



(formerly known as MCIS Zurich Insurance Berhad)

Investment Linked Fund Performance report July 2014

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AsiaPac Fund Monthly Report (Jul 2014)

Investment Objective

To achieve steady income stream with potential growth in the Asia Pacific Region over medium to long term. The aim of the Fund is to outperform the S&P Ethical Pan Asia Select Dividend Opportunities Index over periods of five or more years.

Investment Strategy

To invest in Asia Pacific Ethical Dividend Exchange Traded Fund (ETF), managed by CIMB Principal Asset Management where the ETF is listed on the Singapore Stock Exchange.

The ETF focuses on top 40 ethical and high yielding stocks in the Asia Pacific Region excluding India, Taiwan, Japan, New Zealand and Philippines. The fund provides country diversification across the industry that is traded in US Dollar.

Risks

The Fund is considered low risk given the exposure to only one underlying securities with no attempt to select stocks individually or to take defensive positions in declining markets. Risk is managed at the management level, where the asset allocation of the fund to be reviewed on regular basis, and adjusted to commensurate with the Investment Team view on the relative attractiveness of each asset class.

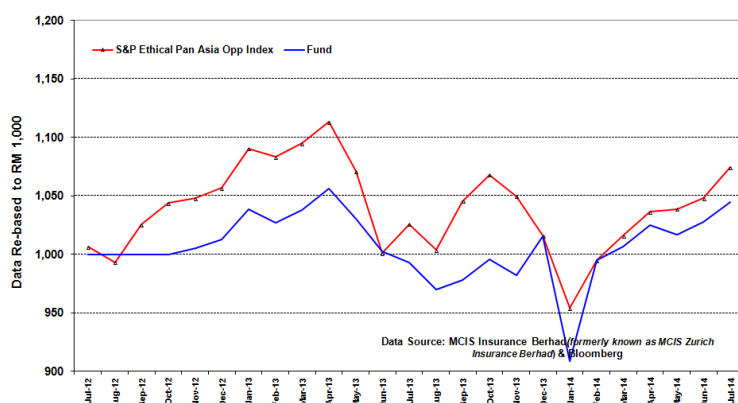
The following factors can potentially affect the value of the Fund; economic and political developments in related countries, foreign exchange fluctuation, illiquid and inefficient securities in the Emerging Markets, and the financial performance of the underlying companies.

The target market is for investors who are seeking regional exposure from investment and at the same time, seeking for medium to long term capital appreciation with moderate market risk.

Fund Performance

For the month ended July 2014, the fund had underperformed the benchmark by 93bps MoM (month on month). The underperformance was partly due to foreign exchange movement.

AsiaPac Fund Performance Since Inception



Top Five Holdings

CIMB S&P Asia Pacific Ethical Dividend Exchange Traded Fund (ETF)

Fund Information

NAV (31.07.14)	RM0.5223
Fund Size	RM 21.0 million
Inception Date	15-July-2012
Fund Management Fee	0.85% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mcis.my
Fund Manager	MCIS Insurance Berhad <i>(formerly known as MCIS Zurich Insurance Berhad)</i>
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
ETF	80%	100%	95%
Cash	0%	20%	5%

Performance Table

Period	Fund	Index*
1 month (%)	1.65%	2.58%
3 months (%)	1.89%	3.69%
6 months (%)	14.92%	12.66%
12 months (%)	5.15%	4.77%
2 years (% pa)	4.46%	6.77%
3 years (% pa)	-	-
5 years (% pa)	-	-
Since Inception	2.12%	3.53%

Notice: Past performance is not indicative of future performance, and the performance of the Fund is not guaranteed.

The Fund returns are calculated by MCIS and based on the value of the NAV, and for periods greater than 12-months are annualised numbers. Actual returns of the Fund are on a net basis (gross of tax and net of fees) and based on the performance of the Fund, and not the returns earned on the actual premiums/ contributions paid for the product.

* Index is S&P Ethical Pan Asia Select Dividend Opportunities sourced from Bloomberg.

Other Charges: Switching Fee, you are entitled to four free switches per policy year. Additional switches within the same year will be charged at 1% of the value of units switched, subject to a maximum of RM 50; and all taxes, duties and other charges incurred in the purchase, sale, valuation and maintenance of the investments of the Fund.

The NAV per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. Transaction costs, taxes and applicable fees are provided for in the net asset value.

Balanced Fund Monthly Report (Jul 2014)

Investment Objective

The objective of the Balanced Fund is to provide security and income, while maintaining and potentially increasing the value of capital over the medium to long-term, through exposure across a range of asset classes. The Fund aims to outperform the performance benchmark over periods of three or more years.

Investment Strategy

To invest in Malaysian equities and fixed income securities, including government bonds and corporate debt securities. The asset allocation is reviewed on a regular basis, and is adjusted commensurate with our view on the relative attractiveness of each asset class.

Risks

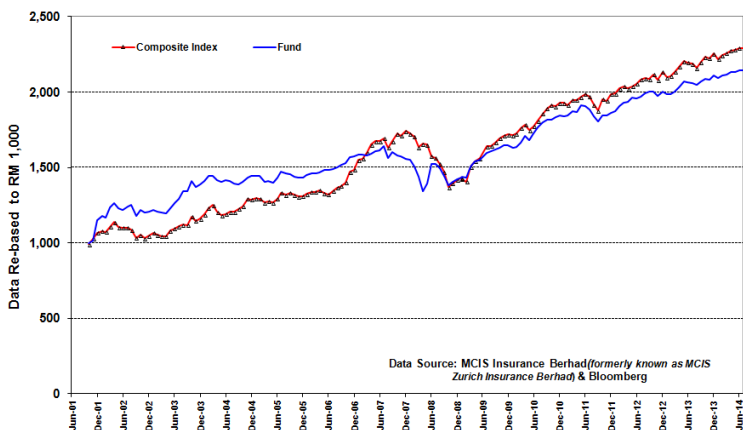
The Fund is considered medium risk given the mixed exposure of equity securities, fixed income and cash. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, industry and economy development, social and political factors, and the liquidity of the underlying assets. Additionally, levels of interest rates, and credit downgrades of defaults can affect the value of fixed income securities

The target market is clients wanting the surety of insurance protection, with an element of potential upside investment exposure.

Fund Performance

For the month ended July 2014, the fund had underperformed the benchmark by 15bps MoM (month on month). The underperformance was mainly driven by higher exposure of underperforming securities in the portfolio.

Balanced Fund Performance Since Inception



Top Five Holdings

Malaysian Government Securities-MO11001 (Bond)
 Khazanah (Bond)
 Malaysian Government Securities-MS03002H (Bond)
 Projek Lebuh raya Utara-Selatan Berhad (Bond)
 Tenaga Nasional Berhad (Equity)

Fund Information

NAV (31.07.14)	RM1.0714
Fund Size	RM7.0 million
Inception Date	15-Oct-01
Fund Management Fee	1.25% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mcis.my
Fund Manager	MCIS Insurance Berhad <i>(formerly known as MCIS Zurich Insurance Berhad)</i>
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Malaysian Equity	40%	60%	46%
Fixed Income	40%	60%	45%
Cash	0%	20%	9%

Performance Table

Period	Fund	Index*
1 month (%)	-0.07%	0.08%
3 months (%)	0.41%	0.73%
6 months (%)	2.44%	3.32%
12 months (%)	3.92%	4.83%
2 years (% pa)	4.35%	4.93%
3 years (% pa)	4.32%	5.18%
5 years (% pa)	6.07%	6.94%
Since Inception	6.12%	6.68%

Notice: Past performance is not indicative of future performance, and the performance of the Fund is not guaranteed.

The Fund returns are calculated by MCIS and based on the value of the NAV, and for periods greater than 12-months are annualised numbers. Actual returns of the Fund are on a net basis (gross of tax and net of fees) and based on the performance of the Fund, and not the returns earned on the actual premiums/ contributions paid for the product.

* Index is composite of 50% FBM KLCI Index, and 50% HSBC Malaysia All Bond FBM KLCI Index. Index data sourced from Bloomberg.

Other Charges: Switching Fee, you are entitled to four free switches per policy year. Additional switches within the same year will be charged at 1% of the value of units switched, subject to a maximum of RM 50; and all taxes, duties and other charges incurred in the purchase, sale, valuation and maintenance of the investments of the Fund.

The NAV per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. Transaction costs, taxes and applicable fees are provided for in the net asset value.

Dividend Fund Monthly Report (Jul 2014)

Investment Objective

To achieve steady income stream with potential for capital growth over medium to long term by focusing mostly on high dividend yielding stocks and money market instruments. The aim of the Fund is to outperform the FBM KLCI Index over periods of five or more years.

Investment Strategy

To invest in a broad selection of companies listed on the Malaysian Stock Exchange. Using a relative value methodology, the fund focuses on undervalued stocks relative to fundamental value, with the aim of achieving an income stream, together with some degree of long-term capital gains.

Risks

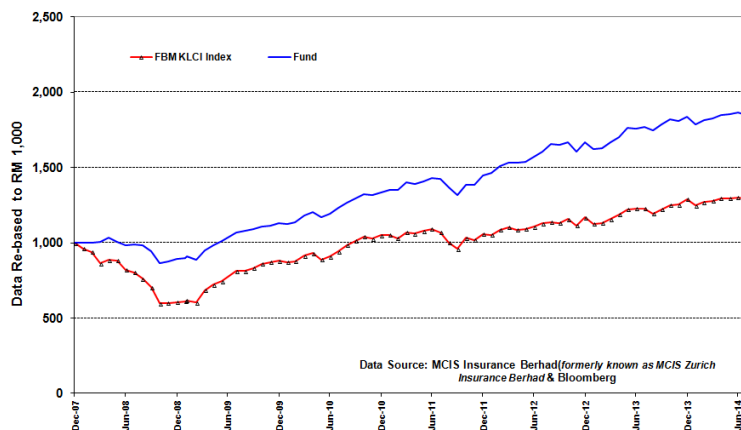
The Fund is considered high risk given the exposure to equity securities. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, the performance of the industry and economy, and the share market in general, social and political factors, and the liquidity of the underlying assets.

The target market is clients wanting the surety of insurance protection, with an element of potential upside investment exposure.

Fund Performance

For the month ended July 2014, the fund had underperformed the benchmark by 20bps MoM (month on month). The underperformance was mainly driven by higher exposure of underperforming stocks in the portfolio compared to benchmark.

Dividend Fund Performance Since Inception



Top Five Holdings

Petronas Gas Berhad (Equity)
Telekom Malaysia Berhad (Equity)
Public Bank Berhad (Equity)
Sime Darby Berhad (Equity)
Maxis Berhad (Equity)

Fund Information

NAV (31.07.14)	RM0.8786
Fund Size	RM 50.5 million
Inception Date	21-Jan-08
Fund Management Fee	1.5% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mcis.my
Fund Manager	MCIS Insurance Berhad (formerly known as MCIS Zurich Insurance Berhad)
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Malaysian Equity	80%	100%	86%
Cash	0%	20%	14%

Performance Table

Period	Fund	Index*
1 month (%)	-0.80%	-0.60%
3 months (%)	-0.14%	-0.01%
6 months (%)	3.54%	3.73%
12 months (%)	4.36%	5.57%
2 years (% pa)	7.29%	7.10%
3 years (% pa)	9.09%	6.51%
5 years (% pa)	11.58%	9.76%
Since Inception	9.79%	4.01%
Yield #	2.93%	3.53%

Notice: Past performance is not indicative of future performance, and the performance of the Fund is not guaranteed.

The Fund returns are calculated by MCIS and based on the value of the NAV, and for periods greater than 12-months are annualised numbers. Actual returns of the Fund are on a net basis (gross of tax and net of fees) and based on the performance of the Fund, and not the returns earned on the actual premiums/ contributions paid for the product.

* Index is FBM KLCI sourced from Bloomberg. # Yield data is sourced from Bloomberg, and MCIS.

Other Charges: Switching Fee, you are entitled to four free switches per policy year. Additional switches within the same year will be charged at 1% of the value of units switched, subject to a maximum of RM 50; and all taxes, duties and other charges incurred in the purchase, sale, valuation and maintenance of the investments of the Fund.

The NAV per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. Transaction costs, taxes and applicable fees are provided for in the net asset value.

Equity Fund Monthly Report (Jul 2014)

Investment Objective

The objective of the Equity Fund is to achieve capital growth over the medium to long term by focusing on high quality equities listed on the FBM KLCI Index. The aim of the Equity Fund is to outperform the Index over periods of five or more years.

Investment Strategy

To invest in a broad selection of companies listed on the Malaysian Stock Exchange. Using a relative value methodology, the fund focuses on the stocks whose shares appear undervalued relative to fundamental value, with the aim of achieving long term growth in capital value.

Risks

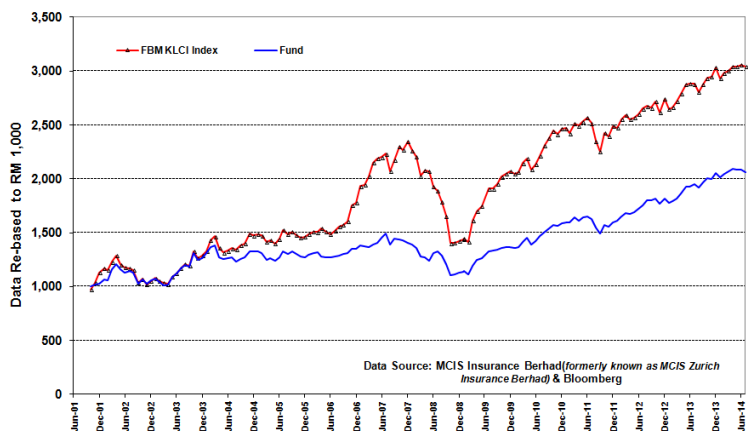
The Fund is considered high risk given the exposure to equity securities. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, the performance of the industry and economy, and the share market in general, social and political factors, and the liquidity of the underlying assets.

The target market is clients wanting the surety of insurance protection, with an element of potential upside investment exposure.

Fund Performance

For the month ended July 2014, the fund had underperformed the benchmark by 82bps MoM (month on month). The underperformance was mainly driven by higher exposure of underperforming stocks in the portfolio compared to benchmark.

Equity Fund Performance Since Inception



Top Five Holdings

Tenaga Nasional Berhad (Equity)
IOI Corporation Berhad (Equity)
Public Bank Berhad (Equity)
Maybank Berhad (Equity)
Axiata Berhad (Equity)

Fund Information

NAV (31.07.14)	RM1.0300
Fund Size	RM 9.3 million
Inception Date	15-Oct-01
Fund Management Fee	1.40% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mcis.my
Fund Manager	MCIS Insurance Berhad (formerly known as MCIS Zurich Insurance Berhad)
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Malaysian Equity	80%	100%	86%
Cash	0%	20%	14%

Performance Table

Period	Fund	Index*
1 month (%)	-1.42%	-0.60%
3 months (%)	-1.65%	-0.01%
6 months (%)	2.33%	3.73%
12 months (%)	5.72%	5.57%
2 years (% pa)	8.34%	7.10%
3 years (% pa)	8.23%	6.51%
5 years (% pa)	9.22%	9.76%
Since Inception	5.79%	9.05%
Yield #	2.79%	3.53%

Notice: Past performance is not indicative of future performance, and the performance of the Fund is not guaranteed.

The Fund returns are calculated by MCIS and based on the value of the NAV, and for periods greater than 12-months are annualised numbers. Actual returns of the Fund are on a net basis (gross of tax and net of fees) and based on the performance of the Fund, and not the returns earned on the actual premiums/ contributions paid for the product.

* Index is FBM KLCI sourced from Bloomberg. # Yield data is sourced from Bloomberg, and MCIS.

Other Charges: Switching Fee, you are entitled to four free switches per policy year. Additional switches within the same year will be charged at 1% of the value of units switched, subject to a maximum of RM 50; and all taxes, duties and other charges incurred in the purchase, sale, valuation and maintenance of the investments of the Fund.

The NAV per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. Transaction costs, taxes and applicable fees are provided for in the net asset value.

Global Yakin Fund Monthly Report (Jul 2014)

Investment Objective

The fund aims for capital appreciation in the long term by investing in an international portfolio of Shariah-compliant equities and equity-related securities of companies with good growth potential.

Investment Strategy

The Fund is to feed into Aberdeen Islamic World Equity Fund (AIWEF) which managed by Aberdeen Islamic Asset Management Sdn Bhd. The Fund invests in shariah approved securities across the globe.

The Fund seeks to achieve its objective by investing in an international portfolio of Shariah-compliant equities and equity-related securities of companies with good growth potential. The countries that the Fund will invest in will include, but not limited to Canada, United States of America, United Kingdom, France, Germany, Italy, Netherlands, Sweden, Switzerland, Japan, Australia, China, Hong Kong, Korea, Singapore, Taiwan, Brazil and Mexico.

Risks

The Fund is considered low risk given the exposure to only one underlying securities with no attempt to select stocks individually or to take defensive positions in declining markets. Risk is managed at the management level, where the asset allocation of the fund to be reviewed on regular basis, and adjusted to commensurate with the Investment Team view on the relative attractiveness of each asset class.

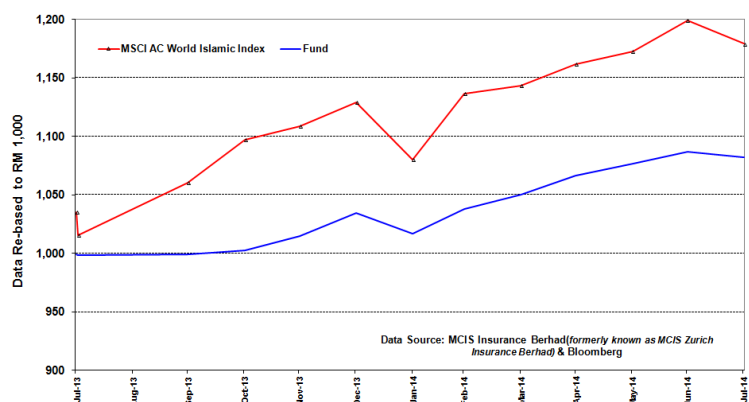
The following factors can potentially affect the value of the Fund; economic and political developments in related countries, foreign exchange fluctuation, illiquid and inefficient securities in the Emerging Markets, and the financial performance of the underlying companies.

The Fund is suitable for investors who seek capital appreciation over a long term investment horizon and who are willing to accept high level of risk.

Fund Performance

For the month ended July 2014, the fund had outperformed the benchmark by 125bps MoM (month on month). The outperformance was partly due to better performance of Aberdeen Islamic World Equity Fund compared to benchmark.

Global Yakin Fund Performance Since Inception



Top Five Holdings

Aberdeen Islamic World Equity Fund (AIWEF)

Fund Information

NAV (31.07.14)	RM0.5411
Fund Size	RM 12.7 million
Inception Date	8-July-2013
Fund Management Fee	0.85% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mcis.my
Fund Manager	MCIS Insurance Berhad (formerly known as MCIS Zurich Insurance Berhad)
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
AIWEF	80%	100%	88%
Cash	0%	20%	12%

Performance Table

Period	Fund	Index*
1 month (%)	-0.42%	-1.67%
3 months (%)	1.48%	1.51%
6 months (%)	6.41%	9.15%
12 months (%)	8.28%	13.89%
2 years (% pa)	-	-
3 years (% pa)	-	-
5 years (% pa)	-	-
Since Inception	7.56%	16.44%

Notice: Past performance is not indicative of future performance, and the performance of the Fund is not guaranteed.

The Fund returns are calculated by MCIS and based on the value of the NAV, and for periods greater than 12-months are annualised numbers. Actual returns of the Fund are on a net basis (gross of tax and net of fees) and based on the performance of the Fund, and not the returns earned on the actual premiums/ contributions paid for the product.

* Index is MSCI AC World Islamic sourced from Bloomberg.

Other Charges: Switching Fee, you are entitled to four free switches per policy year. Additional switches within the same year will be charged at 1% of the value of units switched, subject to a maximum of RM 50; and all taxes, duties and other charges incurred in the purchase, sale, valuation and maintenance of the investments of the Fund.

The NAV per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. Transaction costs, taxes and applicable fees are provided for in the net asset value.

Income Fund Monthly Report (Jul 2014)

Investment Objective

The objective of the Income Fund is to provide investors with security of income by investing in a mix of fixed income and fixed deposit securities. The aim of the Fund is to outperform the HSBC Malaysia Local Currency All Bond Total Return Index.

Investment Strategy

To invest into underlying asset classes as per the Asset Allocation Ranges. The asset allocation is reviewed on a regular basis, and is adjusted commensurate with our view on the relative attractiveness of each asset class. The Fund invests in cash and fixed income securities including government bonds and corporate debt securities.

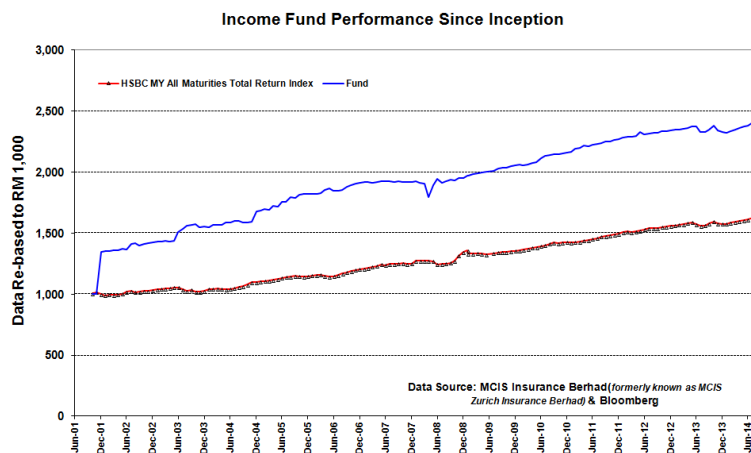
Risks

The Fund is considered lower risk given the exposure to cash and fixed income securities. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, the performance of the industry and economy, and the share market in general, social and political factors, and the liquidity of the underlying assets. Additionally, levels of interest rates, and credit downgrades or defaults can affect the value of fixed income securities.

The target market is clients wanting the surety of insurance protection, with an element of potential upside investment exposure.

Fund Performance

For the month ended July 2014, the fund had outperformed the benchmark by 37bps MoM (month on month). The outperformance was mainly driven by better performance of the bond market during the period.



Top Five Holdings

Malaysian Government Securities-MS130005 (Bond)
 Projek Lebuhraya Utara-Selatan Berhad (Bond)
 Malaysian Government Securities-MN130003 (Bond)
 Malaysian Government Securities-MS03002H (Bond)
 Government Investment Issue-GL130069 (Bond)

Fund Information

NAV (31.07.14)	RM1.2047
Fund Size	RM 20.8 million
Inception Date	15-Oct-01
Fund Management Fee	0.5% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mcis.my
Fund Manager	MCIS Insurance Berhad <i>(formerly known as MCIS Zurich Insurance Berhad)</i>
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Fixed Income	75%	100%	92%
Cash	0%	25%	8%

Performance Table

Period	Fund	Index*
1 month (%)	1.13%	0.76%
3 months (%)	1.90%	1.47%
6 months (%)	3.66%	2.90%
12 months (%)	3.34%	4.00%
2 years (% pa)	1.94%	2.67%
3 years (% pa)	2.62%	3.63%
5 years (% pa)	3.70%	3.99%
Since Inception	7.09%	3.85

Notice: Past performance is not indicative of future performance, and the performance of the Fund is not guaranteed.

The Fund returns are calculated by MCIS and based on the value of the NAV, and for periods greater than 12-months are annualised numbers. Actual returns of the Fund are on a net basis (gross of tax and net of fees) and based on the performance of the Fund, and not the returns earned on the actual premiums/ contributions paid for the product.

* Index is HSBC Malaysia All Bond FBM KLCI Index, sourced from Bloomberg.

Other Charges: Switching Fee, you are entitled to four free switches per policy year. Additional switches within the same year will be charged at 1% of the value of units switched, subject to a maximum of RM 50; and all taxes, duties and other charges incurred in the purchase, sale, valuation and maintenance of the investments of the Fund.

The NAV per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. Transaction costs, taxes and applicable fees are provided for in the net asset value.

Jati Fund

Monthly Report (Jul 2014)

Investment Objective

The Jati Fund is invested in accordance with Shariah principles in Shariah sanctioned equities, money market instruments, and fixed income investments. The aim is to provide security and income, while maintaining and potentially increasing the value of capital over the medium to long-term. The Jati Fund is not a takaful product.

Investment Strategy

To invest in a broad selection of Shariah approved securities listed on the Malaysian Stock Exchange. Using a relative value methodology it looks to buy stocks whose shares appear undervalued relative to fundamental value, with the aim of achieving an income stream, together with some degree of long-term capital gains.

Risks

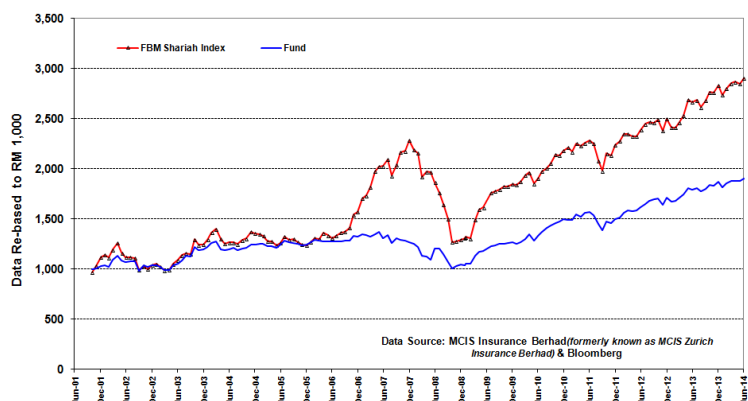
The Fund is considered high risk given the exposure to equity securities. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, the performance of the industry and economy, and the share market in general, social and political factors, and the liquidity of the underlying assets.

The target market is clients wanting the surety of insurance protection, with an element of potential upside investment exposure.

Fund Performance

For the month ended July 2014, the fund had underperformed the benchmark by 49bps MoM (month on month). The underperformance was mainly driven by higher exposure of underperforming stocks in the portfolio compared to benchmark.

Jati Fund Performance Since Inception



Top Five Holdings

Tenaga Nasional Berhad (Equity)
 Axiata Berhad (Equity)
 Sime Darby Berhad (Equity)
 IOI Corporation Berhad (Equity)
 Telekom Malaysia Berhad (Equity)

Fund Information

NAV (31.07.14)	RM0.9477
Fund Size	RM10.9 million
Inception Date	15-Oct-01
Fund Management Fee	1.35% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mcis.my
Fund Manager	MCIS Insurance Berhad (formerly known as MCIS Zurich Insurance Berhad)
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Malaysian Equity	80%	100%	85%
Cash	0%	20%	15%

Performance Table

Period	Fund	Index*
1 month (%)	-0.51%	-0.02%
3 months (%)	0.65%	1.28%
6 months (%)	4.06%	6.19%
12 months (%)	4.74%	8.16%
2 years (% pa)	7.17%	8.93%
3 years (% pa)	7.18%	8.86%
5 years (% pa)	9.06%	10.55%
Since Inception	5.11%	8.67%
Yield #	2.26%	3.56%

Notice: Past performance is not indicative of future performance, and the performance of the Fund is not guaranteed.

The Fund returns are calculated by MCIS and based on the value of the NAV, and for periods greater than 12-months are annualised numbers. Actual returns of the Fund are on a net basis (gross of tax and net of fees) and based on the performance of the Fund, and not the returns earned on the actual premiums/ contributions paid for the product.

* Index is FBMS Index sourced from Bloomberg. # Yield data is sourced from Bloomberg, and MCIS.

Other Charges: Switching Fee, you are entitled to four free switches per policy year. Additional switches within the same year will be charged at 1% of the value of units switched, subject to a maximum of RM 50; and all taxes, duties and other charges incurred in the purchase, sale, valuation and maintenance of the investments of the Fund.

The NAV per unit of the Fund is the total market value of assets in the Fund divided by the total number of units of the Fund. Transaction costs, taxes and applicable fees are provided for in the net asset value.

Equity Market Review and Outlook

Market Review

July was a volatile month as the FBMKLCI scaled new all-time highs early in the month only to come under slight selling pressure towards month end. The long holiday during Eid Mubarak has caused the KLCI to remain subdued on a monthly basis. The KLCI ended the month 11pts or 0.6% lower to close at 1,871pts. The broader market outperformed the KLCI as the FBM Emas gained 0.5% mom to 13,086pts. Small caps outperformed as the FBM Small cap rallied 6.3% to 19,066pts while the FBM ACE was up 5.7% to 7,045pts. Average daily value traded on Bursa in July increased 13% mom to RM2.11bn.

On the domestic economic front, the headline inflation rate inched higher to 3.3% y-o-y in June, from +3.2% in the previous month, as preparation for the Ramadhan festivity might have exerted upward pressure on prices. The effect of upward adjustment in administrative pricing following the subsidy rationalisation measures also still linger. On the other hand, Bank Negara Malaysia raised the Overnight Policy Rate (OPR) by 25 basis points to 3.25% on 10 July which came in within market expectations.

Chart 1: FBMKLCI Daily Chart



Source: Bloomberg

Chart 2: FBMKLCI Monthly Pattern and Cycle Analysis



Source: Bloomberg

Market Outlook & Strategy

Moving into the month of August 2014, investors will be looking forward to the release of the corporate results for financial period ending 30 June 2014 and the release of 2Q14 GDP figures. This will provide clearer direction on the market to the end of year. Additionally, further inflow of foreign fund into the country will be a point to consider and closely watched as this may indicate the sustainability of any rally on the equity market, additionally, economic development in the Eurozone and China will be closely monitored as it will influence the direction of the local market.

Technically, the rally off the 2008 low is likely coming to an end soon if it has not already reached its terminal point in July. Since the turn of the year, the long term momentum indicators have already been signaling that the upward movement for the index is weakening. It is until mid-July that the KLCI finally showed some sign of weakness after it fell below its key support trend line from the 2011 lows. We are expecting the KLCI to remain nervy as the first trading day of August saw the KLCI hovering near the interim support zone of 1,860-1,850. We are capping the resistance for the KLCI at 1,880-1,890 whilst any downside risk will be capped at 1,855-1,845 this month.

We believe that the lack of earnings impetus from the recent quarterly reporting has caused the KLCI to remain a laggard against the regional peers whilst the already expensive nature of the KLCI based on the current PER of 16.6x would prevent any steep upside in the month of August.

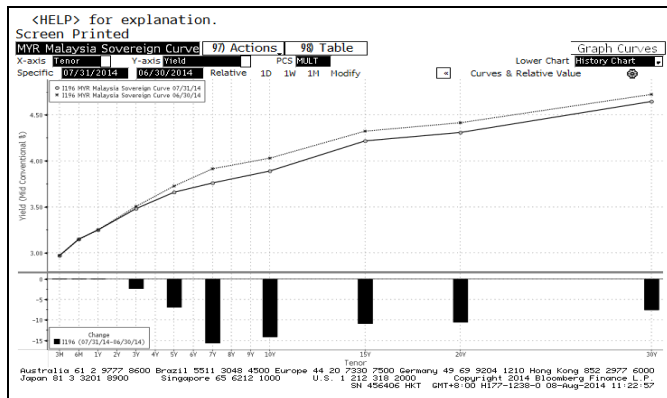
Fixed Income Review and Outlook

Market Review

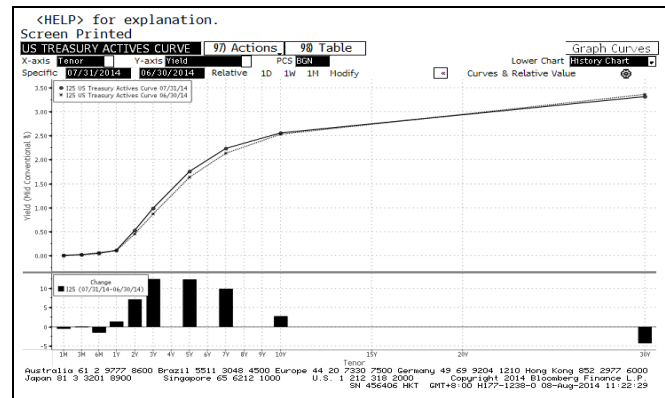
The MYR sovereign curve continues to chart a flattening bias trend post the 25bps hike decided at the July MPC. Investors continue to embark on tactical stances, preferring the long-end. Compression in long-end yields have since bode well for longer-dated govies, which have tightened substantially. Going forward, we opine the wide GG/AAA spread in the long-end, taking cue from pronounced compression in longer-dated govies have amplified the appeal of these quasi/ high grade segment which are set to emerge as next proxy to tighten. Meanwhile government bond tenders have resumed healthy bid to cover prints post July MPC supported by benign supply dynamics. Sizeable maturities in July-September periods are expected to lend support for MYR bonds. Funds from maturing bonds as expected to return as reinvestment into the MYR bond scene, hence paving the way for more positive supply-demand dynamics.

The government held two securities auctions in the month of July. The government sold RM3bn of 5-year MGS 10/19 where the average yield was 3.707% and bid to cover (btc) of 2.184x. There was also an RM1.5bn 15-year GII 12/28 reopening where the average yield was 4.393% on a btc of 3.813x. The 1.5bn GII 12/28's btc of 3.813x even surpassed the previous 20-year GII 8/33 btc of 3.28x and the best btc for 2014 year to date basis.

During the period in review UST saw some minor gyrations in yields following upside surprises from a better than expected 2Q GDP print, sending yields backing up higher with the 10-year touching a high of 2.56% level. However the upwardly movement in yields did not sustain, with reversals emerging after a less sanguine July non-farm payroll print. Meanwhile tapering continuity persisted, with the FOMC reducing purchases of mortgage-backed securities and UST to \$10b and \$15b respectively. On the policy front, latest FOMC statement cited that there remains significant underutilization of labour resources. Meanwhile on inflation prospects, the likelihood of inflation running persistently below the 2.0% has diminished somewhat.



Source: Bloomberg



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Market Outlook & Strategy

We continue to advocate on accumulating bonds whenever there is a knee jerk sell-off arising from sentiment that is bearish. Since the OPR has been raised by 25bps, it moderated some concerns on the quantum of the interest rate increase. We believe this increase in OPR also augurs well to offshore investors as they may see BNM's intention to signal an increase in OPR as a preemptive measure to manage inflation risk as well as to address some financial imbalances in key sectors. That positive interest can be jived to the recent strength in the Ringgit off late against the USD.