RHB BOND FUND

An investment for all your needs.

An ideal investment portfolio should comprise of both risky and less risky assets. Bond funds are categorized as lower risk asset class, which helps to balance out the inherent risk in more risky investments, such as equities and currencies. The RHB Bond Fund essentially reflects this asset class that provides reasonable returns within a relatively low risk environment

3-year Fund Volatility
5.3
Low
Lipper Analytics
15 Dec 2011

FUND OBJECTIVE

To provide investors with higher than average income returns compared to fixed deposits over the medium to long term through investments in bonds and the other fixed income securities with minimum risk to capital invested.

INVESTOR PROFILE

- Are risk averse;
- Want to protect the purchasing power of their wealth against inflation;
- Want to enjoy a relatively more predictable income on a yearly basis; and
- Want to diversify their overall investment portfolio by including bonds as an asset class.

INVESTMENT DETAILS AS AT 31 DECEMBER 2011

Unit NAV (31 December 2011)	RM1.0032
Fund Size (31 December 2011)	RM26.77 million
Units in Circulation (31 December 2011)	26.69 million
Fund Currency	Ringgit Malaysia
Fund Inception	10 October 1997
Offer Price at Inception	RM1.00
Annual Management Fee	Up to 1.00% p.a. of NAV
Annual Trustee Fee	0.08% p.a. of NAV
Exit Fee	Exit < = 1 year: 1% Exit > 1 year: No exit fee
Initial Charge	None
Redemption Payment Period	10 days
Investment Manager	RHB Investment Management Sdn Bhd
Distribution Policy	Income (if any) will be distributed during the financial year
Min Initial Investment	RM1,000
Min Additional Investment	RM100
Bloomberg Ticker	RHBBNDI MK

MARKET BRIEF

US Treasury

U.S. Treasuries strengthened further with significant gains along the back-end of the yield curve. On a month on month (mom) basis, the 5-, 10- and 30-year benchmarks dipped 12, 19 and 16bps to close at 0.83%, 1.88% and 2.89% respectively, while the 2-year benchmark closed 1bp lower to 0.24%.

Investors were driven towards the relative safer U.S. Treasuries on concerns that the European Financial Stability Facility (EFSF) may not be able to keep its AAA rating after Standard & Poor's (S&P) warned it may downgrade the sovereign ratings of 15 euro zone countries, including six AAA-rated countries. The sentiment deteriorated further as measures introduced at the European summit including agreements to tighten fiscal controls and to lend EUR200 billion to IMF failed to infuse confidence. The lack of bold measures to stem the two year debt crisis prompted Fitch to place sovereign ratings of France, Spain, Italy, Belgium, Slovenia, Ireland and Cyprus on "negative" rating watch and downgraded five European banks due to the Eurozone crisis and stronger headwinds facing the banking sector. Meanwhile, Moody's cut Belgium's credit rating by two notches from Aa1 to Aa3 with negative outlook and cited that the entire European Union will be put under review to be finalised in the first quarter of next year.

On the economic front, U.S. inflation eased to 3.4% YoY in November 2011 from +3.6% in Octtober 2011, while the PPI rebounded by 0.3% MoM in November 2011 after falling by 0.3% in October 2011, due to a pick-up in the prices of food. Initial jobless claims improved to 364k in the week of 17th December – a nine month low, while the ISM services index fell from 52.9 to 52.0 in November – the lowest in almost two years. U.S. October trade deficit narrowed to USD 43.5 billion, the lowest level this year, as imports fell faster than exports.

The FOMC left the Federal fund rate unchanged at 0%-0.25% as widely expected and continued the pledge to keep rates at the current level at least through mid-2013. The Federal also said it would continue the Operation Twist programme to lengthen the average maturity of its holdings in the balance sheet.

Ringgit Sovereign Bond

Malaysian Government Securities (MGS) traded stronger in December 2011. MGS yield curve bullish steepened with the 10-year / 3-year spread widening by 8bps MoM to 71bps. Strong rally was seen on the short end of the curve likely due to the easing pressure in inflation and anticipation of interest rate cut by BNM as inflation risks eased further. The bullish sentiment was also affected on the negative rating indications/actions on the European Union members as stated above. The stronger Ringgit also boosted the demand for the MGS. On a MoM basis, the 3-, 5-, 7- and 10-year MGS benchmarks dipped 9bps, 6bps, 2bps and 1bps to close at 2.98%, 3.23%, 3.54% and 3.69% respectively.

Malaysia's Consumer Price Index (CPI) eased to 3.3% YoY in November 2011 as expected, after held stable at 3.4% in October 2011 and September 2011. Easing in inflation rate was contributed by moderation in food and non-alcoholic beverages prices. Core inflation rate inched up to 2.5%YoY in November 2011, after easing to +2.4% in October 2011.

In October 2011, Malaysia's leading index rose to 2.4% YoY (September 2011: +1.2%), industrial production grew by 2.8% YoY (September 2011: +3.0%), whilst manufacturing sales rose by 11.4% YoY (September 2011: +16.4%). Likewise, exports growth slowed but held relatively well with growth of 15.8% YoY in October 2011 (September 2011: +16.6%), following a strong pick-up in exports of commodities. Imports eased to 4.6% YoY in October 2011 from +12.9% in September 2011, resulting in widening of trade surplus to RM13.22 billion in October 2011, from a surplus of RM9.63 billion in September 2011.

The 2012 auction calendar was announced during the month. The calendar is heavy at the belly of the curve. There will not be any private placements while GII's longest tenor was raised to 15 years.

Ringgit Corporate Bond

The trading activities in the PDS market were relatively less active compared to the previous month. The PDS yields moved sideways with realignment seen along selected papers as investors made some final moves ahead of the year-end holidays. Nevertheless, trading activity continued to be concentrated in the AAA and AA rated segments. Single-A segment remained less active indicating that risk appetite has yet to return. The Bond Pricing Agency of Malaysia's mark-to-market yields were pretty steady on a MoM basis with yields falling 1-2bps across the ratings and curve.

During the month of December 2011, there were a number of primary issuances, including CIMB Subordinated Debt, EON Bank Subordinated Debt, RHB Capital, WCT, NBAD, MACB and KNM Group Bhd in the primary market. Bond issues in the pipeline are Alluvium Bhd and Sabah Development Bank.

Along the primary segment, PLUS Usahasama and Maybank Subordinated Bond were concluded in December with overwhelming response.

Strategy

We maintain our bullish call on the bond market over the immediate future. On a global context, the continued unresolved sovereign debt crisis in the Euro and its associated austerity measures could impact the still fragile economic recovery worldwide, with subdued and below trend recovery seen from the U.S.

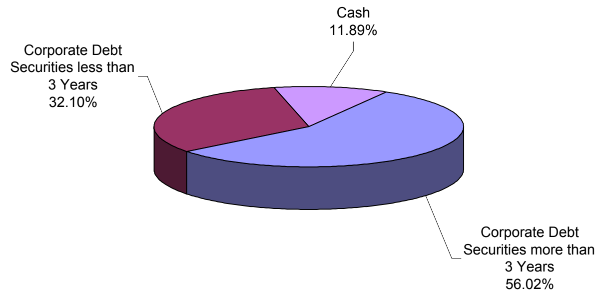
Against such backdrop, we expect Bank Negara Malaysia (BNM) to be cautious about these external developments and take a more pro-growth stance in policies setting in 2012. Inflation expectations have remained stable and likely to trend lower in 2012 with moderation in global energy prices amid a slower growth outlook. With inflationary pressure expected to be trending lower in 2012, cut in OPR is possible next year should world economic conditions worsen significantly from hereon.

Locally, the still abundance liquidity in the financial system and strong bidding interest in corporate bond primary issuances shall keep the overall credit yield curve well anchored and supported. In addition, a less active PDS primary market in 1Q12 shall see overall yield levels remain fairly range bound, despite the fair to expensive valuation on MGS (on assumption of no double-dip recession in the developed world). On the secondary segment, we expect more trades along high grade more liquid names, whilst demand for longer duration bonds is expected to remain buoyant for yield enhancement.

That said, key risks to the above bullish call on market rest with the still high foreign investors' holding of Ringgit bonds (in particular Malaysian Government Securities); any reversals shall subject the market to upwards yield pressure and higher price volatility, which shall then present an opportunity for trading, for return enhancement.

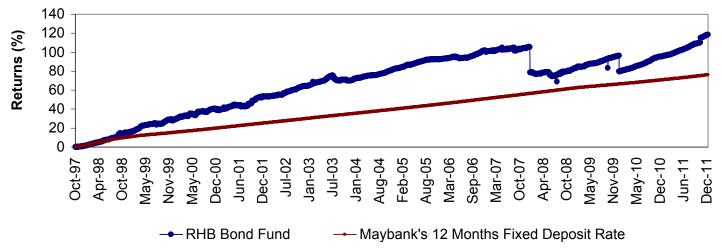
Overall, our strategy is to tactically overweight in duration given the scenario highlighted above. We will overweight more PDS vis-à-vis MGS as we view MGS to be fairly priced. More investment in PDS shall give us the additional credit spreads needed to sustain a higher interest income for portfolio under this pro-longed low interest rate environment. Cash level would be kept at very minimal level at all times.

SECTORIAL COMPOSITION AS AT 31 DECEMBER 2011



Duration as at 31 December 2011: 6.08

NAV-NAV Prices
Cumulative Return Over The Period (%)



10 October 1997 to 31 December 2011 NAV-NAV prices & assuming reinvestment of distributions for the fund, gross investment based in RM.
Source: Lipper Hindsight

The value of units may go down as well as up. Past performance is not an indication of future results.

THE FUND PERFORMANCE TABLE AS AT 31 DECEMBER 2011 (%)

	1 month	6 months	1 year	3 years	5 years	Since Inception
Fund	0.97	7.24	11.44	19.50	8.54	118.52
Maybank's 12 Months Fixed Deposit Rate	0.26	1.57	3.02	8.61	16.80	76.10

Source: Lipper Hindsight

TOP 5 HOLDINGS AS AT 31 DECEMBER 2011 (%)*

9.30% Ample Zone Bhd	18.54
6.15% ANIH Berhad IMTN	15.65
5.36% BESRAYA (M) Sdn Bhd	13.55
5.3% CIMB Group Holdings Bhd	8.93
4.74% Manjung Island Energy Berhad	7.52

* as percentage of NAV

Based on the fund's portfolio returns as at 15 December 2011, the Volatility Factor (VF) for this fund is 5.3 and is classified as "Low" (source: Lipper). "Low" includes funds with VF that are above 3.8 but not more than 10.8 (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.