

**CIMB-PRINCIPAL INSTITUTIONAL BOND FUND 2**  
**ANNUAL REPORT**  
**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020**

<b>CONTENTS</b>	<b>PAGE(S)</b>
INVESTORS' LETTER	1
MANAGER'S REPORT	2 - 7
Fund Objective and Policy	
Performance Data	
Market Review	
Fund Performance	
Portfolio Structure	
Market Outlook	
Investment Strategy	
Unit Holdings Statistics	
Soft Commissions and Rebates	
STATEMENT BY MANAGER	8
TRUSTEE'S REPORT	9
INDEPENDENT AUDITORS' REPORT	10 - 13
STATEMENT OF COMPREHENSIVE INCOME	14
STATEMENT OF FINANCIAL POSITION	15
STATEMENT OF CHANGES IN EQUITY	16
STATEMENT OF CASH FLOWS	17
NOTES TO THE FINANCIAL STATEMENTS	18 - 40
DIRECTORY	41

## INVESTORS' LETTER

Dear Valued Investor,

We are now two months into our shared “quarantine” and I hope you and your family are staying well. Around the world, communities and Governments are working together to break the chain of the Coronavirus Disease 2019 (“COVID-19”). This unprecedented crisis has been met with unimaginable action. The global response to fighting the pandemic has been encouraging.

Global equity market has shown signs of recovery towards the end of April 2019 in rebounding by approximately 11% from a decline in March 2019 of this year. Governments around the world launched fiscal stimulus packages, estimated at over 3% of global Gross Domestic Product (“GDP”), to help stabilise their local businesses and citizens amongst the strain that COVID-19 has placed on all of us. In Malaysia alone, the Government unveiled a RM260 billion stimulus package.

As an investment house, we’re refining our short-term asset allocation within our investment portfolio to an equal split between equities and fixed income. We favour Large cap, high quality defensive stocks and Asian equities due to the region having more policy room relative to the rest of the world and China is likely to return to normalcy ahead of the rest. For our:

- **Conservative investors, we recommend:** Malaysia focus bond and balanced funds that consistently pay dividends.
- **More aggressive investors, we recommend:** Growth-oriented funds that offer exposure to growth areas in China, Asia-Pacific and Global Technology.

I know this may be a challenging time for you. Please know we’re committed to being by your side throughout this year and beyond. I encourage you to check our website ([www.principal.com.my](http://www.principal.com.my)) and Facebook account (@PrincipalAssetMY) for up-to-date market commentaries and investment content.

We are well positioned and experienced to manage through this period of adversity. While we may face some short-term challenges and headwinds, we will continue to focus on what we can control, and I have no doubt that we will emerge from this crisis stronger.

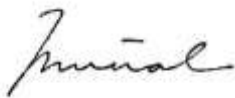
Because of the trust you’ve placed in us, we continue to win accolades - the most recent recognition coming from Lipper Refinitiv for our Principal Titans Income Plus Fund (*formerly known as CIMB-Principal Equity Income Fund*) on its 2019 performance.

Please be informed that effective 21 April 2020, the Fund has been renamed as Principal Institutional Bond Fund 2 following the issuance of the Replacement Prospectus issue No.10.

Even in challenging times, we all can celebrate the simple joys. To that end, my sincere wishes to our Muslim customers for a most peaceful and blessed Ramadhan Kareem.

Stay safe everyone. We appreciate your continuous support and the trust you place in us.

Yours faithfully,  
for **Principal Asset Management Berhad**



**Munirah Khairuddin**  
Chief Executive Officer

**MANAGER'S REPORT****FUND OBJECTIVE AND POLICY****What is the investment objective of the Fund?**

The Fund aims to provide income to investors.

**Has the Fund achieved its objective?**

For the financial year under review, the Fund is in line with its stated objective.

**What are the Fund investment policy and principal investment strategy?**

The Fund will invest in Deposits and debt instruments which includes but not limited to bonds, fixed rate and floating rate debt instruments and/or commercial papers issued by the government, statutory authorities and/or companies. The debt instruments requires a minimum credit rating of "A" by RAM Ratings ("RAM") or Malaysian Rating Corporation Berhad ("MARC") equivalent if issued in Malaysia, or if issued outside Malaysia, requires a minimum credit rating of "BBB" by Standard & Poor's ("S&P") or Fitch Ratings ("Fitch"), or "Baa" by Moody's or other international rating agencies in the Asia Pacific region (excluding Malaysia).

At least 70% of the Fund's Net Asset Value ("NAV") will be invested in Malaysia, and up to 30% of the Fund's NAV may be invested in the Asia Pacific region (excluding Malaysia), where the regulatory authorities are ordinary or associate members of the International Organisation of Securities Commissions ("IOSCO") which includes but not limited to Australia, New Zealand, South Korea, Hong Kong Special Administrative Region ("SAR"), Indonesia, the Philippines, Thailand, Singapore, Taiwan and India.

**Fund category/type**

Bond/Income

**How long should you invest for?**

Recommended for medium to long term

**When was the Fund launched?**

15 February 2006

**What was the size of the Fund as at 31 March 2020?**

RM1,854.78 million (1,781.19 million units)

**What is the Fund's benchmark?**

The 3-month Kuala Lumpur Interbank Offered Rate ("KLIBOR").

**What is the Fund distribution policy?**

Distributions, if any, will be made 4 times per annum at the end of each quarter of the year, i.e. March, June, September and December. Such distributions will depend on the availability of realised income and/or realised gains and at the discretion of the Manager. The Manager has the right to make provisions for reserves in respect of distribution of the Fund. If the income available is too small or insignificant, any distribution may not be of benefit to the unit holders as the total cost to be incurred in any such distribution may be higher than the amount for distribution. The Manager has the discretion to decide on the amount to be distributed to the unit holders. The Manager also has the discretion to make income distribution on an ad-hoc basis, taking into consideration the level of its realised income and/or realised gains, as well as the performance of the Fund.

**FUND OBJECTIVE AND POLICY (CONTINUED)****What was the net income distribution for the financial year ended 31 March 2020?**

The Fund distributed a total net income of RM53.58 million to unit holders for the financial year ended 31 March 2020.

The Fund's NAV per unit are as follows:

<b>Date</b>	<b>NAV per unit (before distribution)</b>	<b>NAV per unit (after distribution)</b>
28.06.2019	1.0459	1.0373
30.09.2019	1.0475	1.0380
31.12.2019	1.0469	1.0410
31.03.2020	1.0499	1.0414

**PERFORMANCE DATA**

Details of portfolio composition of the Fund for the last three financial years are as follows:

	<b>31.03.2020</b>	<b>31.03.2019</b>	<b>31.03.2018</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Unquoted fixed income securities	44.84	18.79	12.95
Deposits with licensed financial institutions	55.17	81.22	87.23
Cash and other net assets	(0.01)	(0.01)	(0.18)
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Performance details of the Fund for the last three financial years are as follows:

	<b>31.03.2020</b>	<b>31.03.2019</b>	<b>31.03.2018</b>
NAV (RM Million)*	1,854.78	1,794.70	2,845.12
Units in circulation (Million)	1,781.19	1,731.82	2,734.55
NAV per unit (RM)*	1.0413	1.0363	1.0404
Highest NAV per unit (RM)	1.0496	1.0496	1.0509
Lowest NAV per unit (RM)*	1.0364	1.0360	1.0389
Total return (%)	3.70	3.83	3.69
- Capital growth (%)	0.50	(0.40)	(0.99)
- Income distribution (%)	3.16	4.26	3.79

\*Ex-distribution

Management Expense Ratio ("MER") (%)	0.08	0.08	0.07
Portfolio Turnover Ratio ("PTR") (times) #	0.30	0.05	0.08

# The Fund's PTR was increased from 0.05 times to 0.30 times due to more trading activities during the financial year under review.

**Gross/Net distribution per unit (sen)**

Distribution on 28 June 2019	0.86	-	-
Distribution on 30 September 2019	0.95	-	-
Distribution on 31 December 2019	0.59	-	-
Distribution on 31 March 2020	0.85	-	-
Distribution on 29 June 2018	-	1.19	-
Distribution on 28 September 2018	-	1.04	-
Distribution on 31 December 2018	-	1.04	-
Distribution on 29 March 2019	-	1.07	-
Distribution on 30 June 2017	-	-	1.03
Distribution on 29 September 2017	-	-	1.07
Distribution on 29 December 2017	-	-	0.95
Distribution on 30 March 2018	-	-	0.84

**PERFORMANCE DATA (CONTINUED)**

	<b>31.03.2020</b>	<b>31.03.2019</b>	<b>31.03.2018</b>	<b>31.03.2017</b>	<b>31.03.2016</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Annual total return	3.70	3.83	3.69	3.68	3.91

(Launch date: 15 February 2006)

Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up. All performance figures for the financial year have been extracted from Lipper.

**MARKET REVIEW (1 APRIL 2019 TO 31 MARCH 2020)**

During the financial year under review, Bank Negara Malaysia (“BNM”) lowered the Overnight Policy Rate (“OPR”) by a total of 75 basis points (“bps”). On 7 May 2019, BNM lowered the OPR by 25 bps to 3.00% as widely anticipated by the market. The adjustment to the OPR was a pre-emptive move by the central bank to preserve the degree of monetary accommodativeness in the country. Following the OPR cut in May 2019, the rates remained flat at 3.00% for the rest of 2019. The next OPR cut was at the Monetary Policy Committee’s (“MPC”) first meeting in January 2020. This cut by the central bank came as a surprise to most. In its statement, BNM stated that the adjustment to the OPR is a pre-emptive measure to secure the improving growth trajectory amid price stability. The central bank reduced the OPR by another 25 bps again at their meeting in on 3 March 2020 on the back of weakening global economic conditions due to the impact expected from the COVID-19 outbreak.

In the month of April and May 2019, the Consumer Price Index (“CPI”) rose at a slow pace of 0.2% year-on-year (“y-o-y”). In the following three months of June, July and August 2019, it inched higher by rising 1.50%, 1.40% and 1.50% yoy respectively, on the back of the low base seen in the prior year due to the zerorisation of Goods and Services Tax (“GST”) in prior year 2018. In September and October 2019, it eased slightly to 1.10% y-o-y for two consecutive months. It continued to ease further in the month of November 2019 as it grew only 0.90% y-o-y as food and beverages and transport component prices weakened. The CPI for the month of December 2019 was up 1% y-o-y, bringing in full year inflation for 2019 at 0.70%. In 2020, CPI rose 1.60% and 1.30% respectively for the months of January and February 2020.

The local bond market saw some volatility following the announcement made by Financial Times Stock Exchange (“FTSE”) Russell to place Malaysia in their Watch list in the month of April 2019. In the month of September 2019, the index provider announced that Malaysia would continue to be on the Watch list up until the next review in March 2020. As for now, Malaysia continues to be in the index provider’s World Government Bond Index (“WGBI”). In the month of May 2019, the central bank announced measures to boost bond market accessibility, likely in response to the action taken by the index provider. The measures include boosting repo market liquidity and flexibility and enhancing the delivery mechanism for settlement of Government securities futures contracts. The local bond market also saw a mild boost following the central bank’s recent announcement in early November 2019 whereby they cut the Statutory Reserve Requirement (“SRR”) ratio to 3% from 3.5% to enhance liquidity in the domestic financial system. The 10-year Malaysian Government Security (“MGS”) began the year at 4.10% and ended the year at 3.32%. Government bond yields across all tenors moved lower by between 32 bps to 93 bps in 2019. After the solid performance in 2019, the bond market was mildly positive entering the first quarter of 2020. However, the bond market faced some challenges as the month of March 2020 was very volatile. The month of March 2020 saw three major negative events for the market: i) A new ruling coalition with a new government being formed; ii) A crash in crude oil prices caused by a price war by major oil producers; and iii) COVID-19 and the Movement Control Order (“MCO”). In the month of March 2020, almost all the MGS/Government Investment Issues (“GII”) and corporate indices recorded negative returns except for the Quantshop MGS Short Index and GII Short Index. Foreigners net sold MGS/GII by RM12.3 billion in March 2020 after the outflow of RM8 billion seen in February 2020. We saw the MGS 10-year began the month of March 2020 at 2.8% and closed at 3.35% on 31 March 2020.

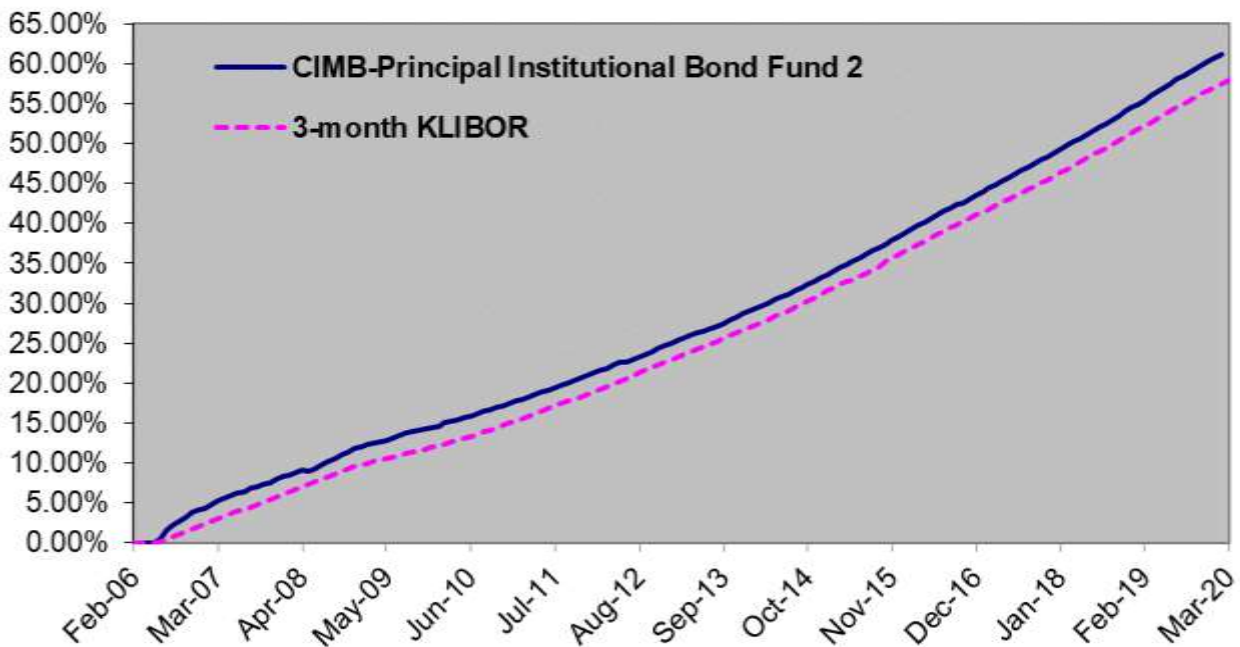
**MARKET REVIEW (1 APRIL 2019 TO 31 MARCH 2020) (CONTINUED)**

Meanwhile, the country’s economy expanded by 4.4% in the third quarter of 2019, slower than the 4.9% growth recorded in the second quarter of 2019 and the 4.5% growth seen in the first quarter of 2019. We saw the fourth quarter of 2019 GDP coming in at a low of 3.6% due to the weaker manufacturing and agriculture sectors. According to the Statistics Department, GDP expanded at 4.3% in 2019 which was slower than the 4.7% in 2018. The growth in 2019 was the weakest since 2009.

**FUND PERFORMANCE**

	<b>1 year to 31.03.2020</b>	<b>3 years to 31.03.2020</b>	<b>5 years to 31.03.2020</b>	<b>Since inception to 31.03.2020</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Income	3.16	11.63	19.72	55.12
Capital	0.50	0.00	0.44	4.60
Total Return	3.70	11.64	20.28	61.24
Benchmark	3.40	11.04	19.32	57.94
Average Total Return	3.70	3.74	3.76	3.44

For the financial year under review, the Fund delivered total return of 3.70% and outperformed the benchmark by 0.30%. Meanwhile, the 3-year and 5-year total return for the Fund was 11.64% and 20.28%, which outperformed the benchmark 0.60% and 0.96% respectively.



**FUND PERFORMANCE (CONTINUED)****Changes in NAV**

	<b>31.03.2020</b>	<b>31.03.2019</b>	<b>Changes %</b>
NAV (RM Million)*	1,854.78	1,794.70	3.35
NAV/Unit (RM)*	1.0413	1.0363	0.48

\*Ex-distribution

The Fund's NAV grew by 3.35% over a 1-year period from RM1,794.7 million on 31 March 2019 to RM1,854.78 million on 31 March 2020, mainly due to subscription. Meanwhile, the NAV per unit grew by 0.48% from RM1.0363 to RM1.0413 due to positive market performance.

Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on NAV to NAV price. The performance data assumes that all earnings from the Fund are reinvested and are net of management and trustee fees. Past performance is not reflective of future performance and income distributions are not guaranteed. Unit prices and income distributions, if any, may fall and rise. All performance figures for the financial year have been extracted from Lipper.

**PORTFOLIO STRUCTURE****Asset allocation**

<b>(% of NAV)</b>	<b>31.03.2020</b>	<b>31.03.2019</b>
Unquoted fixed income securities	44.84	18.79
Deposits with licensed financial institutions	55.17	81.22
Cash and other net assets	(0.01)	(0.01)
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>

The Fund's investment in unquoted fixed income securities have increased to 44.84% as at 31 March 2020 from 18.79% a year ago. Consequently, deposits with licensed financial institutions have decreased to 55.17% from prior year exposure of 81.22%. The change in asset allocation was due to the strategy of the Fund during the financial year under review.

**MARKET OUTLOOK\***

On 16 March 2020, the Malaysian Government announced measures to contain the spread of COVID-19 after the acceleration of cases seen in the country. Movement control is akin to enforced social distancing. The end game is to allow the epidemic curve to flatten. The countries that have achieved a flattening are China, Taiwan, Singapore, South Korea and Hong Kong. The containment policy would have a drag effect on domestic economic activities especially consumption arising from closure of Government and private business premises.

Whilst trade war factors have dissipated currently, it is replaced by the fallout from the COVID-19 outbreak in China and now the rest of the world. BNM has acted swiftly by cutting the policy rate by 25 bps twice in January and March 2020. In addition, BNM highlighted that there is ample room to cut interest rate given the slow economic growth and moderate inflation. At time of report writing, BNM has cut the OPR by 50 bps in total at the MPC meetings held on 22 January 2020 as well as on 3 March 2020. The likelihood of a third rate cut therefore has increased with the timing to be determined by BNM. Nevertheless, should the developed world's efforts to fight COVID-19 be prolonged, the possibility of a fourth OPR cut should not be discounted. The Prime Minister also unveiled a budget stimulus package amounting to RM250 billion (equivalent to 17% of GDP) to sustain private consumption and confidence, among other things. Direct injection from the Federal Government amounted to RM25 billion or 1.7% of GDP. Policymakers projected for the stimulus package to add 1.5% to GDP. The Ministry of Finance ("MoF") highlighted that 2020 budget deficit would be capped at 4% of GDP by reallocation of budget within Ministries and higher dividends from Government-linked companies ("GLCs").



**MARKET OUTLOOK\* (CONTINUED)**

At the time of report writing, we have seen Fitch reaffirming Malaysia's rating at A- but they have revised the outlook to negative. Separately, S&P has just reaffirmed the sovereign rating of Malaysia at A-/Stable. While the agency acknowledged that the fiscal deficit target may derail in the short-term, they are still comfortable with the Government medium term commitment to fiscal consolidation. We were expecting some primary issuances in the first half of 2020 but supply seems fairly limited in this current environment. We expect investors to be watching closely BNM's next move, FTSE Russell's verdict on whether Malaysia will remain on their WGBI in September 2020 and the success of the containment measures. Due to absence of strong flows into the emerging market ("EM"), we expect long-end bond yields will continue to face liquidity issues. That said, we expect the bond market to continue to be supported.

\*This market outlook does not constitute an offer, invitation, commitment, advice or recommendation to make a purchase of any investment. The information given in this article represents the views of Principal Asset Management Berhad ("Principal Malaysia") or based on data obtained from sources believed to be reliable by Principal Malaysia. Whilst every care has been taken in preparing this, Principal Malaysia makes no guarantee, representation or warranty and is under no circumstances liable for any loss or damage caused by reliance on, any opinion, advice or statement made in this market outlook.

**INVESTMENT STRATEGY**

Our overall strategy for the Fund is to invest both in sovereign markets as well as in the credit market, whilst ensuring sufficient liquidity. We expect at least another 25 bps of OPR cut at BNM's MPC meeting on 5 May 2020 and due to the absence of flows into the EM, the long end bond yields will continue to face liquidity issues. As such, we are not looking to pick up any long duration bonds at this juncture. We believe credit selection remains key at this point of time and will continue to 'cherry-pick' on issuers which display stronger and more resilient credit metrics in this economic condition.

**UNIT HOLDINGS STATISTICS**

Breakdown of unit holdings by size as at 31 March 2020 are as follows:

<b>Size of unit holdings (units)</b>	<b>No. of unit holders</b>	<b>No. of units held (million)</b>	<b>% of units held</b>
5,000 and below	1	0.00	0.00
5,001 – 10,000	-	-	-
10,001 – 50,000	-	-	-
50,001 – 500,000	-	-	-
500,001 and above	2	1,781.19	100.00
<b>Total</b>	<b>3</b>	<b>1,781.19</b>	<b>100.00</b>

**SOFT COMMISSIONS AND REBATES**

Principal Asset Management Berhad (the "Manager") and the Trustee will not retain any form of rebate or soft commission from, or otherwise share in any commission with, any broker in consideration for directing dealings in the investments of the Funds unless the soft commission received is retained in the form of goods and services such as financial wire services and stock quotations system incidental to investment management of the Funds. All dealings with brokers are executed on best available terms.

During the financial year under review, the Manager and the Trustee did not receive any rebates from the brokers or dealers but the Manager has retained soft commission in the form of goods and services such as financial wire services and stock quotations system incidental to investment management of the Funds.

**STATEMENT BY MANAGER TO THE UNIT HOLDERS OF  
CIMB-PRINCIPAL INSTITUTIONAL BOND FUND 2**

We, being the Directors of Principal Asset Management Berhad (the “Manager”), do hereby state that, in the opinion of the Manager, the accompanying audited financial statements set out on pages 14 to 40 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the financial position of the Fund as at 31 March 2020 and of its financial performance, changes in equity and cash flows for the financial year then ended in accordance with the provisions of the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

For and on behalf of the Manager

**Principal Asset Management Berhad (Company No.: 199401018399 (304078-K))**

**MUNIRAH KHAIRUDDIN**  
Chief Executive Officer/Executive Director

**JUAN IGNACIO EYZAGUIRRE BARAONA**  
Director

Kuala Lumpur  
14 May 2020

**TRUSTEE'S REPORT TO THE UNIT HOLDERS OF  
CIMB-PRINCIPAL INSTITUTIONAL BOND FUND 2**

**FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020**

We have acted as Trustee for CIMB-PRINCIPAL INSTITUTIONAL BOND FUND 2 ("the Fund") for the financial year ended 31 March 2020. To the best of our knowledge, Principal Asset Management Berhad (the "Manager") has managed the Fund in the financial year under review in accordance with the following:

1. Limitations imposed on the investment powers of the Manager under the deeds, securities laws and Guidelines on Unit Trust Funds;
2. Valuation and pricing of the Fund are carried out in accordance with the deeds and any regulatory requirements; and
3. Creation and cancellation of units are carried out in accordance with the deeds and any regulatory requirements.

A total distribution of 3.2440 sen per unit (gross) have been declared to the unitholders of the Fund for the financial year ended 31 March 2020.

We are of the view that the distribution is consistent with the investment objective and distribution policy of the Fund.

For **Maybank Trustees Berhad**  
[Co. No.: 196301000109 (5004-P)]

**JULIA BINTI MUSTAFFA**  
Chief Executive Officer

Kuala Lumpur, Malaysia  
14 May 2020

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF  
CIMB-PRINCIPAL INSTITUTIONAL BOND FUND 2**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Our opinion

In our opinion, the financial statements of CIMB-Principal Institutional Bond Fund 2 (the "Fund") give a true and fair view of the financial position of the Fund as at 31 March 2020, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 March 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 40.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF  
CIMB-PRINCIPAL INSTITUTIONAL BOND FUND 2 (CONTINUED)**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

Information other than the financial statements and auditors' report thereon

The Manager of the Fund is responsible for the other information. The other information comprises Manager's report, but does not include the financial statements of the Fund and our auditors' report thereon.

Our opinion on the financial statements of the Fund does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of the financial statements of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of the Fund that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Fund, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund, to cease operations, or has no realistic alternative but to do so.

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF  
CIMB-PRINCIPAL INSTITUTIONAL BOND FUND 2 (CONTINUED)****REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- (d) Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF  
CIMB-PRINCIPAL INSTITUTIONAL BOND FUND 2 (CONTINUED)**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**

Auditors' responsibilities for the audit of the financial statements (continued)

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**OTHER MATTERS**

This report is made solely to the unit holders of the Fund and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

Kuala Lumpur  
14 May 2020

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020**

	Note	2020 RM	2019 RM
<b>INCOME</b>			
Interest income from unquoted fixed income securities at fair value through profit and loss		22,773,925	16,490,210
Interest income from deposits with licensed financial institutions at fair value through profit and loss		35,376,497	63,252,538
Net gain on financial assets at fair value through profit or loss	8	4,444,139	839,238
		<u>62,594,561</u>	<u>80,581,986</u>
<b>EXPENSES</b>			
Management fee	4	1,214,924	1,494,630
Trustee's fee	5	165,000	165,000
Other expenses		7,170	27,969
		<u>1,387,094</u>	<u>1,687,599</u>
<b>PROFIT BEFORE TAXATION</b>		61,207,467	78,894,387
Taxation	6	-	-
<b>PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>		<u>61,207,467</u>	<u>78,894,387</u>
Profit after taxation is made up as follows:			
Realised amount		57,638,186	77,827,858
Unrealised amount		3,569,281	1,066,529
		<u>61,207,467</u>	<u>78,894,387</u>

The accompanying notes to the financial statements form an integral part of the audited financial statements.



**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2020**

	Note	2020 RM	2019 RM
<b>ASSETS</b>			
Cash and cash equivalents	9	28,545	29,381
Financial assets at fair value through profit or loss	8	<u>1,854,944,645</u>	<u>1,794,783,276</u>
<b>TOTAL ASSETS</b>		<u>1,854,973,190</u>	<u>1,794,812,657</u>
<b>LIABILITIES</b>			
Accrued management fee		113,354	108,048
Amount due to Trustee		25,364	-
Distribution payables		<u>59,430</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>		<u>198,148</u>	<u>108,048</u>
<b>NET ASSET VALUE OF THE FUND</b>		<u>1,854,775,042</u>	<u>1,794,704,609</u>
<b>EQUITY</b>			
Unit holders' capital		1,838,725,073	1,786,279,735
Retained earnings		<u>16,049,969</u>	<u>8,424,874</u>
<b>NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS</b>		<u>1,854,775,042</u>	<u>1,794,704,609</u>
<b>NUMBER OF UNITS IN CIRCULATION (UNITS)</b>	10	<u>1,781,190,008</u>	<u>1,731,820,611</u>
<b>NET ASSET VALUE PER UNIT (RM) (EX-DISTRIBUTION)</b>		<u>1.0413</u>	<u>1.0363</u>

The accompanying notes to the financial statements form an integral part of the audited financial statement

**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020**

	Note	Unit holders' capital RM	Retained earnings RM	Total RM
<b>Balance as at 1 April 2019</b>		1,786,279,735	8,424,874	1,794,704,609
Movement in unit holders' contributions:				
- Creation of units from applications		490,144,000	-	490,144,000
- Creation of units from distributions		50,898,262	-	50,898,262
- Cancellation of units		(488,596,924)	-	(488,596,924)
Total comprehensive income for the financial year		-	61,207,467	61,207,467
Distributions	<b>7</b>	-	(53,582,372)	(53,582,372)
<b>Balance as at 31 March 2020</b>		<u>1,838,725,073</u>	<u>16,049,969</u>	<u>1,854,775,042</u>
<b>Balance as at 1 April 2018</b>		2,833,056,134	12,066,943	2,845,123,077
Movement in unit holders' contributions:				
- Creation of units from applications		837,977,700	-	837,977,700
- Creation of units from distributions		82,536,456	-	82,536,456
- Cancellation of units		(1,967,290,555)	-	(1,967,290,555)
Total comprehensive income for the financial year		-	78,894,387	78,894,387
Distributions	<b>7</b>	-	(82,536,456)	(82,536,456)
<b>Balance as at 31 March 2019</b>		<u>1,786,279,735</u>	<u>8,424,874</u>	<u>1,794,704,609</u>

The accompanying notes to the financial statements form an integral part of the audited financial statements.

**STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019**

	Note	2020 RM	2019 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from disposal of unquoted fixed income securities		130,253,519	92,418,139
Proceeds from redemption of unquoted fixed income securities		265,000,000	75,000,000
Purchase of unquoted fixed income securities		(891,184,720)	(143,079,263)
Proceed from maturity of deposits with licensed financial institutions		14,950,582,233	24,219,979,266
Placement of deposits with licensed financial institutions		(14,516,244,000)	(23,195,630,900)
Interest income received from deposits with licensed financial institutions		35,376,497	63,252,538
Interest income received from unquoted fixed income securities		28,649,663	18,960,388
Management fee paid		(1,209,618)	(1,386,582)
Trustee's fee paid		(139,636)	(165,000)
Payments for other fees and expenses		(7,170)	(28,602)
<b>Net cash generated from operating activities</b>		<u>1,076,768</u>	<u>1,129,319,984</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash proceeds from units created		490,144,000	837,977,700
Payments for cancellation of units		(488,596,924)	(1,967,290,555)
Distribution paid		(2,624,680)	-
<b>Net cash used in financing activities</b>		<u>(1,077,604)</u>	<u>(1,129,312,855)</u>
Net (decrease)/increase in cash and cash equivalents		(836)	7,129
Cash and cash equivalents at the beginning of the financial year		29,381	22,252
Cash and cash equivalents at the end of the financial year	<b>9</b>	<u>28,545</u>	<u>29,381</u>
<u>Cash and cash equivalents comprised of:</u>			
Bank balances		<u>28,545</u>	<u>29,381</u>
Cash and cash equivalents at the end of financial year	<b>9</b>	<u>28,545</u>	<u>29,381</u>

The accompanying notes to the financial statements form an integral part of the audited financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020****1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES**

CIMB-Principal Institutional Bond Fund 2 (the “Fund”) was constituted pursuant to the execution of a Deed dated 16 January 2006, a First Supplemental Deed dated 3 December 2007, a Second Supplemental Deed dated 17 September 2013 and a Third Supplemental Deed dated 20 January 2015 (collectively referred to as the “Deeds”) between Principal Asset Management Berhad (the “Manager”), Maybank Trustees Berhad (the “Trustee”) and the registered unit holders of the Fund.

The principal activity of the Fund is to invest in Deposits and debt instruments which includes but not limited to bonds, fixed rate and floating rate debt instruments and/or commercial papers issued by the government, statutory authorities and/or companies. The debt instruments requires a minimum credit rating of “A” by RAM or MARC equivalent if issued in Malaysia, or if issued outside Malaysia, requires a minimum credit rating of “BBB” by S&P or Fitch, or “Baa” by Moody’s or other international rating agencies in the Asia Pacific region (excluding Malaysia).

At least 70% of the Fund’s NAV will be invested in Malaysia, and up to 30% of the Fund’s NAV may be invested in the Asia Pacific region (excluding Malaysia), where the regulatory authorities are ordinary or associate members of the IOSCO which includes but not limited to Australia, New Zealand, South Korea, Hong Kong SAR, Indonesia, the Philippines, Thailand, Singapore, Taiwan and India.

All investments are subjected to the SC Guidelines on Unit Trust Funds, SC requirements, the Deeds, except where exemptions or variations have been approved by the SC, internal policies and procedures and the Fund’s objective.

The Manager, is a joint venture between Principal Financial Group®, a member of the FORTUNE 500® and a Nasdaq-listed global financial services and CIMB Group Holdings Berhad, one of Southeast Asia’s leading universal banking groups. The principal activities of the Manager are the establishment and management of unit trust funds and fund management activities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements:

**(a) Basis of preparation**

The financial statements have been prepared in accordance with the provisions of the MFRS and IFRS.

The financial statements have been prepared under the historical cost convention, as modified by financial assets at fair value through profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Basis of preparation (continued)

The preparation of financial statements in conformity with MFRS and IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year.

It also requires the Manager to exercise their judgement in the process of applying the Fund's accounting policies. Although these estimates and assumptions are based on the Manager's best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(j).

#### Standards, amendments to published standards or interpretation that are effective and relevant:

The Fund has applied the following amendments to published standards for the first time for the financial year beginning 1 April 2019:

- Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income ("OCI") or equity) depends on where the past transactions that generated distributable profits were recognised.

Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

There are no other standards, amendments to standards or interpretations that are effective for financial year beginning on 1 April 2019 that have a material effect on the financial statements of the Fund.

There are no applicable standards, amendments to standards or interpretations that re effective for financial year beginning on/after 1 April 2020 to the financial statements of the Fund.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Financial assets and financial liabilities

#### Classification

The Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The contractual cash flows of the Fund's debt securities are solely principal and interest ("SPPI"). However, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

The Fund classifies cash and cash equivalents as financial assets at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

The Fund classifies accrued management fee, amount due to trustee and distribution payables as financial liabilities measured at amortised cost.

#### Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income.

Financial liabilities are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Unrealised gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the statement of comprehensive income within net gain or loss on financial assets at fair value through profit or loss in the financial year which they arise.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(b) Financial assets and financial liabilities (continued)**Recognition and measurement (continued)

Unquoted fixed income securities denominated in Ringgit Malaysia (“RM”) are revalued on a daily basis based on fair value prices quoted by a Bond Pricing Agency (“BPA”) registered with the SC as per the SC Guidelines on Unit Trust Funds. Refer to Note 2(j) for further explanation.

Deposits with licensed financial institutions are stated at cost plus accrued interest calculated on the effective interest method over the period from the date of placement to the date of maturity of the respective deposits.

Financial assets at amortised cost and other financial liabilities are subsequently carried at amortised cost using the effective interest method.

Impairment for assets carried at amortised costs

The Fund measures credit risk and expected credit loss (“ECL”) using probability of default, exposure at default and loss given default. The Manager consider both historical analysis and forward looking information in determining any ECL. The Manager consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12 month ECL as any such impairment would be wholly insignificant to the Fund.

Significant increase in credit risk

A significant increase in credit risk is defined by the Manager as any contractual payment which is more than 30 days past due.

Definition of default and credit-impaired financial assets

Any contractual payment which is more than 90 days past due is considered credit impaired.

Write-off

The Fund writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor’s sources of income or assets to generate sufficient future cash flows to repay the amount. The Fund may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains. There are no write-offs/recoveries during the financial year.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(c) Income recognition**

Interest income from deposits with licensed financial institutions and unquoted fixed income securities are recognised on a time proportionate basis using the effective interest method on an accrual basis.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Realised gain or loss on disposal of unquoted fixed income securities is accounted for as the difference between the net disposal proceeds and the carrying amount of unquoted fixed income securities, determined on cost adjusted for accretion of discount or amortisation of premium.

**(d) Functional and presentation currency**

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in RM, which is the Fund’s functional and presentation currency.

**(e) Unit holder’s contributions**

The unit holders’ contributions to the Fund meet the criteria to be classified as equity instruments under MFRS 132 “Financial Instruments: Presentation”. Those criteria include:

- the units entitle the holder to a proportionate share of the Fund’s NAV;
- the units are the most subordinated class and class features are identical;
- there is no contractual obligations to deliver cash or another financial asset other than the obligation on the Fund to repurchase; and
- the total expected cash flows from the units over its life are based substantially on the profit or loss of the Fund.

The outstanding units are carried at the redemption amount that is payable at each financial year if unit holder exercises the right to put the unit back to the Fund.

Units are created and cancelled at prices based on the Fund’s NAV per unit at the time of creation or cancellation. The Fund’s NAV per unit is calculated by dividing the net assets attributable to unit holders with the total number of outstanding units.

**(f) Cash and cash equivalents**

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balances and which are subject to an insignificant risk of changes in value.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(g) Taxation**

Current tax expense is determined according to Malaysian tax laws at the current rate based upon the taxable profit earned during the financial year.

**(h) Distribution**

A distribution to the Fund's unit holders is accounted for as a deduction from realised reserve. A proposed distribution is recognised as a liability in the financial year in which it is approved by the Trustee.

**(i) Realised and unrealised portions of profit or loss after tax**

The analysis of realised and unrealised portions of profit or loss after tax as presented on the statement of comprehensive income is prepared in accordance with SC Guidelines on Unit Trust Funds.

**(j) Critical accounting estimates and judgements in applying accounting policies**

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Fund's results and financial position are tested for sensitivity to changes in the underlying parameters.

Estimates and judgements are continually evaluated by the Manager and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Estimate of fair value of unquoted fixed income securities**

In undertaking any of the Fund's investment, the Manager will ensure that all assets of the Fund under management will be valued appropriately, that is at fair value and in compliance with the SC Guidelines on Unit Trust Funds.

Ringgit-denominated unquoted fixed income securities are valued using fair value prices quoted by a BPA. Where the Manager is of the view that the price quoted by BPA for a specific unquoted fixed income securities differs from the market price by more than 20 bps, the Manager may use market price, provided that the Manager records its basis for using a non-BPA price, obtains necessary internal approvals to use the non-BPA price, and keeps an audit trail of all decisions and basis for adopting the use of non-BPA price.

**3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES**

Financial instruments of the Fund are as follows:

	<b>Financial assets at fair value through profit or loss RM</b>	<b>Financial assets at amortised cost RM</b>	<b>Total RM</b>
<b>2020</b>			
Cash and cash equivalents (Note 9)	-	28,545	28,545
Unquoted fixed income securities (Note 8)	831,704,399	-	831,704,399
Deposits with licensed financial institutions (Note 8)	1,023,240,246	-	1,023,240,246
	<u>1,854,944,645</u>	<u>28,545</u>	<u>1,854,973,190</u>
<b>2019</b>			
Cash and cash equivalents (Note 9)	-	29,381	29,381
Unquoted fixed income securities (Note 8)	337,204,798	-	337,204,798
Deposits with licensed financial institutions (Note 8)	1,457,578,478	-	1,457,578,478
	<u>1,794,783,276</u>	<u>29,381</u>	<u>1,794,812,657</u>

All liabilities are financial liabilities which are carried at amortised cost.

The investment objective of the Fund is to provide income to investors.

The Fund is exposed to a variety of risks which include market risk (inclusive of price risk and interest rate risk), credit risk and liquidity risk.

Financial risk management is carried out through internal control process adopted by the Manager and adherence to the investment restrictions as stipulated in the Deeds and SC Guidelines on Unit Trust Funds.

**(a) Market risk**

**(i) Price risk**

Price risk is the risk that the fair value of the investments of the Fund will fluctuate because of changes in market prices.

The Fund is exposed to price risk arising from interest rate fluctuation in relation to its investments of RM831,704,399 (2019: RM337,204,798) in unquoted fixed income securities. The Fund's exposure to price risk arising from interest rate fluctuation and the related sensitivity analysis are disclosed in "interest rate risk" below.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(ii) Interest rate risk

In general, when interest rates rise, unquoted fixed income securities prices will tend to fall and vice versa. Therefore, the NAV of the Fund may also tend to fall when interest rates rise or are expected to rise. However, investors should be aware that should the Fund holds an unquoted fixed income securities till maturity, such price fluctuations would dissipate as it approaches maturity, and thus the growth of the NAV shall not be affected at maturity. In order to mitigate interest rates exposure of the Fund, the Manager will manage the duration of the portfolio via shorter or longer tenured assets depending on the view of the future interest rate trend of the Manager, which is based on its continuous fundamental research and analysis.

Investors should note that movement in prices of unquoted fixed income securities and money market instruments are benchmarked against interest rates. As such, the investments are exposed to the movement of the interest rates.

This risk is crucial since unquoted fixed income securities portfolio management depends on forecasting interest rate movements. Prices of unquoted fixed income securities move inversely to interest rate movements, therefore as interest rates rise, the prices of unquoted fixed income securities decrease and vice versa. Furthermore, unquoted fixed income securities with longer maturity and lower yield coupon rates are more susceptible to interest rate movements.

Such investments may be subject to unanticipated rise in interest rates which may impair the ability of the issuers to meet the obligation under the instrument, especially if the issuers are highly leveraged. An increase in interest rates may therefore increase the potential for default by an issuer.

The table below summarises the sensitivity of the Fund's profit or loss and NAV to movements in prices of unquoted fixed income securities held by the Fund as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate changed by 1% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the interest rate, having regard to the historical volatility of the interest rate.

% Change in interest rate	Impact on profit or loss/NAV	
	2020 RM	2019 RM
+1%	(295,718)	(254,019)
-1%	296,153	254,019

The Fund's exposure to interest rate risk associated with deposits with licensed financial institutions is not material as the deposits are held on short-term basis.

**3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligation resulting in financial loss to the Fund.

Investment in unquoted fixed income securities may involve a certain degree of credit/default risk with regards to the issuers. Generally, credit risk or default risk is the risk of loss due to the issuer's non-payment or untimely payment of the investment amount as well as the returns on investment. This will cause a decline in value of the defaulted unquoted fixed income securities and subsequently depress the NAV of the Fund. Usually credit risk is more apparent for an investment with a longer tenure, i.e. the longer the duration, the higher the credit risk.

Credit risk can be managed by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of its issuer. In addition, the Manager imposes a minimum rating requirement of the investment in accordance with the objective of the Fund. For this Fund the unquoted fixed income securities must satisfy a minimum credit rating of "A" by RAM or MARC equivalent if issued in Malaysia, or if issued outside Malaysia, requires a minimum credit rating of "BBB" by S&P or Fitch, or "Baa" by Moody's or other international rating agencies in the Asia Pacific region (excluding Malaysia).

The credit risk arising from placements of deposits with licensed financial institutions is managed by ensuring that the Fund will only place deposits in reputable licensed financial institutions.

The following table sets out the credit risk concentration of the Fund:

	<b>Cash and cash equivalents RM</b>	<b>Financial assets at fair value through profit or loss RM</b>	<b>Total RM</b>
<b>2020</b>			
- AAA	28,545	770,615,165	770,643,710
- AA1	-	15,527,024	15,527,024
- AA2	-	297,676,045	297,676,045
- AA3	-	165,427,730	165,427,730
- A1	-	20,042,192	20,042,192
- A2	-	10,365,278	10,365,278
- Not rated	-	575,291,211	575,291,211
	<u>28,545</u>	<u>1,854,944,645</u>	<u>1,854,973,190</u>
<b>2019</b>			
- AAA	29,381	670,528,427	670,557,808
- AA1	-	50,883,781	50,883,781
- AA2	-	727,275,333	727,275,333
- AA3	-	325,286,330	325,286,330
- A2	-	20,809,405	20,809,405
	<u>29,381</u>	<u>1,794,783,276</u>	<u>1,794,812,657</u>

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations.

The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellations of the units by unit holders. Liquid assets comprise bank balances and deposits with licensed financial institutions, which are capable of being converted into cash within 7 business days. Generally, all investments are subject to a certain degree of liquidity risk depending on the nature of the investment instruments, market, sector and other factors. For the purpose of the Fund, the Manager will attempt to balance the entire portfolio by investing in a mix of assets with satisfactory trading volume and those that occasionally could encounter poor liquidity. This is expected to reduce the risks for the entire portfolio without limiting the Fund's growth potentials.

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining period as at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month RM	Between one month and one year	Total RM
<b>2020</b>			
Accrued management fee	113,354	-	113,354
Amount due to trustee	25,364	-	25,364
Distribution payables	59,430	-	59,430
<b>Contractual undiscounted cash flows</b>	<b>198,148</b>	<b>-</b>	<b>198,148</b>
<b>2019</b>			
Accrued management fee	108,408	-	108,408
<b>Contractual undiscounted cash flows</b>	<b>108,408</b>	<b>-</b>	<b>108,408</b>

(d) Capital risk management

The capital of the Fund is represented by equity consisting of unit holders' capital of RM1,838,725,073 (2019: RM1,786,279,735) and retained earnings of RM16,049,969 (2019: RM8,424,874). The amount of capital can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

### 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (e) Fair value estimation

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The fair values of financial assets traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the financial year end date. The Fund utilises the last traded market price for financial assets where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of the fair value.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques.

#### (i) Fair value hierarchy

The table below analyses financial instruments carried at fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active market for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes “observable” requires significant judgement by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
<b>2020</b>				
Financial assets at fair value through profit or loss:				
- Unquoted fixed income securities	-	831,704,399	-	831,704,399
- Deposits with licensed financial institutions	-	1,023,240,246	-	1,023,240,246
	<u>-</u>	<u>1,854,944,645</u>	<u>-</u>	<u>1,854,944,645</u>
<b>2019</b>				
Financial assets at fair value through profit or loss:				
- Unquoted fixed income securities	-	337,204,798	-	337,204,798
- Deposits with licensed financial institutions	-	1,457,578,478	-	1,457,578,478
	<u>-</u>	<u>1,794,783,276</u>	<u>-</u>	<u>1,794,783,276</u>

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include unquoted fixed income securities and deposits with licensed financial institutions.

As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. The Fund's policies on valuation of these financial assets are stated in Note 2(b).

- (ii) The carrying values of cash and cash equivalents, and all current liabilities are a reasonable approximation of their fair values due to their short term nature.

#### 4. MANAGEMENT FEE, AUDIT FEE AND TAX AGENT'S FEE

In accordance with the Deeds, the Manager is entitled to a maximum management fee of 1.00% per annum, calculated daily based on the NAV of the Fund.

For the financial year ended 31 March 2020, the management fee is recognised at a rate of 0.08% per annum (2019: 0.08% per annum) in accordance with the fee structure of the Fund as follows:

<b>Fund size (NAV of the Fund)</b>	<b>% per annum of the Fund's NAV</b>
Up to and including RM500 million	0.20% per annum
Above RM500 million and up to and including RM1.0 billion	0.15% per annum
Above RM1.0 billion and up to and including RM1.5 billion	0.10% per annum
Above RM1.5 billion	0.08% per annum subject to maximum of RM1.50 million per annum

Audit fee of RM12,500 (2019: RM12,500) and tax agent's fee of RM3,600 (2019: RM3,600) are borne by the Manager.

There is no further liability to the Manager in respect of management fee, audit fee and tax agent's fee other than the amount recognised above.

#### 5. TRUSTEE'S FEE

In accordance with the Deeds, the Trustee is entitled to a maximum fee of 0.10% per annum, calculated daily based on the NAV of the Fund.

For the financial year ended 31 March 2020, the Trustee's fee is recognised at a rate of 0.009% per annum (2019: 0.009% per annum) in accordance with the fee structure of the Fund as follows, which have been included in the management fee:

<b>Fund size (NAV of the Fund)</b>	<b>% per annum of the Fund's NAV</b>
Up to and including RM500 million	0.022% per annum
Above RM500 million and up to and including RM1.0 billion	0.016% per annum
Above RM1.0 billion and up to and including RM1.5 billion	0.011% per annum
Above RM1.5 billion	0.009% per annum

The above fees structure is subject to a fee cap of RM165,000 per annum.

There is no further liability to the Trustee in respect of Trustee's fee other than the amount recognised above.



6. TAXATION

	2020 RM	2019 RM
Tax charged for the financial year:		
- Current taxation	-	-

A numerical reconciliation between the profit before taxation multiplied by the Malaysian statutory income tax rate and tax expense of the Fund is as follows:

	2020 RM	2019 RM
Profit before taxation	61,207,467	78,894,387
Taxation at Malaysian statutory rate of 24% (2019: 24%)	14,689,792	18,934,653
Tax effects of:		
-Investment income not subject to tax	(15,022,696)	(19,339,678)
-Expenses not deductible for tax purposes	40,220	41,202
-Restriction on tax deductible expenses for Unit Trust Funds	292,684	363,823
Taxation	-	-

7. DISTRIBUTION

Distributions to unit holders are derived from the following sources:

	2020 RM	2019 RM
Interest income	54,121,302	77,985,589
Realised gain/(loss) on disposal of financial assets at fair value through profit or loss	747,088	(140,044)
Prior financial year's realised income	-	5,989,380
	54,868,390	83,834,925
Less:		
Expenses	(1,286,018)	(1,298,469)
Net distribution amount	53,582,372	82,536,456

**Gross/Net distribution per unit (sen)**

Distribution on 28 June 2019	0.86	-
Distribution on 30 September 2019	0.95	-
Distribution on 31 December 2019	0.59	-
Distribution on 31 March 2020	0.85	-
Distribution on 29 June 2018	-	1.19
Distribution on 28 September 2018	-	1.04
Distribution on 31 December 2018	-	1.04
Distribution on 29 March 2019	-	1.07
	3.25	4.34

**7. DISTRIBUTION (CONTINUED)**

Gross distribution is derived using total income less total expenses. Net distribution above is sourced from current and prior financial years' realised income.

Gross distribution per unit is derived from gross realised income less expenses, divided by the number of units in circulation. Net distribution per unit is derived from gross realised income less expenses and taxation, divided by the number of units in circulation.

**8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2020</b>	<b>2019</b>
	<b>RM</b>	<b>RM</b>
Financial assets at fair value through profit or loss:		
- Unquoted fixed income securities	831,704,399	337,204,798
- Deposits with licensed financial institutions*	<u>1,023,240,246</u>	<u>1,457,578,478</u>
	<u>1,854,944,645</u>	<u>1,794,783,276</u>

\*Includes interest receivable of RM1,167,245 (2019: RM2,576,478)

Unquoted fixed income securities

Net gain on financial assets at fair value through profit or loss:

- Realised gain/(loss) on disposals	806,004	(191,530)
- Unrealised fair value gain	<u>3,638,135</u>	<u>1,030,768</u>
	<u>4,444,139</u>	<u>839,238</u>

Deposits with licensed financial institutions

The weighted average effective interest rate per annum are as follows:

	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>
Deposits with licensed financial institutions	<u>2.81</u>	<u>3.65</u>

Deposits with licensed financial institutions of the Fund have an average maturity of 17 days (2019: 16 days) for the financial year ended 31 March 2020.

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage on NAV %
<b>2020</b>				
<b>UNQUOTED FIXED INCOME SECURITIES</b>				
Alliance Bank M Bhd 5.75% 27/10/2020 (A2)	10,000,000	10,265,894	10,365,278	0.56
Bank Pembangunan Malaysia Bhd 6.30% 04/23/2021 (AAA)	5,000,000	5,280,718	5,296,119	0.29
BGSM Management Sdn Bhd 4.49% 28/12/2020 (AA3)	50,000,000	50,571,377	50,966,877	2.75
BGSM Management Sdn Bhd 4.58% 28/09/2021 (AA3)	5,000,000	5,012,183	5,071,855	0.27
Binariang GSM Sdn Bhd 5.25% 24/12/2020 (AA3)	40,000,000	40,925,557	41,078,575	2.21
Cagamas Bhd 3.40% 10/08/2020 (AAA)	10,000,000	10,047,507	10,065,607	0.54
Cagamas Bhd 3.95% 07/09/2020 (AAA)	20,000,000	20,087,247	20,139,381	1.09
Celcom Networks Sdn Bhd 4.85% 29/8/2022 (AA1)	15,000,000	15,101,685	15,527,024	0.84
CIMB Group Holdings Bhd 4.95% 29/03/2028 (AA2)	5,000,000	5,001,356	5,179,806	0.28
Edra Energy Sdn Bhd 5.64% 05/07/2022 (AA3)	5,000,000	5,112,359	5,257,744	0.28
Edra Energy Sdn Bhd 5.67% 05/01/2023 (AA3)	5,000,000	5,122,267	5,289,797	0.28
Gamuda Bhd 4.62% 23/04/2021 (AA3)	10,000,000	10,203,059	10,345,155	0.56
Genm Capital Bhd 4.78% 31/03/2022 (AAA)	10,000,000	10,033,443	10,227,010	0.55
Genm Capital Bhd 4.98% 11/07/2023 (AAA)	10,000,000	10,128,522	10,464,286	0.56
Genting Bhd 4.18% 08/11/2029 (AAA)	5,000,000	5,083,027	4,979,027	0.27
Government Investment Issues 3.58% 05/15/2020 #	110,000,000	111,566,043	111,628,810	6.02
Government Investment Issues 3.58% 15/05/2020 #	20,000,000	20,284,706	20,296,147	1.09
Government Investment Issues 3.80% 27/08/2020 #	50,000,000	50,334,656	50,426,926	2.72
Government Investment Issues 3.95% 14/04/2022 #	30,000,000	30,907,838	31,232,931	1.68
Government Investment Issues 4.39% 07/07/2023 #	20,000,000	20,775,915	21,060,228	1.14

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage on NAV %
<b>2020 (CONTINUED)</b>				
<b>UNQUOTED FIXED INCOME SECURITIES (CONTINUED)</b>				
HSBC Amanah Malaysia Bhd 4.30% 02/10/2023 (AAA)	5,000,000	5,107,205	5,222,356	0.28
Malaysia Government Securities 3.42% 15/08/2022 #	60,000,000	60,473,767	61,390,899	3.31
Malaysia Government Securities 3.66% 15/10/2020 #	55,000,000	56,090,467	56,299,946	3.04
Malaysia Government Securities 3.80% 17/08/2023 #	20,000,000	20,473,697	20,691,868	1.12
Malaysia Government Securities 3.89% 31/07/2020 #	200,000,000	201,848,806	202,263,456	10.91
Public Islamic Bank Bhd 4.30% 27/07/2021 (AAA)	10,000,000	10,098,947	10,225,475	0.55
Rantau Abang Capital Bhd 4.57% 19/10/2022 (AAA)	5,000,000	5,144,135	5,256,423	0.28
RHB Bank Bhd 4.75% 08/05/2025 (AA3)	5,000,000	5,099,477	5,101,999	0.27
RHB Bank Bhd 4.82% 27/09/2027 (AA3)	5,000,000	5,003,301	5,121,851	0.28
RHB Investment Bank Bhd 4.95% 16/04/2020 (AA3)	5,000,000	5,116,375	5,117,168	0.28
Tanjung Bin Power Sdn Bhd 4.66% 14/08/2020 (AA2)	10,000,000	10,064,468	10,114,375	0.54
<b>TOTAL UNQUOTED FIXED INCOME SECURITIES</b>	<b>815,000,000</b>	<b>826,366,004</b>	<b>831,704,399</b>	<b>44.84</b>
<b>ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<b>5,338,395</b>		
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<b>831,704,399</b>		

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage on NAV %
<b>2019</b>				
<b>UNQUOTED FIXED INCOME SECURITIES</b>				
Alliance Bank (M) Bhd 5.75% 27/10/2020 (AA2)	20,000,000	20,602,814	20,809,405	1.16
BGSM Management Sdn Bhd 4.48% 28/12/2020 (AA3)	50,000,000	50,577,521	50,837,521	2.83
BGSM Management Sdn Bhd 4.58% 28/09/2021 (AA3)	5,000,000	5,020,358	5,039,060	0.28
BGSM Management Sdn Bhd 6.60% 27/12/2019 (AA3)	25,000,000	25,828,071	25,893,182	1.44
Binariang GSM Sdn Bhd 5.25% 24/12/2020 (AA3)	30,000,000	30,824,410	30,940,516	1.72
Cagamas Bhd 3.65% 09/08/2019 (AAA)	10,000,000	10,037,126	10,047,300	0.56
Celcom Transmission (M) Sdn Bhd 4.85% 29/8/2022 (AA2)	15,000,000	15,113,743	15,350,581	0.86
CIMB Bank Bhd 4.77% 7/8/2026 (AAA)	5,000,000	5,033,978	5,077,328	0.28
CIMB Group Holdings Bhd 4.88% 13/09/2029 (AA)	5,000,000	5,012,701	5,088,501	0.28
CIMB Group Holdings Bhd 4.95% 29/3/2028 (AA)	5,000,000	5,002,712	5,087,362	0.28
CIMB Thai Bank PCL 5.20% 29/03/2028 (AA3)	5,000,000	5,002,137	5,040,937	0.28
Edra Energy Sdn Bhd 5.64% 05/07/2022 (AA3)	5,000,000	5,129,726	5,132,699	0.29
Edra Energy Sdn Bhd 5.67% 05/01/2023 (AA3)	5,000,000	5,139,117	5,143,844	0.29
Gamuda Bhd 4.62% 13/03/2019 (AA3)	10,000,000	10,203,661	10,257,089	0.57
Genting Malaysia Capital Bhd 4.78% 31/03/2022 (AAA)	10,000,000	10,051,077	10,095,629	0.56
Genting Malaysia Capital Bhd 4.98% 11/07/2023 (AAA)	10,000,000	10,135,759	10,285,351	0.57
Hong Leong Bank Bhd 4.80% 21/06/2024 (AA1)	15,000,000	15,188,142	15,218,065	0.85
Hong Leong Islamic Bank Bhd 4.80% 17/06/2024 (AA1)	10,000,000	10,139,839	10,154,882	0.57
HSBC Amanah Malaysia Bhd 4.30% 02/10/2023 (AAA)	5,000,000	5,106,616	5,155,366	0.29
OCBC Bank Malaysia Bhd 6.75% 15/04/2039 (AA2)	20,000,000	20,629,235	20,636,773	1.15
Public Bank Bhd 4.30% 27/07/2021 (AA1)	10,000,000	10,115,043	10,141,797	0.57
Public Islamic Bank Bhd 4.75% 07/06/2024 (AAA)	10,000,000	10,148,520	10,160,253	0.57

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage on NAV %
<b>2019 (CONTINUED)</b>				
<b>UNQUOTED FIXED INCOME SECURITIES (CONTINUED)</b>				
Rantau Abang Capital Bhd 4.57% 19/10/2022 (AAA)	5,000,000	5,159,973	5,194,801	0.29
RHB Bank Bhd 4.99% 08/07/2024 (AA2)	10,000,000	10,121,795	10,138,471	0.56
RHB Bank Bhd 4.82% 27/9/2027 (AA2)	5,000,000	5,003,301	5,060,451	0.28
Tanjung Bin Power Sdn Bhd 4.54% 16/08/2019 (AA2)	15,000,000	15,092,304	15,101,912	0.84
Tanjung Bin Power Sdn Bhd 4.66% 14/08/2020 (AA2)	10,000,000	10,084,859	10,115,722	0.57
<b>TOTAL UNQUOTED FIXED INCOME SECURITIES</b>	<b><u>330,000,000</u></b>	<b><u>335,504,538</u></b>	<b><u>337,204,798</u></b>	<b><u>18.79</u></b>
<b>ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<b><u>1,700,260</u></b>		
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<b><u>337,204,798</u></b>		

# The unquoted fixed income securities which are not rated as at the end of each financial year are issued, backed or guaranteed by Governments or Government agencies.

**9. CASH AND CASH EQUIVALENTS**

	<b>2020</b> <b>RM</b>	<b>2019</b> <b>RM</b>
Bank balances	<u>28,545</u>	<u>29,381</u>

**10. NUMBER OF UNITS IN CIRCULATION (UNITS)**

	<b>2020</b> <b>No. of units</b>	<b>2019</b> <b>No. of units</b>
At the beginning of the financial year	1,731,820,611	2,734,551,549
Add : Creation of units from applications	469,128,942	802,469,314
Add : Creations of units from distributions	48,966,359	79,580,489
Less: Cancellation of units	<u>(468,725,904)</u>	<u>(1,884,780,741)</u>
At the end of the financial year	<u>1,781,190,008</u>	<u>1,731,820,611</u>

**11. MANAGEMENT EXPENSE RATIO (“MER”)**

	<b>2020</b> <b>%</b>	<b>2019</b> <b>%</b>
MER	<u>0.08</u>	<u>0.08</u>

MER is derived from the following calculation:

$$\text{MER} = \frac{(A + B + C) \times 100}{D}$$

- A = Management fee
- B = Trustee’s fee
- C = Other expenses
- D = Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial year calculated on a daily basis is RM1,708,084,306 (2019: RM2,101,782,422).

**12. PORTFOLIO TURNOVER RATIO (“PTR”)**

	<b>2020</b>	<b>2019</b>
PTR (times)	<u>0.30</u>	<u>0.05</u>

PTR is derived based on the following calculation:

$$\frac{(\text{Total acquisition for the financial year} + \text{total disposal for the financial year}) \div 2}{\text{Average NAV of the Fund for the financial year calculated on a daily basis}}$$

where:

- total acquisition for the financial year = RM882,180,300 (2019: RM135,757,122)
- total disposal for the financial year = RM127,981,500 (2019: RM90,592,781)

13. UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER, AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

<u>Related parties</u>	<u>Relationship</u>
Principal Asset Management Berhad	The Manager
Principal Financial Group, Inc.	Ultimate holding company of shareholder of the Manager
Principal International (Asia) Ltd	Shareholder of the Manager
Subsidiaries and associates of Principal Financial Group Inc., other than above, as disclosed in its financial statements	Fellow subsidiary and associated companies of the ultimate holding company of shareholder of the Manager
CIMB Group Holdings Bhd	Ultimate holding company of shareholder of the Manager
CIMB Group Sdn Bhd	Shareholder of the Manager
Subsidiaries and associates of CIMB Group Holdings Bhd, other than above, as disclosed in its financial statements	Fellow subsidiary and associated companies of the ultimate holding company of shareholder of the Manager
CIMB Bank Bhd	Fellow related party to the Manager
CIMB Islamic Bank Bhd	Fellow related party to the Manager

Units held by the Manager and parties related to the Manager

	<u>2020</u>		<u>2019</u>	
	<u>No. of units</u>	<u>RM</u>	<u>No. of units</u>	<u>RM</u>
<b>Manager</b>				
Principal Asset Management Berhad	277	288	268	278

In the opinion of the Manager, the above units were transacted at the prevailing market price.

The units are held beneficially by the Manager for booking purposes. Other than the above, there were no units held by the Directors or parties related to the Manager.

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The Manager is of the opinion that all transactions with the related companies have been entered into in the normal course of business at agreed terms between the related parties.



**13. UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER, AND SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

	2020 RM	2019 RM
<u>Significant related party transactions</u>		
Interest income from deposits with licensed financial institutions:		
- CIMB Bank Bhd	4,643,513	6,410,502
- CIMB Islamic Bank Bhd	3,236,340	1,587,989
	<u>7,879,853</u>	<u>7,998,491</u>
Cash placements with licensed financial institutions:		
- CIMB Bank Bhd	2,028,999,000	3,494,628,200
- CIMB Islamic Bank Bhd	1,309,479,000	856,927,000
	<u>3,338,478,000</u>	<u>4,351,555,200</u>
<u>Significant related party balances</u>		
Deposits with licensed financial institutions:		
- CIMB Bank Bhd	117,538,669	54,751,594
- CIMB Islamic Bank Bhd	100,688,159	110,079,350
	<u>218,226,828</u>	<u>164,830,944</u>
<u>Bank balances:</u>		
- CIMB Bank Bhd	<u>28,545</u>	<u>29,381</u>

**14. TRANSACTIONS WITH DEALERS**

Details of transactions with dealers for the financial year ended 31 March 2020 are as follows:

Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
Malayan Banking Bhd	393,746,750	38.98	-	-
CIMB Bank Bhd #	271,815,500	26.91	-	-
CIMB Islamic Bank Bhd #	143,129,500	14.17	-	-
AmBank Bhd	80,192,600	7.94	-	-
AmIslamic Bank Bhd	70,136,700	6.94	-	-
Hong Leong Bank Bhd	15,375,750	1.52	-	-
J.P. Morgan Chase Bank Bhd	10,334,500	1.02	-	-
Affin Hwang Investment Bank Bhd	10,230,750	1.01	-	-
United Overseas Bank (Malaysia) Bhd	10,175,000	1.01	-	-
RHB Investment Bank Bhd	5,024,750	0.50	-	-
	<u>1,010,161,800</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

**14. TRANSACTIONS WITH DEALERS (CONTINUED)**

Details of transactions with dealers for the financial year ended 31 March 2019 are as follows:

<b>Dealers</b>	<b>Value of trades RM</b>	<b>Percentage of total trades %</b>	<b>Brokerage fees RM</b>	<b>Percentage of total brokerage fees %</b>
Hong Leong Bank Bhd	74,901,722	33.09	-	-
CIMB Bank Bhd #	65,426,081	28.90	-	-
AmBank Bhd	50,858,600	22.47	-	-
RHB Investment Bank Bhd	30,146,000	13.32	-	-
Hong Leong Investment Bank Bhd	5,017,500	2.22	-	-
	<u>226,349,903</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

# Included in the transactions are trades conducted with CIMB Bank Bhd and CIMB Islamic Bank Bhd, fellow related parties to the Manager amounting to RM271,815,500 (2019: RM65,426,081) and RM143,129,500 (2019: Nil) respectively. The Manager is of the opinion that all transactions with the related companies have been entered into in the normal course of business at agreed terms between the related parties.

**15. SUBSEQUENT EVENT**

The Fund has changed its name from CIMB-Principal Institutional Bond Fund 2 to Principal Institutional Bond Fund 2 following the issuance of the Replacement Prospectus issue No.10 dated 21 April 2020.

**16. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue by the Manager on 14 May 2020.

## DIRECTORY

### Head Office of the Manager

Principal Asset Management Berhad (Company No.: 199401018399 (304078-K))  
10<sup>th</sup> Floor, Bangunan CIMB,  
Jalan Semantan,  
Damansara Heights,  
50490 Kuala Lumpur, MALAYSIA.  
Tel: (03) 2084 8888

### Website

[www.principal.com.my](http://www.principal.com.my)

### E-mail address

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### Customer Care Centre

(03) 7718 3000

### Trustee for the CIMB-Principal Institutional Bond Fund 2

Maybank Trustees Berhad (Company No.: 196301000109 (5004-P))  
8<sup>th</sup> Floor, Menara Maybank,  
100, Jalan Tun Perak,  
50050 Kuala Lumpur, MALAYSIA.  
Tel: (03) 2078 8363, 2070 8833  
Fax: (03) 2070 9387

### Auditors of the Fund and of the Manager

PricewaterhouseCoopers Company No.: LLP0014401-LCA & AF 1146)  
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Jalan Rakyat, Kuala Lumpur Sentral,  
PO Box 10192, 50706 Kuala Lumpur, MALAYSIA.  
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