

Bond Market Review

In early December, long-tenured US Treasuries (UST) rallied as concerns over the new Omicron variant spurred risk aversion and a flight to safe haven assets. These concerns drove 10Y UST yields 10bps lower to 1.34% on 3 December, before rebounding higher as new data suggested that the Omicron variant may be less severe than initially anticipated. In addition, positive US employment data and strong inflation numbers spurred expectations that the US Federal Reserve (Fed) may need to hike interest rates soon. Although the US economy added fewer jobs than expected (actual 210,000 versus consensus 550,000), the unemployment rate improved from 4.6% in October to 4.2% in November, while wage growth remained steady at 4.8% y-o-y. Meanwhile, the US Consumer Price Index (CPI) for November increased to 6.8% y-o-y, which is the highest in almost 40 years.

In mid-December, UST rallied briefly on concerns over the fast-spreading Omicron variant's impact on the US economy. Nevertheless, UST yields resumed its uptrend after the Fed's final monetary policy meeting of the year, which signalled a potentially faster pace of interest rate normalisation. On 15 December, as widely expected, the US Fed announced that the pace of tapering would be doubled from USD15 billion to USD30 billion a month, putting it on track to end its bond purchases by March 2022. Meanwhile, US 3Q2021 Gross Domestic Product (GDP) expanded by 2.3% q-o-q, following the 2.1% growth in 2Q2021, further illustrating the steady recovery of the US economy. Towards month end, UST yields trended higher on improving risk sentiment, as positive economic data boosted confidence that the US recovery would prevail over the threats posed by the Omicron variant. Overall, the UST yield curve flattened m-o-m, as 2Y UST yields climbed 16bps to end the year at 0.73% (end-November: 0.57%), while 10Y UST yields closed at 1.51% (November: 1.44%).

Locally, the Malaysian Government Securities (MGS) market was relatively quiet amid the holiday season. MGS yields loosely tracked the movement of global bond yields. Nonetheless, primary MGS issuances remained in demand, including the RM3.5 billion 7Y Government Investment Issue (GII) auction which was oversubscribed by 2.2 times. M-o-m, the MGS yield curve also flattened, with the 3Y and 10Y MGS yields rising by 15bps and 5bps to end the year at 2.83% and 3.57% respectively (end-November: 2.68% and 3.52%).

Bond Market Outlook

The emergence of the Omicron variant provides a glimpse of the recurring uncertainties that may continue to cloud the growth outlook in the years ahead. Nonetheless, the Omicron variant is expected to be milder and its impact somewhat mitigated by the continued rollout of vaccine and booster shots globally. For 2022, the Fed projects that US GDP will grow by 4.0% while inflation will rise by 2.6% y-o-y. Given the US economy's improving growth prospects, the Fed is expected to normalise interest rates in 2022 from the current record low of 0.00%-0.25%.

Locally, the Malaysian economy is projected to expand by 5.5%-6.5% in 2022. Growth is expected to be supported by the expansion in global demand, higher private sector expenditure and continued policy support. However, the outlook could be moderated by weaker-than-expected global growth, supply chain disruptions and the emergence of new Covid-19 variants.

Meanwhile, domestic headline inflation continued to inch higher to 3.3% y-o-y in November (October: 2.9%), mainly due to the rise in transport, electricity and food prices. Inflation is projected to remain moderate moving into 2022. While core inflation is expected to increase in tandem with the normalisation of economic activity, it is expected to remain benign due to continued spare capacity in the economy and the labour market.

Given the persistent disruption and uncertainties in the global economic recovery, we expect Bank Negara Malaysia (BNM) to remain accommodative in its monetary policy stance to support and sustain the recovery in 2022. That said, BNM may look to gradually unwind the interest rate cuts implemented at the beginning of the pandemic in 2020, as the domestic economy recovers in tandem with an improving global outlook. Nonetheless, the central bank is expected to remain data-dependent with a focus on the overall outlook for economic growth, labour market and inflation before policy normalisation begins.

Bond Fund Strategy

The Fund will continue to invest in Islamic money market instruments and sukuk. Emphasis is placed on credit-worthy issuers of sukuk and investment-grade sukuk.

FUND OBJECTIVE

The Fund aims to provide capital preservation with regular income over the short to medium term period by investing in Islamic money market instruments and sukuk.

Fund Category/Type

Bond (Sukuk) / Income

Launch Date

18 March 2005

Trustee

CIMB Islamic Trustee Berhad

Benchmark

Maybank 12 months Islamic Fixed Deposit-i rate

Designated Fund Manager

Lee Sook Yee

Sales Charge

Max 5.00%

Annual Management Fee

Up to 1.00% p.a.

Annual Trustee Fee

0.07% p.a.

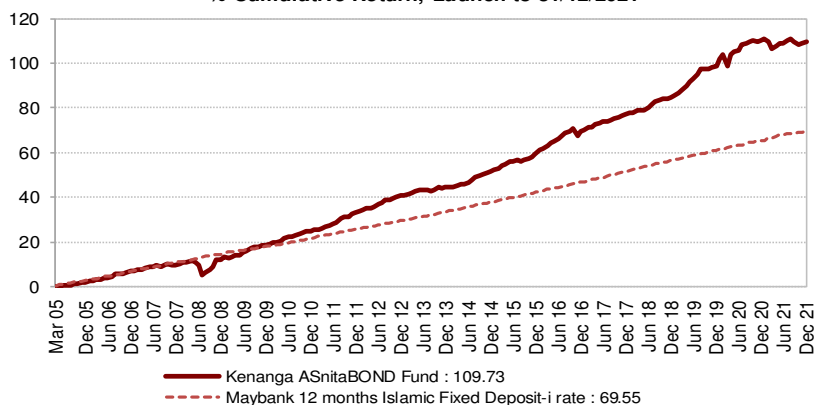
Redemption Charge

Nil

All fees and charges payable to the Manager and the Trustee are subject to the goods and services tax /sales and services tax/other taxes of similar nature as may be imposed by the government or other authorities from time to time.

FUND PERFORMANCE (%)

% Cumulative Return, Launch to 31/12/2021



CUMULATIVE FUND PERFORMANCE (%) *

| Period | Fund | Benchmark |
|--------------|--------|-----------|
| 1 month | 0.24 | 0.16 |
| 6 months | 0.33 | 0.93 |
| 1 year | -0.18 | 1.85 |
| 3 years | 13.39 | 7.43 |
| 5 years | 23.99 | 14.48 |
| Since Launch | 109.73 | 69.55 |

CALENDAR YEAR FUND PERFORMANCE (%) *

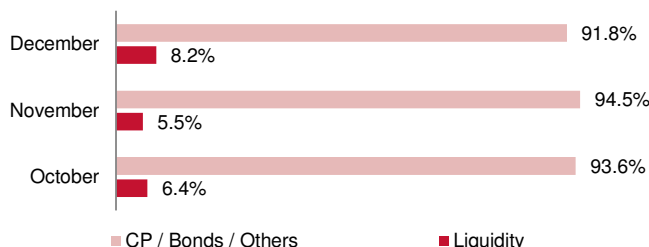
| Period | Fund | Benchmark |
|--------|-------|-----------|
| 2021 | -0.18 | 1.85 |
| 2020 | 5.67 | 2.21 |
| 2019 | 7.50 | 3.19 |
| 2018 | 4.58 | 3.33 |
| 2017 | 4.56 | 3.13 |

* Source: Lipper, 31 December 2021

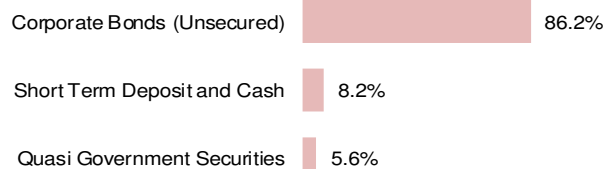
The Fund's benchmark has been changed from Maybank's 6-month GIA-I Tier 1 rate to Maybank's 12-Month Islamic Fixed Deposit-I rate on 1 July 2016.

| FUND SIZE * | NAV PER UNIT * | HISTORICAL FUND PRICE * | |
|-------------------|----------------|-------------------------|---------------------|
| RM 353.85 million | RM 0.6081 | Since Inception | Date |
| | | Highest | RM 0.6757 2-Nov-20 |
| | | Lowest | RM 0.5000 18-Mar-05 |

ASSET ALLOCATION (% NAV) *



SECTOR ALLOCATION (% NAV) *



TOP FIXED INCOME HOLDINGS (% NAV) *

| | | |
|---|--------------------------------|-------|
| 1 | DRB-HICOM IMTN 4.85 20261211 | 6.28% |
| 2 | MAHB 5.75 PERPETUAL SUKUK | 4.84% |
| 3 | UMWH IMTN 5.22 20261002 | 4.55% |
| 4 | UMWH 6.35 PERPETUAL SUKUK | 4.10% |
| 5 | PRESS METAL IMTN 4.20 20261016 | 3.97% |

DISTRIBUTION HISTORY *

| Date | Gross Distribution | | Unit Split |
|-----------|--------------------|-----------|------------|
| | RM | Yield (%) | |
| 29-Dec-21 | 3.20 sen | 5.00% | - |
| 29-Dec-20 | 3.37 sen | 5.00% | - |
| 23-Dec-19 | 2.50 sen | 3.77% | - |

* Source: Kenanga Investors Berhad, 31 December 2021

Based on the fund's portfolio returns as at 10 December 2021, the Volatility Factor (VF) for this fund is 3.09 and is classified as "Very Low". (Source: Lipper). "Very Low" includes funds with VF that are 0 and less than or equal to 4.265 (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 Master Prospectus dated 30 November 2019 and the Supplemental Prospectus (if any), its Product Highlights Sheets ("PHS") or Supplemental Disclosure Document ("SDD") (if any) have been registered with the Securities Commission Malaysia, who takes no responsibility for its contents. The fund fact sheet has not been reviewed by the SC. A copy of the Master Prospectus, Supplemental Prospectus (if any), SDD (if any) and the PHS are obtainable at our offices. Application for Units can only be made on receipt of application form referred to in and accompanying the Master Prospectus and/or Supplemental Prospectus (if any), SDD (if any) and PHS. Investors are advised to read and understand the Master Prospectus, its PHS and any other relevant product disclosure documents involved before investing. Investors are also advised to consider the fees and charges before investing. Unit prices and distributions may go down as well as up. Where a unit split/distribution is declared, investors are advised that following the issue of additional units/distribution, the NAV per unit will be reduced from pre-unit split NAV/cum-distribution NAV to post-unit split NAV/ex-distribution NAV. Where a unit split is declared, investors should note that the value of their investment in Malaysian Ringgit will remain unchanged after the distribution of the additional units. A Fund's track record does not guarantee its future performance. Investors are advised to read and understand the contents of the unit trust loan financing risk disclosure statement before deciding to borrow to purchase units. "Cooling-Off Period" or "Cooling-Off Right" is not applicable to EPF Member Investment Scheme (EPF MIS). Kenanga Investors Berhad is committed to preventing Conflict of Interest between its various businesses and activities and between its clients/directors/shareholders and employees by having in place procedures and measures for identifying and properly managing any apparent, potential and perceived Conflict of Interest by making disclosures to Clients, where appropriate. The Manager wishes to highlight the specific risks of the Fund are market risk, credit/default risk, interest rate risk, liquidity risk and inflation/purchasing power risk.