Kenanga Investors

August 2017

Market Review and Outlook

OnePRS Review

The International Monetary Fund (IMF) remained confident that the global economic recovery is on a firmer footing this year on expectations of accelerating growth in the Euro-zone, Japan and China. In the July 2017 update of its World Economic Outlook (WEO), the IMF kept its global GDP forecast at 3.5% for 2017 and 3.6% for 2018 – unchanged from its April 2017 outlook. The latest Global Manufacturing PMI index edged up to 52.7 during the month, a tad higher than 52.6 in June 2017. Although the rate of output expansion eased slightly, stronger inflows of new business and rising workforce numbers suggest that the current pace of increase should be broadly sustained going forward.

Elsewhere, The Group of Twenty (G20) nations met in Hamburg for its 12th summit. Free trade, financial market regulation, and inclusive growth were the broad agenda. Representatives from China and US met in Washington in July for an inaugural US-China Comprehensive Economic Dialogue to address trade issues such as US trade deficit with China. Nonetheless, the session failed to produce agreement on bilateral trade and economic issues, resulting in an impasse.

On the local front, Malaysian economy remained on an improving path following the better-than expected growth of 5.6% YoY in the first quarter this year. In mid-July 2017, the IMF upgraded the Malaysian GDP forecast by 0.3 percentage points from its April 2017's forecast to 4.8%, which was in line with BNM's projection of 4.5% to 4.8% range. The stronger outlook for this year is based on rebounding exports and private investment, together with resilient domestic demand. In the same vein, the Asian Development Bank (ADB) also upgraded Malaysia's growth outlook to 4.7% from 4.4% on stronger GDP growth in the first quarter of the year, driven by rising exports and continued growth in the manufacturing sector.

July ended with KLCI, FBMS and FBMSC closed marginally lower (MoM) by -0.2%, -0.8% and -1.0% respectively, whilst YTD, the KLCI, FBMS and FBMSC were up by 7.2%, 5.9% and 17.4% respectively. Foreign investors continued to be net buyers of Malaysia equities in July, but at a tapered pace of MYR 0.4b. Malaysia equities continue to receive the most of foreign net buy in the region in 2017 with YTD total foreign net buy of MYR 11.2b. Commodities posted a strong performance in July with WTI and Brent crude up 9.0% and 7.5% to finish at USD 50.17 and USD 52.17, respectively.

On the fixed income front, US Treasury yields were up across the curve in July despite Fed's cautiousness over the subdued inflation. The Fed kept rates steady at 1.00% - 1.25% but reiterated concerns about the low inflation which had dampened expectations of another rate hike this year. As expected, the Fed had confirmed it would start shrinking its balance sheet "relatively soon". Yields were pushed up by strong durable goods data which had increased growth and inflation expectations. At month-end, yields were weighed down by 2Q2017 GDP which rose in line with expectations to 2.6% q-o-q from 1.2% q-o-q in 1Q2017. In the GDP report, PCE index eased to 0.3% q-o-q from 2.2% q-o-q in 1Q2017 while the employment cost index had also moderated to 0.5% q-o-q from 0.8% q-o-q. At month-end, the 2- and 10-year UST closed at 1.35% (-3 bps) and 2.29% (-1 bp) respectively.

The Ringgit (MYR) strengthened by 0.27% against the US Dollar (USD) over the month prompted by the Fed's decision to keep interest rates low longer. Producer prices in Malaysia rose 8% y-o-y in May, compared to 7.5% in April as costs rose for most sectors, mainly agriculture, forestry & fishing, water supply and manufacturing. Malaysia's Coincident Index increased by 1.1 index points to 129.90 in May, while its Leading Economic Index advanced 1.2% m-o-m in May following a decrease of 1.3% in the previous month. Local government bonds yield curve rose towards the end of the month driven by the rise in US Treasury yields and higher oil prices. At month-end, the 3-, 5-, 7- and 10-year benchmark MGS yields settled at 3.30% (-9 bps), 3.70% (+8 bps), 3.91% (+1 bp) and 3.99% (+8 bps) respectively. Trading activities decreased this month compared to the previous month where local government bonds registered a trading volume of RM41.9 billion compared to the previous month's value of RM49.9 billion. Meanwhile, the secondary corporate bonds market recorded lighter trading activities compared to last month. During the month, total trading volume was lower at RM9.8 billion compared to last month's RM15.9 billion.

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At its meeting on 13th July, the Monetary Policy Committee (MPC) of BNM decided to maintain the OPR at 3.00%. It cited that at the current level of the OPR, the stance of monetary policy is accommodative and supportive of economic activity and that the MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation.

OnePRS Outlook

Although the outlook for markets remains positive, there are rising risks of a short-term pullback given the strong YTD performance. These include threats from the US Federal Reserve's monetary tightening, protectionist measures from the United States and other geopolitical tensions. Hence we advocate minor tilt towards defensive stocks with stable earnings, laggards, as well as quality high yielders. Historically, the summer period is also a lull period for the emerging markets, and thus we also look to progressively trim stocks that have rallied without commensurate earnings and fundamental improvement.

We continue to favour companies driven by selective themes such as beneficiaries of rising foreign direct investment, GLC reform/restructuring plays, infrastructure, and tourism.

On the fixed income front, the surge in the 2-year UST yield to above 1.4% in July, its highest since 2008, is no surprise given the two US Fed rate hikes thus far, as well as expectations of further hikes. We expect the Fed to stay on course, likely hiking rates again in 2H2017. We expect foreign holdings of local government bonds to continue rising, albeit at a moderate pace. In Malaysia, the benchmark Overnight Policy Rate (OPR) is expected to remain status quo at 3.00% for the rest of 2017. In the secondary market for Malaysian Government Securities (MGS) and corporate bonds, we anticipate bond yields to trend higher in 2017, albeit at a moderate pace.

In Malaysia, the benchmark Overnight Policy Rate (OPR) is expected to remain status quo at 3.00% for the rest of 2017. With the domestic and external economic outlook turning more positive, there are more reasons to believe that the BNM rate cut in July 2016 was the last in the current cycle. The possibility of an OPR hike is also rather limited as the current inflation is driven by cost-push rather than demand-pull factors. In addition, we expect the overall current inflation momentum to decelerate in the coming months. This is premised on the likelihood of a stronger Ringgit and softer commodity prices. However, the inflation rate will likely remain higher than last year, again on account of the lower base in 2H2016. We envisage an average inflation rate of 3.8% for the full year of 2017, compared to 2016's 2.1%.

OnePRS Fund Strategy

For all PRS funds; refer to the respective underlying fund(s).

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Kenanga OnePRS Growth Fund
August 2017

FUND OBJECTIVE
Seeks to provide capital growth.

Fund Category/Type
Core (Growth)

Launch Date
20 November 2013

Trustee
Maybank Trustees Berhad

Benchmark
Composite of All MGS Index (30%) and FBM 100 (70%)

Designated Fund Manager
Lee Sook Yee

Sales Charge
Up to 1.50%

Annual Management Fee
1.55% p.a.

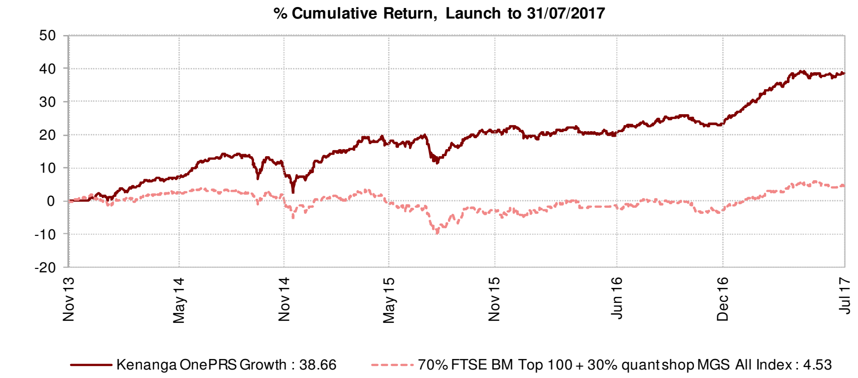
Annual Trustee Fee
0.015% p.a. of the Fund's NAV, subject to a minimum of RM6,000 p.a.

Redemption Charge
Nil

Initial Offer Price
RM 0.5000

All fees and charges payable to the Manager and the Trustee are subject to GST as may be imposed by the government or other authorities from time to time.

FUND PERFORMANCE (%)



Source: Novagni Analytics and Advisory Sdn Bhd

CUMULATIVE FUND PERFORMANCE (%)

Period	Fund	Benchmark
1 month	0.42	-0.18
6 months	9.35	5.36
1 year	13.23	6.17
3 years	22.82	1.27
5 years	-	-
Since Launch	38.66	4.53

 # Source: Novagni Analytics and Advisory Sdn Bhd ; Lipper, 31 July 2017

CALENDAR YEAR FUND PERFORMANCE (%)

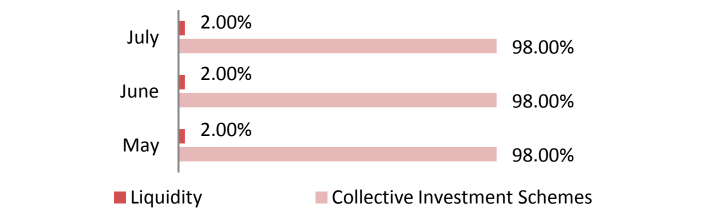
Period	Fund	Benchmark
2016	0.56	-0.69
2015	14.15	-0.53
2014	5.88	-3.22
2013	-	-
2012	-	-

FUND SIZE *	NAV PER UNIT *
RM41.07 million	RM0.6933

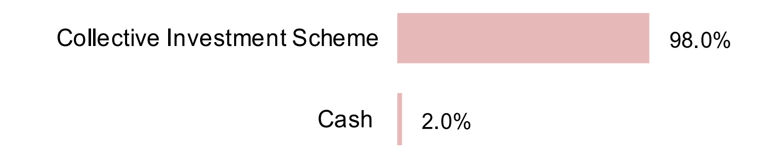
HISTORICAL FUND PRICE *

	Since Inception	Date
Highest	RM 0.6960	22-May-17
Lowest	RM 0.4998	16-Dec-13

ASSET ALLOCATION *



SECTOR ALLOCATION (% NAV) *



TOP HOLDINGS (% NAV) *

1	KENANGA GROWTH FUND	69.00%
2	KENANGA BOND FUND	29.01%

DISTRIBUTION HISTORY

Not Applicable

** Source: Kenanga Investors Berhad, 31 July 2017*