RHB OSK
RHB Asset Management

# FUND FACTSHEET – AUGUST 2014

All data expressed as at 31 July 2014 unless otherwise stated

3-year Fund Volatility 16.3 very high Lipper Analytics 15 JULY 2014

# RHB-OSK CHINA-INDIA DYNAMIC GROWTH FUND (formerly known as OSK-UOB CHINA-INDIA DYNAMIC GROWTH FUND)

This Fund aims to achieve medium to long term capital appreciation through investing mainly in the securities of corporations in, or corporations listed or to be listed on stock exchanges in, or corporations (wherever located) which, in the opinion of the managers, derive significant revenue or profits from or have significant assets or business interests in, the People's Republic of China ("China") or the Republic of India ("India").

## INVESTOR PROFILE

**This Fund Is Suitable For Investors Who:**

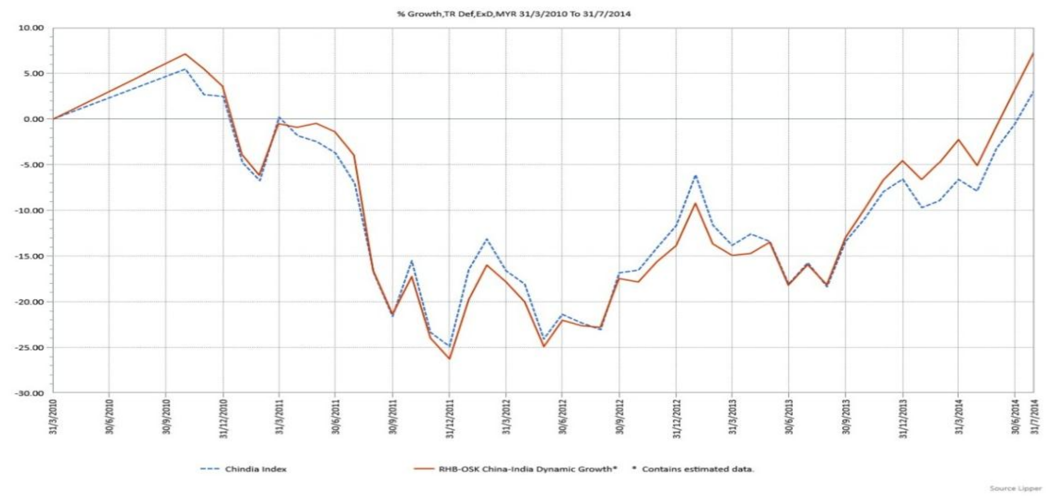
• wish to tap the growth prospects of two emerging growth engines of the world i.e. China and India;
• are willing to accept a higher risk in their investments to obtain potentially higher returns in the medium to long term; and
• seek capital appreciation.

## INVESTMENT STRATEGY

• At least 95% of NAV: Investments in the units of United China-India Dynamic Growth Fund.
• 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** | **4.01** | **13.12** | **15.01** | **12.51** |
| Benchmark | 3.67 | 11.95 | 14.19 | 10.41 |

| | 1 Year | 3 Years | Since Launch |
|---|---|---|---|
| **Fund** | **27.74** | **11.81** | **7.40** |
| Benchmark | 22.37 | 10.96 | 3.15 |

**Calendar Year Performance (%)***

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Fund** | **10.79** | **16.81** | **-28.79** |
| Benchmark | 5.73 | 17.62 | -26.54 |

**Source: Lipper IM*

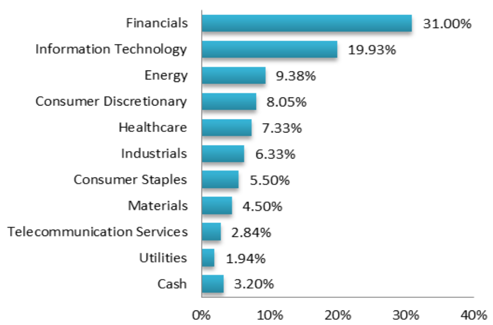
## FUND DETAILS

| | |
|---|---|
| **Investment Manager** | RHB Asset Management Sdn. Bhd. (formerly known as RHB Investment Management Sdn. Bhd.) |
| **Trustee** | TMF Trustees Malaysia Bhd |
| **Fund Category** | Feeder Fund |
| **Fund Type** | Growth Fund |
| **Launch Date** | 11 March 2010 |
| **Unit NAV** | RM0.5370 |
| **Fund Size (million)** | RM11.10 |
| **Units In Circulation (million)** | 20.67 |
| **Financial Year End** | 31 July |
| **MER (as at 31 July 2013)** | 0.45% |
| **Min. Initial Investment** | RM1,000.00 |
| **Min. Additional Investment** | RM100.00 |
| **Benchmark** | 50% MSCI China Index (RM) + 50% MSCI India Index (RM) |
| **Sales Charge** | Up to 5.50% of investment amount |
| **Redemption Charge** | None |
| **Annual Management Fee** | 1.80% p.a. of NAV* |
| **Annual Trustee Fee** | 0.08% p.a. of NAV, subject to a minimum of RM18,000 p.a.* |
| **Switching Fee** | RM25.00 per switch |
| **Redemption Period** | Within 10 days after receipt the request to repurchase |
| **Cooling-Off Period** | Within 6 business days from the date of receipt of application |
| **Distribution Policy** | Incidental |

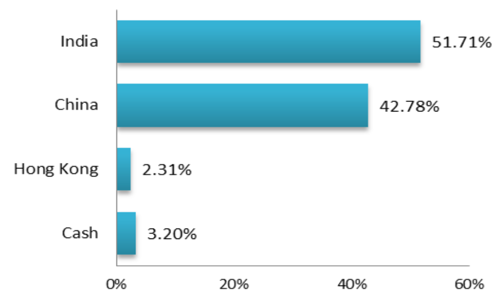
**For the purpose of computing the annual management fee and annual trustee fee, the NAV of the Fund is exclusive of the management fee and trustee fee for the relevant day.*

## FUND PORTFOLIO ANALYSIS

**Sector Allocation***




**Country Allocation***




**Top Holdings (%)***

| | |
|---|---|
| TENCENT HOLDINGS LIMITED | 4.35 |
| TATA CONSULTANCY SERVICES LTD | 3.99 |
| INFOSYS LIMITED | 3.82 |
| CHINA CONSTRUCTION BANK - H | 3.75 |
| INDUSTRIAL & COMMERCIAL BK OF CHINA - H | 3.71 |

**As percentage of NAV*
**Exposure in United China India Dynamic Growth Fund - 98.02%*

## FUND STATISTICS

**Historical NAV (RM)**

| | 1 Month | 12 Months | Since Launch |
|---|---|---|---|
| High | 0.5383 | 0.5383 | 0.5604 |
| Low | 0.5154 | 0.4002 | 0.3648 |

*Source: Lipper IM*

**Historical Distributions (Last 3 Years) (Net)**

| | Distribution (sen) | Yield (%) |
|---|---|---|
| 31 Jul 2014 | - | - |
| 31 Jul 2013 | - | - |
| 31 Jul 2012 | - | - |
| 31 Jul 2011 | - | - |

*Source: RHB Asset Management Sdn. Bhd. (formerly known as RHB Investment Management Sdn. Bhd.)*

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## MANAGER'S COMMENTS

**ASSET ALLOCATION**

Our official asset allocation remains 50 China: 50 India. China is facing a tough balancing act of maintain stable growth while carrying out reforms to address structural problems. However, we believe if they get through a difficult first half of slowing growth and rising financial risks, and implement financial reforms, the second half of 2014 will be better. Valuations are very attractive now, versus the region and its history too. In India, the market has enjoyed a strong re-rating on the BJP's decisive election victory and the prospect of a multi-year investment cycle acceleration. We have also seen improvement in the current account deficit. However, there is risk of inflation rebounding. Growth has been slowing and the new government will have to execute well in order deliver the accelerating growth the market is expecting now. Valuations have reflected the optimism of the new government to some extent with MSCI India trading above its historical mean valuation.

**CHINA MARKET COMMENTARY**

MSCI China gained 9.00% (JPY terms) in the month of July 2014.

The China markets gained in July, in a month where global equities turned in a mixed performance with developed markets posting losses against gains in emerging markets (EM). Asia was the best-performing region within EM in July and is also now the best-performer year-to-date. The strength of the markets came on the back of a recovery in China where a pick-up in data boosted hopes of a recovery in the economy.

The global economic recovery remained intact with global leading indicators mostly remaining stable in July. In the developed markets, the US PMI improved to 57.1 in July from 55.3 in June. The PMI in Europe was stable at 51.8, while those in the UK and Japan dipped, though all stayed in expansion. China's official PMI continued to improve in July to 51.7 from 51.0, with the private sector HSBC PMI also improving to 51.7 from 50.7 in June. Most other latest activity indicators such as industrial production were stable across most markets. Inflation continued to remain stable across most markets though the Eurozone looked to be continuing its slide into deflation.

The China and Hong Kong markets were boosted by a strong-than-expected pick-up in activity indicators such as industrial production, fixed asset investment and exports. The recovery was in part helped by policy loosening such as the easing of some property measures, which lifted property transaction volumes. Monetary conditions have also become accommodative and the change in total social financing rose 90% y/y to RMB 1970 bn in June from RMB 1425 bn in May. Reforms also looked to be on track such as in the state-owned enterprises (SOEs) while the anti-corruption drive continued with a recent high profile case of a senior official being investigated.

**CHINA MARKET OUTLOOK AND STRATEGY**

China has a tough time balancing growth and reforms to resolve structural problems. There are many urgent areas that need to be resolved such as cleaning up the environment, reducing overcapacity; restructuring state owned enterprises (SOEs) and curbing excess credit build up. Most of the proposed reform measures will likely have a dampening effect on growth and corporate profits in the near term.

Hence, through most of the year to date, slowing growth and rising financial risk has weighed on investors' sentiment. However, recent data suggests that China's growth is improving owing to recovery in exports and targeted stimulus. The much talked about financial stress from the default of wealth management products has not materialized. The interbank rate still remains well behaved, and many of the potentially defaulted products have simply had their maturities pushed back or were re-structured.

The HSBC PMI picked up significantly to June and July after 5 months below 50. Other activity indicators such as retail sales, industrial production, FAI and exports also stabilized or registered improvement. In fact, exports should likely accelerate further in the 2nd half of the year as US growth picks up and on easier base year comparisons. The main negative remains the property sector, where we have been seeing a slowdown in property sales, starts and price cuts. The government has already eased home purchase restrictions across many cities. However, the oversupply in tier 3 cities is still very significant.

Recently, the government has eased the required reserve ratio for banks as well as the loan to deposit ratio for addition loans to SMEs and the rural sector. Home purchase restrictions have been loosened in many cities and banks encouraged to lend more mortgages for first time home buyers. Capital expenditure on railway spending and social housing has been raised this year too. Total social financing growth has accelerated again too, as seen from June 2014 data. President Li has come forward to re-iterate China's 7.5% growth this year, implying more emphasis on pro-growth policies ahead.

We believe that the current environment of stable to improving growth and policy easing should support the market. Nonetheless, China's restructuring challenges still have some way to go. Maintaining stable growth while keeping credit growth in check will be particularly difficult. China's debt to GDP has burgeoned to over 230% of GDP at end 2013 from less than 150% in 2008, even as growth has slowed from over 10% to 7.5% now. While the Central government balance sheet is still healthy, local government and SOE corporate balance sheets are stretched. Financial risks are rising as seen in the escalation of shadow banking and the acceleration of non-performing loans.

Investors will keenly watch for more concrete reform steps to tackle China's structural problems, including rising financial risks. However, the problems are complicated and solutions not straightforward, so we cannot expect a quick fix in a short time.

While the overall China market's performance patchy over the last 3 years, weighed down by structural problems, it is noteworthy that there has been a large dispersion in performance across stocks and sectors. For example, China's technology and utilities index has more than doubled in the last 3 years, compared to the financial sector which is just up marginally and the energy index which is down. If we position right in China, there can still be a lot of lucrative opportunities in the market.

We remain vigilant in tracking operating conditions across China given the slowdown in growth and the government's policy initiatives having uneven impact across industries. We look for opportunities to invest in companies that are benefitting from the rising purchasing power of the region's consumers or have technologies causing disruptive innovation to lifestyles and consumer spending patterns. However, stock selection is critical, given high competitive pressures.

We continue to underweight deep cyclical sectors such as materials in the face of China's slower growth over the medium term and general over-supply conditions. We are neutral on Financials given the tailwinds of RRR cuts, relaxation of LDR limits and stabilizing growth. However, we recognize they still face structural challenges - pressures of contracting profit and net interest margins with interest rate liberalization, non-bank disintermediation and rising NPLs. We are also overweight the Chinese utilities, in both traditional IPPs and renewable energy. We also like technology, from social media to component suppliers of smartphones, which are facilitating a sea change in consumer spending patterns.

In the long term, the China economy continues to be supported by high savings and wage gains, which provide an attractive backdrop for consumption growth. Rising purchasing power of the middle and lower income population is a very supportive backdrop for investors. When China gets through the current necessary painful transition, reforms and rebalances its economy towards a more sustainable growth path, these positive fundamentals should reassert themselves. The China market should then enjoy a sustained re-rating, with high rewards for long term investors now.

**INDIA MARKET COMMENTARY**

MSCI India gained 1.54% (JPY terms), Sensex gained 0.58% (MYR terms) and Nifty gained 0.14% (MYR terms) in July 2014. Sensex started the month at 24,217 and closed at 25,414. Nifty started at 7,203 and closed at 7,611. As per latest data, FIIs continued to be net buyers in with inflow of USD 1.8 Bn vs. an inflow of USD 2.8 Bn last month, in Indian Equity markets. FIIs invested USD 2.5 Bn into Indian debt vs. an inflow of USD 3.4 Bn last month. Domestic Mutual Funds were net buyers in equities with net purchase of USD 454 Mn in the month.




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