RHB OSK
RHB Asset Management

# FUND FACTSHEET – September 2014

All data expressed as at 31 August 2014 unless otherwise stated

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

# 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

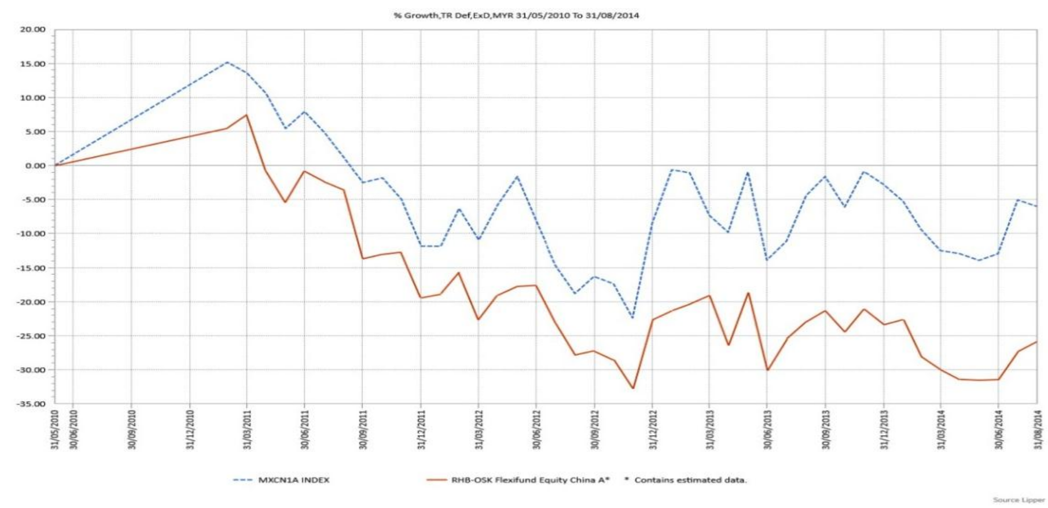
• At least 90% of NAV: Investments in the EURO denominated, Class I shares of the FLEXIFUND Equity China "A".
• Up to 10% of NAV: Investments in liquid assets comprising money market instruments, cash and deposits with financial institutions.

## 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** | **2.08** | **8.39** | **3.09** | **-3.20** |
| Benchmark | -1.02 | 9.18 | 3.65 | -3.36 |

| | 1 Year | 3 Years | Since Launch |
|---|---|---|---|
| **Fund** | **-3.71** | **-23.11** | **-25.82** |
| Benchmark | -1.68 | -7.16 | -6.05 |

**Calendar Year Performance (%)***

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

**Source: Lipper IM*

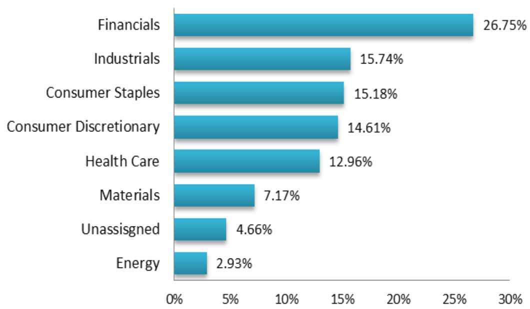
## FUND DETAILS

| | |
|---|---|
| **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** | RM0.7418 |
| **Fund Size (million)** | RM5.08 |
| **Units In Circulation (million)** | 6.84 |
| **Financial Year End** | 31 May |
| **MER (as at 31 May 2014)** | 0.68% |
| **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** | Up to 0.08% p.a. of NAV |
| **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 | 4.58 |
| CHINA NATIONAL MED | 3.93 |
| IND BANK CO LTD | 3.87 |
| CHINA VANKE CO | 3.79 |
| CITIC SECURITIES | 3.40 |

**As percentage of NAV*
**Source: BNP Paribas Investment Partners, 31 August 2014. Exposure in Flexifund Equity China A Fund - 96.62%*

## FUND STATISTICS

**Historical NAV (RM)**

| | 1 Month | 12 Months | Since Launch |
|---|---|---|---|
| High | 0.7526 | 0.8096 | 1.1941 |
| Low | 0.7267 | 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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## RHB-OSK FLEXIFUND EQUITY CHINA "A" (formerly known as OSK-UOB FLEXIFUND EQUITY CHINA "A")

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## MANAGER'S COMMENTS

**MARKET REVIEW**

China A-shares rose slightly in August by 0.38% in CNY terms. Market expectations triggered some concern about disappointing macroeconomic data and near-term liquidity issues on A-share IPOs. Nevertheless, disappointment was offset by expectations for increased policy easing. In addition, all A-share listed companies disclosed their H1 2014 results by the end of August. Earnings of blue-chip companies were broadly in line with market expectations, while earnings in small-caps were generally disappointing given overly bullish expectations. Foreign direct investment in China A-shares rose, while the Chinese yuan (CNY) appreciated by 0.49%, closing at 6.1436/USD.

Macroeconomic data is showing signs of slowing momentum following the strength observed over the past few months. The Markit PMI fell to 50.3 in August (51.7 in July) while the official manufacturing PMI reading was 51.1 (51.7 in July). July's exports surged +14.5% year-on-year (YoY), however the market expects the August reading to be more moderate, forecasting +9.0% YoY, given weaknesses in the Eurozone. July imports came in weak at -1.6% YoY, and the market is calling for a revision of the August data, slightly improving at +3.0% YoY. July retail sales growth validated the stabilization trend up +12.2% YoY, however the rate of growth still remains significantly below the historic trend. July CPI inflation is tame at +2.2% YoY, while the producer price index (PPI) further confirms an improving pricing environment for producers.

Monetary policy by the People's Bank of China (PBOC) left many confused. Total social financing (TSF) in July came in at RMB 273 billion – a big decline after June's figure of RMB 1968 billion. The creation of new loans totalled RMB 385 billion in July, much lower than the monthly average run-rate of RMB 700-900 billion. As a result, July's M2 growth decelerated to +13.5% YoY, down from +14.7% YoY in June. The decrease in both M2 and credit growth can be partially explained by seasonality and the base effect, but the August data will be heavily scrutinized. PBOC announced further financial support to rural areas at the end of August. July fixed asset investment (FAI) growth decelerated from 17.9% YoYy in June to 15.6% YoY in July. Property-related FAI slowed to 11.9% YoY (12.5% in June); infrastructure FAI was +21.6% YoY (+22.4% in June); and manufacturing FAI was +12.8% YoY (16.7% in June). On the bright side, property new starts and land purchased by developers improved despite falling sales (in volume and in price). New starts, measured in gross floor area, excelled, turning positive at +8.2% YoY in July, from -9.3% YoY the previous month. While this mixed data could be interpreted as early signs of stabilization, inventory oversupply will take some time to work through.

Meanwhile, restructuring plans by state-owned enterprises (SOEs) continue to be released by Beijing. As noted above, Beijing announced further reform measures for the energy and telecom sectors, aimed at driving inefficiencies out of the system. While news of reform goals is positive, improvement doesn't take place overnight (and comes with high execution risks). The recent market behaviour over reform plans can be described by some as "irrational exuberance". China is close to publishing its approved "Budget Law". This will be a significant milestone in providing more transparency into spending at both local and central government levels.

Environmental protection continues to gain attention from Beijing. The importance of this initiative is such that Li Keqiang, the current Premier of PBOC, chaired the executive meeting of the State Council in order to drive the message home that China needs to quickly develop and implement environmental protection and pollution prevention projects. There is talk that the new Budget Law will include policies for levying an environment tax on industries.

**FUND PERFORMANCE**

Flexifund Equity China A underperformed its benchmark in August by 1.12% gross of fees in EUR terms. The fund gained 1.01% whereas the index rose 2.14%. Stock selection negatively impacted the performance by 95 bp while stock allocation detracted 18 bp.

The major contributors to excess return were Xinjiang Tiankang and Sinomach Automobile. Xinjiang Tiankang surged 21.85% in August as its net income increased as did its gross margin by17.09% and 2.70% respectively in H1 2014. Sinomach Automobile rose 9.71% in August thanks to its boosted sales volume and sales revenue in H1 2014. Despite a general downtrend in the automobile industry, the company managed to increase its sales volume and sales revenue by 8.36% and 37.34% respectively.

Allocation in information technology was the main detractor. While information technology stocks already seem expensive at their current valuation, investors became cautious in the past few weeks due to tight liquidity issues and uncertainty over policy. This caused withdraws in information technology, considering the sector's high risks.

Selection in industrial names detracted as the sector had a good rally and we owned enterprises such as Xiamen C&D which lost 4.54%. Xiamen's financial expenses rose due to the RMB depreciation over the first part of the year. As a result, net income detracted by 17.09%. We believe that the company will benefit again from the appreciation of the RMB. The business model remains solid and this has no impact on the long-term prospects of the company.

**PORTFOLIO ACTIVITY**

In August we brought two industrial stocks, Weichai Power and Henan Pinggao Electric. Weichai Power is a transportation equipment manufacturer. The company has been focusing on research and the development of new products, which helps to capture larger market shares and increase net income by over 80% in H1 2014. We like the company's innovative product development capability. Henan Pinggao Electric is an electrical equipment manufacturer. We rate Henan Pinggao Electric for its high profit margin, which increased from 9.08% in June 2013 to 18.16% in June 2014.

We sold two industrial stocks, Xj Electric and Nari Technology. Both are state-owned electrical equipment manufactures. We also sold Shanghai Fosun Pharmacy. The three stocks seemed expensive at their current valuation; hence we shifted our allocation towards consumer and industrial names.

**OUTLOOK & POSITIONING**

Chinese data improved in the second quarter. The economy grew by 7.5% YoY, slightly better than the consensus forecast of 7.4%. For the rest of the year, we believe that more stimuli will be needed to maintain GDP growth at this level. The last PMI disappointed and is now at 50.3. Retail sales stabilised but trade data disappointed. While the market still expects solid exports for the second half, recovery might be gradual. Industrial Output's August data disappointed, but this can probably be attributed to less easing from PBOC over the last months. As a result, the central bank presented another easing package of RMB 500 bn in mid-September, aimed at helping the largest bank to fund the short-term financing needs of the economy. CPI was relatively low at 2.2% YoY in August and is expected to remain low as food inflation is still subdued.

In the coming months, the China A-shares market could be supported by improved data as well as better sentiment on the back of flows from international investors through the Hong Kong/Shanghai stock exchange connection. More retail accounts are being opened which should lift sentiment further, just like sectors such as the environment and health care, which are backed by government investment. Market valuations remain at historic lows and Chinese A-shares are now trading at 9.7 times earnings recorded in 2014, which is around 45% below their five-year average. As the reforms and policy changes begin to be implemented, we believe there will be selective investment opportunities over the coming years.

We are positive in regards to health care after reforms outlined by the government. Recently, we overweight consumer staples and added positions, as they are likely to benefit from low valuations and stable earnings growth. We are closely monitoring the rebalancing of the economy towards consumption and believe that companies that are well positioned to gain from this can enjoy growth that should outpace that of the overall economy. We slightly overweight industrials and favour exposure only to environmental names (e.g. LED manufacturers). Within financials, we are overweight in real estate in the belief that the coming reforms and the economic rebound will support a re-rating of valuations. We reduced our allocation in banks and are now underweight, holding only well-managed national banks, with our favourite picks benefiting from credit card growth and SME exposure. We underweight information technology for valuation reasons. We remain underweight in the energy sector due to overcapacity issues. As for materials, we are underweight in 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.