

CIMB-Principal Strategic Bond Fund

Unaudited Interim Report

For The Six Months Financial Period Ended 30 June 2019

CIMB-PRINCIPAL STRATEGIC BOND FUND

UNAUDITED FINANCIAL STATEMENTS

FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 30 JUNE 2019

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INVESTORS' LETTER

Dear Valued Investor,

As we have announced in April this year, we are now officially known as Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) ("Principal Malaysia"). With Principal Financial Group ("Principal") taking on the role of primary shareholder, Principal Malaysia is able to bring additional global perspectives and asset management capabilities into the region. With the combination of scale, investment expertise, and deep regional relationships, we are optimistic of solidifying our position as an Association of Southeast Asian Nations ("ASEAN") market leader in the asset management and retirement industry of the region.

As of June 2019, our Assets under Management ("AUM") in Malaysia stands at RM56.1 billion. For the second quarter of fiscal 2019, our dividend distribution was RM126.51 million for 25 of our Funds. Today, we have a total of 83 Funds including both conventional, Islamic Unit Trust Funds, and Exchange-traded Funds ("ETFs"), and 10 Private Retirement Scheme ("PRS") Funds.

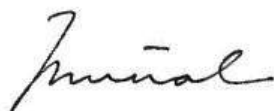
Thanks to the trust you've placed in us, we have been recognized Asia Asset Management 2019 Awards for the Fund Launch of the Year Award in Best of the Best Awards Malaysia category, and the Best Asset Management House in ASEAN in Best of the Best ASEAN category.

Going forward, you will be receiving e-newsletter from us as part of our commitment in helping you along your financial journey. On a monthly basis, we will share information that will help you better understand your investments and keep you updated on the industry. We have also revamped our website to keep it fresh and aligned with our new brand. Please visit www.principal.com.my should you decide to have a peek at our new website.

Once again, thank you for your continuous support and allowing us to help you achieve your financial goals and live your best life.

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 in investing in a pool of diversified fixed income securities to provide growth prospect and regular income stream.

What are the Fund investment policy and principal investment strategy?

The Fund may invest between 70% to 98% (both inclusive) of its 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

Indication of short-term risk (low, moderate, high)

Moderate

When was the Fund launched?

23 March 2004

What was the size of the Fund as at 30 June 2019?

RM28.73 million (25.55 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 the benchmark.

FUND OBJECTIVE AND POLICY (CONTINUED)

What is the Fund distribution policy?

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

What was the net income distribution for the six months financial period ended 30 June 2019?

The Fund distributed a total net income of RM0.47 million to unit holders for the six months financial period ended 30 June 2019. As a result of the distribution, the NAV per unit dropped from RM1.0980 to RM1.0800 on 23 January 2019.

PERFORMANCE DATA

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

	30.06.2019	30.06.2018	30.06.2017
	%	%	%
Quoted securities			
- Construction	-	-	5.46
- Consumer products	-	1.89	-
- Energy	1.17	-	-
- Financial Services	2.53	-	-
- Industrials	-	1.14	-
- Trading/Services	-	1.06	4.79
Unquoted fixed income securities	92.84	84.93	87.34
Cash and other net assets	3.46	10.98	2.41
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

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

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

	30.06.2019	30.06.2018	30.06.2017
NAV (RM Million)	28.73	29.28	45.37
Units in circulation (Million)	25.55	27.61	41.19
NAV per unit (RM)	1.1245	1.0603	1.1014
	01.01.2019 to 30.06.2019	01.01.2018 to 30.06.2018	01.01.2017 to 30.06.2017
Highest NAV per unit (RM)	1.1253	1.1255	1.1115
Lowest NAV per unit (RM)	1.0787	1.0516	1.0831
Total return (%)	4.51	(0.16)	2.09
- Capital growth (%)	2.80	(0.64)	(0.56)
- Income distribution (%)	1.67	1.01	2.66
Management Expense Ratio ("MER") (%) ^	0.64	0.70	0.64
Portfolio Turnover Ratio ("PTR") (times) #	0.30	0.74	0.55

^ The Fund's MER decreased from 0.70% to 0.64% due to decrease in expenses during the six months financial period under review.

The Fund's PTR decreased from 0.74 times to 0.30 times as there was less trading activity during the financial period under review.

Date of distribution	23.01.2019	26.01.2018	23.01.2017
Gross/Net distribution per unit (sen)	1.80	5.35	2.89

PERFORMANCE DATA (CONTINUED)

	30.06.2019	30.06.2018	30.06.2017	30.06.2016	30.06.2015
	%	%	%	%	%
Annual total return	7.96	1.02	4.09	3.99	0.87

(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 period have been extracted from Lipper.

MARKET REVIEW (1 JANUARY 2019 TO 30 JUNE 2019)

Fixed Income

During the financial period under review, market started the year with expectation of dovish interest rate trend as US Treasury (“UST”) yield inverted on the 5-year bucket - a sign that market is expecting the US Federal Reserve (the “Fed”) to ease at some point in the next few years. Trade tension and weak global growth forecast were the main backdrop of yield curve inversion in the US. Come April 2019, Bank Negara Malaysia (“BNM”) released 2018 annual report with domestic growth forecast downgraded to 4.3% to 4.8%, from 4.5% to 5.0% last year. At that point, market has fully priced in one Overnight Policy Rate (“OPR”) cut in the domestic interest rate market. Finally come May 2019, BNM lowered OPR to 3.00% from 3.25% as market expected, and Ringgit Malaysia (“RM”) fixed income market saw long-end yield flattened more than short-end yield, exhibiting a bull flattening trend. The trend further continued to end June 2019 as the Fed also hinted a possibility of Fed Fund Rate (“FFR”) cut in the second half of 2019 (“2H19”). At financial period close, the 3-year, 5-year, 7-year, 10-year, 15-year, 20-year and 30-year MGS were traded at 3.32% (December 2018: 3.62%), 3.43% (3.84%), 3.55% (4.01%), 3.63% (4.10%), 3.94% (4.47%), 4.08% (4.66%) and 4.36% (4.87%) respectively.

Equity

The FTSE Bursa Malaysia Kuala Lumpur Composite Index (“FBMKLCI”) fell 18.45 points or 1.1% to 1,672.13 points over the financial period under review.

The FBMKLCI ended January 2019 marginally lower by 0.4% to close at 1,684 points due to profit-taking and concerns over corporate earnings and global growth. Foreign investors turned net buyers of close to RM1 billion in January 2019, after three consecutive months of net selling; partly reversing net outflows of RM11.7 billion in 2018. Brent crude oil rose to USD61.89 per barrel, up by 15% month-on-month (“m-o-m”).

The FBMKLCI rebounded in February 2019 by 1.4% to close at 1,707 points driven by higher Brent crude oil, which traded up 6.7% m-o-m to USD66.82 billion on supply constraints. Sentiment in the local bourse was further lifted by announcement made by the Communications and Multimedia Minister that there will not be further reductions in high speed broadband prices in 2019 and Fitch reaffirmed Malaysia’s sovereign rating.

FBMKLCI then dipped 3.8% in March 2019 on concerns over moderation in global economic growth following the yield curve inversion in the US. Domestically, the downgrade in BNM’s growth forecast also weighed on sentiments, stoking expectation of a policy rate cut as early as May 2019. This resulted in concerns over potential earnings risks for banks due to the possible policy rate cut.

The FBMKLCI was relatively unchanged in April 2019 as it inched lower by 0.1% as foreign investors continued to be net sellers of Malaysian equities. The revival of the Bandar Malaysia project lifted sentiment on the construction sector while a sustained rebound in crude oil prices saw the revival of job flows to oil & gas service providers.

MARKET REVIEW (1 JANUARY 2019 TO 30 JUNE 2019) (CONTINUED)

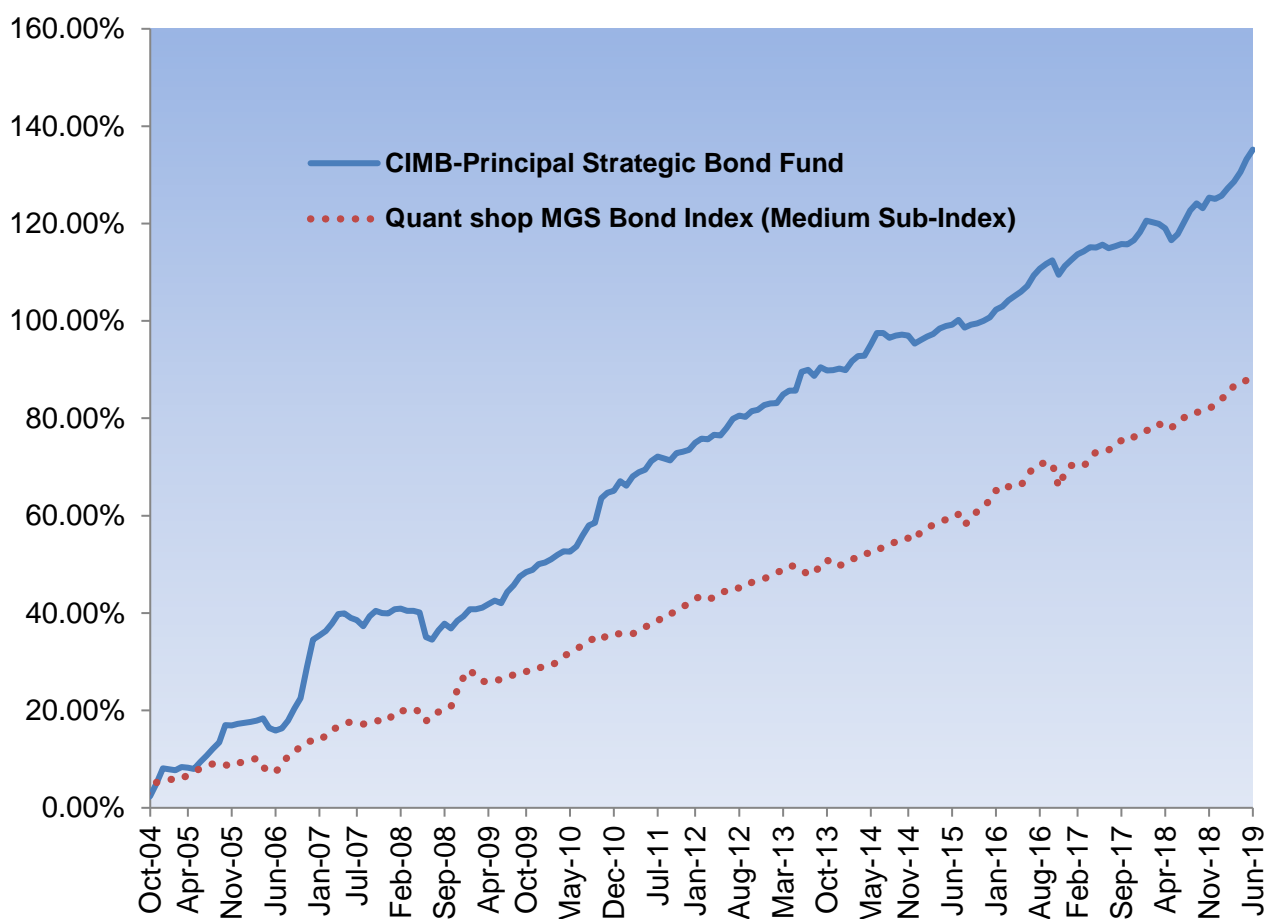
Equity (continued)

The index recovered in May 2019 by rising 0.52% during the month. Sentiment was buoyed by two mergers and acquisition (“M&A”) announcements involving Axiata Group Bhd and Telenor Group, and YTL Cement Bhd and Lafarge Malaysia Bhd. The rebound in the market continued into June 2019 on the back of a relief rally stemming from expectation of the Fed rate cuts and a de-escalation of US-China trade war. The FBMKLCI gained 1.29% in June 2019.

FUND PERFORMANCE

	6 months to 30.06.2019 %	1 year to 30.06.2019 %	3 years to 30.06.2019 %	5 years to 30.06.2019 %	Since inception to 30.06.2019 %
Income	1.67	1.67	9.59	18.34	108.73
Capital	2.80	6.20	3.59	0.65	9.69
Total Return	4.51	7.96	13.51	19.07	135.20
Benchmark	3.56	5.93	12.72	24.13	89.48
Average Total Return	N/A	7.96	3.55	5.16	5.75

During the financial period under review, Fund delivered 0.95% of outperformance compared to benchmark due to credit selection as well as recovery in the equity market.



FUND PERFORMANCE (CONTINUED)

Changes in NAV

	30.06.2019	31.12.2018 Audited	Changes %
NAV (RM Million)	28.73	28.70	0.10
NAV/Unit (RM)	1.1245	1.0945	2.74

During the financial period under review, Fund NAV increased from RM28.70 million to RM28.73 million while NAV per unit increased to RM1.1245. The increase in NAV per unit was in line with 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 period have been extracted from Lipper.

PORTFOLIO STRUCTURE

Asset allocation

(% of NAV)	30.06.2019	31.12.2018 Audited
Quoted securities	3.70	-
Unquoted fixed income securities	92.84	93.62
Cash and other net assets	3.46	6.38
TOTAL	100.00	100.00

During the financial period under review, the Fund increased exposure in equity by 3.70% while reducing exposure in fixed income securities by 0.79% and cash and other net assets by 2.79%. We expect equity to perform moderately well compared to 2018 on stock selection basis.

MARKET OUTLOOK*

Fixed Income

Globally, at the Group of Twenty ("G20") summit, Trump-Xi meeting were broadly in line with expectations - Presidents Trump and Xi agreed to restart talks and postpone further tariffs. However, details of any agreements or further talks were sparse. Overall, the outcome therefore seems modestly benign but with scope for renewed escalation. US interest rate market has priced in within 70 basis points ("bps") of rate cuts in 2019 as the data have slowed, risks to global growth are looming, and the Fed's June 2019 dot plot revealed that almost half of the Federal Open Market Committee ("FOMC") participants now see 2 cuts as the most likely outcome for 2019. With some degree of cut in July 2019 now being broadly consensus, the question remains whether the initial the Fed action will be a 25 bps or 50 bps cut. Domestically, headline inflation remained stable at 0.2% year-on-year ("y-o-y") in May 2019, lower than consensus 0.3%, as the Government's price control scheme contained food inflation during the Ramadan month. Benign price pressure and accommodating external financial conditions are supportive of a looser monetary policy to support economic growth. Meanwhile, the Industrial Production Index ("IPI") extended its run in April 2019 (+4.0% y-o-y versus +3.1% y-o-y in March 2019), defying market expectations of a slower expansion. There will be a BNM monetary policy meeting this 9 July 2019 which we do not expect to see any policy rate action. However, we will be closely monitoring the statement for further sign of weakness in the domestic market.

MARKET OUTLOOK* (CONTINUED)**Equity**

The KLCI is currently trading at a 12-month forward Price-to-Earning (“PE”) of 16.6 times which is one standard deviation above the mean of 16.3 times. While the relief rally may continue in the near term, we caution that corporate earnings have deteriorated with 2019 Earnings Per Share (“EPS”) being cut by 6% since the start of the year.

Malaysia’s Nikkei Manufacturing Purchasing Manager’s Index (“PMI”) fell again in June 2019 to 47.8 points from 48.8 points in May 2019, largely dragged by weak external demand. While Malaysia is expected to be a medium-term beneficiary of trade diversion arising from the trade war between the US and China, adverse impact from supply chain disruption and weaker end demand will hurt Malaysia’s near-term exports. As such, we expect downside risk to Malaysia’s Gross Domestic Product (“GDP”) growth (median forecast of 4.5% in 2019 and 4.3% in 2020) going forward.

To counter the slowdown in growth, BNM has pre-emptively slashed the OPR by 25 bps in May 2019 to 3%. With benign inflation (median forecast 1.1% in 2019), BNM has room to cut OPR further should the need arise. On that score, earnings of banks (which make up 1/3 of FBMKLCI weight) will be at risk going forward. On the other hand, we expect Government fiscal spending to pick up going forward following the recent revival of mega projects such as East Coast Rail Link (“ECRL”) and Light Rail Transit (“LRT”). More recently, the RM32 billion Penang Transport Master Plan will likely be sanctioned to proceed, which is positive for the construction sector.

* 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**Fixed Income**

On Fixed Income strategy, we continue to expect 3.00% OPR will remain for the rest of 2019. The long-end Government bond curve has fully priced in another 25 bps cut which means further substantial upside is probably very limited. However, we do not think market will correct immediately given the supply profile in 2H19 is very benign. The return of foreign funds is a double-edged sword as it will likely to push the local yield curve lower but expose domestic investors to any global shock. Regardless of the OPR outcome, the Fund will still stay overweight duration against benchmark but cautious against curve positioning as the basis for long-end curve flattening is solely based on technical factors. We will also overweight credit against Government bond as credit spreads have widened after the flattening of risk-free curve.

Equity

We maintain our Neutral stance on Malaysia. We will continue with our stock picking and rotational strategy where we will add growth companies with yield support. Preference remains on construction, utilities and telecommunication sectors. We remain cautious on the technology (which is vulnerable to re-escalation of US-China trade war) and plantation (as muted crude palm oil (“CPO”) prices could potentially lead to downward earnings revision) sectors.

UNIT HOLDINGS STATISTICS

Breakdown of unit holdings by size as at 30 June 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	106	0.32	1.24
5,001 to 10,000	70	0.51	1.98
10,001 to 50,000	109	2.40	9.39
50,001 to 500,000	18	1.63	6.39
500,001 and above	6	20.69	81.00
Total	309	25.55	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 the 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 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 unaudited financial statements set out on pages 11 to 36 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the state of financial position of the Fund as at 30 June 2019 and of its financial performance, changes in equity and cash flows for the financial period then ended in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134 – Interim Financial Reporting and International Accounting Standards (“IAS”) 34 – Interim Financial Reporting.

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
14 August 2019

**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") the financial period ended 30 June 2019. To the best of our knowledge, Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) has managed the Fund in the financial period 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 period ended 30 June 2019.

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

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

BERNICE K M LAU
Head, Operations

Kuala Lumpur, Malaysia
14 August 2019

**UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 30 JUNE 2019**

	Note	01.01.2019 to 30.06.2019 RM	01.01.2018 to 30.06.2018 RM
INCOME			
Interest income from unquoted fixed income securities at fair value through profit or loss		647,684	729,913
Interest income from deposits with licensed financial Institution at amortised cost		16,363	60,353
Dividend income		27,499	21,754
Net gain/(loss) on financial assets at fair value through profit or loss	8	733,400	(525,973)
		1,424,946	286,047
EXPENSES			
Management fee	4	140,335	156,702
Trustee's and custodian fees	5	23,664	32,299
Audit fee		8,000	11,170
Tax agent's fee		2,100	600
Transaction costs		11,235	76,505
Other expenses		5,991	19,316
		191,325	296,592
PROFIT/(LOSS) BEFORE TAXATION		1,233,621	(10,545)
Taxation	7	-	-
PROFIT/(LOSS) AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL PERIOD		1,233,621	(10,545)
Profit/(Loss) after taxation is made up as follows:			
Realised amount		619,367	203,736
Unrealised amount		614,254	(214,281)
		1,233,621	(10,545)

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

**UNAUDITED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019**

		30.06.2019	31.12.2018
	Note	RM	Audited RM
ASSETS			
Cash and cash equivalents	9	839,979	1,592,365
Financial assets at fair value through profit or loss	8	27,735,894	26,866,946
Amount due from Manager		207,862	9,313
Amount due from stockbrokers		-	282,655
TOTAL ASSETS		28,783,735	28,751,279
 LIABILITIES			
Amount due to Manager		20,821	10,990
Accrued management fee		23,465	24,537
Amount due to Trustee		1,173	1,226
Other payables and accruals		11,000	11,500
TOTAL LIABILITIES		56,459	48,253
 NET ASSET VALUE OF THE FUND		 28,727,276	 28,703,026
 EQUITY			
Unit holders' capital		26,573,660	27,314,795
Retained earnings		2,153,616	1,388,231
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		28,727,276	28,703,026
 NUMBER OF UNITS IN CIRCULATION (UNITS)	 10	 25,545,276	 26,224,762
 NET ASSET VALUE PER UNIT (RM)		 1.1245	 1.0945

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

**UNAUDITED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 30 JUNE 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		1,781,273	-	1,781,273
- Creation of units from distribution		460,857	-	460,857
- Cancellation of units		(2,983,265)	-	(2,983,265)
Total comprehensive income for the financial period		-	1,233,621	1,233,621
Distribution	6	-	(468,236)	(468,236)
Balance as at 30 June 2019		<u>26,573,660</u>	<u>2,153,616</u>	<u>28,727,276</u>
Balance as at 1 January 2018		32,202,538	2,053,379	33,255,917
Movement in unit holders' contributions:				
- Creation of units from applications		2,282,511	-	2,282,511
- Creation of units from distribution		1,547,195	-	1,547,195
- Cancellation of units		(6,221,198)	-	(6,221,198)
Total comprehensive loss for the financial period		-	(10,545)	(10,545)
Distribution	6	-	(1,572,957)	(1,572,957)
Balance as at 30 June 2018		<u>28,811,046</u>	<u>469,877</u>	<u>29,280,923</u>

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

**UNAUDITED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 30 JUNE 2019**

	01.01.2019 to 30.06.2019	01.01.2018 to 30.06.2018
	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from disposal of unquoted fixed income securities	2,006,808	12,090,367
Purchase of unquoted fixed income securities	(2,775,996)	(11,257,576)
Proceeds from sale of quoted investments	6,721,129	12,628,803
Purchase of quoted securities	(5,754,691)	(10,060,007)
Dividend received	27,499	24,176
Interest income received from deposits with licensed financial institutions	16,363	60,353
Interest income received from unquoted fixed income securities	586,306	771,020
Management fee paid	(141,407)	(160,793)
Trustee's and custodian fees paid	(23,717)	(32,504)
Payments for other fees and expenses	(16,591)	(36,849)
Net cash generated from operating activities	<u>645,703</u>	<u>4,026,989</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash proceeds from units created	1,582,724	2,282,311
Payments for cancellation of units	(2,973,434)	(6,354,910)
Distribution paid	(7,379)	(25,762)
Net cash used in financing activities	<u>(1,398,089)</u>	<u>(4,098,361)</u>
Net decrease in cash and cash equivalents	(752,386)	(71,372)
Cash and cash equivalents at the beginning of the financial period	<u>1,592,365</u>	<u>4,077,731</u>
Cash and cash equivalents at the end of the financial period	<u>839,979</u>	<u>4,006,359</u>
<u>Cash and cash equivalents comprised of:</u>		
Deposits with licensed financial institutions	819,215	3,986,019
Bank balances	<u>20,764</u>	<u>20,340</u>
Cash and cash equivalents at the end of the financial period	<u>839,979</u>	<u>4,006,359</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS FINANCIAL PERIOD ENDED 30 JUNE 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 International Financial Reporting Standards (“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 financial period.

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(l).

Standard that is effective:

The Fund has applied the following standard for the first time for the financial period beginning 1 January 2019:

(i) Financial year beginning on/after 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.

(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.

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 contract 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.

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

The Fund classifies cash and cash equivalents, amount due from Manager and amount due from stockbrokers 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 amount due to Manager, accrued management fee, amount due to Trustee, and other payables and accruals as other 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 financial income within net gain or loss on financial assets at fair value through profit or loss in the financial period which they arise.

Dividend income from financial assets at fair value through profit or 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.

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

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 basis approved by the Trustee after appropriate technical consultation.

Unquoted fixed income securities denominated in 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(l) 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. Management consider both historical analysis and forward looking information in determining any ECL. Management 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 management 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.

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

(d) 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 effective interest rate 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 quoted securities is 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 unquoted fixed income securities, determined on cost adjusted for accretion of discount or amortisation of premium.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(e) Cash and cash equivalents**

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balances and deposits held in highly liquid investments 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 period.

(g) 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.

(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.

(i) Amount due from/to stockbrokers

Amounts due from and amount due to stockbrokers represent payables for investments purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively.

These amounts are 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, profit income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by the Manager 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(j) Unit holders' capital**

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 period 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.

(k) Segment information

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

(l) Critical accounting estimates and judgments 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. RISK MANAGEMENT OBJECTIVES AND POLICIES

The investment objective of the Fund is 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.

(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 and unquoted fixed income securities and other financial instruments within specified limits according to the Deeds.

(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 the 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.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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 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.

(b) Credit risk

Credit risk refers to the risk that a counter party 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 duration of the investment in accordance with the objective of the Fund. For this Fund, the unquoted fixed income securities must satisfy a minimum rating requirement of 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 credit risk arising from 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 the proceeds from the creation of units receivable from the Manager are governed by the SC Guidelines on Unit Trust Funds.

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 Shariah-compliant quoted securities are settled/paid upon delivery using approved stockbrokers.

(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, deposits with licensed financial institutions and other instruments, 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

3. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Liquidity risk (continued)

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.

(d) Capital risk management

The capital of the Fund is represented by equity consisting of unit holder's capital of RM26,573,660 (31.12.2018: RM27,314,795) and retained earnings of RM2,153,616 (31.12.2018: RM1,388,231). The amount of capital can change significantly on a daily basis as the Fund is subjected 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 holder and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

(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 period 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 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.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

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 judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment 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
30.06.2019				
Financial assets at fair value through profit or loss:				
- Quoted securities	1,063,003	-	-	1,063,003
- Unquoted fixed income securities	-	26,672,891	-	26,672,891
	<u>1,063,002</u>	<u>26,672,891</u>	<u>-</u>	<u>27,735,894</u>

31.12.2018

Audited

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 whose 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. This includes 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).

- (ii) The carrying values of cash and cash equivalents, amount due from stockbrokers, amount due from Manager 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 six months financial period ended 30 June 2019, the management fee is recognised at a rate of 1.00% per annum (30.06.2018: 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 six months financial period ended 30 June 2019, the Trustee's fee is recognised at a rate of 0.05% per annum (30.06.2018: 0.05% per annum).

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:

	01.01.2019 to 30.06.2019	01.01.2018 to 30.06.2018
	RM	RM
Interest income	593,288	931,239
Dividend income	13,009	6,542
Net realised (loss)/gain on disposal of financial assets at fair value through profit or loss	(58,293)	267,783
Prior financial periods' realised income	143,629	423,429
	<u>691,633</u>	<u>1,628,993</u>
Less:		
Expenses	<u>(223,397)</u>	<u>(56,036)</u>
Net distribution amount	<u><u>468,236</u></u>	<u><u>1,572,957</u></u>

6. DISTRIBUTION (CONTINUED)

	01.01.2019 to 30.06.2019 RM	01.01.2018 to 30.06.2018 RM
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>

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

Gross distribution per unit is derived from gross realised income less expense, 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.

During the six months financial period ended 30 June 2018, the Fund incurred RM214,281 unrealised losses.

7. TAXATION

	01.01.2019 to 30.06.2019 RM	01.01.2018 to 30.06.2018 RM
Tax charged for the financial period:		
- Current taxation	<u>-</u>	<u>-</u>

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

	01.01.2019 to 30.06.2019 RM	01.01.2018 to 30.06.2018 RM
Profit/(Loss) before taxation	<u>1,233,621</u>	<u>(10,545)</u>
Taxation at Malaysian statutory rate of 24% (30.06.2018: 24%)	296,069	(2,531)
Tax effects of:		
Income not subject to tax	(341,987)	(68,651)
Expenses not deductible for tax purposes	9,165	27,633
Restriction on tax deductible expenses for Unit Trust Funds	<u>36,753</u>	<u>43,549</u>
Taxation	<u>-</u>	<u>-</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.06.2019	31.12.2018
	RM	Audited RM
At fair value through profit or loss at inception:		
- Quoted securities	1,063,003	-
- Unquoted fixed income securities	26,672,891	26,866,946
	<u>27,735,894</u>	<u>26,866,946</u>
	01.01.2019 to 30.06.2019	01.01.2018 to 30.06.2018
	RM	RM
Net gain/(loss) on financial assets at fair value through profit or loss:		
- Realised gain/(loss) on disposals	140,896	(287,734)
- Unrealised fair value gain/(loss)	592,504	(238,239)
	<u>733,400</u>	<u>(525,973)</u>

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
30.06.2019				
QUOTED SECURITIES				
Energy				
Yinson Holdings Bhd	<u>55,000</u>	<u>288,189</u>	<u>334,950</u>	<u>1.17</u>
Financial Services				
CIMB Group Holdings Bhd	81,296	437,653	437,373	1.52
RHB Bank Bhd	<u>52,000</u>	<u>284,553</u>	<u>290,680</u>	<u>1.01</u>
	<u>133,296</u>	<u>722,206</u>	<u>728,053</u>	<u>2.53</u>
TOTAL QUOTED SECURITIES	<u>188,296</u>	<u>1,010,395</u>	<u>1,063,003</u>	<u>3.70</u>
ACCUMULATED UNREALISED GAIN ON QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u>52,608</u>		
TOTAL QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u><u>1,063,003</u></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 %
30.06.2019 (CONTINUED)				
UNQUOTED FIXED INCOME SECURITIES				
Affin Bank Bhd 5.45% 05/02/2027 (AA1)	2,500,000	2,553,753	2,621,678	9.12
Celcom Networks Sdn Bhd 5.05% 29/08/2024 (AA)	300,000	311,385	319,052	1.11
Celcom Networks Sdn Bhd 5.20% 27/08/2027 (AA)	300,000	314,723	326,257	1.14
DRB-Hicom Bhd 5.90% 01/07/2019 (A)	1,000,000	1,000,323	1,000,323	3.48
Edra Energy Sdn Bhd 6.67% 03/07/2037 (AA3)	1,000,000	1,094,981	1,194,160	4.16
GENM CAPITAL BHD 4.98% 11/07/2023 (AAA)	2,500,000	2,558,327	2,651,127	9.23
Gulf Investment Corp 5.10% 16/03/2021 (AAA)	1,300,000	1,320,786	1,332,684	4.64
IJM Land Bhd 5.65% 17/03/2119 (A2)	300,000	304,830	317,862	1.11
Northern Gateway Infrastructure Sdn Bhd 5.20% 29/08/2029 (AA1)	1,000,000	1,023,732	1,097,433	3.82
Quantum Solar Park Green 5.72% 05/10/2029 (AA3)	2,000,000	2,050,907	1,980,668	6.89
Sarawak Energy Bhd 5.32% 03/12/2032 (AA1)	1,500,000	1,635,866	1,707,618	5.94
Sports Toto Malaysia Sdn Bhd 4.95% 30/6/2022 (AA)	1,000,000	1,001,798	1,001,787	3.49
Tadau Energy Sdn Bhd 5.40% 28/07/2025 (AA3)	500,000	513,937	532,237	1.85
Tan Chong Motor Holdings Bhd 4.70% 24/11/2021 (A1)	5,000,000	4,925,761	5,008,466	17.43
UMW Holdings Bhd 6.35% 20/04/2118 (A1)	1,500,000	1,518,789	1,696,899	5.91
WCT Holdings Bhd 4.40% 09/04/2020 (AA-)	1,500,000	1,509,986	1,512,713	5.26
WCT Holdings Bhd 5.32% 11/05/2022 (AA-)	1,000,000	1,007,983	1,016,413	3.54
YTL Corp Bhd 4.60% 23/06/2034 (AA1)	550,000	554,588	563,720	1.96
YTL Power International Bhd 4.99% 24.08.2028 (AA1)	750,000	784,612	791,794	2.76

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 %
30.06.2019 (CONTINUED)				
UNQUOTED FIXED INCOME SECURITIES (CONTINUED)				
TOTAL UNQUOTED FIXED INCOME SECURITIES	25,500,000	25,987,067	26,672,891	92.84
ACCUMULATED UNREALISED GAIN ON UNQUOTED FIXED INCOME SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		685,824		
TOTAL UNQUOTED FIXED INCOME SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		26,672,891		
31.12.2018				
Audited				
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 (AA)	300,000	311,998	312,208	1.09
Celcom Networks Sdn Bhd 5.20% 27/08/2027 (AA)	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 5.40% 28/07/2025 (AA3)	500,000	514,409	522,638	1.82

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 %
31.12.2018 (CONTINUED)				
Audited (continued)				
UNQUOTED FIXED INCOME SECURITIES (CONTINUED)				
Tan Chong Motor Holdings Bhd 4.70% 24/11/2021 (A1)	5,000,000	4,905,774	4,860,278	16.93
UMW Holdings 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	5.26
WCT Holdings Bhd 5.32% 11/05/2022 (AA3)	1,000,000	1,008,273	1,018,878	3.55
TOTAL UNQUOTED FIXED INCOME SECURITIES	<u>25,900,000</u>	<u>26,721,018</u>	<u>26,866,946</u>	<u>93.62</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

	30.06.2019	31.12.2018
	RM	Audited RM
Deposits with licensed financial institutions	819,215	1,569,464
Bank balances	20,764	22,901
	839,979	1,592,365

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

	30.06.2019	31.12.2018
	%	Audited %
Deposits with licensed financial institutions	3.20	3.62

Deposits with licensed financial institutions of the Fund have an average maturity of 1 day (31.12.2018: 2 days).

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	01.01.2019 to 30.06.2019	01.01.2018 to 31.12.2018
	No. of units	Audited No. of units
At the beginning of the financial period/year	26,224,762	29,845,393
Add : Creation of units from applications	1,610,276	2,734,671
Add : Creation of units from distribution	426,719	1,443,413
Less : Cancellation of units	(2,716,481)	(7,798,715)
At the end of the financial period/year	25,545,276	26,224,762

11. MANAGEMENT EXPENSE RATIO (“MER”)

	01.01.2019 to 30.06.2019	01.01.2018 to 30.06.2018
MER	<u>0.64</u>	<u>0.70</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 and custodian fees
- C = Audit fee
- D = Tax agent’s fee
- E = Other expenses excluding GST on transaction costs
- F = Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial period calculated on daily basis is RM28,287,488 (30.06.2018: RM31,579,918).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

	01.01.2019 to 30.06.2019	01.01.2018 to 30.06.2018
PTR (times)	<u>0.30</u>	<u>0.74</u>

PTR is derived from the following calculation:

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

where:

- total acquisition for the financial period = RM8,492,294 (30.06.2018: RM21,981,996)
- total disposal for the financial period = RM8,385,947 (30.06.2018: RM24,760,944)

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 Bhd, other than above, as disclosed in its financial statements	Fellow subsidiary and associated companies of the ultimate holding company of the shareholder of the Manager
CIMB Bank Bhd	Fellow related party to the Manager
CIMB Investment Bank Bhd	Fellow related party to the Manager
CGS-CIMB Securities Sdn Bhd	Fellow related party to the Manager

Units held by the Manager and parties related to the Manager

	30.06.2019		31.12.2018	
	<u>No. of units</u>	<u>RM</u>	<u>No. of units</u>	<u>RM</u>
Manager				
Principal Asset Management Berhad <i>(formerly known as CIMB-Principal Asset Management Berhad)</i>	<u>20,726</u>	<u>23,306</u>	<u>4,144</u>	<u>4,535</u>

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 PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

	01.01.2019 to 30.06.2019 RM	01.01.2018 to 30.06.2018 RM
<u>Significant related party transactions</u>		
Interest income from deposits with licensed financial institutions:		
- CIMB Bank Bhd	-	1,094
Deposits placements with licensed financial institutions:		
- CIMB Bank Bhd	-	3,862,000
	30.06.2019	31.12.2018
	RM	Audited
		RM
<u>Significant related party balances</u>		
Bank balances:		
- CIMB Bank Bhd	20,764	22,901

14. TRANSACTIONS WITH BROKERS/DEALERS/FINANCIAL INSTITUTIONS

Details of transactions with the top 10 brokers/dealers for the six months financial period ended 30 June 2019 are as follows:

Brokers/Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
Hong Leong Investment Bank Bhd	4,717,840	27.95	1,812	27.30
CIMB Bank Bhd #	3,136,017	18.58	-	-
RHB Bank Bhd	1,928,100	11.42	-	-
Macquarie Malaysia Sdn Bhd	1,488,589	8.82	1,489	22.43
Standard Chartered Bank Bhd	1,365,995	8.09	-	-
Affin Hwang Investment Bank Bhd	1,028,800	6.10	-	-
CGS-CIMB Securities Sdn Bhd #	924,436	5.48	1,771	26.68
RHB Investment Bank Bhd	746,703	4.42	379	5.71
UBS Securities M Sdn Bhd	562,616	3.33	394	5.93
JP Morgan Securities (M) Sdn Bhd	429,957	2.55	-	-
Others	549,188	3.26	793	11.95
	<u>16,878,241</u>	<u>100.00</u>	<u>6,638</u>	<u>100.00</u>

14. TRANSACTIONS WITH BROKERS/DEALERS/FINANCIAL INSTITUTIONS (CONTINUED)

Details of transactions with brokers/dealers for the six months financial period ended 30 June 2018 are as follows:

Brokers/Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
RHB Bank Bhd	11,476,210	24.55	-	-
CIMB Bank Bhd #	6,512,350	13.93	-	-
CIMB Investment Bank Bhd #	5,172,399	11.07	11,058	21.00
Credit Suisse (M) Sdn Bhd	4,405,721	9.43	9,913	18.83
RHB Investment Bank Bhd	3,906,957	8.36	2,477	4.70
Standard Chartered Bank Bhd	2,553,250	5.46	-	-
KAF Seagroatt & Campbell Securities Sdn Bhd	2,357,365	5.04	5,304	10.07
Affin Hwang Investment Bank Bhd	2,334,760	4.99	5,253	9.98
JP Morgan Securities (M) Sdn Bhd	1,656,413	3.54	3,727	7.08
Macquarie Malaysia Sdn Bhd	1,598,725	3.42	3,596	6.84
Others	4,768,790	10.21	11,320	21.50
	<u>46,742,940</u>	<u>100.00</u>	<u>52,648</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, fellow related parties to the Manager amounting to RM3,136,017 (30.06.2018: RM6,512,350) RM924,436 (30.06.2018: Nil) and Nil (30.06.2018: RM5,172,399) 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. SEGMENT INFORMATION

The internal reporting provided to the chief operating decision-maker for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of MFRS and IFRS. The chief operating decision-maker is responsible for the performance of the Fund and considers the business to have a single operating segment located in Malaysia. Asset allocation decisions are based on a single, integrated investment strategy and the Fund's performance is evaluated on an overall basis.

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. The reportable operating segment derives its income by seeking investments to achieve targeted returns consummate with an acceptable level of risk within the portfolio. These returns consist of interest income and gains on the appreciation in the value of investments, which are derived from Ringgit-denominated deposits with licensed financial institutions in Malaysia, quoted securities listed on the Bursa Securities, Malaysia, and unquoted fixed income securities traded in Malaysia.

There were no changes in reportable operating segment during the financial period.

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