

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS
ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

CONTENTS	PAGE(S)
INVESTORS' LETTER	i
MANAGER'S REPORT	ii - x
Fund Objective and Policy	
Performance Data	
Market Review	
Fund Performance	
Portfolio Structure	
Market Outlook	
Investment Strategy	
Soft Commissions and Rebates	
Securities Financing Transactions	
State of Affair of The Fund	
Circumstances That Materially Affect Any Interest of Unit Holders	
Cross Trade	
Unit Split	
STATEMENT BY MANAGER	1
TRUSTEE'S REPORT	2 – 3
SHARIAH ADVISER'S REPORT	4
INDEPENDENT AUDITORS' REPORT	5 – 8
STATEMENT OF COMPREHENSIVE INCOME	9
STATEMENT OF FINANCIAL POSITION	10
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS	11
STATEMENT OF CASH FLOWS	12
NOTES TO THE FINANCIAL STATEMENTS	13 - 29
DIRECTORY	30

INVESTORS' LETTER

Dear Valued Member,

Greetings from Principal Asset Management Berhad ("Principal Malaysia") and thank you for investing with us!

We are pleased to bring you a copy of the Annual Fund Report of the Principal Islamic Conservative Wholesale Fund-Of-Funds for the financial year ended 31 December 2023. You may also download this report from our website at www.principal.com.my.

We are happy to share that Principal Malaysia won two honours at the Asia Asset Management 2024 Best of the Best Awards. The awards were for Best of the Best Performance Awards: China A-Share Equity (3 years) for the Principal China Direct Opportunities Fund (Class MYR) and Best of the Best Country Awards: Best Institutional House – Malaysia. We also won another two awards at the 2024 Global Banking & Finance Awards® for Asset Management CEO of the Year Malaysia 2024 - Munirah Khairuddin and Asset Management Company of the Year Malaysia 2024.

Digital innovation is central to our strategy, as we use data and technology to develop the right solutions for you. We will continue to advance our digital capabilities to provide easy access to your investment portfolio and enable you to carry out transactions seamlessly. Please continue to check out our website (www.principal.com.my), like our Facebook page (@PrincipalAssetMY), follow us on our Instagram account (@principalassetmanagement_my), and LinkedIn page (Principal Asset Management Berhad) for the latest updates, market insights and investment articles.

We appreciate your continuous support and the trust you place in us

Yours faithfully,
for **Principal Asset Management Berhad**

Munirah Khairuddin
Country Head and Chief Executive Officer, Malaysia
Non-Independent Executive Director

MANAGER'S REPORT

FUND OBJECTIVE AND POLICY

What is the investment objective of the Fund?

The Fund aims to achieve capital stability by investing in a portfolio of Islamic collective investment schemes ("CIS") that invest in Shariah-compliant equities and/or Sukuk.

Has the Fund achieved its objective?

The Fund is in line to achieve its long-term objectives as stated in the Fund investment policy.

What are the Fund investment policy and principal investment strategy?

The Fund aims to invest in at least three (3) Islamic collective investment schemes investing predominantly in Sukuk and/or Shariah-compliant equities. The Fund will invest at least 70% of its Net Asset Value ("NAV") in Islamic collective investment schemes investing predominantly in Sukuk and up to 30% of its NAV in Islamic collective investment schemes investing predominantly in Shariah-compliant equities. The Fund may also invest up to 5% of its NAV in Islamic liquid assets such as Islamic money market instruments and/or Islamic deposits for liquidity purposes. The investment strategy and policy of the Fund is biased towards Islamic collective investment schemes investing predominantly in Sukuk that aim to provide some capital stability to the Fund, while allowing some exposure in Islamic collective investment schemes investing predominantly in Shariah-compliant equities that aim to provide the added return in a rising market.

The allocation between the Islamic CIS is done through a combination of macroeconomic data, liquidity trends and the outlook to overweight or underweight a particular Islamic CIS. The Fund may invest in Islamic CIS that focus its investment in the Asia Pacific ex Japan region, i.e. companies that are domiciled in, listed in, and/or have operations or businesses that focus in the Asia Pacific ex Japan region within the Eligible Markets.

Asset Allocation

- At least 70% of the Fund's NAV will be invested in Islamic CIS investing predominantly in Sukuk;
- Up to 30% of the Fund's NAV will be invested in Islamic CIS investing predominantly in Shariah-compliant equities; and
- Up to 5% of the Fund's NAV may be invested in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits.

Fund category/type

Wholesale Fund (Fund-of-funds - Shariah-compliant)/Growth

When was the Fund launched?

24 November 2017

What was the size of the Fund as at 31 December 2023?

RM1.02 million (0.91 million units)

What is the Fund's benchmark?

As a fund-of-funds, the Fund is benchmark unconstrained, i.e. it will be managed without reference to any specific benchmark. However, for performance comparison purpose, the Fund can be compared to the 50% Quantshop Government Investment Issue ("GI") Medium Index + 25% CIMB Islamic 1-month Fixed Return Income Account-I ("FRIA-I") + 25% FTSE Bursa Malaysia ("FBM") EMAS Shariah ("FBMS") Index.

Note: Investors are cautioned that the risk profile of the Fund is different from the benchmark.

FUND OBJECTIVE AND POLICY (CONTINUED)

What is the Fund distribution policy?

The Fund is not expected to pay any distribution. However, the Manager has the discretion to make income distribution on an ad-hoc basis, depending on the availability of realised income and/or realised gains, as well as the performance of the Fund.

What was the net income distribution for the financial year ended 31 December 2023?

There was no distribution made for the financial year ended 31 December 2023.

PERFORMANCE DATA

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

	31.12.2023	31.12.2022	31.12.2021
	%	%	%
Shariah-compliant collective investment schemes	93.10	96.77	91.57
Cash and other assets	16.20	3.24	8.44
Liabilities	(9.30)	(0.01)	(0.01)
	<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:

	31.12.2023	31.12.2022	31.12.2021
	%	%	%
NAV (RM Million)	1.02	0.51	0.24
Units in circulation (Million)	0.91	0.48	0.22
NAV per unit (RM)	1.1256	1.0619	1.1043
Highest NAV per unit (RM)	1.1269	1.1043	1.1250
Lowest NAV per unit (RM)	1.0622	1.0348	1.0879
- Total return (%)	6.04	(3.84)	0.25
- Capital growth (%)	6.04	(3.84)	0.25
- Income distribution (%)	-	-	-
Total Expense Ratio ("TER") (%) ^	0.17	0.20	0.26
Portfolio Turnover Ratio ("PTR") (times) #	0.32	0.42	0.49

^ The Fund's TER for the financial year under review decreased from 0.20% to 0.17% due to increase in average NAV.

For the financial year under review, the portfolio turnover ratio for the Fund decreased from 0.42 times to 0.32 times, as there were lesser trading activities during the financial year.

	31.12.2023	31.12.2022	31.12.2021	31.12.2020	31.12.2019
	%	%	%	%	%
Annual total return	6.04	(3.84)	0.25	5.80	4.18

(Launch date: 24 November 2017)

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

MARKET REVIEW (1 JANUARY 2023 TO 31 DECEMBER 2023)

Sukuk

As widely expected, the US Federal Reserve (the “Fed”) raised rates by 25 basis points (“bps”) on 1st February 2023 to 4.50% to 4.75%, following a 50 bps hike in Dec 2022 and four 75 bps hikes prior to that. Chairman Jerome Powell said the committee expects to deliver a “couple” more rate hikes, as inflation “has eased somewhat but remains elevated”. This would take the Fed Funds Rate to 5.00% to 5.25%, in line with the committee’s targeted peak level in its December 2023 dot plots. Meanwhile, Bank Negara Malaysia (“BNM”) left the Overnight Policy Rate (“OPR”) unchanged at 2.75% and stated that the decision will allow the MPC to assess the impact of the cumulative past OPR adjustments, given the lag effects of monetary policy on the economy.

In February 2023, minutes from the US Fed’s meeting showed that nearly all policymakers agreed to further slow the pace of rate hikes from 50 bps to 25 bps, with “a few” officials favoring a larger 50 bps hike. The committee also expects to maintain a restrictive policy stance until they are confident that inflation is on a sustained downward path towards the Fed’s 2.0% target.

On 22nd March 2023, the US Fed raised rates by 25 bps to 4.75% to 5.00%, despite heightening concerns over the recent banking sector crisis following the fallout of Silicon Valley Bank and Credit Suisse. The committee softened its tone from previous statements of “ongoing increases” to “some additional policy firming may be appropriate”, indicating that rate increases may be nearing an end. Meanwhile, BNM held its OPR at 2.75% at its March Monetary Policy Committee (“MPC”) meeting, as they continued to assess the impact of the prior OPR adjustments in 2022. BNM highlighted that the current stance remains accommodative and supportive of economic growth, while not being on any preset path on monetary policy.

To recap, the US Fed raised rates by 25 bps to 4.75% to 5.00% on 22nd March 2023 and signaled that rate increases may be nearing an end. Nevertheless, data released since the Fed meeting showed that inflation remains sticky, which may prompt the central bank to keep the door open for more potential rate hikes, if necessary.

The US Fed raised rates by 25 bps to 5.00% to 5.25% on 3rd May 2023 and signaled that rate increases may be nearing an end. The Federal Open Market Committee (“FOMC”) statement also reiterated that the committee “will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments”.

In line with market expectations, the Fed unanimously paused rate hikes on 14th June 2023, citing the need to assess additional information and its implications for monetary policy. However, in its updated dot plot projections, 12 out of 18 policy makers pencil in rates at or above the median range of 5.50% to 5.75%, signaling a potential 50 bps additional increase by year-end.

On 26th July 2023, the Fed unanimously raised rates by 25 bps to 5.25% to 5.50%, the highest in more than 22 years. The FOMC statement showed a slight upgrade to the pace of economic growth, from “modest” to “moderate”, suggesting the committee wants to leave the door open for one more potential rate hike. However, Chairman Powell adopted a more dovish tone during his press conference, indicating that real rates are well above neutral and already restrictive, and credit conditions are tight.

The Fed Chairman Jerome Powell said the committee is prepared to raise rates further if necessary and intend to hold rates at restrictive levels until they are confident that inflation is falling sustainably toward the 2.0% target. However, Powell emphasized that policymakers would remain data dependent, and proceed carefully as they assess incoming data and the evolving outlook and risks.

MARKET REVIEW (1 JANUARY 2023 TO 31 DECEMBER 2023) (CONTINUED)

Sukuk (continued)

During September 2023 FOMC, the Fed kept interest rates unchanged at 5.25% to 5.50% and signaled one more potential hike by year-end. The committee also raised its Fed Funds rate projection for 2024 by 50 bps from 4.6% in June 2023 to 5.1%, implying only 50 bps rate cut vs 100 bps previously.

The Fed unanimously voted to maintain interest rates at 5.25% to 5.50% on 1st November 2023. Chairman Powell adopted a less hawkish tone – he said the surge in long dated bond yields in recent months has tightened financial conditions significantly, but kept the door open to another rate hike if necessary, while having a view that the previous hike has a downward pressure on economic activity and inflation.

Coming to December 2023, the Fed voted to maintain interest rates at 5.25% to 5.50% for the third consecutive meeting. Chairman Powell struck a dovish tone, saying the Fed was “aware of the risk” in keeping policy too tight for too long; and that the Fed didn’t need to wait until inflation returned to 2.00% before it began cutting rates.

Local Equity

In January 2023, the FTSE Bursa Malaysia Shariah Index (“FBMS”) rose 137.7 points (“pts”) or 1.3% at 11,183pts. The index underperformed the region, with North Asia especially China dominating Emerging markets (“EM”) fund flows. Globally, growth stocks outperformed, with technology stocks leading the pack as US inflation cooled further as well as optimism from China’s reopening. Technology (+7%) and Building Materials (+6%) were among the biggest winners for the month, while Gloves (-7%), Plantations (-5%) and Healthcare (-4%) languished.

The FBMS Index fell 278pts or 2.5%, ending the month of February 2023 at 10,798pts. Investors remained cautious leading up to Budget 2023 while renewed concerns over the Fed staying hawkish given persistent inflation coupled with encouraging consumption and employment data in the US recently further weighed on sentiment. The rebound in the US dollar (“USD”) also took flows out of emerging markets. Only Construction and Property sub-sectors posted modest gains during the month while Industrial (-7%; mainly PCHEM (“PCHEM”)), Technology (-6%) and Energy (-5%; Dialog Group Bhd (“DLG”)) were heavily beaten down.

In March 2023, the FBMS Index fell 81pts or -0.8%, ending the month at 10,716pts. Weakness was in line with the sell-off in regional markets as investors aggressively risked off following the collapse of several high-profile banks in the US and Europe, potentially triggering a global liquidity squeeze, and mounting worries that the Fed’s aggressive tightening may have finally taken a toll on the US economy. Market however rebounded towards the later part of the month following the Fed’s decision to go ahead with a 25 bps hike, downplaying fears of a banking contagion and shifting attention back to inflation which has started to ease, albeit very gradually. Commodities were sold down in favor of defensive sectors such as Healthcare and Utilities during the month.

The FBMS Index was up marginally, by 20 pts or +0.19%, ending the month of April 2023 at 10,737pts. Utilities, Commodities, Telcos did well during the month. Malaysia’s Purchasing Managers’ Index (“PMI”) reading for April 2023 was 48.8 pts, similar to March 2023. There are no change to BNM’s Gross Domestic Product (“GDP”) growth of 4% to 5% in 2023 while BNM raised OPR by 25 basis points (bps) to 3.00% in the latest MPC meeting and economists are still expecting another 25bps hike for the rest of the year. Malaysia’s CPI eased to 3.4% in March 2023 against February’s 2023 3.7%, driven by lower price of RON97, as well as lower pace of increase in Restaurant and Hotels, and Food and Non-alcoholic beverages.

MARKET REVIEW (1 JANUARY 2023 TO 31 DECEMBER 2023) (CONTINUED)

Local Equity (continued)

The FBMS Index fell 191pts or –1.8%, ending the month of May 2023. The sell-off was relatively broad-based, with select stocks within defensive sectors showing green, likely triggered by the recent weakness of the Ringgit (“MYR/RM”) on the back of poor Chinese data and consequently the depreciation of the Yuan. Malaysia’s economy expanded 5.6% year-on year (“yoy”) in first quarter of 2023 beating economists’ projection of 4.8%, albeit a moderation from the 7.1% yoy growth in the fourth quarter of 2022. The strong growth was contributed by further expansion of household spending, continued investment activity, improving labor market and higher tourism activities.

In June 2023, the FBMS Index fell 191pts to 10,414.87 or –1.8%. Investors remain wary of the sustained weakness of the Ringgit, a rather uninspiring first quarter of 2023 corporate results although they were broadly in line, and domestic political uncertainties caused by the upcoming State elections. Malaysia’s PMI reading for June 2023 was 47.7pts vs 47.8pts in May 2023. According to Standard and Poor's 500 (“S&P”) Global, the weaker reading was due to sustained slowdown in new order flows from both domestic and international clients, and manufacturers continue to scale back purchasing as well as staffing.

In July 2023, the FBMS Index gained 537.9 points to 10,952.72 or 5.16%, fully reversing the loss sustained for the entire year. Sentiment was sharply lifted by the slump in the USD, benefiting the Ringgit, and waning expectations of a US recession following recent favorable economic data points. Malaysia’s PMI reading for July was 47.8pts, a slight improvement versus June 2023. The Malaysian manufacturing sector continued to indicate sustained weakness in operating conditions in July 2023.

The FBMS Index lost 2.15 points to 10,920.54 or 0.29% in August 2023, dragged by Telcos despite huge interest in Property, Construction and Transport. Sentiment was dampened by rebound in the USD and rising US treasury yields on expectations of further interest rate hikes in the US as economic data points remain strong. Malaysia’s economy expanded 5.6% year-on-year in first quarter of 2023 but expected to moderate to 3.6% year-on-year in second quarter of 2023 according to economists polled by Bloomberg.

The FBMS Index lost 46.1pts or 0.4% in September 2023. The sell-off, which largely concentrated towards the last week of the month, was rather broad-based, led by Commodities. While there could be volatility caused by quarter-end rebalancing, investors were spooked by US treasury yields at a 16-year high and persistent dollar strength affecting EM markets, in addition to the Fed’s hawkish messaging on interest rates. Malaysia’s PMI reading for September 2023 was 46.8pts against 47.8pts in August 2023. According to S&P Global, Malaysian manufacturers continued to endure demand weakness which further caused a stronger moderation in output, new orders and exports.

The FBMS Index lost 32.93 pts or 0.3% in October 2023, which improved the Year to Date (“YTD”) decline to 3.6%. There were bargain hunting in Financials and Commodities following the steep sell-off in the previous month, while Telcos (mainly mobile operators) were laggards. Within the broader market, Construction performed while Tech, Energy and Property languished. Overall sentiment remains clouded by the surge in US treasury yields which topped 5% last month and persistent dollar strength affecting EM markets, coupled with tensions in the Middle East.

In November 2023, Morgan Stanley Capital International (“MSCI”) AC Asia ex Japan Islamic Index rebounded 8.6% in USD terms in November 2023, amidst the reversal in global bond yields. South Korea, Taiwan and India were the best performing markets while Singapore, Thailand and China were laggards. The US 10-year bond yield declined by a significant 60bps to 4.3% while the Dollar Index declined by 3.0%. Crude Brent declined by 5.2% to US\$82.80 with weak demand resulting in inventory builds.

MARKET REVIEW (1 JANUARY 2023 TO 31 DECEMBER 2023) (CONTINUED)

Local Equity (continued)

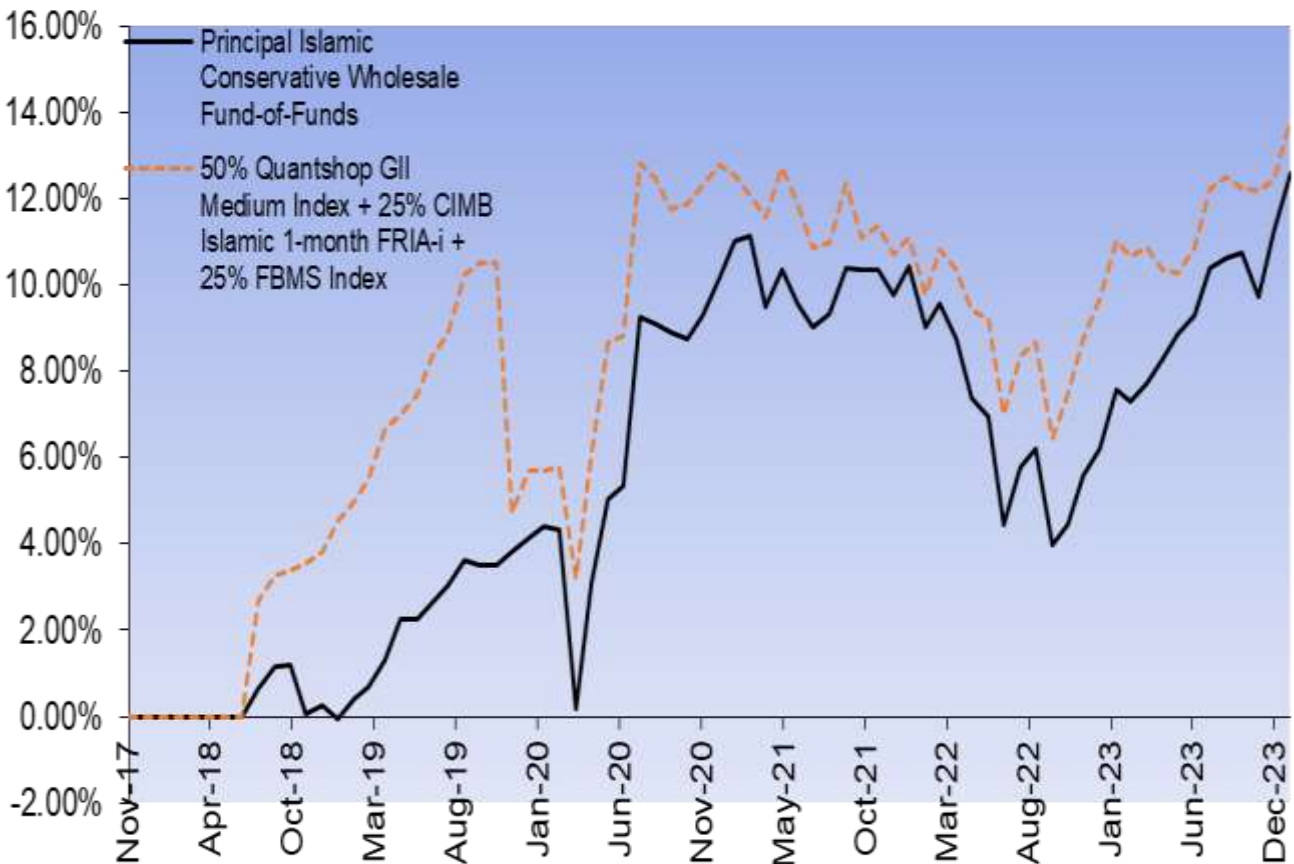
The FBMS Index gained 59.4pts or 0.5% in December 2023, ending the month at 10,988.71 pts. Investors rejoiced at the Fed’s decision to hold rates and signaling the end of hikes given the cooling inflation data and recent economic data out of the US, coupled with the weaker USD and falling treasury yields. Utilities, Healthcare and select Telcos saw gains, while select commodities and Consumer-related names were sold off. Within the broader market, Tech and Gloves did well, the latter spurred by recent surge in Coronavirus Disease 2019 (“Covid-19”) cases.

FUND PERFORMANCE

	1 year to 31.12.2023	3 years to 31.12.2023	5 years to 31.12.2023	Since inception to 31.12.2023
	%	%	%	%
Income Distribution	-	-	-	-
Capital Growth	6.04	2.21	12.67	12.60
Total Return	6.04	2.21	12.67	12.60
Benchmark	3.76	0.92	13.21	13.82
Average Total Return	6.04	0.73	2.41	1.96

For the financial year under review, the Fund increased by 6.04%, outperforming the benchmark which increased by 3.76%.

Since Inception



FUND PERFORMANCE (CONTINUED)

Changes in NAV

	31.12.2023	31.12.2022	Changes %
NAV (RM Million)	1.02	0.51	100.00
NAV/Unit (RM)	1.1256	1.0619	6.00

During the financial year under review, the total NAV for the Fund increased 100%. While the NAV per Unit of the Fund increased by 6.00% during the same 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)	31.12.2023	31.12.2022
Shariah-compliant collective investment schemes	93.10	96.77
Cash and other assets	16.20	3.24
Liabilities	(9.30)	(0.01)
TOTAL	100.00	100.00

During the financial year under review, the Fund was fully invested with minimal level of liquid assets maintained primarily for redemption purposes.

MARKET OUTLOOK*

Sukuk

The US economy is expected to continue losing steam in 2024, as consumers face multiple headwinds including diminished excess savings, plateauing wage gains, low savings rates, and less pent-up demand. Additionally, the restart of student loan payments and uptick in subprime auto and millennial credit card delinquencies are emerging signs of stress for some consumers. The labor market may continue to cool, with payroll growth slowing and unemployment rising modestly.

Meanwhile, the economic outlook in the GCC is positive. The GCC (Gulf cooperation Council) countries, which predominantly have pegged currencies, are positioned to mirror the anticipated rate cuts in 2024, which will help duce financing costs, improve liquidity conditions and support regional consumption and investment. GDP is expected to rebound strongly in 2024.

Equity

Manufacturers remain optimistic of demand conditions over the course of the next 12 months. The latest PMI suggests that GDP growth is running at similar level to that seen in the second quarter and third quarter of 2.9% and 3.3% yoy respectively. To recap, BNM projects GDP to grow 4.00% in 2023 and 4% to 5% in 2024.

We expect no rate hikes for 2024 given muted inflation and modest economic growth. Inflation eased further to 1.5% in November 2023, significantly undershooting BNM's revised target of 2.5% to 3.0% for 2023. Given the low base, there appears to be sufficient headroom to central bank's 2.1% to 3.6% CPI forecast for 2024 with the impending cut back in subsidies.

MARKET OUTLOOK* (CONTINUED)

* 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 Asset Management Berhad ("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

Sukuk

The Fund will continue to remain fully invested in the Shariah-compliant Collective Investment Schemes with minimal cash kept for liquidity purposes.

Equity

The Fund will continue to remain fully invested in the Shariah-compliant Collective Investment Schemes with minimal cash kept for liquidity purposes.

SOFT COMMISSIONS AND REBATES

Principal Malaysia (the "Manager") and the Trustee will not retain any form of rebate from, or otherwise share in any commission with, any broker or dealer in consideration for directing dealings in the investments of the Principal Malaysia Funds ("Funds"). Accordingly, any rebate or shared commission will be directed to the account of the Fund. The Manager may retain goods and services (soft commission) provided by any broker or dealer if the following conditions are met:

- (a) the soft commission brings direct benefit or advantage to the management of the Fund and may include research and advisory related services;
- (b) any dealings with the broker or dealer is executed on terms which are the most favourable for the Fund; and
- (c) the availability of soft commission is not the sole or primary purpose to perform or arrange transactions with such broker or dealer, and we and the fund the manager will not enter into unnecessary trades in order to achieve a sufficient volume of transactions to qualify for soft commission.

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 for the benefit of the fund such as financial wire services and stock quotations system incidental to investment management of the Funds and there was no churning of trades.

SECURITIES FINANCING TRANSACTIONS

The Fund has not undertaken any securities lending or repurchase transactions during the financial year under review.

STATE OF AFFAIR OF THE FUND

Effective 11 October 2023, the Fund has changed Trustee to HSBC (Malaysia) Trustee Berhad following the issuance of the Second Supplemental Information Memorandum dated 5 September 2023.

There were no significant changes in the state of affairs of the Fund during the financial year and up to the date of Manager's report, not otherwise disclosed in the financial statements.

CIRCUMSTANCES THAT MATERIALLY AFFECT ANY INTEREST OF UNIT HOLDERS

There were no circumstances that had materially affected the interest of the unit holders during the financial year under review.

CROSS TRADE

No cross-trade transactions have been carried out during the financial year under review.

UNIT SPLIT

No unit split exercise has been carried out during the financial year under review.

**STATEMENT BY MANAGER TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS**

We, being the Directors of 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 9 to 29 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the financial position of the Fund as at 31 December 2023 and of its financial performance, changes in net assets attributable to unit holders and cash flows for the financial year ended 31 December 2023 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.: 199401018399 (304078-K))

MUNIRAH KHAIRUDDIN

Country Head and Chief Executive Officer, Malaysia
Non-Independent Executive Director

UDAY JAYARAM

Executive Managing Director,
Head of Southeast Asia
Non-Independent Executive Director

Kuala Lumpur
16 February 2024

TRUSTEE'S REPORT

**TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS**

We, PB Trustee Services Berhad, being the Trustee of Principal Islamic Conservative Wholesale Fund-Of-Funds (the "Fund"), are of the opinion that Principal Asset Management (the "Manager"), acting in the capacity of the Manager of the Fund, have fulfilled their duties in the following manner for the financial period ended 1 January 2023 to 10 October 2023:

- a) limitations imposed on the investment powers of the Manager and the Trustee under the Deeds, the Securities Commission's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, the Capital Markets and Services Act 2007 and other applicable laws;
- b) valuation/pricing is carried out in accordance with the Deeds and any regulatory requirements; and
- c) creation and cancellation of units are carried out in accordance with the Deeds and any regulatory requirements.

For and on behalf of the Trustee
PB TRUSTEE SERVICES BERHAD

CHEAH KUAN YOON
Chief Executive Officer

Kuala Lumpur
16 February 2024

TRUSTEE'S REPORT

**TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS ("Fund")**

We have acted as Trustee of the Fund for the financial period from 11 October 2023 to 31 December 2023 and we hereby confirm to the best of our knowledge, after having made all reasonable enquiries, Principal Asset Management Berhad has operated and managed the Fund during the period covered by these financial statements in accordance with the following:

1. Limitations imposed on the investment powers of the Management Company under the Deeds, securities laws and the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework;
2. Valuation and pricing is carried out in accordance with the Deeds; and
3. Any creation and cancellation of units are carried out in accordance with the Deeds and any regulatory requirement.

For HSBC (Malaysia) Trustee Berhad

Yap Lay Guat
Manager, Investment Compliance Monitoring

Kuala Lumpur
16 February 2024

Shariah Adviser's Report

To the Unit Holders of Principal Islamic Conservative Wholesale Fund-of-Funds ("Fund")

For the Financial Year ended 31 December 2023

We hereby confirm the following:

1. To the best of our knowledge, after having made all reasonable enquiries, Principal Asset Management Berhad has operated and managed the Fund during the year covered by these financial statements in accordance with the Shariah principles and complied with the applicable guidelines, rulings or decisions issued by the Securities Commission Malaysia ("SC") pertaining to Shariah matters; and
2. The asset of the Fund comprises of instruments that have been classified as Shariah compliant.

For Amanie Advisors Sdn Bhd

Tan Sri Dr Mohd Daud Bakar
Executive Chairman

Kuala Lumpur
16 February 2024

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Principal Islamic Conservative Wholesale Fund-of-Funds (the "Fund"), which comprise the statement of financial position of the fund as at 31 December 2023, and statement of comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows of the Fund for the financial year then ended, and notes to the financial statements, including material accounting policy information, as set out on pages 9 to 29.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023, and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

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 audit 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 Code of Ethics for Professional Accountants (including International Independence Standards) ("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
PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS (cont'd.)**

Report on the audit of the financial statements (cont'd.)

Information other than the financial statements and auditors' report thereon

The Manager of the Fund (the "Manager") is responsible for the other information. The other information comprises the information included in the annual report of the Fund, but does not include the financial statements of the Fund and our auditors' report thereon.

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

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

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

Responsibilities of the Manager for the financial statements

The Manager is responsible for the preparation of 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 have no realistic alternative but to do so.

The Trustee is responsible for overseeing the Fund's financial reporting process. The Trustee is also responsible for ensuring that the Manager maintains proper accounting and other records as are necessary to enable true and fair presentation of these financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS (cont'd.)**

Report on the audit of the financial statements (cont'd.)

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 skepticism throughout the audit. We also:

- 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- 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.
- Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements of the Fund represent the underlying transactions and events in a manner that achieves fair presentation.

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.

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS (cont'd.)**

Other matters

This report is made solely to the unit holders of the Fund, as a body, in accordance with the Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework issued by the Securities Commission Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Yeo Beng Yean
No. 03013/10/2024 J
Chartered Accountant

Kuala Lumpur, Malaysia
16 February 2024

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

	Note	2023 RM	2022 RM
INCOME/(LOSS)			
Dividend income		14,376	11,150
Hibah		35	17
Net gain/(loss) on financial assets at fair value through profit or loss	7	32,791	(14,800)
		<u>47,202</u>	<u>(3,633)</u>
EXPENSES			
Management fee	4	7,914	4,216
Trustee fee	5	222	123
Other expenses		171	185
		<u>8,307</u>	<u>4,524</u>
PROFIT/(LOSS) BEFORE TAXATION		38,895	(8,157)
Taxation	6	-	-
PROFIT/(LOSS) AFTER TAXATION, REPRESENTING TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR		<u>38,895</u>	<u>(8,157)</u>
Profit/(Loss) after taxation is made up as follows:			
Realised amount		13,291	10,471
Unrealised amount		25,604	(18,628)
		<u>38,895</u>	<u>(8,157)</u>

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

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023**

	Note	2023 RM	2022 RM
ASSETS			
Cash and cash equivalents	8	120,039	11,526
Financial assets at fair value through profit or loss	7	951,182	498,202
Amount due from Manager			
- creation of units		44,661	5,185
- management fee rebate		788	478
TOTAL ASSETS		<u>1,116,670</u>	<u>515,391</u>
LIABILITIES			
Amount due to Manager			
- purchase of collective investment scheme		94,000	-
- accrued management fee		923	516
Amount due to Trustee		23	15
TOTAL LIABILITIES		<u>94,946</u>	<u>531</u>
NET ASSET VALUE OF THE FUND		<u>1,021,724</u>	<u>514,860</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS	9	<u>1,021,724</u>	<u>514,860</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)	10	<u>907,679</u>	<u>484,824</u>
NET ASSET VALUE PER UNIT (RM)		<u>1.1256</u>	<u>1.0619</u>

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

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

	Note	2023 RM	2022 RM
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE BEGINNING OF THE FINANCIAL YEAR		<u>514,860</u>	<u>240,236</u>
Movement due to units created during the financial year:			
- Creation of units from applications		<u>467,969</u>	<u>282,781</u>
Total comprehensive income/(loss) for the financial year		<u>38,895</u>	<u>(8,157)</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE END OF THE FINANCIAL YEAR	9	<u><u>1,021,724</u></u>	<u><u>514,860</u></u>

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

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

	Note	2023 RM	2022 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Purchase of Shariah-compliant collective investment schemes		(333,376)	(296,850)
Dividend income received		14,376	11,150
Hibah earned		35	17
Management fee paid		(7,507)	(4,196)
Management fee rebate received		6,877	3,828
Trustee fee paid		(214)	(115)
Payments for other fees and expenses		(171)	(184)
Net cash used in operating activities		<u>(319,980)</u>	<u>(286,350)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		428,493	293,530
Net cash generated from financing activities		<u>428,493</u>	<u>293,530</u>
Net increase in cash and cash equivalents		108,513	7,180
Cash and cash equivalents at the beginning of the financial year		11,526	4,346
Cash and cash equivalents at the end of the financial year	8	<u>120,039</u>	<u>11,526</u>
<u>Cash and cash equivalents comprised:</u>			
Bank balance		120,039	11,526
Cash and cash equivalents at the end of the financial year	8	<u>120,039</u>	<u>11,526</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

Principal Islamic Conservative Wholesale Fund-of-Funds (the “Fund”) is governed by a Principal Deed dated 20 November 2017 and first supplemental Deed dated 20 September 2019 (collectively refer to as “Deeds”), made between Principal Asset Management Berhad (the “Manager”) and PB Trustee Services Berhad (the “Previous Trustee”) and the Second Supplemental Deed dated 24 May 2023 (collectively referred to as the “Deeds”) between the Manager and HSBC (Malaysia) Trustee Berhad (the “Trustee”).

The Fund aims to invest in at least three (3) Islamic CIS investing predominantly in Sukuk and/or Shariah-compliant equities. The Fund will invest at least 70% of its NAV in Islamic CIS investing predominantly in Sukuk and up to 30% of its NAV in Islamic CIS investing predominantly in Shariah-compliant equities. The Fund may also invest up to 5% of its NAV in Islamic liquid assets such as Islamic money market instruments and/or Islamic deposits for liquidity purposes. The investment strategy and policy of the Fund is biased towards Islamic CIS investing predominantly in Sukuk that aim to provide some capital stability to the Fund, while allowing some exposure in Islamic CIS investing predominantly in Shariah-compliant equities that aim to provide the added return in a rising market.

The allocation between the Islamic CIS is done through a combination of macroeconomic data, liquidity trends and the outlook to overweight or underweight a particular Islamic CIS. The Fund may invest in Islamic CIS that focus its investment in the Asia Pacific ex Japan region, i.e. companies that are domiciled in, listed in, and/or have operations or businesses that focus in the Asia Pacific ex Japan region within the Eligible Markets.

All investments are subjected to the Securities Commission Malaysia (“SC”) Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, 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 Fund had issued the Second Supplemental Information Memorandum dated 5 September 2023.

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. MATERIAL 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 as issued by the Malaysian Accounting Standards Board (“MASB”) and IFRS as issued by the International Accounting Standards Board (“IASB”).

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

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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.

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

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

There are no other standards, amendments to standards or interpretations that are effective for financial year beginning on 1 January 2023 that have a material effect on the financial statements of the Fund.

None of the standards, amendments to standards or interpretations that are effective for the financial year beginning on/after 1 January 2024 are applicable to the Fund.

(b) Financial assets and financial liabilities

Classification

The Fund classifies its financial assets in the following measurement categories:

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

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income ("OCI").

Investment in Shariah-compliant collective investment schemes have contractual cash flows that do not represent solely payment of principal and interest¹, and therefore are classified as fair value through profit or loss.

¹ For the purposes of this Fund, interest refers to profits earned from Shariah-compliant investments.

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

All of the Fund's financial liabilities are measured at amortised cost.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

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

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

Shariah-compliant collective investment schemes are valued based on the most recent published NAV per unit or share of such Shariah-compliant collective investment schemes or, if unavailable, on the last published price of such unit or share (excluding any sales charge included in such selling price).

Financial assets at amortised cost and other financial liabilities are subsequently carried at amortised cost using the effective profit method.

Impairment for assets carried at amortised costs

The Fund measures credit risk and expected credit loss ("ECL") using probability of default, exposure at default and loss given default. The Manager consider both historical analysis and forward-looking information in determining any ECL. The Manager consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month ECL as any such impairment would be wholly insignificant to the Fund.

Significant increase in credit risk

A significant increase in credit risk is defined by the Manager as any contractual payment which is more than 30 days past due.

Definition of default and credit-impaired financial assets

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

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

Write-off

The Fund writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Fund may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains. There are no write-offs/recoveries during the financial year.

(c) 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 Malaysian Ringgit ("MYR"), which is the Fund's functional and presentation currency.

(d) Management fee rebate

Management fee rebate is derived from the Fund's investment in Shariah-compliant collective investment schemes on an accruals basis to ensure no double charging of management fee. It is accrued daily based on the fair value of the Shariah-compliant collective investment schemes held.

(e) Income recognition

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

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

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

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

(f) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balance that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(g) 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.

(h) Unit holders' contributions

The unit holders' contributions to the Fund meet the criteria to be classified as equity instruments under MFRS 132 "*Financial Instruments: Presentation*". Those criteria include:

- the units entitle the holder to a proportionate share of the Fund's NAV;
- the units are the most subordinated class and class features are identical;
- there is no contractual obligations to deliver cash or another financial asset other than the obligation on the Fund to repurchase; and
- the total expected cash flows from the units over its life are based substantially on the profit or loss of the Fund.

The outstanding units are carried at the redemption amount that is payable at each financial year if unit holder exercises the right to put the unit back to the Fund.

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

(i) Realised and unrealised portions of profit or loss after tax

The analysis of realised and unrealised portions of profit or loss after tax as presented on the statement of comprehensive income is guided by SC Guidelines on Unit Trust Funds ("GUTF")¹.

(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 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 Unlisted Capital Market Products under the Lodge and Launch Framework.

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

¹ The presentation of the analysis of realised and unrealised portions of profit/loss after tax as presented on the statement of comprehensive income is provided as per the SC Guidelines on Unit Trust Funds. However, the Fund is not guided by the SC Guidelines on Unit Trust Funds.

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
2023			
Cash and cash equivalents (Note 8)	-	120,039	120,039
Shariah-compliant collective investment schemes (Note 7)	951,182	-	951,182
Amount due from Manager - creation of units	-	44,661	44,661
	<u>951,182</u>	<u>164,700</u>	<u>1,115,882</u>
2022			
Cash and cash equivalents (Note 8)	-	11,526	11,526
Shariah-compliant collective investment schemes (Note 7)	498,202	-	498,202
Amount due from Manager - creation of units	-	5,185	5,185
	<u>498,202</u>	<u>16,711</u>	<u>514,913</u>

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

The Fund aims to achieve capital stability by investing in a portfolio of Shariah-compliant collective investment schemes that invest in Shariah-compliant equities and/or Sukuk.

The Fund is exposed to a variety of risks which include market risk (inclusive of price 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 Unlisted Capital Market Products under the Lodge and Launch Framework.

(a) Market risk

(i) Price risk

Price risk is the risk that the fair value of an investment in Shariah-compliant collective investment schemes will fluctuate because of changes in market prices. The value of Shariah-compliant collective investment schemes may fluctuate according to the activities of individual companies, sector and overall political and economic conditions. Such fluctuation may cause the Fund's NAV and prices of units to fall as well as rise, and income produced by the Fund may also fluctuate.

The price risk is managed through diversification and selection of Shariah-compliant collective investment schemes and other financial instruments within specified limits according to the Deeds.

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

(a) Market risk (continued)

(i) Price risk (continued)

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

	2023	2022
	RM	RM
Financial assets at fair value through profit or loss:		
- Shariah-compliant collective investment schemes (Note 7)	<u>951,182</u>	<u>498,202</u>

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

% Change in price of Shariah-compliant collective investment schemes	Market Value RM	Impact on profit or loss/NAV RM
2023		
-5%	903,623	(47,559)
0%	951,182	-
+5%	<u>998,741</u>	<u>47,559</u>
2022		
-5%	473,292	(24,910)
0%	498,202	-
+5%	<u>523,112</u>	<u>24,910</u>

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

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 Unlisted Capital Market Products under the Lodge and Launch Framework.

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

(b) Credit risk

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

	Cash and cash equivalents	Amount due from Manager - creation of units	Amount due from Manager - management fee rebate	Total
	RM	RM	RM	RM
2023				
- AAA	120,039	-	-	120,039
- Not Rated	-	44,661	788	45,449
	<u>120,039</u>	<u>44,661</u>	<u>788</u>	<u>165,488</u>
2022				
- AAA	11,526	-	-	11,526
- Not Rated	-	5,185	478	5,663
	<u>11,526</u>	<u>5,185</u>	<u>478</u>	<u>17,189</u>

(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, which are capable of being converted into cash within 7 business days. The Fund's investments in collective investment schemes are realisable which are capable of being converted into cash within 10 business days. This is expected to reduce the risks for the entire portfolio without limiting the Fund's growth potentials.

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining 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
2023	
Amount due to Manager	
- purchase of collective investment scheme	94,000
- accrued management fee	923
Amount due to Trustee	23
Contractual undiscounted cash flows	<u>94,946</u>
2022	
Amount due to Manager	
- accrued management fee	516
Amount due to Trustee	15
Contractual undiscounted cash flows	<u>531</u>

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

(d) Capital risk management

The capital of the Fund is represented by net assets attributable to unit holders of RM1,021,724 (2022: RM514,860). The amount of capital can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

(e) Fair value estimation

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

The fair 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 were the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine a point within the bid-ask spread that is most representative of the fair value.

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

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

(i) Fair value hierarchy

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

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

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

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

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

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

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
2023				
Financial assets at fair value through profit or loss:				
- Shariah-compliant collective investment schemes	951,182	-	-	951,182
2022				
Financial assets at fair value through profit or loss:				
- Shariah-compliant collective investment schemes	498,202	-	-	498,202

Shariah-compliant investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include Shariah-compliant collective investment schemes. The Fund does not adjust the quoted prices for these instruments. The Fund’s policies on valuation of these financial assets are stated in Note 2(b).

- (ii) The carrying values of cash and cash equivalents, amount due from Manager - creation of units and management fee rebate 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 December 2023, the management fee is recognised at a rate of 1.20% per annum (2022: 1.20%).

For the financial year ended 31 December 2023, the audit fee, tax agent’s fee and Shariah advisory fee of RM7,000, RM5,000 and RM6,000 respectively (2022: RM7,000, RM5,000 and RM6,000 respectively) are borne by the Manager.

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

4. MANAGEMENT FEE (CONTINUED)

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

5. TRUSTEE FEE

In accordance with the Deeds, the Trustee is entitled to a maximum fee of 0.035% per annum, calculated daily based on the NAV of the Fund.

For the financial period from 1 January 2023 until 10 October 2023, the Trustee fee is recognised at a rate of 0.035%. Effective 11 October 2023, the Trustee Fee is recognized at the rate of 0.03% per annum (2022: 0.035% per annum)

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

6. TAXATION

	2023 RM	2022 RM
Tax charged for the financial year		
- Current taxation	-	-

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

	2023 RM	2022 RM
Profit/(Loss) before taxation	38,895	(8,157)
Taxation at Malaysian statutory rate of 24% (2022: 24%)	9,335	(1,958)
Tax effects of:		
- (Investment income not subject to tax)/Loss not deductible for tax purposes	(11,328)	872
- Expenses not deductible for tax purposes	95	74
- Restriction on tax deductible expenses for Wholesale Funds	1,898	1,012
Taxation	-	-

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RM	2022 RM
At fair value through profit or loss:		
- Shariah-compliant collective investment schemes	951,182	498,202
Net gain/(loss) on financial assets at fair value through profit or loss:		
- Unrealised fair value loss	25,604	(18,628)
- Management fee rebate #	7,187	3,828
	32,791	(14,800)

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

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

Management fee rebate is derived from the Shariah-compliant collective investment schemes held by the Fund on an accrual basis to ensure no double charging of management fee. It is accrued daily based on the fair value of Shariah-compliant collective investment schemes held.

For the financial year ended 31 December 2023 and 31 December 2022, management fee rebate is recognised at a rate as per table below, calculated and accrued daily based on the NAV of the Shariah-compliant collective investment schemes.

			2023	2022
			%	%
Principal DALI Equity Fund			1.85	1.85
Principal Islamic Lifetime Enhanced Sukuk Fund			1.00	1.00
Principal Islamic Lifetime Sukuk Fund			0.95	0.95

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
2023				
SHARIAH-COMPLIANT COLLECTIVE INVESTMENT SCHEMES				
Principal DALI Equity Fund	182,401	188,839	187,746	18.38
Principal Islamic Lifetime Enhanced Sukuk Fund	284,551	284,436	283,726	27.77
Principal Islamic Lifetime Sukuk Fund	<u>368,809</u>	<u>473,623</u>	<u>479,710</u>	<u>46.95</u>
TOTAL SHARIAH- COMPLIANT COLLECTIVE INVESTMENT SCHEMES	<u>835,761</u>	<u>946,898</u>	<u>951,182</u>	<u>93.10</u>
 ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u>4,284</u>		
 TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u>951,182</u>		
 2022				
SHARIAH-COMPLIANT COLLECTIVE INVESTMENT SCHEMES				
Principal DALI Equity Fund	103,245	109,839	99,280	19.28
Principal Islamic Lifetime Enhanced Sukuk Fund	153,390	154,842	149,601	29.06
Principal Islamic Lifetime Sukuk Fund	198,615	254,841	249,321	48.43

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
2022 (CONTINUED)				
SHARIAH-COMPLIANT COLLECTIVE INVESTMENT SCHEMES (CONTINUED)				
TOTAL SHARIAH- COMPLIANT COLLECTIVE INVESTMENT SCHEMES	455,250	519,522	498,202	96.77
ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		(21,320)		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		498,202		

8. CASH AND CASH EQUIVALENTS

	2023 RM	2022 RM
Bank balance	120,039	11,526

9. NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS

Net assets attributable to unit holders as at the reporting date comprises of:

	2023 RM	2022 RM
Unit holders' contributions	986,563	518,594
Retained earnings/ (Accumulated losses)	35,161	(3,734)
	<u>1,021,724</u>	<u>514,860</u>

The movement in the components of net assets attributable to unit holders for the financial year are as follows:

	Unit holders' contributions RM	(Accumulated losses)/Retained earnings RM	Total RM
Balance as at 1 January 2023			
Movements in unit holders' contributions:			
- Creation of units from applications	518,594	(3,734)	514,860
Total comprehensive income for the financial year	467,969	-	467,969
Balance at 31 December 2023	<u>986,563</u>	<u>35,161</u>	<u>1,021,724</u>

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

9. NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS (CONTINUED)

The movement in the components of net assets attributable to unit holders for the financial year are as follows: (continued)

	Unit holders' contributions RM	Retained earnings/ (Accumulated losses) RM	Total RM
Balance as at 1 January 2022	235,813	4,423	240,236
Movements in unit holders' contributions:			
- Creation of units from applications	282,781	-	282,781
Total comprehensive loss for the financial year	-	(8,157)	(8,157)
Balance at 31 December 2022	<u>518,594</u>	<u>(3,734)</u>	<u>514,860</u>

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2023 No. of units	2022 No. of units
At the beginning of the financial year	484,824	217,544
Add: Creation of units from applications	422,855	267,280
At the end of the financial year	<u>907,679</u>	<u>484,824</u>

11. TOTAL EXPENSE RATIO ("TER")

	2023 %	2022 %
TER	<u>0.17</u>	<u>0.20</u>

TER is derived based on the following calculation:

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

- A = Management fee (exclude management fee rebates)
- B = Trustee 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 RM660,670 (2022: RM352,207).

12. PORTFOLIO TURNOVER RATIO ("PTR")

	2023	2022
PTR (times)	<u>0.32</u>	<u>0.42</u>

12. PORTFOLIO TURNOVER RATIO (“PTR”) (CONTINUED)

PTR is derived based on 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 = RM 427,376 (2022: RM296,850)

total disposal for the financial year = Nil (2022: Nil)

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

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

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

Units held by the Manager and parties related to the Manager

	<u>No. of units</u>	<u>2023</u> <u>RM</u>	<u>No. of units</u>	<u>2022</u> <u>RM</u>
Manager				
Principal Asset Management Berhad	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

In the opinion of the Manager, the above units were transacted at the prevailing market price.

The units are held beneficially by the Manager for booking purposes. Other than the above, there were no units held by the Directors or parties related to the Manager.

PRINCIPAL ISLAMIC CONSERVATIVE WHOLESALE FUND-OF-FUNDS

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

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions. 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.

	2023	2022
	RM	RM
<u>Significant related party transaction</u>		
Purchase of Shariah-compliant collective investment schemes:		
- Principal Asset Management Berhad	<u>333,376</u>	<u>296,850</u>
<u>Significant related party balances</u>		
Shariah-compliant collective investment schemes managed by the Manager:		
- Principal DALI Equity Fund	187,746	149,601
- Principal Islamic Lifetime Enhanced Sukuk Fund	283,726	249,321
- Principal Islamic Lifetime Sukuk Fund	<u>479,710</u>	<u>99,280</u>
	<u>951,182</u>	<u>498,202</u>
Bank balance:		
- CIMB Islamic Bank Bhd	<u>-</u>	<u>11,526</u>

14. TRANSACTIONS WITH DEALER

Details of transactions with the dealer for the financial year ended 31 December 2023 are as follows:

Dealer	Value of trades	Percentage of total trades	Brokerage fees	Percentage of total brokerage fees
	RM	%	RM	%
Principal Asset Management Bhd #	<u>413,000</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

Details of transactions with the dealer for the financial year ended 31 December 2022 are as follows:

Dealer	Value of trades	Percentage of total trades	Brokerage fees	Percentage of total brokerage fees
	RM	%	RM	%
Principal Asset Management Bhd #	<u>285,700</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

Included in the transactions are trades conducted with Principal Asset Management Bhd, the Manager, amounting to RM413,000 (2022: RM285,700). 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. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 16 February 2024.

DIRECTORY

Head Office of the Manager

Principal Asset Management Berhad (Company No.: 199401018399 (304078-K))
Level 32, Exchange 106,
Lingkaran TRX,
55188 Tun Razak Exchange, Kuala Lumpur
MALAYSIA.
Tel: (03) 8680 8000

Website

www.principal.com.my

E-mail address

myservice@principal.com

Customer Care Centre

(03) 7723 7260

Chat with us via WhatsApp

(6016) 299 9792

Previous Trustee for the Principal Islamic Conservative Wholesale Fund-of-Funds

PB Trustee Services Berhad (Company No.: 196801000374 (7968-T))
17th Floor, Menara Public Bank,
146, Jalan Ampang,
50450 Kuala Lumpur, MALAYSIA.
Tel: (03) 2177 3127
Fax: (03) 2164 6197

Trustee for the Principal Islamic Conservative Wholesale Fund-of-Funds

HSBC (Malaysia) Trustee Berhad (Company No.: 193701000084 (1281-T))
19th Floor, Menara IQ, Lingkaran TRX,
55188 Tun Razak Exchange, Kuala Lumpur, MALAYSIA.
Tel: (03) 2075 7800
Fax: (03) 8894 2611

Shariah Adviser of the Principal Islamic Conservative Wholesale Fund-of-Funds

Amanie Advisors Sdn. Bhd. (Company No.: 200501007003 (684050-H))
Level 13A-2, Menara Tokio Marine Life,
No 189, Jalan Tun Razak,
50400 Kuala Lumpur, MALAYSIA.
Tel: (03) 2161 0260
Fax: (03) 2161 0262

Auditors of the Fund and of the Manager

Ernst & Young PLT 202006000003 (LLP0022760-LCA) & AF 0039
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
Tel: +603 7495 8000
Fax: +603 2095 5332