

RHB US FOCUS EQUITY FUND

The Fund will invest in a target fund which aims to provide capital growth primarily through investment in equity securities of smaller and medium-sized US companies. Smaller and medium-sized US companies are considered companies which, at the time of purchase, form the bottom 40% by market capitalisation of the US market.

INVESTOR PROFILE

This Fund is suitable for Investors who:

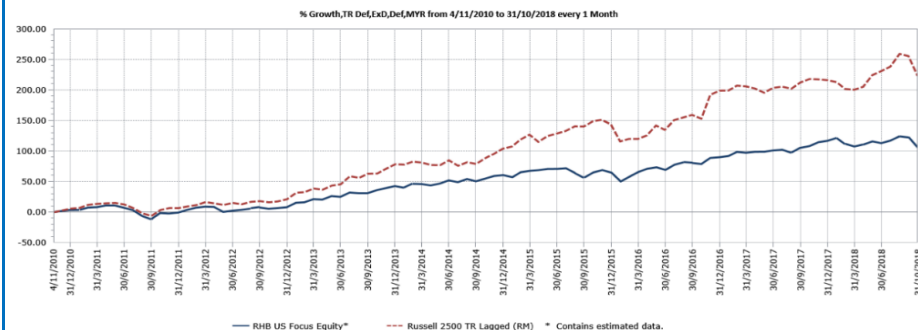
- seek investment opportunities in the US market;
- have medium to high risk appetite; and
- seek capital growth.

INVESTMENT STRATEGY

- At least 95% of NAV: Investments in the X Accumulation Shares of Schroder ISF USSME.
- 2% - 5% of NAV: Investments in liquid assets including money market instruments and deposits with financial institutions.

FUND PERFORMANCE ANALYSIS

Performance Chart Since Launch*



Cumulative Performance (%)*

	1 Month	3 Months	6 Months	YTD
Fund	-7.72	-5.39	-2.42	-5.24
Benchmark	-9.15	-4.53	5.86	2.21

	1 Year	3 Years	5 Years	Since Launch
Fund	-1.30	24.42	50.67	105.12
Benchmark	1.61	29.81	97.48	222.74

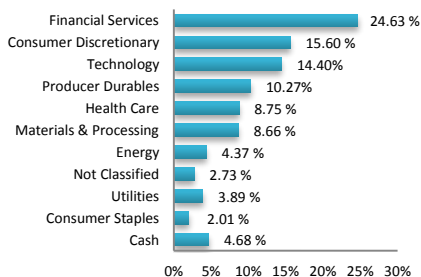
Calendar Year Performance (%)*

	2017	2016	2015	2014	2013
Fund	14.06	15.41	2.40	12.44	32.00
Benchmark	5.73	22.58	19.36	14.25	47.04

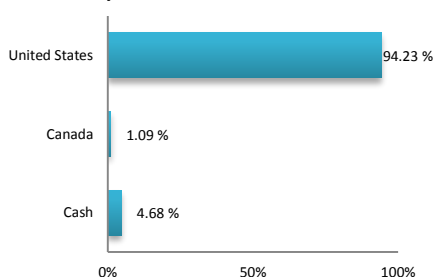
Source: Lipper IM

FUND PORTFOLIO ANALYSIS

Sector Allocation*



Country Allocation*



Top Holdings (%)*

SCHRODER ISF US DOLLAR LIQUIDITY	2.73
ARAMARK	2.16
ADVANCE AUTO PARTS	1.77
ARTHUR J GALLAGHER	1.68
EQUITY LIFESTYLE PROPERTIES	1.62

*As percentage of NAV

*Source: Schroder, 31 October 2018. Exposure in Schroder ISF US Small & Mid-Cap Equity - 96.92%

FUND STATISTICS

Historical NAV (RM)

	1 Month	12 Months	Since Launch
High	1.1149	1.1300	1.1300
Low	0.9468	0.9468	0.4185

Source: Lipper IM

Historical Distributions (Last 1 Year) (Net)

	Distribution (sen)	Yield (%)
25 Oct 2018	5.5000	5.12

Source: RHB Asset Management Sdn. Bhd.

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MANAGER'S COMMENTS

WHAT HAPPENED IN THE MARKET

“October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.”

— Mark Twain, Pudd'nhead Wilson

The Wall Street Journal headline on 1 November read “October’s Wild Ride Jolts Investors”. Indeed that was the case. Beyond the gyrations in the US stock market the bond market also experienced price declines. Inflation (which the Target Fund Manager has been talking about for almost a year) became a growing concern. Rising labour costs are beginning to show up in the US Government data and worries about corporate growth along with trade concerns drove stock and bond losses.

Mid-term elections in the US also received a major amount of attention as political rhetoric became increasingly heated as the Target Fund Manager approaches election day (November 6). One clear conclusion is that America remains divided on a series of issues ranging from immigration to health care to global trade.

Before the Target Fund Manager gets too gloomy there is continuing evidence that the US economy remains strong. GDP is good, employment is at or near full employment (job openings outnumber the unemployed population). Business and consumer sentiment are strong, with the most recent Conference Board consumer confidence poll reaching the highest levels in 18 years. These are just some of the positives.

Inflation concerns increase the pressure on the Federal Reserve (Fed): on the one hand the President is arguing for low interest rates while the early signs of inflation (wages in particular) tilt them towards continuing on their gradual rate rise path. The Target Fund Manager anticipates one more 25 basis point hike in 2018 plus three in 2019 and one in 2020.

As for market factors the Target Fund Manager saw volatility sharply lag in October after driving the market for much of the year. This benefitted the Target Fund Manager’s portfolio as they are overweight lower volatility names and underweight the higher volatility stocks. Size was not a factor whereas style was with Value outperforming Growth by 4%. However, Value still lags Growth by 5.5% on a year-to-date basis.

LOOKING AHEAD

The Target Fund Manager recently spent a week in Europe and the UK meeting with clients. The Target Fund Manager was asked regularly about the state of the US economy, risks the Target Fund Manager sees in the system, where the Target Fund Manager is in the cycle, when the next recession will occur and whether the Target Fund Manager is more cautious now. Taking those in order:

US economy - The US economy is in good shape: GDP growth and job creation remain strong and unemployment is low. Capital expenditure is rising, as are wages – although they are only just now being reflected in US government data (the Target Fund Manager has been hearing about it from the corporate world for the last three years). The Target Fund Manager views valuations through the lens of interest rates, and from that perspective valuations in their space are not cheap but manageable. Relative to the Russell 1000 index (large cap), the relative valuations are near the long-term average so there are no warning signs here. Finally, the bond market is not showing any signs of serious stress.

A conundrum the Target Fund Manager faces is the divergence of policies between the Fed and the US government. The Fed is on a tightening regime – modest and well telegraphed but restrictive nonetheless. In the meantime, the government is embarking on stimulative activities such as lowering taxes and thereby accruing larger budget deficits. In their view, the government is effectively building more runway and extending the cycle but one can see how this could all end in inflation.

US equity market - So far this year the equity market has been characterised by several unsustainable trends. In particular, companies without earnings have outperformed companies with earnings. This is counterintuitive and unlikely to continue. It has been driven in part by the high proportion of initial public offerings which do not have any earnings. Biotechnology companies are heavily represented in this list.

Another quality measure which has lagged this year is companies with stable cashflows. Companies in the most volatile quintile of cashflows have been the best performers to this point. The Target Fund Manager also view this as unsustainable.

Risks - Debt: debt levels amongst companies are high, particularly in their space. While the S&P 500 has a debt/earnings-before-interest-tax-depreciation-and-amortisation (EBITDA) ratio of 2.32x the Russell 2000 ratio is 4.37x. EBITDA is cyclical, debt is not. The Target Fund Manager is concerned that these ratios will rise further when EBITDA starts to falter and interest rates continue to grind higher. The solution is for companies to pay down debt.

Floating rate debt: Companies with higher percentages of floating rate debt are more likely to have problems as interest rates rise and earnings falter. In the US small cap space a significant proportion (in excess of 40%) of total debt is floating, in contrast with large cap companies (17%). The Target Fund Manager has made a concerted effort to make sure their companies have lower levels of floating rate debt than their peers.

Trade wars - Much has been written and said, and what the Target Fund Manager has seen to date is that the US has taken an initially aggressive bargaining position and then moved back during negotiations. The conclusion of recent trade agreements with Mexico and Canada (their two largest trading partners) is an example. China is the key exception. The administration continues to advance a hard line against the Chinese. If it continues on this path the Target Fund Manager can expect to see some effect on US, Chinese and global GDP. The Target Fund Manager suspects this will not be enough to trigger a recession however.

Where is the Target Fund Manager in the cycle?

This question was asked at almost every meeting. Their view is that the Target Fund Manager is late but not at the end of the economic cycle. Credit markets typically display distress at that point and the Target Fund Manager is not seeing that.

Overall, the market backdrop is encouraging and the Target Fund Manager remains reasonably positive for the intermediate term on US equities.

DISCLAIMER:

Based on the fund’s portfolio returns as at 15 October 2018, the Volatility Factor (VF) for this fund is 10.5 and is classified as “Very High”. (source: Lipper) “Very High” includes funds with VF that are more than 11.1 (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 30 June 2018 which is calculated once every six months and is valid until its next calculation date, i.e. 31 December 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 3 September 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 management risk and foreign investment risks such as currency risk and country risk and the specific risks of the target fund are general risks, investment objective risk, regulatory risk, risk of suspension of share dealings, liquidity risk, financial derivative instrument risk, warrants risk, counterparty risk, custody risk, smaller companies risk, initial public offerings risk, emerging and less developed markets securities risk, specific risks linked to securities lending and repurchase transactions and potential conflict of interest 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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