

# Fund Information

## Fund Name

Public China Select Fund (PCSF)

## Fund Category

Equity

## Fund Investment Objective

To achieve capital growth over the medium to long-term period by investing in a portfolio of investments in the greater China region namely in Hong Kong, China and Taiwan markets and including China based companies listed on overseas markets. The Fund may also invest in companies listed on Bursa Securities and other foreign markets which have significant or potentially significant business operations in the greater China region.

## Fund Performance Benchmark

The benchmark of the Fund is the MSCI Golden Dragon Index.

*Source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.*

## Fund Distribution Policy

Incidental

## Breakdown of Unitholdings of PCSF as at 31 July 2018

Size of holdings	No. of unitholders	% of unitholders	No. of units held (million)
5,000 and below	7,566	15.43	27
5,001 to 10,000	7,758	15.82	58
10,001 to 50,000	21,950	44.76	539
50,001 to 500,000	11,221	22.88	1,429
500,001 and above	544	1.11	613
<b>Total</b>	<b>49,039</b>	<b>100.00</b>	<b>2,666</b>

*Note: Excluding Manager's Stock.*

## Fund Performance

### Average Total Return for the Following Years Ended 31 July 2018

	Average Total Return of PCSF (%)
1 Year	-0.88
3 Years	13.15
5 Years	19.32

## Fund Performance

For the Financial Year Ended 31 July 2018

### Annual Total Return for the Financial Years Ended 31 July

Year	2018	2017	2016	2015	2014
PCSF (%)	-0.88	37.15	2.60	23.97	13.72

The calculation of the above returns is based on computation methods of Lipper.

Notes:

- Total return** of the Fund is derived by this formulae:

$$\left( \frac{\text{End of Period FY}_{\text{Current Year}} \text{ NAV per unit}}{\text{End of Period FY}_{\text{Previous Year}} \text{ NAV per unit}} \right) - 1$$

(Adjusted for unit split and distribution paid out for the period)

The above total return of the Fund was sourced from Lipper.

- Average total return is derived by this formulae:

$$\frac{\text{Total Return}}{\text{Number of Years Under Review}}$$

### Other Performance Data for the Past Three Financial Years Ended 31 July

	2018	2017	2016
<b>Unit Prices (MYR)*</b>			
Highest NAV per unit for the year	0.3652	0.3297	0.2563
Lowest NAV per unit for the year	0.3209	0.2395	0.2065
<b>Net Asset Value (NAV) and Units in Circulation (UIC) as at the End of the Year</b>			
Total NAV (MYR'000)	857,781	875,835	728,387
UIC (in '000)	2,665,731	2,656,312	3,030,479
NAV per unit (MYR)	0.3218	0.3297	0.2404
<b>Total Return for the Year (%)</b>	<b>-0.88</b>	<b>37.15</b>	<b>2.60</b>
Capital growth (%)	-1.00	36.36	-0.48
Income (%)	0.12	0.58	3.09
<b>Management Expense Ratio (%)</b>	<b>1.62</b>	<b>1.63</b>	<b>1.60</b>
<b>Portfolio Turnover Ratio (time)</b>	<b>0.63</b>	<b>1.27</b>	<b>0.63</b>

\* All prices quoted are ex-distribution.

Notes: Management Expense Ratio is calculated by taking the total management expenses expressed as an annual percentage of the Fund's average net asset value.

Portfolio Turnover Ratio is calculated by taking the average of the total acquisitions and disposals of the investments in the Fund for the year over the average net asset value of the Fund calculated on a daily basis.

The Portfolio Turnover Ratio for the financial year 2018 dropped to 0.63 time from 1.27 time in the previous financial year on account of lower level of rebalancing activities performed by the Fund during the year.

## Fund Performance

For the Financial Year Ended 31 July 2018

### Distribution and Unit Split

Financial year	2018	2017	2016
Date of distribution	31.7.18	31.7.17	29.7.16
<b>Distribution per unit</b>			
Gross (sen)	0.50	-	-
Net (sen)	0.50	-	-
<b>Unit split</b>	-	-	-

### Impact on NAV Arising from Distribution (Final) for the Financial Years

	2018 Sen per unit	2017 Sen per unit	2016 Sen per unit
Net asset value before distribution	32.68	32.97	24.04
Less: Net distribution per unit	(0.50)	-	-
Net asset value after distribution	32.18	32.97	24.04

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

### Asset Allocation for the Past Three Financial Years

	As at 31 July (Percent of NAV)		
	2018 %	2017 %	2016 %
<b>EQUITY SECURITIES</b>			
<b>Quoted</b>			
<b>Outside Malaysia</b>			
<b>Hong Kong</b>			
Communications	10.6	13.2	15.5
Consumer, Cyclical	2.8	2.9	4.7
Consumer, Non-cyclical	2.4	-	0.9
Diversified	1.0	2.2	3.0
Energy	3.3	1.2	3.5
Financial	25.4	24.7	25.0
Industrial	1.5	3.9	2.2
Utilities	1.6	-	-
	48.6	48.1	54.8
<b>Singapore</b>			
Diversified	-	0.9	-
Financial	-	1.2	1.1
	-	2.1	1.1
<b>Taiwan</b>			
Communications	-	0.9	1.2
Consumer, Cyclical	-	0.9	1.9
Financial	2.4	2.9	2.0
Industrial	4.5	8.2	5.8
Technology	14.0	13.3	14.7
	20.9	26.2	25.6

## Fund Performance

For the Financial Year Ended 31 July 2018

### Asset Allocation for the Past Three Financial Years (cont'd)

	As at 31 July (Percent of NAV)		
	2018 %	2017 %	2016 %
<b>United States</b>			
Communications	14.4	10.4	5.1
Consumer, Cyclical	0.4	1.6	1.5
Technology	2.2	2.9	1.1
	17.0	14.9	7.7
<b>TOTAL QUOTED EQUITY SECURITIES</b>	<b>86.5</b>	<b>91.3</b>	<b>89.2</b>
<b>COLLECTIVE INVESTMENT FUNDS</b>			
<b>Quoted</b>			
<b>Outside Malaysia</b>			
<b>Hong Kong</b>			
Communications	-	0.9	1.7
Financial	1.1	-	-
	1.1	0.9	1.7
<b>TOTAL QUOTED COLLECTIVE INVESTMENT FUNDS</b>	<b>1.1</b>	<b>0.9</b>	<b>1.7</b>
<b>COLLECTIVE INVESTMENT SCHEMES</b>			
<b>Unquoted</b>			
Funds	2.5	2.5	4.3
	2.5	2.5	4.3
<b>TOTAL UNQUOTED COLLECTIVE INVESTMENT SCHEMES</b>	<b>2.5</b>	<b>2.5</b>	<b>4.3</b>
<b>DEPOSITS WITH FINANCIAL INSTITUTIONS</b>	<b>3.5</b>	<b>2.7</b>	<b>2.8</b>
<b>OTHER ASSETS &amp; LIABILITIES</b>	<b>6.4</b>	<b>2.6</b>	<b>2.0</b>

## Statement Of Distribution Of Returns

For the Financial Year Ended 31 July 2018

	Sen Per Unit
Gross Distribution	0.5000
Net Distribution	0.5000
Total Returns	-0.2900

### Effects of Distribution on NAV per unit before and after Distribution:

	Before Distribution	After Distribution
NAV per unit (MYR)	0.3268	0.3218

## Manager's Report

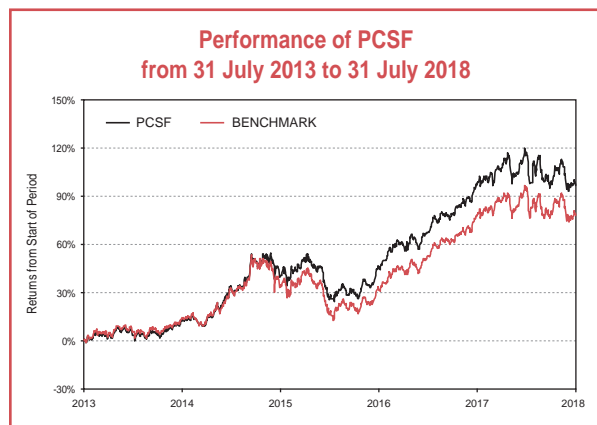
### Overview

This Annual Report covers the financial year from 1 August 2017 to 31 July 2018.

Public China Select Fund (PCSF or the Fund) aims to achieve capital growth over the medium to long-term period by investing in a portfolio of investments in the greater China region namely in Hong Kong, China and Taiwan markets and including China based companies listed on overseas markets. The Fund may also invest in companies listed on Bursa Securities and other foreign markets which have significant or potentially significant business operations in the greater China region.

For the financial year under review, the Fund registered a return of -0.88% as compared to its Benchmark's return of -0.32%. The Fund's equity portfolio registered a return of +1.11% while its money market portfolio registered a return of +3.14% during the financial year under review. A detailed performance attribution analysis is provided in the sections below.

For the five financial years ended 31 July 2018, the Fund registered a return of +96.63% and outperformed its Benchmark's return of +78.17% over the same period. Consequently, it is the opinion of the Manager that the Fund has met its objective of achieving capital growth over the said period.



The Fund's Benchmark is the MSCI Golden Dragon Index which is a market capitalisation-weighted index designed to represent the performance of the equity markets of China, Taiwan and Hong Kong.

### Income Distribution and Impact on NAV Arising from Distribution

The gross distribution of 0.50 sen per unit (net distribution of 0.50 sen per unit) for the financial year ended 31 July 2018 had the effect of reducing the Net Asset Value (NAV) of the Fund after distribution. As a result, the NAV per unit of the Fund was reduced to RM0.3218 from RM0.3268 after distribution.

## Manager's Report

### Effect of Distribution Reinvestment on Portfolio Exposures

	31-Jul-18	
	Before Distribution Reinvestment*	After Distribution Reinvestment*
Equities & Related Securities	90.1%	88.7%
Money Market	9.9%	11.3%

\* Assumes full reinvestment.

### Change in Portfolio Exposures from 31-Jul-17 to 31-Jul-18

	31-Jul-17	31-Jul-18	Change	Average Exposure
Equities & Related Securities	94.7%	88.7%	-6.0%	93.36%
Money Market	5.3%	11.3%	+6.0%	6.64%

### Returns Breakdown by Asset Class

	Returns On Investments	Market / Benchmark Returns	Benchmark Index Used	Average Exposure	Attributed Returns
Equities & Related Securities	1.11%	-0.32%	Benchmark	93.36%	1.04%
Money Market	3.14%	3.08%	Overnight Rate	6.64%	0.21%
less: Expenses					-2.13%
Total Net Return for the Year					-0.88%

Overnight Rate = Bank Negara Weighted Average Overnight Interbank Rate

### Equity Portfolio Review

For the financial year under review, the Fund's equity portfolio registered a return of +1.11% as compared to the Benchmark's return of -0.32%. The Fund's equity portfolio outperformed the Benchmark as the Fund's selected holdings within the Financial and Technology sectors outperformed the broader markets during the financial year under review.

The Fund commenced the financial year under review with an equity exposure of 94.7% and its equity weight was reduced to below 85% in December 2017 to weather the consolidation phase in the Greater China equity markets. The Fund's equity weight was subsequently increased to capitalise on investment opportunities in the Greater China equity markets and ended the financial year under review with an equity exposure of 88.7%. Based on an average equity exposure of 93.36%, the Fund's equity portfolio is deemed to have registered a return of +1.04% to the Fund as a whole for the financial year under review. A full review of the performance of the equity markets is tabled in the following sections.

## Manager's Report

### Country Allocation

In terms of country allocation within the equity portfolio, 3 countries accounted for 90.1% of the NAV of the Fund and 100.0% of the Fund's equity portfolio. The weightings of the 3 countries are in the following order: Hong Kong / China (52.2%), Taiwan (20.9%) and the United States (17.0%).

### Money Market Portfolio Review

During the financial year under review, the Fund's money market portfolio, which was invested primarily in deposits, yielded a return of +3.14%. In comparison, the Bank Negara Weighted Average Overnight Interbank Rate (Overnight Rate) registered a return of +3.08% over the same period.

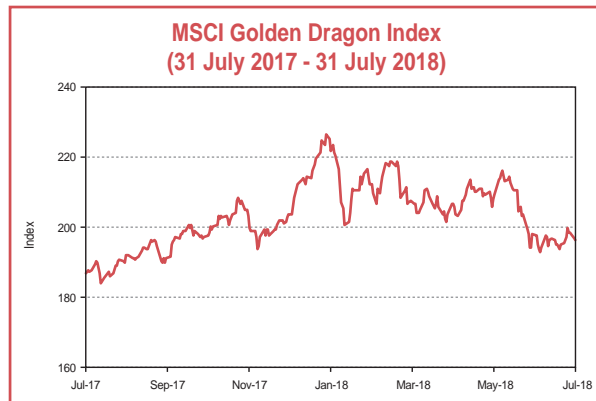
During the financial year under review, the Fund's exposure to money market investments increased from 5.3% to 11.3% following the disposal of selected equity investments. Based on an average exposure of 6.64%, the money market portfolio is estimated to have contributed +0.21% to the Fund's overall return for the financial year under review.

### Stock Market Review

Commencing the financial year under review at 186.93 points, the Greater China equity markets, as proxied by the Morgan Stanley Capital International (MSCI) Golden Dragon Index, rallied from August to mid-November 2017, supported by improving liquidity conditions in China, the brighter global macroeconomic outlook and continued upward earnings revisions. On 30 September 2017, the People's Bank of China (PBOC) announced a targeted reserve requirement ratio (RRR) cut which signalled credit support to stimulate economic growth. The Index retraced in late November 2017 in tandem with the rout in Chinese sovereign bonds amid concerns that the government would step up efforts to reduce leverage in the financial sector.

Positive sentiment post the Central Economic Work Conference and the central bank's announcement to ease liquidity conditions in China helped the Index to strengthen in December 2017 and January 2018. The Index subsequently corrected alongside global equity markets in early February 2018 amid concerns over inflationary pressures and the prospect of faster-than-expected interest rate hikes in the U.S. After a brief rebound, the Index retraced in late March 2018 amid escalating trade tensions between the U.S. and China following President Trump's announcement that the U.S. would impose 25% tariffs on up to US\$60 billion of annual imports from China. The Index traded range-bound in April and May 2018 before declining from June to July 2018 as fears of a trade war were reignited. Given the potential near-term headwinds, the PBOC announced a 50 basis points (bps) RRR cut in June 2018 to support liquidity and economic growth. The MSCI Golden Dragon Index closed at 196.27 points to register a gain of 4.99% (-0.32% in Ringgit terms) for the financial year under review.

## Manager's Report



### Money Market Review

The Overnight Rate commenced the financial year under review at 2.99% and ended the financial year under review higher at 3.24%.

### Economic Review

China's GDP growth inched down from 6.9% in 2017 to 6.8% in 1H 2018 following a moderation in the services sector. The services sector's growth eased from 8.0% in 2017 to 7.6% in 1H 2018 amid softer growth in financial activities and trade.



Source: Bloomberg

Led by slower new orders and production levels, China's manufacturing Purchasing Managers' Index (PMI) edged down to 51.3 points in the first seven months of 2018 compared to 51.6 points for the whole of 2017. Meanwhile, growth in China's fixed-asset investment moderated to 6.0% in 1H 2018 versus the 7.2% growth registered in 2017.

China's export growth strengthened to 12.8% in 1H 2018 from 7.9% in 2017 on the back of higher demand from the U.S. and Japan. Meanwhile, import growth increased to 19.9% from 15.9% over the same period. China's cumulative trade surplus narrowed to US\$140 billion in 1H 2018 from US\$185 billion in the corresponding period of the prior year.

## Manager's Report

To support China's economic activities, the PBOC maintained its lending rate at 4.35%.

Driven by higher food prices, China's inflation rate climbed to 2.0% in 1H 2018 from 1.6% in 2017. Residential property prices, as measured by average sales price indices of new homes in 70 large and medium-sized cities, rose at a slower pace of 5.6% in 1H 2018 compared to an increase of 8.2% in 2017.

To prevent the overheating of property prices in selected cities such as Shanghai and Shenzhen, the Chinese government implemented tightening measures in March 2016. These tightening measures were further expanded to more provincial cities and other smaller cities from late August 2016 to June 2018.

The Chinese Renminbi is included in the International Monetary Fund's Special Drawing Rights (SDR) basket effective 1 October 2016.

Hong Kong's GDP growth gained pace from 3.8% in 2017 to 4.7% in 1Q 2018 due to higher consumer and investment spending. The inflation rate firmed to 2.3% in 1H 2018 from 1.5% in 2017 on the back of higher food prices and housing costs. To curb elevated residential property prices, Hong Kong's government introduced additional tightening measures in June 2018.

Taiwan's GDP growth increased from 2.9% in 2017 to 3.2% in 1H 2018 amid higher consumer and government spending. Taiwan's inflation rate rose to 1.6% in 1H 2018 from 0.6% in 2017 due to higher food prices and transportation costs. Taiwan's central bank retained its discount rate at 1.375% to support domestic demand.

Led by higher investment spending and export growth, U.S. GDP growth rose from 2.2% in 2017 to 2.7% in 1H 2018. Investment spending increased from 4.8% in 2017 to 5.4% in 1H 2018 due to higher non-residential investment. Likewise, export growth expanded from 3.0% to 5.0% over the same period. At the Federal Open Market Committee (FOMC) meeting on 12-13 June 2018, the Federal Reserve raised the Federal funds rate target range by 25 bps from 1.50%-1.75% to 1.75%-2.00%.

Eurozone GDP growth inched down from 2.5% in 2017 to 2.3% in 1H 2018 amid slower economic growth in France. At its monetary policy meeting on 26 July 2018, the European Central Bank (ECB) kept its main refinancing and deposit rates at 0.00% and -0.40% respectively. The ECB will continue its quantitative easing program at a monthly pace of €30 billion until end-September 2018. Thereafter, the monthly pace of bond-buying will be reduced to €15 billion until the end of the program in end-December 2018, subject to medium-term inflation outlook.

In a referendum held on 23 June 2016, British voters voted in favour of exiting the European Union (EU). The United Kingdom (UK) formally notified of its exit from the EU under Article 50 on 29 March 2017 that commences a 2-year process of trade negotiations with the EU.

## Manager's Report

### Outlook and Investment Strategy

Global and regional equity markets experienced volatile trading conditions in 1H 2018 on concerns over the prospect of higher U.S. interest rates and the U.S. government's proposed protectionist measures. Fund outflows from emerging markets to developed markets were seen in 2Q 2018 on the back of weaker local currencies. However, selected equity markets closed the month of July on a positive note as foreign selling subsided. While concerns over rising interest rates in the U.S. as well as U.S.-China trade tensions may result in volatile market conditions in the near term, the performance of equity markets over the longer term will depend on the economic outlook and market valuations of the U.S., Europe and the Asia Pacific region.

U.S. economic growth is projected to strengthen from 2.2% in 2017 to 2.9% in 2018, driven by higher investment spending on the back of tax reform measures.

In the Eurozone, economic growth is envisaged to ease from 2.5% in 2017 to 2.2% in 2018 on expectations of a moderation in consumer and investment spending.

China's GDP growth is estimated to moderate from 6.9% in 2017 to 6.5% in 2018, led by slower export growth amid the ongoing trade tensions. Meanwhile, China's inflation rate is projected to increase from 1.6% in 2017 to 2.1% in 2018.

Hong Kong's GDP growth is expected to slow from 3.8% in 2017 to 3.6% in 2018 on the back of moderating export growth. Going forward, the Hong Kong government is anticipated to maintain its tightening stance on the residential property market. However, demand for better living standards and resilient economic growth should lend support to Hong Kong's property market over the long term.

Meanwhile, Taiwan's GDP growth is envisaged to inch down from 2.9% in 2017 to 2.7% in 2018 due to slower export growth.

As at end-July 2018, the MSCI China Index was trading at an estimated P/E ratio of about 12.6x compared to its 10-year average of 11.6x.

Valuations of regional markets in North-East and South-East Asia were generally mixed relative to their historical averages following their respective performances over the same period.

Given the above factors, the Fund will continue to rebalance its investment portfolio accordingly with the objective of achieving capital growth over the medium to long-term period by investing in a portfolio of investments in the greater China region namely in Hong Kong, China and Taiwan markets and including China based companies listed on overseas markets. The Fund may also invest in companies listed on Bursa Securities and other foreign markets which have significant or potentially significant business operations in the greater China region.

Notes: Q = Quarter  
H = Half

## Manager's Report

### Policy on Soft Commissions

The management company may receive goods or services which include research materials, data and quotation services and investment related publications by way of soft commissions provided they are of demonstrable benefit to the Fund and unitholders.

During the financial year under review, PCSF has received data and quotation services by way of soft commissions. These services were used to provide financial data on securities and price quotation information to the Fund Manager during the financial year under review.

## Statement Of Assets And Liabilities

As at 31 July 2018

	2018 MYR '000	2017 MYR '000
<b>Assets</b>		
Investments	772,492	829,088
Due from brokers/financial institutions, net	618	-
Other receivables	5,372	4,957
Deposits with financial institutions	30,072	23,727
Cash at banks	64,469	27,497
	873,023	885,269
<b>Liabilities</b>		
Due to brokers/financial institutions, net	-	8,494
Due to the Manager, net	1,793	612
Due to the Trustee	45	46
Other payables	75	282
Distribution payable	13,329	-
	15,242	9,434
<b>Total net assets</b>	857,781	875,835
<b>Net asset value ("NAV") attributable to unitholders (Total equity)</b>	857,781	875,835
<b>Units in circulation (in '000)</b>	2,665,731	2,656,312
<b>NAV per unit, ex-distribution (in sen)</b>	32.18	32.97

## Statement Of Income And Expenditure

For the Financial Year Ended 31 July 2018

	2018 MYR'000	2017 MYR'000
<b>Income</b>		
Interest income	989	675
Distribution income	951	999
Dividend income	16,970	19,139
Net (loss)/gain from investments	(5,987)	244,294
Net realised/unrealised foreign exchange (loss)/gain	(1,060)	2,175
	11,863	267,282
<b>Less: Expenses</b>		
Trustee's fee	583	490
Management fee	14,904	12,568
Audit fee	7	7
Tax agent's fee	3	3
Brokerage fee	3,960	6,996
Administrative fees and expenses	220	257
	19,677	20,321
<b>Net (loss)/income before taxation</b>	(7,814)	246,961
<b>Taxation</b>	(2,042)	(2,338)
<b>Net (loss)/income after taxation</b>	(9,856)	244,623
<b>Net (loss)/income after taxation is made up as follows:</b>		
Realised	30,127	313,284
Unrealised	(39,983)	(68,661)
	(9,856)	244,623
<b>Final distribution for the financial year</b>	13,329	-

## Statement Of Changes In Net Asset Value

For the Financial Year Ended 31 July 2018

	Unitholders' capital MYR'000	Retained earnings MYR'000	Total MYR'000
As at 1 August 2016	932,496	(204,109)	728,387
Creation of units	43,220	-	43,220
Cancellation of units	(140,395)	-	(140,395)
Net income after taxation	-	244,623	244,623
As at 31 July 2017	835,321	40,514	875,835
As at 1 August 2017	835,321	40,514	875,835
Creation of units	113,232	-	113,232
Cancellation of units	(108,101)	-	(108,101)
Net loss after taxation	-	(9,856)	(9,856)
Distribution	(9,220)	(4,109)	(13,329)
As at 31 July 2018	831,232	26,549	857,781



# Statement Of Cash Flows

For the Financial Year Ended 31 July 2018

	2018 MYR'000	2017 MYR'000
<b>Cash flows from operating activities</b>		
Proceeds from sale of investments	603,448	1,032,074
Purchase of investments	(565,954)	(921,218)
Subscription of rights	-	(472)
Capital distribution received	260	644
Maturity of deposits	7,735,551	5,450,058
Placement of deposits	(7,741,896)	(5,453,471)
Interest income received	988	678
Net distribution income received	952	1,008
Net dividend income received	14,305	14,654
Trustee's fee paid	(584)	(482)
Management fee paid	(14,929)	(12,360)
Audit fee paid	(7)	(7)
Tax agent's fee paid	(3)	(3)
Payment of other fees and expenses	(285)	(239)
<b>Net cash inflow from operating activities</b>	<b>31,846</b>	<b>110,864</b>
<b>Cash flows from financing activities</b>		
Cash proceeds from units created	114,505	41,588
Cash paid on units cancelled	(108,168)	(142,005)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>6,337</b>	<b>(100,417)</b>
<b>Net increase in cash and cash equivalents</b>	<b>38,183</b>	<b>10,447</b>
<b>Effect of changes in foreign exchange rates</b>	<b>(1,211)</b>	<b>1,347</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>27,497</b>	<b>15,703</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>64,469</b>	<b>27,497</b>