QUARTERLY REPORT

For The Financial Period From
1 January 2018 To 30 September 2018

PACIFIC EMERGING MARKET BOND FUND

PACIFIC MUTUAL FUND

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PACIFIC MUTUAL FUND BHD (336059-U)
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FUND INFORMATION
As at 30 September 2018

Name Of Fund (Feeder)	:	Pacific Emerging Market Bond Fund
Manager Of Fund	:	Pacific Mutual Fund Bhd (336059-U)
Name Of Target Fund	:	Lion Capital Funds II – Lion-Bank of Singapore Emerging Market Bond Fund
Investment Manager Of Target Fund	:	Lion Global Investors Limited (198601745D) (formerly known as Lion Capital Management Limited)
Sub-Investment Manager Of Target Fund	:	Bank of Singapore Limited (197700866R)
Launch Date	:	26 January 2016 The Fund will continue its operations until terminated as provided under Part 11 of the Deed.
Category Of Fund	:	Fixed income – feeder fund (wholesale)
Type Of Fund	:	Growth and income□
Investment Objective	:	Pacific Emerging Market Bond Fund aims to provide capital growth and income□ in the medium* to long term* by investing in the Target Fund. □ *Income is in reference to the Fund's distribution, which could be in the form of cash or units.* * *Medium term is defined as a period of one to three years, and long term is a period of more than three years.*
Performance Benchmark	:	Composite Benchmark: 45% JP Morgan Emerging Market Bond Index (EMBI) Corporate Bond High Grade Index 50% JP Morgan Emerging Market Bond Index (EMBI) Corporate High Yield Index 5% 1-month USD LIBOR
Distribution Policy	:	Subject to the availability of income, distribution of income will be on a quarterly basis.
Fund Size	:	72.05 million units

FUND PERFORMANCE
For The Financial Period From 1 January 2018 To 30 September 2018

Market And Fund Review

Review Of The Lion Capital Funds II – Lion-Bank Of Singapore Emerging Market Bond Fund (Target Fund Of Pacific Emerging Market Bond Fund)

January 2018

Risk markets started on a firm footing in January 2018, continuing the strong run-up from last year. Sentiment remained upbeat, shored up by expectations that the strong global growth should continue in 2018 and is set to remain encouragingly broad-based. As the cycle matures, the balance of risks is shifting, which will drive central banks in developed economies to tighten policy, but only gradually. Trade friction is probably the biggest threat to the benign outlook, as the US trade deficit has already rebounded close to record levels and will push higher as imports meet some of the additional demand that will come from tax cuts.

The US corporate and income tax cuts should boost US growth over the coming two years, which involves some overheating risks, coming so late in the cyclical recovery. The unemployment rate is already the lowest since the start of the century and another two years of solid growth could push wage inflation to dangerous levels. The central bank is trying to slow the economy onto a glide path and avoid the pattern of unemployment undershoot; inflation overshoot; interest rate squeeze and recession. Tax cuts will make that task more difficult. On the other hand, many emerging markets are at an earlier stage of the economic cycle than in the developed world. Others are seeing their potential growth rate improve as a result of structural reform. This is positive for the overall global cycle as, in many cases, stronger growth is happening alongside that in the developed markets, but it is not "synchronized" as it is being driven by different factors. This is healthy from the perspective of the resilience of the overall recovery.

We now expect the US Federal Reserve (Fed) to raise interest rates for the sixth time this cycle in March 2018, and a total of four times this year (compared to three previously). Correspondingly, we expect the yield curve to move higher and to flatten, with 10-year US Treasury yield pushing through 3% before year end, and heading to 3.25% in a year's time. There is less clarity on 2019, but at the moment the market expects the Fed to stop tightening when interest rates reach neutral levels at around 2.5%. That seems unlikely, as in previous cycles interest rates always push above neutral in order to cool down an overheating economy and a similar pattern is likely this time around, with unemployment already well below equilibrium.

The Fund remains well-positioned for the gradual increase in benchmark yields, with an overweight bonds position laddered across maturities, as well as moderately short overall portfolio duration of around 4.3 years. We expect bond volatility to rise over the next 12 months as monetary policy tightens and system liquidity plateaus, and will continue to deploy the cash opportunistically. With bond spreads staying near historical lows, bond portfolio returns in 2018 are likely to be derived primarily from coupon income rather than price gains. The Fund continued to be selective in January 2018 and invested into several new primary issues out of Asia.

February 2018

Risk markets retreated in February 2018, led by the 2-week sell-off in global equities that was triggered in late-January 2018 by concerns about a potential spike in the inflation outlook and which had threatened to wipe out year-to-date gains. Markets have since recovered somewhat since early-February 2018 but the ease at which global equities sold-off and the corresponding volatility spike are reminders that momentum can shift quickly even as the economic and earnings growth outlook remain sanguine. Emerging Market (EM) USD corporate bonds slid almost 1% during the month but have held up reasonably well with most of the negative return attributable to the rise in rates, relative to global equities which lost 4% over the same period.

As the global expansion has matured over the past couple of years, the balance of risks has inevitably shifted. We have again nudged up the US growth forecast as a result of the bipartisan deal on the budget that sets out an even looser fiscal position than was implied by the tax reform passed at the end of 2017. Our forecasts for both 2018 and 2019 are 0.2 percentage points higher than last month and it is feasible that growth this year is as much as 3%. A further effect of a sizeable fiscal boost into an economy with limited capacity is that imports will meet some of the additional demand. The US trade deficit is already rising, but looks set to climb further over the coming year. Pricing power begins to improve as excess capacity is absorbed, which makes policy-makers and financial markets focus more on the threat from inflation. However, the financial market's sudden focus on inflation does not reflect the slow-moving nature of the threat. Trade friction remains the biggest danger to the benign global growth outlook.

The US Federal Reserve (Fed) is under pressure to respond to the inflationary impact of fiscal stimulus, although its gradualist approach seems unlikely to change under the leadership of its new Chairman Jerome Powell. The underlying rate of core inflation is already close to the Fed's 2% target and, while they will not be too worried about a moderate overshoot, policy needs to respond as the risks change. Our expectation of four rate hikes in 2018, with more to come next year, looks increasingly probable. The 10-year US Treasury (UST) yield continued to rise in February 2018 and reached a high of 2.95%, with long duration and investment grade bonds hurt most by the UST volatility. We do not expect US bond yields to spiral higher as inflation is not likely to rise very quickly and their relative attractiveness vis-à-vis other sovereigns should limit the scale of any sell-off. Our 12-month target remains at 3.3% for the 10-year UST.

The Fund remains positioned for the gradual increase in benchmark yields, with the overweight bonds position laddered across maturities and our endeavor to reinvest maturing bonds into higher coupon bonds in a gradually rising rate environment. This will not only help cushion the negative effect of rising rates, but has the potential to increase the income investors receive over the long haul. The Fund maintains a moderately short overall portfolio duration of around 4.2 years, and continues to skew its bias towards high yield credits of good quality. With bond spreads still near historical lows, bond portfolio returns in 2018 are likely to be driven by coupon income rather than price gains. The Fund was selective in February 2018 and invested into a few new primary issues launched in Africa and Asia.

March 2018

Volatility returned to haunt risk assets in March, as markets were spooked by the recent rout in crowded US Technology stocks and fears that trade tensions initiated by the US would deteriorate into a full-blown trade war. Global equities had another difficult month, just as US Treasuries rallied and corporate credit spreads widened. Emerging market (EM) bonds had a -0.2% return (high yield (HY) bonds were down 0.4% while investment grade (IG) bonds did slightly better, down only 0.1%). Outside of EM, global IG bonds fell 0.1% while US HY bonds was down 0.7%. Despite the rollercoaster ride thus far, the economic and corporate earnings outlook remains solid although the long bull market over the past ten years appears to be losing steam.

Prospects for global recovery remain encouraging, although there are some early signs that momentum might be moderating slightly. Considering the large fiscal boost in the US and loose policy settings in other developed economies, the main risk to growth seems to relate to trade friction. The latest Purchasing Managers' Indices (PMIs) capture the situation well. Business confidence has slipped a little, but is still at the elevated levels associated with healthy growth. The US is the exception, where continued improvement probably reflects the big fiscal stimulus hitting the economy. Similarly, the economic surprise index has slipped to neutral levels. Some of the US fiscal boost will leak of out the country in the form of higher imports and support growth elsewhere. None of this is particularly troublesome, although trade friction is the biggest threat to this benign outlook. So far the scale of the announcements from the US has been quite limited and so not particularly disruptive. However, past comments of key players on the US side show that China will be the focus and there is a clear risk of escalation after the initial round of Section 301-related measures, which could threaten supply chains across the whole Asian region.

Monetary policy is starting to tighten in a range of developed economies, but this is from extremely loose levels and so it continues to stimulate growth. Moreover, the multi-polar nature of the global recovery should limit vulnerability. Growth prospects remain good and inflation risk is edging up - as a result, there is no end in sight to US monetary policy tightening and other developed economies are gradually going to come to the party. We expect that the inflationary impact of pushing significant fiscal stimulus into an economy already at full employment will be enough to make the US Federal Reserve raise interest rates each quarter for the next two years, so monetary policy should start to be a drag on growth by 2H 2019. Despite weak public finances and unstable politics, Italian debt yields a percent less than US Treasuries, while any move away from zero in Japan is likely to be a slow process. The implicit attractiveness of US debt to foreign investors should also help limit the scale of any sell-off and support our 12-month target of 3.30% for 10-year US Treasuries. However, a continued rise in rates would be enough to generate poor returns on investment grade bonds.

We expect rates to trade in wider ranges as markets grapple with continued global monetary policies tightening, fluctuations in inflation expectations and uncertainties in the geopolitical front. Credit spreads could also widen further, though we expect technical support to remain intact, thus cushioning a complete fall out in bond prices, at least in the next six to twelve months. Any pull back in prices would present an opportunity for the Fund, which currently still has cash, alongside expected maturities in the coming months. We will maintain our underweight in IG bonds and overweight in HY bonds to help keep duration exposure in check. With returns this year likely to be driven by coupon income alone, we continue to build up robust coupon income stream in our portfolios, via diversification across issues, countries, sector and maturity buckets. The Fund was selective in March and invested into a few new primary issues launched in Eastern Europe, Africa and Asia.

<u>April 2018</u>

Market volatility from prior month spilled over into April, but subsided over the month as trade frictions and geopolitical tensions eased. Nevertheless, both equity and bond markets toggled between episodes of risk on and risk off, driven by policy headlines and a mixed bag of macroeconomic and earnings data. Global equities wobbled to close modestly higher and the benchmark US Treasury 10-year yield broke above 3% for the first time in four years late in the month. Bond yields rose on a combination of the US fiscal position and inflation factors, although global credit performance suffered broadly. Emerging market (EM) credit was down 0.75% with investment grade (IG) down 0.76% and high yield (HY) down 0.73%. Outside of EM, developed market (DM) investment grade bonds were down 0.6% while US high yield bonds rose an impressive 0.6%.

The global economic outlook remains sanguine as flash Purchasing Managers' Indices (PMIs) for April continue to run comfortably above the 50 line that denotes recession (both in developed and emerging markets) and suggest that recent concerns about economic slowdown are overdone. Fiscal stimulus into a hot economy will suck in imports and raise the US trade deficit, so trade friction will remain a constant risk, irrespective of any short-term deal. Recession in 2020 looks possible, as fiscal drag is likely to compound the impact of tight monetary policy, but it is not yet a forecastable event. The developed economy monetary tightening cycle continues to proceed very slowly and cautiously. Headline inflation will see the impact of higher commodity prices, but core inflation is still subdued which means that there is no urgency to change policy, despite low unemployment rates.

So far emerging markets have been resilient in the face of US monetary tightening. In part, this probably reflects the fact that policy settings across developed markets are still relatively loose, but it is also a testament to economic reforms in several emerging markets of recent years as well as improved current account positions. Of course it is hard to generalize – some are at a more mature stage of the economic cycle than others, just as some have made more material structural changes. The election cycle is set to introduce a new element of uncertainty in several large emerging markets over the coming year. On balance, higher commodity prices help emerging markets, but there are winners and losers, especially when oil prices are strong. In an environment when global growth remains solid, any difficulties for individual emerging markets are likely to be problems of their own making, rather than systemic faults.

The Fund remains well-diversified across regions and sectors, amongst nearly 200 issuers. In addition, credit risks are further mitigated by investing incorporates that are government-owned entities and/or large corporates with healthy financial profiles. However, the recent softness in EM bond prices should persist as challenges from rising rates, trade politics and stronger USD may erode investors' sentiment towards this asset class. As such, we continue to maintain a defensive stance towards growing rates risk by maintaining an underweight position in IG bonds and taking advantage of the benign default environment by keeping overweight in HY bonds. Within high yield space, we may look to sacrifice some yield in favour of shorter maturities and higher quality HY credits. In addition, the Fund will keep to a moderately short portfolio duration stance to further mitigate the impact of rising interest rates. In April, the Fund selectively invested into a few new primary issues in Latin America and Asia.

May 2018

Market volatility resurfaced in May and reached near the high levels seen prior month on a combination of concerns of the economy over-heating, which have caused bond yields to edge higher, along with the possibility of trade wars and increased political uncertainty in Italy. Policy normalization and the reality of rising rates had already created headwinds in fixed income investing in recent months. In addition, growing economic stress at some Emerging Market (EM) sovereigns and the stronger USD continue to weigh on EM fixed income. EM bonds were down 0.6% with high yield (HY) a negative 1.4% and investment grade (IG) flat. Outside of EM, global investment grade rose a modest 0.1% while US high yield was flat. So far six rate hikes by the US Federal Reserve (Fed) have brought little pain as rates are still low, but stress is building for a few vulnerable emerging markets. Pressure will continue as monetary policy tightens across a broadening range of developed markets, but does not look systemic.

Emerging market (EM) assets have suffered a setback over the past month. Rising US short-term rates, a stronger dollar and worries about external debt loads in Argentina and Turkey have sparked an unwinding after months of solid inflows. The prospect of a continued rise in developed market interest rates means that pressure on emerging markets is unlikely to disappear. This puts the emphasis on interest rates hikes in countries with deficits to provide short-term support, complemented by economic reforms to reduce reliance on capital inflows. Tighter global financial conditions have unmasked vulnerabilities among countries with large external funding needs. However, we believe that each of these cases is unique in its own right (idiosyncratic) and does not signify a larger, systemic crises within EM fixed income. In addition, global growth is still intact while a number of countries recently experiencing recession, ie. Russia, Brazil, South Africa are on the recovery path. Furthermore, recent earnings have been more than adequate while balance sheets have improved as corporates have delivered over past quarters (many taking advantage of robust commodity prices). Finally, defaults remain at relative historical low levels with only two so far in 2018.

Monetary tightening across the developed markets is still in its relatively early stages, as the maturing economic cycle has yet to generate significant inflationary pressure. The Fed is set to raise rates in mid-June, for the seventh time this cycle. However, there is still along way to go before we can think about them slowing down the pace of tightening, let alone turning neutral. The Fed is likely to need to continue to send short-term interest rates higher, with inflation back at target and unemployment already below 4%. We expect a total of four rate hikes in 2018 with the probability of four more next year as the economy shows increasing signs of overheating. The yield curve is likely to continue to flatten as the Fed tightens, but longer-dated yields will still head higher and generate poor returns on investment grade bonds, so were main underweight. We have raised our 12-month target for 10-year US Treasuries to 3.4% from the 3.3% made three months ago. A grind higher in yields remains the expected trend, rather than a sharper sell-off that would probably need to be driven by concerns that inflation was rising too quickly. Fed tightening could cause the yield curve to invert, but probably not until 2020.

Asia looks relatively resilient, with far more prudent policy management, having learned the hard lessons of the Asian crisis two decades ago and the more recent taper tantrum. The situation could be come more problematic if US interest rates rise quickly and the USD continues to rally. However, we think the growing US twin deficits will prevent sustained USD strength. The Fund remains well-diversified across regions and sectors, amongst nearly 200 issuers. In addition, credit risks are further mitigated by investing in corporates that are government-owned entities and/or large corporates with healthy financial profiles. Within high yield space, we may look to sacrifice some yield in favour of shorter maturities and higher quality HY credits. In addition, the Fund will keep to a moderately short portfolio duration stance to further mitigate the impact of rising interest rates. In May, the Fund trimmed some risk positions in Latin America and Asia to stabilize the portfolio.

<u>June 2018</u>
Market volatility spiked again in June as rising protectionism, less accommodative central banks, the adverse impact of rising US yields and an appreciating US dollar on emerging markets (EM), and recent political developments in Europe sparked another round of ‘risk-off’ in markets, exacerbated by renewed concerns over China’s growth ability against the potential impact from new US trade tariffs (courtesy of Trump), along with the Chinese leadership’s committed agenda of deleveraging the economy. While the global economy is still solid and the capex cycle is still holding up, the shifting tides of monetary policies and geopolitical risk shave and are expected to keep markets unpredictable in the near-term. In emerging markets (EM), fiscally-weaker countries, along with those that faced election uncertainties, such as Argentina, Turkey and Brazil, bore the brunt of the selloff. Emerging Asia countries suffered less material impact of a smaller magnitude, reflecting their healthier budget balances, greater political stability and changing investor base. For the month, EM credit declined 0.4% with high yield (HY) down 1.0% and investment grade (IG) flat. Outside of EM, US high yield had a relatively decent month – up 0.3%, while global investment grade dropped 0.3%.

The best of the current expansion is behind us, but it is too early to argue that a downturn is imminent. Low inflation facilitates the loose policy that will keep recovery on track, at least until late in 2019, barring an interruption by a serious escalation of current trade friction. The global cycle looks well supported by loose policy settings over the next 12-18 months, but there are some question marks as we peer into 2020. Among the major economies, the US is the best candidate to see a recession, as its cycle is the most advanced and it has the added risk of tighter fiscal policy by 2020. However, even there, the risk of recession is only a possibility rather than a probability. Rising US interest rates present a challenge for emerging markets where an external deficit results insignificant funding needs. Fortunately this only applies to a small number of countries, led by Argentina and Turkey. The scale is not large enough to be systemic, especially as several have improved economic policy making after pressure from the “taper tantrum” of 2013. It is reasonable for fast-growing emerging markets to run a moderate current account deficit, as they offer the prospect of a better return on investment, so can import capital.

US Treasuries seem to be more interested in the potential impact of trade friction on growth (and on demand for safe-haven assets), rather than Fed policy changes. Similarly, yield shave shrugged off the lowest unemployment rate in 50 years and the probability of a strong bounce in 2Q GDP growth. The likely reaction of the Fed – or other affected central banks – to rising tariff barriers is unclear. So far the amounts under discussion are not enough to have a material effect on the overall economy, but if the situation escalates then it will both hurt growth and boost inflation. The Fed's policy intentions are sufficiently transparent that the seventh rate hike of the current cycle and a slightly more hawkish tilt in the outlook was met with minimal financial market reaction. We continue to expect two more hikes this year and another four in 2019, as the Fed struggles to contain inflation close to the 2% target. It will eventually need to push rates past neutral levels of 2.5-3.0% in order to cool down growth, and market expectations for the path of US policy rates look too low. We maintain our preference for HY over IG corporates and will keep to a moderate duration.

The Fund continues to stay well-diversified across more than 20 countries and 15 sectors. In addition, credit risks are further mitigated by investing in corporates that are government-owned entities and/or large corporates with healthy financial profiles. Within high yield space, we may look to sacrifice some yield in favour of higher quality credits. In June, the Fund trimmed some risk positions in Latin America, Middle East and Asia to raise cash levels.

<u>July 2018</u>
Markets continued to see-saw in July driven by risk assets that had rebounded somewhat, as the series of unfortunate events from the month before now turned into a series of fortunate events. Funds regained inflow into Emerging Market (EM) following an indiscriminant selloff in June, as Chinese policy makers announcing easing monetary measures to stabilize the economy and a trade truce between US and EU signalled a Trump that may be more rational than many market observers think. EM corporate bonds experienced a steady recovery in July following a sharp selloff at the end of June. The EM Investment Grade (IG) Corporate bond credit spread tightened to 198 basis points (bps) by end of July from 220 bps at the start of the month, while EM High Yield (HY) corporate bond credit spread also tightened to 438 bps from 480 bps during the same period. Performance was also helped by a relatively stable US Treasury benchmark, with the 10-year paper trading within the 2.83% to 2.98% band. The uncertainties in Turkey's central bank independence remain one concern for us. While there is no imminent default risk, given the largely healthy corporate and banking sector fundamentals, we continue to closely monitor our Turkish corporate exposure, which is generally short-dated and accounts for less than 4% of the total portfolio. The one bright spot in Turkey is the banking system, which we believe to be well managed and well regulated, with banks' capitalization ratios strong and profit metrics reasonably high. We do not see the current state as one requiring panic exit of Turkish sovereign/corporates as we believe spread levels, especially at the shortend of the curve, broadly compensate for Turkey's deteriorating risk profile, including sanctions uncertainties at this stage.

The overwhelming fear in Asia is that a tariff wall erected by the US will cause severe harm – both in markets in the short term but also to the economy of the region in the longer term. We do not want to discount this view too much, on rising risks that the Trump administration's threat to impose tariffs on another US$200 billion of goods from China could actually take effect as President Trump is feeling little pressure to back down from his ongoing battle with the Chinese leadership over trade policy. The second-order repercussions are non-negligible: with up to a quarter of exports in either direction subject to US-China bilateral tariffs, these could exacerbate the direct fallout from the "car wars" battles brewing between the US and various trade partners. Potential price effects could further cloud the outlook for many emerging markets, particularly given the extent of downward pressure on currencies in recent months, which has raised the risk of imported inflation (with oil-importing EM countries still more vulnerable). With tariff costs likely to be passed on to consumers across both mature and emerging markets, inflationary pressures could spur some central banks to hike policy rates – a particular dilemma for EM policymakers in countries where growth has decelerated.

While a rise in rates has been widely predicted at the start of the 2018, the rapid pace of the increase in rates was not. Investors had widely expected an orderly 50 bps increase in the 10-year over a twelve month period through year-end 2018, but fears over the trajectory of inflation saw this play out over a manner of weeks early in the year. Over the coming months, we believe that rates should be less of a drag on fixed income performance. The 10-year US Treasury has basically been range-bound in the 2.8-3.0% area over the last few months, suggesting that investors are more comfortable with the trajectory of inflation and rates. Similarly, while we expect a strong dollar to remain ahead wind, we do not expect the speed of EM currency depreciation that we experienced in the first half of the year. Additionally, overall economic growth across global EM appears adequate and, from a bottom up basis, corporate balance sheets have demonstrated improvement over the past several quarters with default rates still below historical averages. At current levels, we believe that valuations for EM HY corporates appear compelling and therefore look to maintain our preference for HY over IG corporates, while keeping to a moderate duration.

The Fund continues to stay well-diversified and mitigate credit risks through investing in corporates that are government-owned entities and/or large corporates with healthy financial profiles. Within HY space, we may look to sacrifice some yield in favour of higher quality credits. In July, the Fund further trimmed risk positions in Asia and the Middle East to raise cash levels.

August 2018

Markets continued to gyrate in August 2018 as powerful cross currents kept volatility heightened, stemming from the uncertainty caused by on-going trade tensions between the US and China, and recent industrial data from China that show the tariffs implemented so far has begun to bite into the economy. The usual summer lull was disrupted by another turbulent month for emerging markets (EM) as the dollar strength continue to fuelled concerns over EM debt funding abilities. This was further exacerbated by the political spat between the US and Turkey which led to the imposition of sanctions on the latter. EM high yield corporate spreads bore the brunt of the volatility as credit spreads widened from 437 basis point (bps) at the start of the month to above 500 bps, touching a year-to-date high of 506 bps. EM investment grade corporate spreads fared better, widening to 212 bps from 197 bps at the start of August 2018. The investment grade bonds were also helped by a steady decline in US Treasury yields, as the 10 year benchmark yields slid to a low of 2.81% having briefly touched 3% at the start of the month.

The world economy still looks healthy and remains supported by loose policy settings. Risks are easy to find – such as rising US interest rates, trade friction and the Italian budget – but they do not seem likely to de-rail the global economic cycle over the next 12-18 months. Rising US interest rates will put stress on companies or countries that have significant funding needs, often due to mismanagement. This will intensify as the Fed tightens policy further, but potential problems are not sufficiently widespread to threaten the overall cycle. Also, September 2018 is likely to see another round of US tariffs, on $200bn of Chinese exports on top of the $50bn already imposed. Depending on China's response, this could escalate further and increasingly this seems to be not just an economic dispute, but also part of a broader attempt by the US to contain the rising super-power. However, other trade tensions have diminished, for the time being. Lastly, Italy is set to reveal its fiscal plans before the end of September 2018. There is a reasonable chance that the coalition cannot agree on measures, which could ultimately result in more elections. However, the promised fiscal giveaway would put them at odds with commitments to the European Union and intensify bond market stress.

We expect EM volatility to persist due to the above headwinds looming in the horizon, at least until the November 2018 US mid-term elections. Despite the deterioration in investor sentiment, corporate fundamentals continue to hold up well as global growth is still ongoing. With the recent corrections in emerging market bonds, yields have become more attractive and offer opportunities to selectively invest for the Fund. We also expect the primary market to be active again after the summer break, presenting another option for us to rebalance risks. Meanwhile, as the situations in Turkey and Russia continue to develop, we remain on a look out to reduce our exposures at better prices. On an overall basis, our diversified approach to bond investment continues to benefit the Fund in the current volatile environment, as it reduces idiosyncratic risks, limits the potential drawdowns while still delivering a steady flow of coupon income.

There would be no change in the Fund's duration and asset allocation positions: maintain portfolio duration at around 5 years, whilst favouring high yield over investment grade bonds. In August 2018, the Fund further trimmed risk positions in Asia, Eastern Europe and Latin America to raise cash levels.

September 2018

Market volatility continued to ebb and flow in September 2018 as growth, trade and financial conditions were not as bad as initially expected, giving the market some near-term breathing space amidst the ongoing US-China trade tensions. Emerging Market (EM) fixed income notched a solid gain in a fairly non-eventful month, which was probably a relief to fixed income investors weighed down by a seeming tidal wave of political headline news throughout the year. The J.P. Morgan EM CEMBI Broad rose almost 0.8%, the second positive result in the past three months with high yield (HY) up a strong 2.0% and investment grade (IG) down 0.1%. Outside of EM, global IG bonds fell 0.4% while US high yield was up 0.6%.

The economic cycle may be in its later stages, but growth can still continue at least for the next 2 years. Recent US economic strength supports the case for continued economic recovery and further stock market gains, albeit with higher market volatility. The business cycle of global developed and emerging economies are lagging the US cycle. Compared to developed economies, emerging economies, as a group, are much earlier in their business cycle, with many still in the early growth phase. To be sure, there is nothing in the economic data or financial indicators to suggest that a global recession is imminent. Unlike in the past few cycles, house prices do not look excessive and the corporate sector has not overinvested in fixed capital. Against this backdrop, barring a full-blown trade war, the global economic expansion appears to have more room to run.

October 2018 sees the next stage of policy tightening in developed markets as central bank balance sheets start to contract. This marks another small step down the long path of normalisation after the crisis of a decade ago and, so far, the process has not involved any serious disruption to major economies or financial markets. After a decade of ever-expanding Quantitative Easing, September 2018 marks a peak. From October 2018, the combined balance sheet of the US, Eurozone and Japan will start to shrink. As Quantitative Tapering turns into a headwind for US Treasuries, together with the pressure from continued Fed rate hikes and the ballooning budget deficit, we see 10-year yields pushing up to 3.5% over the coming year.

Rising US interest rates present a challenge for those emerging markets where an external deficit results in significant funding needs. Fortunately this only applies to a small number of countries, led by Argentina and Turkey. As we saw during the “taper tantrum” five years ago, funding pressures – most apparent in the exchange rate – eventually lead to an economic policy response. After an uncomfortable period of adjustment, those economies emerge with fewer imbalances and better positioned to withstand external pressure. Both Argentina and Turkey have already started to implement policies to rebalance their economies. Asia looks relatively well-placed to withstand the pressure from higher US interest rates, as most countries run an external surplus. As the two main deficit economies, Indonesia and India face some strains, but policy is already responding prudently. US tariffs on Chinese exports are a risk, as a lot of the region’s exports to China are ultimately dependent on US demand, but this is offset by the possibility of taking market share from China when selling directly to the US.

In line with our sanguine medium term outlook, we are inclined to maintain the Fund’s duration and asset allocation positions: with portfolio duration at around 5 years, whilst favoring high yield over investment grade bonds. In September 2018, the Fund further trimmed risk positions in Asia, Eastern Europe and Latin America to raise cash levels.

Fund Returns

	Total Returns	
	Pacific Emerging Market Bond Fund	Benchmark
1.1.2018 to 31.3.2018	-1.03%	-5.15%
1.4.2018 to 30.6.2018	-2.31%	2.32%
1.7.2018 to 30.9.2018	1.28%	3.65%
1 Year's Period (1.10.2017 to 30.9.2018)	-1.96%	-2.65%
Financial YTD (1.1.2018 to 30.9.2018)	-2.08%	0.59%
Since Launch (2.3.2016 [date of launch: 26.1.2016] to 30.9.2018)	9.55%	16.66%

Source: Lipper, Bloomberg

Asset Allocation

	As At 30 September 2018
Collective Investment Scheme: Lion Capital Funds II – Lion-Bank of Singapore Emerging Bond Fund USD Class C (Distribution)	99.77%
Cash And Liquid Assets	0.23%
	100.00%

Income Distribution

	Pacific Emerging Market Bond Fund
Gross distribution per unit	3.11 sen (30.1.2018: 1.06 sen 30.4.2018: 1.03 sen 31.7.2018: 1.02 sen)
Net distribution per unit	3.11 sen (30.1.2018: 1.06 sen 30.4.2018: 1.03 sen 31.7.2018: 1.02 sen)
NAV per unit (as at 30 September 2018)	RM1.0014

UNAUDITED STATEMENT OF FINANCIAL POSITION
As at 30 September 2018

	2018 RM
Assets	
Investments	71,981,551
Interest receivable	299
Other receivables	133,638
Cash and cash equivalents	1,133,806
Total Assets	73,249,294
Liabilities	
Amount due to Manager	323,062
Other payables	9,897
Financial derivatives	772,110
Total Liabilities	1,105,069
Net Asset Value Of The Fund	72,144,225
Equity	
Unitholders' capital	76,912,041
Accumulated losses	(4,767,816)
Net Asset Value Attributable To Unitholders	72,144,225
Total Equity And Liabilities	73,249,294
Number Of Units In Circulation (Units)	72,050,500
Net Asset Value Per Unit	RM1.0014

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For The Financial Period From 1 January 2018 To 30 September 2018

	1.1.2018 to 30.9.2018 RM
Investment Loss	
Gross dividends from financial assets at fair value through profit or loss	2,900,556
Interest income	31,587
Net loss on investments	
- Financial assets at fair value through profit or loss	(755,375)
- Foreign exchange	(4,735,149)
- Financial derivatives	4,856,080
Net unrealised loss on changes in fair value of financial assets at fair value through profit or loss	(4,217,264)
	(1,919,565)
Expenses	
Audit fee	5,660
Tax agent's fee	2,183
Manager's fee	557,302
Trustee's fee	26,698
Administration expenses	53,046
	644,889
Net Loss Before Taxation	(2,564,454)
Taxation	-
Net Loss After Taxation	(2,564,454)
Total Comprehensive Loss	(2,564,454)
Total Comprehensive Loss Is Made Up As Follows:	
Realised income	1,652,810
Unrealised loss	(4,217,264)
	(2,564,454)

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Growing Together

To reach out for excellence,
to persevere, to mutually trust
and support.

That's the essence of
growing together with
Pacific Mutual
for a brighter future.

PACIFIC MUTUAL FUND BHD (336059-U)
A member of the OCBC Group

1001, Level 10, Uptown 1, No. 1 Jalan SS21/58, Damansara Uptown, 47400 Petaling Jaya, Selangor
Tel: 03-7725 9877 Fax: 03-7725 9860
E-mail: customercare@pacificmutual.com.my Website: www.pacificmutual.com.my

INSTITUTIONAL UNIT TRUST ADVISER
OCBC Bank (Malaysia) Berhad (295400-W)   Tel: 1300 88 5000

Our IUTA may not carry the complete set of our Funds. Investments made via our IUTA may be subject to different terms and conditions.

INVESTORS ARE ADVISED TO PROVIDE UPDATED PERSONAL DETAILS TO PACIFIC MUTUAL ON A TIMELY BASIS. YOU MAY UPDATE YOUR DETAILS VIA OUR E-SERVICE AT www.pacificmutual.com.my OR CALL 03-7726 6332 | E-MAIL customercare@pacificmutual.com.my