# Hong Leong Smart Growth Fund (HLSGF)

**Oct 2020**

**Fund Features**

**1. Investment Objective**
The primary objective of the fund is to provide investors with steady long-term capital growth at moderate risk.

**2. Investment Strategy & Approach**
The strategy is to provide investors an access into a diversified portfolio of growth stocks listed on Bursa Malaysia and/or in any foreign stock exchanges that offer potential capital appreciation at moderate risk. The fund may feed into collective investment schemes that meet the fund's objective. At inception, HLSGF will invest by feeding into Kenanga Growth Fund ("Target Fund") with the option to increase the number of funds or replace the Target Fund in future. The Target Fund's assets are actively invested in a diversified portfolio of Malaysian equity and equity-related securities of companies with sustainable business model that is trading at a discount to its intrinsic value.

**3. Asset Allocation**
Under normal market conditions, the Target Fund's equity exposure is expected to range from 75% to 95% of the Target Fund's NAV with the balance in money market instruments, fixed deposits and/or cash.

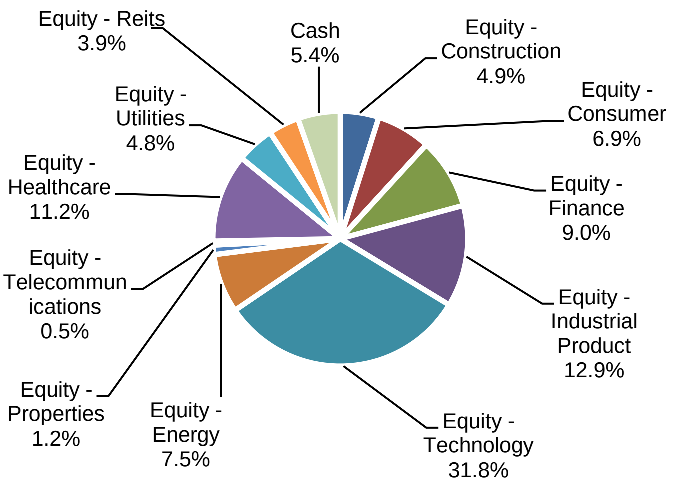
**4. Target Market**
This fund is suitable for investors who have long term investment time horizon and have a moderate risk profile with tolerance for short-term periods of volatility.

**Fund Details**

| | |
|---|---|
| **Unit Price (30/10/2020)** | : RM1.9461 |
| **Fund Size (30/10/2020)** | : RM213.3 mil |
| **Fund Management Fee** | :1.50% p.a. |
| **Fund Manager** | :Hong Leong Assurance Berhad |
| **Fund Category** | : Equity |
| **Fund Inception** | :01 Oct 2012 |
| **Benchmark** | :FTSE Bursa Malaysia KLCI Index (FBM KLCI) |
| **Frequency of Unit Valuation** | :Daily |

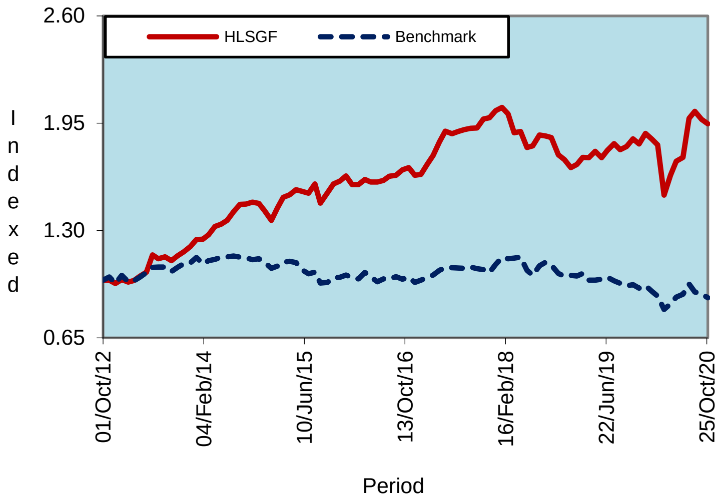
*Fund management charge of underlying Collective Investment Scheme(s) is part of Fund Management Fee as stated in table above. There are no additional charges being charged to the Policy Owner. The Company reserves the right to change the Fund Management Fee (% p.a.) by giving the Policy Owner ninety (90) days prior written notice.*

**Asset & Sector Allocation of HLSGF as at 30 Oct 2020**




| **Top 5 Holdings for HLSGF as at 30 Oct 2020** | | **%** |
|---|---|---|
| **1.** | FRONTKEN CORP BHD | 9.3 |
| **2.** | GREATECH TECHNOLOGY BHD | 9.0 |
| **3.** | PENTAMASTER CORP BHD | 7.2 |
| **4.** | TOP GLOVE CORPORATION BHD | 5.7 |
| **5.** | DIALOG GROUP BHD | 5.0 |
| | **Total Top 5** | **36.2** |

**Historical Performance**




| | YTD | 1 month | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---|---|---|---|---|---|
| HLSGF | 3.02% | -1.37% | 4.92% | -1.45% | 22.94% | 94.61% |
| Benchmark* | -7.67% | -2.52% | -8.20% | -16.08% | -11.94% | -10.74% |
| Relative | 10.69% | 1.15% | 13.12% | 14.62% | 34.87% | 105.35% |

*Source: Bloomberg

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**Market Review, Outlook & Strategy relevant to Target Fund**

For a second consecutive month, the S&P 500 Index declined, dropping 2.8% in October and the Dow's 4.6% monthly loss took its year-to date decline to 7.1%. Even the Nasdaq Composite Index, the persistent outperformer among the three, lost 2.3% and saw its gains for the year reduced to a still respectable 22%. All three indexes closed the month with their worst weekly decline (5% – 7%) since March. New COVID-19 cases are surging to new highs across the globe. Friday, October 30th was the worst day of the pandemic, with new cases growing by 569,000 worldwide, including more than 99,000 in the U.S. Many European governments are implementing fresh lockdown measures in response and in the UK, a four-week partial lockdown is scheduled to start on the 5th of November. Total cases have now risen to more than 46.4 million, with deaths topping 1.19 million.

Despite the resurgence of COVID-19 cases, US Q3 GDP showed growth of a 33.1% QoQ (seasonally adjusted annualized rate) above estimates of 30.9% (from -31.4% in 2Q and -5.0% in 1Q 2020), largest quarterly gain on record. However, GDP was still down 3.5% YoY after contractions in Q1 and record Q2 decline. Personal consumption was the key contributor which was up by 40.7% on an annualized rate. The Eurozone's GDP also saw its sharpest recorded increase in Q3, up 12.7% QoQ, but still remains well below YoY. European Central Bank kept Eurozone interest rates unchanged at 0.0% as forecast and hinted at more stimulus in December as new COVID-19 lockdowns are imposed.

The KLCI continued its losing streak as it posted a third consecutive month of losses in October amid profit-taking across all key sectors except healthcare, technology and utilities. Investors generally fled to export-oriented sectors due to concerns over rising new COVID-19 cases in Malaysia and local political uncertainty. It was the worst month for COVID infections with a total of 19,629 new cases reported in the month alone, significantly higher than the total numbers reported between January to September at 11,919 cases. Hence KL, Putrajaya, Selangor and Sabah went back into CMCO. Political developments also abounded in October, as the government seeks to garner support for the upcoming tabling of the Budget in November.

The FBM KLCI fell 38 pts (-2.5% MoM) in October to close at 1,467 pts, setting the index back by 7.7% (YTD ending October). Retail participants' daily trading activities rose 2% pts MoM to 40% in October as trading interest returned following the implementation of CMCO in the Klang Valley on 14 October. Foreigners remained net sellers in October, though the net selling values were 68% lower MoM.

Meanwhile, Brent Crude Oil declined -8.5% in October due to continued demand concerns, the lowest level since late May, but on a positive note the MYR traded flat versus the USD at 4.1558. CPO futures traded higher to RM3,252, +14.5% MoM on the back of potential decline in production due to shortage of workers in the sector.

The record surge in new cases, increasing lockdowns, and its impact on consumers and corporations should lead to a slowdown in the recovery. On the regional front, investors will be tracking closely the 2020 US presidential election on 3 Nov, latest developments on the Brexit trade deal negotiations, the FOMC meeting on 4-5 Nov, and OPEC meeting on 30 Nov.

November will be an eventful month for the market, with various developments such as: 1) Tabling of Budget 2021 on 6th Nov, 2) MPC meeting on 3rd Nov, 3) Release of 3Q GDP numbers on the 13th Nov, 4) 3Q20 corporate earnings reporting season, and 5) new Covid-19 cases and potential extension of the CMCO beyond 9th Nov. In view of the above, the market could be volatile, unless the Budget 2021 stimulus and results season come ahead of market expectations.

As such, we stick to our stock picking strategy and remain selective towards sectors that see more resilient growth. We continue to overweight sectors such as technology and exporters due to decent earnings growth while also favoring high dividend yielding stocks which provide some defensiveness and should continue to do well in a low yield environment. Meanwhile, we are also looking to add cyclical stocks on weakness to position for a rebound. We maintain a trading bias to take advantage of market volatility in the near term.

**Actual Annual Investment Returns for the Past Eight (8) Calendar Years**

| Year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| **Benchmark** | 2.8% | 10.5% | -5.7% | -3.9% | -3.0% | 9.5% | -5.9% | -6.0% |
| **HLSGF- Gross** | 3.3% | 27.8% | 11.8% | 23.1% | 2.3% | 27.1% | -16.8% | 15.0% |
| **HLSGF - Net** | 1.6% | 24.1% | 9.3% | 19.8% | 0.6% | 23.5% | -17.0% | 12.3% |

Net returns are adjusted for tax and fund management fees.
Those are the actual returns in the past eight (8) years, or since inception if shorter, and are strictly the performance of the investment-linked fund. Thus, the returns are not earned on the actual premium paid of the investment-linked product.

The fund was only launched on 1 October 2012. The actual investment returns are calculated based on unit price from 1 October 2012 to 31 December 2012.

**Investment Risks**

All investments carry risks. Policy Owners must be prepared to accept certain degree of risk associated with this investment. The following are the non-exhaustive list of risks associated to this fund.

1. **Market Risk**
   Market risk stems from the fact that there are other economy-wide perils, which threaten all businesses. It is mainly caused by uncertainties in the economy, political and social environment.

2. **Liquidity Risk**
   Liquidity risk is the risk that the fund invested cannot be readily sold and converted into cash. This may arise when the trading volume is low and/or where there is a lack of demand for the security.

3. **Credit Risk**
   This refers to the possibility that the issuer of a security will not be able to make timely payments of interest or principal repayment on the maturity date. The default may lead to a fall in the value of the funds.

4. **Interest Rate Risk**
   The level of interest rates has an impact on the value of investments. Any increase in rates will lead to a fall in the value of securities, thus affecting the value of the funds.

5. **Country Risk**
   The foreign investment of a fund may be affected by the political & economic conditions of the country which the investments are made.

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6. **Currency Risk**
   This risk is associated with investments that are denominated in foreign currencies. Fluctuation in foreign exchange rates will have an impact on the value of the funds.

7. **Concentration Risk**
   This risk is associated with a feeder fund whereby the investments of such fund are not diversified. A feeder fund invests mainly into another collective investment scheme.

**Risk Management**
The company has in place its Authorized Investment Framework which forms part of the Risk Management process. The authority framework covers the nature and scope of the investment authority that is exercisable by various parties in managing the Company's investments. The potential investment risks that are taken into consideration in managing the fund include economic conditions, liquidity, qualitative and quantitative aspects of the securities. The investment manager(s) have put in place the following controls to reduce the risks through:
   a) having a flexible tactical asset allocation
   b) investing in a wide range of companies across different sectors
   c) setting prudent investment limits on various exposures
   d) taking into account the liquidity factor in selecting securities
   e) engaging in the hedging of foreign currency exposure where appropriate

**Basis of Unit Valuation**
1. The assets of every fund are to be valued to determine the value at which units of a particular fund can be liquidated or purchased for investment purposes.
2. The unit price of a unit of a fund shall be determined by the Company but in any event shall not be less than the value of fund of the relevant fund (as defined below), divided by the number of units of the given fund in issue on the business day before the valuation date, and the result adjusted to the nearest one hundredth of a cent.
3. The maximum value of any asset of any fund shall not exceed the following price:
   a) The last transacted market price at which those assets could be purchased or sold on the business day before the valuation date; or
   b) In the case of securities for which market values are not readily available, the price at which, in our Investment Manager's opinion, the asset may have been purchased on the business day before the valuation date;

   plus any expenses which would have been incurred in its acquisition.
4. To ensure fair treatment to all unit holders, the cost of acquiring and disposing of assets is recouped by making a transaction cost adjustment to the net asset value per unit.

**Exceptional Circumstances**
The Company reserves the right to defer the payment of benefits (other than death benefit) under this Policy for a period not exceeding six (6) months from the date the payment would have been normally effected if not for intervening events such as temporary closure of any Stock Exchange in which the fund is invested which the Company, in its discretion, may consider exceptional.

**Target Fund Details**
Kenanga Growth Fund is an Equity fund managed by Kenanga Investors Berhad. The past performance of this fund is as follows:

| Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| Performance | 32.7% | 19.1% | 14.1% | 26.4% | 9.3% | 20.9% | -0.1% | 25.8% | -18.1% | 13.5% |

**Basis of Calculation of Past Performance**
The historical performance of the fund is calculated based on the price difference over the period in consideration compared to the older price of the period in consideration.

$$\frac{\text{Unit Price}_t - \text{Unit Price}_{t-1}}{\text{Unit Price}_{t-1}}$$

For the underlying Target Fund, past performance is calculated after adjusting for distribution and/or additional units, if any.

**Others**
Hong Leong Smart Growth Fund is managed by Hong Leong Assurance Berhad (HLA). Any amount invested in this fund is invested by HLA on behalf of Policy Owner in equity, fixed income, collective investment scheme, foreign asset, derivatives and money market instrument/s. If the financial institutions and/or corporations issuing the equity, fixed income, collective investment scheme, foreign asset, derivatives and money market instruments defaults or insolvent, the Policy Owner risks losing part or all of his/her amount that were invested into the instruments on his/her behalf by HLA.

**THIS IS AN INSURANCE PRODUCT THAT IS TIED TO THE PERFORMANCE OF THE UNDERLYING ASSETS, AND IS NOT A PURE INVESTMENT PRODUCT SUCH AS UNIT TRUSTS.**

**Disclaimer:**
Policy Owner must evaluate your options carefully and satisfy yourself that the investment-linked fund chosen meets your risk appetite. Past performance of the fund is not an indication of its future performance. The intention of this document is to enable Policy Owner to better understand the fund features and details in order to assist Policy Owner to making an informed decision. This document shall not be construed as professional advice on investment choices.