

CIMB-Principal Strategic Bond Fund

Annual Report

For The Financial Year Ended 31 December 2019

CIMB-PRINCIPAL STRATEGIC BOND FUND

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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INVESTORS' LETTER

Dear Valued Investor,

As we write this letter, we're watching the impact the Coronavirus is having on families, communities and markets around the world. Our thoughts are with those directly impacted by this illness and hope that together, as a global community we can find ways to prevent the further spread of this virus.

From an investment perspective, yes, the Coronavirus outbreak is disrupting markets – but it's important to remember this is an event, not a trend. And, just how interlinked our economies really are and how ripple effects are felt globally.

Ahead of the virus outbreak, we were seeing many positive trends in the market and were anticipating an upturn. We're still optimistic that the upturn will happen – it's just a matter of when. We still encourage our investors to focus on the fundamentals, seek portfolio diversification and to focus on the long-term.

As a fund house, we've never been better positioned to help our investors navigate the market volatility that is becoming the new norm. Our capabilities span from local to global markets with products, strategies and ideas to position your portfolio of investments based on your unique risk tolerance and financial goals.

We're committed to helping meet the varying needs of our customers and in the past few months, we've launched several new funds, including: Principal Global Real Estate, Principal Greater Bay and Principal Islamic ASEAN Equity Fund. Together these funds showcase our breadth and depth of expertise and offerings – helping set us apart as the fund house of choice. You can learn more about each of these funds and other solutions at: www.principal.com.my.

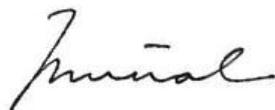
Thank you for your continuous support and allowing us to help you achieve your financial goals.

Thank you.

Yours faithfully,

for **Principal Asset Management Berhad**

(formerly known as CIMB-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 growth to the value of Unit holders' investments over the medium-term in a medium to long-term bond portfolio as well as to provide a source of regular income.

Has the Fund achieved its objective?

The Fund has achieved its objective its objective in providing growth and income opportunity to unitholders by investing in a pool of fixed income and equity securities.

What are the Fund investment policy and principal investment strategy?

The Fund may invest between 70% to 98% (both inclusive) of its Net Asset Value ("NAV") in debentures rated at least "BBB3" or "P3" by RAM Ratings ("RAM") or equivalent rating by Malaysian Rating Corporation Berhad ("MARC") or by local rating agency(ies) of the country of issuance or "BB" by Standard & Poor's ("S&P") or equivalent rating by Moody's or Fitch. The Fund may invest up to 40% of its NAV in Unrated Debentures*; up to 28% of its NAV in other permissible investments; up to 10% of its NAV in equities; up to 10% of its NAV in warrants and options; and up to 10% of its NAV in Irredeemable Convertible Unsecured Loan Stock ("ICULS") and/or exchangeable bonds.

As a strategic bond fund, the Fund may also allocate part of its fixed income portfolio to be invested in ICULS and/or exchangeable bonds listed on Bursa Malaysia Securities Berhad ("Bursa Malaysia") and other eligible exchanges, but subject to a maximum of 10% of its NAV. In line with its objective, the investment strategy and policy of the Fund is to invest in a diversified portfolio of approved fixed income securities aimed to provide a steady stream of income while utilising warrants and options to provide added returns when appropriate. To achieve its objective, the Fund may also invest in structured products and/or derivatives such as forward contracts, options, futures contracts and swap agreements, that are related/linked to fixed income securities. The Fund may also opt to seek investment exposure via collective investment scheme that is in line with the Fund's objective, subject to the requirement of the Securities Commission Malaysia ("SC") Guidelines.

* With effective 1 October 2017, the investment limit in Unrated Debentures will be changed from 25% to 40%.

Fund category/type

Bond/Income & Growth

How long should you invest for?

Recommended three (3) years or more

When was the Fund launched?

23 March 2004

What was the size of the Fund as at 31 December 2019?

RM28.40 million (24.39 million units)

What is the Fund's benchmark?

Quant shop Malaysian Government Securities ("MGS") Bond Index (Medium Sub-Index)

Note: The benchmark is for performance comparison only. Investors are cautioned that the risk profile of the Fund is higher than benchmark.

What is the Fund distribution policy?

Distribution (if any) is expected to be distributed once a year every January at the Manager's discretion.

FUND OBJECTIVE AND POLICY (CONTINUED)

What was the net income distribution for the financial year ended 31 December 2019?

The Fund distributed a total net income of RM0.47 million to unit holders. As a result of the distribution, the NAV per unit has dropped from RM1.0980 to RM1.0800 on 23 January 2019 during the financial year ended 31 December 2019.

PERFORMANCE DATA

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

	31.12.2019	31.12.2018	31.12.2017
	%	%	%
Quoted securities			
- Construction	-	-	1.08
- Energy	0.33	-	
- Finance	-	-	2.64
- Financial Services	1.81	-	-
- Health Care	0.30	-	-
- Industrials Products & Services	0.89	-	-
- Plantation	0.17	-	-
- Properties	0.32	-	1.09
- Technology	0.94	-	1.08
- Trading services	-	-	4.78
Unquoted fixed income securities	93.95	93.60	77.78
Cash	1.29	6.40	11.55
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Note: Effective 24 September 2018, Bursa Malaysia has changed its sectorial index and classification.

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

	31.12.2019	31.12.2018	31.12.2017
NAV (RM Million)	28.40	28.70	33.26
Units in circulation (Million)	24.39	26.22	29.85
NAV per unit (RM)	1.1643	1.0945	1.1143
Highest NAV per unit (RM)	1.1644	1.1255	1.1143
Lowest NAV per unit (RM)	1.0787	1.0516	1.0831
Total return (%)	8.12	3.13	3.30
- Capital growth (%)	6.35	(1.74)	0.60
- Income distribution (%)	1.67	4.99	2.66
Management Expense Ratio ("MER") (%) ^	1.24	1.35	1.31
Portfolio Turnover Ratio ("PTR") (times) #	0.78	1.17	1.07

^ The Fund's MER decreased from 1.35% to 1.24% mainly due to decreased in expenses during the financial year.

The Fund's PTR decreased from 1.17 times to 0.78 time as portfolio maintained a 90% in unquoted fixed income securities and 10% asset allocation in quoted securities throughout the year.

Date of distribution	23.01.2019	26.01.2018	27.01.2017
Gross/Net distribution per unit (sen)	1.80	5.35	2.89

PERFORMANCE DATA (CONTINUED)

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
	%	%	%	%	%
Annual total return	8.12	3.13	3.30	5.24	2.74

(Launch date: 23 March 2004)

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 JANUARY 2019 TO 31 DECEMBER 2019)

Equity

The Financial Times Stock Exchange (“FTSE”) Bursa Malaysia (“FBM”) Kuala Lumpur Composite Index (“FBMKLCI”) fell 6% in 2019.

The FBMKLCI started the year marginally lower at 0.40% to close at 1,684 points due to profit-taking and concerns over corporate earnings and global growth. However, the Ringgit Malaysia (“RM”) strengthened to RM4.09 against US Dollar (“USD”) from RM4.13 in the previous month while Brent Crude Oil rose to USD61.89 per barrel, +15% month-on-month (“m-o-m”).

February 2019 came back stronger to 1.44% closing at 1,707 points driven by higher Brent Crude Oil, which traded up +6.7% m-o-m to USD66.82 per barrel on supply constraints. The higher oil prices also helped boost sentiment in Oil and Gas stocks pushing the Bursa Energy Index up 12.21% m-o-m making it the biggest sectoral winner. Sentiment in the local bourse was further lifted by announcement made the Communications and Multimedia Minister, which indicated there will not be further reductions in high speed broadband prices in 2019 and Fitch re-affirming Malaysia’s sovereign rating.

March 2019 saw a dip of 3.8% on receding concerns over moderation in global economic growth following the yield curve inversion in the US. Domestically, the downgrade in Bank Negara Malaysia (“BNM”)’s growth forecast also weighed on sentiments, stoking expectation of a policy rate cut as early as May 2019. The FBMKLCI was relatively unchanged in April 2019; inched lower by 0.08%. Blue chips have fared worse vs the small and mid-cap stocks as foreign investors continued to be net sellers of Malaysian equities.

The market came back in May 2019 with an increase of 0.52% as sentiments were buoyed by two Merger and Acquisition (“M&A”) announcements involving Axiata Group Bhd and Telenor ASA (“Axiata-Telenor”) and YTL Cement Bhd and Malayan Cement Bhd and partly driven by foreign buying in the last three days of May 2019. Malaysian equities benefitted from relief rally in June 2019 stemming from expectation of the US federal Reserve (the “Fed”) rate cuts and de-escalation of US-China trade war. The FBMKLCI gained 1.29% in June 2019 which led to the narrowing of first quarter of 2019 loss to 1.1%. Domestic factors which also helped to boost the market include dissipating concern over regulatory risk particularly for airport operator Malaysia Airports Holdings Bhd (“MAHB”) following the release of the latest consultation paper on the implementation of Regulatory Asset Base (“RAB”) framework.

The next 3 months saw continuous shedding of the FBMKLCI to end at 1,584 points in September 2019 on the back of weak petrochemical, Crude Palm Oil (“CPO”) prices, slower loans growth together with the selloff in global equity markets caused a drag on the performance. Second quarter of 2019 earnings season was a major disappointment as reflected by further negative earnings revision. On top of that, the breakdown in Axiata-Telenor merger talks was a dampener on the benchmark index.

MARKET REVIEW (1 JANUARY 2019 TO 31 DECEMBER 2019) (CONTINUED)**Equity (Continued)**

The Index gained 0.9% in October 2019 (year-to-date (“YTD”): -5.5%) to 1,598 points in line with regional markets’ performance as risk appetite returned on the back of easing US-China trade war concern, and the Fed’s further monetary easing. Gainers outweighed losers by 18 to 11. Among the FBMKLCI component stocks, all financial stocks posted gains except AMMB Holdings Bhd. We view Budget 2020, which was announced on 11 October 2019, positively as the Government focuses on reinventing Malaysia in the digital space over the medium term by attracting foreign and domestic investments. Various tax incentives have been proposed to attract these investments which are expected to create high-paying jobs, especially those in the Manufacturing and Technology sectors. In view of the need to spur the domestic economy amid external challenges, the Federal Government has also lowered its fiscal deficit target to 3.2% versus 3.0% earlier. This raises the prospect for resumption of infrastructure spending by the Government with the resumption of mega projects under review such as East Coast Rail Link (“ECRL”) and Pan Borneo Highway. Another positive is the absence of another special dividend from Petroliam Nasional Bhd which is a boost to its capital expenditures plan in 2020, a clear re-rating catalyst for the domestic Oil and Gas service providers.

FBMKLCI dipped 2.3% in November 2019 (YTD: -7.6%) due to the sharp sell down of Tenaga Nasional Bhd (4.1%) on the last trading day of the month following the announcement of further back taxes imposed by Inland Revenue Board (“IRB”) amounting to RM4 billion and thereafter gained 1.7% in December 2019 supported by the continued surge in CPO prices to RM3,000 per metric tonne which led to a 9.4% surge in the Plantation Index. The market sentiment was also buoyed by the phase 1 trade deal between US and China.

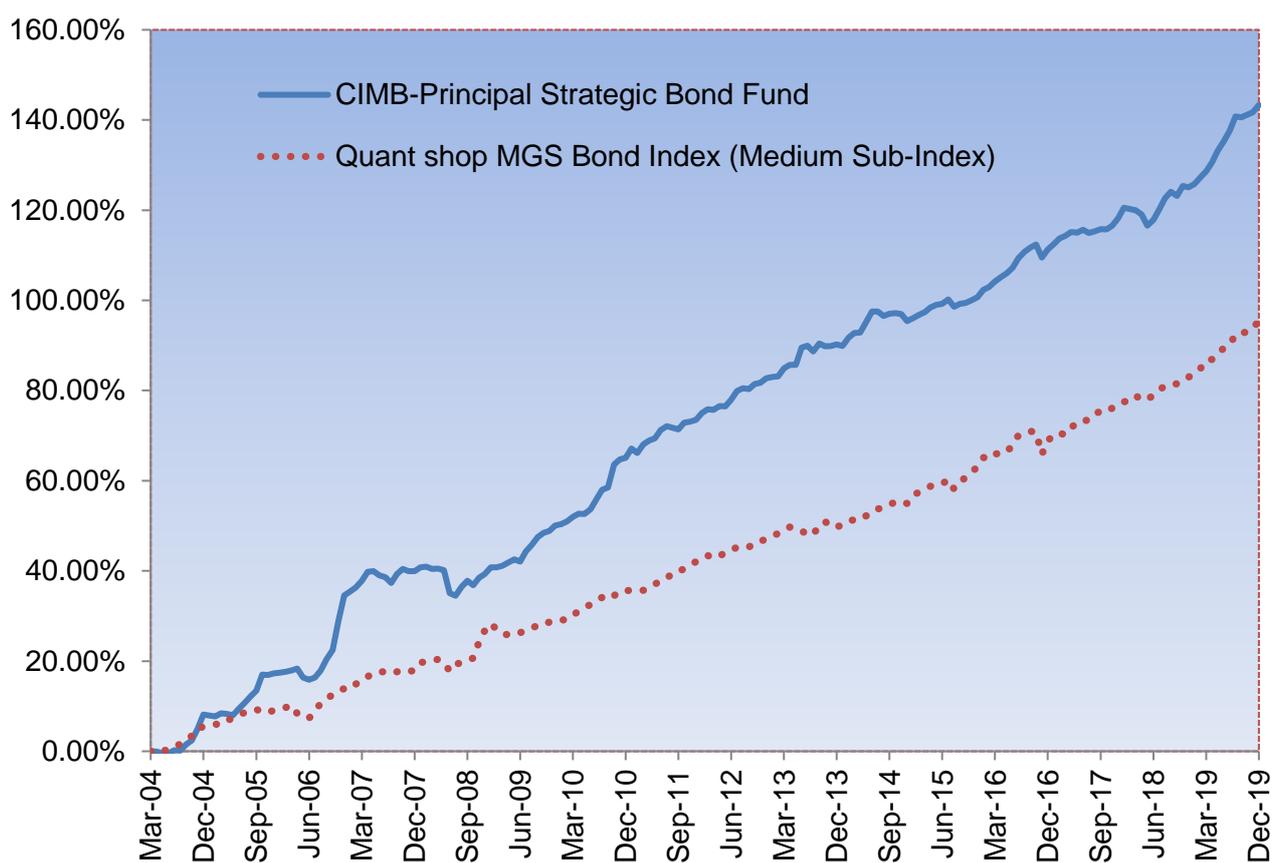
Fixed Income

In the beginning of 2019, the RM fixed income market was still factoring a potential interest rate hike in the US market as the dot plot from the committee members of the Fed is still pointing higher. However, as the yield curve in the US market inverted in the beginning of the year, investors were concerned that Developed Markets may face a slowdown in 2019, hence prompted the purchase of fixed income assets. The RM fixed income market also experienced the same trend and domestic investors were pricing in a potential interest rate cut by BNM in the first half of 2019. Indeed, the 2018 Annual Report published by BNM lowered the Gross Domestic Product (“GDP”) forecast in 2019 due to turbulence in trades. BNM finally delivered the Overnight Interest Rate cut of 25 basis points (“bps”) in May-2019, and market continue to expect more cuts from the Central Bank, mainly due to regional Central Banks were also in the same trend. By the third quarter of 2019, the market has fully priced in another around of 25 bps Overnight Policy Rate (“OPR”) cut but improving macroeconomic data trend and subsiding trade tension between US and China prompted BNM to put OPR on hold. RM fixed income market started to revert to higher yield since August 2019 for the remaining of the year. Nevertheless, the yield curve as at end December 2019 is still biased toward another round of 25 bps OPR cut in 2020 despite BNM already lowered Statutory Reserve Requirement (“SRR”) by 50 bps in early part of December 2019. Lastly, the 3-years, 5-years, 7-years, 10-years, 15-years, 20-years and 30-years MGS was traded at 3.04% (-63 bps), 3.22% (-63 bps), 3.33% (-77 bps), 3.45% (-81 bps), 3.74% (-83 bps), 3.84% (-95 bps) and 4.09% (-85 bps) respectively.

FUND PERFORMANCE

	1 year to 31.12.2019 %	3 years to 31.12.2019 %	5 years to 31.12.2019 %	Since inception to 31.12.2019 %
Income	1.67	9.59	18.34	108.75
Capital	6.35	5.13	5.29	13.48
Total Return	8.12	15.19	24.55	143.33
Benchmark	6.62	15.58	25.92	95.09
Average Total Return	8.12	4.83	4.49	5.79

During the financial year under review, the Fund delivered 8.12% of total return, outperforming the benchmark by 1.50%. The outperformance was due to duration positioning on fixed income and stock selection on equity.



Changes in NAV

	31.12.2019	31.12.2018	Changes %
NAV (RM Million)	28.40	28.70	(1.05)
NAV/Unit (RM)	1.1643	1.0945	6.38

During the financial period under review, the Fund NAV reduced 1.05% to RM28.40 million mainly due to redemption of units by unitholders. The Fund's NAV per unit increased 6.38% to RM1.1643 which is consistent with the Fund's total return.

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

(% of NAV)	31.12.2019	31.12.2018
Quoted securities	4.76	-
Unquoted fixed income securities	93.95	93.60
Cash and other net assets	1.29	6.40
TOTAL	100.00	100.00

During the financial year under review, the Fund increased equity allocation to 4.76%, mainly from utilisation of cash in the portfolio. Unquoted fixed income securities were largely unchanged at around 93% to 94% of Fund's NAV.

MARKET OUTLOOK*

Equity

Despite on-going trade tension, we expect growth to be sustained at a moderate rate going into 2020. This will be underpinned by more growth-oriented Budget 2020 (higher fiscal deficit, resumption of mega infrastructure projects) and accommodative monetary policy. Externally, the rebound in Purchasing Managers' Index ("PMI") to 50 in December 2019 after hitting a low of 46.8 in December 2018 bodes well for exports outlook particularly in the Electronics and Electrical ("E&E") segment. Furthermore, the Plantation sector will also be boosted by improving supply and demand dynamics which have led to CPO prices surging past RM3,000 per metric tonne.

MARKET OUTLOOK*(CONTINUED)

Fixed Income

In the last Federal Open Market Committee (“FOMC”) meeting of 2019, the Fed kept rate at 1.75% with officials agreed that the current interest rate stance is likely to remain unchanged for a period of time, despite raising concerns that low interest rates could exacerbate imbalances in the Financial sector. Policymakers also pledged to discuss changes to the way the Central Bank manages liquidity in financial markets at future meetings, including the potential role of a standing repo facility, the setting of administered rates, and the composition of the Fed's holdings of Treasury securities over the longer run. Multiple US media outlets reported that US and China have reached consensus on the terms of a “phase one” trade deal despite no official confirmation from both sides of the Government. Consensus is already expecting a trade truce to be officially signed in January 2020. Domestic macroeconomic data is scant in December 2019 with only the release of MGS/Malaysian Government Investment Issue (“MGII”) auction calendar for 2020. With a fiscal target of 3.2% of GDP in 2020 (gross supply of RM117.5 billion by our estimation), we think the fixed income supply profile is manageable.

* 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 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

Equity

We upgraded Malaysia to Overweight in December 2019 and we maintain Malaysia at Overweight as we turn constructively more positive going into 2020. We believe earnings downside risk has narrowed significantly following recent cuts which is further supported by undemanding valuation now. As such, we take a barbell approach on high yield sectors like a Real Estate Investment Trust (“REIT”)s and utilities and increasing on cyclical growth sectors like banks, plantation, oil and gas, and the technology sectors.

Fixed Income

Although we find technical and valuation as weak factors to overweight duration, we recognize that calendar effect and fund flows will still favour fixed income assets, at least in first quarter of 2020. For that reason, we will mildly overweight duration in the first quarter of 2019. Credit selection (i.e. carry) will continue to be the biggest driver of portfolio return, with tactical duration positioning to capitalize on short-term interest rates movement.

UNIT HOLDINGS STATISTICS

Breakdown of unit holdings by size as at 31 December 2019 are as follows:

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	102	0.31	1.26
5,001 to 10,000	70	0.51	2.09
10,001 to 50,000	102	2.23	9.16
50,001 to 500,000	19	1.88	7.70
500,001 and above	6	19.46	79.79
Total	299	24.39	100.00

SOFT COMMISSIONS AND REBATES

Principal Asset Management Berhad (*formerly known as CIMB-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 commissions 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 STRATEGIC BOND FUND**

We, being the Directors of Principal Asset Management Berhad (*formerly known as CIMB-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 16 to 44 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 December 2019 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.: 304078-K)
(*formerly known as CIMB-Principal Asset Management Berhad*)

MUNIRAH KHAIRUDDIN
Chief Executive Officer/Executive Director

JUAN IGNACIO EYZAGUIRRE BARAONA
Director

Kuala Lumpur
13 February 2020

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

We have acted as Trustee for CIMB-PRINCIPAL STRATEGIC BOND FUND ("the Fund") for the financial year ended 31 December 2019. To the best of our knowledge, Principal Asset Management Berhad (*formerly known as CIMB-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 requirement; and
3. Creation and cancellation of units are carried out in accordance with the deeds and any regulatory requirement.

An income distribution of 1.80 sen per unit (gross) has been declared to the unit holders of the Fund for the financial year ended 31 December 2019.

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

For **Maybank Trustees Berhad**
(Company No: 196301000109 (5004-P))

BERNICE K M LAU
Head, Operations

Kuala Lumpur
13 February 2020

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of CIMB-Principal Strategic Bond Fund (the "Fund") give a true and fair view of the financial position of the Fund as at 31 December 2019, 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 December 2019, 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 , including a summary of significant accounting policies, as set out on pages 16 to 44.

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 STRATEGIC BOND FUND (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 or to cease operations, or has no realistic alternative but to do so.

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
CIMB-PRINCIPAL STRATEGIC BOND FUND (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 STRATEGIC BOND FUND (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
13 February 2020

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	Note	2019 RM	2018 RM
INCOME			
Dividend income		48,439	49,405
Interest income from unquoted fixed income securities at fair value through profit or loss		1,341,797	1,360,318
Interest income from deposits with licensed financial institutions at amortised cost		41,635	83,099
Net gain/(loss) on financial assets at fair value through profit or loss	8	1,208,500	(69,962)
		<u>2,640,371</u>	<u>1,422,860</u>
EXPENSES			
Management fee	4	288,167	302,520
Trustee's and custodian fees	5	39,798	65,097
Audit fee		15,400	15,420
Tax agent's fee		2,700	3,600
Transaction costs		35,060	104,695
Other expenses		12,560	23,719
		<u>393,685</u>	<u>515,051</u>
PROFIT BEFORE TAXATION		2,246,686	907,809
Taxation	7	-	-
PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		<u>2,246,686</u>	<u>907,809</u>
Profit after taxation is made up as follows:			
Realised amount		1,638,927	896,316
Unrealised amount		607,759	11,493
		<u>2,246,686</u>	<u>907,809</u>

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

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Note	2019 RM	2018 RM
ASSETS			
Cash and cash equivalents	9	473,082	1,592,365
Financial assets at fair value through profit or loss	8	28,035,189	26,866,946
Amount due from Manager		5,600	9,313
Amount due from stockbrokers		60,068	282,655
TOTAL ASSETS		<u>28,573,939</u>	<u>28,751,279</u>
LIABILITIES			
Amount due to Manager		127,128	10,990
Accrued management fee		24,442	24,537
Amount due to Trustee		1,222	1,226
Other payables and accruals		19,000	11,500
TOTAL LIABILITIES		<u>171,792</u>	<u>48,253</u>
NET ASSET VALUE OF THE FUND		<u>28,402,147</u>	<u>28,703,026</u>
EQUITY			
Unit holders' capital		25,235,466	27,314,795
Retained earnings		3,166,681	1,388,231
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>28,402,147</u>	<u>28,703,026</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)	10	<u>24,392,147</u>	<u>26,224,762</u>
NET ASSET VALUE PER UNIT (RM)		<u>1.1643</u>	<u>1.0945</u>

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

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

	Note	Unit holders' capital RM	Retained earnings RM	Total RM
Balance as at 1 January 2019		27,314,795	1,388,231	28,703,026
Movement in unit holders' contributions:				
- Creation of units from applications		4,096,177	-	4,096,177
- Creation of units from distribution		460,857	-	460,857
- Cancellation of units		(6,636,363)	-	(6,636,363)
Total comprehensive income for the financial year		-	2,246,686	2,246,686
Distribution	6	-	(468,236)	(468,236)
Balance as at 31 December 2019		<u>25,235,466</u>	<u>3,166,681</u>	<u>28,402,147</u>
Balance as at 1 January 2018		31,202,538	2,053,379	33,255,917
Movement in unit holders' contributions:				
- Creation of units from applications		2,931,195	-	2,931,195
- Creation of units from distribution		1,547,195	-	1,547,195
- Cancellation of units		(8,366,133)	-	(8,366,133)
Total comprehensive income for the financial year		-	907,809	907,809
Distribution	6	-	(1,572,957)	(1,572,957)
Balance as at 31 December 2018		<u>27,314,795</u>	<u>1,388,231</u>	<u>28,703,026</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 DECEMBER 2019**

	Note	2019 RM	2018 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from disposal of unquoted fixed income securities		16,444,254	18,852,493
Proceeds from disposal of quoted securities		5,961,520	17,621,964
Proceeds from redemption of unquoted fixed income securities		1,000,000	-
Purchases of unquoted fixed income securities		(15,976,179)	(19,577,845)
Purchases of quoted securities		(7,039,716)	(14,696,692)
Dividend income received		36,084	51,827
Interest income received from deposits with licensed financial institutions		41,634	82,631
Interest income received from current account		-	468
Interest income received from unquoted fixed income securities		1,192,058	1,243,365
Management fee paid		(288,262)	(306,298)
Trustee's and custodian fees paid		(39,802)	(65,287)
Net realised foreign exchange loss		-	-
Payments for other fees and expenses		(23,160)	(42,744)
Net cash generated from operating activities		<u>1,308,431</u>	<u>3,163,882</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		4,099,890	2,924,882
Payments for cancellation of units		(6,520,225)	(8,548,368)
Distribution paid		(7,379)	(25,762)
Net cash used in financing activities		<u>(2,427,714)</u>	<u>(5,649,248)</u>
Net decrease in cash and cash equivalents		(1,119,283)	(2,485,366)
Cash and cash equivalents at the beginning of the financial year		<u>1,592,365</u>	<u>4,077,731</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>473,082</u></u>	<u><u>1,592,365</u></u>
<u>Cash and cash equivalents comprised of:</u>			
Bank balance		23,016	22,901
Deposits with licensed financial institutions		<u>450,066</u>	<u>1,569,464</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>473,082</u></u>	<u><u>1,592,365</u></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 DECEMBER 2019****1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES**

CIMB-Principal Strategic Bond Fund (the “Fund”) is governed by a Principal Master Deed dated 15 May 2008, an Eighth Supplemental Master Deed date 14 June 2010, a Thirteenth Supplemental Master Deed dated 26 June 2012 and an Eighteenth Supplemental Master Deed dated 25 March 2015 (collectively referred to as the “Deeds”), between Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) (the “Manager”) and Maybank Trustees Berhad (the “Trustee”).

The Fund may invest between 70% to 98% (both inclusive) of its NAV in debentures rated at least “BBB3” or “P3” by RAM or equivalent rating by MARC or by local rating agency(ies) of the country of issuance or “BB” by S&P or equivalent rating by Moody’s or Fitch. The Fund may invest up to 40% of its NAV in Unrated Debentures; up to 28% of its NAV in other permissible investments; up to 10% of its NAV in equities; up to 10% of its NAV in warrants and options; and up to 10% of its NAV in ICULS and/or exchangeable bonds.

As a strategic bond fund, the Fund may also allocate part of its fixed income portfolio to be invested in ICULS and/or exchangeable bonds listed on Bursa Malaysia and other eligible exchanges, but subject to a maximum of 10% of its NAV. In line with its objective, the investment strategy and policy of the Fund is to invest in a diversified portfolio of approved fixed income securities aimed to provide a steady stream of income while utilising warrants and options to provide added returns when appropriate. To achieve its objective, the Fund may also invest in structured products and/or derivatives such as forward contracts, options, futures contracts and swap agreements, that are related/linked to fixed income securities. The Fund may also opt to seek investment exposure via Collective Investment Scheme that is in line with the Fund’s objective, subject to the requirement of the SC Guidelines.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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(k).

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

The Fund has applied the following amendments to published standard for the first time for the financial period beginning 1 January 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 annual periods beginning on 1 January 2019 that have a material effect on the financial statements of the Fund.

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

(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 Fund has not taken the option to irrevocably designate any equity securities as fair value through OCI.

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

The contractual cash flows of the Fund's debt securities are solely principal and interest. 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, amount due from Manager and amount due from stockbrokers at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

The Fund classifies amount due to Manager, accrued management fee, amount due to Trustee, and other payables and accruals as other financial liabilities.

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 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.

Dividend income from financial assets at fair value through profit and loss is recognised in the statement of comprehensive income as part of gross dividend income when the Fund's right to receive payments is established.

Quoted securities in Malaysia are valued at the last done market price quoted on Bursa Malaysia Securities Berhad ("Bursa Securities") at the date of the statement of financial position.

If a valuation based on the market price does not represent the fair value of the quoted securities, for example during abnormal market conditions or when no market price is available, including in the event of a suspension in the quotation of the quoted securities for a period exceeding 14 days, or such shorter period as agreed by the Trustee, then the quoted securities are valued as determined in good faith by the Manager, based on the methods or bases approved by the Trustee after appropriate technical consultation.

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(k) 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 period.

(c) Income recognition

Dividend income is recognised on the ex-dividend date when the right to receive payment is established.

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

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

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 quoted securities are accounted for as the difference between the net disposal proceeds and the carrying amount of investments, determined on a weighted average cost basis.

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 investments, 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) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balance and deposits held in highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) 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.

(g) Distribution

A proposed distribution to the Fund's unit holders is recognised in the statement of comprehensive income and is recognised as a liability in the financial year in which it is approved by the Trustee.

(h) Transaction costs

Transaction costs are costs incurred to acquire or dispose financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisors, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(i) Amount due from/to stockbrokers**

Amounts due from and amount due to stockbrokers represent receivables for quoted securities and unquoted fixed income securities sold and payables for quoted securities and unquoted fixed income securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund measure the loss allowance on amounts due from broker at an amount equal to the lifetime ECL if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month ECL. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required.

If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due.

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

(j) Unit holders' 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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 judgement 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:

	Financial assets at fair value through profit or loss RM	Financial assets at amortised cost RM	Total RM
2019			
Cash and cash equivalents (Note 9)	-	473,082	473,082
Quoted securities (Note 8)	1,353,118	-	1,353,118
Unquoted fixed income securities (Note 8)	26,682,071	-	26,682,071
Amount due from stockbrokers	-	60,068	60,068
Amount due from Manager	-	5,600	5,600
	<u>28,035,189</u>	<u>538,750</u>	<u>28,573,939</u>
2018			
Cash and cash equivalents (Note 9)	-	1,592,365	1,592,365
Unquoted fixed income securities (Note 8)	26,866,946	-	26,866,946
Amount due from Manager	-	282,655	282,655
Dividends receivable	-	9,313	9,313
	<u>26,866,946</u>	<u>1,884,333</u>	<u>28,751,279</u>

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

The investment objective of the Fund to provide growth to the value of unit holders' investments over the medium-term in a medium to long-term bond portfolio as well as to provide a source of regular income.

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.

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

(a) Market risk

(i) Price risk

This is the risk that the fair value of an investment in quoted securities and unquoted fixed income securities will fluctuate because of changes in market prices (other than those arising from interest rate risk). The value of investments in quoted securities and unquoted fixed income securities may fluctuate according to the activities of individual companies, sector and overall political and economic conditions. Such fluctuation may cause the Fund's NAV and prices of units to fall as well as rise, and income produced by the Fund may also fluctuate.

The price risk is managed through diversification and selection of quoted securities, unquoted fixed income securities and other financial instruments within specified limits according to the Deeds.

The Fund's overall exposure to price risk was as follows:

	2019 RM	2018 RM
Financial assets at fair value through profit or loss:		
- Quoted securities	1,353,118	-
- Unquoted fixed income securities*	<u>26,682,071</u>	<u>26,866,946</u>
	<u>28,035,189</u>	<u>26,866,946</u>

* Includes interest receivables of RM357,055 (2018: RM327,210).

The table below summarises the sensitivity of the Fund's profit or loss and NAV to movements in prices of quoted securities at the end of each financial year. The analysis is based on the assumptions that the price of the quoted securities fluctuates by 5% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the quoted securities, having regard to the historical volatility of the prices.

% Change in price of quoted securities	Market value RM	Impact on profit or loss/NAV RM
	2019	
- 5 %	1,285,462	(67,656)
0 %	1,353,118	-
5 %	<u>1,420,774</u>	<u>67,656</u>

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**(a) Market risk (continued)****(i) Price risk (continued)**

The Fund is exposed to price risk arising from interest rate fluctuation in relation to its investments of RM26,682,071 (2018: RM26,866,946) 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.

(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 fluctuates 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.

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

(a) Market risk (continued)

(ii) Interest rate risk (continued)

% Change in interest rate	Impact on profit or loss/NAV	
	2019 RM	2018 RM
+1%	(61,153)	(70,601)
-1%	61,392	70,895

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.

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

	2019 %	2018 %
Deposits with licensed financial institutions	3.12	3.62

(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 as rated by either local and/or foreign rating agencies and manages the duration 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 "BBB3" or "P2" by RAM or equivalent rating by MARC or by local rating agency (ies) of the country of issuance or "BBB-" by S&P or equivalent rating by Moody's or Fitch.

The credit risk arising from bank balance and placements of deposits in licensed financial institutions is managed by ensuring that the Fund will only place deposits in reputable licensed financial institutions. For the amount due from Manager, the settlement terms of units receivable from the Manager are governed by the SC Guidelines on Unit Trust Funds.

For amount due from Manager, the settlement terms of the proceeds from the creation of units receivable from the Manager are governed by the SC Guidelines on Unit Trust Funds.

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

(b) Credit risk (continued)

For amount due from stockbrokers, the settlement terms are governed by the relevant rules and regulations as prescribed by respective stock exchange. The credit risk is minimal as all transactions in unquoted fixed income securities are settled or paid upon delivery using approved stockbrokers.

The following table sets out the credit risk concentration of the Fund at the end of each reporting financial year:

	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Amount due from Manager RM	Amount due from stockbrokers RM	Total RM
2019					
- AAA	473,082	8,149,992	-	-	8,623,074
- AA1	-	2,818,363	-	-	2,818,363
- AA3	-	6,121,953	-	-	6,121,953
- A1	-	8,844,776	-	-	8,844,776
- A2	-	626,766	-	-	626,766
- A3	-	120,221	-	-	120,221
- Not Rated	-	-	5,600	60,068	65,668
	<u>473,082</u>	<u>26,682,071</u>	<u>5,600</u>	<u>60,068</u>	<u>27,220,821</u>
2018					
- AAA	1,592,365	3,913,897	-	-	5,506,262
- AA1	-	7,839,447	-	-	7,839,447
- AA3	-	6,068,906	-	-	6,068,906
- A1	-	9,044,696	-	-	9,044,696
- Not Rated	-	-	9,313	282,655	291,968
	<u>1,592,365</u>	<u>26,866,946</u>	<u>9,313</u>	<u>282,655</u>	<u>28,751,279</u>

Deposits with licensed financial institutions of the Fund have an average maturity of 2 days (2018: 2 days).

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 balance 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 1 month to 1 year RM	Total RM
2019			
Amount due to Manager	127,128	-	127,128
Accrued management fee	24,442	-	24,442
Amount due to Trustee	1,222	-	1,222
Other payables and accruals	-	19,000	19,000
Contractual undiscounted cash flows	152,792	19,000	171,792
2018			
Amount due to Manager	10,990	-	10,990
Accrued management fee	24,537	-	24,537
Amount due to Trustee	1,226	-	1,226
Other payables and accruals	-	11,500	11,500
Contractual undiscounted cash flows	36,753	11,500	48,253

(d) Capital risk management

The capital of the Fund is represented by equity consisting of unit holders' capital of RM25,235,466 (2018: RM27,314,795) and retained earnings of RM3,166,681 (2018: RM1,388,231). The amount of equity 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 for 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 market price falls within the bid-ask spread. In circumstances where the last traded market 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 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)

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.

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2019				
Financial assets at fair value through profit or loss:				
- Quoted securities	1,353,118	-	-	1,353,118
- Unquoted fixed income securities	-	26,682,071	-	26,682,071
	<u>1,353,118</u>	<u>26,682,071</u>	<u>-</u>	<u>28,035,189</u>
2018				
Financial assets at fair value through profit or loss:				
- Unquoted fixed income securities	-	26,866,946	-	26,866,946
	<u>-</u>	<u>26,866,946</u>	<u>-</u>	<u>26,866,946</u>

Investments which values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities. The Fund does not adjust the quoted prices for these instruments. The Fund's policies on valuation of these financial assets are stated in Note 2(b).

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. 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).

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

4. MANAGEMENT FEE

In accordance with the Deeds, the Manager is entitled to a maximum management fee of 1.50% per annum, calculated daily based on the NAV of the Fund.

For the financial year ended 31 December 2019, the management fee is recognised at a rate of 1.00% per annum (2018: 1.00% per annum).

There is no further liability to the Manager in respect of management fee other than the amount recognised above.

5. TRUSTEE'S AND CUSTODIAN FEES

In accordance with the Deeds, the Trustee is entitled to a maximum fee of 0.05% per annum calculated daily based on the NAV of the Fund. The Trustee's fee includes the local custodian fee but excludes the foreign sub-custodian fee (if any). The foreign sub-custodian fee is dependent on the country invested and is charged monthly in arrears.

For the financial year ended 31 December 2019, the Trustee's fee is recognised at a rate of 0.05% per annum (2018: 0.05% per annum).

For the financial year ended 31 December 2019, the custodian's fee is RM25,390 (2018: RM49,971).

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

6. DISTRIBUTION

Distribution to unit holders is derived from the following sources:

	2019	2018
	RM	RM
Interest income	124,119	931,239
Dividend income	48,439	6,542
Net realised gain on disposal of financial assets at fair value through profit or loss	214,394	267,783
Prior financial year's realised income	143,840	423,429
	<u>530,792</u>	<u>1,628,993</u>
Less:		
Expenses	<u>(62,556)</u>	<u>(56,036)</u>
Net distribution amount	<u>468,236</u>	<u>1,572,957</u>
Distribution on 23 January 2019		
Gross/net distribution per unit (sen)	<u>1.80</u>	<u>-</u>
Distribution on 26 January 2018		
Gross/net distribution per unit (sen)	<u>-</u>	<u>5.35</u>

6. DISTRIBUTION (CONTINUED)

Gross distribution is derived using total income less total expenses. Net distribution above is mainly 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.

7. TAXATION

	2019	2018
	RM	RM
Tax charged for the financial year	<u>-</u>	<u>-</u>

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:

	2019	2018
	RM	RM
Profit before taxation	<u>2,246,686</u>	<u>907,809</u>
Taxation at Malaysian statutory rate of 24% (2018: 24%)	539,205	217,874
Tax effects of:		
- Investment income not subject to tax	(633,689)	(341,486)
- Expenses not deductible for tax purposes	19,265	43,384
- Restriction on tax deductible expenses for Unit Trust Funds	<u>75,219</u>	<u>80,228</u>
Taxation	<u>-</u>	<u>-</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	RM	RM
Financial assets at fair value through profit or loss:		
- Quoted securities	1,353,118	-
- Unquoted fixed income securities	<u>26,682,071</u>	<u>26,866,946</u>
	<u>28,035,189</u>	<u>26,866,946</u>
Net gain/(loss) on financial assets at fair value through profit or loss:		
- Realised gain/(loss) on disposals	630,574	(33,912)
- Unrealised fair value gain/(loss)	<u>577,926</u>	<u>(36,050)</u>
	<u>1,208,500</u>	<u>(69,962)</u>

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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
2019				
QUOTED SECURITIES				
Energy				
Serba Dinamik Holdings Bhd	39,900	81,145	87,780	0.31
Serba Dinamik Holdings Bhd - WA	11,400	-	5,016	0.02
	<u>51,300</u>	<u>81,145</u>	<u>92,796</u>	<u>0.33</u>
Financial Services				
CIMB Group Hldgs Bhd	39,400	209,039	202,910	0.71
Malayan Banking Bhd	10,100	87,659	87,264	0.31
Public Bank Bhd	4,300	85,052	83,592	0.29
RHB Bank Bhd	24,700	137,941	142,766	0.50
	<u>78,500</u>	<u>519,691</u>	<u>516,532</u>	<u>1.81</u>
Health Care				
Hartalega Hldg Bhd	15,700	85,055	86,036	0.30
Industrial Products & Services				
Petronas Chemicals Group Bhd	11,500	86,439	84,525	0.30
Press Metal Aluminium Holding Bhd	16,044	77,560	74,605	0.26
Sunway Bhd	52,700	89,722	94,860	0.33
	<u>80,244</u>	<u>253,721</u>	<u>253,990</u>	<u>0.89</u>
Plantation				
Kuala Lumpur Kepong Bhd	2,000	43,648	49,600	0.17
Property				
Sime Darby Property Bhd	100,000	73,977	91,500	0.32
Technology				
D&O Green Technologies Bhd	200,000	151,932	170,000	0.60
Malaysian Pacific Industries	8,100	88,905	92,664	0.34
	<u>208,100</u>	<u>240,837</u>	<u>262,664</u>	<u>0.94</u>
TOTAL QUOTED SECURITIES	<u>535,844</u>	<u>1,298,074</u>	<u>1,353,118</u>	<u>4.76</u>
ACCUMULATED UNREALISED GAIN ON QUOTED SECURITIES ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>55,044</u>		
TOTAL QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>1,353,118</u>		

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2019				
UNQUOTED FIXED INCOME SECURITIES				
Affin Bank Bhd 5.45% 05/02/2027 (A1)	2,500,000	2,554,873	2,639,923	9.29
Ara Bintang Bhd 5.50% 17/03/2026 (AAA)	1,500,000	1,503,390	1,508,820	5.31
AZRB Capital Sdn Bhd 5.00% 24/12/2026 (AA3)	330,000	330,271	330,268	1.16
Celcom Networks Sdn Bhd 5.20% 27/08/2027 (AA1)	300,000	314,321	332,834	1.17
DRB-Hicom Bhd 4.15% 12/12/2022 (A1)	150,000	150,341	150,482	0.53
DRB-Hicom Bhd 4.55% 12/12/2024 (A1)	250,000	250,623	251,518	0.89
DRB-Hicom Bhd 4.85% 11/12/2026 (A1)	450,000	451,195	453,630	1.60
DRB-Hicom Bhd 5.10% 12/12/2029 (A1)	700,000	701,956	703,664	2.48
Edra Energy Sdn Bhd 6.71% 05/01/2038 (AA3)	1,000,000	1,213,594	1,261,060	4.44
GENM Capital Bhd 4.98% 11/07/2023 (AAA)	2,500,000	2,559,351	2,655,176	9.35
Genting Bhd 4.18% 08/11/2029 (AAA)	500,000	503,092	505,077	1.78
Gulf Investment Corporation 5.10% 16/03/2021 (AAA)	1,300,000	1,320,451	1,334,984	4.70
IJM Land Bhd 4.73% 17/03/2119 (A2)	300,000	304,373	304,791	1.07
IJM Land Bhd 5.65% 17/03/2119 (A2)	300,000	304,830	321,975	1.13
Malayan Banking Bhd 4.08% 22/02/2117 (AA3)	500,000	505,477	509,072	1.79
MBSB Bank Bhd 5.05% 20/12/2029 (A3)	120,000	120,197	120,221	0.42
Northern Gateway Infrastructure Sdn Bhd 5.20% 29/8/2029 (AA1)	1,000,000	1,023,775	1,110,238	3.91
Penang Port Sdn Bhd 4.30% 24/12/2026 (AA3)	50,000	50,030	50,029	0.18
Penang Port Sdn Bhd 4.48% 27/12/2029 (AA3)	100,000	100,061	100,060	0.35
Penang Port Sdn Bhd 4.68% 26/12/2031 (AA3)	200,000	200,128	200,126	0.70
Press Metal Aluminium Holding Bhd 4.10% 17/10/2024 (AA3)	450,000	453,842	453,878	1.60
Quantum Solar Park Green 5.72% 5/10/29 (A1)	3,000,000	3,087,405	3,122,752	10.99

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2019 (CONTINUED)				
UNQUOTED FIXED INCOME SECURITIES (CONTINUED)				
Sarawak Energy Bhd 5.50% 04/07/2029 (AAA)	1,500,000	1,632,722	1,749,231	6.16
SEGI Astana Sdn Bhd 5.70% 07/01/2028 (AA3)	600,000	636,489	638,851	2.25
Sports Toto Malaysia Sdn Bhd 4.95% 30/6/2022 (AA3)	1,000,000	1,001,448	1,010,881	3.56
Starbright Capital Bhd 4.08% 27/12/2023 (AAA)	250,000	247,871	248,505	0.87
Starbright Capital Bhd 4.55% 27/12/2028 (AAA)	150,000	147,381	148,199	0.52
Tadau Energy Sdn Bhd 5.40% 28/7/2025 (AA3)	500,000	513,903	537,285	1.89
Tan Chong Motor Holdings Bhd 4.70% 24/11/2021 (A1)	1,500,000	1,483,418	1,522,807	5.36
WCT Holdings Bhd 5.32% 11/05/2022 (AA3)	1,000,000	1,008,121	1,030,443	3.63
YTL Corp Bhd 4.60% 23/06/2034 (AA1)	550,000	554,490	567,631	2.00
YTL Power International Bhd 4.99% 24/08/2028 (AA1)	750,000	783,842	807,660	2.85
TOTAL UNQUOTED FIXED INCOME SECURITIES	25,300,000	26,013,261	26,682,071	93.93
ACCUMULATED UNREALISED GAIN ON UNQUOTED FIXED INCOME SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		668,810		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		26,682,071		

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2018				
UNQUOTED FIXED INCOME SECURITIES				
Affin Bank Bhd 5.45% 05/02/2027 (A1)	2,500,000	2,554,873	2,602,398	9.07
Celcom Networks Sdn Bhd 5.05% 29/08/2024 (AA1)	300,000	311,998	312,208	1.09
Celcom Networks Sdn Bhd 5.20% 27/08/2027 (AA1)	300,000	315,276	315,410	1.10
GENM Capital Bhd 4.98% 11/07/2023 (AAA)	2,500,000	2,559,351	2,586,426	9.01
Gulf Investment Corporation 5.10% 16/03/2021 (AAA)	1,300,000	1,321,287	1,327,471	4.63
MMC Corporation Bhd 5.95% 12/11/2027 (AA3)	1,000,000	1,025,347	1,035,771	3.61
Northern Gateway Infrastructure Bhd 5.20% 29/8/2029 (AA1)	1,000,000	1,024,249	1,061,628	3.70
Quantum Solar Park Green Sri Sukuk 5.72% 05/10/2029 (AA3)	2,000,000	2,052,101	1,982,041	6.91
Sarawak Energy Bhd 5.32% 03/12/2032 (AA1)	1,500,000	1,640,226	1,640,241	5.72
Tadau Energy Sdn Bhd Sri Sukuk 5.40% 28/07/2025 (AA3)	500,000	514,409	522,638	1.82
Tan Chong Motor Holdings Bhd 4.70% 24/11/2021 (A1)	5,000,000	4,905,774	4,860,278	16.93
UMW Hldg Bhd 6.35% 20/4/2118 (A1)	1,500,000	1,519,050	1,582,020	5.51
UniTapah Sdn Bhd 6.15% 12/12/2030 (AA1)	4,000,000	4,461,691	4,509,959	15.71
WCT Holdings Bhd 4.40% 04/09/2020 (AA3)	1,500,000	1,507,113	1,509,579	5.25
WCT Holdings Bhd 5.32% 11/05/2022 (AA3)	1,000,000	1,008,273	1,018,878	3.54
TOTAL UNQUOTED FIXED INCOME SECURITIES	<u>25,900,000</u>	<u>26,721,018</u>	<u>26,866,946</u>	<u>93.60</u>
ACCUMULATED UNREALISED GAIN ON UNQUOTED FIXED INCOME SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>145,928</u>		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>26,866,946</u>		

9. CASH AND CASH EQUIVALENTS

	2019	2018
	RM	RM
Deposits with licensed financial institutions	450,066	1,569,464
Bank balance	23,016	22,901
	<u>473,082</u>	<u>1,592,365</u>

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2019	2018
	No. of units	No. of units
At the beginning of the financial year	26,224,762	29,845,393
Add : Creation of units from applications	3,628,360	2,734,671
Add : Creation of units from distribution	426,719	1,443,413
Less : Cancellation of units	<u>(5,887,694)</u>	<u>(7,798,715)</u>
At the end of the financial year	<u>24,392,147</u>	<u>26,224,762</u>

11. MANAGEMENT EXPENSE RATIO ("MER")

	2019	2018
	%	%
MER	<u>1.24</u>	<u>1.35</u>

MER is derived based on the following calculation:

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

- A = Management fee
- B = Trustee's fee
- C = Audit fee
- D = Tax Agent's fee
- E = Other expenses
- F = Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial year calculated on daily basis is RM28,805,228 (2018: RM30,236,164).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

	2019	2018
PTR (times)	0.78	1.17

PTR is derived from 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	=	RM22,943,977 (2018: RM34,118,704)
total disposal for the financial year	=	RM21,986,117 (2018: RM36,581,496)

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

The related parties and their relationship with the Fund are as follows:

<u>Related parties</u>	<u>Relationship</u>
Principal Asset Management Berhad <i>(formerly known as CIMB-Principal Asset Management Berhad)</i>	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 Berhad, 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 Islamic Bank Bhd	Fellow related party to Manager
CIMB Bank Bhd	Fellow related party to Manager

Units held by the Manager and parties related to the Manager

	2019	2018
	No. of units	RM
	No. of units	RM
Manager		
Principal Asset Management Berhad <i>(formerly known as CIMB-Principal Asset Management Berhad)</i>	25,127	29,255
	4,144	4,535

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

Units held by the Manager and parties related to the Manager

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 the 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.

	2019 RM	2018 RM
<u>Significant related party transactions</u>		
<u>Dividend income</u>		
- CIMB Group Holdings Bhd	<u>12,360</u>	<u>5,304</u>
<u>Interest income from deposits with licensed financial institutions:</u>		
- CIMB Bank Bhd	<u>1,596</u>	<u>1,153</u>
<u>Deposit placements with licensed financial institutions:</u>		
- CIMB Bank Bhd	<u>11,539,000</u>	<u>4,550,000</u>
<u>Bank balances:</u>		
- CIMB Bank Bhd	<u>23,016</u>	<u>22,901</u>

14. TRANSACTIONS WITH BROKERS/DEALERS

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

Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
Hong Leong Investment Bank Bhd	10,145,692	22.96	4,146	19.50
RHB Investment Bank Bhd	6,486,729	14.68	2,039	9.59
CIMB Bank Bhd #	4,681,632	10.59	-	-
RHB Bank Bhd	3,578,826	8.10	-	-
Malayan Banking Bhd	3,180,336	7.20	-	-
Macquarie Capital Securities (Malaysia) Sdn Bhd	2,332,343	5.28	2,190	-
AmBank Bhd	2,240,460	5.07	-	10.30
CGS-CIMB Securities Sdn Bhd #	1,559,689	3.53	2,321	-
Standard Chartered Bank	1,365,995	3.09	-	10.92
Affin Hwang Investment Bank Bhd	1,315,946	2.98	3,027	14.24
Others	<u>7,307,729</u>	<u>16.52</u>	<u>7,538</u>	<u>35.45</u>
	<u>44,195,377</u>	<u>100.00</u>	<u>21,261</u>	<u>100.00</u>

14. TRANSACTIONS WITH BROKERS/DEALERS (CONTINUED)

Details of transactions with the top 10 dealers for the financial year ended 31 December 2018 are as follows:

Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
RHB Bank Bhd	11,475,525	16.23	-	-
CIMB Bank Bhd #	10,008,847	14.16	-	-
CIMB Investment Bank Bhd #	6,032,732	8.53	12,994	17.80
Credit Suisse Sec (Malaysia) Sdn Bhd	4,405,721	6.23	9,913	13.58
RHB Investment Bank Bhd	3,797,401	5.37	-	-
Affin Hwang Investment Bank Bhd	3,363,648	4.76	7,568	10.37
KAF Seagroats & Campbell Securities Bhd	3,288,660	4.65	7,399	10.14
JP Morgan Securities Malaysia Sdn Bhd	2,700,386	3.82	6,076	8.32
Standard Chartered Bank Bhd	2,553,250	3.61	-	-
Malayan Banking Bhd	2,500,000	3.54	-	-
Others	<u>20,574,032</u>	<u>29.10</u>	<u>29,045</u>	<u>39.79</u>
	<u>70,700,202</u>	<u>100.00</u>	<u>72,995</u>	<u>100.00</u>

Included in the transactions are trades conducted with CIMB Bank Bhd, CGS-CIMB Securities Sdn Bhd and CIMB Investment Bank Bhd related parties to the Manager amounting to RM4,681,632, RM1,559,689 and Nil (2018: RM10,008,847, nil and RM6,032,732). 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 EVENTS

The Manager proposed for the payment of a gross final distribution of 0.50 sen per unit in respect of the financial year ended 31 December 2019 which will be accounted for in the net assets attributable to unit holders as an appropriation of the retained earnings for the financial year ending 31 December 2020. The final distribution has been approved by the Trustee on 30 December 2019.

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 13 February 2020.

DIRECTORY

Head Office of the Manager

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Trustee for the CIMB-Principal Strategic Bond Fund

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Auditors of the Fund and of the Manager

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