



Investment Linked Fund Performance report May 2014

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MCIS Zurich Investment Linked – AsiaPac Fund Monthly Report (May 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.

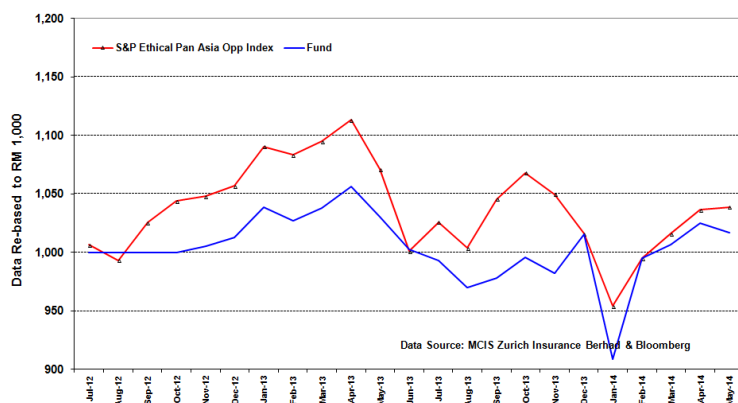
The following factors can potentially affect the value of the Fund; economic and political developments in related countries, foreign exchange fluctuation, illiquid and inefficient securities in the Emerging Markets, and the financial performance of the underlying companies.

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 May 2014, the fund had underperformed the benchmark by 102bps 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 (31.05.14)	RM0.5085
Fund Size	RM 22.0 million
Inception Date	15-July-2012
Fund Management Fee	0.85% p.a.
Pricing	Daily
	Major Newspaper, or
Price Quote	http://www.mciszurich.com.my
Fund Manager	MCIS Zurich Insurance Berhad
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
ETF	80%	100%	87%
Cash	0%	20%	13%

Performance Table

Period	Fund	Index*
1 month (%)	-0.80%	0.22%
3 months (%)	2.19%	4.40%
6 months (%)	3.56%	-1.03%
12 months (%)	-1.30%	-3.03%
2 years (% pa)	-	-
3 years (% pa)	-	-
5 years (% pa)	-	-
Since Inception	0.88%	2.02%

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 Zurich 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.

MCIS Zurich Investment Linked - Balanced Fund Monthly Report (May 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

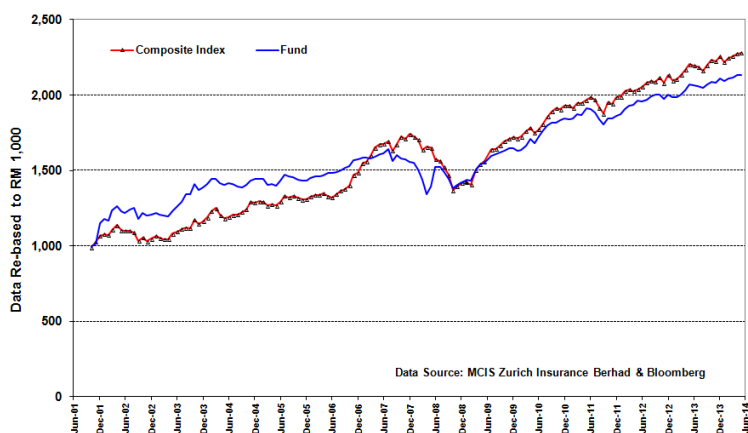
The Fund is considered medium risk given the mixed exposure of equity securities, fixed income and cash. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, industry and economy development, social and political factors, 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 May 2014, the fund had underperformed the benchmark by 11bps 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 Lebuhraya Usahasama Berhad (Bond)
 Tenaga Nasionaonal Berhad (Equity)

Fund Information

NAV (31.05.14)	RM1.0680
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.mciszurich.com.my
Fund Manager	MCIS Zurich Insurance Berhad
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Malaysian Equity	40%	60%	42%
Fixed Income	40%	60%	42%
Cash	0%	20%	18%

Performance Table

Period	Fund	Index*
1 month (%)	0.09%	0.20%
3 months (%)	1.31%	1.61%
6 months (%)	2.46%	2.51%
12 months (%)	3.08%	3.47%
2 years (% pa)	4.33%	5.81%
3 years (% pa)	3.78%	5.07%
5 years (% pa)	6.75%	8.14%
Since Inception	6.17%	6.73%

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 Zurich 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.

MCIS Zurich Investment Linked - Dividend Fund Monthly Report (May 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

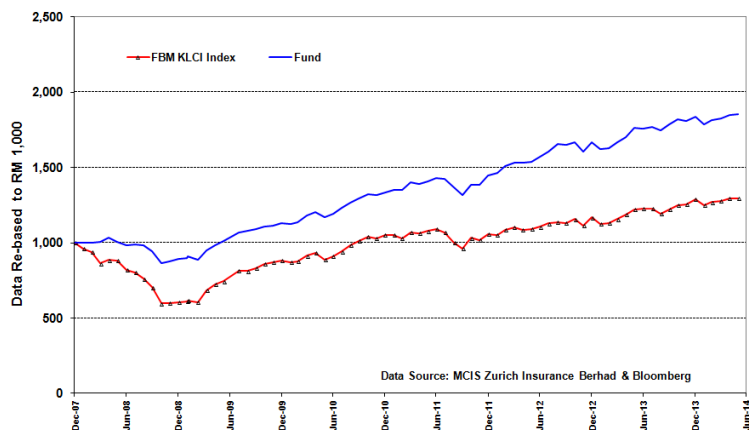
The Fund is considered high risk given the exposure to equity securities. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, the performance of the industry and economy, and the share market in general, social and 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 May 2014, the fund had outperformed the benchmark by 13bps MoM (month on month). The outperformance was mainly driven by higher exposure of outperforming stocks in the portfolio compared to benchmark.

Dividend Fund Performance Since Inception



Top Five Holdings

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

Fund Information

NAV (31.05.14)	RM0.8818
Fund Size	RM 51.8 million
Inception Date	21-Jan-08
Fund Management Fee	1.5% p.a.
Pricing	Daily
	Major Newspaper, or
Price Quote	http://www.mciszurich.com.my
Fund Manager	MCIS Zurich Insurance Berhad
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Malaysian Equity	80%	100%	84%
Cash	0%	20%	16%

Performance Table

Period	Fund	Index*
1 month (%)	0.23%	0.10%
3 months (%)	2.30%	2.05%
6 months (%)	2.50%	3.35%
12 months (%)	5.05%	5.89%
2 years (% pa)	9.76%	8.87%
3 years (% pa)	9.70%	6.33%
5 years (% pa)	13.52%	12.40%
Since Inception	10.12%	4.13%
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 Zurich 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 Zurich.

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.

MCIS Zurich Investment Linked - Equity Fund Monthly Report (May 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

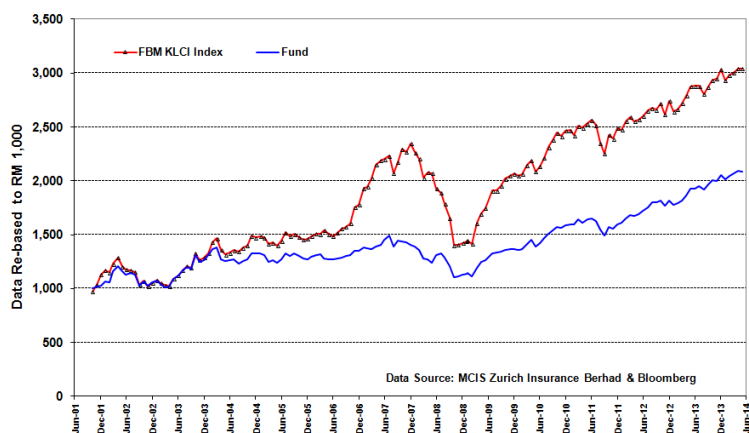
The Fund is considered high risk given the exposure to equity securities. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, the performance of the industry and economy, and the share market in general, social and 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 May 2014, the fund had underperformed the benchmark by 63bps 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 Bhd (Equity)
Public Bank Berhad (Equity)
IOI Corporation Berhad (Equity)
Maybank Berhad (Equity)
Petronas Dagangan Berhad (Equity)

Fund Information

NAV (31.05.14)	RM1.0418
Fund Size	RM 9.4 million
Inception Date	15-Oct-01
Fund Management Fee	1.40% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mciszurich.com.my
Fund Manager	MCIS Zurich Insurance Berhad
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Malaysian Equity	80%	100%	81%
Cash	0%	20%	19%

Performance Table

Period	Fund	Index*
1 month (%)	-0.53%	0.10%
3 months (%)	1.86%	2.05%
6 months (%)	4.15%	3.35%
12 months (%)	8.08%	5.89%
2 years (% pa)	10.90%	8.87%
3 years (% pa)	8.23%	6.33%
5 years (% pa)	10.77%	12.40%
Since Inception	5.97%	9.19%
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 Zurich 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 Zurich.

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.

MCIS Zurich Investment Linked – Global Yakin Fund Monthly Report (May 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.

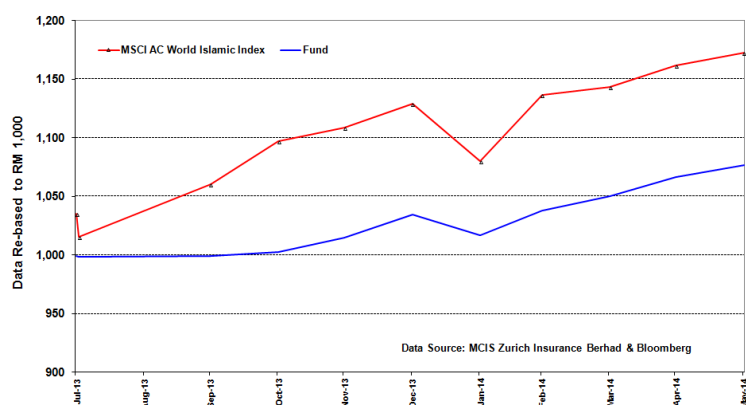
The following factors can potentially affect the value of the Fund; economic and political developments in related countries, foreign exchange fluctuation, illiquid and inefficient securities in the Emerging Markets, and the financial performance of the underlying companies.

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 May 2014, the fund had outperformed the benchmark by 6bps 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 (31.05.14)	RM0.5386
Fund Size	RM 7.7 million
Inception Date	8-July-2013
Fund Management Fee	0.85% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mciszurich.com.my
Fund Manager	MCIS Zurich Insurance Berhad
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
AIWEF	80%	100%	93%
Cash	0%	20%	7%

Performance Table

Period	Fund	Index*
1 month (%)	1.01%	0.95%
3 months (%)	3.74%	3.17%
6 months (%)	6.13%	5.79%
12 months (%)	-	-
2 years (% pa)	-	-
3 years (% pa)	-	-
5 years (% pa)	-	-
Since Inception	8.45%	18.99%

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 Zurich 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.

MCIS Zurich Investment Linked - Income Fund Monthly Report (May 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.

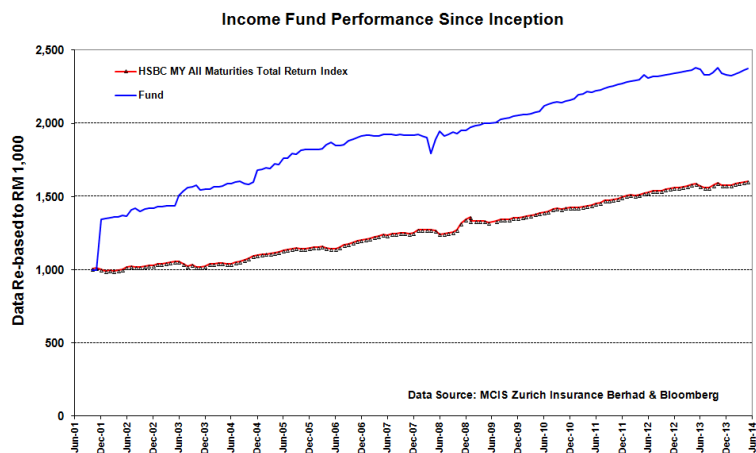
Risks

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 May 2014, the fund had outperformed the benchmark by 11bps 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 Usahasama Berhad (Bond)
 Malaysian Government Securities-MN130003 (Bond)
 Malaysian Government Securities-MS03002H (Bond)
 Government Investment Issue-GL130069 (Bond)

Fund Information

NAV (31.05.14)	RM1.1870
Fund Size	RM 21.0 million
Inception Date	15-Oct-01
Fund Management Fee	0.5% p.a.
Pricing	Daily
Price Quote	Major Newspaper, or http://www.mciszurich.com.my
Fund Manager	MCIS Zurich Insurance Berhad
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Fixed Income	75%	100%	87%
Cash	0%	25%	13%

Performance Table

Period	Fund	Index*
1 month (%)	0.41%	0.30%
3 months (%)	1.48%	1.17%
6 months (%)	1.44%	1.62%
12 months (%)	-0.18%	1.01%
2 years (% pa)	0.95%	2.69%
3 years (% pa)	2.33%	3.59%
5 years (% pa)	3.48%	3.79%
Since Inception	7.06%	3.81%

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 Zurich 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.

MCIS Zurich Investment Linked - Jati Fund Monthly Report (May 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

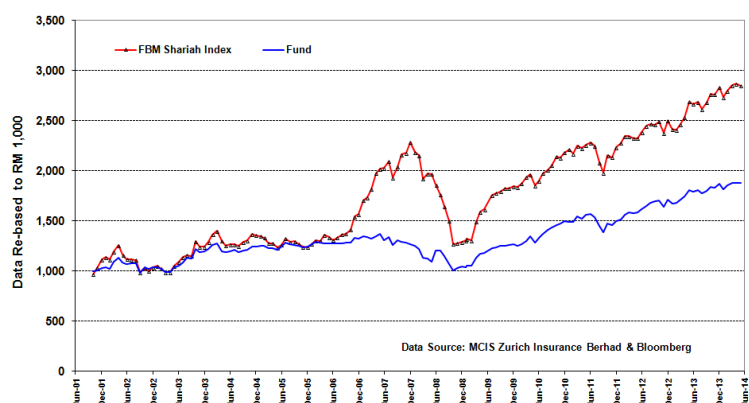
The Fund is considered high risk given the exposure to equity securities. The following factors can potentially affect the value of the Fund; consumer sentiment, financial performance of the underlying companies, the performance of the industry and economy, and the share market in general, social and 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 May 2014, the fund had outperformed the benchmark by 28bps MoM (month on month). The outperformance was mainly driven by higher exposure of outperforming stocks in the portfolio compared to benchmark.

Jati Fund Performance Since Inception



Top Five Holdings

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

Fund Information

NAV (31.05.14)	RM0.9387
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.mciszurich.com.my
Fund Manager	MCIS Zurich Insurance Berhad
Exceptional Circumstances	Refer to your Policy Document

Asset Allocation Ranges

Asset Class	Min	Max	Current Actual
Malaysian Equity	80%	100%	81%
Cash	0%	20%	19%

Performance Table

Period	Fund	Index*
1 month (%)	- 0.31%	-0.59%
3 months (%)	1.15%	1.86%
6 months (%)	2.53%	3.16%
12 months (%)	3.94%	5.90%
2 years (% pa)	8.81%	10.71%
3 years (% pa)	6.36%	8.09%
5 years (% pa)	9.87%	12.34%
Since Inception	5.10%	8.63%
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 Zurich 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 Zurich.

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

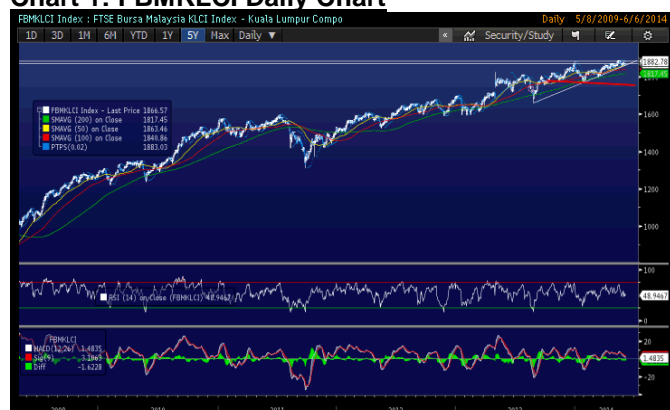
Market Review

May was a month that provided some false hopes as the FBMKLCI squeezed out its new all-time highs on several days. However, the market gave back much of the gains to end flattish. Results released during the month were also not inspiring and helped to dampen market sentiment. The KLCI ended the month with a marginal 2pts or 0.1% higher at 1,873pts. The broader market marginally underperformed the KLCI as the FBM Emas only gained 0.05% to 12,946pts. Small cap performance was mixed as the FBM Small cap gained 0.15% to 17,452pts but the FBMACE declined 2pts mom to 6,581pts. Average daily value traded on Bursa in May declined 5% mom to RM2.26 billion.

Meanwhile, the U.S. stock market finished the month of May with the biggest monthly gain since February as the main benchmarks ended the final week higher. This was backed by positive economic data released during the week. Jobless claims fell by 27,000 to 300,000 in the week ended May 24. Consumer purchases, which account for about 70 percent of the economy, increased at a 3.1 percent annualized rate in the first quarter. Data released for the last week of the month showed confidence among U.S. consumers rose in May to the second-highest level since 2008 as Americans grew more upbeat about the economy and labor market.

Back to Malaysia's economic front, the real GDP recorded stronger-than-expected growth of 6.2% yoy in 1Q14 (+5.1% in 4Q13), lifted by robust domestic demand and improving exports. Private consumption growth was encouraging despite rising domestic cost pressures while overall investment growth remained firm, thanks to the positive punch from ETP projects. All sectors also showed improvement in 1Q14.

Chart 1: FBMKLCI Daily Chart



Source: Bloomberg

Chart 2: FBMKLCI Monthly Pattern and Cycle Analysis



Source: Bloomberg

Market Outlook & Strategy

June has historically been a decent month for the KLCI with the index up an average 0.7%. We believe this should be the case for this year as Invest Malaysia 2014 will be held on June 9-10 and we expect the usual positive announcements by the Prime Minister. Additionally, some window dressing activities by some local fund managers may lift the equity prices higher supported by the recent positive inflow of foreign fund into the market.

Technically, the rally is still ongoing with prices hitting a new all time high of 1889.47 in mid-May. The high was within the resistance range of 1,888-1,915 before prices turned down and formed a piercing line reversal pattern. The negative divergences on its momentum indicators and volume are suggesting that the uptrend is getting weaker by the week. Cautiously higher for now but pattern and momentum warns that a significant top may be in place or just around the corner.

Fixed Income Review and Outlook

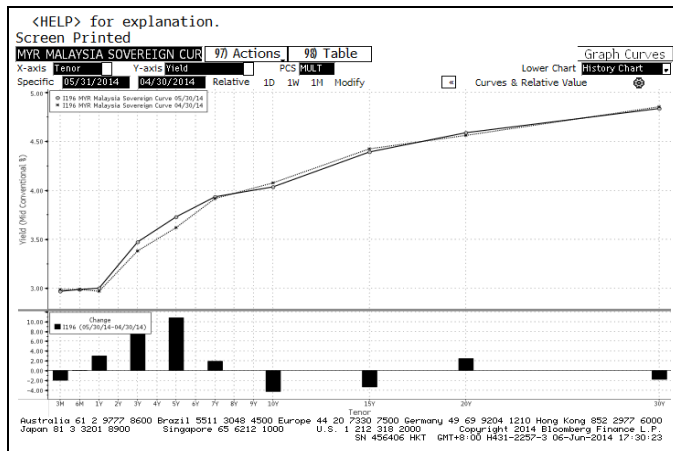
Market Review

During the period in review, sentiments in Ringgit bond space turn a tad more cautious as possible Overnight Policy Rate (OPR) hike in July appears more imminent now, taking cue from May MPC statement and a robust 1Q GDP of 6.2%. Hence, bond yields surged higher on the short to mid-ends of the MGS yield curve which resulted in a flatter yield curve as seen in the 3 by 10year MGS spread of 68bps end April to 53 bps end May. Also, another milestone seen in May was the redefinition of Malaysia's external debt which was announced in conjunction with the release of 1Q GDP. Effective 1Q2014, non-resident holdings of Ringgit-denominated debt securities, non-resident deposits, trade credits provided by foreign trade counterparts and other debt liabilities will now be included as part of Malaysia's external debt computation. The objective of redefining Malaysia's external debt is aimed at better consolidating Malaysia's external financial obligations amid rising trend of non-resident participation in the MGS market.

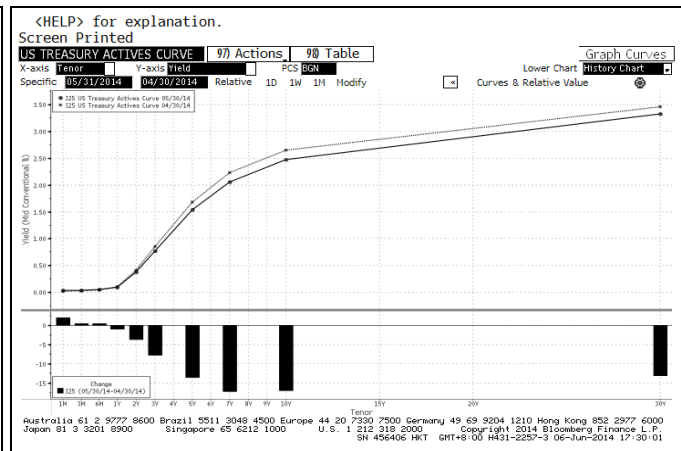
There was also a reopening of RM2bn MGS 04/33 where the average yield was 4.639% and btc of 2.883x. An upbeat btc of 2.883x was a result of smaller than expected issuance size of RM2bn. Other issuances or reopening tenders were the new RM4bn GII 11/17 and RM3bn MGS 07/24 where they were issued at an average yield of 3.678% (btc 2.47x) and 4.021% (btc 2.363x) respectively.

We believed the bouts of bond buying in April somewhat reversed post MPC comments on 8th May. While the MPC has left the OPR unchanged at 3%, the MPC is more confident of growth coming from increased exports and pickups in consumer spending. While BNM acknowledged that the recent uptrend in inflation was driven by higher domestic cost factors and scaling back of subsidies by the Federal Government, BNM may still raise the OPR to address some financial imbalances that have persisted despite having introduced macro-prudential measures to moderate these imbalances two years ago. The MPC clearly articulated the need for the degree of monetary accommodation to be adjusted to address these issues.

In the US Treasury space, UST extended gains with benchmark yields easing further from the month before. A dovish US FOMC minutes and further reiteration from Yellen that US policy rates will remain accommodative for a considerable period, despite tapering completion, added support for US safe haven flows. Yields on the 10-year UST seen touching a YTD fresh low of 2.40%, before retracing to 2.57%



Source: Bloomberg



Source: Bloomberg

Market Outlook & Strategy

We continue to advocate on accumulating bonds whenever there is a knee jerk sell-off arising from sentiment that is bearish. While with the recent hawkish comments from the MPC meeting is likely to cast some bear swings in bonds, to some investors (particular offshore investors), they may see it as positive developments to the bond market. They may see BNM's intention to signal an increase in OPR as a preemptive measure to manage inflation risk as well as addressing some degree of financial imbalances in some sectors on a proactive note.