RHB OSK
RHB Asset Management

# FUND FACTSHEET – JUNE 2014

All data expressed as at 30 May 2014
unless otherwise stated


## RHB-OSK FLEXIFUND EQUITY CHINA "A" (formerly known as OSK-UOB FLEXIFUND EQUITY CHINA "A")

The Fund is to invest in the target fund which aims to provide its investors with the highest possible value for the capital invested at the same time as offering them a broad spread of risks by investing primarily in shares or partnership shares in the capital of companies based in the People's Republic of China, or in divisions of shares, fully or partially paid up, in registered or bearer form, issued by such companies.

### INVESTMENT STRATEGY

- At least 90% of NAV: Investments in the EURO denominated, Class I shares of the FLEXIFUND Equity China "A".
- Up to 10% of NAV: Investments in liquid assets comprising money market instruments, cash and deposits with financial institutions.

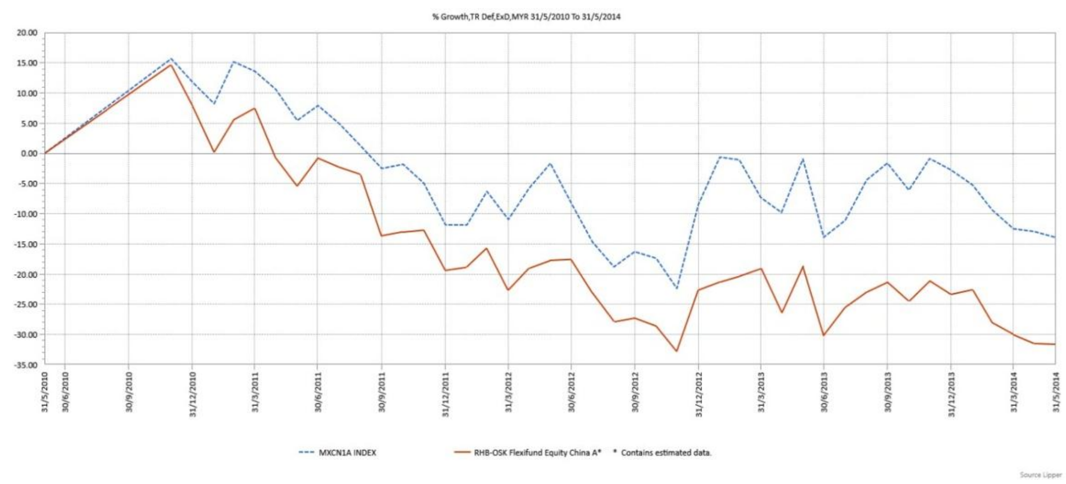
### INVESTOR PROFILE

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

- are "Qualified Investors" as defined in the Information Memorandum.

### FUND PERFORMANCE ANALYSIS

**Performance Chart Since Launch***




**Cumulative Performance (%)***

| | 1 Month | 3 Months | 6 Months | YTD |
|---|---|---|---|---|
| **Fund** | **-0.17** | **-4.89** | **-13.26** | **-10.69** |
| Benchmark | -1.13 | -5.06 | -13.19 | -11.49 |

| | 1 Year | 3 Years | Since Launch |
|---|---|---|---|
| **Fund** | **-15.86** | **-27.62** | **-31.56** |
| Benchmark | -13.12 | -18.40 | -13.95 |

**Calendar Year Performance (%)***

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Fund** | **-0.94** | **-4.04** | **-25.25** |
| Benchmark | 6.24 | 3.83 | -19.78 |

**Source: Lipper IM*

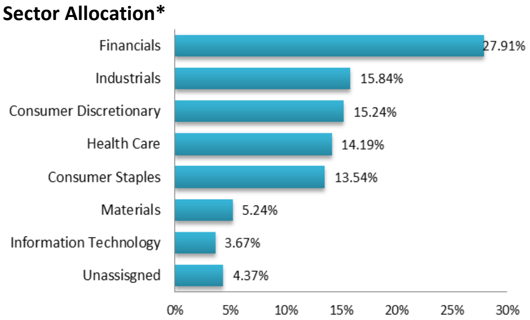
### FUND DETAILS

| | |
|---|---|
| **Investment Manager** | RHB Asset Management Sdn. Bhd. (formerly known as RHB Investment Management Sdn. Bhd.) |
| **Trustee** | HSBC (Malaysia) Trustee Bhd |
| **Fund Category** | Wholesale- Feeder Fund (Equity) |
| **Fund Type** | Growth Fund |
| **Launch Date** | 11 May 2010 |
| **Unit NAV** | RM0.6844 |
| **Fund Size (million)** | RM4.78 |
| **Units In Circulation (million)** | 6.98 |
| **Financial Year End** | 31 May |
| **MER (as at 31 May 2013)** | 0.67% |
| **Min. Initial Investment** | RM50,000.00 |
| **Min. Additional Investment** | RM50,000.00 |
| **Benchmark** | MSCI China "A" Net Return Index (RM) |
| **Sales Charge** | Up to 5.00% of investment amount |
| **Redemption Charge** | None |
| **Annual Management Fee** | 0.50% p.a. of NAV* |
| **Annual Trustee Fee** | 0.08% p.a. of NAV, subject to a minimum of RM18,000 p.a.* |
| **Switching Fee** | None |
| **Redemption Period** | Maybe from 1week - 6mths or longer if approval from the Chinese authorities for the realisation of FECA investments are not obtained. |
| **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***




**Top Holdings (%)***

| | |
|---|---|
| PING AN INSURANCE | 4.76 |
| INDUSTRIAL BANK CO | 4.08 |
| CHINA VANKE CO | 3.93 |
| CHINA NATIONAL MED | 3.49 |
| CHINA MERCHANTS BK | 3.48 |

**As percentage of NAV*
**Source: BNP Paribas Investment Partners, 30 May 2014. Exposure in Flexifund Equity China A Fund - 98.69%*

### FUND STATISTICS

**Historical NAV (RM)**

| | 1 Month | 12 Months | Since Launch |
|---|---|---|---|
| High | 0.6856 | 0.8134 | 1.1941 |
| Low | 0.6633 | 0.6633 | 0.6633 |

*Source: Lipper IM*

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

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

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

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3-year Fund Volatility 20.5 very high Lipper Analytics 15 MAY 2014

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## MANAGER'S COMMENTS

**MARKET REVIEW**

China A-shares gained 0.07% in local currency terms in May. The onshore market outperformed offshore shares by 3.7% in USD terms. The recent policy easing and a clearer intent by policymakers to support growth this year helped market sentiment onshore. Small caps outperformed, gaining 0.52% in CNY terms. The information technology, health care and materials sectors posted good performances while consumer staples, industrials and consumer discretionary had a negative performance. The Chinese yuan (CNY) appreciated 0.2%, closing at 6.2598/USD.

After the disappointing February and March trade results, the April trade report beat market expectations, with exports growing 0.9% YoY and imports rising 0.8% YoY in April. While the export numbers appear modest, when the seasonal effect and over-invoicing practices that were uncovered last year are discounted, estimates suggest that exports grew more than 7.0% YoY. Industrial production growth slowed slightly to 8.7% YoY in April from 8.8% YoY in March. Regarding domestic demand, retail sales grew by 11.9% YoY in April, down from 12% in Q1. Online sales of large wholesalers and retailers grew by 52% YoY, expanding to 11.4% of their total sales revenue. The retail data is likely to improve due to the dissipating negative effect incurred by the anticorruption campaign.

China's April inflation came in lower than the market expected. The consumer price index (CPI) rose 1.8% YoY in April, a significant slowdown compared with March and lower than market consensus of 2.1%. The weaker-than-expected CPI inflation was mainly attributable to lower food, and especially pork, prices. China's official manufacturing purchasing managers' index (PMI) inched up by 0.4ppt to 50.8 in May, the highest reading since December of 2013, and slightly beating expectations of 50.7. Data showed signs of stabilisation and a pick-up in aggregate demand. China's official PMI for May was up for a third consecutive month with the new orders index hitting a six-month high, thanks to recovery in external demand, stabilisation of consumption and the government's growth-stabilising policies. Recently the government introduced measures to encourage infrastructure investment and target monetary easing, which lent support to fixed asset investment. The rise in PMI was mainly driven by large and medium-sized enterprises, while the PMI for small enterprises remained weak.

**FUND PERFORMANCE**

Flexifund Equity China A outperformed its benchmark in May, gaining 3.09% gross of fees in EUR terms, compared to a 2.14% gain for the benchmark. Stock selection contributed 122bp to the performance while stock allocation detracted 27bp.

Financials were the main contributor to stock selection effect, China Vanke rebounded 16.33% over the month. The real estate company had solid results over the last quarter. Vanke should deliver 15% earnings growth per year over the next two years with stable margins. The company is priced at 7x 2014 earnings, so we expect further upside for the stock in the short to medium term.

Another key contributor to excess return was our selection in information technology. Tongfang Guoxin Electronics and Taiji Computer Corp and rose 21.18% and 17.52% respectively. Tongfang Guoxin Electronics's Q1 2014 results were better than expected. We expect its sales of bank card chips and ID card chips to continue to grow strongly in 2014. Its microprocessor and integrated chips business will also benefit from the government's policy support.Taiji Computer Corporation's main business focuses on software and communication equipment, where its services include industry-specific solutions, IT consulting and IT infrastructure services. The stock performance in May benefited from the government's policy support on national information security.

Consumer staples were the main drag on performance as we overweight the sector for fundamental reasons. We believe the rebalancing of the Chinese economy towards consumption will support the sector over the long term.

Stock-picking in industrials detracted from performance as Xiamen C & D lost 4.08%. Xiamen is a conglomerate with property exposure. Investors are concerned about a property sales slowdown by the end of the year. We however believe the slowdown risk has been already priced in, and the government will support a stable real estate market. Xiamen C & D valuation remains low and we anticipate more upside than downside. Xiamen's other business, logistical services, is expected to grow by 20% and to benefit from the Taiwan Cross-strait Free Trade Zone (FTZ). We estimate the company has more than 2 million square metres of land reserves in the FTZ and thus will be one its main beneficiaries.

**PORTFOLIO ACTIVITY**

In May, we took profit on Shenzhen Evenwin Precision and Shenzhen Desay Battery as their valuations were too rich. We bought Nari Technology Development and XJ Electric. Both companies specialise in smart grid technology, which investors had no interest recently. As a result, we bought the two stocks on attractive valuation. We are positive on the long-term fundamentals of this industry as they will benefit from the government's policy support on ultra-high voltage transmission network construction and on new electric car re-charging posts construction.

**OUTLOOK & POSITIONING**

Early this year economic indicators disappointed investors, most of whom downgraded their economic growth forecast for 2014. However, in early April, the Chinese government introduced a mini-stimulus package focusing on investment in railways (planning to build 6 600 km of railways in 2014) and social housing. In addition, the central bank has increased liquidity in the market and implemented some RRR cuts at agricultural banks and smaller urban banks. As a result we have seen improving PMIs, better consumption levels and better trade numbers supported by developed market. Beijing forecasts China's 2014 annual GDP growth at 7.2% and we believe further stimulus will be needed to achieve this. Policy stimulus initiatives will focus more on rebalancing the economy towards western areas, while we are expecting a broad-based RRR cut to support liquidity this year.

As the reforms and policy changes begin to be implemented, we believe there will be selective investment opportunities over the coming years. Market valuations remain at historical lows and Chinese A-shares are now trading at 9.2x 2014 earnings, which is around 60% below their five-year historical average. We believe last year, the market environment favoured overvalued growth stocks. Looking ahead, we believe value plays that should provide reasonable earnings growth and that are leaders in their industry will be the outperformers. With this in mind, we continue to favour environmental players and stocks inthe health care, consumer staples and information technology sectors that are reasonably priced. We closed our holdings in the energy, utilities and telecommunications services sectors.

We are positive on consumer staples and added some names recently as they are likely to benefit from cheap valuation and stable earnings growth. We are closely monitoring the rebalancing of the Chinese economy towards consumption and believe that companies well positioned to gain from this will enjoy growth that will outpace that of the overall economy. We are positive towards health care, on the back of the reforms outlined by the government. We are increasing our holdings not only in drug manufacturers but also private hospitals. Within financials, we are overweight real estate in the belief that the coming reforms and the economic rebound will support a re-rating of valuations. We reduced our allocation to banks and are now underweight, holding only well-managed national banks, with our favourite picks benefiting from credit card growth and SME exposure. We are underweight industrials and favour exposure only to environmental names (e.g. LED manufacturers). We remain underweight the energy sector due to overcapacity issues. As for materials, we are underweight the sector overall but are becoming more neutral on industries that have a better outlook on the back of the government's push for consolidation. We remain selective, however, and prefer companies with sustainable margins.