

# HLA Horizon Funds

Jan 2019

## Fund Features

### 1. Investment Objective

The fund is designed to offer customers a Minimum Guaranteed Unit Price upon fund maturity and yet offer the opportunity to enhance returns via a leveraged exposure. The fund will periodically lock in part of the gains (10 years after launch of the fund) and thereby increasing the customers' Minimum Guaranteed Unit Price at fund maturity.

The fund is open ended with three maturity dates to match customer financial planning needs: Horizon28 to be matured in Year 2028, Horizon38 in Year 2038 and Horizon48 in Year 2048.

### 2. Investment Strategy & Approach

The fund will invest into Floating Rate Negotiable Instrument of Deposit (FRNID). FRNID allocate into two major components: Mean Variance Optimization (MVO) Strategy and Zero-coupon Negotiable Instrument of Deposit (ZNID).

To enhance investment return, MVO Strategy will be leveraged by 3 times. This MVO Strategy uses the Efficient Frontier to find the optimal portfolio returns for a defined risk, limiting to basket volatility to around 8%. The portfolio consists of 4 asset classes:

- (i) 4 equities indices (S&P500, Euro Stoxx 50, Hang Seng China Enterprises, MSCI Emerging Market),
- (ii) 2 bond indices (Franklin Templeton & PIMCO),
- (iii) Spot Gold index
- (iv) Cash index

These indices are published at Bloomberg to provide transparency to customer.

The ZNID provides the Minimum Guaranteed Unit Price upon each fund's maturity. The initial Minimum Guaranteed Unit Price as follow:

| Fund          | Initial Minimum Guaranteed Unit Price<br>at fund maturity |
|---------------|-----------------------------------------------------------|
| HLA Horizon28 | RM 1.00                                                   |
| HLA Horizon38 | RM 1.50                                                   |
| HLA Horizon48 | RM 2.00                                                   |

Over time, Minimum Guaranteed Unit Price may go up via a profit taking mechanism. This mechanism will lock the gains provided the condition stated below is met, by transferring portion of gains from the MVO Strategy to the ZNID on a yearly basis as follow:

| Fund Year | % of the MVO Strategy Gains |
|-----------|-----------------------------|
| 1 to 10   | 0%                          |
| 11 to 20  | 50%                         |
| 21 to 30  | 100%                        |

The condition for profit taking:

$$\left( \frac{MVO_t}{MVO_{prevPT}} - 1 \right) > 0$$

Where,

$MVO_t$  is the mark-to-market value of MVO per unit

$MVO_{prevPT}$  is the mark-to-market value of MVO at the time of previous actual executed profit taking per unit

### 3. Target Market

The fund is suitable for investors who wish to engage in mid-term and long-term wealth-planning. The feature of this Minimum Guaranteed Unit Price upon fund maturity will help to safeguard the savings goal for their children's education, retirement planning or wealth-building for future generations.

## Fund Details

|                                    |                               |
|------------------------------------|-------------------------------|
| <b>Fund Management Fee</b>         | : 1.30% p.a.                  |
| <b>Fund Manager</b>                | : Hong Leong Assurance Berhad |
| <b>Fund Inception</b>              | : 9 Oct 2018                  |
| <b>Benchmark</b>                   | : 3-month Klibor *+ 2.65%     |
| <b>Frequency of Unit Valuation</b> | : Weekly                      |

*The Company reserves the right to change the Fund Management Fee (% p.a.) by giving the Policy Owner ninety (90) days prior written notice.*

\*Source: Bloomberg

## Other Details

| Fund Name          | Fund Maturity Date | Unit Price @ 29/1/2019 | Fund Size 29/1/2019 | Guaranteed Unit Price upon Fund Maturity (updated @ 29/1/2019) |
|--------------------|--------------------|------------------------|---------------------|----------------------------------------------------------------|
| HLA Horizon28 Fund | :08/10/2028        | RM1.0276               | RM766,303.15        | RM1.00                                                         |
| HLA Horizon38 Fund | :08/10/2038        | RM1.0360               | RM11,397,045.85     | RM1.50                                                         |
| HLA Horizon48 Fund | :08/10/2048        | RM1.0428               | RM5,346,243.47      | RM2.00                                                         |

The Guaranteed Unit Price upon Fund Maturity stated above may be revised upwards from time to time via profit taking.

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# HLA Horizon Funds

## Performance Snapshot

| Fund          | 1 Month | 1 Year |
|---------------|---------|--------|
| HLA Horizon28 | 1.49%   | -      |
| HLA Horizon38 | 2.23%   | -      |
| HLA Horizon48 | 2.75%   | -      |

## Exposure to MVO Strategy

| Fund          | Exposure as at 29/1/2019 |
|---------------|--------------------------|
| HLA Horizon28 | 100.57%                  |
| HLA Horizon38 | 110.85%                  |
| HLA Horizon48 | 148.38%                  |

## Market Review (by Hong Leong Bank Berhad)

The global economy is at the crossroads. While the US remains a bastion of macro stability, the latest data in Europe, China, and across emerging markets have all showed clear signs of slowing. Ultimately, we are optimistic about the US, but believe that the downside risks have risen sharply in Europe.

We expect US growth to maintain its strong pace despite some recent softening in financial conditions. The labour market continues to strengthen and signal further gains in consumer spending. Tax cuts and fiscal spending acts as tailwinds and are expected to remain supportive through 2020.

We have downgraded and delayed our expectations for further Fed tightening. In particular, we now anticipate that the Fed will raise rates two more times this cycle in September 2019 and March 2020. That would leave the terminal rate at 2.875%, down from our previous expectation of 3.125%. We continue to expect one rate cut in 2021. To be sure, the outlook is considerably more uncertain than usual. Further Fed tightening this cycle requires the dissipation of the various headwinds that are currently buffeting the outlook, including slowing global growth momentum, trade war tensions, Brexit, and domestic political issues, as well as some updraft in inflation pressures. A negative outcome on any of these fronts that spills over to domestic fundamentals would likely spell the end of the Fed's tightening cycle.

Eurozone growth momentum is slowing rapidly. Weak external demand is a key drag, compounded by concerns of cracks appearing in domestic resilience –weakening job and capex indicators. UK government is running down the clock to the March 29<sup>th</sup> Brexit deadline, attempting to build a majority for current Withdrawal Agreement out of:

- the threat of a no deal Brexit;
- assurances from the EU27 over the Temporary Customs Arrangement;
- incentives for Labour MPs such as providing guarantees on workers rights

With Italy already skirting the edge of public debt stability under our new baseline, a no-deal Brexit shock could push Italy onto an upward sloping debt trajectory.

China's Q4-18 real GDP growth slowed moderately to 6.4% while the slowdown was more pronounced in nominal GDP –to 8.1% from 9.6% in Q3. Industrial production and retail sales rebounded slightly in Dec-18, but overall trend is downwards. The Chinese government is now emphasizing a tightening bias on fiscal spending. This was evident in its recent move whereby the government deferred providing subsidies to local governments for boosting consumption of cars, home appliances etc. Contrary to the market expectations for a fiscal stimulus, we see a negative fiscal shock to be rather likely in 2019. We think the burden of policy easing will fall on the monetary side; and if the economy slows further, the government may have to loosen controls on the property market.

Looking to 2020 and beyond, China's growth should continue on a modest downtrend as structural reforms gradually move the economy to a more consumer-oriented position, with investment growth slowing noticeably and the expansion of consumer spending outstripping GDP growth by more than a percentage point.

While EM economies adjust to a more volatile environment for capital inflows due to dynamic changes in likelihood of risk events, such as trade tensions, Brexit negotiations, and a sharp slowdown in China's growth; tailwinds from the positive terms-of-trade shock (i.e. plunging oil prices) during last quarter, corrective policy measures implemented in more challenged EM countries (Turkey and Argentina), and improved fiscal dynamics through year-end all appear to have provided some welcome help. Russia, Mexico, Indonesia, Poland, and Malaysia have the lowest macro vulnerability.

Asia growth momentum has slowed the most and focus will be on China and export oriented economies (Singapore, Taiwan etc). In LatAm, outlook for Brazil and Mexico looks marginally positive while Argentina is expected to continue to contract. In CEEMEA, focus will be on Turkey (CBT action), South Africa (fiscal issues and possible rating d/g) and Russia (sanctions risk). Also, election in several EM economies (India, Turkey, South Africa, Argentina, Indonesia etc.) could be a source of economic boost.

| Gains of MVO Strategy (per unit)            | HLA Horizon28 | HLA Horizon38 | HLA Horizon48 |
|---------------------------------------------|---------------|---------------|---------------|
| Previous actual executed profit taking at - | N/A           | N/A           | N/A           |
| As at 29 Jan 2019                           | 1.96%         | 1.94%         | 2.59%         |
| As at 24 Dec 2018                           | 0.51%         | 0.29%         | 0.39%         |

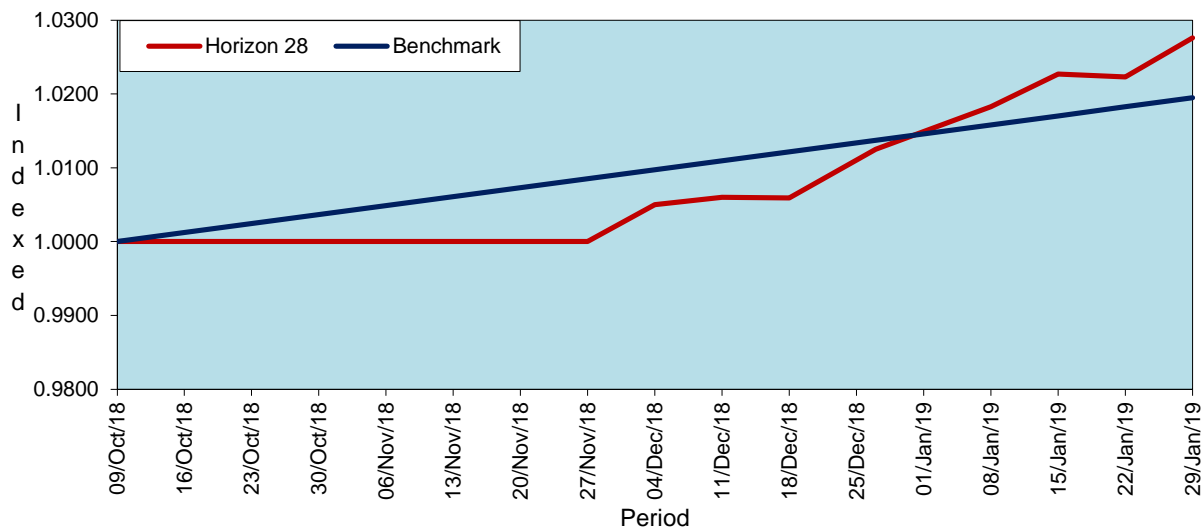
The next observation date for profit taking is 8 Oct 2029. If this date is not a Business Day, then shall be the Business Day immediately following the date stated.

# HLA Horizon Funds

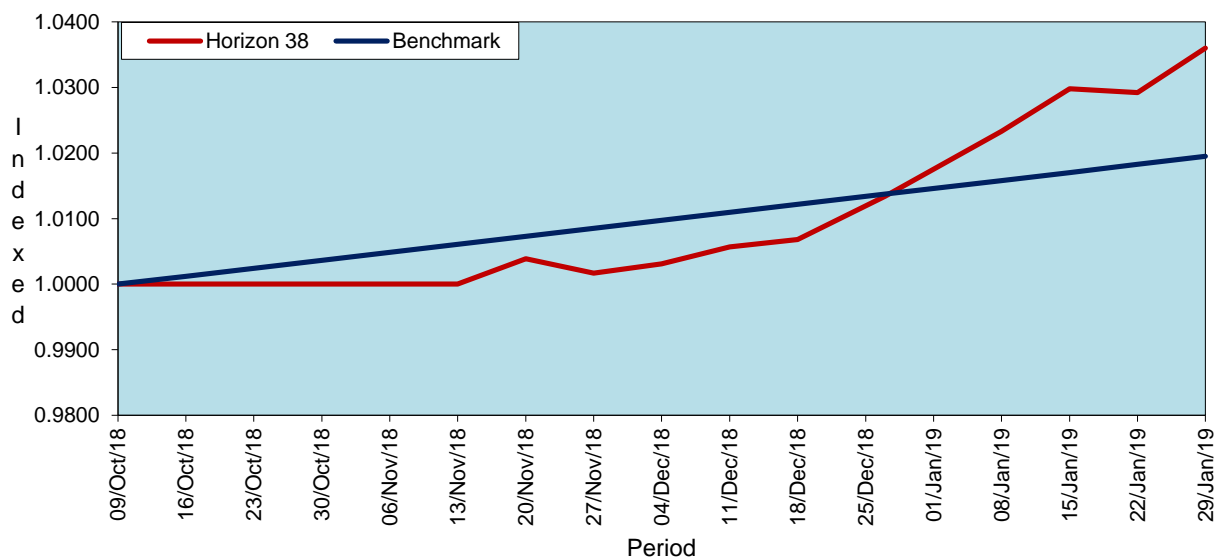
Underlying Asset in the MVO Strategy as at 29 Jan 2019

| Indices                              | Bloomberg Ticker  | Weightage (%)  | Monthly Performance |
|--------------------------------------|-------------------|----------------|---------------------|
| iShares MSCI EM Index Fund           | EEM US Equity     | 0.00%          | 9.62%               |
| S&P 500 Index                        | SPX Index         | 0.00%          | 12.29%              |
| Euro Stoxx 50 Index                  | SX5E Index        | 0.00%          | 6.11%               |
| Hang Seng China Enterprises Index    | HSCEI Index       | 0.00%          | 7.79%               |
| Gold                                 | GOLDLNAM Index    | 25.00%         | 3.73%               |
| Templeton Global Bond Fund           | FTGBFAC LX Equity | 30.00%         | 2.63%               |
| PIMCO Funds – Total Return Bond Fund | PTRBDFE ID Equity | 30.00%         | 0.93%               |
| DB Fed Funds Effective Rate TR Index | DBMMFED1 Index    | 15.00%         | 0.24%               |
| <b>Total</b>                         |                   | <b>100.00%</b> |                     |

| HLA Horizon28 Fund       |              |         |        |         |         |                 |
|--------------------------|--------------|---------|--------|---------|---------|-----------------|
| As of 29/1/19            | Year to-date | 1 month | 1 Year | 3 Years | 5 Years | Since Inception |
| HLA Horizon28            | 1.49%        | 1.49%   | -      | -       | -       | 2.76%           |
| KLIBOR+2.65% p.a.*       | 0.57%        | 0.57%   | -      | -       | -       | 1.95%           |
| Performance vs Benchmark | 0.92%        | 0.92%   | -      | -       | -       | 0.81%           |

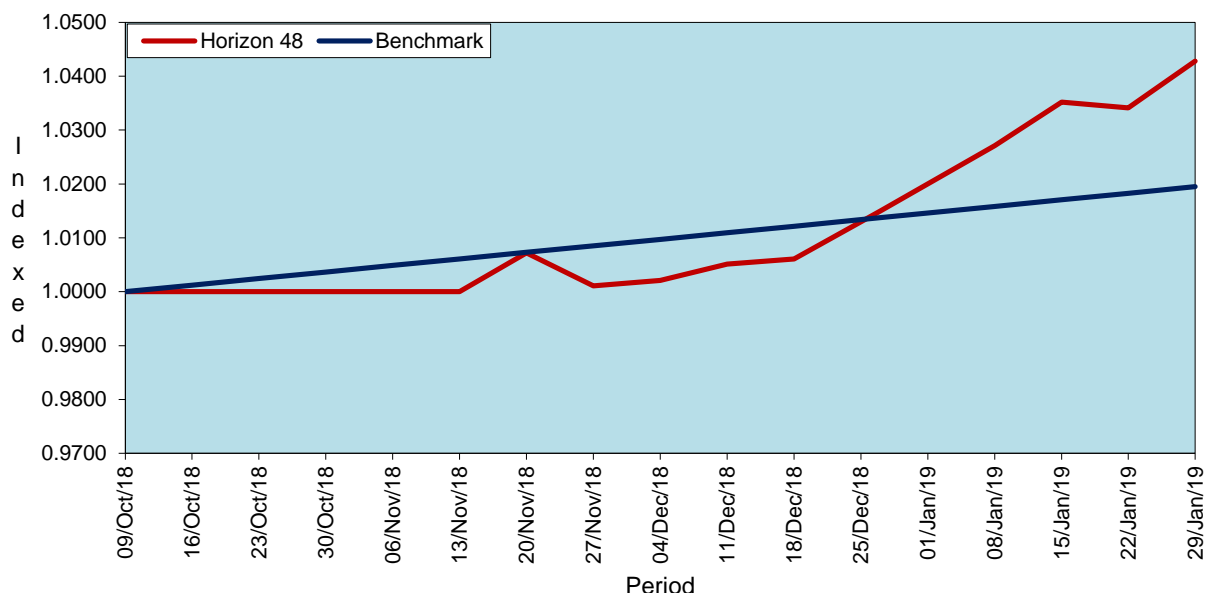


| HLA Horizon38 Fund       |              |         |        |         |         |                 |
|--------------------------|--------------|---------|--------|---------|---------|-----------------|
| As of 29/1/19            | Year to-date | 1 month | 1 Year | 3 Years | 5 Years | Since Inception |
| HLA Horizon38            | 2.23%        | 2.23%   | -      | -       | -       | 3.60%           |
| KLIBOR+2.65% p.a.*       | 0.57%        | 0.57%   | -      | -       | -       | 1.95%           |
| Performance vs Benchmark | 1.66%        | 1.66%   | -      | -       | -       | 1.65%           |



## HLA Horizon Funds

| HLA Horizon48 Fund       |              |         |        |         |         |                 |
|--------------------------|--------------|---------|--------|---------|---------|-----------------|
| As of 29/1/19            | Year to-date | 1 month | 1 Year | 3 Years | 5 Years | Since Inception |
| HLA Horizon48            | 2.75%        | 2.75%   | -      | -       | -       | 4.28%           |
| KLIBOR+2.65% p.a.*       | 0.57%        | 0.57%   | -      | -       | -       | 1.95%           |
| Performance vs Benchmark | 2.18%        | 2.18%   | -      | -       | -       | 2.33%           |



\*Source: Bloomberg

### 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 detailed explanation of the risk 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. Deleverage Risk

Deleveraging may occur if the bond floor rises due to falling interest rates or due to nearing maturity, or due to sustained underperformance of the underlying asset. When this occurs, the Funds will unwind all allocation to the underlying asset and will effectively become a zero-coupon bond fund.

#### 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. Country Risk

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

### Risk Management

The Company has in place its Authorized Investment Framework which forms part of the Risk Management process. The authority framework will cover the nature and scope of the investment authority that is exercisable by various parties in managing the Company's investments. Besides this, sensitivity and stress testing is conducted to inform the Company's management the profit & loss profiles of their investments under different pre-defined risk scenarios and the necessary action to be taken if the potential losses exceed the Company's risk tolerance level.

# HLA Horizon Funds

## 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.

## 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.

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

## Others

HLA Horizon Funds are managed by Hong Leong Assurance Berhad (HLA). Allocated premiums of the policy invested in the fund are invested by HLA on behalf of the Policy Owner in a FRNID issued by Hong Leong Bank Berhad. If the issuer of the FRNID defaults or becomes insolvent, the Policy Owner risks losing part or all of his/her allocated premium amounts that were invested into the FRNID on his/her behalf by HLA. Should the issuer/financial institutions default the above investment instrument, the Minimum Guaranteed Unit Price at Fund Maturity will not be applicable.

**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.