

## Manager's Report

### For the Financial Period 1 July to 30 September 2018

<b>Name of Fund</b>	: MyETF MSCI SEA Islamic Dividend  ("MyETF-MSEAD" or "the Fund")
<b>Type of Fund</b>	: Exchange Traded Fund
<b>Fund Category</b>	: Shariah-Compliant Equity
<b>Commencement Date</b>	: 29 April 2015
<b>Listing Date</b>	: 7 May 2015
<b>Benchmark Index</b>	: MSCI AC ASEAN IMI Islamic High Dividend Yield 10/40 Index  ("MIISOD40 Index" or "Benchmark Index")
<b>Manager</b>	: <i>i</i> -VCAP Management Sdn. Bhd. (" <i>i</i> -VCAP")

#### 1. Investment Objective

MyETF-MSEAD aims to provide investment results that closely correspond to the performance of the Benchmark Index regardless of its performance.

#### 2. Benchmark Index

The Benchmark Index, namely the MSCI AC ASEAN IMI Islamic High Dividend Yield 10/40 Index is a free-float adjusted, market capitalisation weighted, price return index calculated, maintained and published by MSCI. The Benchmark Index is designed as a performance benchmark for the high dividend-yielding segment of its Parent Index, the MSCI AC ASEAN IMI Islamic Index. The Parent Index is a free-float adjusted market capitalisation weighted index that is designed to measure the equity market performance of selected South East Asia countries.

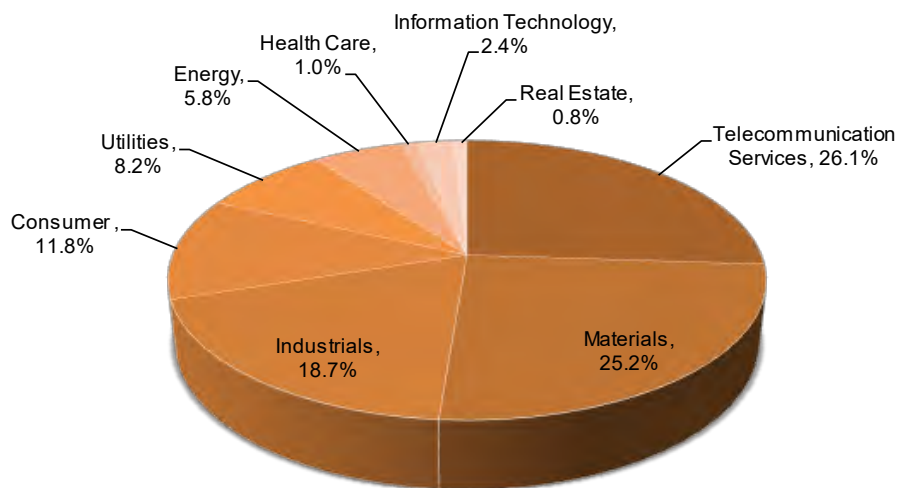
The Benchmark Index shall comprise up to 30 Shariah-compliant companies listed on the stock exchanges in South East Asia countries with dividend yields that are at least 30% higher than the Parent Index yield that are deemed both sustainable and persistent by MSCI.

The weight of any single group entity in the Benchmark Index is capped at 10% of the Benchmark Index weight and the sum of the weights of all group entities representing more than 5% is capped at 40% of the Benchmark Index weight. The Benchmark Index is calculated and published in Ringgit Malaysia.

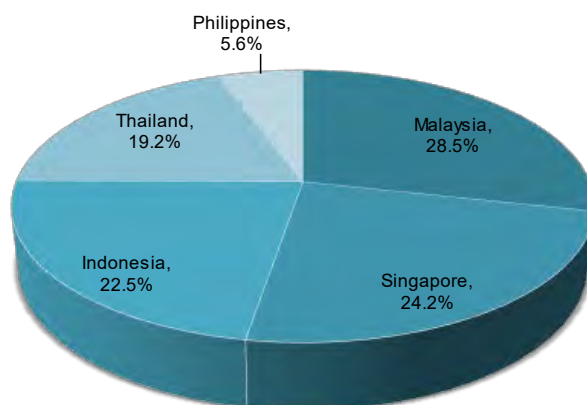
The Parent Index and Benchmark Index consist only of Shariah-compliant securities which are approved by the MSCI Shariah Supervisory Committee based on the MSCI Islamic Index Series Methodology. The MSCI Shariah Supervisory Committee will review and audit the Benchmark Index, the Parent Index as well as the MSCI Islamic Index Series Methodology on a regular basis to ensure compliance with Shariah.

Based on the latest quarterly review (as at 30 August 2018), the sector allocation of MIISOD40 Index based on MSCI sector classifications are as follows:

**Chart 1(a): Sector Classification – MSCI**



Source: MSCI

**Chart 1(b): Country Exposure - MSCI**

Source: MSCI

### 3. Investment Strategy

During the period under review, the Manager tracked the performance of the Benchmark Index by investing all, or substantially all, of the Fund's assets in the constituents of the Benchmark Index in substantially the same weightings as they appear in the Benchmark Index.

The Manager will generally adopt a replication strategy to manage the Fund. The Manager may use techniques including indexing via full or partial replication in seeking to achieve the investment objective of the Fund, subject to conformity with Shariah.

### 4. Fund Performance

For the quarter under review, the Fund's NAV has met its investment objective of closely corresponding to the performance of the underlying benchmark, i.e. MIISOD40 Index. The 3-year rolling tracking error of the Fund and the Benchmark Index on Price Return and Total Return basis were both 0.10%. In terms of NAV movement, the Fund's NAV per unit increased by 6.95% to RM0.8500 from RM0.7948 at the end of the previous quarter while the Benchmark Index and Benchmark's Total Return Index increased by 6.57% and 7.97% respectively for the quarter.

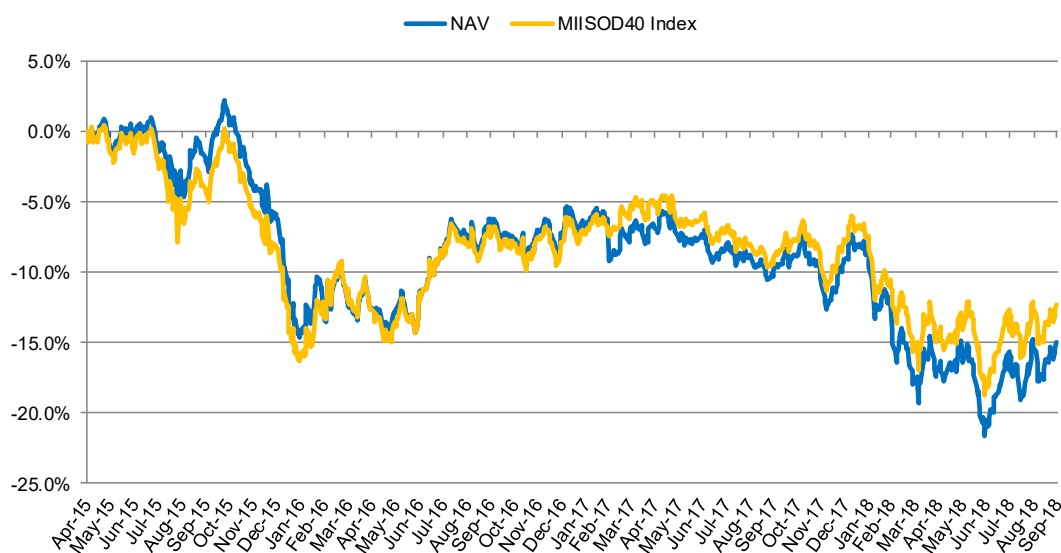
Despite lower units in circulation of 88.0 million compared to 89.0 million in the previous quarter, the Fund's NAV closed the quarter higher at RM74.80 million due to its performance. The Fund closed the quarter at the price of RM0.8450 per unit, the highest price recorded in the third quarter. The key statistics and comparative performance of the Fund for the third quarter of 2018 and the prior quarter are summarized as follows:

**Table 1: Key Statistics**

	As at 30-Sep-18	As at 30-Jun-18	QoQ Change
NAV per unit (RM)	0.8500	0.7948	6.95%
- Highest	0.8520 (29 Aug)	0.8546 (19 Apr)	
- Lowest	0.7903 (2 Jul)	0.7839 (28 Jun)	
<i>(During the quarter)</i>			
Price per unit (RM)	0.8450	0.7960	6.16%
- Highest	0.8450 (29 Aug)	0.8400 (24 Apr)	
- Lowest	0.7950 (5 Jul)	0.7950 (22 Jun)	
<i>(During the quarter)</i>			
Units in Circulation	88,000,000	89,000,000	(1.12%)
Total NAV (RM)	74,796,369	70,732,934	5.74%
Market Capitalisation (RM)	74,360,000	70,844,000	4.96%
MIISOD40 Index	2,115.75	1,985.30	6.57%
MIISOD40 Total Return	3,727.45	3,452.29	7.97%
Tracking Error vs. Price Return MIISOD40 Index (%)*	0.10	0.08	
Tracking Error vs. Total Return MIISOD40 Index (%)*	0.10	0.07	
Management Expense Ratio (%)	0.25	0.22	

Sources: Bloomberg, i-VCAP

\* The 3-year rolling tracking error between the NAV per unit of the Fund and the Price Return and Total Return Benchmark Index. The calculation was independently sourced from Novagni Analytics and Advisory Sdn. Bhd.

**Chart 2: Fund NAV Per Unit vs. Benchmark Index – Performance Since Inception**


Sources: Bloomberg, i-VCAP

**Note: Past performance is not necessarily indicative of future performance. Unit price and investment return may go up as well as down.**

**Table 2(a): Annual Returns**

	YTD 30-Sep-18 (%)	2017 (%)	2016 (%)	2015 (%)
MyETF- MSEAD - NAV Price Return <sup>(a)</sup>	(6.49)	(2.02)	(1.11)	(6.19)
MIISOD40 - Price Return Index	(5.01)	0.24	0.38	(8.26)
MyETF- MSEAD - NAV Total Return <sup>(a)</sup>	(4.85)	0.51	1.32	(6.19)
MIISOD40 - Total Return Index	(1.62)	3.47	4.44	(4.81)

Sources: Bloomberg, i-VCAP

(a) Independently sourced from Novagni Analytics and Advisory Sdn. Bhd.

**Table 2(b): Cumulative Returns**

	Cumulative Returns <sup>(b)</sup>		
	1-Year (%)	3-Year (%)	Since Inception (%)
MyETF- MSEAD - NAV Price Return <sup>(a)</sup>	(5.68)	(13.00)	(15.00)
MIISOD40 - Price Return Index	(3.65)	(8.19)	(12.32)
MyETF- MSEAD - NAV Total Return <sup>(a)</sup>	(4.02)	(6.96)	(9.10)
MIISOD40 - Total Return Index	0.11	3.01	1.20

Sources: Bloomberg, i-VCAP

(a) Independently sourced from Novagni Analytics and Advisory Sdn. Bhd.

(b) Cumulative returns are up to 30 September 2018.

**Table 2(c): Average Returns (Annualised)**

	Average Returns <sup>(b)</sup>		
	1-Year (%)	3-Year (%)	Since Inception (%)
MyETF- MSEAD - NAV Price Return <sup>(a)</sup>	(5.68)	(4.33)	(4.38)
MIISOD40 - Price Return Index	(3.65)	(2.73)	(3.60)
MyETF- MSEAD - NAV Total Return <sup>(a)</sup>	(4.02)	(2.32)	(2.66)
MIISOD40 - Total Return Index	0.11	1.00	0.35

Sources: Bloomberg, i-VCAP

(a) Independently sourced from Novagni Analytics and Advisory Sdn. Bhd.

(b) Average returns for MIISOD40 Price Return Index and MIISOD40 Total Return Index are annualized figures computed based on the price and total returns for the respective period.

During the period under review, MSCI AC ASEAN IMI Islamic Index, which is the Parent Index of MIISOD40 Index performed its third quarterly review for 2018 and rebalanced the composition of the Benchmark Index in accordance with its index methodology. The review in August resulted in changes to the weightings of the component stocks and stock constituents in the Fund. The Manager had undertaken the rebalancing exercise to align the Fund with the changes in the Benchmark Index.

During the quarter, three stocks were included while three stocks were removed from the Fund. The summary of the changes are as follows:

**Table 3: List of Stock Inclusion and Exclusion**

	Stock Inclusions	Country	Stock Exclusions	Country
3Q18	Cahaya Mata Sarawak Bhd	Malaysia	MISC Bhd	Malaysia
	Unisem (M) Bhd	Malaysia	Top Glove Corporation Bhd	Malaysia
	Lingkar Trans Kota Holdings Bhd	Malaysia	PT AKR Corporindo TBK	Indonesia

Source: MSCI

In terms of sectoral weightings, notable changes to the Fund's sector composition (MSCI) arising from the Benchmark Index's quarterly review were the increase in Materials to 24.90%. Meanwhile, two sectors – Healthcare and Industrials – saw a material decrease during the latest quarterly rebalancing exercise. Details of the Fund's key holdings and country exposure as at the end of 3Q2018 are as follows:

**Table 4: Fund's Sector Allocation\***

	As at 30-Sep-18	As at 30-Jun-18	Change (%)
Telecommunication Services	26.20%	26.00%	0.20%
Materials	24.90%	21.92%	2.98%
Industrials	18.78%	21.52%	-2.74%
Consumer	11.98%	10.56%	1.42%
Utilities	7.86%	7.87%	-0.01%
Energy	5.41%	4.40%	1.01%
Information Technology	2.39%	1.25%	1.14%
Health Care	0.91%	5.24%	-4.33%
Real Estate	0.65%	0.62%	0.03%
Cash & Others	0.92%	0.62%	0.30%

Sources: MSCI, i-VCAP

\* Based on MSCI classification

**Table 5: Fund's Country Exposure**

Country	As at 30-Sep-18	As at 30-Jun-18	Change (%)
Malaysia	28.25%	31.65%	-3.40%
Singapore	24.52%	24.16%	0.36%
Indonesia	22.42%	22.66%	-0.24%
Thailand	19.69%	17.45%	2.24%
Philippines	5.12%	4.08%	1.04%

Sources: MSCI, i-VCAP

Details of the Fund's quoted Investments as at 30 September 2018 are as follows:

**Table 6: MyETF-MSEAD's Investment in Listed Equities**

	Country	Quantity (Units)	Market Value (RM)	Market Value as a percentage of Net Asset Value (%)
<b><u>Telecommunication Services</u></b>				
1. PT Telekomunikasi Indonesia Persero TBK	Indonesia	6,975,700	7,048,694	9.42
2. Singapore Telecommunications Ltd	Singapore	698,900	6,846,522	9.15
3. Maxis Bhd	Malaysia	594,900	3,474,216	4.65
4. TIME dotCom Bhd	Malaysia	145,800	1,208,682	1.62
5. Jasmine International PCL	Thailand	1,430,600	1,015,369	1.36
			<b>19,593,483</b>	<b>26.20</b>
<b><u>Materials</u></b>				
6. Petronas Chemicals Group Bhd	Malaysia	722,300	6,760,728	9.04
7. PTT Global Chemical PCL	Thailand	644,300	6,694,595	8.95
8. PT Indocement Tunggal Prakarsa TBK	Indonesia	704,600	3,618,544	4.84
9. Scientex Bhd	Malaysia	91,800	815,184	1.09
10. Cahya Mata Sarawak Bhd	Malaysia	251,200	733,504	0.98
			<b>18,622,555</b>	<b>24.90</b>
<b><u>Industrials</u></b>				
11. ComfortDelGro Corporation Ltd	Singapore	495,300	3,639,021	4.87
12. SATS Ltd	Singapore	224,300	3,540,053	4.73
13. Singapore Airlines Ltd	Singapore	116,300	3,424,906	4.58
14. Westports Holdings Bhd	Malaysia	439,200	1,668,960	2.23
15. DMCI Holdings Inc	Philippines	1,597,300	1,389,962	1.86
16. Lingkar Trans Kota Holdings Bhd	Malaysia	83,600	381,216	0.51
			<b>14,044,118</b>	<b>18.78</b>
<b><u>Consumer</u></b>				
17. Home Product Center PCL	Thailand	1,626,700	3,286,831	4.39
18. PT Matahari Department Store TBK	Indonesia	990,100	1,903,348	2.55
19. Robinson PCL	Thailand	198,500	1,789,627	2.39
20. Sheng Siong Group Ltd	Singapore	212,100	718,238	0.96
21. Thai Vegetable Oil PCL	Thailand	173,900	644,927	0.86
22. Bermaz Auto Bhd	Malaysia	294,500	621,395	0.83
			<b>8,964,366</b>	<b>11.98</b>
<b><u>Utilities</u></b>				
23. Petronas Gas Bhd	Malaysia	183,900	3,475,710	4.65
24. Manila Electric Co	Philippines	92,300	2,399,687	3.21
			<b>5,875,397</b>	<b>7.86</b>
<b><u>Energy</u></b>				
25. PT Adaro Energy TBK	Indonesia	6,063,900	3,088,926	4.13
26. PT Indo Tambangraya Megah TBK	Indonesia	133,100	955,120	1.28
			<b>4,044,047</b>	<b>5.41</b>
<b><u>Information Technology</u></b>				
27. KCE Electronics PCL	Thailand	216,000	1,167,060	1.56
28. Unisem (M) Bhd	Malaysia	200,900	622,790	0.83
			<b>1,789,850</b>	<b>2.39</b>
<b><u>Health Care</u></b>				
29. Supermax Corporation Bhd	Malaysia	210,400	681,696	0.91
			<b>681,696</b>	<b>0.91</b>
<b><u>Real Estate</u></b>				
30. UOA Development Bhd	Malaysia	215,300	495,190	0.65
			<b>495,190</b>	<b>0.65</b>
			<b>74,110,702</b>	<b>99.08</b>

Sources: MSCI, i-VCAP

## **5. Distribution Policy**

The Fund may distribute to the Unit Holders all or a substantial portion of the Fund's Distributable Income, pro-rated based on the number of Units held by each Unit Holder as at the entitlement date of the income distribution.

Income distributions (if any) are expected to be made annually. The amount to be distributed will be at the discretion of the Manager. However, if the distribution available is too small or insignificant, any distribution may not be of benefit to the Unit Holders as the total cost to be incurred in any such distribution may be higher than the amount for distribution. No income distribution was declared or paid during the quarter.

## **6. Other Information**

There was no material litigation involving the Fund and no significant changes in the state of affairs of the Fund during the quarter under review. There is also no other material information that will adversely affect the Fund's valuation and the interest of unit holders.

## **7. Soft Dollar Commissions**

It is the Manager's policy not to receive any goods or services by way of soft commission.

## **8. Market Review and Outlook**

The global economy continued to expand in 2018, but at a moderate pace in the third quarter of 2018. While the US and UK GDP accelerated, most emerging economies recorded more moderate growth. In the advanced economies, labour markets remained supportive of private consumption, as unemployment rates continued to decline amid a steady increase in wage growth. Investment activity, however, moderated in the euro area, while in the US, business spending was lifted by the 2017 tax reforms.

Growth in Asian region was trended lower. During the quarter, high frequency indicators such as the Purchasing Managers Index (PMI) for the manufacturing sector registered declines for the first time since 2015. China recorded slower growth as the effect of credit tightening policies weighed on domestic investment, particularly from local government spending on infrastructure. Domestic



demand in the rest of the Asian region remained resilient, due to policy support and higher infrastructure spending.

The Malaysian economic growth recorded a sustained growth of 4.4% in the third quarter of 2018, from 4.5% in the second quarter. The growth was supported by expansion in domestic demand amid a decline in net exports growth. Private sector expenditure remained the key driver of growth, expanding at a faster pace of 8.5% from 7.5% in the second quarter, while public sector expenditure turned around to register a positive growth of 1.1% from a negative growth of 1.4% in the second quarter.

The ringgit depreciation against the dollar in the third quarter was in line with regional currencies, as external uncertainties continue to drive foreign portfolio outflows amid a strengthening US dollar. The continued strength in the US dollar was supported by positive US economic data and outlook. Investors sentiments were also negatively affected by rising trade tensions and concerns over contagion risk from vulnerable emerging market economies. Going forward, the ringgit will continue to be influenced by external uncertainties as well as the trajectory of the US dollar.

Local equity market recovered strongly in the third quarter due to active buying from domestic institutional investors, driven by improved clarity on the status of major infrastructure projects, higher crude oil prices and positive earnings results in selected large-cap companies. Externally, however, investor sentiments continued to be affected by lingering downside risks, resulting in foreign outflows of RM1.7 billion during the quarter.

For the remainder of the year, growth is expected to improve and benefit from the gradual recovery in commodity production. On the external front, higher commodity production would provide support to improvements in commodity exports. However, domestic demand is projected to expand at a more moderate pace, attributed to slower private sector spending. Going into 2019, growth prospects for the Malaysian economy are expected to remain driven by private sector activity amid the continued rationalisation of public sector expenditure, particularly public investment by public corporations. Exports are likely to moderate but would be supported by demand from major trade partners and the gradual recovery in commodities exports.

In Indonesia, the real GDP grew 5.3% in the second quarter of 2018, as domestic demand strengthened. Private and government consumption accelerated thanks to higher subsidy and personnel spending, a pick-up in credit growth, higher agricultural incomes and stable inflation. Strong job markets also helped. The employment rate reached a two-decade high of 65.7% in February, with the employment rate falling to 5.1%. Growth of machinery and equipment investment

remained robust, but overall capital investment slowed because investments in structures and buildings moderated. Despite escalating protectionism, both exports and imports grew over the quarter.

However, Indonesian equity market was one of the worst hits in the region. In addition to the regional decline, Indonesia's widening current account deficit added further pressure to the equity market. In response to the increased volatility, Bank Indonesia raised the policy interest rate by a cumulative 125 basis points since May to signal its commitment to stability, despite Q2 headline inflation of 3.3%, which is below the central bank's official target.

Economic growth is forecast to reach 5.2% this year and in 2019 and to gradually strengthen to 5.3% in 2020. Domestic demand is expected to continue to drive growth in the near-term. The modest acceleration in private consumption is expected to be sustained due to stable inflation, strong labour markets, and lowering borrowing rates. Government consumption is also projected to strengthen as revenue growth creates space for both fiscal consolidation and additional spending. Investment growth is expected to remain robust, initially as the momentum of public and mining investments continue, and later with reduced political uncertainty post elections.

In Thailand, the GDP expanded by 4.6% in the second quarter of 2018, supported by the speed up in private consumption and total investment, the continued robust export growth, as well as the increase in government consumption. Nevertheless, the manufacturing, hotel, transportation and communication sectors slowed down due to high growth base in the same period of last year.

Thailand economy is expected to expand in the range of between 4.2% and 4.7% in 2018 following a recovery in domestic consumption on the back of higher minimum wages and improving farm income. With elections likely to take place in Q1 2019, consumer spending will pick up more strongly. Given the baht strength and tame inflation, the central bank is not expected to raise its policy rate until next year. All these bode well for a more broad-based recovery.

In the Philippines, the economy grew by 6.0% in the second quarter of 2018. Domestic activity was supported by continued growth in services, particularly in the increased number of transactions in banking institutions, non-bank financial intermediation, public administration and defence. Negative contribution of net exports were mitigated by resilient household spending, robust growth in investments, mainly on durable equipment, as well as continued strong government spending.

Despite the strong economic growth, the Philippines Stock Exchange fell the most in the region. In addition to the common external factors that fraught the emerging markets, the local bourse was further affected by the continued rise in domestic inflation, country's widening trade deficit and the peso's decline to a 12-year low.

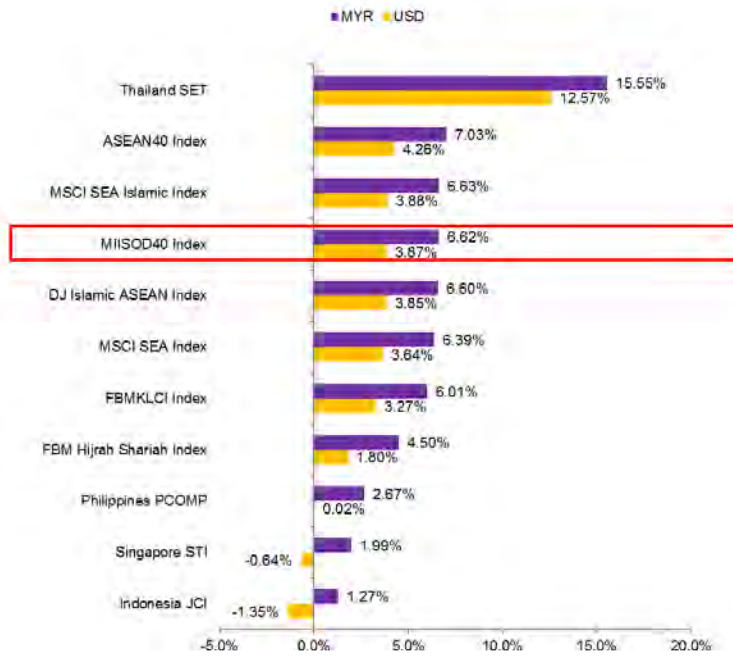
Looking ahead, the Philippines economy will continue to pick up due to the robust growth in the services sector. Private demand is expected to remain firm, aided mainly by sustained remittance inflows. Capital spending should also contribute to economic growth with construction and investments in durable equipment expected to remain solid as the government's projects and other infrastructure programs get underway, given ample liquidity conditions.

In Singapore, the GDP grew by 3.9% in the second quarter of 2018. The sectors that contributed the most were the manufacturing and finance & insurance sectors. Collectively, they accounted for 71% of GDP growth during the quarter.

Going forward, growth will continue to be supported primarily by export-oriented sectors. In particular, the manufacturing sector is expected to continue to expand, supported in part by the electronics cluster, although growth will moderate from the high levels seen in the first half of the year. Taking into account the global and domestic economic environment, as well as the performance of the Singapore economy in the first half of the year, the GDP for 2018 is expected to grow at between 2.5 and 3.5%.

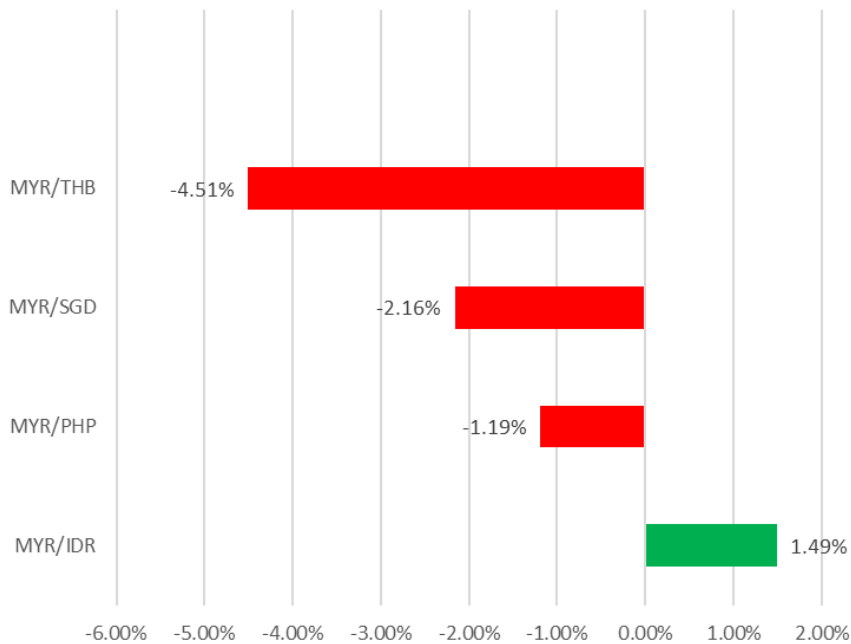
As MyETF-MSEAD is designed to correspond to the performance of the Benchmark Index by investing in selected high dividend-yielding Shariah-Compliant securities of companies listed on exchanges in selected South East Asia countries, it provides an avenue for investors to have broad exposure in ASEAN markets that conforms to the Shariah principles and practices. In addition, investors will also benefit from the potential distributions from dividend income received from its stock investment.

**Chart 3: ASEAN Equity Market Performance in 3Q2018**



Sources: i-VCAP, Bloomberg

**Chart 4: Performance of Ringgit against ASEAN-4 Currencies in 3Q2018**



Sources: Bloomberg, i-VCAP

Going forward, the unpredictability of how the trade relationship between the US and China progresses forward is still a key risk to equity markets. The potential risks will weigh on technology stocks, and escalation fears are likely to be a drag on the market. Investors remain complacent on inflation and a gradual path of U.S policy normalization will help to ensure U.S. economic growth, while limiting undesirable spillovers abroad. As global interest rates and bond yields rise, investors should remain vigilant. The investment climate is expected to stay cautious, as investors adapt to challenges in positioning their books.