

## Manager's Report

### For the Financial Period 1 January to 31 March 2014

<b>Name of Fund</b>	: MyETF Dow Jones Islamic Market Malaysia Titans 25 (“MyETF- DJIM25” or “the Fund”)
<b>Type of Fund</b>	: Exchange Traded Fund
<b>Fund Category</b>	: Shariah-Compliant Equity
<b>Commencement Date</b>	: 22 January 2008
<b>Benchmark Index</b>	: Dow Jones Islamic Market Malaysia Titans 25 Index (“DJIM25 Index”)
<b>Manager</b>	: <i>i</i> -VCAP Management Sdn. Bhd. (“ <i>i</i> -VCAP”)

#### 1. Investment Objective

MyETF-DJIM25 is designed to provide investment results that closely correspond to the performance of the Benchmark Index. The Manager attempts to achieve an absolute value of tracking error of less than 3% between the Net Asset Value (“NAV”) of the Fund and the Benchmark Index.

#### 2. Benchmark Index

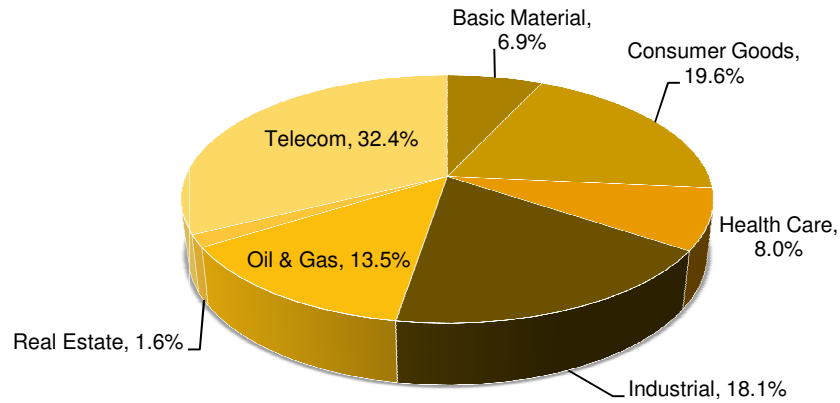
The Benchmark Index is a market capitalisation weighted and free-float adjusted index provided by S&P Dow Jones Indices (“S&P Dow Jones”).

The Benchmark Index was created on 18 January 2008 and constructed based on a reference value of 1,000 as of 17 January 2008. The Benchmark Index consists of 25 Shariah-Compliant securities of companies listed on Bursa Malaysia Securities Berhad (“Bursa Securities”).

The universe for selection of the DJIM25 Index components includes all equities in the Dow Jones Islamic Market Malaysia Index, an index comprised of Malaysia-based companies that conform to the methodology established by S&P Dow Jones to screen stocks for compliance with the Shariah.

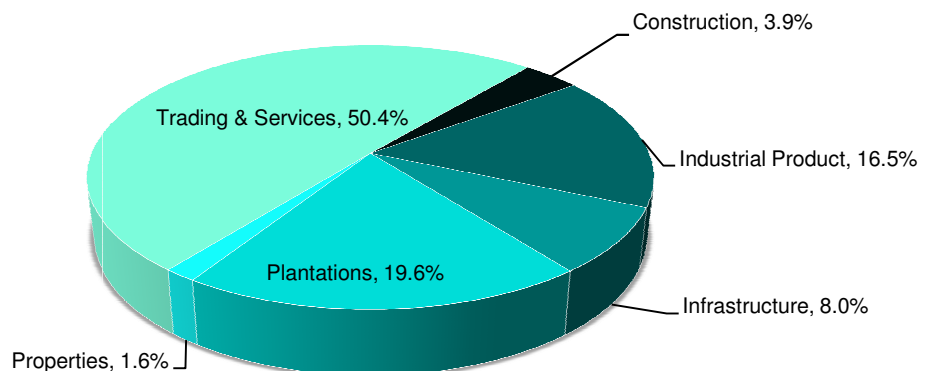
Based on the latest quarterly review (as at 14 March 2014), the sector allocation of DJIM25 Index based on S&P Dow Jones and Bursa Securities sector classifications are as follows:

**Chart 1(a): Sector Classification – S&P Dow Jones**



Source: S&P Dow Jones

**Chart 1(b): Sector Classification - Bursa Securities**



Sources: Bursa Malaysia, S&P Dow Jones

During the period under review, Dow Jones changed the index methodology for the Dow Jones Islamic Market Index Family of which DJIM25 Index is included in the series. The changes as informed by Dow Jones were as follows:

- a) S&P Dow Jones Indices had announced the change to the methodology used for business activity screening effective at the March 2014 quarterly rebalancing. Previously, security exclusion was defined by the Dow Jones Proprietary Industry Classification System with companies from the following sectors deemed ineligible.

Defense Brewers Distillers & Vintners Food Products Recreational Products Tobacco Food Retailers & Wholesalers Broadcasting & Entertainment Media Agencies Gambling Hotels Recreational Services	Restaurants & Bars Banks Full Line Insurance Insurance Brokers Property & Casualty Insurance Reinsurance Life Insurance Consumer Finance Specialty Finance Investment Services Mortgage Finance
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Going forward, all companies will be reviewed individually for business activity compliance.\*

b) In order to be compliant, a company must derive less than 5% of total revenue from the following impure sources:

- Alcohol
- Tobacco
- Pork-related products
- Conventional financial services (banking, insurance, etc.)
- Weapons and defense
- Entertainment (hotels, casinos/gambling, cinema, pornography, music, etc.)

The methodology change primarily resulted in additional companies becoming compliant due to more extensive research being done within previously excluded industries. The non-compliant business activities remain consistent with the Shariah principles governing the existing Dow Jones Islamic Market Indices. Notwithstanding the above, MYETF-DJIM25 has to comply with the Securities Commission's Shariah Advisory Council (SC SAC) Shariah security screening criteria.

*Note: \*S&P Dow Jones Indices has contracted with Ratings Intelligence, a provider of research and consulting services to the Islamic Finance community, to perform the Shariah screening for the Dow Jones Islamic Market Indices.*

### **3. Investment Strategy**

During the period under review, the Manager tracked the performance of the Benchmark Index by investing all, or substantially all, of the Fund's assets in the constituents of the Benchmark Index in substantially the same weightings as they appear in the Benchmark Index.

The Manager used techniques including indexing by way of full or partial replication and/or investing in certain authorised investments, in seeking to achieve the investment objective of the Fund, subject to conformity to the Shariah.

### **4. Fund Performance**

For the quarter under review, the Fund continued to achieve its investment objective which is to track closely the underlying benchmark, i.e. DJIM25 Index. As at 31 March 2014, the tracking error (calculated since inception and on daily basis) between the NAV per unit of the Fund and the Benchmark Index on Price Return and Total Return basis was 1.85% and 1.67% respectively, which were within the 3% limit stipulated under the Fund's investment objective. In terms of NAV movement, the Fund's NAV per unit decreased by 1.68% to RM1.1655 from RM1.1854 at the end of the previous quarter. Correspondingly, the DJIM25 Index depreciated by 1.32% for the same period. The variance between the DJIM25 Index and Fund's NAV movement was largely due to the adjustment to the Fund's NAV following the Fund's income distribution of 1.65 sen per unit (for Financial Year ended 31 December 2013) which was declared and paid during the quarter. The Fund had a weak start with its NAV per unit retraced from its quarter high of RM1.1781 on 2 January 2014 to reach its low of RM1.1191 on 4 February 2014. The Fund however, managed to regain some lost ground before settling at RM1.1655 per unit. Meanwhile, the Fund's unit price traded on Bursa Securities moved in tandem but largely at a discount to its NAV before closing the quarter at RM1.1655.

As at end of March, total NAV of the Fund decreased to RM297.31 million from RM304.29 million as at end of 2013 as a result of the weaker market and slight reduction in units in circulation. The key statistics and comparative performance of the Fund for the first quarter of 2014 and the last financial year ended 31 December 2013 are summarized as follows:

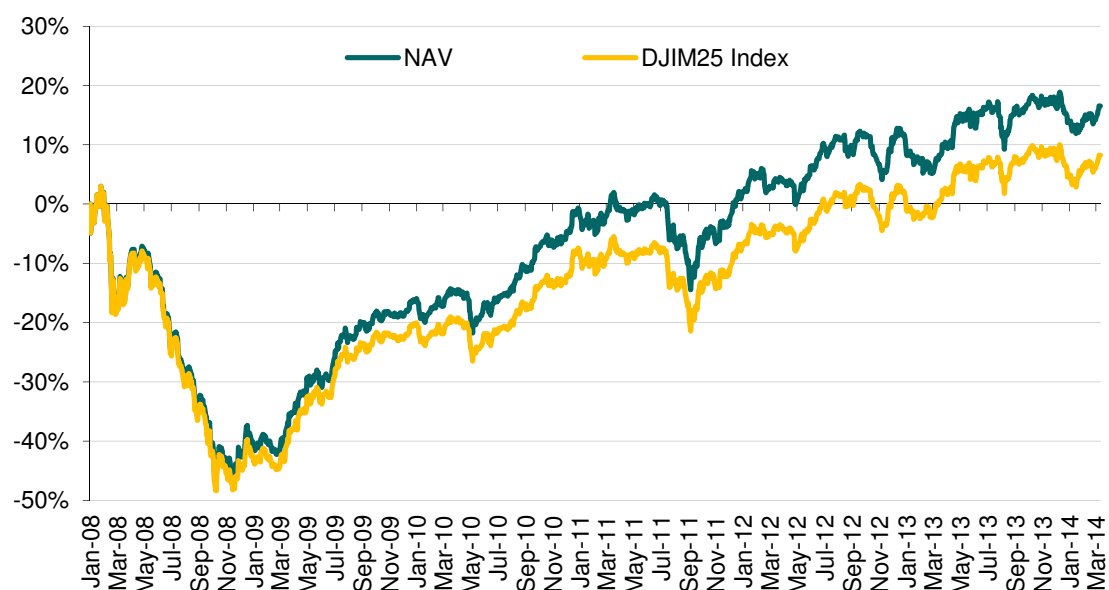
**Table 1: Key Statistics**

	As at 31-Mar-14	As at 31-Dec-13	QoQ Change
NAV per unit (RM) #	1.1655	1.1854	-1.68%
- Highest	1.1781 (2 Jan)	1.1887 (30 Dec)	
- Lowest (During the period)	1.1191 (4 Feb)	1.0516 (18 Mar)	
Price per unit (RM) #	1.1600	1.1900	-2.52%
- Highest	1.1750 (2 Jan)	1.1900 (31 Dec)	
- Lowest (During the period)	1.1250 (4 Feb)	1.0600 (7 Feb)	
Units in Circulation	255,100,000	256,700,000	-0.62%
Total NAV (RM)	297,313,192	304,292,308	-2.29%
Market Capitalisation (RM)	295,916,000	305,473,000	-3.13%
DJIM25 Index	1,043.62	1,057.59	-1.32%
Tracking Error vs. Price Return DJIM25 Index (%)*	1.85%	1.78%	
Tracking Error vs. Total Return DJIM25 Index (%)*	1.67%	1.58%	
Management Expense Ratio (%)	0.14	0.55	

Sources: Bloomberg, i-VCAP

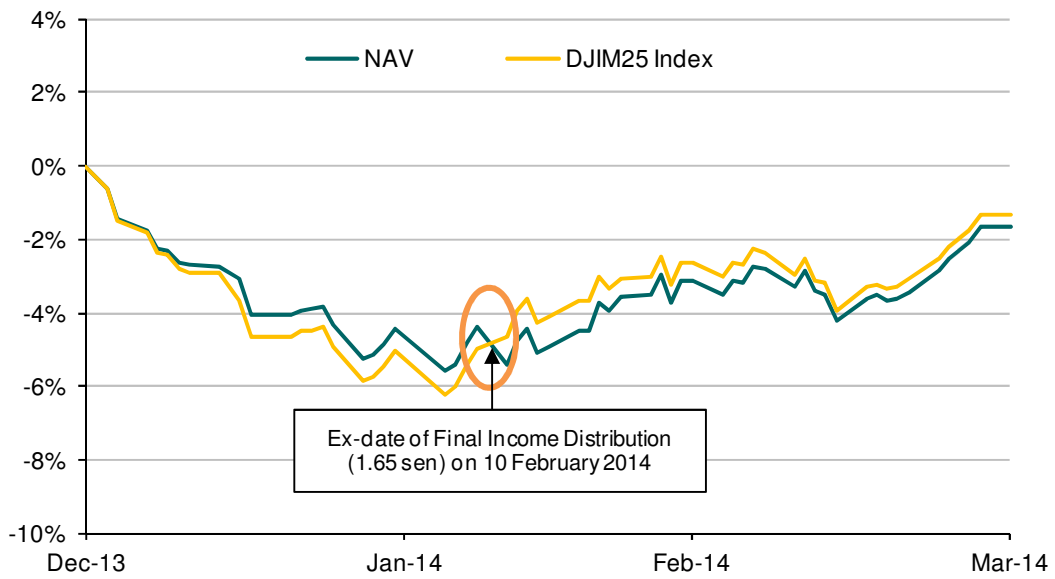
# Unit price and net asset value per unit are shown as ex-income distribution

\* The tracking error (calculated since inception and on daily basis) between the NAV per unit of the Fund and the Price Return and Total Return Benchmark Index

**Chart 2 (a): Fund NAV Per Unit vs. Benchmark Index – Performance Since Inception**


Sources: Bloomberg, i-VCAP

**Chart 2(b): Fund NAV Per Unit vs. Benchmark Index – Performance in 2014**



Sources: Bloomberg, i-VCAP

**Note:** Past performance is not necessarily indicative of future performance. Unit price and investment return may go up as well as down.

**Table 2(a): Annual Return**

	YTD 31 Mar 14 (%)	2013 (%)	2012 (%)	2011 (%)	2010 (%)
MyETF-DJIM25 - NAV Price Return <sup>(a)</sup>	(1.68)	5.13	12.49	5.27	16.29
DJIM25 - Price Return Index	(1.32)	6.39	12.56	4.26	12.81
MyETF-DJIM25 - NAV Total Return <sup>(a)</sup>	(0.23)	8.82	15.78	7.48	16.29
DJIM25 - Total Return Index	0.13	10.13	15.85	6.45	12.81

Sources: Bloomberg, i-VCAP

(a) Independently verified by Novagni Analytics and Advisory Sdn. Bhd.

**Table 2(b): Cumulative Returns**

	Cumulative Returns <sup>(b)</sup>			
	1-Year (%)	3-Year (%)	5-Year (%)	Since Inception (%)
MyETF-DJIM25 - NAV Price Return <sup>(a)</sup>	8.31	15.79	96.91	16.55
DJIM25 - Price Return Index	8.24	16.00	91.40	8.23
MyETF-DJIM25 - NAV Total Return <sup>(a)</sup>	11.33	26.51	119.04	29.65
DJIM25 - Total Return Index	11.26	26.74	112.91	20.39

Sources: Bloomberg, i-VCAP

(a) Independently verified by Novagni Analytics and Advisory Sdn. Bhd.

(b) Cumulative returns are up to 31 March 2014.

**Table 2(c): Average Returns (Annualised)**

	Average Returns <sup>(b)</sup>			
	1-Year (%)	3-Year (%)	5-Year (%)	Since Inception (%)
MyETF-DJIM25 - NAV Price Return <sup>(a)</sup>	8.31	5.01	14.51	2.50
DJIM25 - Price Return Index	8.24	5.07	13.86	1.29
MyETF-DJIM25 - NAV Total Return <sup>(a)</sup>	11.33	8.15	16.98	4.28
DJIM25 - Total Return Index	11.26	8.22	16.32	3.04

Sources: Bloomberg, i-VCAP

(a) Independently verified by Novagni Analytics and Advisory Sdn. Bhd.

(b) Average returns for both MyETF-DJIM25 and DJIM25 Index are annualized figures computed based on the price and total returns for the respective period.

During the period under review, S&P Dow Jones performed its First Quarter 2014 Review (quarterly review) and rebalanced the composition of the Benchmark Index in accordance with its index methodology. The review resulted in changes to the weightings of the component stocks and stock constituents in the Benchmark Index. The Manager had undertaken the rebalancing exercise to align the Fund with the changes in the Benchmark Index. The latest rebalancing exercise saw the removal of two stocks from the DJIM25 Index, i.e. Batu Kawan Bhd and UMW Holdings Bhd which were subsequently replaced by Telekom Malaysia Bhd and UMW Oil & Gas Corporation Bhd. In terms of sectoral weightings, notable changes to the Fund's sector composition arising from the quarterly reviews were the increase in Trading/Services from 43.94% to 50.02% and Infrastructure from 7.41% to 8.30%. On the other hand, the weighting of Plantation decreased from 20.75% to 19.37%. Pursuant to the exclusion of UMW Holdings Bhd as an index constituent, the Fund currently has no exposure in the Consumer Products sector. Details of the key changes for the quarter are as follows:

**Table 3: Top Ten Holdings of the Fund as at 31 March 2014**

Stock	% of NAV	Q-o-Q $\Delta$ (% holdings)
1. Axiata Group Berhad	12.94	(0.06)
2. Sime Darby Berhad	12.42	0.08
3. Digi. Com Berhad	7.76	0.82
4. IOI Corporation Berhad	7.25	0.26
5. Petronas Chemicals Group Berhad	7.01	0.19
6. Maxis Berhad	6.35	(0.09)
7. Kuala Lumpur Kepong Berhad	5.33	0.00
8. Telekom Malaysia Berhad	5.01	5.01
9. Petronas Gas Berhad	4.98	0.04
10. Felda Global Ventures Holdings Berhad	4.66	0.29
<b>Total</b>	<b>73.71</b>	<b>6.54</b>

Sources: Bloomberg, i-VCAP

**Table 4: Change in Fund's Sector Allocation\***

	As at 31-Mar-14	As at 31-Dec-13	Change (%)
Trading/Services	50.02%	43.94%	6.08
Plantation	19.37%	20.75%	(1.38)
Industrial Products	16.40%	16.18%	0.22
Infrastructure	8.30%	7.41%	0.89
Construction	4.13%	4.04%	0.09
Property	1.58%	1.57%	0.01
Consumer Products	0.00%	3.18%	(3.18)
Cash & Others	0.20%	2.93%	(2.73)

Sources: Bursa Malaysia, i-VCAP

\* Based on Bursa Securities classification



Details of the Fund's quoted Investments as at 31 March 2014 are as follows:

**Table 5: MyETF-DJIM25's Investment in Listed Equities**

	Quantity (Units)	Market Value (RM)	Market Value as a percentage of Net Asset Value (%)
<b><u>Trading/Services</u></b>			
1. Axiata Group Berhad	5,768,600	38,476,562	12.94
2. Sime Darby Berhad	3,967,600	36,938,356	12.42
3. Maxis Berhad	2,711,700	18,873,432	6.35
4. Telekom Malaysia Berhad	2,530,600	14,905,234	5.01
5. IHH Healthcare Berhad	3,292,400	12,675,740	4.26
6. Petronas Dagangan Bhd	359,200	11,027,440	3.71
7. Dialog Group Berhad	2,046,697	7,347,642	2.47
8. UMW Oil & Gas Corporation Berhad	951,600	3,873,012	1.30
9. Malaysia Marine & Heavy Engineering Holdings Berhad	628,800	2,364,288	0.80
10. KPJ Healthcare Berhad	755,046	2,257,588	0.76
		<b>148,739,294</b>	<b>50.02</b>
<b><u>Plantation</u></b>			
11. IOI Corporation Berhad	4,491,339	21,558,427	7.25
12. Kuala Lumpur Kepong Berhad	654,500	15,838,900	5.33
13. Felda Global Ventures Holdings Berhad	2,982,100	13,866,765	4.66
14. Genting Plantations Berhad	298,000	3,218,400	1.08
15. United Plantations Berhad	124,300	3,119,930	1.05
		<b>57,602,422</b>	<b>19.37</b>
<b><u>Industrial Products</u></b>			
16. Petronas Chemicals Group Berhad	3,018,200	20,855,762	7.01
17. Petronas Gas Berhad	622,100	14,805,980	4.98
18. Lafarge Malaysia Berhad	561,000	5,071,440	1.71
19. Hartalega Holdings Berhad	513,400	3,516,790	1.18
20. Top Glove Corporation Bhd	552,800	2,736,360	0.92
21. Supermax Corporation Berhad	683,000	1,775,800	0.60
		<b>48,762,132</b>	<b>16.40</b>
<b><u>Infrastructure</u></b>			
22. DiGi.Com Berhad	4,277,800	23,057,342	7.76
23. TIME dotCom Berhad	413,640	1,592,514	0.54
		<b>24,649,856</b>	<b>8.30</b>
<b><u>Construction</u></b>			
24. Gamuda Berhad	2,604,200	12,265,782	4.13
		<b>12,265,782</b>	<b>4.13</b>
<b><u>Property</u></b>			
25. UEM Sunrise Berhad	2,139,800	4,707,560	1.58
		<b>4,707,560</b>	<b>1.58</b>
		<b>296,727,046</b>	<b>99.80</b>

Sources: Bursa Malaysia, i-VCAP

## **5. Distribution Policy**

The Fund may distribute amongst the unitholders all, or substantially all of the dividend income that the Fund received from its stock investment, pro-rated based on the number of units held by each unitholder as at the entitlement date of the income distribution. Distributions (if any) are expected to be made semi-annually. The exact amount to be distributed will be at the absolute discretion of the Manager, subject to compliance with the Exchange-Traded Funds Guidelines issued by the Securities Commission Malaysia on 11 June 2009 which may be revised from time to time.

During the quarter, a final income distribution for the Financial Year Ended 31 December 2013 of 1.65 sen per unit was declared on 21 January 2014 with the ex-date on 10 February 2014 and entitlement date on 12 February 2014. The final income distribution was paid on 10 March 2014. Based on the number of entitled unit holders, the Fund distributed a total amount of RM4,209,150.

## **6. Other Information**

There was no material litigation involving the Fund and no significant changes in the state of affairs of the Fund during the period under review. There is also no other material information that will adversely affect the Fund's valuation and the interest of unit holders.

## **7. Soft Dollar Commissions**

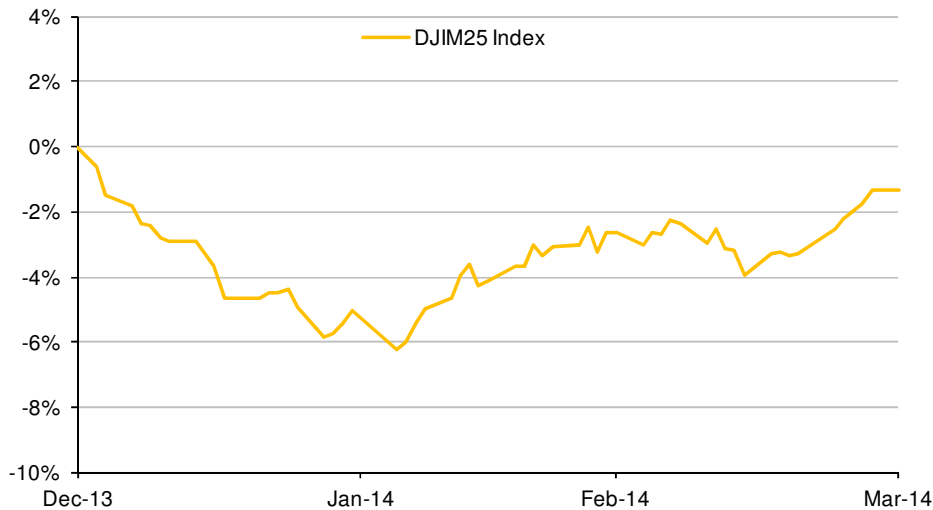
It is the Manager's policy to not receive any goods or services by way of soft commission.

## **8. Market Review and Outlook**

Global equity markets started the year with the looming threat of possible fund outflows from emerging markets due to the Federal Reserves' plan to taper off its monetary easing activities in 2014. Sentiment towards equities turned cautious after the generally positive performance in 2013 as investors monitor closely corporate earnings for the fourth quarter of 2013 as well as macro-economic statistics. After a huge selloff in the early part of the year, global equity markets recovered in February attributed to the return of investors' interest into equities on the back of positive economic data especially from the developed markets. Nevertheless, the positive momentum eased towards the end of the first quarter due to political tension between Ukraine and Russia as well as worries over China's slower economic growth rate. On domestic front, Malaysian equities also saw selling pressure as data showed foreign funds withdrew a total of RM6.9 billion from January up to the middle of March. The fund outflows also dragged down the Ringgit which

depreciated further to RM3.35 level against the US Dollar at the end of January before recovering to close the quarter at RM3.26.

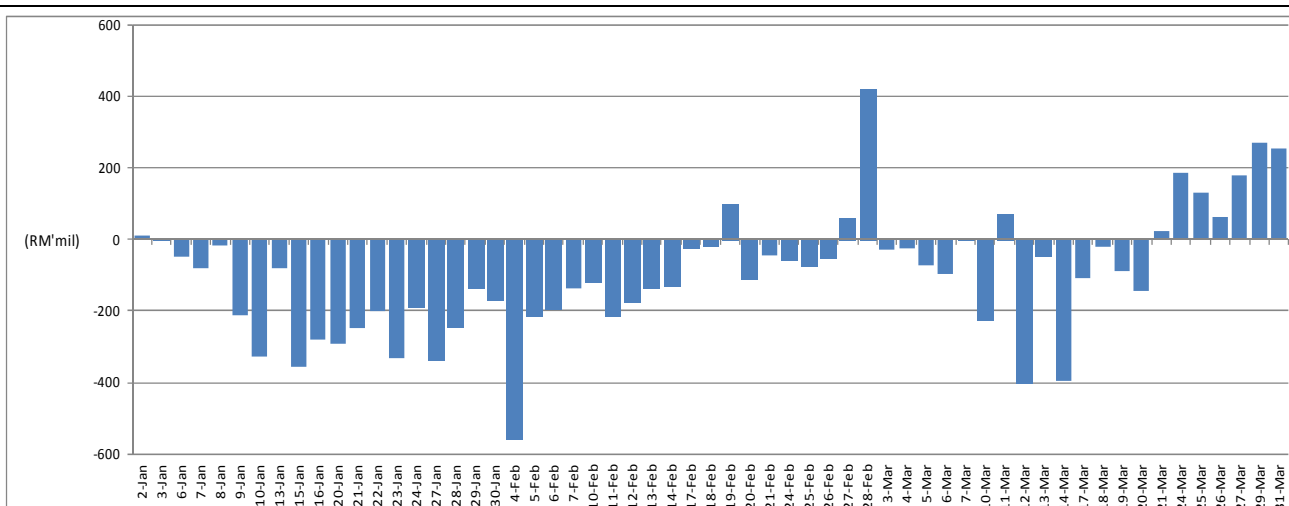
**Chart 3: DJIM25 Index Performance in 1Q14**



Sources: Bloomberg, i-VCAP

After a good performance of 6.39% yearly gain in 2013, DJIM25 Index lost 13.97 points or 1.32% for the quarter. In line with the overall market, the DJIM25 Index faced selling pressure at the start of 2014 and retraced to its lowest level during the quarter of 991.86 points on 4 February. The Benchmark Index recovered thereafter but traded within a tight range before rebounding marginally to end the period at 1,043.62 points. The recovery was helped by net foreign buying as investors deemed the earlier pullback as an opportunity to re-enter the market given the stable economic growth and corporate earnings.

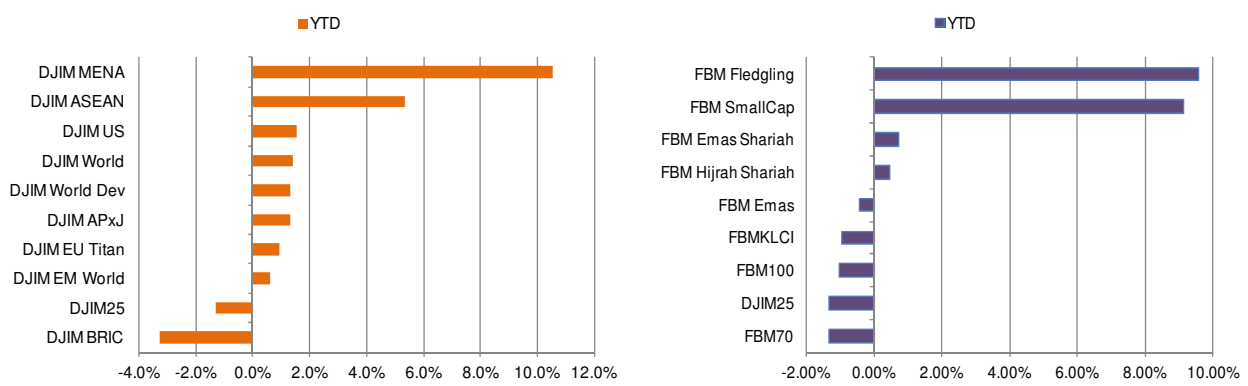
**Chart 4: Foreign Daily Net Flows into Malaysian Equity (RM'mil)**



Source: Bursa Malaysia

The performance of the DJIM25 Index during the quarter was largely supported by cyclical plays in the Telecommunication and Energy sectors at the back of a still buoyant domestic demand. Meanwhile, key laggards during the quarter were stocks in the Industrial, Plantation and Consumer sectors. On comparative performance within Dow Jones Islamic Market (“DJIM”) index series, the DJIM25 Index underperformed most of major global Islamic equity benchmark indices during the quarter and only outperformed the DJIM BRIC Index. On the domestic front, the DJIM25 Index was among the laggards as it underperformed most of local equity benchmark indices but managed to outperform the mid-cap index of FBM 70.

**Chart 5: DJIM and Domestic Indices Performance - 1st Quarter 2014**



Sources: Bloomberg, i-VCAP

Despite challenges clouding emerging economies on the back of fear of a hard landing in China and geopolitical tensions, the stable growth of the advanced economies is expected to underpin an improving global growth outlook going forward. Meanwhile, developing economies may continue to face the risk of further capital outflows arising from the withdrawal of U.S Quantitative Easing policy and weakening currency which may affect inflation and domestic spending. Nonetheless, given the healthier macroeconomic fundamentals of the emerging economies with ample foreign exchange reserves, better capitalized banking systems and stronger corporate balance sheet, it is expected that foreign investors may eventually return to emerging markets.

On the local front, the Government is forecasting the nation’s GDP to register a growth of 4.5% to 5.5% in 2014. Malaysian equity market is expected to stand out relative to regional and emerging markets amidst external volatilities in 2014 anchored by healthy domestic demand and stable export data. Private sector spending will remain supportive of economic activities despite ongoing consolidation of the public sector. Meanwhile, inflationary rate is expected to edge higher to around 3.5% level in 2014 partly due to the withdrawal of subsidies. BNM is expected to remain accommodative in support of domestic growth. Nonetheless, the risk of demand-pull inflation and

financial imbalances will also be the key determinants for any policy rate adjustment. Despite the external uncertainties that may cause further volatilities, the Malaysian equity market is expected to remain stable in the near term due to its defensive characteristics.