

RHB ISLAMIC 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 Islamic Bond Fund essentially reflects this asset class that provides reasonable returns within a relatively low risk environment.



3 Year and 5 Year Basis
- as at 31 December 2011



Best Malaysian Sukuk (10 Year)



Best Bond Malaysia Ringgit Islamic Fund (3 Years)



FUND OBJECTIVE

To provide regular income to investors through investments in Islamic debt securities and bonds which are acceptable investment under the principles of Shariah.

INVESTOR PROFILE

- Want an investment that complies with the principles of Shariah;
- Want to have regular income from their investment;
- Want a professionally managed portfolio of Islamic debt securities and bonds; and
- Require higher returns than Islamic fixed deposits at an acceptable level of risk.

INVESTMENT DETAILS AS AT 31 DECEMBER 2011

Unit NAV (31 December 2011)	RM1.1685
Fund Size (31 December 2011)	RM47.41 million
Units in Circulation (31 December 2011)	40.58 million
Fund Currency	Ringgit Malaysia
Fund Inception	25 August 2000
Offer Price at Inception	RM1.00
Annual Management Fee	Profit Sharing Scheme:15:85 based on Net Investment Income after deduction of Trustee Fee
Annual Trustee Fee	0.10% p.a. of the NAV of the Fund subject to a minimum of RM35,000 p.a.
Exit Fee	Exit <= 1 year: 1% Exit > 1 year: No exit fee

Initial Charge	None
Redemption Payment Period	10 days
External Investment Manager	RHB Islamic Asset 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	RHBIBND MK

MARKET BRIEF

US Treasuries

U.S. Treasuries strengthened further with significant gains along the back-end of the yield curve. On a 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 Nov-11 from +3.6% in Oct-11, while the PPI rebounded by 0.3% MoM in Nov-11 after falling by 0.3% in Oct-11, 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 Fed 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 Fed 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. 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. Similarly, Government Investment Issues (GI) closed firmer with yield falling 4bps to 6bps across the curve; The 3-, 5-, 7- and 10 year benchmark closed at 3.20%, 3.36, 3.60%, 3.80%, respectively. Malaysia's CPI eased to 3.3% YoY in Nov-11 as expected, after held stable at 3.4% in Oct-11 and Sep-11. 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 Nov-11, after easing to +2.4% in Oct-11. In October, Malaysia's leading index rose to 2.4% YoY (Sep-11: +1.2%), industrial production grew by 2.8% YoY (Sep-11: +3.0%), whilst manufacturing sales rose by 11.4% YoY (Sep-11: +16.4%). Likewise, exports growth slowed but held relatively well with growth of 15.8% YoY in Oct-11 (Sep-11: +16.6%), following a strong pick-up in exports of commodities. Imports eased to 4.6% YoY in Oct-11 from +12.9% in Sep-11, resulting in widening of trade surplus to RM13.22 billion in Oct-11, from a surplus of RM9.63 billion in Sep-11.

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 Gil'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, 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 Aluvium Bhd and Sabah Development Bank. Along the primary segment, PLUS Usahasama and Maybank Subordinated Bond were concluded in December with overwhelming response.

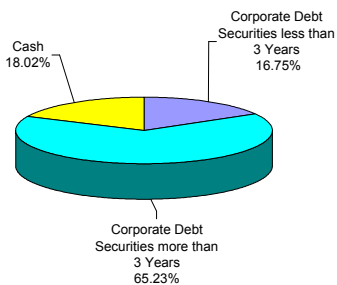
Outlook & Strategy

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/GII (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.

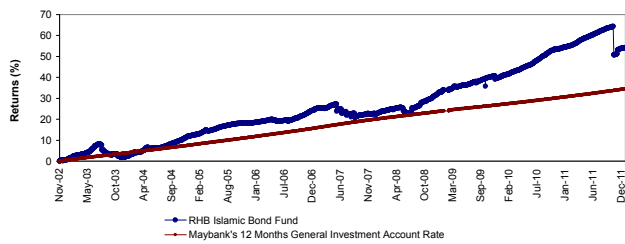
That said, key risks to the above bullish call on market rest with the still high foreign investors' holding of Ringgit bonds (in particular MGS/GII); any reversals shall subject the market to upwards yield pressure and higher price volatility, which shall then present an opportunity for trading, for return enhancement. Overall, our strategy is to tactically overweight in duration given the scenario highlighted above. We will overweight more PDS vis-a-vis MGS/GII as we view MGS/GII 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: 3.78

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



25 November 2002 to 31 December 2011 NAV-NAV prices & assuming reinvestment of distributions for the fund, gross investment based in RM.

Source: Lipper Hindsight

Maybank's 12 Months General Investment Account Rate is only available in Lipper Hindsight after November 2002.

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	0.46	-3.98	-0.06	16.17	23.96	83.25
Maybank's 12 Months GIA Rate	0.26	1.60	3.05	8.74	16.27	N/A

Source: Lipper Hindsight

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

9.3000% Ample Zone Berhad	10.47
3.900% Kencana Petroleum Berhad	10.34
6.100% Maju Expressway Sdn Bhd	9.24
7.800% Mukah Power Generation Sdn Bhd	9.02
6.182% Malakoff Corporation Berhad	6.87

* as percentage of NAV

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A copy of the Master Prospectus dated 1 July 2011 has been registered with the Securities Commission, who takes no responsibility for its contents. Investors are advised to read and understand the content of the prospectuses before investing in unit trust funds. Investors should also consider the fees and charges involved before investing in the fund. Investors should rely on their own evaluation to assess the merits and risks of the investment. In considering the investment, investors who are in doubt on the action to be taken should consult professional advice.

Based on the fund's portfolio returns as at 15 December 2011, the Volatility Factor (VF) for this fund is 5.2 and is classified as "Very Low" (source: Lipper). "Very Low" includes funds with VF that are above 0.0 but not more than 3.8 (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.