

# CIMB Islamic Small Cap Fund

Annual Report

For The Financial Year Ended 31 May 2019

**CIMB ISLAMIC SMALL CAP FUND**

**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.

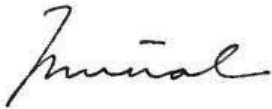
We were also bestowed the 'Best Wealth Manager' in Malaysia at The Asset Triple A Private Banking, Wealth Management, Investment and Exchange-Traded Fund ("ETF") Awards 2018. Latest, we were named the 'Best Asset Management Company' in Malaysia at the International Finance Awards 2018.

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.

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 objective of the Fund is to seek medium to long-term growth in capital by investing principally in emerging companies listed on Bursa Malaysia and this must be in accordance with the Shariah principles.

**Has the Fund achieved its objective?**

The Fund has achieved its objective of providing long-term capital growth.

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

The Fund may invest a minimum of 70% and up to a maximum of 98% of its Net Asset Value ("NAV") in Shariah-compliant stocks of emerging companies\*. The investment policy and strategy of the Fund will therefore focus on investments in Shariah-compliant securities of such emerging companies\* with potential growth and hands-on management policies but may be lacking in track records. The Fund may also invest up to 28% of its NAV in other permissible investments such as Shariah-compliant fixed income securities for the purpose of cash management. The Fund may also opt to seek investment exposure via Shariah-compliant CIS that is in line with the Fund's objective, subject to the requirements of the SC Guidelines. In addition, Shariah-compliant liquid assets may be strategically used if we feel that the market downside risk is high in the short-term.

Between 70% to 98% (both inclusive) of the Fund's NAV will be invested in Shariah-compliant equities and/or other Shariah-compliant investments, with at least 2% of the Fund's NAV in Shariah-compliant liquid assets.

Note:

\* Emerging companies in this context refers to companies that are listed on Bursa Malaysia with market capitalisation of up to three (3) billion Ringgit Malaysia ("RM") at the point of purchase. However, should there be lack of liquidity or when we deem necessary to reduce volatility of the Fund, the Fund may invest up to 20% of its NAV in companies with market capitalization above three (3) billion RM but not more than five (5) billion RM at the point of purchase. #

# With effective 1st September 2017, the Fund may invest up to 20% of its NAV in companies with market capitalization above three (3) billion RM but not more than five (5) billion RM at the point of purchase.

**Fund category/type**

Equity (small cap) (Shariah-compliant)/Growth

**How long should you invest for?**

Recommended three (3) years or more

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

High

**When was the Fund launched?**

30 April 2003

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

RM146.37 million (156.69 million units)

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

Financial Times Stock Exchange ("FTSE") Bursa Malaysia ("FBM") Small Cap ("FBMSCAP") Index

**What is the Fund distribution policy?**

The Manager has the discretion to distribute part or all of the Fund's distributable income. The distribution (if any) may vary from period to period depending on the investment objective and the performance of the Fund.

**FUND OBJECTIVE AND POLICY (CONTINUED)**

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

There was no distribution made for the financial year ended 31 May 2019.

**PERFORMANCE DATA**

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

	<b>31.05.2019</b>	<b>31.05.2018</b>	<b>31.05.2017</b>
	%	%	%
Shariah-compliant quoted securities			
- Construction	5.97	10.26	13.66
- Consumer Products & Services	8.76	13.41	9.29
- Energy	5.94	-	-
- Financial Services	1.66	-	-
- Health Care	4.41	-	-
- Industrial Products & Services	15.38	24.18	27.40
- Infrastructure Project Companies ("IPC")	-	0.87	4.12
- Plantation	2.76	-	0.94
- Property	1.91	3.34	4.13
- Real Estate Investment Trusts ("REIT")	3.01	-	-
- Technology	17.40	22.48	7.67
- Telecommunications & Media	2.66	-	-
- Transportation & Logistics	1.92	-	-
- Trading/Services	-	15.79	21.82
- Utilities	3.09	-	-
Cash and other net assets	25.13	9.67	10.97
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

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

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

	<b>31.05.2019</b>	<b>31.05.2018</b>	<b>31.05.2017</b>
NAV (RM Million)	146.37	157.78	251.22
Units in circulation (Million)	156.69	175.40	223.16
NAV per unit (RM)	0.9341	0.8995	1.1257
Highest NAV per unit (RM)	1.0428	1.1964	1.1638
Lowest NAV per unit (RM)	0.7823	0.8582	0.9558
Total return (%)	3.87	(20.12)	16.16
- Capital growth (%)	3.87	(20.12)	16.16
- Income distribution (%)	-	-	-
Management Expense Ratio ("MER") (%) *	1.96	2.08	2.07
Portfolio Turnover Ratio ("PTR") (times) #	0.80	0.91	0.90

^ The Fund's MER decreased from 2.08% to 1.96% mainly due to an decrease in expenses during the financial year under review.

# The Fund's PTR decreased from 0.91 times to 0.80 times due to less trading activities during the financial year under review.

**PERFORMANCE DATA**

	31.05.2019	31.05.2018	31.05.2017	31.05.2016	31.05.2015
	%	%	%	%	%
Annual total return (Launch date: 30 April 2003)	3.87	(20.12)	16.16	1.91	(14.23)

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

**MARKET REVIEW (1 JUNE 2018 TO 31 MAY 2019)**

For the financial year under review, the FBMSCAP Index decreased by 9.09% from 13,800.69 points to 12,546.52 points.

After a tumultuous May 2018, FBMSCAP Index commenced the financial year with a rally. However, the rebound did not last, and market continues to be sold off in June 2018. Market sentiment was rattled by continuous news flow on the 1Malaysia Development Bhd (“1MDB”) and policy overhang on some of the mega projects such as East Coast Railway Line (“ECRL”), Mass Rapid Transit (“MRT”) 3 and High-Speed Rail (“HSR”). Sentiment was further dampened by the weak for the first quarter 2018 corporate earnings season and downgrades of Gross Domestic Product (“GDP”) forecast for 2018 and 2019. Meanwhile, on global front, it seems that trade tensions have intensified with US planning to impose tariffs on selected European Union (“EU”) products and EU has vowed for a retaliatory tariff for US goods on top of the ongoing trade disputes between US and China.

Subsequently, FBMSCAP Index saw a rebound in July 2018 as global sentiment and risk appetite was given a boost from optimism over US-China trade talks and news of the new North American Free Trade Agreement (“NAFTA”) deal. Chinese Government’s continuous deleveraging measures have provided some stability to the Chinese Yuan Renminbi (“CNY”) and regional bourses. Domestically, with the announcement on toll abolishment is deferred pending restoration of Government financials has provided a short-term lift to sentiment. Corporate earnings for the second quarter of 2018 were rather mixed and meeting street’s expectation with fewer corporations reporting earnings misses as compared to the first quarter of 2018.

However, the optimism did not last and, in the middle of August 2018, the FBMSCAP Index retraced as investors locked in gains made in the previous month on worries that the USD200 billion trade tariffs imposed on China may impact global growth and Emerging Markets (“EM”) currencies. The downtrend was exacerbated further by the financial crisis in Argentina which led investors to flee the Argentine Peso (“ARS”) causing worry of a contagion effect in EM. Sentiment in the local bourses was further affected by the announcement of the cancellation of 3 China-backed projects (the ECRL and the 2 gas pipeline projects estimated at USD23 billion) and the deferment of HSR to September 2020, which sent the Construction Index tumbling by 5.38% month-on-month (“m-o-m”).

The release of the mid-term review of the 11<sup>th</sup> Malaysia Plan offered no reprieve as investors further locked in gains made due to rising economic risk and uncertainties. Local investors were concerns that the Government will unveil new taxes and announce higher fiscal deficits during the 2019 Budget. Telecommunication companies were the largest loser on the back of regulatory risk, while construction sector underperformed on MRT Line 2 project cost cut.

During December 2018, the RM strengthened to RM4.133 per US Dollar (“USD”) from RM4.184 in the previous month. Brent crude oil slumped to USD53.80 per barrel, down by 8.36% m-o-m. The Street expects the budget deficit to narrow from 3.7% in 2018 to 3.4% in 2019 as the Government draws on Petroliaam Nasional Bhd’s (“Petronas”) financial resources with a RM30 billion special dividend.

**MARKET REVIEW (1 JUNE 2018 TO 31 MAY 2019) (CONTINUED)**

However, recent oil price weakness has dampened the Government’s finances as Budget 2019 was prepared based on average Brent crude oil price assumption of USD70 per barrel versus less than USD60 per barrel now. Should the current oil price weakness persist, the Federal Government will need to re-calibrate its budget to avoid further widening its budget deficit. If this materialises, GDP growth will face downside risk as Government’s further cost rationalisation will be a dampener on the economy.

FBMSCAP commenced 2019 with a rally and ended January 2019 higher by 7.17%. RM strengthened to RM4.09 against USD from RM4.13 in the previous month. Brent crude oil rose to USD61.89 per barrel, up by 15.03% m-o-m. On the external front, investors will continue to follow closely the latest developments on the ongoing US-China trade tensions, ongoing development of Brexit and negotiations on the US Federal Government budget as the temporary bill to fund US Government spending will expire on 15 February 2019. Policy uncertainty continues to be the order of the day as the ECRL on-again, off-again saga plays out. As of now, there is still no conclusive decision on the said mega project and a gag order has been issued to avoid any further confusion and escalation of rift with the Chinese Government. But the damage seems to have been done already. Conversation with business leaders revealed that the Government relationship with China is at all-time low. Business and consumer sentiment continued slipping for the second consecutive quarter in fourth quarter of 2018.

FBMSCAP Index continued its rally along with FBM Kuala Lumpur Composite (“KLCI”) Index ended higher in February 2019 driven by higher Brent crude oil, which traded up 6.7% m-o-m to USD66.82 per barrel on supply constraints. In addition, sentiment in the local bourse was further lifted by announcement made the Communications and Multimedia Minister, which indicated there will not be further reductions in high speed broadband prices in 2019 and Fitch re-affirmed Malaysia’s sovereign rating.

Positive news flow continues to buoy the construction sector as the revival of Bandar Malaysia project has lifted sentiment and expectation that the shelved HSR and MRT3 projects may be revived soon. Sustained rebound in crude oil prices have also seen the revival of job flows to oil and gas service providers. Additionally, news that China had also recently agreed to purchase a minimum of 1.9 million metric tons of crude palm oil over 5 years’ worth RM4.5 billion in addition to the earlier purchase contracts signed for 1.62 million metric tons for RM3.64 billion, provides additional boost to confidence that relationship with China has improved. Meanwhile on regulatory uncertainty, we believe risk is receding for telecommunication, airport and utilities sectors as much of the negatives have been priced in while the formalization of regulatory changes in the months to come would lift investors’ sentiment.

However, FBMSCAP Index along with regional markets took a turn and was sold down after a statement by US President Donald Trump that there would not be a deal after all for US-China trade negotiation. The fall-out has resulted in global manufacturing purchasing managers’ index (“PMI”) falling into contraction for the first time since 2012. In addition to external factors, RM faced additional selling pressure as Malaysia may be dropped from the FTSE World Government Bond Index (“WGBI”) during September 2019 review.

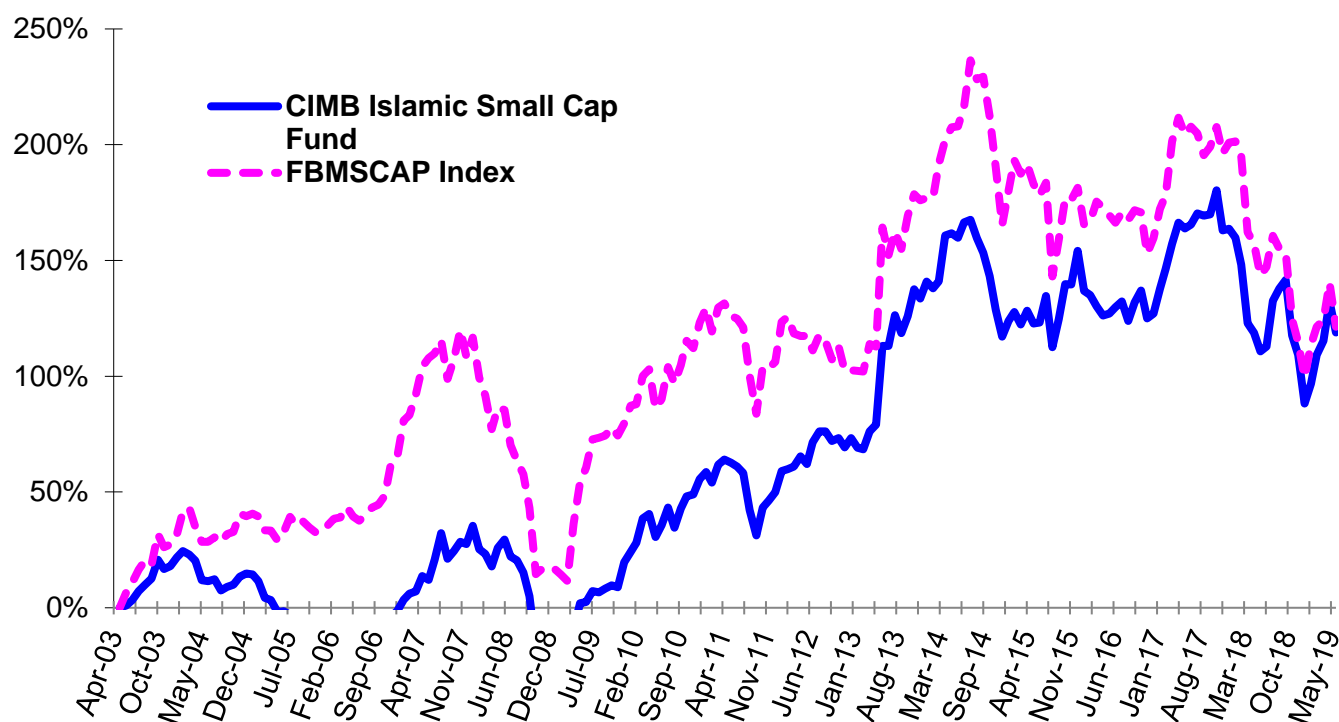
**FUND PERFORMANCE**

	<b>1 year to 31.05.2019</b>	<b>3 years to 31.05.2019</b>	<b>5 years to 31.05.2019</b>	<b>Since inception to 31.05.2019</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Income	-	-	-	-
Capital	3.87	(3.62)	(15.75)	118.88
Total Return	3.87	(3.62)	(15.75)	118.88
Benchmark	(9.09)	(17.86)	(28.11)	121.41
Average Total Return	3.87	(1.22)	(3.37)	4.99

For the financial year under review, the Fund’s total return increased by 3.87%, while the benchmark declined by 9.09%. As such, the Fund outperformed its benchmark by 12.96%.



## FUND PERFORMANCE (CONTINUED)



## Changes in NAV

	31.05.2019	31.05.2018	Changes %
NAV (RM Million)	146.37	157.78	(7.23)
NAV/Unit (RM)	0.9341	0.8995	3.85

The NAV per unit increased by 3.85% due to positive investment performance during the financial year.

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 quoted securities	74.87	90.33
Cash and other net assets	25.13	9.67
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>

Asset allocation decreased from 90.33% as at 31 May 2018 to 74.87% as at 31 May 2019 to realise profit and protect the capital at the end of the financial year.

## MARKET OUTLOOK\*

Towards the end of May 2019, sentiment was buoyed by two merger and acquisition announcements involving Axiata Group Bhd and Telenor Group and YTL Cement Bhd and Lafarge Malaysia Bhd and partly driven by foreign buying in the last three days of May 2019. First quarter of 2019 earnings season ended with another disappointment as there were still more misses than beats. Plantation, Technology, Aviation and Basic Materials were the major disappointments while positive results came from Automotive, Construction, Telecommunication and Utilities. While the moderation in the first quarter of 2019 GDP growth of 4.5% was shallower than street expectation, growth drivers going forward are weak given the escalating trade tension between the US and its major trading partners and slowing private investments due to dampened sentiment. Freshly out May 2019 PMI numbers (48.8 versus 49.4 in April 2019) for Malaysia showed further weakening in external demand. While still maintaining its 4.3% to 4.8% GDP forecast for 2019, Bank Negara Malaysia (“BNM”) has flagged that a full-blown US-China trade could shave 1.3% to 1.5% off Malaysia’s GDP growth. This suggests that risk to growth is clearly on the downside. On the bright side, recent resumption of mega infrastructure projects such as ECRL and Light Rapid Transit (“LRT”) 3 will provide some boost to growth from second half of 2019 onwards.

\* 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

Overall, we remain cautious on Malaysia given lack of earnings growth (consensus penciled in negative earnings growth for 2019) which is balanced by undemanding valuation now. Having said that, we are of the opinion that value is emerging in Malaysian equities and Malaysia tend to be more defensive when volatility in global equity markets rises. We look to add into names that are domestically driven and companies that payout high dividend. At the same time, we are reducing exposure on some of the Technology-related names on the back of rising trade conflicts

## UNIT HOLDINGS STATISTICS

Breakdown of unit holdings by size as at 31 May 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	39,433	11.07	7.06
5,001 to 10,000	2,414	17.77	11.34
10,001 to 50,000	3,269	69.50	44.36
50,001 to 500,000	560	53.45	34.11
500,001 and above	7	4.90	3.13
<b>Total</b>	<b>45,683</b>	<b>156.69</b>	<b>100.00</b>

## 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 SMALL CAP FUND**

We, being the Directors of Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) (the “Manager”), do hereby state that, in the opinion of the Manager, the accompanying audited financial statements set out on pages 16 to 49 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the financial position of the Fund as at 31 May 2019 and of its financial performance, changes in equity and cash flows for the financial year then ended in accordance with the provisions of the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

For and on behalf of the Manager

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

*(formerly known as CIMB-Principal Asset Management Berhad)*

**MUNIRAH KHAIRUDDIN**

Chief Executive Officer/Executive Director

**JUAN IGNACIO EYZAGUIRRE BARAONA**

Director

Kuala Lumpur

16 July 2019

**TRUSTEE'S REPORT TO THE UNIT HOLDERS OF  
CIMB ISLAMIC SMALL CAP FUND**

We, Universal Trustee (Malaysia) Berhad, being the Trustee of CIMB Islamic Small Cap Fund (the "Fund"), are of the opinion that Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) (the "Manager"), acting in the capacity of Manager of the Fund, have fulfilled their duties in the following manner for the financial year ended 31 May 2019:

- (a) the Fund is being managed in accordance with the limitations imposed on the investment powers of the Manager and the Trustee under the Deeds, the Securities Commission's Guidelines on the Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- (b) valuation/pricing is carried out in accordance with the Deeds and relevant regulatory requirements; and
- (c) creation and cancellation of units are carried out in accordance with the Deeds and relevant regulatory requirements.

For and on behalf of the Trustee  
**Universal Trustee (Malaysia) Berhad**

**ONG TEE VANN**  
Chief Executive Officer

Kuala Lumpur  
16 July 2019

**SHARIAH ADVISER'S REPORT TO THE UNIT HOLDERS OF  
CIMB ISLAMIC SMALL CAP FUND**

**For the Financial Period from 1 June 2018 to 31 March 2019**

We have acted as the Shariah Adviser of CIMB Islamic Small Cap Fund (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 SMALL CAP FUND**

**For the Financial Period from 1 April 2019 to 31 May 2019**

We have acted as the Shariah Adviser of CIMB Islamic Small Cap Fund ("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 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 SMALL CAP FUND**

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

Our opinion

In our opinion, the financial statements of CIMB Islamic Small Cap Fund (the "Fund") give a true and fair view of the financial position of the Fund 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 equity 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 16 to 49.

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 SMALL CAP FUND (CONTINUED)**

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of the financial statements of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards in Malaysia. 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 SMALL CAP FUND (CONTINUED)****REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)**Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

**OTHER MATTERS**

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

**PRICEWATERHOUSECOOPERS PLT**  
LLP0014401-LCA & AF 1146  
Chartered Accountants

Kuala Lumpur  
16 July 2019

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

	Note	2019 RM	2018 RM
<b>INCOME/(LOSS)</b>			
Dividend income		3,513,486	4,198,657
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions and Hibah earned		680,998	554,975
Net gain/(loss) on financial assets at fair value through profit or loss	7	<u>6,043,722</u>	<u>(38,978,432)</u>
		<u>10,238,206</u>	<u>(34,224,800)</u>
<b>EXPENSES</b>			
Management fee	4	2,842,504	3,919,543
Trustee's fee	5	92,189	127,120
Transaction costs		657,110	1,144,232
Audit fee		13,600	13,473
Tax Agent's fee		4,600	12,678
Other expenses		<u>55,945</u>	<u>391,347</u>
		<u>3,665,948</u>	<u>5,608,393</u>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		6,572,258	(39,833,193)
Taxation	6	<u>(3,099)</u>	<u>-</u>
<b>PROFIT/(LOSS) AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR</b>		<u>6,569,159</u>	<u>(39,833,193)</u>
Profit/(Loss) after taxation is made up as follows:			
Realised amount		(12,917,818)	9,452,119
Unrealised amount		<u>19,486,977</u>	<u>(49,285,312)</u>
		<u>6,569,159</u>	<u>(39,833,193)</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
<b>ASSETS</b>			
Cash and cash equivalents (Shariah-compliant)	8	37,278,838	15,895,280
Financial assets at fair value through profit or loss (Shariah-compliant)	7	109,588,994	142,525,672
Amount due from stockbrokers		-	2,486,660
Amount due from Manager		17,500	5,400
Dividends receivable		90,860	72,027
<b>TOTAL ASSETS</b>		<u>146,976,192</u>	<u>160,985,039</u>
<b>LIABILITIES</b>			
Amount due to stockbrokers		-	1,524,556
Amount due to Manager		336,548	1,372,563
Accrued management fee		236,015	260,926
Amount due to Trustee		7,655	8,462
Other payables and accruals		22,896	38,931
<b>TOTAL LIABILITIES</b>		<u>603,114</u>	<u>3,205,438</u>
<b>NET ASSET VALUE OF THE FUND</b>		<u>146,373,078</u>	<u>157,779,601</u>
<b>EQUITY</b>			
Unit holders' capital		95,574,588	113,550,270
Retained earnings		50,798,490	44,229,331
<b>NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS</b>		<u>146,373,078</u>	<u>157,779,601</u>
<b>NUMBER OF UNITS IN CIRCULATION (UNITS)</b>	9	<u>156,685,042</u>	<u>175,398,087</u>
<b>NET ASSET VALUE PER UNIT (RM)</b>		<u>0.9341</u>	<u>0.8995</u>

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

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

	Unit holders' capital RM	Retained earnings RM	Total RM
<b>Balance as at 1 June 2018</b>			
Movement in unit holders' contributions:	113,550,270	44,229,331	157,779,601
- Creation of units from applications	16,444,095	-	16,444,095
- Cancellation of units	(34,419,777)	-	(34,419,777)
Total comprehensive income for the financial year	-	6,569,159	6,569,159
<b>Balance as at 31 May 2019</b>	<u>95,574,588</u>	<u>50,798,490</u>	<u>146,373,078</u>
<b>Balance as at 1 June 2017</b>			
Movement in unit holders' contributions:	167,152,836	84,062,524	251,215,360
- Creation of units from applications	25,804,208	-	25,804,208
- Cancellation of units	(79,406,774)	-	(79,406,774)
Total comprehensive loss for the financial year	-	(39,833,193)	(39,833,193)
<b>Balance as at 31 May 2018</b>	<u>113,550,270</u>	<u>44,229,331</u>	<u>157,779,601</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	2018 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from disposal of Shariah-compliant quoted securities		145,044,586	212,552,259
Purchase of Shariah-compliant quoted securities		(105,759,192)	(175,657,541)
Profit income received from Shariah-compliant deposits with licensed Islamic financial institutions and Hibah earned		680,998	554,975
Dividend income received		3,491,554	4,139,167
Management fee paid		(2,867,416)	(4,061,458)
Trustee's fee paid		(92,995)	(131,722)
Payments for other fees and expenses		(90,180)	(439,374)
<b>Net cash generated from operating activities</b>		<u>40,407,355</u>	<u>36,956,306</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash proceeds from units created		16,431,995	26,489,534
Payments for cancellation of units		(35,455,792)	(79,567,937)
<b>Net cash used in financing activities</b>		<u>(19,023,797)</u>	<u>(53,078,403)</u>
Net increase/(decrease) in cash and cash equivalents		21,383,558	(16,122,097)
Cash and cash equivalents at the beginning of the financial year		15,895,280	32,017,377
Cash and cash equivalents at the end of the financial year	<b>8</b>	<u>37,278,838</u>	<u>15,895,280</u>
<u>Cash and cash equivalents comprised of:</u>			
Shariah-compliant deposits with licensed Islamic financial institutions		37,190,655	15,869,694
Bank balances		88,183	25,586
Cash and cash equivalents at the end of the financial year	<b>8</b>	<u>37,278,838</u>	<u>15,895,280</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 MAY 2019****1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES**

CIMB Islamic Small Cap Fund (the “Fund”) is governed by a Principal Master Deed dated 15 May 2008, a Fourth Supplemental Master Deed dated 25 June 2008, a Sixth Supplemental Master Deed dated 14 July 2008, a Seventh Supplemental Master Deed dated 19 November 2008, a Fourteenth Supplemental Master Deed dated 26 June 2012 and a Seventeenth Supplemental Master Deed dated 25 March 2015 (collectively referred to as the “Deeds”), made between Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) (the “Manager”) (the “Manager”) and Universal Trustee (Malaysia) Berhad (the “Trustee”).

The Fund may invest a minimum of 70% and up to a maximum of 98% of its NAV in Shariah-compliant stocks of emerging companies. The investment policy and strategy of the Fund will therefore focus on investments in Shariah-compliant securities of such emerging companies with potential growth and hands-on management policies but may be lacking in track records. The Fund may also invest up to 28% of its NAV in other permissible investments such as Shariah-compliant fixed income securities for the purpose of cash management. The Fund may also opt to seek investment exposure via Shariah-compliant CIS that is in line with the Fund’s objective, subject to the requirements of the SC Guidelines. In addition, Shariah-compliant liquid assets may be strategically used if we feel that the market downside risk is high in the short-term.

Between 70% to 98% (both inclusive) of the Fund’s NAV will be invested in Shariah-compliant equities and/or other Shariah-compliant investments, with at least 2% of the Fund’s NAV in Shariah-compliant liquid assets.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**(a) Basis of preparation**

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

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

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

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

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

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

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

Standard that is effective:

The Fund has applied the following standard for the first time for the financial year beginning on 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 assets<sup>1</sup> 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 instrument<sup>1</sup> 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 interest<sup>2</sup> ("SPPI"). A debt instrument<sup>1</sup> 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 instruments<sup>1</sup> 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. Derivative<sup>3</sup> and equity instruments<sup>3</sup> are measured at fair value through profit or loss unless, for equity instruments<sup>3</sup> 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).

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.

<sup>1</sup> For the purposes of the investments made by the Fund, equity instruments and derivatives refers to Shariah-compliant equity instruments Shariah-compliant collective investment schemes and Shariah-compliant derivatives.

<sup>2</sup> For the purposes of the investments made by the Fund, debt instruments refers to Sukuk.

<sup>3</sup> For the purposes of this Fund, interest refers to profits earned from Shariah-compliant investments.



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

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

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 these 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 quoted securities 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, amount due from stockbrokers, amount due from Manager and dividends receivable.

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

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

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.

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

The Fund classifies its Shariah-compliant 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 at fair value through other comprehensive income.

The Fund classifies cash and cash equivalents, amount due from stockbrokers, amount due from Manager and dividends receivable 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 stockbrokers, amount due to Manager, 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 investments are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income.

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 Shariah-compliant 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.

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

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

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.

Shariah-compliant quoted securities in Malaysia are valued at the last traded market price quoted on Bursa Malaysia Securities Bhd ("Bursa Securities") at the date of the statement of financial position.

If a valuation based on the market price does not represent the fair value of the Shariah-compliant 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 Shariah-compliant quoted securities for a period exceeding 14 days, or such shorter period as agreed by the Trustee, then the Shariah-compliant quoted securities are valued as determined in good faith by the Manager, based on the methods or bases approved by the Trustee after appropriate technical consultation.

Shariah-compliant deposits with licensed Islamic financial institutions are stated at cost plus accrued profit calculated on the effective interest method over the financial year from the date of placement to the date of maturity of the respective deposits.

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

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 year 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.

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

If, in a subsequent financial year, 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 onwards, 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.

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

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

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

Profit income from Shariah-compliant deposits with licensed Islamic financial institutions is recognised on a time proportionate basis using the effective profit 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).

Realised gain or loss on disposal of Shariah-compliant quoted securities is accounted for as the difference between the net disposal proceeds and the carrying amount of Shariah-compliant quoted securities, determined on a weighted average cost basis.

**(e) Cash and cash equivalents**

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balances and Shariah-compliant 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 on taxable profit earned during the financial year.

**(g) Transactions 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, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as expenses.

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

### (h) 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 year if unit holder exercises the right to put the unit back to the Fund.

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

### (i) Amount due from/to stockbrokers

Amount due from and amount due to stockbrokers represent receivables for Shariah-compliant quoted securities sold and payables for Shariah-compliant quoted securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively. The amount due from stockbrokers balance is held for collection.

These amounts are recognised initially at fair value and, up 31 May 2018, subsequently measured at amortised cost using the effective profit method, less provision for impairment for amounts due from stockbrokers. A provision for impairment of amounts due from stockbrokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant stockbroker. Significant financial difficulties of the stockbroker, probability that the stockbroker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from stockbrokers is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, profit income is recognised using the profit rate used to discount the future cash flows for the purpose of measuring the impairment loss. From 1 June 2018, these amounts are subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amount due from brokers at an amount equal to the lifetime expected credit losses 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 measures the loss allowance at an amount equal to 12-month expected credit losses. 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) 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 Shariah-compliant 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:

	<b>Financial assets at fair value through profit or loss RM</b>	<b>Financial assets at amortised cost RM</b>	<b>Total RM</b>
<b>2019</b>			
Cash and cash equivalents (Shariah-compliant) (Note 8)	-	37,278,838	37,278,838
Shariah-compliant quoted securities (Note 7)	109,588,994	-	109,588,994
Amount due from Manager	-	17,500	17,500
Dividends receivable	-	90,860	90,860
	<u>109,588,994</u>	<u>37,387,198</u>	<u>146,976,192</u>
	<b>Financial assets at fair value through profit or loss RM</b>	<b>Financing and receivables RM</b>	<b>Total RM</b>
<b>2018</b>			
Cash and cash equivalents (Shariah-compliant) (Note 8)	-	15,895,280	15,895,280
Shariah-compliant quoted securities (Note 7)	142,525,672	-	142,525,672
Amount due from stockbrokers	-	2,486,660	2,486,660
Amount due from Manager	-	5,400	5,400
Dividends receivable	-	72,027	72,027
	<u>142,525,672</u>	<u>18,459,367</u>	<u>160,985,039</u>

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

The Fund aims to seek medium to long-term growth in capital by investing principally in emerging companies listed on Bursa Malaysia and this must be in accordance with the Shariah principles.

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

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



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

(a) Market risk

(i) Price risk

This is the risk that the fair value of an investment in Shariah-compliant quoted securities will fluctuate because of changes in market prices (other than those arising from interest rate risk). The value of Shariah-compliant quoted 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 Shariah-compliant quoted securities and other financial instruments within specified limits according to the Deeds.

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

	2019 RM	2018 RM
Financial assets at fair value through profit or loss:		
- Shariah-compliant quoted securities	<u>109,588,994</u>	<u>142,525,672</u>

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

% Change in price of Shariah-compliant quoted securities	Market value RM	Impact on profit or loss/NAV RM
<b>2019</b>		
-5%	104,109,544	(5,479,450)
0%	109,588,994	-
5%	<u>115,068,444</u>	<u>5,479,450</u>
<b>2018</b>		
-5%	135,399,388	(7,126,284)
0%	142,525,672	-
5%	<u>149,651,956</u>	<u>7,126,284</u>

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

The Fund's exposure to fair value interest rate risk arises from investment in Shariah-compliant money market instruments. The interest rate risk is expected to be minimal as the Fund's investments comprise mainly short term Shariah-compliant 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, 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 in licensed Islamic financial institutions is managed by ensuring that the Fund will only place Shariah-compliant deposits in reputable licensed Islamic financial institutions.

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

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.

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

(b) Credit risk (continued)

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

	Cash and cash equivalents RM	Amount due from Manager RM	Dividends receivable RM	Total RM
<b>2019</b>				
Energy				
- Not rated	-	-	22,431	22,431
Finance				
- Citibank Bhd (AAA)	88,183	-	-	88,183
- Hong Leong Islamic Bhd (AAA)	19,675,729	-	-	19,675,729
- Public Islamic Bank Bhd (AAA)	12,508,042	-	-	12,508,042
- RHB Islamic Bhd (AAA)	5,006,884	-	-	5,006,884
Industrial Products & Services				
- Not Rated	-	-	68,429	68,429
Others				
- Not Rated	-	17,500	-	17,500
	<u>37,278,838</u>	<u>17,500</u>	<u>90,860</u>	<u>37,387,198</u>

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

## (b) Credit risk (continued)

	Cash and cash equivalents RM	Amount due from stockbrokers RM	Amount due from Manager RM	Dividends receivable RM	Total RM
<b>2018</b>					
Construction					
- Not rated	-	-	-	37,935	37,935
Finance					
- Citibank Bhd (AAA)	20,104	-	-	-	20,104
- Maybank Islamic Bhd (AAA)	1,112,579	-	-	-	1,112,579
- Public Islamic Bank Bhd (AAA)	1,549,965	-	-	-	1,549,965
- CIMB Islamic Bhd (AAA)	13,212,632	-	-	-	13,212,632
- Not Rated	-	2,486,660	-	-	2,486,660
Industrial Products					
- Not Rated	-	-	-	21,064	21,064
Trading/ Services					
- Not Rated	-	-	-	13,028	13,028
Others					
- Not Rated	-	-	5,400	-	5,400
	<u>15,895,280</u>	<u>2,486,660</u>	<u>5,400</u>	<u>72,027</u>	<u>18,459,367</u>

All financial assets of the Fund as at the end of each financial year 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. Generally, all investments are subject to a certain degree of liquidity risk depending on the nature of the investment instruments, market, sector and other factors. For the purpose of the Fund, the Manager will attempt to balance the entire portfolio by investing in a mix of assets with satisfactory trading volume and those that occasionally could encounter poor liquidity. This is expected to reduce the risks for the entire portfolio without limiting the Fund's growth potentials.

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

	Less than 1 month RM	Between 1 month to 1 year RM	Total RM
<b>2019</b>			
Amount due to Manager	336,548	-	336,548
Accrued management fee	236,015	-	236,015
Amount due to Trustee	7,655	-	7,655
Other payables and accruals	-	22,896	22,896
<b>Contractual undiscounted cash flows</b>	<b>580,218</b>	<b>22,896</b>	<b>603,114</b>
<b>2018</b>			
Amount due to stockbrokers	1,524,556	-	1,524,556
Amount due to Manager	1,372,563	-	1,372,563
Accrued management fee	260,926	-	260,926
Amount due to Trustee	8,462	-	8,462
Other payables and accruals	16,163	22,768	38,931
<b>Contractual undiscounted cash flows</b>	<b>3,182,670</b>	<b>22,768</b>	<b>3,205,438</b>

#### (d) Capital risk management

The capital of the Fund is represented by equity consisting of unit holders' capital of RM95,574,588 (2018: RM113,550,270) and retained earnings of RM50,798,490 (2018: RM44,229,331). The amount of capital can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

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

#### (e) Fair value estimation

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

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

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

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

#### (i) Fair value hierarchy

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

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

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

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

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

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

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

#### (e) Fair value estimation (continued)

##### (i) Fair value hierarchy (continued)

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
<b>2019</b>				
Financial assets at fair value through profit or loss:				
- Shariah- compliant quoted securities	<u>109,588,994</u>	<u>-</u>	<u>-</u>	<u>109,588,994</u>
<b>2018</b>				
Financial assets at fair value through profit or loss:				
- Shariah- compliant quoted securities	<u>142,525,672</u>	<u>-</u>	<u>-</u>	<u>142,525,672</u>

Shariah-compliant 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).

- (ii) The carrying values of cash and cash equivalents, amount due from stockbrokers, amount due from Manager, dividends receivable, 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 3.00% per annum, calculated daily based on the NAV of the Fund.

For the financial year ended 31 May 2019, the management fee is recognised at a rate of 1.85% per annum (2018: 1.85% per annum).

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

**5. TRUSTEE'S FEE**

In accordance with the Deeds, the Trustee is entitled to a maximum fee of 0.06% per annum, 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 0.06% per annum (2018: 0.06% per annum).

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

**6. TAXATION**

	<b>2019 RM</b>	<b>2018 RM</b>
Tax charged for the financial year:		
- Withholding tax	<u>3,099</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:

	<b>2019 RM</b>	<b>2018 RM</b>
Profit/(Loss) before taxation	<u>6,572,258</u>	<u>(39,833,193)</u>
Taxation at Malaysian statutory rate of 24% (2018: 24%)	1,577,342	(9,559,966)
Tax effects of:		
- (Income not subject to tax)/Loss not deductible for tax purposes	(2,457,169)	8,213,952
- Expenses not deductible for tax purposes	189,229	331,381
- Restriction on tax deductible expenses for Unit Trust Funds	690,598	1,014,633
Income subject to withholding tax	<u>3,099</u>	<u>-</u>
Taxation	<u>3,099</u>	<u>-</u>

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

	<b>2019 RM</b>	<b>2018 RM</b>
At fair value through profit or loss:		
- Shariah-compliant quoted securities	<u>109,588,994</u>	<u>142,525,672</u>
Net gain/(loss) on financial assets at fair value through profit or loss:		
- Realised (loss)/gain on disposals	(13,443,255)	10,306,880
- Unrealised fair value gain/(loss)	<u>19,486,977</u>	<u>(49,285,312)</u>
	<u>6,043,722</u>	<u>(38,978,432)</u>



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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
<b>2019</b>				
<b>SHARIAH-COMPLIANT QUOTED SECURITIES</b>				
<b>Construction</b>				
Gabungan AQRS Bhd	1,533,008	1,921,106	2,008,240	1.37
Kerjaya Prospek Group Bhd	567,480	811,152	698,000	0.48
Muhibbah Engineering (M) Bhd	686,600	1,701,278	1,888,150	1.29
Sunway Construction Group Bhd	1,238,200	2,439,905	2,426,872	1.66
TRC Synergy Bhd	1,954,900	1,184,969	1,270,685	0.87
Vizione Holdings Bhd	458,171	406,070	442,135	0.30
	<u>6,438,359</u>	<u>8,464,480</u>	<u>8,734,082</u>	<u>5.97</u>
<b>Consumer Products &amp; Services</b>				
Aeon Co. (M) Bhd	2,565,100	4,480,088	3,873,301	2.65
Bermaz Auto Bhd	1,271,500	2,808,996	2,924,450	2.00
Bioalpha Holdings Bhd	10,796,600	2,604,841	2,159,320	1.48
DRB-Hicom Bhd	1,045,700	2,156,436	2,175,056	1.48
Magni-Tech Industries Bhd	367,300	2,275,930	1,689,580	1.15
	<u>16,046,200</u>	<u>14,326,291</u>	<u>12,821,707</u>	<u>8.76</u>
<b>Energy</b>				
Dayang Enterprise Holdings Bhd	812,300	639,345	791,993	0.54
Sapura Energy Bhd	4,486,100	1,388,062	1,323,400	0.90
Serba Dinamik Holdings Bhd	356,000	964,531	1,459,600	1.00
Uzma Bhd	1,563,200	1,852,917	1,180,216	0.81
Yinson Holdings Bhd	799,200	3,427,338	3,940,056	2.69
	<u>8,016,800</u>	<u>8,272,193</u>	<u>8,695,265</u>	<u>5.94</u>
<b>Financial Services</b>				
Syarikat Takaful Malaysia Keluarga Bhd	386,000	2,178,449	2,427,940	1.66
<b>Health Care</b>				
Duopharma Biotech Bhd	3,054,562	3,342,686	4,093,113	2.80
Kossan Rubber Industries Bhd	595,700	2,289,213	2,358,972	1.61
	<u>3,650,262</u>	<u>5,631,899</u>	<u>6,452,085</u>	<u>4.41</u>

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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
<b>2019 (CONTINUED)</b>				
<b>SHARIAH-COMPLIANT QUOTED SECURITIES (CONTINUED)</b>				
<b>Industrial Products &amp; Services</b>				
ATA IMS Bhd	867,100	1,300,092	1,448,057	0.99
Chemical Co. Malaysia Bhd	2,817,433	7,065,493	5,578,517	3.81
EG Industries Bhd	1,569,475	1,249,459	659,180	0.45
EG Industries Bhd - Preference shares	1,389,691	660,103	583,670	0.40
HSS Engineers Bhd	1,511,200	1,447,044	1,601,872	1.09
Pecca Group Bhd	1,752,400	2,155,529	1,857,544	1.27
Rohas Tecnic Bhd	3,058,800	3,168,469	1,712,928	1.17
Success Transformer Corporation Bhd	5,240,700	5,054,307	4,166,356	2.85
Uchi Technologies Bhd	798,200	2,243,781	2,290,834	1.56
V.S. Industry Bhd	2,648,650	5,033,041	2,622,164	1.79
	<u>21,653,649</u>	<u>29,377,318</u>	<u>22,521,122</u>	<u>15.38</u>
<b>Plantation</b>				
FGV Holdings Bhd	<u>3,543,000</u>	<u>4,247,412</u>	<u>4,039,020</u>	<u>2.76</u>
<b>Property</b>				
Malaysian Resources Corporation Bhd	<u>3,000,100</u>	<u>2,614,962</u>	<u>2,790,093</u>	<u>1.91</u>
<b>REIT</b>				
Axis REIT	<u>2,577,300</u>	<u>4,575,113</u>	<u>4,407,183</u>	<u>3.01</u>
<b>Technology</b>				
Frontken Corporation Bhd	2,039,600	705,783	2,569,896	1.76
Globetronics Technology Bhd	2,558,066	5,154,450	4,041,744	2.76
Inari Amertron Bhd	1,592,200	2,774,435	2,451,988	1.67
JHM Consolidation Bhd	4,828,400	5,470,244	5,456,092	3.73
MI Technovation Bhd	100,200	230,835	167,334	0.11
Pentamaster Corporation Bhd	2,058,892	4,132,336	8,544,402	5.84
Revenue Group Bhd	1,826,100	2,196,425	2,246,103	1.53
	<u>15,003,458</u>	<u>20,664,508</u>	<u>25,477,559</u>	<u>17.40</u>
<b>Telecommunications &amp; Media</b>				
Binasat Communications Bhd	4,776,200	2,021,417	1,528,384	1.04
Time Dotcom Bhd	267,600	2,230,774	2,376,288	1.62
	<u>5,043,800</u>	<u>4,252,191</u>	<u>3,904,672</u>	<u>2.66</u>

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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
<b>2019 (CONTINUED)</b>				
<b>SHARIAH-COMPLIANT QUOTED SECURITIES (CONTINUED)</b>				
<b>Transportation &amp; Logistics</b>				
E.A. Technique Bhd	5,299,600	4,393,356	2,384,820	1.63
Pos Malaysia Bhd	316,200	677,826	423,708	0.29
	<u>5,615,800</u>	<u>5,071,182</u>	<u>2,808,528</u>	<u>1.92</u>
<b>Utilities</b>				
Malakoff Corporation Bhd	768,300	636,383	637,689	0.44
Ranhill Holdings Bhd	346,680	361,158	405,616	0.28
Taliworks Corporation Bhd	3,809,266	2,976,928	3,466,433	2.37
	<u>4,924,246</u>	<u>3,974,469</u>	<u>4,509,738</u>	<u>3.09</u>
<b>TOTAL SHARIAH-COMPLIANT QUOTED SECURITIES</b>	<b><u>95,898,974</u></b>	<b><u>113,650,467</u></b>	<b><u>109,588,994</u></b>	<b><u>74.87</u></b>
<b>ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<b><u>(4,061,473)</u></b>		
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<b><u>109,588,994</u></b>		

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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
<b>2018</b>				
<b>SHARIAH-COMPLIANT QUOTED SECURITIES</b>				
<b>Construction</b>				
Ahmad Zaki Resources Bhd	3,293,000	3,317,079	1,185,480	0.75
Econpile Holdings Bhd	1,416,550	1,016,936	800,351	0.51
Gabungan AQRS Bhd	1,343,600	2,039,510	859,904	0.55
George Kent Malaysia Bhd	2,806,600	7,778,533	3,367,920	2.13
Kerjaya Prospek Group Bhd	1,041,280	1,488,398	1,530,682	0.97
Kimlun Corporation Bhd	205,000	414,107	321,850	0.20
MGB Bhd	718,000	893,272	746,720	0.47
Muhibbah Engineering (M) Bhd	686,600	1,701,278	2,025,470	1.28
Sunway Construction Group Bhd	643,800	1,513,166	1,120,212	0.71
Vizione Holdings Bhd	22,307,400	2,824,386	2,676,888	1.70
WCT Holdings Bhd	1,993,710	2,698,465	1,565,062	0.99
	<u>36,455,540</u>	<u>25,685,130</u>	<u>16,200,539</u>	<u>10.26</u>
<b>Consumer Products</b>				
Bioalpha Holdings Bhd	10,489,400	2,531,113	2,360,115	1.50
CCM Duopharma Biotech Bhd	1,431,780	3,636,677	4,868,052	3.09
Cocoaland Holdings Bhd	533,200	1,618,493	1,226,360	0.78
Kawan Food Bhd	753,500	1,771,064	1,612,490	1.02
Magni-Tech Industries Bhd	673,700	4,179,420	2,997,965	1.90
Oriental Food Indust Holdings Bhd	176,400	384,413	158,760	0.10
Padini Holdings Bhd	768,700	2,710,743	4,412,338	2.80
Power Root Bhd	594,100	1,015,711	891,150	0.56
Prolexus Bhd	648,700	1,056,473	411,924	0.26
Sasbadi Holdings Bhd	6,141,400	4,408,797	2,210,904	1.40
	<u>22,210,880</u>	<u>23,312,904</u>	<u>21,150,058</u>	<u>13.41</u>
<b>Industrial Products</b>				
Chemical Co. Malaysia Bhd	2,293,633	6,059,691	4,610,202	2.92
Denko Industrial Corporation Bhd	1,453,600	2,177,831	2,180,400	1.38
DRB-Hicom Bhd	316,700	598,941	554,225	0.35
EG Industries Bhd	7,163,175	5,759,646	3,545,772	2.25
EG Industries Bhd - Preferred shares	2,138,075	1,015,586	1,026,276	0.65
Eonmetall Group Bhd	1,765,600	1,434,896	812,176	0.51
Kossan Rubber Industries Bhd	182,900	1,435,739	1,399,185	0.89
Pecca Group Bhd	1,154,400	1,702,328	1,015,872	0.64
SCGM Bhd	697,533	1,573,911	1,164,880	0.74

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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
<b>2018 (CONTINUED)</b>				
<b>SHARIAH-COMPLIANT QUOTED SECURITIES (CONTINUED)</b>				
<b>Industrial Products (Continued)</b>				
SKP Resources Bhd	1,110,300	1,854,345	1,665,450	1.06
SLP Resources Bhd	162,100	310,692	155,616	0.10
Success Transformer Corporation Bhd	9,851,100	9,500,731	9,063,012	5.74
Thong Guan Industries Bhd	363,500	1,364,153	919,655	0.58
Uchi Technologies Bhd	1,804,400	5,072,260	5,124,496	3.25
V.S. Industry Bhd	1,321,250	2,010,453	2,417,887	1.53
V.S. Industry Bhd - Warrant	5,124,875	5,078,810	2,511,189	1.59
	<u>36,903,141</u>	<u>46,950,013</u>	<u>38,166,293</u>	<u>24.18</u>
<b>IPC</b>				
Time Dotcom Bhd	183,400	876,232	1,375,500	0.87
<b>Properties</b>				
LBS Bina Group Bhd	1,203,880	965,364	1,029,317	0.65
Malaysian Resources Corporation Bhd	1,648,100	1,500,539	972,379	0.62
Yong Tai Bhd	2,351,000	3,391,739	3,267,890	2.07
	<u>5,202,980</u>	<u>5,857,642</u>	<u>5,269,586</u>	<u>3.34</u>
<b>Technology</b>				
Elsoft Research Bhd	808,350	2,129,785	2,045,126	1.30
Frontken Corporation Bhd	21,700,100	7,183,406	8,788,540	5.57
GHL Systems Bhd	490,700	541,232	736,050	0.47
Globetronics Technology Bhd	2,779,366	5,065,114	6,670,478	4.23
Inari Amertron Bhd	2,021,400	3,533,770	4,629,006	2.93
JHM Consolidation	2,252,500	2,408,436	2,173,663	1.38
Pentamaster Corporation Bhd	3,217,892	6,066,069	7,497,688	4.75
Sedania Innovator Bhd	2,690,200	1,201,528	645,648	0.41
Visdynamics Holdings Bhd	4,041,950	2,126,524	1,535,941	0.97
Visdynamics Holdings Bhd – Warrant	962,887	-	134,804	0.09
Vitrox Corporation Bhd	103,400	294,159	599,720	0.38
	<u>41,068,745</u>	<u>30,550,023</u>	<u>35,456,664</u>	<u>22.48</u>

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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
<b>2018 (CONTINUED)</b>				
<b>SHARIAH-COMPLIANT QUOTED SECURITIES (CONTINUED)</b>				
<b>Trading/Services</b>				
Aeon Co. (M) Bhd	1,611,100	3,045,066	3,689,419	2.34
Bermaz Auto Bhd	759,700	1,633,594	1,671,340	1.06
Datasonic Group Bhd	3,051,300	3,665,578	2,730,914	1.73
Destini Bhd	1,068,200	616,190	251,027	0.16
E.A. Technique Bhd	9,613,900	7,969,900	3,845,560	2.44
My Eg Services Bhd	1,426,700	1,243,180	1,269,763	0.80
Pos Malaysia Bhd	563,500	1,774,799	2,011,695	1.28
Serba Dinamic Holdings Bhd	677,900	1,836,672	2,237,070	1.42
Taliworks Corporation Bhd	5,668,600	7,383,317	4,364,822	2.77
Uzma Bhd	1,518,400	2,429,332	1,412,112	0.89
Yinson Holdings Bhd	325,700	1,244,550	1,423,310	0.90
	<u>26,285,000</u>	<u>32,842,178</u>	<u>24,907,032</u>	<u>15.79</u>
<b>TOTAL SHARIAH-COMPLIANT QUOTED SECURITIES</b>	<b><u>168,309,686</u></b>	<b><u>166,074,122</u></b>	<b><u>142,525,672</u></b>	<b><u>90.33</u></b>
<b>ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<b><u>(23,548,450)</u></b>		
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<b><u>142,525,672</u></b>		

**8. CASH AND CASH EQUIVALENTS (SHARIAH-COMPLIANT)**

	<b>2019</b>	<b>2018</b>
	<b>RM</b>	<b>RM</b>
Shariah-compliant deposits with licensed Islamic financial institutions	37,190,655	15,869,694
Bank balances	88,183	25,586
	<u>37,278,838</u>	<u>15,895,280</u>

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

	<b>2019</b>	<b>2018</b>
	<b>%</b>	<b>%</b>
Shariah-compliant deposits with licensed Islamic financial institutions	<u>3.04</u>	<u>3.20</u>

Shariah-compliant deposits with licensed Islamic financial institutions of the Fund have an average maturity of 10 days (2018: 4 days).

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

	<u><b>2019</b></u>	<u><b>2018</b></u>
	<b>No. of units</b>	<b>No. of units</b>
At the beginning of the financial year	175,398,087	223,159,558
Add: Creation of units from applications	17,541,282	24,100,287
Less: Cancellation of units	<u>(36,254,327)</u>	<u>(71,861,758)</u>
At the end of the financial year	<u>156,685,042</u>	<u>175,398,087</u>

**10. MANAGEMENT EXPENSE RATIO ("MER")**

	<b>2019</b>	<b>2018</b>
	<b>%</b>	<b>%</b>
MER	<u>1.96</u>	<u>2.08</u>

MER is derived from the following calculation:

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

A = Management fee

B = Trustee's fee

C = Audit fee

D = Tax Agent's fee

E = Other expenses excluding Goods and Services Tax ("GST") on transaction costs

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 RM153,733,802 (2018: RM211,753,623).

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

	<b>2019</b>	<b>2018</b>
PTR (times)	<u>0.80</u>	<u>0.91</u>

PTR is derived from the following calculation:

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

where:

total acquisition for the financial year = RM103,961,660 (2018: RM171,277,154)  
 total disposal for the financial year = RM142,942,059 (2018: RM213,435,498)

**12. 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 <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
CIMB Investment Bank Bhd	Fellow related party to the Manager
CIMB Islamic Bank Bhd	Fellow related party to 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



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

Units held by the Manager and parties related to the Manager

	2019		2018	
	No. of units	RM	No. of units	RM
<b>Manager</b>				
Principal Asset Management Berhad ( <i>formerly known as CIMB-Principal Asset Management Berhad</i> )	4,066	3,798	3,092	2,781

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.

	2019 RM	2018 RM
<u>Significant related party transactions</u>		
Profit income from Shariah-compliant deposits with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	159,937	122,066
Shariah-compliant deposits with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	248,372,000	261,723,000
<u>Significant related party balances</u>		
Shariah-compliant deposits with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	-	13,212,632

## 13. TRANSACTIONS WITH BROKERS/DEALERS

Details of transactions with the top 10 brokers/dealers for the financial year ended 31 May 2019 are as follows:

Brokers/Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total Brokerage Fees %
RHB Investment Bank Bhd	26,482,217	11.43	59,347	11.56
Affin Hwang Investment Bank Bhd	24,266,308	10.47	54,736	10.66
KAF Seagroats & Campbell Securities Bhd	22,906,195	9.88	51,598	10.05
Macquarie Capital Securities (M) Sdn Bhd	21,505,856	9.28	48,444	9.43
CIMB Investment Bank Bhd #	20,593,273	8.89	45,926	8.94
JP Morgan Securities (M) Sdn Bhd	19,849,037	8.56	44,438	8.65
CLSA Securities (M) Sdn Bhd	18,264,457	7.88	38,046	7.41
Maybank Investment Bank Bhd	17,994,476	7.76	39,549	7.70
UBS Securities (M) Sdn Bhd	16,821,978	7.26	37,069	7.22
Alliance Investment Bank Bhd	14,959,596	6.45	33,698	6.56
Others	28,130,623	12.14	60,729	11.82
	<u>231,774,016</u>	<u>100.00</u>	<u>513,580</u>	<u>100.00</u>

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

Brokers/Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total Brokerage Fees %
RHB Investment Bank Bhd	54,891,934	15.22	142,823	16.91
Maybank Investment Bank Bhd	36,788,549	10.20	82,189	9.73
Credit Suisse (M) Sdn Bhd	36,140,295	10.02	80,408	9.52
Hong Leong Investment Bank Bhd	35,364,368	9.80	79,860	9.46
JP Morgan Securities (M) Sdn Bhd	33,930,649	9.41	76,410	9.05
CLSA Securities (M) Sdn Bhd	31,636,341	8.77	70,740	8.38
KAF Seagroats & Campbell Securities Bhd	27,044,822	7.50	60,888	7.21
CIMB Investment Bank Bhd #	25,621,617	7.10	58,009	6.87
Affin Hwang Investment Bank Bhd	24,507,241	6.79	54,316	6.43
Macquarie Malaysia Sdn Bhd	20,742,956	5.75	46,741	5.54
Others	34,040,081	9.44	92,027	10.90
	<u>360,708,853</u>	<u>100.00</u>	<u>844,411</u>	<u>100.00</u>

# Included in the transactions are trades conducted CIMB Investment Bank Bhd, related party to the Manager amounting to RM20,593,273 (2018: RM25,621,617). 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.

**14. 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 to seek medium to long-term growth in capital by investing principally in emerging companies listed on Bursa Malaysia and this must be in accordance with Shariah principles. 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 income and dividend income earned from Shariah-compliant investments and gains on the appreciation in the value of Shariah-compliant investments, which are derived from Ringgit-denominated Shariah-compliant deposit with licensed Islamic financial institutions in Malaysia and Shariah-compliant quoted securities listed on Bursa Securities, Malaysia.

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

**15. MFRS 9 FINANCIAL INSTRUMENTS**

As disclosed in Note 2(a), the Fund has adopted MFRS 9, which resulted in the following 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	Reclassi- fications RM	Remeasu- rements RM	New (MFRS 9) RM
<b>Assets</b>						
Cash and cash equivalents	Financing and receivables	Amortised cost	15,895,280	-	-	15,895,280
Shariah-compliant quoted securities	FVTPL	FVTPL	142,525,672	-	-	142,525,672
Amount due from stockbrokers	Financing and receivables	Amortised cost	2,486,660	-	-	2,486,660
Amount due from Manager	Financing and receivables	Amortised cost	5,400	-	-	5,400
Dividends receivable	Financing and receivables	Amortised cost	72,027	-	-	72,027

**15. MFRS 9 FINANCIAL INSTRUMENTS (CONTINUED)**

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: (continued)

	Measurement category		Carrying amount			
	Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139)	Reclassifi- cations	Remeasu- rements	New (MFRS 9)
			RM	RM	RM	RM
<b><i>Liabilities</i></b>						
Amount due to stockbrokers	Amortised cost	Amortised cost	1,524,556	-	-	1,524,556
Amount due to Manager	Amortised cost	Amortised cost	1,372,563	-	-	1,372,563
Accrued management fee	Amortised cost	Amortised cost	260,926	-	-	260,926
Amount due to Trustee	Amortised cost	Amortised cost	8,462	-	-	8,462
Other payables and accruals	Amortised cost	Amortised cost	38,931	-	-	38,931

**16. APPROVAL OF FINANCIAL STATEMENTS**

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

## DIRECTORY

### Head office of the Manager

Principal Asset Management Berhad (Company No.: 304078-K)  
(formerly known as CIMB-Principal Asset Management Berhad)  
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### General investment enquiries

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### Shariah Adviser of the CIMB Islamic Small Cap Fund

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### Auditors of the Fund and of the Manager

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