

Phillip Wealth Funds
- Phillip HKD Money Market Fund

30 June 2019 (unaudited)

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Investment Manager's report

Phillip Wealth Funds

- Phillip HKD Money Market Fund

Review

For the half year ended 30 June 2019, the fund generated a net return of 0.71% and 1.42% for the 6-month and 1-year period respectively.

As of 30 June 2019, the portfolio's Weighted Average Maturity ("WAM") stood at 57 days and annualized average 30-days yields at 1.49% p.a. The fund primarily invests in fixed-rate bond issuances from the Asian region and bank deposits.

Growth in the Hong Kong economy slowed further for 2Q2019, expanding at 0.5% on a year-on-year basis, compared with 0.6% in 1Q2019. This represents the slowest quarterly growth in the past 10 years since 2009 as headwinds from the Sino-US trade tensions and domestic political unrest weighed down on growth. The more fragile trade environment saw year-on-year contraction in exports and imports by 9% and 7.5% respectively for the month of June 2019, given that China and the US represent key trading partners for Hong Kong. Retail sales continue to remain soft driven by weak domestic consumption sentiment and lower tourist arrivals stemming from the domestic unrest and a weaker CNY. Overall investment spending in terms of gross capital formation continued its contractionary trend by shrinking 11.6% year-on-year in 2Q2019, accelerating from the 7% year-on-year decline in 1Q2019. Labour market conditions stayed tight at 2.8% as of June 2019, although the uncertainty to growth prospects continue to impose downside risks to the unemployment situation. Headline inflation stayed elevated in July 2019 coming in at 3.3%, unchanged from a month earlier.

Short-term interest rates exhibited considerable volatility over the course of 1H2019. The Hong Kong interbank offered rate (HIBOR) for one month and three months ended up declining to 1.93% and 2.28% at the end of July 2019, despite beginning the year at 2.24% and 2.33% respectively.

Outlook

In light of the escalation in political and trade tension witnessed in 1H2019, the Hong Kong Financial Secretary, Paul Chan, announced recently in Aug 2019 that the government have revised down its 2019 growth forecast down to 0-1% down from the previous 2-3%. The softer economic expansion outlook was accompanied by the government announcing fiscal stimulus in the form of an economic support package worth HK\$19.1 billion consisting of subsidies targeted at the underprivileged and business enterprises, and higher salary tax rebates. This comes in on top of the HK\$42.9 billion package announced during February's 2019/2020 budget consisting of healthcare expenditure and additional welfare allowances.

Hong Kong's status as a small, open economy leaves it exposed to the negative spill-overs from the challenging external environment. Weaker external trade data, lower tourism arrivals, weaker consumption and business sentiments are expected to weigh down growth prospects. As we do not expect a near-term resolution to trade negotiations between the US and China culminating in removal of existing trade tariffs to take place, we expect downside risks to Hong Kong economy to remain given its status of a re-export hub for trade flows and inability to benefit from diverted US demand. We do not expect a recovery in retail sales given the disruption to local businesses in view of the ongoing protests, thereby increasing the possibility of Hong Kong entering into a technical recession should the economy remain contractionary in 3Q2019.

Investment Manager's report

Phillip Wealth Funds

- Phillip HKD Money Market Fund (continued)

Outlook (continued)

Inflation rate will be expected to stay elevated in the near-term as the Hong Kong government have recently revised up their forecast for headline consumer price inflation to 2.6% from the previously estimated 2.5%. Disruption to fresh pork supply which was one of the main drivers behind higher inflation data for July 2019 is not expected to be resolved in the near term. Overall, the government have maintained that pricing pressures should remain contained after factoring easing in residential rentals, modest global inflation and subdued domestic economic conditions.

Under the link-exchange rate regime, interest rates in Hong Kong tend to follow those in the US. Market interest rates in Hong Kong may therefore be expected to face downside pressure in line with falling US interest rates in light of a more dovish outlook for the US Federal Reserve rate.

The SFC has issued a revised Unit Trust code, which took effect from 1 January 2019 and the fund has a 12-month transition period from the effective date. The revised code will have minimal impact to the fund as the strategy of the fund has always reflected a target WAM of less than 60 days, with overnight and 7 days liquidity of >7% and >15% respectively. The fund will continue to focus its deposits with banks of high-credit rating and investments in high-quality short-term corporate papers of issuers with strong balance sheets, robust business models and steady operating cash flows.

Statement of financial position
as at 30 June 2019 (unaudited)
(Expressed in Hong Kong dollars)

	30 June 2019 HK\$	31 December 2018 HK\$
Assets		
Financial assets at fair value through profit or loss	101,257,895	115,619,164
Bank deposits with maturity over three months at acquisition	93,184,293	72,511,796
Interest receivable	1,722,508	2,067,169
Amount receivable on subscription	5,315,256	384,122
Cash and cash equivalents	<u>182,849,746</u>	<u>62,405,005</u>
Total assets	<u><u>384,329,698</u></u>	<u><u>252,987,256</u></u>
Liabilities		
Amount payable on redemption	2,282,039	680,237
Accrued expenses and other payables	<u>430,019</u>	<u>361,503</u>
Total liabilities	<u><u>2,712,058</u></u>	<u><u>1,041,740</u></u>
Net assets attributable to unitholders	<u><u>381,617,640</u></u>	<u><u>251,945,516</u></u>
Number of units in issue		
- Class A units	<u><u>37,458,228.14</u></u>	<u><u>24,924,154.78</u></u>
Net asset value per unit		
- Class A units	<u><u>10.1878</u></u>	<u><u>10.1085</u></u>

Statement of comprehensive income
for the period from 01 January 2019 to 30 June 2019
(unaudited)
(Expressed in Hong Kong dollars)

	<i>Period from 01 January 2019 to 30 June 2019</i>	<i>Period from 01 January 2018 to 30 June 2018</i>
	HK\$	HK\$
Interest income calculated using the effective interest method	1,283,383	1,271,411
Other interest income	1,603,302	-
Net losses from financial assets at fair value through profit or loss	<u>(297,618)</u>	<u>(176,487)</u>
Total revenue	<u>2,589,067</u>	<u>1,094,924</u>
Management fees	203,845	143,367
Trustee's fees	29,121	20,481
Custodian fees	77,489	71,629
Auditors' remuneration	49,589	49,589
Other operating expenses	<u>70,978</u>	<u>59,560</u>
Total operating expenses	<u>431,022</u>	<u>344,626</u>
Increases in net assets attributable to unitholders and total comprehensive income for the period	<u>2,158,045</u>	<u>750,298</u>

Statement of changes in net assets attributable to
unitholders for the period from 01 January 2019 to 30 June
2019 (unaudited)
(Expressed in Hong Kong dollars)

	<i>01 January 2019 to 30 June 2019 HK\$</i>	<i>01 January 2018 to 30 June 2018 HK\$</i>
Balance at the beginning of the period	251,945,516	163,416,713
Increases in net assets attributable to unitholders and total comprehensive income for the period	<u>2,158,045</u>	<u>750,298</u>
Contributions and redemptions by unitholders		
Subscriptions of units	920,316,827	841,394,162
Redemption of units	<u>(792,802,748)</u>	<u>(754,754,745)</u>
Total contributions and redemptions by unitholders	<u>127,514,079</u>	<u>86,639,417</u>
Balance at the end of the period	<u><u>381,617,640</u></u>	<u><u>250,806,428</u></u>

Units in issue
for the period from 01 January 2019 to 30 June 2019
(unaudited)

	2019	Class A 2018
Balance at 01 January	24,924,154.78	16,369,095.58
Subscription of units during the period	90,527,076.46	83,857,464.31
Redemption of units during the period	(77,993,003.10)	(75,222,498.09)
Balance at 30 June	<u>37,458,228.14</u>	<u>25,004,061.80</u>

Portfolio statement as at 30 June 2019 (unaudited)

(Expressed in Hong Kong dollars)

	Holdings	Market value HK\$	% of net assets value %
Debt instruments- Unlisted but quoted			
Certificates of deposit			
CHINA			
Bank of China Limited 2.5% due 08/10/2019	10,000,000		
		10,014,008	2.62
Bank of Communications Company Limited 2.05% due 03/03/2020	5,000,000	4,994,387	1.31
Bank of Communications Company Limited 2.8% due 30/12/2019	5,000,000	5,019,175	1.32
Bank of Communications Company Limited 2.9% due 11/12/2019	5,000,000	5,001,389	1.31
Industrial & Commercial Bank of China Limited 2% due 06/12/2019	11,000,000	10,994,303	2.88
HONG KONG SAR			
Fubon Bank Hong Kong Limited 1.8% due 16/09/2019	2,000,000	1,998,777	0.52
Total certificates of deposit		38,022,039	9.96
Bonds			
AUSTRALIA			
Australia & New Zealand Banking Group Limited 2.04% due 25/10/2019	3,000,000	2,997,979	0.79
Australia & New Zealand Banking Group Limited 3.98% due 06/11/2019	10,000,000	10,069,389	2.63
CANADA			
Bank of Nova Scotia 2.073% due 16/12/2019	5,000,000	4,992,578	1.31

Portfolio statement as at 30 June 2019 (unaudited)
 (continued)
 (Expressed in Hong Kong dollars)

	Holdings	Market value HK\$	% of net assets value %
Debt instruments- Unlisted but quoted (continued) Bonds (continued)			
CAYMAN ISLANDS			
Cheung Kong Finance MTN Limited 4.35% due 20/01/2020	5,000,000	5,065,019	1.33
Link Finance Cayman 2009 Limited 4.4% due 05/08/2019	8,000,000	8,014,942	2.10
MTR Corporation CI Limited 4.95% due 21/10/2019	10,000,000	10,101,424	2.65
Sun Hung Kai Properties Capital Market Limited 3.78% due 30/09/2019	1,000,000	1,002,797	0.26
FINLAND			
Nordea Bank ABP 2.17% due 13/11/2019	10,000,000	10,005,826	2.62
SOUTH KOREA			
Export-Import Bank of Korea 1.9% due 03/02/2020	10,000,000	9,998,285	2.62
UNITED STATES OF AMERICA			
Caterpillar Financial Services Corporation 2.14% due 13/12/2019	1,000,000	998,617	0.26
Total bonds		<u>63,235,856</u>	<u>16.57</u>
Debt instruments (total)		101,257,895	26.53
Other net assets		280,359,745	73.47
Total net assets		<u>381,617,640</u>	<u>100.00</u>
Total investments, at cost		<u>101,560,323</u>	

Statement of movements in portfolio holdings (unaudited)
for the period from 01 January 2019 to 30 June 2019
(Expressed in Hong Kong dollars)

	% of net asset value	
	30 June 2019	31 December 2018
Debt instruments - unlisted but quoted	26.53	45.89
Other net assets	<u>73.47</u>	<u>51.11</u>
Total net assets	<u>100.00</u>	<u>100.00</u>

Administration

Manager

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Administration (continued)

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