

RHB SMART INCOME FUND

This Fund aims to provide investors with higher than average income returns compared to fixed deposits over the medium to long term period through an investment blend comprising primarily of quality fixed income securities and with the remaining investments in a strategically selected portfolio of companies with market capitalisation of not more than RM1 billion.

INVESTOR PROFILE

This Fund is suitable for Investors who:

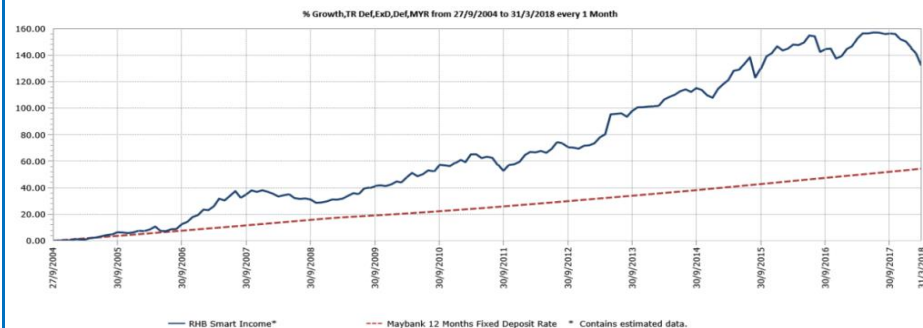
- are conservative;
- seek a steady income stream from their investments; and
- have a low to moderate risk tolerance with a medium to long term investment horizon.

INVESTMENT STRATEGY

- 70% - 100% of NAV: Investments in fixed income securities, money market instruments, cash and deposits with financial institutions.
- 0% - 30% of NAV: Investments in securities of companies with market capitalization of not more than RM1 billion.

FUND PERFORMANCE ANALYSIS

Performance Chart Since Launch*



Cumulative Performance (%)*

| | 1 Month | 3 Months | 6 Months | YTD |
|-----------|---------|----------|----------|-------|
| Fund | -3.94 | -7.25 | -9.52 | -7.25 |
| Benchmark | 0.28 | 0.81 | 1.59 | 0.81 |

| | 1 Year | 3 Years | 5 Years | Since Launch |
|-----------|--------|---------|---------|--------------|
| Fund | -8.16 | 4.71 | 30.10 | 131.86 |
| Benchmark | 3.14 | 9.92 | 17.05 | 54.41 |

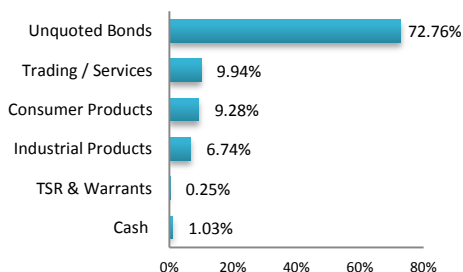
Calendar Year Performance (%)*

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|-----------|------|-------|-------|------|-------|
| Fund | 4.63 | -3.12 | 18.55 | 3.29 | 17.16 |
| Benchmark | 3.09 | 3.21 | 3.30 | 3.20 | 3.15 |

Source: Lipper IM

FUND PORTFOLIO ANALYSIS

Sector Allocation*



Top Holdings (%)*

| | |
|------------------------------------|-------|
| BRIGHT FOCUS BHD 2.5% (24/01/2030) | 20.03 |
| MEX II SDN BHD 6.0% (29/04/2030) | 18.30 |
| ALPHA CIRCLE 5.30% (23/02/2021) | 11.45 |
| MUAMALAT IMTN 5.50% (25/11/2021) | 8.11 |
| TEX CYCLE TECHNOLOGY MALAYSIA BHD | 4.37 |

*As percentage of NAV

FUND STATISTICS

Historical NAV (RM)

| | 1 Month | 12 Months | Since Launch |
|------|---------|-----------|--------------|
| High | 0.6692 | 0.7221 | 0.7571 |
| Low | 0.6090 | 0.6090 | 0.4902 |

Source: Lipper IM

Historical Distributions (Last 5 Years) (Net)

| | Distribution (sen) | Yield (%) |
|-------------|--------------------|-----------|
| 22 Mar 2018 | 3.0000 | 4.29 |
| 20 Apr 2017 | 1.4000 | 1.95 |
| 28 Mar 2016 | 5.7100 | 7.88 |
| 15 Apr 2015 | 5.2000 | 7.41 |
| 31 Mar 2014 | 5.0000 | 7.18 |

Source: RHB Asset Management Sdn. Bhd.

RHB SMART INCOME FUND

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MANAGER'S COMMENTS

MARKET REVIEW

Equity

Global stock markets came under pressure in March 2018 on fears over escalating trade tensions. The selling has been stirred by the United States ("U.S.") President Trump's announcement that tariffs of United States Dollar ("USD") \$60bn would be imposed on Chinese imports. Japan's Nikkei 225 index suffered the steepest declines. Large exporters play a significant part in the Japanese economy and there are concerns that they could be caught up in any U.S.-China trade war. Elsewhere, China and Hong Kong equities have unsurprisingly also borne the brunt of the selling pressure. Eurozone and United Kingdom equities have escaped the worst of the selling. European Union, and others including Canada and Mexico, will be exempt from the new tariffs being applied by the U.S. on steel (25%) and aluminium (10%). The technology supply chain is probably the most global and any trade tariff or restrictive trade practices are likely to be prima facie negative. Hence, for the month of March 2018, technology sector was heavily sold down.

Our local benchmark, FTSE Bursa KLCI ("FBMKLCI") outperformed amid broader market weakness. This was largely driven by bigger capitalisation banks (Public Bank and Maybank) and bigger capitalisation consumer products like Nestle which were sought after by foreigners and locals. The broader smaller and middle capitalisation market has suffered from risk aversion amid risk of trade war and election uncertainty. The FBMKLCI started the month weak, after Donald Trump announced the steel and aluminum import tariff decision but rebounded in 12th March 2018, buoyed by consumer and oil and gas stocks as concerns on trade war waned. However, concerns over increased trade protectionism on the sudden dismissal of U.S. Secretary of State, Rex Tillerson who is a free trade advocate led the local benchmark to decline on 15th March 2018 (-0.63%). The market recovered on continuous foreign buying over the next few days. At the end of the month, the index closed slightly higher by +0.39%.

Fixed Income

US Treasury Bond ("UST") yields whipsawed throughout most of the month of March 2018 before bull flattening toward the month end as market participants were dealing with a stellar non-farm payroll (NFP) report of 313k vs 239k for the previous month, but were buffeted by talks of a possible trade war stemming from the Trump administration's announcement of imposing tariffs of 25% on steel and 10% on aluminium. These coupled with quarter end buying led treasuries to bull flatten massively toward the end of the month. At the end of March close, the 2-, 5-, 10- and 30-year UST were last traded at 2.266% (Feb-2018: 2.25% +1bp), 2.562% (2.64%; -8bps), 2.74% (2.861%; -12bps) and 2.97% (3.124%; -15bps) respectively.

On the local economic front, Malaysia's Consumer Prices Index ("CPI") for February 2018 was flat month on month, printing at 1.4% YoY vs 2.7% previous month and below consensus estimates of 1.9%. The benign inflation reading was reflected in all 10 of the 12 main groups where seasonality factors due to the lunar New Year holiday pass through was less than expected. Transport and Clothing costs led the decline at -0.3% YoY and -0.7%YoY respectively. Alongside a 2.8% fall in RON95 prices in the first 21 days of March, headline inflation could remain modest at 1.5% in March, and stay below 2% in Apr. Assuming relatively stable pump prices, headline inflation could remain below 3% through June. The dovish tone of the March Monetary Policy Committee ("MPC") meeting, alongside the data reiterate our view that there will be no further rate hikes for the rest of this year.

MARKET OUTLOOK AND STRATEGY

Equity

With the U.S. midterm elections scheduled for November 2018, there is an increased incentives for President Trump to deliver on his campaign pledges, therefore, there can be more newsflows to come, which may not be economically driven. Presently, President Trump has ordered the US Trade Representative to propose a list of product tariff increases and to consider further tariffs on goods from China, raising concerns over global trade tensions. In a globalised world, trade tensions will not benefit any nations.

Domestically, the key event in April will be the 14th general election (GE14), and generally polling will take place after two to three weeks once the dissolution of the Parliament happens. In the short term, sentiments can be driven by newsflows, however, most importantly, the economic fundamentals are strong, and will be the catalyst for corporates earnings to improve further in the longer term.

In terms of strategy, stock selections have become more important in the current market condition. The present broad market weakness presents accumulation opportunity but caution and patience are required. We will continue to focus in value investing. Some of the factors that we look for in companies includes long term earnings visibility, derived from unique product offerings, capacity expansion or new market expansions, besides of their strong balance sheet, cashflows and attractive valuations that will benefit the fund in the longer term.

Fixed Income

On the Malaysian front, there has not been much of a follow through impact from the overall selloff in US treasuries and global government bonds for the past month. Instead, 10 and 15-year MGS were well bid up on several occasions which was in contrast to the price action in US treasuries. 10-year MGS was still trading at 3.90% yield despite US 10-year having reached 2.85% (+51bps for the past 3 months). We believe that the quantum of the overall selloff may not follow the magnitude seen in treasuries as Malaysia there is still ample liquidity within the Malaysia financial system and demand should outweigh supply of domestic bonds. The overnight policy rate (OPR) 25bps hike in January also bodes well for the MYR, We believe the 25bps OPR hike for 2018's first Monetary Policy Committee (MPC) meeting was part of a normalisation of interest rates and is consistent with global central bank moves since global growth picked up. Malaysia's GDP for 2017 full year, printed 5.9%, well above the official forecast of 5.2%-5.7% due to sterling quarters of GDP numbers that we have seen last year. In 2018, the recently published Bank Negara Malaysia's ("BNM") annual report noted modification on the BNM assessment to GDP forecast which has been revised higher to a range of 5.5%-6% from previously 5.0-5.5%, while average inflation is circa 2%-3% which comfortably below the current OPR rate.

Fiscal consolidation is on track to meet 3.0% for 2017 and most likely to achieve 2.8% in 2018. In addition, the supply of domestic government debt would likely be kept manageable with gross supply at MYR107bn and net supply MYR40bn (Gross supply in 2017: MYR107.5b, net supply: MYR40.8b) since the government aspires to tighten fiscal deficit. We believe that given the above reasons, demand for MYR bonds would likely be healthy, much attributed to the ample liquidity within the domestic banking system and investors are still in search of yields. Going forward, we foresee Malaysia's growth to remain resilient but may trend lower than last year's sterling growth. While the domestic consumption shall sustain aided by generous cash transfers in the Budget, tech export may moderate lower from a higher base recorded last year. With inflation assessment expected to average lower in 2018 and a stronger MYR supports lower imported inflation, we are of a view that the current policy rate is still accommodative to the economy as the MPC continues to assess the balance of risks in growth and inflation.

In term of strategy, we remain neutral on duration while mildly bullish in domestic bonds with the expectation that local demand dynamics to remain healthy and exceeding supply in 1st Quarter of 2018. As part of asset allocation strategy, we continue to overweight credit over government bonds for yield pick-up despite higher risk-free rates because we see improving credit profile in corporates in certain sectors thanks to sterling GDP performance to date. That said, we continue to be vigilant in monitoring the bond market and any significant sell off could be an opportunity to buy bonds especially government securities as we do not see significant hikes in OPR further from here.

DISCLAIMER:

Based on the fund's portfolio returns as at 15 March 2018, the Volatility Factor (VF) for this fund is 7.3 and is classified as "Moderate". (source: Lipper) "Moderate" includes funds with VF that are above 6.0 but not more than 8.0 (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 VC referred to was dated 31 December 2017 which is calculated once every six months and is valid until its next calculation date, i.e. 30 June 2018.

A Product Highlights Sheet ("PHS") highlighting the key features and risks of the Fund is available and investors have the right to request for a PHS. Investors are advised to obtain, read and understand the PHS and the contents of the Master Prospectus dated 15 June 2017 and its supplementary(ies) (if any) ("the Master Prospectus") before investing. The Master Prospectus has been registered with the Securities Commission Malaysia who takes no responsibility for its contents. Amongst others, investors should consider the fees and charges involved. Investors should also note that the price of units and distributions payable, if any, may go down as well as up. Where a distribution is declared, investors are advised that following the issue of additional units/distribution, the NAV per unit will be reduced from cum-distribution NAV to ex-distribution NAV. Any issue of units to which the Master Prospectus relates will only be made on receipt of a form of application referred to in the Master Prospectus. For more details, please call 1-800-88-3175 for a copy of the PHS and the Master Prospectus or collect one from any of our branches or authorised distributors.

The Manager wishes to highlight the specific risks of the Fund are credit risk, liquidity risk of underlying investments and inflation/ purchasing power risk. These risks and other general risks are elaborated in the Master Prospectus.

This factsheet is prepared for information purposes only. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive it. Past performance is not necessarily a guide to future performance. Returns may vary from year to year.

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