APEX DANA AMAN

Quarterly Report
for the period ended
31 December 2020

MARKET REVIEW

On the final Monetary Policy Committee meeting in November, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 1.75% after slashing the OPR rate as much as 125bps for the year. BNM's stance was underpinned by expectations of economic activity to improve further. Even so, the decision remained subjected to downside risks as the resurgence of Covid-19 infections further clouds any clarity to current economic outlook. The central bank still have room for potential rate cuts depending on how the latest market indicators fare. Besides that, Fitch Ratings downgraded Malaysia's Long Term Foreign-Currency Issuer Default Rating to 'BBB+' from 'A-', with a stable outlook.

Within the quarter, the foreign holdings of all Ringgit denominated debt securities continued to increase and reached the highest total since November 2016 at MYR223.0 billion. Impressively, the total foreign holdings grew by 4.7% since September. Evidently, the Ringgit bond market remained attractive to offshore investors thus far.

The third quarter registered a much shallower contraction of Gross Domestic Product (GDP) of -2.7% as compared to the sharp plunge of -17.1% in the second quarter. Malaysia is at risk of another round of deeper GDP contraction for 4Q2020 as number of new Covid-19 infections had averaged much higher than it was in 2Q2020.

Malaysia's external trade performance prevailed to be strong as trade surpluses are recorded for the seventh consecutive month in November 2020. Meanwhile, the November's Consumer Price Index remained in contraction, at -1.7% year-on-year, the real interest rate translated to 3.45% during the same period.

On the whole, the Ringgit bond and money market remained resilient despite the resurgence of Covid 19 infections domestically as well as globally. Moving forward, with the passage of the Budget 2021, higher frequency of Malaysian government securities auctions and private placements were scheduled to bolster fiscal spending and boost liquidity. Investors should expect steepening of yield curves amid higher government securities supply. Malaysia is also expecting the first Covid-19 vaccine rollout in the first quarter of 2021.

MARKET OUTLOOK

In our view, the emergency announcement and tighter MCO restrictions in Malaysia would mean a stronger likelihood of an additional interest rate cut in 1Q2021. Prior to this, we had already penned in a rate cut in 1Q2021 in our previous forecast in order to cement a fragile recovery, and on account of the ongoing rise in COVID cases towards the end of last year. Our expectation of a rate cut then, was premised on several growth indicators lagging that of its peers, while Malaysia's PMI index was below 50, indicating a contraction, even as both Global and ASEAN PMI readings had already recovered above 50.

As such, it would be premature to assume that the rate cut cycle is over, and furthermore, central banks continue to have advanced policy tools such as quantitative easing in their arsenal. The fall in growth this time is unique and is not an ordinary cyclical crisis, but one which has a huge human and social cost and therefore, strengthens political will to adopt drastic policy actions. Another reason for the likelihood of an interest rate cut is that Malaysia is still experiencing deflation and capacity excesses are obvious in various sectors of the economy. In fact, deflation has intensified from -1.3% in Jul-2020, to the latest reading of -1.7% in Nov-2020.

Pressures on sovereign debt metrics. Meanwhile, after mid January's fresh movement control order (MCO), our thought is that the more stringent movement control orders could bring down GDP growth rate this year by as much as 0.7%. In addition, to ensure a steadier economic rebound this year, with the added pressure of the latest movement control order, may require a heavier fiscal policy injection, and additional measures to support the people are currently being considered. However, large fiscal expansion may not be feasible seeing the contracting fiscal space relative to the drop in GDP growth. Importantly, a lower GDP growth (i.e. denominator) and higher fiscal deficit means an increasing probability that the 60% debt-to-GDP ratio will be breached and also hamper the achievement of targeted deficit to GDP ratios. Against this backdrop, there is also an increasing risk that Standard and Poor's (S&P) as well as Moody's would match Fitch's recent downgrade to BBB+. However, we believe the incremental bond and money market impact of such a move may have a limited effect, since S&P had already placed Malaysia's A- rating on negative outlook since Jun- 2020. Meanwhile, Moody's rating outlook for Malaysia is A3 stable. Our observations and published studies of prior rating actions suggest that as long as a country remains within the investment grade space, market impact will be limited and temporary, as macro factors such as interest rates and carry trade flows tend to take precedence over mild sovereign rating changes; conversely, market reactions will be material and persistent only if a country crosses through the Investment Grade-High Yield boundary.

The recent rise in global yields particularly US Treasuries, had been partly due to the reflation story, given the rise in commodity prices, in particular oil, and risk-on sentiment given the unexpected win by US Democrats of both the house and senate which paves the way for higher fiscal stimulus. This has led to concerns that the rise in US Treasury yields may then lead to a rise in yields of emerging market bonds. In our opinion, higher commodity prices have the element of boosting cost-pushed inflation, but the other side of the equation, which is demand-pulled inflation, is still weak in Malaysia. Bank Negara Malaysia explained in its last policy statement in Nov- 2020: *"Nevertheless, the pace of recovery will be uneven across sectors, with economic activity in some industries remaining below pre-pandemic levels, and a slower improvement in the labour market."* This points to the presence of an output gap which will likely remain until economic activities return to normal. Given tighter MCO restrictions and the rising COVID cases, the output gap is likely to remain and keep CPI negative. Therefore, higher global yields and the risk of reflation may not lead to a sharp and sustained rise in local yields in Asia, particularly if we take into account local conditions and an overall deflationary scenario with weak demand.

Monetary policy outlook: OPR statement to remain dovish with good likelihood of a rate cut in 1Q2021. To reiterate, emergency aside, a rate cut in 1Q2021 (either on 20-Jan or 4-Mar) was already within our expectations given the declining growth and deflation data in Malaysia. While the vaccine will be rolled out and boost consumer sentiment, this would take some time given implementation lags and it is difficult to gauge to what extent an improvement in sentiment would materialize fully in actual spending, assuming consumers remain risk averse for some time following the pandemic. Therefore, it would be prudent for BNM to cut the interest rate for both reasons of supporting growth and cementing future growth. Also, BNM left the door open for further rate cuts and other forms of accommodation in its last policy statement in Nov-2020: *"The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery."*

The political situation remains fluid but not necessarily less stable. The political and institutional quality of a country carries a heavy weight in the overall assessment of sovereign ratings and investor perceptions. The World Bank governance indicators includes factors such as voice and accountability, control of corruption, regulatory quality, rule of law, absence of violence and terrorism, government effectiveness and political stability. As such, a shifting political landscape which results in a deterioration of a single factor may be diluted by the presence of stability of other factors. For now, the emergency situation means no by elections, no state elections and no elections and that would reinforce political stability for the time being. An independent special committee will be established under an ordinance to advise the King on whether the emergency still remains, to decide on the date (initially scheduled for August) and whether the conditions are appropriate for the emergency to end. In the present scenario, Malaysia has demonstrated effectiveness of being able to enact constitutional emergency powers in an orderly manner without a military coup unlike in other emerging markets. The government has also assured that Malaysia and its capital market is open for business and that the central bank and public administration will continue to function, suggesting that fiscal plans and the policy levers to help counter a downturn through monetary policies will remain intact. Furthermore, in the emergency, there will be no parliamentary sitting and the King will control the executive and legislative arms of government which implies that policies and laws may be enacted more quickly. Meanwhile, the judiciary will continue to function independently.

USDMYR downside postponed. With the unexpected developments surrounding the resurgence in COVID-19 in Malaysia, earlier forecast of a rebound in the economy as well as the MYR has to be reconsidered. While the expectation that USDMYR approach the 4.00 handle had materialized, further downside has to be postponed for now. In the near term, the USDMYR pair is likely to stay in a range around 4.05 bounded by 4.00 on the downside and 4.10 on the upside. As such, we maintain our USDMYR forecast of 4.08 in 1Q2021. The potential for US stimulus boosting demand for commodities is a good argument for the MYR, although headwinds will come in the form of potential for a rate cut or more by BNM, likely weaker growth, and higher UST yields. The path of oil prices is also another variable that has to be closely monitored as while oil prices are currently firm, positioning is overstretched, while OPEC+ members and other oil producers seek to eventually increase production after a year of severe cuts.

APEX DANA AMAN

Performance and Fund Information

	Total Return from 1 July 2020 to 31 December 2020	Total Return from 1 July 2019 to 31 December 2019
Apex Dana Aman	Nil	1.67%
Maybank Islamic 12-Month General Investment Account-I (GIA-i)	Nil	1.80%

Performance data independently verified by Novagni Analytics and Advisory Sdn Bhd

NAV Per Unit	RM1.00	RM1.0715
Fund Size	RM1.0000	RM3,214,519

Asset Allocation Mandate

Sukuk, Islamic Money Market instruments and/ or Shariah compliant deposits:-	
Up to 90 days	95% - 100%
More than 90 days	0% - 5%

Asset Allocation

Shariah-based deposits	-	99.25%
Liquid assets	100%	0.75%

Risk Factors

The specific risk factors of the Fund are as follows:-

1) Market risk
2) Fund Management risk
3) Performance risk
4) Inflation risk
5) Risk of non-compliance
6) Operational risk
7) Returns are not guaranteed risk
8) Credit or Default risk
9) Interest rate risk
10) Commitment risk

Past performance is not necessarily indicative of future performance. Unit prices and investment returns may fluctuate.

DIRECTORY

Manager	**Apex Investment Services Berhad [199701004894 (420390-M)]**	
Business Office	3rd Floor, Menara MBSB No. 46, Jalan Dungun, Damansara Heights, 50490 Kuala Lumpur	
Board of Directors	Y.M. Dato' Tunku Ahmad Zahir bin Tunku Ibrahim	Non-Executive and Independent Director
	Clement Chew Kuan Hock	Executive and Non-Independent Director
	Wong Fay Lee	Non-Executive and Non-Independent Director
	Azran bin Osman Rani	Non-Executive and Independent Director
Secretary	Ng Kee Tiong (MIA 10631) Ng Chin Chin (MAICSA 7042650)	
Trustee	**CIMB Islamic Trustee Berhad (Company No. 167913-M)** Level 13, Menara CIMB, Jalan Stesen Sentral 2, Kuala Lumpur Sentral, 50470 Kuala Lumpur.	
Auditor and Reporting Accountant	**Crowe Malaysia PLT (201906000005 (LLP0018817-LCA) & AF-1018)** Level 16, Tower C, Megan Avenue II, 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur.	
Taxation Advisers	**Mazars Taxation Services Sdn Bhd (579147-A)** Chartered Accountants, Wisma Selangor Dregging, 7th Floor, South Block, 142-A, Jalan Ampang, 50450 Kuala Lumpur.	
Shariah Committee	Prof. Madya Dr Mohamad Sabri bin Haron (Chairman and Independent Member) Mohd Fadhly bin Md. Yusoff (Independent Member) Dr. Ab. Halim bin Muhammad (Independent Member)	

Solicitors	**Mr.Lim Wei Chien** **Wei Chien & Partners** Level 29,Tower A, Vertical Business Suite,Avenue 3,Bangsar South. No.8,Jalan Kerinchi, 59200 Kuala Lumpur.

BUSINESS OFFICE

APEX INVESTMENT SERVICES BERHAD

3rd Floor, Menara MBSB,
46, Jalan Dungun,
Damansara Heights,
50490 Kuala Lumpur.