary government bond issuances remained healthy, as the 15Y Government Investment Issue (GII) and 20Y MGS auctions (issuance size of RM4.0 billion each) were both oversubscribed by around 1.4 times. M-o-M, 3Y MGS yields fell by 10bps to 1.83%, while 10Y MGS yields rose by 7bps to 2.60% as at end-August.

Bond Market Outlook

The outlook for the US economy continues to be clouded by uncertainties stemming from the pandemic and its negative effect on consumer and business activity. The Fed is expected to keep interest rates low for a prolonged period of time to support the US economy. At the same time, ongoing US-China tensions continue to add to the gloomy growth outlook. Over the near term, given the lingering economic uncertainties, demand for safe haven assets (including UST) may continue to be supported by accommodative monetary policies by global central banks.

Locally, the Malaysian economy is expected to recover gradually in the second half of 2020, further supported by a gradual improvement in global growth conditions; however, the pace and strength of the recovery remain subject to downside risks emanating from both domestic and external factors. Meanwhile, domestic headline inflation remained in the negative region for a fifth consecutive month at -1.3% y-o-y in July (June: -1.9%), bringing the year-to-date average to -0.9%. This was largely driven by lower fuel prices compared to last year, and discounts for household electricity bills. For the full year 2020, average headline inflation is likely to be negative, primarily reflecting substantially lower global oil prices. Therefore, given muted inflationary pressures and continued uncertainties ahead, Bank Negara Malaysia (BNM) is widely anticipated to remain accommodative to support domestic growth, with the central bank assuring that it would utilize its policy levers as appropriate to create enabling conditions for sustainable economic recovery.

Bond Fund Strategy

The Fund will continue to invest in Islamic money market instruments and sukuk. Emphasis is placed on credit-worthy issuers of sukuk and investment-grade sukuk.

FUND OBJECTIVE

The Fund aims to provide capital preservation with regular income over the short to medium term period by investing in Islamic money market instruments and sukuk.

Fund Category/Type

Bond (Sukuk) / Income

Launch Date

18 March 2005

Trustee

CIMB Islamic Trustee Berhad

Benchmark

Maybank 12 months Islamic Fixed Deposit-i rate

Designated Fund Manager

Lee Sook Yee

Sales Charge

Max 5.00%

Annual Management Fee

Up to 1.00% p.a.

Annual Trustee Fee

0.07% p.a.

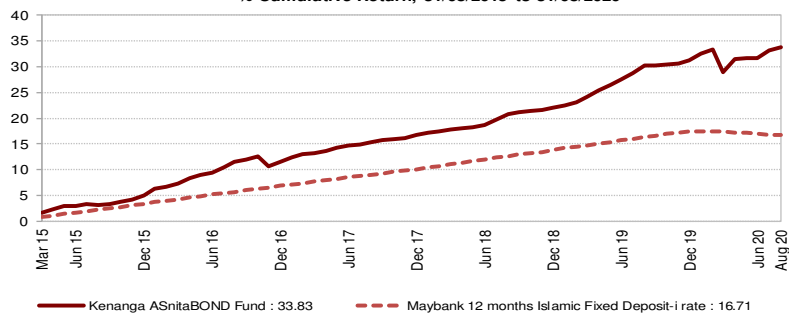
Redemption Charge

Nil

All fees and charges payable to the Manager and the Trustee are subject to the goods and services tax /sales and services tax/other taxes of similar nature as may be imposed by the government or other authorities from time to time.

FUND PERFORMANCE (%)

% Cumulative Return, 31/08/2015 to 31/08/2020



Source: Lipper

CUMULATIVE FUND PERFORMANCE (%) #

Period	Fund	Benchmark
1 month	0.25	0.16
6 months	2.49	1.12
1 year	5.97	2.63
3 years	19.71	9.43
5 years	33.83	16.71
Since Launch	109.15	65.23

Source: Lipper, 31 August 2020

CALENDAR YEAR FUND PERFORMANCE (%) #

Period	Fund	Benchmark
2019	7.50	3.19
2018	4.58	3.33
2017	4.56	3.13
2016	6.18	3.31
2015	5.10	3.40

FUND SIZE *

RM 496.55 million

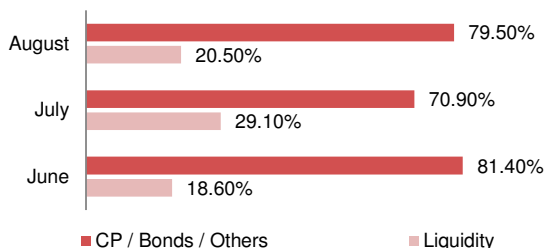
NAV PER UNIT *

RM 0.6719

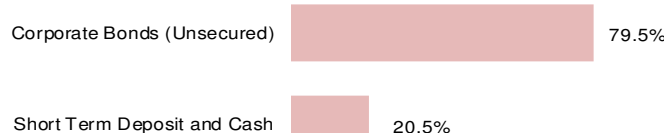
HISTORICAL FUND PRICE *

	Since Inception	Date
Highest	RM 0.6721	14-Aug-20
Lowest	RM 0.5000	18-Mar-05

ASSET ALLOCATION (% NAV) *



SECTOR ALLOCATION (% NAV) *



TOP FIXED INCOME HOLDINGS (% NAV) *

Rank	Instrument	NAV	Allocation (%)
1	DRB-HICOM BHD 4.85 20261211	4.35%	4.35%
2	MAHB 5.75 PERPETUAL SUKUK	3.63%	3.63%
3	UMWH IMTN 5.22 20261002	3.42%	3.42%
4	TG EXCELLENCE BHD 3.95 20270227	3.13%	3.13%
5	UMW HOLDINGS BHD 6.3521180420	3.04%	3.04%

DISTRIBUTION HISTORY*

Date	Gross Distribution		Unit Split
	RM	Yield (%)	
23-Dec-19	2.50 sen	3.77%	-
22-Nov-18	2.40 sen	3.76%	-
11-Sep-17	2.50 sen	3.95%	-

* Source: Kenanga Investors Berhad, 31 August 2020

Based on the fund's portfolio returns as at 10 August 2020, the Volatility Factor (VF) for this fund is 2.64 and is classified as "Very Low". (Source: Lipper). "Very Low" includes funds with VF that are 0 and less than or equal to 3.56 (source: Lipper). The VF means there is a possibility for the fund in generating an upside return or downside return around this VF. The Volatility Class (VC) is assigned by Lipper based on quintile ranks of VF for qualified funds. VF is subject to monthly revision and VC will be revised every six months. The fund's portfolio may have changed since this date and there is no guarantee that the fund will continue to have the same VF or VC in the future. Presently, only funds launched in the market for at least 36 months will display the VF and its VC. The Master Prospectus dated 30 November 2019 and the Supplemental Prospectus (if any), its Product Highlights Sheets ("PHS") or Supplemental Disclosure Document ("SDD") (if any) have been registered with the Securities Commission Malaysia, who takes no responsibility for its contents. The fund fact sheet has not been reviewed by the SC. A copy of the Master Prospectus, Supplemental Prospectus (if any), SDD (if any) and the PHS are obtainable at our offices. Application for Units can only be made on receipt of application form referred to in and accompanying the Master Prospectus and/or Supplemental Prospectus (if any), SDD (if any) and PHS. Investors are advised to read and understand the Master Prospectus, its PHS and any other relevant product disclosure documents involved before investing. Investors are also advised to consider the fees and charges before investing. Unit prices and distributions may go down as well as up. Where a unit split/distribution is declared, investors are advised that following the issue of additional units/distribution, the NAV per unit will be reduced from pre-unit split NAV/cum-distribution NAV to post-unit split NAV/ex-distribution NAV. Where a unit split is declared, investors should note that the value of their investment in Malaysian Ringgit will remain unchanged after the distribution of the additional units. A Fund's track record does not guarantee its future performance. Investors are advised to read and understand the contents of the unit trust loan financing risk disclosure statement before deciding to borrow to purchase units. "Cooling-Off Period" or "Cooling-Off Right" is not applicable to EPF Member Investment Scheme (EPF MIS). Kenanga Investors Berhad is committed to preventing Conflict of Interest between its various businesses and activities and between its clients/directors/shareholders and employees by having in place procedures and measures for identifying and properly managing any apparent, potential and perceived Conflict of Interest by making disclosures to Clients, where appropriate. The Manager wishes to highlight the specific risks of the Fund are market risk, credit/default risk, interest rate risk, liquidity risk and inflation/purchasing power risk.