

CIMB Islamic Sukuk Fund

Annual Report

For The Financial Year Ended 31 August 2019

CIMB ISLAMIC SUKUK FUND

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2019

CONTENTS	PAGE(S)
INVESTORS' LETTER	1
MANAGER'S REPORT	2 - 7
Fund Objective and Policy	
Performance Data	
Market Review	
Fund Performance	
Portfolio Structure	
Market Outlook	
Investment Strategy	
Unit Holdings Statistics	
Soft Commissions and Rebates	
STATEMENT BY MANAGER	8
TRUSTEE'S REPORT	9
SHARIAH ADVISER'S REPORT	10 - 11
INDEPENDENT AUDITORS' REPORT	12 - 15
STATEMENT OF COMPREHENSIVE INCOME	16
STATEMENT OF FINANCIAL POSITION	17
STATEMENT OF CHANGES IN EQUITY	18
STATEMENT OF CASH FLOWS	19
NOTES TO THE FINANCIAL STATEMENTS	20 - 48
DIRECTORY	49

INVESTORS' LETTER

Dear Valued Investors,

We have recently announced through the media our collaboration with the Employee Provident Fund ("EPF") that consumers can now invest in our Unit Trust Funds at 0% sales fee*, as part of our offering for the EPF's newly launched i-Invest online platform within the i-Akaun (Member) portal facility.

The online facility enables EPF i-Akaun members to invest in Unit Trust Funds using their EPF savings without needing to complete and submit physical forms and enables them to perform various transactions including purchase, redeem and switch funds - anytime, anywhere.

In today's era of dynamic change, there is a growing need to accommodate the emergence of more tech savvy investors. We're glad to have the opportunity to partner with the EPF and are excited to bring our global experience and expertise to make saving for retirement faster and easier for those who prefer to manage their money, their way. The Principal Asset Management Berhad (*formerly known as CIMB-Principal Asset Management Berhad*) ("Principal Malaysia") online platform is just one more tool we offer to help you save enough and have enough in retirement and complements our other methods of investing. To find out more on how you can maximise your retirement savings, please visit <https://www.principal.com.my/en/unit-trust-investment-through-epf-i-akaun-investment>.

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.

As of August 2019, our Assets under Management ("AUM") stood at RM56.5 billion. Going forward we will be launching a new global Fund with a unique combination that will help cushion the impact of any unforeseen eventualities. We look forward to introducing it to you.

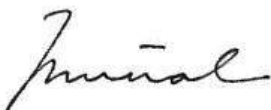
Thank you for your continuous support and allowing us to help you achieve your financial goals and live your best life.

Thank you.

Yours faithfully,

for **Principal Asset Management Berhad**

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



Munirah Khairuddin

Chief Executive Officer

*The 0% sales fee is subject to change

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

The investment objective of the Fund is to gain higher than average income over the medium to long-term by investing in a diversified portfolio consisting principally of Sukuk, certificates of deposit, short-term money market instruments and other permissible investments under the Shariah principles.

Has the Fund achieved its objective?

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

What are the Fund investment policy and principal investment strategy?

A minimum of 70% and up to a maximum of 98% of the Fund's Net Asset Value ("NAV") may be invested in Sukuk carrying at least a "BBB3" or "P2" rating by RAM ratings ("RAM") or equivalent rating by Malaysian Rating Corporation Berhad ("MARC") or by local rating agency(ies) of the country of issuance; or "BBB-" by Standard & Poor's ("S&P") or equivalent rating by Moody's or Fitch. The Fund may invest up to 40% of its NAV in Unrated Sukuk* and up to 28% of its NAV in other permissible investments. In line with its objective, the investment strategy and policy of the Fund is to invest in a diversified portfolio of Shariah-compliant fixed income securities consisting of Sukuk, aim to provide a steady stream of income from the profit of Sukuk. The Fund may also opt to seek investment exposure via Shariah-compliant collective investment scheme that is in line with the Fund's objective, subject to the requirements of the SC Guidelines. The rest of the Fund is maintained in the form of Shariah-compliant liquid assets to meet any withdrawal payments to Unit holders.

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

Fund category/type

Sukuk/Income

How long should you invest for?

Recommended three (3) years or more

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

Low

When was the Fund launched?

8 October 2004

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

RM415.09 million (314.75 million units)

What is the Fund's benchmark?

Quantshop Government Investment Issues ("GII") Medium Index

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

What is the Fund distribution policy?

Distribution (if any) is expected to be distributed annually, depending on the performance of the Fund and at the Manager's discretion.

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

The Fund distributed a total net income of RM13.36 million to unit holders for the financial year ended 31 August 2019. As a result, the NAV per unit dropped from RM1.3267 to RM1.2567 on 24 April 2019.

PERFORMANCE DATA

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

	31.08.2019	31.08.2018	31.08.2017
	%	%	%
Unquoted Sukuk	83.21	89.35	86.63
Cash and other net assets	16.79	10.65	13.37
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

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

	31.08.2019	31.08.2018	31.08.2017
NAV (RM Million)	415.09	191.83	163.76
Units in circulation (Million)	314.75	150.16	127.19
NAV per unit (RM)	1.3188	1.2775	1.2875
Highest NAV per unit (RM)	1.3265	1.3205	1.3341
Lowest NAV per unit (RM)	1.2567	1.2501	1.2693
Total return (%)	8.98	4.62	3.23
- Capital growth (%)	3.23	(0.78)	(1.80)
- Income distribution (%)	5.57	5.36	5.12
Management Expense Ratio ("MER") (%) ^	1.02	1.07	1.10
Portfolio Turnover Ratio ("PTR") (times) #	0.80	0.94	0.62

^ The Fund's MER decreased slightly from 1.07% to 1.02% due to increase in average NAV during financial year under review.

The Fund's PTR was decreased from 0.94 times to 0.80 times due to increase in average NAV during financial year under review.

Date of distribution	24.04.2019	24.04.2018	26.04.2017
Gross/Net distribution per unit (sen)	7.00	6.80	6.50

	31.08.2019	31.08.2018	31.08.2017	31.08.2016	31.08.2015
	%	%	%	%	%
Annual total return	8.98	4.62	3.23	6.64	3.23

(Launch date: 8 October 2004)

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

MARKET REVIEW (1 SEPTEMBER 2018 TO 31 AUGUST 2019)

During the financial year under review, the GII yield curve moved lower by 30 basis points ("bps") to 136 bps. The 3-years, 5-years, 7-years, 10-years, 15-years, 20-years and 30-years GII yields closed at 3.16%, 3.25%, 3.32%, 3.36%, 3.51%, 3.63% and 3.85% respectively at the end of August 2019.

MARKET REVIEW (1 SEPTEMBER 2018 TO 31 AUGUST 2019) (CONTINUED)

In September 2018 the sovereign yield curve traded higher across most tenures (between 1 bps to 13 bps) with the 3-year shifting the most (13 bps) to close at 3.59% from 3.46% previously. The local bond space continued to be on a cautious tone in October 2018. There was some selling pressure on the belly of the yield curve. Market was pricing in higher Government bond supply for the remaining auctions as fiscal deficit in 2018 was expected to exceed the 2.8% of Gross Domestic Products (“GDP”) target.

The midterm review of the 11th Malaysia Plan was held on the 18 October 2018 whereby the Government cut its 2018 to 2020 growth projection for the country’s economy from the previous target of 5.0% to 6.0% to 4.5% to 5.5%. They expect growth to be driven by private expenditure albeit at a softer pace than initially expected, while rationalisation of the Government’s spending will see initial target for public expenditure to fall from 3.0% of GDP to 0.6%.

Budget 2019 was tabled on 2 November 2018 by the Minister of Finance (“MoF”). The budget confirms that fiscal deficits will be wider at 3.7% in 2018 and 3.4% in 2019, but the Government remains committed to medium-term consolidation. The wider fiscal deficit of 0.9% is due to some legacy issues and previously unbudgeted items according to the MoF. There is expected to be a RM7 billion offset which will come from additional dividend from Petroliam National Bhd (“Petronas”), resulting in a RM13 billion budget deficit. Beginning 2019, the MoF will resume fiscal consolidation, aiming for a lower deficit ratio of 3.4%. According to its medium-term fiscal plan, which provides fiscal guidance covering 2019 to 2021, the Government targets to reduce the deficit ratio further to 3.0% in 2020 and 2.8% in 2021.

Towards end of 2018, the GII yields for the 3-years, 5-years, 10-years, 15-years, 20-years and 30-years Malaysian Government Investment Issue (“MGII”) closed at 3.67%, 3.85%, 4.25%, 4.57%, 4.79% and 4.93% respectively at the end of December 2018.

2019 started the year with expectation of dovish interest rate trend as US Treasury (“UST”) yield inverted on the 5-year bucket, a sign that market is expecting the US Federal Reserve (the “Fed”) to ease at some point in the next few years. Trade tension and weak global growth forecast were the main backdrop of yield curve inversion in the US.

In April 2019, Bank Negara Malaysia (“BNM”) released its 2018 Annual Report in which the Central Bank downgraded 2019 growth to in between of 4.3% and 4.8% (2018: 4.7%), below MoF’s forecast of 4.9% in October 2018. Most of the downgrade came from smaller contribution from net export (2019: flat, 2018 1%) and domestic demand (2019: 4.1%, 2018: 5.2%). 2019 headline Consumer Price Index (“CPI”) forecast also revised down to in between of 0.7% and 1.7% (2.5% to 3.5% during Budget 2019 projections) given the lower oil prices and price ceiling mechanism on domestic retail fuel prices.

On 7 May 2019, BNM’s Monetary Policy Committee (“MPC”) cut the Overnight Policy Rate (“OPR”) by 25 bps to 3.00% as muchly anticipated by the market. The MPC statement highlighted that while domestic monetary and financial conditions remain supportive of economic growth, there are some signs of tightening of financial conditions. The adjustment to the OPR is therefore intended to preserve the degree of monetary accommodativeness.

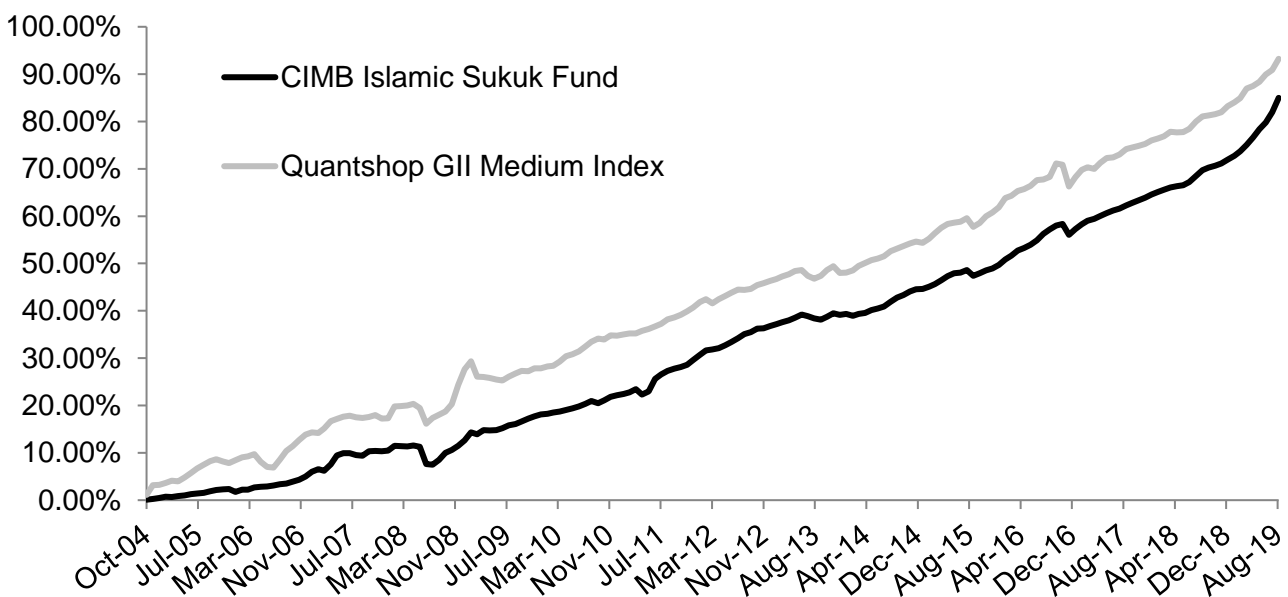
The sovereign yield curve continued to bull flattened from June to August 2019. Better buying interest was seen from the continuation of dovish sentiment both from global and local factors. The longer end of the curve tightened significantly with the 20- and 30-year tenors moved below 4% Local govies continued to track global yield movement amidst concerns on slowing global growth afflicted by the lingering US-China trade tensions.

Foreign investors holdings in Malaysian assets tapered off slightly in August by RM0.1 billion. As of August 2019, total foreign holdings in Malaysian Government Securities (“MGS”) and GII stood at RM153.7 billion and RM15.3 billion respectively, representing approximately 37.7% and 38.3% of outstanding MGS and GII respectively

FUND PERFORMANCE

	1 year to 31.08.2019	3 years to 31.08.2019	5 years to 31.08.2019	Since inception to 31.08.2019
	%	%	%	%
Income	5.57	16.92	29.08	37.44
Capital	3.23	0.59	0.29	33.39
Total Return	8.98	17.70	29.57	84.99
Benchmark	6.72	13.08	26.17	93.23
Average Total Return	8.98	5.58	5.32	4.21

For the financial year ended 31 August 2019, the Fund delivered a total return of 8.98% versus the benchmark's return of 6.72%. Over a longer period of 3 years, the Fund also outperformed the benchmark by 4.62%.



Changes in NAV

	31.08.2019	31.08.2018	Changes %
NAV (RM Million)	415.09	191.83	>100.00
NAV/Unit (RM)	1.3188	1.2775	3.23

The Fund's NAV increased by more than 100% from RM191.83 million as at 31st August 2018 to RM415.09 million as at 31st August 2019 mainly due to injections. The NAV per unit increased by 3.23%% during the financial year under review.

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)	31.08.2019	31.08.2018
Unquoted Sukuk	83.21	89.35
Cash and other net assets	16.79	10.65
Total	100.00	100.00

The Fund was 83.21% invested in unquoted sukuk with 16.79% in cash and other net assets. Liquidity is maintained for the Fund to take advantage of primary issues as well as to facilitate any redemption.

MARKET OUTLOOK*

Protracted trade tensions with mutual retaliations between the US and China coupled with weaker China data and a contraction in Germany's second quarter of 2019 growth have sparked global growth concerns amid continued unrest in Hong Kong SAR, China and "Brexit" uncertainty. Rising uncertainties have pushed the global Government bond yields lower with the 2/10 UST yield curve inverted for the first time since 2007, heightened recession fear.

Malaysian economy increased at a faster pace of 4.9% year-on-year ("y-o-y") as compared to first quarter of 2019 GDP of 4.5% (above market's consensus of 4.7%) led by firmer domestic demand and across all economic sectors despite lingering global trade tensions. Overall, BNM's baseline projection for 2019 growth remains within the range of between 4.3% and 4.8% supported mainly by private sector activity. It notes that outlook is subject to downside risks from lingering external factors and domestic environment, worsening trade tensions and extended weakness in commodity related sectors. During the month, BNM announced liberalization of foreign exchange administration ("FEA") rules to further improve the liquidity of foreign exchange ("FX") market and bonds, reaffirming BNM's stance to deepen and broaden onshore markets.

With Malaysian Government Securities ("MGS") yields and spreads near record low, it has spurred positive vibes for corporates to tap the capital market for lower borrowing cost. Based on news flows and market chatter, we are seeing a robust pipeline issuance with ratings ranging from GG to single A amounting close to RM10 billion. A few key events to watch out in September 2019 are the MPC meeting on 12 September 2019, Federal Open Market Committee ("FOMC") meeting on 19 September 2019 and FTSE Russell's decision on potential MGS exclusion on 27 September 2019.

*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

We remain invested in corporate sukuk for more stable and higher yield pick up to anchor the Fund. Our focus will be on primary issuances or repriced secondary offers that have exhibited stable fundamentals, we will also opportunistically participate in sovereign markets as and when valuation turns attractive.

UNIT HOLDINGS STATISTICS

Breakdown of unit holdings by size as at 31 August 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	12,775	2.63	0.84
5,001-10,000	679	4.84	1.54
10,001-50,000	1,315	32.08	10.19
50,001-500,000	566	69.61	22.12
500,001 and above	31	205.59	65.31
Total	15,366	314.75	100.00

SOFT COMMISSIONS AND REBATES

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

During the financial year under review, the Manager and 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 SUKUK 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 48 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 August 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
17 October 2019

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

We, AMANAHRAYA TRUSTEES BERHAD, have acted as Trustee of CIMB ISLAMIC SUKUK FUND for the financial year ended 31 August 2019. In our opinion, PRINCIPAL ASSET MANAGEMENT BERHAD (*formerly known as CIMB-PRINCIPAL ASSET MANAGEMENT BERHAD*), the Manager, has operated and managed CIMB ISLAMIC SUKUK FUND in accordance with the limitations imposed on the investment powers of the management company under the Deed, securities laws and the applicable Guidelines on Unit Trust Funds for the financial year then ended.

We are also of the opinion that:

- a) Valuation and pricing is carried out in accordance with the Deed and any regulatory requirement;
- b) Creation and cancellation of units are carried out in accordance with the Deed and any regulatory requirement; and
- c) The distribution of income made by CIMB ISLAMIC SUKUK FUND as declared by the Manager is appropriate and reflects the investment objective of CIMB ISLAMIC SUKUK FUND.

For and on behalf of the Trustee,
AmanahRaya Trustees Berhad

HABSAH BINTI BAKAR
Chief Executive Officer

Kuala Lumpur
4 October 2019

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

For the Financial Period from 1 September 2018 to 31 March 2019

We have acted as the Shariah Adviser of CIMB Islamic Sukuk Fund (the "Fund") for the financial period from 1 September 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 September 2018 to 31 March 2019.

In addition, we also 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 rulings of the Shariah Adviser and 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

Group 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 SUKUK FUND**

For the Financial Period from 1 April 2019 to 31 August 2019

We have acted as the Shariah Adviser of CIMB Islamic Sukuk 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

17 October 2019

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of CIMB Islamic Sukuk Fund (the "Fund") give a true and fair view of the financial position of the Fund as at 31 August 2019, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 August 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 16 to 48.

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 SUKUK 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 auditor's report thereon.

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

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

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

Responsibilities of the Manager for the financial statements

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
CIMB ISLAMIC SUKUK 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 SUKUK 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
17 October 2019

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

	Note	2019 RM	2018 RM
INCOME			
Profit income from unquoted Sukuk at fair value through profit or loss		11,257,701	7,425,009
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions at amortised cost and Hibah earned		714,415	481,090
Net gain on financial assets at fair value through profit or loss	8	<u>15,642,457</u>	<u>1,363,463</u>
		<u>27,614,573</u>	<u>9,269,562</u>
EXPENSES			
Management fee	4	2,469,280	1,557,042
Trustee's fee	5	155,955	98,339
Audit fee		12,500	11,800
Tax agent's fee		5,000	9,143
Other expenses		<u>14,017</u>	<u>77,464</u>
		<u>2,656,752</u>	<u>1,753,788</u>
PROFIT BEFORE TAXATION		24,957,821	7,515,774
Taxation	7	<u>-</u>	<u>-</u>
PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		<u>24,957,821</u>	<u>7,515,774</u>
Profit after taxation is made up as follows:			
Realised amount		11,626,311	4,730,516
Unrealised amount		<u>13,331,510</u>	<u>2,785,258</u>
		<u>24,957,821</u>	<u>7,515,774</u>

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

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

	Note	2019 RM	2018 RM
ASSETS			
Cash and cash equivalents	9	61,632,899	20,190,807
Financial assets at fair value through profit or loss (Shariah-compliant)	8	345,377,931	171,402,322
Amount due from Manager		12,874,966	619,787
TOTAL ASSETS		<u>419,885,796</u>	<u>192,212,916</u>
LIABILITIES			
Amount due to Manager		4,449,483	208,553
Accrued management fee		312,898	152,413
Amount due to Trustee		19,762	9,626
Other payables and accruals		14,840	13,500
TOTAL LIABILITIES		<u>4,796,983</u>	<u>384,092</u>
NET ASSET VALUE OF THE FUND		<u>415,088,813</u>	<u>191,828,824</u>
EQUITY			
Unit holders' capital		387,723,682	176,058,080
Retained earnings		27,365,131	15,770,744
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>415,088,813</u>	<u>191,828,824</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)	10	<u>314,745,983</u>	<u>150,155,140</u>
NET ASSET VALUE PER UNIT (RM)		<u>1.3188</u>	<u>1.2775</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 AUGUST 2019**

	Note	Unit holders' capital RM	Retained earnings RM	Total RM
Balance as at 1 September 2018		176,058,080	15,770,744	191,828,824
Movement in unit holders' contributions:				
- Creation of units from applications		310,074,160	-	310,074,160
- Creation of units from distribution		13,335,553	-	13,335,553
- Cancellation of units		(111,744,111)	-	(111,744,111)
Total comprehensive income for the financial year		-	24,957,821	24,957,821
Distribution	6	-	(13,363,434)	(13,363,434)
Balance as at 31 August 2019		<u>387,723,682</u>	<u>27,365,131</u>	<u>415,088,813</u>
Balance as at 1 September 2017		146,723,471	17,039,912	163,763,383
Movement in unit holders' contributions:				
- Creation of units from applications		117,373,261	-	117,373,261
- Creation of units from distribution		8,410,593	-	8,410,593
- Cancellation of units		(96,449,245)	-	(96,449,245)
Total comprehensive income for the financial year		-	7,515,774	7,515,774
Distribution	6	-	(8,784,942)	(8,784,942)
Balance as at 31 August 2018		<u>176,058,080</u>	<u>15,770,744</u>	<u>191,828,824</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 AUGUST 2019**

	Note	2019 RM	2018 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from disposal of unquoted Sukuk		129,276,260	130,142,038
Purchase of unquoted Sukuk		(292,393,891)	(180,550,872)
Proceeds from redemption of unquoted Sukuk		5,000,000	22,500,000
Profit income received from Shariah-compliant deposits with licensed Islamic financial institutions and Hibah received		714,415	481,090
Profit income received from unquoted Sukuk		11,042,180	7,165,531
Management fee paid		(2,308,795)	(1,527,847)
Trustee's fee paid		(145,819)	(96,495)
Payments for other fees and expenses		(30,177)	(111,483)
Net cash used in operating activities		<u>(148,845,827)</u>	<u>(21,998,038)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		297,818,981	116,888,162
Payments for cancellation of units		(107,503,181)	(96,450,337)
Distribution paid		(27,881)	(374,349)
Net cash generated from financing activities		<u>190,287,919</u>	<u>20,063,476</u>
Net increase/(decrease) in cash and cash equivalents		41,442,092	(1,934,562)
Cash and cash equivalents at the beginning of the financial year		20,190,807	22,125,369
Cash and cash equivalents at the end of the financial year	9	<u>61,632,899</u>	<u>20,190,807</u>
<u>Cash and cash equivalents comprised of:</u>			
Shariah-compliant deposits with licensed Islamic financial institutions		61,612,038	20,169,882
Bank balance		20,861	20,925
Cash and cash equivalents at the end of the financial year	9	<u>61,632,899</u>	<u>20,190,807</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 AUGUST 2019**

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

CIMB Islamic Sukuk Fund (the “Fund”) is governed by a Principal Master Deed dated 15 May 2008, a Third Supplemental Master Deed dated 25 June 2008, a Fourth Supplemental Master Deed dated 25 June 2008, a Fifth 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 Twelfth Supplemental Master Deed dated 14 June 2010, 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”) and AmanahRaya Trustees Berhad (the “Trustee”).

The principal activity of the Fund is to invest a minimum of 70% and up to a maximum of 98% of the Fund’s NAV may be invested in Sukuk carrying at least a “BBB3” or “P2” rating by RAM or equivalent rating by MARC or by local rating agency(ies) of the country of issuance; or “BBB-” by S&P or equivalent rating by Moody’s or Fitch. The Fund may invest up to 40% of its NAV in Unrated Sukuk and up to 28% of its NAV in other permissible investments. In line with its objective, the investment strategy and policy of the Fund is to invest in a diversified portfolio of Shariah-compliant fixed income securities consisting of Sukuk, aim to provide a steady stream of income from the profit of Sukuk. The Fund may also opt to seek investment exposure via Shariah-compliant collective investment scheme that is in line with the Fund’s objective, subject to the requirements of the SC Guidelines. The rest of the Fund is maintained in the form of Shariah-compliant liquid assets to meet any withdrawal payments to Unit holders.

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 judgement are based on the Manager's best knowledge of current events and actions, actual results may differ.

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

Standard that is effective and relevant:

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

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

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

In accordance with the transitional provisions provided in MFRS 9, comparative information was not restated and continued to be reported under previous accounting policies governed under MFRS 139.

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 September 2018 that have a material effect on the financial statements of the Fund.

¹ For the purposes of the investments made by the Fund, debt instruments refers to Sukuk.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

(i) Financial year beginning on/after 1 September 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 August 2018, the Fund designates its Shariah-compliant investments in unquoted Sukuk as financial assets at fair value through profit or loss at inception.

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

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

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

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

From 1 September 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 investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The contractual cash flows of the Fund's debt securities are solely principal and interest. However, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

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

The Fund classifies 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.

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

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.

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

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

Shariah-compliant deposits with licensed Islamic financial institutions are stated at cost plus accrued profit calculated on the effective profit method over the period 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 August 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.

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.

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

From 1 September 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) Income recognition

Profit income from Shariah-compliant deposits with licensed Islamic financial institutions and unquoted Sukuk are recognised on a time proportionate basis using the effective profit method on an accrual basis.

Up to 31 August 2018, when a loan 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 interest rate of the instrument and continue unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

From 1 September 2018, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(d) Functional and presentation currency**

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

(e) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balance and 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 the taxable profit earned during the financial year.

(g) Distribution

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

(h) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(i) 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.

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

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

Estimates and 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.

Estimate of fair value of unquoted Sukuk

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

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments of the Fund are as follows:

	Financial assets at fair value through profit or loss RM	Financial assets at amortised cost RM	Total RM
2019			
Cash and cash equivalents (Note 9)	-	61,632,899	61,632,899
Unquoted Sukuk (Note 8)	345,377,931	-	345,377,931
Amount due from Manager	-	12,874,966	12,874,966
	<u>345,377,931</u>	<u>74,507,865</u>	<u>419,885,796</u>
	Financial assets at fair value through profit or loss RM	Financing and receivables RM	Total RM
2018			
Cash and cash equivalents (Note 9)	-	20,190,807	20,190,807
Unquoted Sukuk (Note 8)	171,402,322	-	171,402,322
Amount due from Manager	-	619,787	619,787
	<u>171,402,322</u>	<u>20,810,594</u>	<u>192,212,916</u>

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

The Fund aims to gain higher than average income over the medium to long-term by investing in a diversified portfolio consisting principally of Sukuk, certificates of deposit, short-term money market instruments and other permissible investments under 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.

(a) Market risk

(i) Price risk

This is the risk that the fair value of an investment in unquoted Sukuk will fluctuate because of changes in market prices (other than those arising from interest rate risk).

The Fund is exposed to price risk arising from profit rate fluctuation in relation to its investments of RM345,377,931 (2018: RM171,402,322) in unquoted Sukuk. The Fund's exposure to price risk arising from profit rate fluctuation and the related sensitivity analysis are disclosed in "interest rate risk" below.

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

(a) Market risk (continued)

(ii) Interest rate risk

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

Although unquoted Sukuk is a non-interest bearing instrument, investors should note that the movement in prices of unquoted Sukuk are correlated to the movement in interest rates. As such, the investments in unquoted Sukuk are exposed to the movement of the interest rates. Even though the Fund does not invest in interest bearing instruments, the interest rate referred herein is to the general interest rate of the country, which may affect the value of the investment of the Fund. However, it does not in any way suggest that this Fund will invest in conventional financial instruments. All investments carried out for the Fund including placement and deposits are in accordance with Shariah.

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

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

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

% Change in interest rate	Impact on profit or loss/NAV	
	2019 RM	2018 RM
+1%	(828,454)	(464,677)
-1%	831,564	466,732

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

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

(b) Credit risk

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

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

Credit risk can be managed by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of its issuer. In addition, the Manager imposes a minimum rating requirement as rated by either local and/or foreign rating agencies and manages the duration of the investment in accordance with the objective of the Fund. For this Fund, the unquoted Sukuk investments must satisfy a minimum rating requirement of at least "BBB3" or "P2" rating by RAM or equivalent rating by MARC or by local rating agency(ies) of the country of issuance; "BBB-" by S&P or equivalent rating by Moody's or Fitch.

The credit risk arising from bank balance and 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.

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

	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Amount due from Manager RM	Total RM
2019				
- AAA	61,632,899	38,262,615	-	99,895,514
- AA1	-	58,886,974	-	58,886,974
- AA2	-	15,595,266	-	15,595,266
- AA3	-	159,418,729	-	159,418,729
- A1	-	61,064,856	-	61,064,856
- A2	-	9,028,344	-	9,028,344
- Government Guaranteed	-	3,121,147	-	3,121,147
- NR	-	-	12,874,966	12,874,966
	<u>61,632,899</u>	<u>345,377,931</u>	<u>12,874,966</u>	<u>419,885,796</u>

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: (continued)

	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Amount due from Manager RM	Total RM
2018				
- AAA	3,381,103	18,374,390	-	21,755,493
- AA1	8,245,202	32,270,472	-	40,515,674
- AA2	-	6,704,675	-	6,704,675
- AA3	8,564,502	87,925,701	-	96,490,203
- A1	-	17,981,632	-	17,981,632
- Government Guaranteed	-	8,145,452	-	8,145,452
- NR	-	-	619,787	619,787
	<u>20,190,807</u>	<u>171,402,322</u>	<u>619,787</u>	<u>192,212,916</u>

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

(c) Liquidity risk

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

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

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

(c) Liquidity risk (continued)

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

	Less than 1 month RM	Between 1 month to 1 year RM	Total RM
2019			
Amount due to Manager	4,449,483	-	4,449,483
Accrued management fee	312,898	-	312,898
Amount due to Trustee	19,762	-	19,762
Other payables and accruals	-	14,840	14,840
Contractual undiscounted cash flows	4,782,143	14,840	4,796,983
2018			
Amount due to Manager	208,553	-	208,553
Accrued management fee	152,413	-	152,413
Amount due to Trustee	9,626	-	9,626
Other payables and accruals	-	13,500	13,500
Contractual undiscounted cash flows	370,592	13,500	384,092

(d) Capital risk management

The capital of the Fund is represented by equity consisting of unit holders' capital of RM387,723,682 (2018: RM176,058,080) and retained earnings of RM27,365,131 (2018: RM15,770,744). The amount of capital can change significantly on a daily basis as the Fund is subjected to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to unit 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 market 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.

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

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

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

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

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

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2019				
Financial assets at fair value through profit or loss:				
- Unquoted Sukuk	-	345,377,931	-	345,377,931
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2018				
Financial assets at fair value through profit or loss:				
- Unquoted Sukuk	-	171,402,322	-	171,402,322
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. This includes unquoted Sukuk. As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. The Fund’s policies on valuation of these financial assets are stated in Note 2(b).

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

4. MANAGEMENT FEE

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

For the financial year ended 31 August 2019, the management fee is recognised at a rate of 0.95% per annum (2018: 0.95% per annum).

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

5. TRUSTEE'S FEE

In accordance with the Deeds, the Trustee is entitled to a maximum fee of up to 0.06% per annum, calculated daily based on the NAV of the Fund.

For the financial year ended 31 August 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 the amount recognised above.

6. DISTRIBUTION

Distribution to unit holders is derived from the following sources:

	2019 RM	2018 RM
Realised gain from unquoted Sukuk	255,389	128,602
Profit income from unquoted Sukuk	2,858,167	1,529,249
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions and Hibah earned	193,756	70,122
Prior financial years' realised income	<u>10,107,441</u>	<u>7,078,839</u>
	13,414,753	8,806,812
Less:		
Expenses	<u>(51,319)</u>	<u>(21,870)</u>
Net distribution amount	<u><u>13,363,434</u></u>	<u><u>8,784,942</u></u>
Distribution on 24 April 2019		
Gross/Net distribution per unit (sen)	<u>7.00</u>	<u>-</u>
Distribution on 24 April 2018		
Gross/Net distribution per unit (sen)	<u>-</u>	<u>6.80</u>

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

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

7. TAXATION

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

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

	2019 RM	2018 RM
Profit before taxation	<u>24,957,821</u>	<u>7,515,774</u>
Taxation at Malaysian statutory rate of 24% (2018: 24%)	5,989,877	1,803,786
Tax effects of:		
- Investment income not subject to tax	(6,627,498)	(2,224,695)
- Expenses not deductible for tax purposes	40,702	27,968
- Restriction on tax deductible expenses for Unit Trust Funds	<u>596,919</u>	<u>392,941</u>
Taxation	<u>-</u>	<u>-</u>

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

	2019 RM	2018 RM
At fair value through profit or loss:		
- Unquoted Sukuk	<u>345,377,931</u>	<u>171,402,322</u>
Net gain on financial assets at fair value through profit or loss:		
- Realised gain on disposals	2,330,166	572,933
- Unrealised fair value gain	<u>13,312,291</u>	<u>790,530</u>
	<u>15,642,457</u>	<u>1,363,463</u>

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2019				
UNQUOTED SUKUK				
Affin Islamic Bank Bhd 5.05% 23/10/2028 (A1)	11,000,000	11,254,291	11,640,147	2.81
Aman Sukuk Bhd 4.45% 21/10/2026 (AAA)	1,500,000	1,540,692	1,613,810	0.39
Aman Sukuk Bhd 5.13% 30/05/2029 (AAA)	5,000,000	5,220,298	5,678,255	1.37
Bank Pembangunan Malaysia Bhd 4.98% 02/03/2032 (AAA)	5,000,000	5,477,016	5,721,689	1.38
Bumitama Agri Ltd 4.10% 22/07/2024 (AA3)	3,350,000	3,365,428	3,423,618	0.83
Bumitama Agri Ltd 4.20% 22/07/2026 (AA3)	1,300,000	1,306,133	1,341,363	0.32
Celcom Networks Sdn Bhd 5.20% 27/08/2027 (AA1)	12,000,000	12,358,154	13,176,569	3.17
DanaJamin National Bhd 4.80% 06/10/2027 (AA1)	3,000,000	3,057,084	3,141,090	0.76
DRB-Hicom Bhd 5.35% 08/07/2020 (A1)	3,250,000	3,277,925	3,316,533	0.80
DRB-Hicom Bhd 6.10% 14/02/2022 (A1)	10,000,000	10,355,345	10,414,882	2.51
Edra Energy Sdn Bhd 5.70% 05/07/2023 (AA3)	4,000,000	4,106,347	4,256,350	1.03
Edra Energy Sdn Bhd 5.88% 03/07/2026 (AA3)	3,500,000	3,734,912	3,875,633	0.93
Edra Energy Sdn Bhd 5.91% 05/01/2027 (AA3)	5,000,000	5,177,474	5,573,956	1.34
Edra Energy Sdn Bhd 6.35% 05/07/2033 (AA3)	10,000,000	11,103,885	12,077,304	2.91
Edra Energy Sdn Bhd 6.59% 04/07/2036 (AA3)	5,000,000	5,478,764	6,203,659	1.50
Edra Energy Sdn Bhd 6.71% 05/01/2038 (AA3)	5,000,000	5,912,835	6,269,012	1.51
Exsim Capital Resources Bhd 5.00% 28/01/2022 (AA3)	5,000,000	5,031,199	5,088,168	1.23
Fortune Premiere Sdn Bhd 4.80% 13/03/2023 (AA2)	3,000,000	3,068,252	3,173,582	0.77
Fortune Premiere Sdn Bhd 5.05% 05/09/2025 (AA2)	5,000,000	5,249,218	5,444,937	1.31
Fortune Premiere Sdn Bhd 5.05% 31/10/2025 (AA2)	3,000,000	3,052,034	3,239,248	0.78
Gamuda Bhd 4.83% 23/11/2022 (AA3)	7,500,000	7,612,917	7,827,535	1.89
GII Murabahah 3.73% 31/03/2026 #	3,000,000	3,051,757	3,121,147	0.75
Gulf Investment Corporation 5.10% 16/03/2021 (AAA)	2,000,000	2,049,554	2,076,449	0.50
IJM Corporation Bhd 4.76% 10/04/2029 (AA3)	3,000,000	3,060,652	3,197,968	0.77

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2019 (CONTINUED) UNQUOTED SUKUK (CONTINUED)				
IJM Corporation Bhd 5.05% 18/08/2028 (AA3)	8,000,000	8,505,223	8,566,882	2.06
IJM Land Bhd 5.65% 17/03/2119 (A2)	3,300,000	3,460,589	3,577,945	0.86
IJM Land Bhd 5.73% 17/03/2119 (A2)	5,000,000	5,183,653	5,450,399	1.31
Konsortium KAJV Sdn Bhd 5.15% 12/05/2021 (AA3)	1,000,000	1,011,711	1,012,360	0.24
Konsortium KAJV Sdn Bhd 5.25% 13/05/2022 (AA3)	2,500,000	2,543,855	2,545,986	0.61
Malayan Banking Bhd 4.63% 31/01/2029 (AA1)	850,000	855,994	883,965	0.21
MMC Corporation Bhd 5.29% 26/04/2023 (AA3)	3,000,000	3,069,496	3,131,374	0.75
MMC Corporation Bhd 5.70% 24/03/2028 (AA3)	2,500,000	2,587,392	2,705,925	0.65
MMC Corporation Bhd 5.95% 12/11/2027 (AA3)	5,000,000	5,219,915	5,454,973	1.31
Northport (Malaysia) Bhd 5.00% 02/12/2022 (AA3)	3,500,000	3,543,142	3,626,345	0.87
Perbadanan Kemajuan Negeri Selangor 5.01% 31/10/2023 (AA3)	5,000,000	5,086,666	5,306,058	1.28
Perbadanan Kemajuan Negeri Selangor 5.15% 10/08/2023 (AA3)	10,000,000	10,066,453	10,501,730	2.53
Quantum Solar Park (Semenanjung) Sdn Bhd 5.40% 06/10/2025 (A1)	5,000,000	5,238,727	5,242,250	1.26
Quantum Solar Park (Semenanjung) Sdn Bhd 5.68% 06/04/2029 (A1)	5,000,000	5,172,294	5,232,450	1.26
Quantum Solar Park (Semenanjung) Sdn Bhd 5.80% 04/10/2030 (A1)	5,000,000	5,218,926	5,221,500	1.26
Quantum Solar Park (Semenanjung) Sdn Bhd 5.88% 06/10/2031 (A1)	7,500,000	7,587,283	7,822,950	1.89
RHB Islamic Bank Bhd 4.32% 21/05/2029 (AA3)	1,500,000	1,518,286	1,540,771	0.37
RHB Islamic Bank Bhd 4.88% 27/04/2027 (AA3)	5,000,000	5,097,707	5,208,712	1.26
Sabah Credit Corporation 4.84% 23/06/2023 (AA1)	3,000,000	3,093,991	3,125,490	0.75
Sarawak Energy Bhd 4.70% 24/11/2028 (AA1)	4,000,000	4,051,092	4,395,002	1.06
Sarawak Energy Bhd 4.95% 25/11/2033 (AA1)	2,500,000	2,532,887	2,837,912	0.68

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (SHARIAH-COMPLIANT) (CONTINUED)				
Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2019 (CONTINUED) UNQUOTED SUKUK (CONTINUED)				
Sarawak Hidro Sdn Bhd 4.61% 09/08/2030 (AAA)	5,000,000	5,107,041	5,431,499	1.31
Southern Power Generation Sdn Bhd 5.04% 28/04/2028 (AA3)	2,000,000	2,039,836	2,206,444	0.53
Southern Power Generation Sdn Bhd 5.25% 30/04/2031 (AA3)	5,000,000	5,355,151	5,701,328	1.37
Tadau Energy Sdn Bhd 5.40% 28/07/2025 (AA3)	2,500,000	2,527,020	2,652,125	0.64
Tadau Energy Sdn Bhd 5.60% 27/07/2027 (AA3)	5,000,000	5,203,399	5,399,282	1.30
Telekom Malaysia Bhd 4.55% 07/10/2024 (AAA)	5,000,000	5,223,849	5,345,700	1.29
Telekom Malaysia Bhd 4.68% 31/10/2028 (AAA)	5,000,000	5,303,489	5,499,696	1.32
Tenaga Nasional Bhd 4.98% 27/08/2038 (AAA)	5,000,000	5,123,868	5,743,297	1.38
UEM Edgenta Bhd 4.85% 26/04/2022 (AA3)	6,000,000	6,116,896	6,251,389	1.51
UEM Sunrise Bhd 4.75% 22/03/2024 (AA3)	4,500,000	4,600,716	4,781,170	1.15
UEM Sunrise Bhd 4.98% 31/10/2023 (AA3)	3,000,000	3,132,446	3,193,705	0.77
UEM Sunrise Bhd 5.06% 09/12/2022 (AA3)	5,000,000	5,065,324	5,269,488	1.27
UEM Sunrise Bhd 5.15% 31/10/2025 (AA3)	3,000,000	3,060,083	3,264,408	0.79
UMW Holdings Bhd 5.12% 04/10/2023 (AA2)	2,500,000	2,558,902	2,694,478	0.65
UMW Holdings Bhd 4.83% 22/06/2022 (AA2)	1,000,000	1,009,833	1,043,021	0.25
UMW Holdings Bhd 6.35% 20/04/2118 (A1)	10,500,000	11,066,206	12,174,144	2.93
WCT Holdings Bhd 4.95% 22/10/2021 (AA3)	5,000,000	5,069,760	5,148,629	1.24
WCT Holdings Bhd 5.17% 23/10/2023 (AA3)	5,000,000	5,001,549	5,216,877	1.26
WCT Holdings Bhd 5.55% 21/02/2025 (AA3)	500,000	501,842	523,569	0.13
WCT Holdings Bhd 5.65% 20/04/2026 (AA3)	1,000,000	1,023,107	1,074,633	0.26
West Coast Expressway Sdn Bhd 5.29% 28/08/2035 (AAA)	1,000,000	1,004,974	1,152,220	0.28
YTL Power International Bhd 5.05% 03/05/2027 (AA1)	28,500,000	29,825,272	31,326,946	7.55

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (SHARIAH-COMPLIANT) (CONTINUED)				
Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2019 (CONTINUED) UNQUOTED SUKUK (CONTINUED)				
TOTAL UNQUOTED SUKUK	<u>318,550,000</u>	330,468,011	<u>345,377,931</u>	<u>83.21</u>
ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>14,909,920</u>		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>345,377,931</u>		
2018 UNQUOTED SUKUK				
DanaJamin 4.80% 06/10/2027 (AA1)	3,000,000	3,057,733	3,076,390	1.60
DRB-Hicom Bhd 4.85% 30/11/2018 (A1)	5,000,000	5,055,286	5,055,452	2.64
Edra Energy Sdn Bhd 5.70% 05/07/2023 (AA3)	2,000,000	2,055,159	2,066,915	1.08
Fortune Premiere Sdn Bhd 4.80% 13/03/2023 (AA2)	3,000,000	3,068,252	3,076,922	1.60
Gamuda Bhd 4.83% 23/11/2022 (AA3)	7,500,000	7,616,655	7,657,660	3.99
Government Investment Issues 4.09% 30/11/2023 #	5,000,000	5,074,043	5,117,231	2.67
Government Investment Issues 4.13% 15/08/2025 #	3,000,000	3,010,482	3,028,221	1.58
Golden Assets International Finance Ltd 5.35% 05/08/2019 (A1)	7,000,000	7,038,177	7,055,797	3.68
Gulf Investment Corporation 5.10% 16/03/2021 (AAA)	2,000,000	2,051,900	2,056,927	1.07
Manjung Island Energy Bhd 4.90% 25/11/2031 (AAA)	2,000,000	2,034,321	2,057,021	1.07
MMC Corporation Bhd 5.80% 12/11/2025 (AA3)	5,000,000	5,087,397	5,184,197	2.70

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (SHARIAH-COMPLIANT) (CONTINUED)				
Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2018 (CONTINUED)				
UNQUOTED SUKUK (CONTINUED)				
MMC Corporation Bhd 5.95% 12/11/2027 (AA3)	5,000,000	5,231,327	5,220,408	2.72
MMC Corporation Bhd 5.70% 24/3/2028 (AA3)	5,000,000	5,124,151	5,160,201	2.69
Northport (M) Bhd 5.00% 02/12/2022 (AA3)	3,500,000	3,543,311	3,558,480	1.86
Perbadanan Kemajuan Negeri Selangor 5.15% 10/08/2023 (AA3)	5,000,000	5,015,311	5,048,011	2.63
Quantum Solar Park Green SRI Sukuk 5.68% 06/04/2029 (AA3)	5,000,000	5,178,394	5,251,456	2.74
RHB Islamic Bank Bhd 4.88% 27/04/2027 (AA3)	2,000,000	2,033,959	2,049,439	1.07
Sabah Credit Corporation 4.84% 23/06/2023 (AA1)	3,500,000	3,547,131	3,561,872	1.86
Sarawak Energy Bhd 4.50% 19/01/2022 (AA1)	5,000,000	5,039,902	5,052,373	2.63
Sarawak Energy Bhd 5.28% 17/08/2035 (AA1)	1,500,000	1,477,914	1,541,724	0.80
Sepangar Bay Power Corporation 5.00% 03/07/2025 (AA1)	1,000,000	1,019,746	1,033,019	0.54
Southern Power Generation 5.04% 28/04/2028 (AA3)	2,000,000	2,040,353	2,075,644	1.08
Tadau Energy Sdn Bhd Sri Sukuk 5.40% 28/07/2025 (AA3)	2,500,000	2,529,798	2,564,640	1.34
Tadau Energy Sdn Bhd Sri Sukuk 5.60% 27/07/2027 (AA3)	2,000,000	2,036,075	2,065,907	1.08
Tenaga Nasional Bhd 5.18% 03/08/2037 (AAA)	1,000,000	1,015,386	1,037,846	0.54
Tenaga Nasional Bhd 4.98% 27/08/2038 (AAA)	7,000,000	7,002,865	7,029,255	3.66
UEM Edgenta Bhd 4.85% 26/04/2022 (AA3)	6,000,000	6,122,140	6,156,109	3.21
UEM Sunrise Bhd 5.06% 09/12/2022 (AA3)	5,000,000	5,067,760	5,131,688	2.68
UEM Sunrise Bhd 5.32% 11/12/2024 (AA3)	7,000,000	7,198,788	7,280,082	3.80
UMW Holdings Bhd 4.83% 22/06/2022 (AA2)	1,000,000	1,010,344	1,018,725	0.53
UMW Holdings Bhd 5.12% 04/10/2023 (AA2)	2,500,000	2,560,282	2,609,028	1.36

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2018 (CONTINUED)				
UNQUOTED SUKUK (CONTINUED)				
UMW Holdings Bhd 6.35% 20/04/2018 (A1)	5,500,000	5,682,378	5,870,383	3.06
UniTapah Sdn Bhd 6.10% 12/06/2030 (AA1)	5,000,000	5,585,627	5,663,885	2.95
WCT Holdings Bhd 4.95% 22/10/2021 (AA3)	5,000,000	5,061,694	5,088,829	2.65
WCT Holdings Bhd 5.17% 23/10/2023 (AA3)	5,000,000	4,982,724	5,089,127	2.65
WCT Holdings Bhd 5.32% 11/05/2022 (AA3)	5,000,000	5,085,497	5,133,714	2.68
WCT Holdings Bhd 5.55% 03/01/2025 (AA3)	2,500,000	2,528,825	2,550,503	1.33
WCT Holdings Bhd 5.55% 21/02/2025 (AA3)	500,000	502,020	506,104	0.26
WCT Holdings Bhd 5.65% 20/04/2026 (AA3)	3,000,000	3,071,244	3,086,587	1.61
West Coast Expressway Sdn Bhd 5.24% 28/08/2034 (AAA)	5,000,000	5,057,529	5,161,121	2.69
West Coast Expressway Sdn Bhd 5.29% 28/08/2035 (AAA)	1,000,000	1,005,147	1,032,220	0.54
Westports M'sia Sdn Bhd 4.43% 01/04/2025 (AA1)	2,000,000	2,038,634	2,019,498	1.05
YTL Power International Bhd 5.05% 03/05/2027 (AA1)	10,000,000	10,259,032	10,321,711	5.38
TOTAL UNQUOTED SUKUK	166,500,000	169,804,693	171,402,322	89.35
ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		1,597,629		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		171,402,322		

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

9. CASH AND CASH EQUIVALENTS

	2019	2018
	RM	RM
Shariah-compliant deposits with licensed Islamic financial Institutions	61,612,038	20,169,882
Bank balance	<u>20,861</u>	<u>20,925</u>
	<u><u>61,632,899</u></u>	<u><u>20,190,807</u></u>

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

	2019	2018
	%	%
Shariah-compliant deposits with licensed Islamic financial Institutions	<u>3.03</u>	<u>3.22</u>

Shariah-compliant deposits with licensed Islamic financial institutions of the Fund have an average maturity of 7 days (2018: 4 days).

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2019	2018
	No. of units	No. of units
At the beginning of the financial year	150,155,140	127,189,704
Add : Creation of units from applications	240,183,450	91,144,121
Add : Creation of units from distribution	10,611,564	6,723,096
Less : Cancellation of units	<u>(86,204,171)</u>	<u>(74,901,781)</u>
At the end of the financial year	<u><u>314,745,983</u></u>	<u><u>150,155,140</u></u>

11. MANAGEMENT EXPENSE RATIO ("MER")

	2019	2018
	%	%
MER	<u>1.02</u>	<u>1.07</u>

MER is derived based on the following calculation:

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

A = Management fee

B = Trustee's fee

C = Audit fee

D = Tax agent's fee

E = Other expenses

F = Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial year calculated on a daily basis is RM260,412,727 (2018: RM163,928,318).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

	2019	2018
PTR (times)	<u>0.80</u>	<u>0.94</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 = RM288,836,280 (2018: RM179,252,215)

total disposal for the financial year = RM127,466,520 (2018: RM128,188,770)

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

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

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

13. **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
Manager				
Principal Asset Management Berhad (<i>formerly known as CIMB-Principal Asset Management Berhad</i>)	291,452	384,367	18,523	23,663

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	153,417	110,779
Cash placements with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	340,968,000	294,498,500
<u>Significant related party balances</u>		
Shariah-compliant deposits with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	8,038,247	3,360,178
Bank balance:		
- CIMB Islamic Bank Bhd	20,861	20,925

14. TRANSACTIONS WITH DEALERS

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

Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
RHB Investment Bank Bhd	121,439,220	29.17	-	-
CIMB Bank Bhd #	58,670,350	14.09	-	-
RHB Bank Bhd	44,086,600	10.59	-	-
Alliance Bank Malaysia Bhd	28,803,200	6.92	-	-
Malayan Banking Bhd	27,125,770	6.52	-	-
Citi Bank Bhd	25,865,060	6.21	-	-
Hong Leong Bank Bhd	24,239,550	5.82	-	-
Standard Chartered Bank Bhd	18,095,300	4.35	-	-
Affin Hwang Investment Bank Bhd	16,773,000	4.03	-	-
Hong Leong Investment Bank Bhd	13,568,600	3.26	-	-
Others #	37,636,150	9.04	-	-
	<u>416,302,800</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

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

Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
RHB Bank Bhd	69,292,650	22.54	-	-
RHB Investment Bank Bhd	50,262,805	16.35	-	-
CIMB Bank Bhd #	36,646,760	11.92	-	-
Hong Leong Bank Bhd	35,958,250	11.70	-	-
Standard Chartered Bank Bhd	22,085,600	7.18	-	-
Citi Bank Bhd	19,969,050	6.50	-	-
Amlslamic Bank Bhd	18,032,000	5.87	-	-
Alliance Bank Malaysia Bhd	16,538,400	5.38	-	-
Affin Hwang Investment Bank Bhd	12,572,350	4.08	-	-
Hong Leong Investment Bank Bhd	12,008,800	3.90	-	-
Others	14,074,320	4.58	-	-
	<u>307,440,985</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

14. TRANSACTIONS WITH BROKERS/DEALERS (CONTINUED)

Included in the transactions are trades conducted with CIMB Bank Bhd and CIMB Islamic Bank Bhd, related parties to the Manager amounting to RM58,670,350 (2018: RM36,646,760) and RM8,189,800 (2018: Nil) respectively. The Manager is of the opinion that all transactions with the related companies have been entered into in the normal course of business at agreed terms between the related parties.

15. 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 gain higher than average income over the medium to long-term by investing in a diversified portfolio consisting principally of Sukuk, certificates of deposit, short-term money market instruments and other permissible investments under the 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 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 deposits with licensed Islamic financial institutions and unquoted Sukuk traded in Malaysia.

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

As at 31 August 2019, there was 1 unit holder who held more than 10% of the Fund's NAV. The unit holder's holding was 25.71%. As at 31 August 2018, there were 4 unit holders who held more than 10% of the Fund's NAV. The unit holders' holding were 19.55%, 14.61%, 11.27% and 10.66% respectively.

16. 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 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 September 2018 are compared as follows:

	Measurement category		Carrying amount			
	Original (MFRS 139)	New (MFRS 9)	Original (MFRS 139) RM	Reclassi- fications RM	Remeas- urements RM	New (MFRS 9) RM
Financial assets						
Cash and cash equivalents	Financing and receivables	Amortised cost	20,190,807	-	-	20,190,807
Investment in unquoted Sukuk	FVTPL	FVTPL	171,402,322	-	-	171,402,322
Amount due from Manager	Financing and receivables	Amortised cost	619,787	-	-	619,787
Financial liabilities						
Amount due to Manager	Amortised cost	Amortised cost	208,553	-	-	208,553
Accrued management fee	Amortised cost	Amortised cost	152,413	-	-	152,413
Amount due to Trustee	Amortised cost	Amortised cost	9,626	-	-	9,626
Other payables and accruals	Amortised cost	Amortised cost	13,500	-	-	13,500

17. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 17 October 2019.

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