

SPECIAL INVESTMENT COMMENTARY

25 March 2020

Don't Let Panic Drive Your Decisions. Just Like Before, Market Corrections Provide Compelling Opportunities. Remain Invested For Long-Term Benefits.

Market review

As a result of the global Covid-19 pandemic outbreak, markets around the world have declined sharply in a rapid and unprecedented movement. In reaction, we have seen loose monetary policy and stimulus measures announced by central banks, aiming to limit the economic impact of the pandemic outbreak. In addition, countries have announced measures to control the pandemic such as, travel restriction, curfews and increased health spending. Nevertheless, at the time of writing, China has started to see a reduction in the number of new cases reported daily. This gives hope to the world that this Covid-19 pandemic can be contained, enabling us to ride out this global crisis safely.



Photo source: MSN

It is our obligation to update you on the investment strategy of our fund offerings in view of the current market conditions. Hence, we present below an update of our global equities fund, domestic equities funds, sukuk fund and cash management fund.

Investment strategy

In view of the heightened uncertainties in the market, we are defensive in our investment approach by increasing allocations to risk-free assets (i.e cash) in order to preserve our investors' money.

Global Equities

Our global equity fund, BIMB-Arabesque i Global Dividend Fund 1 (BiGDF1), is a rules-based quantitative investment strategy that has a daily cash-equity rebalancing which aims to provide risk-controlled equity upside in the medium to long-term. Since the pandemic outbreak, BiGDF1 has consistently increased its cash allocation to reduce volatility and preserve capital. As at 20 March 2020, the target fund cash allocation is 72.9% and exposure to equity has been reduced to 27.1%. In term of the sector exposure, the target fund has allocated mainly into defensive sectors such as health technology and non-energy minerals (platinum, gold). BiGDF1's timely response to the downturn is thanks to the strategy's momentum technology that identifies market trends through stock price changes. This enables BiGDF1 to rotate its sector, country and market exposure according to the market's sentiment. If the uncertainty escalates further, we expect that corrections from stock prices will filter through to the momentum scores we calculate daily, causing the portfolio to rebalance to an even more defensive position.

As at 23 March 2020, BiGDF1 outperformed its benchmark by +11.66% (MYR) and +9.91% (USD). In addition, the Fund has been consistently declaring income distributions since its inception in 2017, with the latest income distribution yield for financial year end March 2020 being 6.36% (MYR) and 6.00% (USD). Due to its performance and track record, it is scored as a 'leader' for Total Return, Consistent Return and Preservation as defined by Lipper Leader ratings as at 28 February 2020. From both risk and return perspective, we are glad to inform you that BiGDF1 met its investment objectives.

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Domestic Equities

For our actively managed domestic equity funds, we have increased exposure to cash in order to protect the portfolio in these times of market uncertainty. Currently, i-Flexi, Al-Falah and i-Tactical (formerly known as i-Dividend) funds have high cash holdings and low equity exposure (around 20% - 40%). These funds all have a high defensive nature, meaning they are well positioned should the market continue to fall. On the other hand, for those investors seeking a higher investment returns with high risk tolerant, they may consider our selections of aggressive funds, namely i-Growth Fund and Al-Munsif Fund (our dividend paying fund). These funds have a higher invested level into the market of between 50-75%. These two funds continue to hold stocks with values emerging from the market sell-down and are well-positioned to benefit should the stock market rebound from the current 1200-1300 FBMKLCI level. In summary, we have strategies that cater for all the various risk appetites of our investors, be it aggressive, defensive or income driven.



Sukuk

In terms of Sukuk, the exposure of the BIMB ESG Sukuk fund is 67% in sukuk, with the remaining 33% in cash. The pandemic outbreak has created uncertainty in the market as investors continue to liquidate their exposure for cash, despite interest rate cuts by the Federal Reserve and Bank Negara Malaysia (BNM) which have drastically affected yields. Due to the sukuk market condition, the fund manager is looking for opportunities to increase sukuk exposure in the Fund which will provide higher returns in the medium term. The high exposure in cash has benefitted the Fund until now as it has reduced the impact of the decline in fixed income prices on the portfolio. The aim of the fund remains committed to delivering higher return than traditional term deposits in the current low interest rate environment. This can be seen from the fund's 1-year total return performance as at February of 7.18%, while ranking second in Lipper table as at 6 March 2020 for six-month period. These results are partly attributable to the prudent investment strategy which invest only in investment grade sukuk, with a minimum rating of AA. We do this in order to provide investors with risk-controlled upside in the fixed income market, higher relative to traditional term deposits.

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Cash Management

For our cash management strategy of BIMB Dana Al-Fakhim, we are expecting another rate cut by BNM to reduce the pandemic impact on the local economy. In view of this, the fund will prolong its exposure to medium- and longer-term deposits. The fund composition is expected to be around 25% in short term placements (3 months and below), and about 75% in medium to longer-term placements (more than 6 months). Should there be further revision in interest rates, the Fund may not be as highly impacted due to its tilt towards longer term placements. We could remain in a low interest rate environment for a while longer thus it may be an opportunity for corporate and retail investors to optimize their savings rate through a cash management fund. The BIMB Dana Al-Fakhim aims to deliver consistent income distribution on a monthly basis from its 100% exposure to risk-free assets of term deposits. As at February 2020, the fund's one-year gross total return stands at 3.53% p.a.

Conclusion

An investment strategy should never be judged over days, weeks or months, but rather, on whether it meets its investment objective over a full market cycle. Market correction provide compelling opportunities, for example, we are seeing value in the market for investors with a longer time horizon, despite the current elevated risk environment. Some investors may opt for a strategy of taking a few minimal positions in the market to capture any rebound in markets. Instead of trying to time when the bottom will be reached, we urge investors to instead position themselves for an eventual recovery. To know more about our investment solutions, you may seek advice from your relationship manager today.

Thank you and be safe everyone.

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Investors are advised to read and understand the contents of the Master Prospectus of

1. BIMB-ARABESQUE i Global Dividend Fund 1, dated 17 October 2019
2. BIMB ESG Sukuk Fund, dated 1 August 2018
3. Master Prospectus dated 1 November 2016

and any Supplemental Prospectuses issued thereafter, which have been registered or deposited with the Securities Commission who take no responsibility for their contents, before investing. A copy of the Master Prospectus (including any supplemental prospectuses) can be obtained from the Head Office of BIMB Investment Management Berhad, authorized consultants or from our authorized distributors. You are also advised to read and understand the contents of the Unit Trust Financing Risk Disclosure Statement before deciding to borrow to purchase units. Past performance of the Funds are not an indicative of their future performance. The price of units and distributions payable, if any, may go down as well as up. Investors should also consider the fees, charges and investment risks involved before investing. Units are issued upon receipt of a duly completed application form referred to in and accompanying the Master Prospectus (including any supplemental prospectuses). Product Highlights Sheet (PHS) of the Fund is available and investors have the right to request for it. The PHS should be read and understood before making any investment decision. Investors should rely on their own evaluation to assess the merits and risks of the investment. If investors are unable to make their own evaluation, they are advised to consult professional advisers.

You must make your own assessment of any such transaction and the risks and benefits associated with it and of all the matters referred to above. You should enter transactions only after having considered, with the assistance of external advisers, the specific risks of any such transaction.