

CIMB Islamic Deposit Fund 2

Annual Report

For The Financial Year Ended 31 May 2019

CIMB ISLAMIC DEPOSIT FUND 2

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 MAY 2019

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INVESTORS' LETTER

Dear Valued Investor,

Thank you for your continued support and for the confidence that you have placed in us. Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) (“Principal Malaysia”) has achieved RM55.6 billion in Asset under Management (“AUM”) as of May 2019.

We continue to achieve prestigious recognitions, grabbing six individual awards at The Edge-Thomson Reuters Lipper Fund Awards 2018. In addition, we received recognition from Fundsupermart.com for ‘Fund House of the Year’ award and Recommended Unit Trust 2018/2019 awards for six funds.

We were also bestowed the ‘Best Wealth Manager’ in Malaysia at The Asset Triple A Private Banking, Wealth Management, Investment and Exchange-Traded Fund (“ETF”) Awards 2018. Latest, we were named the ‘Best Asset Management Company’ in Malaysia at the International Finance Awards 2018.

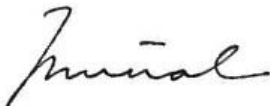
These prestigious awards are a celebration of the trust that you have placed in us and testament to our capability in bringing potential value to your financial goals and needs. We look forward to serving you for many years to come and to the best of our ability.

Effective 1 April 2019, we have appointed Amanie Advisors Sdn Bhd (“Amanie”) as our new Shariah advisor. Amanie is a Shariah advisory, consultancy, training and research and development boutique for institutional and corporate clientele focusing on Islamic financial services. It is a registered Shariah advisory company for Islamic unit trust with the Securities Commission Malaysia (“SC”). Amanie was established with the aim of addressing the global needs for experts' and Shariah scholars' pro-active input. This will ultimately allow the players in the industry to manage and achieve their business and financial goals in accordance with the Shariah Principles.

Thank you.

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 investors with liquidity and regular income, whilst maintaining capital stability by investing primarily in Islamic deposits.

Has the Fund achieved its objective?

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

What are the Fund investment policy and principal investment strategy?

The Fund will invest at least 70% of the Fund's Net Asset Value ("NAV") in Islamic Deposits with Islamic Financial Institutions.

Up to 30% of the Fund's NAV may be invested in Islamic Money Market Instruments, all of which have a remaining maturity period of not more than 365 days. The Fund may also invest up to 10% of the Fund's NAV in Islamic Deposits and Islamic Money Market Instruments with a remaining maturity period of more than 365 days but less than 732 days. The minimum credit rating for the Islamic Money Market Instruments must be at least "BBB3" or "P2" by RAM Ratings ("RAM") or equivalent rating by Malaysian Rating Corporation Berhad ("MARC") or by local rating agency(ies) of the country or "BBB" by Standard & Poor's ("S&P") or equivalent rating by Moody's or Fitch. The Manager will manage the portfolio actively with trading frequency that will depend on the view of the interest rate outlook. The investment policy and strategy is to invest in liquid and low risk short-term investments for capital preservation* and to accommodate the short-term cash flow requirements of its unit holders.

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Note: *The Fund is neither a capital guaranteed fund nor a capital protected fund within the definition in the SC Guidelines.

Fund category/type

Money Market (Shariah-compliant) / Income

How long should you invest for?

Recommended to one (1) year

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

Low

When was the Fund launched?

Class A, B & C

7 November 2017

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

RM10.04 million (10.03 million units)

FUND OBJECTIVE AND POLICY (CONTINUED)

What is the Fund’s benchmark?

CIMB Islamic Bank Overnight Rate* for performance comparison.

* The benchmark is customised as such to align it closer to the structure of the portfolio and the objective of the Fund. The Islamic Overnight Rate is reflective of the objective of the Fund. Thus, investors are cautioned that the risk profile of the Fund is higher than investing in Islamic deposits.

What is the Fund distribution policy?

Monthly, depending on the availability of realised income and/or realised gains and at Manager’s discretion.

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

The Fund distributed a total of RM3.42 million to unit holders for the financial year ended 31 May 2019.

The Fund’s NAV per unit are as follows:

Class B

Date	NAV per unit (Before distribution)	NAV per unit (After distribution)
30.04.2019	1.0006	1.0000
31.05.2019	1.0027	1.0000

Class C

Date	NAV per unit (Before distribution)	NAV per unit (After distribution)
31.01.2019	1.0032	1.0000
28.02.2019	1.0028	1.0000
29.03.2019	1.0030	1.0000
30.04.2019	1.0005	1.0000
31.05.2019	1.0031	1.0000

PERFORMANCE DATA

Details of portfolio composition of the Fund for the financial year/period are as follows:

	31.05.2019	31.05.2018
	%	%
Shariah-compliant deposits with licensed Islamic financial institutions	99.98	-
Cash and other net assets	0.02	100.00
	<u>100.00</u>	<u>100.00</u>

Performance details of the Fund for the financial year/period are as follows:

	31.05.2019	31.05.2018
NAV (RM Million)		
- Class A	0.00	0.00
- Class B	10.04	-
- Class C	0.00	-
Units in circulation (Million)		
- Class A	0.00	0.00
- Class B	10.03	-
- Class C	0.00	-
NAV per unit (RM)		
- Class A	1.0000	1.0000
- Class B	1.0001	-
- Class C	1.0000	-
		07.11.2017
		(date of launch)
	31.05.2019	to 31.05.2018
Highest NAV per unit (RM)		
- Class A	1.0000	1.0000
- Class B	1.0026	-
- Class C	1.0030	-
Lowest NAV per unit (RM)		
- Class A	1.0000	1.0000
- Class B	1.0000	-
- Class C	1.0000	-
Total return (%)		
- Class A	-	-
- Class B	0.33	-
- Class C	1.26	-
- Capital growth (%)		
- Class A	-	-
- Class B	-	-
- Class C	-	-
- Income distribution (%)		
- Class A	-	-
- Class B	0.33	-
- Class C	1.26	-

PERFORMANCE DATA (CONTINUED)

	31.05.2019	07.11.2017 (date of launch) to 31.05.2018
Management Expense Ratio ("MER") (%) ^	0.18	>100.00
Portfolio Turnover Ratio ("PTR") (times) #	30.72	-

^ The Fund's MER was lower at 0.18% as the average NAV was lower because there was no unit holders from previous period.

The Fund's PTR was stood at 30.72 times as at 31 May 2019.

Date of distribution	31.01.2019	
Gross/Net distribution per unit (sen)		
- Class C	0.32	-
Date of distribution	28.02.2019	
Gross/Net distribution per unit (sen)		
- Class C	0.28	-
Date of distribution	29.03.2019	
Gross/Net distribution per unit (sen)		
- Class C	0.30	-
Date of distribution	30.04.2019	
Gross/Net distribution per unit (sen)		
- Class B	0.06	-
- Class C	0.05	-
Date of distribution		
Gross/Net distribution per unit (sen)	31.05.2019	
- Class B	0.27	-
- Class C	0.31	-

	31.05.2019	Since inception to 31.05.2018 %
Annual total return		
- Class A	-	-
- Class B	0.33	0.33
- Class C	1.26	1.26

(Launch date: 7 November 2017)

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 (01 JUNE 2018 TO 31 MAY 2019)

Bank Negara Malaysia's ("BNM") Monetary Policy Committee ("MPC") kept the Overnight Policy Rate ("OPR") unchanged throughout 2018. On 7 May 2019, BNM cut the OPR by 25 basis points ("bps") to 3.00% as widely anticipated by the market. The MPC statement highlighted that while domestic monetary and financial conditions remain supportive of economic growth, there are some signs of tightening of financial conditions. The adjustment to the OPR is therefore intended to preserve the degree of monetary accommodativeness.

In the month of May 2019, BNM also announced that it was taking several development initiatives to improve domestic foreign exchange ("FX") and bond market liquidity, likely in response to Financial Times Stock Exchange ("FTSE") Russell's action in April 2019 and in line with the regulator's intention to continuously broaden and deepen the onshore financial markets. The initiatives include measures to enhance bond market liquidity and FX market accessibility and liquidity. In April 2019, FTSE Russell had announced that Malaysia was on the verge of being removed from the World Government Bond Index ("WGBI"). FTSE Russell's move to review Malaysian Government bonds' participation in the WGBI came a week after Norway's US Dollar ("USD") 1 trillion sovereign wealth fund was told to cut emerging-market Government and corporate bonds, which includes Malaysia.

In terms of inflation, headline inflation averaged at 1% in 2018. The Consumer Price Index ("CPI") movement was somewhat mixed in the second half of 2018 as it inched lower towards the end of the year. CPI was at 0.8%, 0.9%, 0.2%, 0.3%, 0.6%, 0.2% and 0.2% for the months of June 2018, July 2018, August 2018, September 2018, October 2018, November 2018 and December 2018, respectively. However, in the first two months of 2019, CPI declined by 0.7% and 0.4% year-on-year ("y-o-y") respectively for the months of January 2019 and February 2019. The decline was mainly due to the drop in the CPI's transport component due to cheaper fuel. In the month of April 2019, inflation inched up by 0.2% y-o-y matching the same pace in March 2019. Generally, apart from the cost of transport which declined by 2.6% in April 2019, the other segments registered stable inflation or saw moderation during the month.

The country's Gross Domestic Products ("GDP") growth in 2018 came in at 4.7%, just below the Government's forecast of 4.8% but far shorter than the 5.9% seen in 2017. GDP growth in the first quarter of 2019 came in at 4.5% y-o-y which beat consensus' estimates. Growth was supported by services and manufacturing, as well as a recovery in Crude Palm Oil ("CPO") production. In BNM's annual report for 2018, the Central Bank downgraded 2019 growth in between 4.3% and 4.8% (2018: 4.7%), below Minister of Finance's forecast of 4.9% in October 2018. The CPI headline forecast for 2019 was also revised down in between 0.7% and 1.7% (2.5% - 3.5% during Budget 2019 projection) given the lower oil prices and price ceiling mechanism on domestic retail fuel prices.

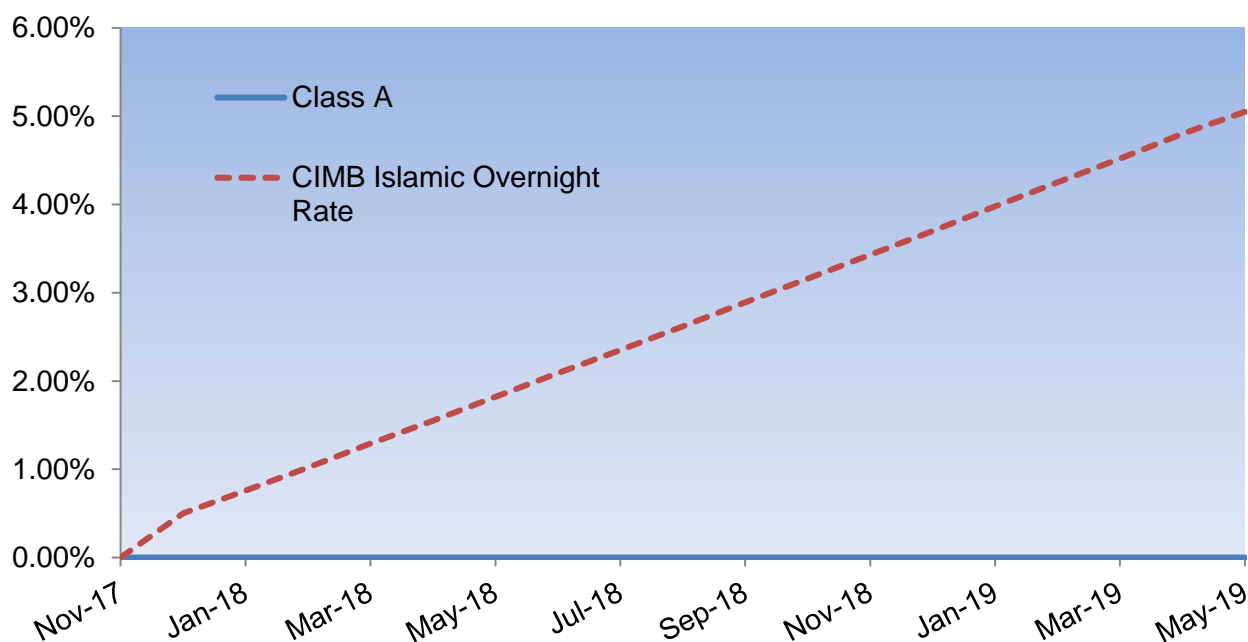
FUND PERFORMANCE

Class A	1 year to 31.05.2019 %	Since inception to 31.05.2019 %
Income	-	-
Capital	-	-
Total Return	-	-
Benchmark	3.17	5.05
Average Total Return	-	-

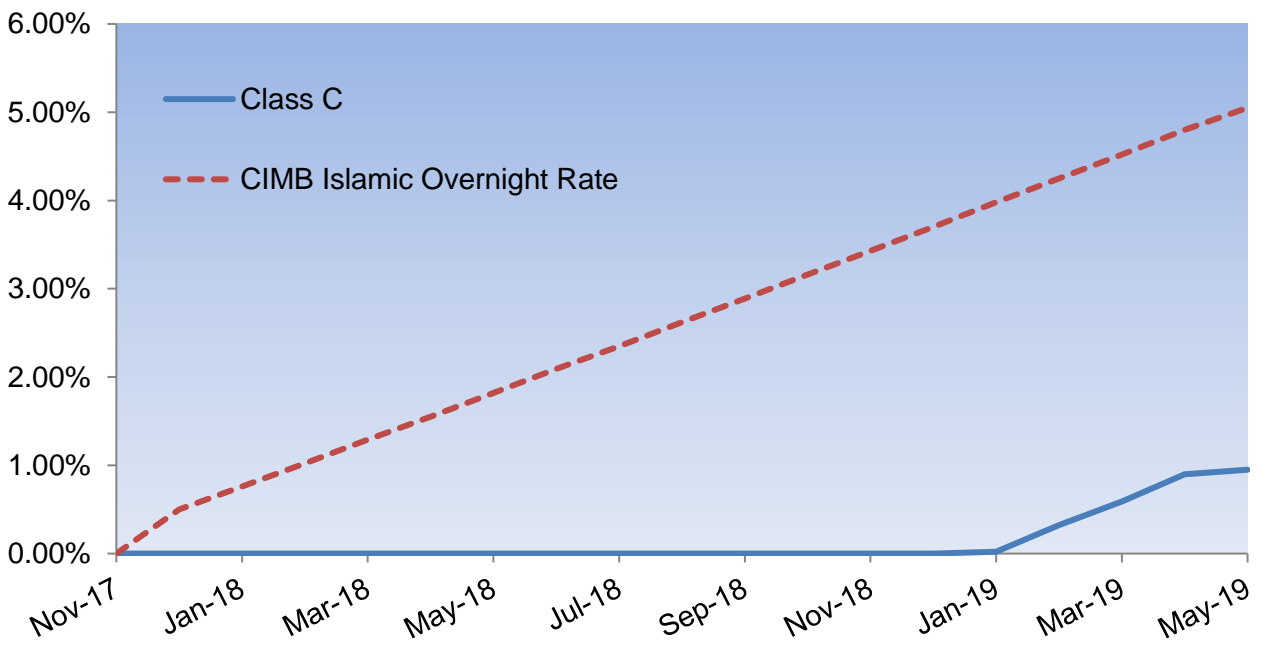
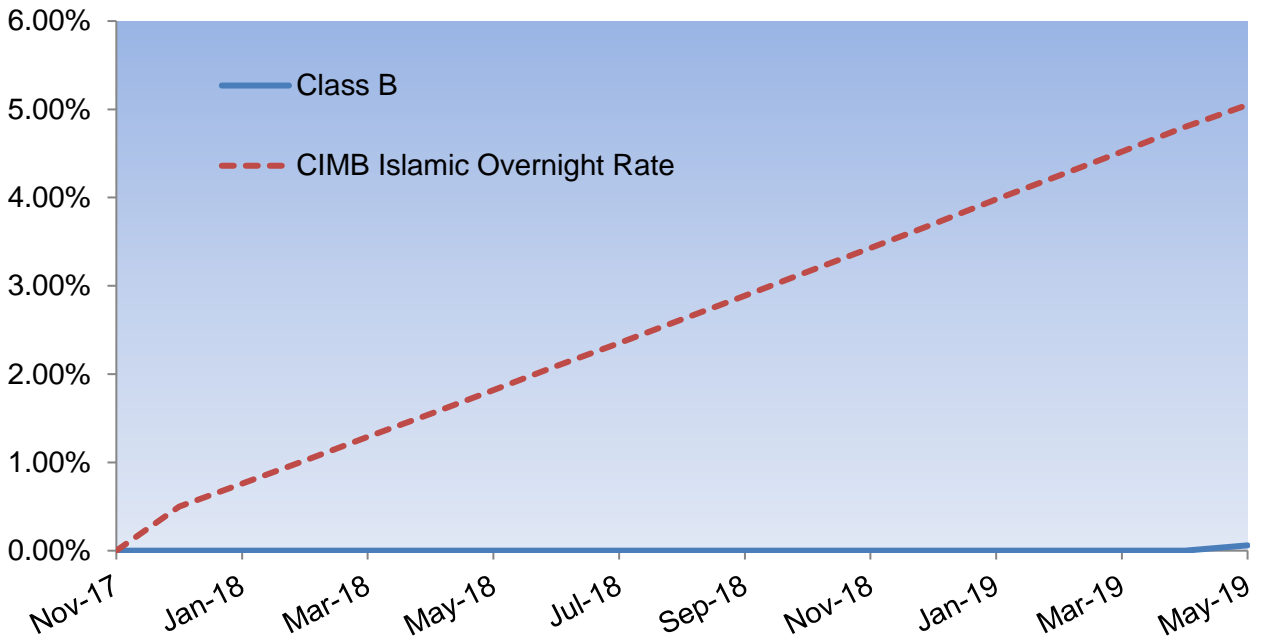
Class B	1 year to 31.05.2019 %	Since inception to 31.05.2019 %
Income	0.33	0.33
Capital	-	-
Total Return	0.33	0.33
Benchmark	3.17	5.05
Average Total Return	0.33	0.36

Class C	1 year to 31.05.2019 %	Since inception to 31.05.2019 %
Income	1.26	1.26
Capital	-	-
Total Return	1.26	1.26
Benchmark	3.17	5.05
Average Total Return	1.26	1.38

Since inception to 31 May 2019, the Fund recorded total return of 0.33% and 1.26% for Class B and Class C respectively. Both classes underperformed the benchmark for the financial year under review.



FUND PERFORMANCE (CONTINUED)



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

Class A	31.05.2019	31.05.2018	Changes %
NAV (RM Million)	0.00	0.00	-
NAV/Unit (RM)	1.0000	1.0000	-
Class B			%
NAV (RM Million)	10.04	-	>100.00
NAV/Unit (RM)	1.0001	-	>100.00
Class C			%
NAV (RM Million)	0.00	-	>100.00
NAV/Unit (RM)	1.0000	-	>100.00

As at 31 May 2019, the Fund's NAV in Class B stood at RM10.04 million while both Class A and Class C stood at RM0.00 million.

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)	31.05.2019	31.05.2018
Shariah-compliant deposits with licensed Islamic financial institutions	99.98	-
Cash and other net assets	0.02	100.00
TOTAL	100.00	100.00

As at 31 May 2019, the fund was 99.98% in Shariah-compliant deposits with licensed Islamic financial institutions.

MARKET OUTLOOK*

On 7 May 2019, the MPC cut the OPR by 0.25% to 3.00% as widely anticipated by the market. Overall, we expect the Central Bank to maintain OPR at 3.00% for the remainder of the year barring any unforeseen major changes in the market or the trade war worsens significantly. With that said, there could be a chance of a further rate cut this year by the central bank as anticipated by the market.

We continue to see some volatility arising from the unresolved trade war between the two biggest global economies. We believe risks to the global growth outlook remain tilted on the downside on the back of trade tensions and monetary policy normalisation in advanced economies.

* 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

The Fund's objective is to provide investors with liquidity and regular income hence its investment strategy is to invest primarily in deposits with licensed Islamic financial institutions.

UNIT HOLDINGS STATISTICS

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

Class A

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	100.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	-	-	-
Total	1	0.00	100.00

Class B

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	0.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	1	10.03	100.00
Total	2	10.03	100.00

Class C

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	100.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	-	-	-
Total	1	0.00	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 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 ISLAMIC DEPOSIT FUND 2**

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 19 to 42 are drawn up in accordance with the provisions of the Deed and give a true and fair view of the financial position of the Fund as at 31 May 2019 and of its financial performance, changes in net assets attributable to unit holders and cash flows for the financial year ended 31 May 2019 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

16 July 2019

**TRUSTEE'S REPORT TO THE UNIT HOLDERS OF
CIMB ISLAMIC DEPOSIT FUND 2**

We have acted as the Trustee of CIMB Islamic Deposit Fund 2 (the "Fund") for the financial year ended 31 May 2019. To the best of our knowledge, Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) (the "Manager"), has operated and managed the Fund in accordance with the following:

- (a) limitations imposed on the investment powers of the Manager and Trustee under the Deed, the Securities Commission Malaysia ("SC") Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- (b) valuation or pricing is carried out in accordance with the Deed of the Fund and applicable regulatory requirements; and
- (c) creation and cancellation of units have been carried out in accordance with the Deed of the Fund and applicable regulatory requirements.

During this financial year, a total distribution of 0.33 sen per unit (gross) for Class B and 1.26 sen per unit (gross) for Class C has been distributed to the unit holders of the Fund. We are of the view that the distribution is not inconsistent with the objective of the Fund.

For and on behalf of the Trustee
PB TRUSTEE SERVICES BERHAD

CHEAH KUAN YOON
Head

Kuala Lumpur
16 July 2019

**SHARIAH ADVISER'S REPORT TO THE UNIT HOLDERS OF
CIMB ISLAMIC DEPOSIT FUND 2**

For The Financial Period from 1 June 2018 to 31 March 2019

We have acted as the Shariah Adviser of CIMB Islamic Deposit Fund 2 (the "Fund") for the financial period from 1 June 2018 to 31 March 2019. Our responsibility is to ensure that the procedures and processes employed by CIMB-Principal Asset Management Berhad (the "Manager") are in accordance with Shariah and Shariah Investment Guidelines.

In our opinion, the Manager has managed and administered the Fund in accordance with the Shariah Investment Guidelines of the Fund and complied with applicable guidelines, rulings or decisions issued by the Securities Commission Malaysia pertaining to Shariah matters for the financial period from 1 June 2018 to 31 March 2019.

In addition, we confirm that the investment portfolio of the Fund comprises securities which have been classified as Shariah-compliant by the Shariah Advisory Council of the Securities Commission Malaysia and, where applicable the Shariah Advisory Council of Bank Negara Malaysia. For investments other than the abovementioned, we have reviewed the same and are of the opinion that these investments were in accordance with the Shariah Investment Guidelines of the Fund.

This report is made solely to the unit holders of the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report and we shall not be liable for any errors or non-disclosure on the part of the Manager.

For and on behalf of Shariah Adviser
CIMB Islamic Bank Berhad

ASHRAF GOMMA ALI

Director/Regional Head, Shariah & Governance/Designated Person Responsible for Shariah Advisory

Kuala Lumpur
31 March 2019

**SHARIAH ADVISER'S REPORT TO THE UNIT HOLDERS OF
CIMB ISLAMIC DEPOSIT FUND 2**

For The Financial Period from 1 April 2019 to 31 May 2019

We have acted as the Shariah Adviser of CIMB Islamic Deposit Fund 2 ("the Fund"). Our responsibility is to ensure that the procedures and processes employed by Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) (the "Manager") are in accordance with Shariah principles.

In our opinion, the Manager has managed and administered the Fund in accordance with Shariah principles and complied with applicable guidelines, rulings or decisions issued by the Securities Commission (SC) pertaining to Shariah matters.

In addition, we confirm that the investment portfolio of the Fund comprises securities and/or instruments which have been classified as Shariah compliant by the Shariah Advisory Council (SAC) of the SC and/or Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM), where applicable. For securities and/or instruments which are not classified as Shariah-compliant by the SAC of the SC and/or SAC of BNM, we have determined that such securities and/or instruments are in accordance with Shariah principles and have complied with the applicable Shariah Guidelines.

This report is made solely to the unit holders of the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report and we shall not be liable for any errors or non-disclosure on the part of the Manager.

For **Amanie Advisors Sdn Bhd**,

DATUK DR MOHD DAUD BAKAR
Executive Chairman

16 July 2019

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
CIMB ISLAMIC DEPOSIT FUND 2**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of CIMB Islamic Deposit Fund 2 (the "Fund") give a true and fair view of the financial position as at 31 May 2019, and of its financial performance and its cash flows for the 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 May 2019, and the statement of comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 19 to 42.

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 ISLAMIC DEPOSIT FUND 2 (CONTINUED)**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

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

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

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

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
CIMB ISLAMIC DEPOSIT FUND 2 (CONTINUED)**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

This report is made solely to the unit holder 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
16 July 2019

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

	Note	2019 RM	07.11.2017 (date of launch) to 31.05.2018 RM
INCOME			
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions at fair value through profit or loss		3,956,184	-
Hibah		42	7
Other income		-	14,890
		<u>3,956,226</u>	<u>14,897</u>
EXPENSES			
Management fee	4	163,921	-
Trustee's fee	5	10,858	-
Audit fee		10,700	6,800
Tax agent's fee		4,000	4,000
Other expenses		3,465	695
		<u>192,944</u>	<u>11,495</u>
PROFIT BEFORE FINANCE COST AND TAXATION		3,763,282	3,402
Finance cost (excluding increase in net assets attributable to unit holders):			
- Class B		(32,918)	-
- Class C		(3,387,787)	-
	6	<u>(3,420,705)</u>	<u>-</u>
PROFIT BEFORE TAXATION		342,577	3,402
Taxation	7	<u>-</u>	<u>(3,401)</u>
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>342,577</u>	<u>1</u>
Increase in net assets attributable to unit holders are made up as follows:			
Realised amount		<u>342,577</u>	<u>1</u>

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

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

	Note	2019 RM	2018 RM
ASSET			
Cash and cash equivalents (Shariah-compliant)	9	23,039	2,960
Financial assets at fair value through profit or loss (Shariah-compliant)	8	10,033,485	-
Amount due from Manager		-	14,890
		<u>10,056,524</u>	<u>17,850</u>
LIABILITIES			
Accrued management fee		2,128	-
Amount due to Trustee		3,085	3,000
Other payables and accruals		15,582	11,448
Tax payable		-	3,401
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS)		<u>20,795</u>	<u>17,849</u>
NET ASSET VALUE OF THE FUND		<u>10,035,729</u>	<u>1</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>10,035,729</u>	<u>1</u>
REPRESENTED BY:			
FAIR VALUE OF OUTSTANDING UNITS (RM)			
- Class A		2	1.00
- Class B		10,033,956	-
- Class C		1,771	-
		<u>10,035,729</u>	<u>1.00</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)			
- Class A		2	1
- Class B		10,032,919	-
- Class C		1,771	-
	10	<u>10,034,692</u>	<u>1</u>
NET ASSET VALUE PER UNIT (EX-DISTRIBUTION)			
- Class A		1.0000	1.0000
- Class B		1.0001	-
- Class C		1.0000	-

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

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE FINANCIAL YEAR ENDED 31 MAY 2019**

	Note	2019 RM	07.11.2017 (date of launch) to 31.05.2018 RM
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE BEGINNING OF THE FINANCIAL YEAR/DATE OF LAUNCH		1	-
Movement due to units created and cancelled during the financial year/period:			
- Creation of units from applications			
- Class A		1	10,000
- Class B		10,000,001	-
- Class C		481,515,306	-
		<u>491,515,308</u>	<u>10,000</u>
- Creation of units from distributions			
- Class B		32,918	-
- Class C		3,387,787	-
		<u>3,420,705</u>	<u>-</u>
- Cancellation of units			
- Class A		-	(10,000)
- Class C		(485,242,862)	-
		<u>(485,242,862)</u>	<u>(10,000)</u>
Increase in net assets attributable to unit holders during the financial year/period		342,577	1
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE END OF THE FINANCIAL YEAR/PERIOD		<u>10,035,729</u>	<u>1</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 MAY 2019**

	Note	2019 RM	07.11.2017 (date of launch) to 31.05.2018 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from maturity of Shariah-compliant deposits with licensed Islamic financial institutions		3,257,593,000	-
Placement of Shariah-compliant deposits with licensed Islamic financial institutions		(3,340,855,000)	-
Redemption of Shariah-compliant deposits with licensed Islamic financial institutions		73,250,000	-
Profit income received from Shariah-compliant deposits with licensed Islamic financial institutions		3,934,699	-
Hibah earned		42	7
Management fee paid		(161,793)	-
Trustee's fee paid		(10,773)	-
Payments for other fees and expenses		(2,542)	2,953
Net cash (used in)/generated from operating activities		(6,252,367)	2,960
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		491,515,308	10,000
Payment for cancellation of units		(485,242,862)	(10,000)
Net cash generated from financing activities		6,272,446	-
Net increase in cash and cash equivalents		20,079	2,960
Cash and cash equivalents at the beginning of the financial year/date of launch		2,960	-
Cash and cash equivalents at the end of the financial year/period	9	23,039	2,960
<u>Cash and cash equivalents comprised of:</u>			
Bank balance	9	23,039	2,960

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 MAY 2019****1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES**

CIMB Islamic Deposit Fund 2 (the “Fund”) is governed by a Principal Master Deed dated 8 March 2017, between Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) (the “Manager”) and PB Trustee Services Berhad (the “Trustee”) and Registered Holders of Units in The Trust (the “Unit Holders”).

The Fund is a Money Market (Shariah-compliant) that invests at least 70% of the Fund’s NAV in Islamic Deposits with Islamic Financial Institutions.

Up to 30% of the Fund’s NAV may be invested in Islamic Money Market Instruments, all of which have a remaining maturity period of not more than 365 days. The Fund may also invest up to 10% of the Fund’s NAV in Islamic Deposits and Islamic Money Market Instruments with a remaining maturity period of more than 365 days but less than 732 days. The minimum credit rating for the Islamic Money Market Instruments must be at least “BBB3” or “P2” by RAM or equivalent rating by MARC or by local rating agency(ies) of the country or “BBB” by S&P or equivalent rating by Moody’s or Fitch. The Manager will manage the portfolio actively with trading frequency that will depend on the view of the interest rate outlook. The investment policy and strategy is to invest in liquid and low risk short-term investments for capital preservation* and to accommodate the short-term cash flow requirements of its unit holders.

The investment policy and strategy is to invest in liquid and low risk short-term investments for capital preservation* and to accommodate the short-term cash flow requirements of its unit holders.

All investments are subject to the Securities Commission Malaysia (“SC”) Guidelines on Unit Trust Funds, SC requirements, the Deed, 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 IFRS.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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 year/period.

It also requires the Manager to exercise their judgement in the process of applying the Fund's accounting policies. Although these estimates and judgement 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).

Standard that is effective:

The Fund has applied the following standard for the first time for the financial year beginning 1 June 2018:

- MFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in MFRS 139.

Classification and measurement of debt assets¹ is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument¹ is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest² ("SPPI"). A debt instrument¹ is measured at fair value through other comprehensive income ("OCI") if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments¹ must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative³ and equity instruments³ are measured at fair value through profit or loss unless, for equity instruments³ not held for trading, an irrevocable option is taken to measure at fair value through OCI. MFRS 9 also introduces a new expected credit loss ("ECL") impairment model.

MFRS 9 has been applied retrospectively by the Fund and did not result in any change to the classification or measurement of financial instruments as outlined in Note 2(b).

¹ For the purposes of the investments made by the Fund, debt instruments refers to Sukuk, Shariah-compliant collective investment schemes and Shariah-compliant deposits with licensed Islamic financial institutions

² For the purposes of this Fund, interest refers to profits earned from Shariah-compliant investments.

³ For the purposes of the investments made by the Fund, equity instruments and derivatives refers to Shariah-compliant equity instruments and Shariah-compliant derivatives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

The Fund has applied the following standard for the first time for the financial year beginning 1 June 2018: (continued)

The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 June 2018 that have a material effect on the financial statements of the Fund.

The amendments to published standard that are applicable to the Fund but not yet effective and have not been early adopted are as follows:

Financial year beginning on/after 1 June 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 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.

The Fund will apply the amendments to published standard when effective. These amendments to published standard are not expected to have a significant impact on the Fund's financial statements.

(b) Financial assets and financial liabilities

Classification

Up to 31 May 2018, the Fund designates its investments in Shariah-compliant deposits with licensed Islamic financial institutions as financial assets at fair value through profit or loss at inception.

Financial assets are designated at fair value through profit or loss when they are managed and their performance evaluated on a fair value basis.

Financing and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been included in current assets. The Fund's financing and receivables comprise cash and cash equivalents and amount due from Manager.

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

Classification (continued)

From 1 June 2018, the Fund classifies its financial assets in the following measurement categories:

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

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The contractual cash flows of the Fund's investments in Shariah-compliant deposits with licensed Islamic financial institutions 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 and amount due from Manager as financial assets at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

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

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Fund commits to purchase or sell the asset. Shariah-compliant deposits with licensed Islamic financial institutions are initially recognised at fair value.

Financial liabilities, within the scope of MFRS 139 up to 31 May 2018 and MFRS 9 from 1 June 2018, 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.

Deposits with licensed financial institutions are stated at fair value. Due to the short-term nature of the deposits, the cost plus accrued profit calculated based on the effective profit method over the period from the date of placement to the date of maturity of the respective deposits is a reasonable estimate of fair value.

Financial assets at amortised cost (2018: financing and receivables) and other financial liabilities are subsequently carried at amortised cost using the effective profit method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(b) Financial assets and financial liabilities (continued)**Impairment for assets carried at amortised costs

Up to 31 May 2018, for assets carried at amortised cost, the Fund assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The asset's carrying amount is reduced and the amount of the loss is recognised in statement of comprehensive income. If 'financing and receivables' has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

As a practical expedient, the Fund may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent financial period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in statement of comprehensive income.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

From 1 June 2018, the Fund measures credit risk and ECL using probability of default, exposure at default and loss given default. The Manager considers both historical analysis and forward looking information in determining any ECL. The Manager considers 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.

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 year.

(c) Income recognition

Profit income from Shariah-compliant deposits with licensed Islamic financial institutions is recognised on a time proportionate basis using effective profit rate method on an accrual basis.

Up to 31 May 2018, when a financing and receivable is impaired, the Fund reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective profit rate of the instrument, and continue unwinding the discount as profit income. Profit income on impaired financing and receivables are recognised using the original effective profit rate.

From 1 June 2018, profit income is calculated by applying the effective profit 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 profit rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

(d) Functional and presentation currencies

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 Ringgit Malaysia ("RM"), which is the Fund's functional and presentation currency.

(e) Cash and cash equivalents (Shariah-compliant)

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balance which is 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) Finance cost

A distribution to the Fund's unit holders is accounted for as finance cost in the statement of comprehensive income. A proposed distribution is recognised as a liability in the period in which it is approved by the Trustee of the Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(h) Increase/decrease in net assets attributable to unit holders**

Income not distributed is included in net assets attributable to unit holders.

(i) Creation and cancellation of units

The unit holders' contributions to the Fund meet the definition of puttable instruments classified as financial liability under MFRS 132 "Financial Instruments: Presentation".

The Fund issues cancellable units, in three classes of units, known respectively as the Class A, Class B and Class C, which are cancelled at the unit holder's option. The units are classified as financial liabilities. Cancellable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's NAV of respective classes. The outstanding units are carried at the redemption amount that is payable at the date of the statement of financial position if the member exercises the right to put back the unit to the Fund.

Units are created and cancelled at the unit holders' option at prices based on the Fund's NAV per unit of respective classes at the close of business on the relevant dealing day. The Fund's NAV per unit of respective classes is calculated by dividing the net assets attributable to unit holders of respective classes with the total number of outstanding units of respective classes.

(j) 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.

(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.

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.

However, the Manager is of the opinion that in applying these accounting policies, no significant judgement was required.

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 (Shariah-compliant) (Note 9)	-	23,039	23,039
Shariah-compliant deposits with licensed Islamic financial institutions (Note 8)	10,033,485	-	10,033,485
	<u>10,033,485</u>	<u>23,039</u>	<u>10,056,524</u>
			Financing and receivables RM
2018			
Cash and cash equivalents (Shariah-compliant) (Note 9)			2,960
Amount due from Manager			<u>14,890</u>
			<u>17,850</u>

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

The investment objective is to provide investors with liquidity and regular income, whilst maintaining capital stability by investing primarily in Islamic deposits.

The Fund is exposed to a variety of risks which include market risk (inclusive of 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) Interest rate risk

Interest rate is a general economic indicator that will have an impact on the management of the Fund.

It does not in any way suggest that this Fund will invest in conventional financial instruments. All investment carried out for the Fund including placements and deposits are in accordance with Shariah requirements.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market profit rates.

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

(a) Market risk (continued)

(i) Interest rate risk (continued)

The Fund's exposure to fair value interest rate risk arises from Shariah-compliant deposits with licensed Islamic financial institutions. The interest rate risk is expected to be minimal as the Fund's investments comprise mainly short-term deposits with approved licensed Islamic financial institutions.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market profit rates.

The Fund is not exposed to cash flow interest rate risk as the Fund does not hold any financial instruments at variable profit rate.

As at the end of each financial year/period, the Fund is not exposed to a material level of interest rate risk.

(b) Credit risk

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

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

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

	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Total RM
2019			
Finance			
- CIMB Islamic Bank Bhd (AAA)	23,039	-	23,039
- AAA	-	4,012,663	4,012,663
- AA2	-	2,007,233	2,007,233
- AA3	-	2,006,838	2,006,838
- A2	-	2,006,751	2,006,751
	<u>23,039</u>	<u>10,033,485</u>	<u>10,056,524</u>
			Cash and cash equivalents RM
2018			
Finance			
- CIMB Islamic Bank Bhd (AAA)			<u>2,960</u>

All financial assets of the Fund as at the end of the financial year/period are neither past due nor impaired.

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

(c) Liquidity risk

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

The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellations of the units by unit holders. Liquid assets comprise bank balances, Shariah-compliant deposits with licensed Islamic financial institutions and other instruments, which are capable of being converted into cash within 7 business days. 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 year on 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			
Accrued management fee	2,128	-	2,128
Amount due to Trustee	85	3,000	3,085
Other payables and accruals	-	15,582	15,582
Net assets attributable to unit holders*	10,035,729	-	10,035,729
Contractual undiscounted cash flows	<u>10,037,942</u>	<u>18,582</u>	<u>10,056,524</u>
			Between 1 month to 1 year RM
2018			
Amount due to Trustee			3,000
Other payables and accruals			11,448
Net assets attributable to unit holder*			1
Contractual undiscounted cash flows			<u>14,449</u>

* Outstanding units are redeemed on demand at the unit holder's option. However, the Manager does not envisage that the contractual maturity disclosed in the table above will be representative of the actual cash outflows, as unit holders of these instruments typically retain them for the medium to long term.

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

(d) Capital risk management

The capital of the Fund is represented by net assets attributable to unit holder's RM10,035,729 (2018: RM1). The amount of capital can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

(e) Fair value estimation

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

The fair values of financial assets traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the financial year end date. The Fund utilises the last traded market price for financial assets where the last traded price falls within the bid-ask spread. In circumstances where the last traded 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. FINANCIAL INSTRUMENTS AND 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 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.

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2019				
Financial assets at fair value through profit or loss:				
- Shariah-compliant deposits with licensed Islamic financial institutions	-	<u>10,033,485</u>	-	<u>10,033,485</u>

There are no financial assets measured at fair value through profit or loss for the financial period ended 31 May 2018.

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 deposits with licensed financial institutions.

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

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

4. MANAGEMENT FEE

In accordance with the Deed, the Manager is entitled to a maximum management fee of 3.00% per annum for each class, calculated daily based on the NAV of the Fund.

For the financial year ended 31 May 2018 and 31 May 2019, the management fee is recognised at the following rate:

Class A	Class B	Class C
0.35%	0.25%	0.15%

For the financial period ended 31 May 2018, the management fee incurred by the Fund during the financial period were waived by the Manager.

For the financial year ended 31 May 2019, the management fee was charged starting from December 2018 and April 2019 for Class C and Class B respectively. There is no management fee charged for Class A during the financial year ended 31 May 2019.

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

5. TRUSTEE'S FEE

In accordance with the Deed, the Trustee is entitled to a maximum fee of 0.07% per annum for each class, calculated daily based on the NAV of the Fund.

For the financial year ended 31 May 2019, the Trustee's fee is recognised at a rate of 0.01% per annum (2018: 0.01% per annum) of the NAV of the Fund.

For the financial period ended 31 May 2018, the Trustee's fee incurred by the Fund during the financial period were waived by the Trustee.

For the financial year ended 31 May 2019, the Trustee's fee was charged starting from December 2018 and April 2019 for Class C and Class B respectively. There is no Trustee's fee charged for Class A during the financial year ended 31 May 2019.

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

6. DISTRIBUTIONS

Distributions to unit holders are derived from the following sources:

	2019	07.11.2017
	RM	(date of launch)
		to 31.05.2018
		RM
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions at fair value through profit or loss	3,955,781	-
Distribution equalisation	<u>(342,132)</u>	<u>-</u>
	3,613,649	-
Less:		
Expenses	<u>(192,944)</u>	<u>-</u>
Net distribution amount	<u>3,420,705</u>	<u>-</u>

6. DISTRIBUTIONS (CONTINUED)

	2019	07.11.2017 (date of launch) to 31.05.2018
Gross/Net distribution per unit (sen)	RM	RM
Distribution on 31 January 2019		
Gross/Net distribution per unit (sen)		
- Class C	0.32	-
Distribution on 28 February 2019		
Gross/Net distribution per unit (sen)		
- Class C	0.28	-
Distribution on 29 March 2019		
Gross/Net distribution per unit (sen)		
- Class C	0.30	-
Distribution on 30 April 2019		
Gross/Net distribution per unit (sen)		
- Class B	0.06	-
- Class C	0.05	-
Distribution on 31 May 2019		
Gross/Net distribution per unit (sen)		
- Class B	0.27	-
- Class C	0.31	-
Total distributions		
Gross/Net distribution per unit (sen)		
- Class B	0.33	-
- Class C	1.26	-

Gross distribution is derived using total income less total expenses. Net distributions above is sourced from current 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.

Distribution equalisation represents the average amount of distributable income included in the creation and cancellation prices of units. It is computed as at each date of creation and cancellation of units. For the purpose of determining amount available for distribution, distribution equalisation is included in the computation of realised gains or income available for distribution.

7. TAXATION

	2019 RM	07.11.2017 (date of launch) to 31.05.2018 RM
Tax charged for the financial year/period:		
- Current taxation	-	3,401

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 RM	07.11.2017 (date of launch) to 31.05.2018 RM
Profit before taxation	342,577	3,402
Taxation at Malaysian statutory rate of 24% (2018: 24%)	82,218	816
Tax effects of:		
Income not subject to tax	(949,494)	(2)
Expenses not deductible for tax purposes	824,791	1,029
Restriction on tax deductible expenses for Unit Trust Funds	42,485	1,558
Taxation	-	3,401

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (SHARIAH-COMPLIANT)

	2019 RM	2018 RM
At fair value through profit or loss:		
- Shariah-compliant deposits with licensed Islamic financial institutions*	10,033,485	-

* Includes profit receivable of RM21,485 (2018: nil).

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

	2019 %	2018 %
Shariah-compliant deposits with licensed Islamic financial institutions	3.52	-

Shariah-compliant deposits with licensed Islamic financial institutions of the Fund have an average maturity of 178 days (2018: nil).

9. CASH AND CASH EQUIVALENTS (SHARIAH-COMPLIANT)

	2019 RM	2018 RM
Bank balance	23,039	2,960

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2019 No. of units	07.11.2017 (date of launch) to 31.05.2018 No. of units
Class A (i)	2	1
Class B (ii)	10,032,919	-
Class C (iii)	1,771	-
	<u>10,034,692</u>	<u>1</u>

(i) Class A

	2019 No. of units	07.11.2017 (date of launch) to 31.05.2018 No. of units
At the beginning of the financial year/date of launch	1	-
Add: Creation of units from applications	1	10,000
Less: Cancellation of units	-	(9,999)
At the end of the financial year/period	<u>2</u>	<u>1</u>

(ii) Class B

	2019 No. of units	07.11.2017 (date of launch) to 31.05.2018 No. of units
At the beginning of the financial year/date of launch	-	-
Add: Creation of units from applications	10,000,001	-
Add: Creation of units from distributions	32,918	-
At the end of the financial year/period	<u>10,032,919</u>	<u>-</u>

(iii) Class C

	2019 No. of units	07.11.2017 (date of launch) to 31.05.2018 No. of units
At the beginning of the financial year/date of launch	-	-
Add: Creation of units from applications	481,460,290	-
Add: Creation of units from distributions	3,387,787	-
Less: Cancellation of units	(484,846,306)	-
At the end of the financial year/period	<u>1,771</u>	<u>-</u>

11. MANAGEMENT EXPENSE RATIO (“MER”)

	2019	07.11.2017 (date of launch) to 31.05.2018
	%	%
MER	0.18	>100.00

MER is derived from 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 a daily basis is RM108,590,999 (2018: RM1).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

	2019	07.11.2017 (date of launch) to 31.05.2018
PTR (times)	30.72	-

PTR is derived based on the following calculation:

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

where:

total placement for the financial year/period = RM3,340,855,000 (2018: Nil)

total maturity for the financial year/period = RM3,330,843,000 (2018: Nil)

13. UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER, AND SIGNIFICANT RELATED PARTY 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 (formerly known as CIMB-Principal Asset Management Berhad)	The Manager
Principal Financial Group, Inc.	Ultimate holding company of shareholder of the Manager
Principal International (Asia) Ltd	Shareholder of the Manager
Subsidiaries and associates of Principal Financial Group Inc., other than above, as disclosed in its financial statements	Fellow subsidiary and associated companies of the ultimate holding company of shareholder of the Manager
CIMB Group Holdings Bhd	Ultimate holding company of shareholder of the Manager
CIMB Group Sdn Bhd	Shareholder of the Manager
Subsidiaries and associates of CIMB Group Holdings Bhd, other than above, as disclosed in its financial statements	Fellow subsidiary and associated companies of the ultimate holding company of the Manager
CIMB Islamic Bank Bhd	Fellow related party to the Manager

Units held by the Manager and parties related to the Manager

	2019		07.11.2017 (date of launch) to 31.05.2018	
	No. of units	RM	No. of units	RM
Manager				
Principal Asset Management Berhad (formerly known as CIMB-Principal Asset Management Berhad)				
- Class A	2	2	1	1
- Class B	1	1	-	-
- Class C	1,771	1,771	-	-

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.

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

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are 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	07.11.2017 (date of launch) to 31.05.2018 RM
<u>Significant related party transactions</u>		
Profit income received from Shariah-compliant deposits with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	473,739	-
<u>Significant related party balances</u>		
Bank balance:		
- CIMB Islamic Bank Bhd	23,039	2,960

14. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

Details of transactions with the financial institutions for the financial year ended 31 May 2019 are as follows:

Financial Institutions	Value of placements RM	Percentage of total placements %
CIMB Islamic Bank Bhd #	1,096,580,800	32.82
Hong Leong Islamic Bank Bhd	627,277,800	18.78
Public Islamic Bank Bhd	548,816,800	16.43
Maybank Islamic Bhd	503,078,800	15.06
Bank Muamalat Malaysia Bhd	260,076,800	7.78
Affin Islamic Bank Bhd	195,299,000	5.85
RHB Islamic Bank Bhd	106,000,000	3.17
Bank Islam Malaysia Bhd	3,725,000	0.11
	<u>3,340,855,000</u>	<u>100.00</u>

There is no transaction with financial institutions for the financial period from 7 November 2017 (date of launch) to 31 May 2018.

Included in the transactions are trades conducted with CIMB Islamic Bank Bhd, a fellow related party of the Manager amounting to RM1,096,580,800 (2018: nil). The Manager is of the opinion that all transactions with the related party have been entered into in the normal course of business at agreed terms between the related party.

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 investment objective of the Fund is providing investors with liquidity and regular income, whilst maintaining capital stability by investing primarily in Islamic deposits. 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 profit earned from Shariah-compliant investments and is derived from Ringgit-denominated Shariah-compliant deposits with licensed Islamic financial institutions.

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

16. MFRS 9 FINANCIAL INSTRUMENTS

As disclosed in Note 2(a), the Fund has adopted MFRS 9, which resulted in changes in accounting policies as disclosed in Note 2(b) and adjustments to the financial position. The main changes are as follows.

The measurement category and the carrying amount of financial assets and financial liabilities in accordance with MFRS 139 and MFRS 9 at 1 June 2018 are compared as follows:

	Measurement category		Carrying amount			
	Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139) RM	Reclassifi- -cations RM	Remeasu- -rements RM	New (MFRS 9) RM
Assets						
Cash and cash equivalents	Financing and receivables	Amortised cost	2,960	-	-	2,960
Amount due from Manager	Financing and receivables	Amortised cost	14,890	-	-	14,890
Liabilities						
Amount due to Trustee	Amortised cost	Amortised cost	3,000	-	-	3,000
Other payables and accruals	Amortised cost	Amortised cost	11,448	-	-	11,448

17. SUBSEQUENT EVENT

The Manager proposed for the payment of 0.27 sen per unit (gross) for Class B and 0.28 sen per unit (gross) for Class C in respect of the month of June 2019, which has been approved by the Trustee. The distribution will be accounted for in the statement of comprehensive income as finance cost for the financial year ending 31 May 2020.

18. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 16 July 2019.

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