

Principal Islamic Lifetime Enhanced Sukuk Fund

(formerly known as CIMB Islamic Enhanced
Sukuk Fund)

Annual Report

For The Financial Year Ended 31 March 2020

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

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INVESTORS' LETTER

Dear Valued Investor,

We are now two months into our shared “quarantine” and I hope you and your family are staying well. Around the world, communities and Governments are working together to break the chain of the Coronavirus Disease 2019 (“COVID-19”). This unprecedented crisis has been met with unimaginable action. The global response to fighting the pandemic has been encouraging.

Global equity market has shown signs of recovery towards the end of April 2019 in rebounding by approximately 11% from a decline in March 2019 of this year. Governments around the world launched fiscal stimulus packages, estimated at over 3% of global Gross Domestic Product (“GDP”), to help stabilise their local businesses and citizens amongst the strain that COVID-19 has placed on all of us. In Malaysia alone, the Government unveiled a RM260 billion stimulus package.

As an investment house, we’re refining our short-term asset allocation within our investment portfolio to an equal split between equities and fixed income. We favour Large cap, high quality defensive stocks and Asian equities due to the region having more policy room relative to the rest of the world and China is likely to return to normalcy ahead of the rest. For our:

- **Conservative investors, we recommend:** Malaysia focus bond and balanced funds that consistently pay dividends.
- **More aggressive investors, we recommend:** Growth-oriented funds that offer exposure to growth areas in China, Asia-Pacific and Global Technology.

I know this may be a challenging time for you. Please know we’re committed to being by your side throughout this year and beyond. I encourage you to check our website (www.principal.com.my) and Facebook account (@PrincipalAssetMY) for up-to-date market commentaries and investment content.

We are well positioned and experienced to manage through this period of adversity. While we may face some short-term challenges and headwinds, we will continue to focus on what we can control, and I have no doubt that we will emerge from this crisis stronger.

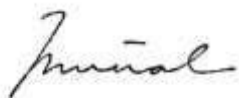
Because of the trust you’ve placed in us, we continue to win accolades - the most recent recognition coming from Lipper Refinitiv for our Principal Titans Income Plus Fund (*formerly known as CIMB-Principal Equity Income Fund*) on its 2019 performance.

Please be informed that effective 31 December 2019, the Fund has been renamed as Principal Islamic Lifetime Enhanced Sukuk Fund following the issuance of the Master Prospectus (Islamic Fund).

Even in challenging times, we all can celebrate the simple joys. To that end, my sincere wishes to our Muslim customers for a most peaceful and blessed Ramadhan Kareem.

Stay safe everyone. We appreciate your continuous support and the trust you place in us.

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



Munirah Khairuddin
Chief Executive Officer

MANAGER'S REPORT

FUND OBJECTIVE AND POLICY

What is the investment objective of the Fund?

The Fund aims to grow the value of Unit holders' investments over the medium-term in Sukuk portfolio with most tenures ranging from 3-10 years as well as to provide regular income.

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 Services Bhd ("RAM") or equivalent rating by Malaysian Rating Corporation Bhd ("MARC") or by local rating agency(ies) of the country of issuance; or "BBB-" by Standard & Poor's ("S&P") or equivalent rating by any other international rating agency(ies). The Fund may invest up to 40% of its NAV in Unrated Sukuk. The Fund may also invest between 0% to 20% (both inclusive) of its NAV in Shariah-compliant equities, of which up to 10% of its NAV may be invested in Shariah-compliant warrants of Shariah-compliant companies. The investment strategy and policy of the Fund is biased towards Islamic fixed income investments that aim to provide consistency in income, while allowing some exposure in Shariah-compliant equities and Shariah-compliant warrants that aim to provide the added return in a rising market. The Fund may also opt to seek investment exposure via Islamic collective investment scheme that is in line with the Fund's objective, subject to the requirements of the Securities Commission Malaysia ("SC") Guidelines.

The asset allocation strategy for this Fund is as follows:

- between 70% to 98% (both inclusive) of the Fund's NAV in Sukuk;
- up to 40 of the Fund's NAV Unrated Sukuk;
- between 0% to 20% (both inclusive) of NAV in Shariah-compliant equities, of which up to 10% may be invested in Shariah-compliant warrants; and
- at least 2% of the Fund's NAV in Islamic liquid assets.

Fund category/type

Sukuk/Income

How long should you invest for?

Recommended three (3) years or more

When was the Fund launched?

23 February 2005

What was the size of the Fund as at 31 March 2020?

RM34.43 million (34.87 million units)

What is the Fund's benchmark?

85% CIMB Islamic 1-Month Fixed Return Income Account – i ("FRIA-i") + 15% Financial Times Stock Exchange ("FTSE") Bursa Malaysia ("FBM") EMAS Shariah ("FBMS") Index

Note: The Fund's benchmark is for performance comparison purpose only. The benchmark is customised as such to align it closer to the structure of the portfolio and the objective of the Fund. Investors are cautioned that the risk profile of the Fund is higher than the risk profile of the benchmark.

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

FUND OBJECTIVE AND POLICY (CONTINUED)

What is the Fund distribution policy?

Distribution (if any) is expected to be distributed annually at the Manager's discretion*.

* Note: Pursuant to the Master Deed, the Manager has the right to make provisions for reserves in respect of distribution of the Fund. If the distribution available is too small or insignificant, any distribution may not be of benefit to the Unit holders as the total cost to be incurred in any such distribution may be higher than the amount for distribution. The Manager has the discretion to decide on the amount to be distributed to the Unit holders.

What was the net income distribution for the financial year ended 31 March 2020?

The Fund distributed a total net income of RM1.19 million to unit holders. As a result, the NAV per unit dropped from RM1.0292 to RM0.9812 on 24 April 2019, during financial year ended 31 March 2020.

PERFORMANCE DATA

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

| | 31.03.2020 | 31.03.2019 | 31.03.2018 |
|---|-------------------|-------------------|-------------------|
| | % | % | % |
| Shariah-compliant quoted securities | | | |
| - Construction | 1.00 | 1.88 | 1.79 |
| - Consumer Products | - | - | 1.57 |
| - Consumer Products & Services | 0.55 | 2.85 | - |
| - Energy | 0.83 | 1.86 | - |
| - Financial | 0.28 | - | - |
| - Health Care | 1.25 | 1.32 | - |
| - Industrials | - | - | 2.23 |
| - Industrial Products & Services | - | 2.40 | - |
| - Plantation | 1.37 | 0.77 | 1.62 |
| - Properties | - | - | 1.11 |
| - Real Estate Investment Trusts ("REITs") | 0.37 | 0.41 | - |
| - Technology | 0.99 | 0.11 | 0.26 |
| - Telecommunications & Media | 1.63 | 2.48 | - |
| - Trading/Services | - | - | 7.76 |
| - Transportation & Logistics | - | 0.43 | - |
| - Utilities | 1.84 | 4.27 | - |
| Unquoted Sukuk | 71.90 | 77.18 | 76.49 |
| Cash and other net assets | 17.99 | 4.04 | 7.17 |
| | <u>100.00</u> | <u>100.00</u> | <u>100.00</u> |

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

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

| | 31.03.2020 | 31.03.2019 | 31.03.2018 |
|--------------------------------|-------------------|-------------------|-------------------|
| NAV (RM Million) | 34.43 | 26.47 | 32.79 |
| Units in circulation (Million) | 34.87 | 25.87 | 31.15 |
| NAV per unit (RM) | 0.9873 | 1.0230 | 1.0527 |
| Highest NAV per unit (RM) | 1.0383 | 1.0553 | 1.0580 |
| Lowest NAV per unit (RM) | 0.9746 | 1.0056 | 1.0098 |
| Total return (%) | 1.22 | 1.47 | 4.65 |
| - Capital growth (%) | (3.51) | (2.81) | 0.25 |
| - Income distribution (%) | 4.89 | 4.41 | 4.39 |

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
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PERFORMANCE DATA (CONTINUED)

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

| | 31.03.2020 | 31.03.2019 | 31.03.2018 |
|--|-------------------|-------------------|-------------------|
| Management Expense Ratio ("MER") (%) ^ | 1.21 | 1.17 | 1.23 |
| Portfolio Turnover Ratio ("PTR") (times) # | 0.57 | 0.82 | 0.78 |

^ The Fund's MER has increased from 1.17% to 1.21% due to decrease in average NAV during the financial year.

The Fund's PTR has decreased from 0.82 times to 0.57 times due to decrease in the number of transactions recorded during the financial year.

| | | | | |
|---------------------------------------|------------|------------|------------|------------|
| Date of distribution | 24.04.2019 | 18.04.2018 | 21.04.2017 | 13.04.2016 |
| Gross/Net distribution per unit (sen) | 4.80 | 4.45 | 4.45 | 4.45 |

| | 31.03.2020 | 31.03.2019 | 31.03.2018 | 31.03.2017 | 31.03.2016 |
|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | % | % | % | % | % |
| Annual total return | 1.22 | 1.47 | 4.65 | 3.78 | 2.02 |

(Launch date: 23 February 2005)

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 APRIL 2019 TO 31 MARCH 2020)

Equity

In April 2019, blue chips have fared worse versus the small and mid-cap stocks as foreign investors continued to be net sellers of Malaysian equities. Positive news flow continues to buoy the construction sector as the revival of Bandar Malaysia project has lifted sentiment and expectation that the shelved High-Speed Rail ("HSR") and Mass Rapid Transit Line 3 ("MRT3") projects may be revived soon. While the moderation in the first quarter of 2019 GDP growth of 4.5% was shallower than street expectation, growth drivers going forward are weak given the escalating trade tension between the US and its major trading partners and slowing private investments due to dampened sentiment.

In second quarter of 2019, earnings season was a major disappointment as reflected by further negative earnings revision leading to a much higher earnings contraction of 7.2% in 2019 (versus 4.5% a month ago). Malaysia's Nikkei Manufacturing Purchasing Managers' Index ("PMI") fell again in June 2019 to 47.8 from 48.8 in May 2019, largely dragged by weak external demand.

While Malaysia is expected to be a medium-term beneficiary of trade diversion arising from trade war between US and China, adverse impact from supply chain disruption and weaker end demand will hurt Malaysia's near-term export. To counter the growth slowdown, Bank Negara Malaysia ("BNM") has preemptively slashed Overnight Policy Rate ("OPR") by 25 basis points ("bps") in May 2019 to 3%. With benign inflation (median forecast 1.1% in 2019), BNM has further room to cut its OPR should the need arise.

The breakdown in Axiata Group Bhd ("Axiata") - Telenor AXA ("Telenor") merger talks in September 2019 was a dampener on the benchmark Index. Export-oriented sectors such as tech and glove have generally posted gains on the back of weaker Ringgit Malaysia ("RM") and seasonal uptick in volume loading for selected tech stocks. Besides these, oil & gas sector has also gained on the back of higher crude oil prices.

MARKET REVIEW (1 APRIL 2019 TO 31 MARCH 2020) (CONTINUED)

Equity (Continued)

Budget 2020 was announced on 11 October 2019 focuses on reinventing Malaysia in the digital space over the medium term by attracting foreign and domestic investments. Various tax incentives have been proposed to attract these investments which are expected to create high-paying jobs, especially those in the manufacturing and technology sectors. Towards the end of 2019, the plantation sector was boosted by improving supply and demand dynamics which have led to crude palm oil (“CPO”) prices surging past RM3,000 per metric tonne (“MT”).

Political uncertainty engulfed Malaysia stepping into February 2020 following the shocked resignation of Tun Dr Mahathir as Prime Minister after losing a majority support in the Parliament. However, the uncertainty of not having a functioning Federal Government was short-lived as the King has appointed Tan Sri Muhyiddin Yasin as the 8th Prime Minister after determining that the latter is likely to get a majority support in the Parliament. In his last act as interim Prime Minister, Tun Dr Mahathir unveiled a RM20 billion stimulus package to mitigate the adverse economic impact from the COVID-19 outbreak.

March 2020 saw concerns over the COVID-19 outbreak intensified which was further exacerbated by the sharp 47% fall in Brent crude oil price following the breakdown in talks between Saudi Arabia and Russia to extend the Organization of the Petroleum Exporting Countries (“OPEC”) production cut agreement. The Malaysian Government has enforced an initial 2-week Movement Control Order (“MCO”) since 18 March 2020 which was extended until 14 April 2020 as the number of new COVID-19 infections spiked. To mitigate the economic impact of COVID-19 and MCO, a RM250 billion stimulus package was announced with the primary focus of (i) sustaining private consumption and confidence, (ii) preserving the viability and continuity of domestic business entities; and (iii) strengthening the domestic economy. BNM also cuts its OPR by a further 25 bps to 2.5% and slashed its Statutory Reserve Requirement (“SRR”) by 100 bps to 2.0% in order to inject liquidity into the economy.

Sukuk

In April 2019, the Government Investment Issues (“GII”) moved higher with the 10 year GII moved higher by 5 bps to 3.86% following reports of purported bond allocation changes by the Norwegian sovereign wealth fund and FTSE-Russell Index and comments by Moody’s on Government injection of additional funds into The Federal Land Development Authority (“FELDA”) Government-Linked Companies (“GLC”).

In May 2019, BNM cut the OPR by 25 bps to 3.00% as anticipated by the market. The statement highlighted that while domestic monetary and financial conditions remain supportive of economic growth, there are some signs of tightening of financial conditions. The adjustment to the OPR is therefore intended to preserve the degree of monetary accommodativeness.

In August 2019, we saw protracted trade tensions with mutual retaliations between the US and China coupled with weaker China data and a contraction in Germany’s second quarter in 2019 growth have sparked global growth concerns amid continued unrest in Hong Kong and Brexit uncertainty. Rising uncertainties have pushed the global Government bond yields lower with the 2/10 US Treasuries (“UST”) yield curve inverted for the first time since 2007, heightened recession fear.

Budget 2020 was released on 11 October 2019 with fiscal deficit narrowing further from a previous level of -3.7% in 2018 to -3.4% in 2019. The deficit target of 3.2% for 2020 is slightly higher than the 3.0% originally announced in Budget 2019. According to the Ministry of Finance (“MOF”)’s Economic Report 2019/2020, the medium-term fiscal deficit target is expected to narrow to 2.8% by 2022. Overall, Budget 2020 is deemed mild expansionary in nature with additional RM2.3 billion allocated to development expenditure to support strategic infrastructure projects.

BNM announced a surprise cut in SRR by 50 bps to 3.0% effective 16 November 2019, the first reduction since 2016. The cut in SRR would free up RM7.4 billion to the banking system in terms of better liquidity management and is seen positive for loan growth and economic activities.

MARKET REVIEW (1 APRIL 2019 TO 31 MARCH 2020) (CONTINUED)

Sukuk (Continued)

In the last Federal Open Market Committee (“FOMC”) meeting of 2019, US Federal Reserve (the “Fed”) kept rate at 1.75% with officials agreed that the current interest rate* stance is likely to remain unchanged for a period of time, despite raising concerns that low interest rates could exacerbate imbalances in the financial sector.

2020 started with a risk-on momentum as investors took positions in emerging market in anticipation of the signing of the US-China ‘phase one’ trade deal which was signed on 15 January 2020. Profit taking emerged after escalating geopolitical tensions between US and Iran, but the tensions appeared short-lived, as both parties look to de-escalate and diverge away from the path of war. Concerns later emerged over the COVID-19 outbreak, especially after the World Health Organization officially declared the outbreak a global health emergency.

In January 2020, BNM reduced the OPR to 2.75% at the first Monetary Policy Committee (“MPC”) meeting. In its latest statement, BNM stated that the adjustment to the OPR is a pre-emptive measure to secure the improving growth trajectory amid price stability. They also mentioned that despite the dissipation of trade tensions pointing towards improving global trade activity as well as monetary easing across major economies helping to ease financial conditions, the downside risks continue to remain on the back of geopolitical tensions and policy uncertainties in some countries.

The Malaysian economy grew by 3.6% year-on-year (“y-o-y”) in the fourth quarter of 2019 driven by higher private spending. On a quarter-on-quarter basis, the economy grew by 0.6% (third quarter of 2019: 0.9%) and for 2019 as a whole, the economy expanded by 4.3% (2018: 4.7%). BNM said the country’s economic growth was affected by supply disruptions in the commodities sector with private consumption and private investment expanding by 8.1% and 4.2% respectively, whilst net exports fell by 9.8%. The agriculture and mining sectors also contracted by 5.7% and 2.5%, respectively.

In March 2020, COVID-19 took centerstage, spreading to several countries and hitting risk sentiment as governments started implementing strict containment measures. Sovereign securities yields rose sharply as the erosion in risk sentiment dominated trade. Local Government Bond (“govvies”) were further weakened by the sharp drop in crude oil prices.

The world of Central Banking was filled with emergency simulative actions as panic engulfed the global economy. On the monetary side, the Fed had 2 emergency cuts (-150 bps) which brought the Fed Fund Rate to near 0%. BNM also made a few announcements in March 2020, among them the 25 bps OPR cut to 2.50% citing weakening global economic conditions, 1% SRR cut to free up RM30 billion banking liquidity and the 6-month loan moratorium to small-to-medium enterprise (“SMEs”) and consumer loans (excluding credit card balances). The loan moratorium will allow banks to continue to accrue interest on loan and keep asset quality healthy during this challenging time.

Locally, Prime Minister also unveiled a budget stimulus package amounting to RM250 billion (equivalent to 17% GDP) to sustain private consumption and confidence, among other things. Direct injection from the Federal Government amounted to RM25 billion or 1.7% of GDP. Policymakers projected for the stimulus package to add 1.5% to GDP. The Ministry of Finance highlighted that 2020 budget deficit would be capped at 4% of GDP by reallocation of budget within Ministries and higher dividends from GLCs.

The financial year under review ended with the overall 3-year, 5-year, 7-year, 10-year, 15-year, 20-year and 30-year GII yields closed at 2.87%, 3.04%, 3.27%, 3.42%, 3.74%, 3.79% and 4.10% respectively at the end of March 2020.

* 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.

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

FUND PERFORMANCE

| | 1 year to 31.03.2020 | 3 years to 31.03.2020 | 5 years to 31.03.2020 | Since inception 31.03.2020 |
|----------------------|---------------------------------|----------------------------------|----------------------------------|---------------------------------------|
| | % | % | % | % |
| Income | 4.89 | 14.34 | 24.49 | 90.18 |
| Capital | (3.51) | (5.99) | (8.55) | 0.75 |
| Total Return | 1.22 | 7.48 | 13.80 | 92.16 |
| Benchmark | 0.36 | 4.44 | 9.59 | 56.03 |
| Average Total Return | 1.22 | 2.43 | 2.62 | 4.42 |

For the financial year under review, the Fund reported a total return of 1.22% outperformed the benchmark by 0.86%

Changes in NAV

| | 31.03.2020 | 31.03.2019 | Changes % |
|------------------|-------------------|-------------------|----------------------|
| NAV (RM Million) | 34.43 | 26.47 | 30.07 |
| NAV/Unit (RM) | 0.9873 | 1.0230 | (3.49) |

The Fund's NAV increased by 30.07% from RM26.47 million to RM34.43 million as at 31 March 2020 mainly due to injections. The Fund's NAV per unit decreased by 3.49% to RM0.9873 from RM1.0230 a year ago.

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) | 31.03.2020 | 31.03.2019 |
|-------------------------------------|-------------------|-------------------|
| Shariah-compliant quoted securities | 10.11 | 18.78 |
| Unquoted Sukuk | 71.90 | 77.18 |
| Cash and other net asset | 17.99 | 4.04 |
| TOTAL | 100.00 | 100.00 |

The asset allocation for sukuk stood at 71.90% with 17.99% in cash as at 31 March 2020. Liquidity is maintained to position the Fund to take advantage of accumulating high quality securities with decent secondary market liquidity and participating in primary issues in the pipeline for potential yield pickup.

MARKET OUTLOOK*

Equity

Against the backdrop of a disappointing fourth quarter of 2019 GDP growth of 3.6% (versus 4.1% street expectation) and a weaker Purchasing Managers Index (“PMI”) reading of 48.5 in February 2020, BNM has followed through with its second interest rate cut this year as it lowers the OPR by 25 bps to 2.50% in its March 2020’s MPC meeting.

The Central Bank continues to take pre-emptive measure to support the economic growth trajectory amid slower growth outlook due to the COVID-19 outbreak and weak commodity markets. Given the benign inflationary outlook and growth risk, we believe BNM has further headroom to ease monetary policy to support growth. With rising political risk coupled with downside risk to economic growth, market risk premium will likely increase.

Following recent sell down, market valuation may de-rate further in the near term given the headwinds but would present an accumulation opportunity for long term investors.

To mitigate the economic impact of COVID-19 and MCO, a RM250 billion stimulus package was announced with the primary focus of (i) sustaining private consumption and confidence; (ii) preserving the viability and continuity of domestic business entities; and (iii) strengthening the domestic economy. While the stimulus package amounts to 17% of GDP, direct Government spending is only RM25 billion which is equivalent to 1.7% of GDP.

Sukuk

The Fed cut interest rates on 3 March 2020 in an emergency move ahead of the scheduled meeting on 18 March 2020. The decision to cut was unanimous citing “the coronavirus poses evolving risks to economic activity” despite “fundamentals of the US economy remain strong”. Following the cut by the Fed, investors are now expecting a rate cut in the euro zone as well as by the Bank of England.

Locally, Prime Minister also unveiled a budget stimulus package amounting to RM250 billion (equivalent to 17% GDP) to sustain private consumption and confidence, among other things. Direct injection from the Federal Government amounted to RM25 billion or 1.7% of GDP. Policymakers projected for the stimulus package to add 1.5% to GDP. The Ministry of Finance (“MoF”) highlighted that 2020 budget deficit would be capped at 4% of GDP by reallocation of budget within Ministries and higher dividends from GLCs.

On monetary side, BNM also made a few announcements in March 2020, among them the 25 bps OPR cut to 2.50% citing weakening global economic conditions, 1% SRR cut to free up RM30 billion banking liquidity and the 6-month loan moratorium to A small and mid-size enterprise (“SMEs”) and consumer loans (excluding credit card balances). The loan moratorium will allow banks to continue to accrue interests on loan and keep asset quality healthy during this challenging time.

On the bright side, S&P has just reaffirmed the sovereign rating of Malaysia at A-/Stable. While the agency acknowledged that the fiscal deficit target may derail in the short-term, they are still comfortable with the government medium term commitment to fiscal consolidation.

In BNM annual report which was released in early April 2020, the Central Bank lowers the 2020 GDP outlook between -2.0% to +0.5% while inflation is expected to average between -1.5% to +0.5% as the global economy is expecting to register a negative growth in 2020 with the ongoing COVID-19 pandemic and various containment measures that would weigh significantly on growth prospects.

* 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 Asset Management Berhad (“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

Equity

We will be tilting our barbell approach from growth bias to capital preservation bias; focusing on companies with defensive and high yielding qualities.

Sukuk

With much uncertainty ahead, we are inclined to be cautious and prefer to be defensive. Our core holdings remain anchored in the corporate segment and we will focus on corporates with strong and resilient credit metrics. We continue to maintain a neutral duration strategy and avoid taking on excessive duration risk until stability returns to the market.

UNIT HOLDINGS STATISTICS

Breakdown of unit holdings by size as at 31 March 2020 are as follows:

| Size of unit holdings (units) | No. of unit holders | No. of units held (million) | % of units held |
|-------------------------------|---------------------|-----------------------------|-----------------|
| 5,000 and below | 360 | 1.07 | 3.07 |
| 5,001-10,000 | 258 | 1.82 | 5.22 |
| 10,001-50,000 | 424 | 9.49 | 27.22 |
| 50,001-500,000 | 107 | 12.61 | 36.16 |
| 500,001 and above | 4 | 9.88 | 28.33 |
| Total | 1,153 | 34.87 | 100.00 |

SOFT COMMISSIONS AND REBATES

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

During the financial year under review, the Manager and the Trustee did not receive any rebates from the brokers or dealers but the Manager has retained soft commission in the form of goods and services such as financial wire services and stock quotations system incidental to investment management of the Funds.

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

STATEMENT BY MANAGER TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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 17 to 49 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the financial position of the Fund as at 31 March 2020 and of its financial performance, changes in equity and cash flows for the financial year then ended in accordance with 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
Chief Executive Officer/Executive Director

JUAN IGNACIO EYZAGUIRRE BARAONA
Director

Kuala Lumpur
14 May 2020

TRUSTEE'S REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

We have acted as Trustee of Principal Islamic Lifetime Enhanced Sukuk Fund (*formerly known as CIMB Islamic Enhanced Sukuk Fund*) ("the Fund") for the financial year ended 31 March 2020. To the best of our knowledge, Principal Asset Management Berhad ("the Manager"), has operated and managed the Fund in accordance with the following:

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

During the financial year, a total distribution of 4.80 sen per unit (gross) has been distributed to the unitholders of the Fund. We are of the view that the distribution is not inconsistent with the objective of the Fund.

For HSBC (Malaysia) Trustee Berhad

Tan Bee Nie
Manager, Investment Compliance Monitoring

Kuala Lumpur
14 May 2020

SHARIAH ADVISER'S REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

For the Financial Year from 1 April 2019 to 31 March 2020

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

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

In addition, we confirm that the investment portfolio of the Fund comprises securities and/or instruments which have been classified as Shariah compliant by the Shariah Advisory Council ("SAC") of the SC and/or Shariah Advisory Council 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

14 May 2020

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Principal Islamic Lifetime Enhanced Sukuk Fund ") (the "Fund") (formerly known as CIMB Islamic Enhanced Sukuk Fund) give a true and fair view of the financial position of the Fund as at 31 March 2020, 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 March 2020, 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 17 to 49.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND (CONTINUED)**
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND (CONTINUED)**
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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
PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND (CONTINUED)**
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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
14 May 2020

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

| | Note | 2020 RM | 2019 RM |
|--|------|------------------|------------------|
| INCOME | | | |
| Dividend income | | 143,064 | 143,050 |
| Profit income from Shariah-compliant deposits with licensed Islamic financial institutions | | 71,779 | 104,993 |
| Profit income from unquoted Sukuk | | 1,065,243 | 1,111,129 |
| Net loss on financial assets at fair value through profit or loss | 8 | <u>(458,959)</u> | <u>(520,174)</u> |
| | | <u>821,127</u> | <u>838,998</u> |
| EXPENSES | | | |
| Management fee | 4 | 295,012 | 305,354 |
| Trustee's fee | 5 | 20,651 | 21,374 |
| Audit fee | | 13,600 | 13,600 |
| Tax agent's fee | | 2,000 | 8,500 |
| Transaction costs | | 55,253 | 76,115 |
| Other expenses | | <u>28,582</u> | <u>9,684</u> |
| | | <u>415,098</u> | <u>434,627</u> |
| PROFIT BEFORE TAXATION | | 406,029 | 404,371 |
| Taxation | 7 | <u>-</u> | <u>-</u> |
| PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR | | <u>406,029</u> | <u>404,371</u> |
| Profit after taxation is made up as follows: | | | |
| Realised amount | | 744,863 | 674,013 |
| Unrealised amount | | <u>(338,834)</u> | <u>(269,642)</u> |
| | | <u>406,029</u> | <u>404,371</u> |

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

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as *CIMB Islamic Enhanced Sukuk Fund*)

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

| | Note | 2020 RM | 2019 RM |
|--|------|-------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents (Shariah-compliant) | 9 | 5,736,833 | 1,078,858 |
| Financial assets at fair value through profit or loss (Shariah-compliant) | 8 | 28,231,679 | 25,397,255 |
| Amount due from stockbrokers | | - | 121,135 |
| Amount due from Manager | | 497,618 | 19,675 |
| Dividends receivable | | 31,660 | 15,499 |
| TOTAL ASSETS | | <u>34,497,790</u> | <u>26,632,422</u> |
| LIABILITIES | | | |
| Amount due to stockbrokers | | - | 111,218 |
| Amount due to Manager | | 26,073 | 15,833 |
| Accrued management fee | | 26,959 | 22,617 |
| Amount due to Trustee | | 1,887 | 1,583 |
| Other payables and accruals | | 16,100 | 14,945 |
| TOTAL LIABILITIES | | <u>71,019</u> | <u>166,196</u> |
| NET ASSET VALUE OF THE FUND | | <u>34,426,771</u> | <u>26,466,226</u> |
| EQUITY | | | |
| Unit holders' capital | | 33,676,188 | 24,928,071 |
| Retained earnings | | 750,583 | 1,538,155 |
| NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS | | <u>34,426,771</u> | <u>26,466,226</u> |
| NUMBER OF UNITS IN CIRCULATION (UNITS) | 10 | <u>34,866,274</u> | <u>25,869,935</u> |
| NET ASSET VALUE PER UNIT (RM) | | <u>0.9873</u> | <u>1.0230</u> |

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

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

| | Note | Unit holders' capital RM | Retained earnings RM | Total RM |
|---|------|--------------------------------|----------------------------|-------------------|
| Balance as at 1 April 2019 | | 24,928,071 | 1,538,155 | 26,466,226 |
| Movement in unit holders' contributions: | | | | |
| - Creation of units from applications | | 25,908,225 | - | 25,908,225 |
| - Creation of units from distribution | | 1,175,146 | - | 1,175,146 |
| - Cancellation of units | | (18,335,254) | - | (18,335,254) |
| Total comprehensive income for the financial year | | - | 406,029 | 406,029 |
| Distribution | 6 | - | (1,193,601) | (1,193,601) |
| Balance as at 31 March 2020 | | <u>33,676,188</u> | <u>750,583</u> | <u>34,426,771</u> |
| | | | | |
| Balance as at 1 April 2018 | | 29,948,290 | 2,843,509 | 32,791,799 |
| Movement in unit holders' contributions: | | | | |
| - Creation of units from applications | | 16,501,049 | - | 16,501,049 |
| - Creation of units from distribution | | 1,692,081 | - | 1,692,081 |
| - Cancellation of units | | (23,213,349) | - | (23,213,349) |
| Total comprehensive income for the financial year | | - | 404,371 | 404,371 |
| Distribution | 6 | - | (1,709,725) | (1,709,725) |
| Balance as at 31 March 2019 | | <u>24,928,071</u> | <u>1,538,155</u> | <u>26,466,226</u> |

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

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2020

| | Note | 2020 RM | 2019 RM |
|---|----------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Proceeds from disposal of Shariah-compliant quoted securities | | 9,449,642 | 11,556,566 |
| Proceeds from disposal of unquoted Sukuk | | 4,241,508 | 14,213,514 |
| Proceeds from redemption of unquoted Sukuk | | 3,500,000 | 3,000,000 |
| Purchase of Shariah-compliant quoted securities | | (8,755,617) | (11,800,866) |
| Purchase of unquoted Sukuk | | (11,763,965) | (12,585,133) |
| Profit income received from Shariah-compliant deposits with licensed Islamic financial institutions | | 71,779 | 104,993 |
| Profit income received from unquoted Sukuk | | 1,054,957 | 1,166,579 |
| Dividends received | | 126,596 | 131,018 |
| Management fee paid | | (290,670) | (310,563) |
| Trustee's fee paid | | (20,347) | (21,739) |
| Payments for other fees and expenses | | (42,721) | (36,353) |
| Net cash (used in)/generated from operating activities | | (2,428,838) | 5,418,016 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash proceeds from units created | | 25,430,282 | 16,481,374 |
| Payments for cancellation of units | | (18,325,014) | (23,354,872) |
| Distribution paid | | (18,455) | (17,644) |
| Net cash generated from/(used in) financing activities | | 7,086,813 | (6,891,142) |
| Net increase/(decrease) in cash and cash equivalents | | 4,657,975 | (1,473,126) |
| Cash and cash equivalents at the beginning of the financial year | | 1,078,858 | 2,551,984 |
| Cash and cash equivalents at the end of the financial year | 9 | 5,736,833 | 1,078,858 |
| <u>Cash and cash equivalents comprises of</u> | | | |
| Shariah-compliant deposits with licensed Islamic financial institutions | | 5,709,712 | 1,052,298 |
| Bank balance | | 27,121 | 26,560 |
| Cash and cash equivalents at the end of the financial year | 9 | 5,736,833 | 1,078,858 |

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 MARCH 2020

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

Principal Islamic Lifetime Enhanced Sukuk Fund (*formerly known as CIMB Islamic Enhanced 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 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 (the “Manager”) and HSBC (Malaysia) Trustee Berhad (the “Trustee”).

The Fund will 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 ratings 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 any other international rating agency(ies). The Fund may invest up to 40% of its NAV in Unrated Sukuk. The Fund may also invest between 0% to 20% (both inclusive) of its NAV in Shariah-compliant equities, of which up to 10% of its NAV may be invested in Shariah-compliant warrants of Shariah-compliant companies. The investment strategy and policy of the Fund is biased towards Islamic fixed income investments that aim to provide consistency in income, while allowing some exposure in Shariah-compliant equities and Shariah-compliant warrants that aim to provide the added return in a rising market. The Fund may also opt to seek investment exposure via Islamic collective investment scheme that is in line with the Fund’s objective, subject to the requirements of SC Guidelines.

The asset allocation strategy for this Fund is as follows:

- between 70% to 98% (both inclusive) of the Fund’s NAV in Sukuk;
- up to 40 of the Fund’s NAV Unrated Sukuk;
- between 0% to 20% (both inclusive) of NAV in Shariah-compliant equities, of which up to 10% may be invested in Shariah-compliant warrants; and
- at least 2% of the Fund’s NAV in Islamic liquid assets.

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

The Fund has changed its name from CIMB Islamic Enhanced Sukuk Fund to Principal Islamic Lifetime Sukuk Fund following the issuance of the Replacement Master Prospectus (Islamic Funds) dated 31 December 2019.

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.

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

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

Standards, amendments to published standards or interpretation that are effective and relevant:

The Fund has applied the following amendments to published standards for the first time for the financial year beginning 1 April 2019:

- Amendments to MFRS 112 'Income Taxes' (effective from 1 January 2019) clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income ("OCI") or equity) depends on where the past transactions that generated distributable profits were recognised.

Accordingly, the tax consequences are recognised in profit or loss when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

There are no other standards, amendments to standards or interpretations that are effective for financial year beginning on 1 April 2019 that have a material effect on the financial statements of the Fund.

There are no applicable standards, amendments to standards or interpretations that are effective for financial year beginning on/after 1 April 2020 to the financial statements of the Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities

Classification

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

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

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

The contractual cash flows of the Fund's debt securities are solely principal and profit. 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, amount due from stockbrokers, amount due from Manager and dividends receivable as financial assets at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

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

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Fund commits to purchase or sell the asset. Shariah-compliant investments are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income.

Financial liabilities are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

Recognition and measurement (continued)

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

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

If a valuation based on the market price does not represent the fair value of the Shariah-compliant quoted securities, for example during abnormal market conditions or when no market price is available, including in the event of a suspension in the quotation of the Shariah-compliant quoted securities for a period exceeding 14 days, or such shorter period as agreed by the Trustee, then the Shariah-compliant quoted securities are valued as determined in good faith by the Manager, based on the methods or basis approved by the Trustee after appropriate technical consultation.

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(I) for further explanation.

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 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 losses ("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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

Recognition and measurement (continued)

Write-off

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

(c) Income recognition

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

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.

(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 with original maturities of three months or less that are readily convertible to known amount of cash and which are subjected to an insignificant risk of changes in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Taxation

Current tax expense is determined according to Malaysian tax laws at the current rate based on taxable profit earned during the financial year.

Withholding taxes on investment income from investment is based on tax regime of the respective countries that the Fund invests in.

(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) Transactions costs

Transaction costs are costs incurred to acquire or dispose financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as expenses.

(i) Amount due from/to stockbrokers

Amounts due from/to stockbrokers represent receivables for Shariah-compliant quoted securities sold and payables for Shariah-compliant quoted securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively.

These amounts are measured at amortised cost. At each reporting date, the Fund measure the loss allowance on amounts due from stockbrokers at an amount equal to the lifetime ECL if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month ECL. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required.

If the credit risk increases to the point that it is considered to be credit impaired, profit income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by the Manager as any contractual payment which is more than 30 days past due.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Unit holders' 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.

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

The analysis of realised and unrealised profit or loss after tax as presented on the statement of comprehensive income is prepared in accordance with SC Guidelines on Unit Trust Funds.

(l) 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 judgements are continually evaluated by the Manager and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimate of fair value of unquoted Sukuk

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.

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.

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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 |
|---|---|--|---------------------|
| 2020 | | | |
| Cash and cash equivalents (Shariah-compliant) (Note 9) | - | 5,736,833 | 5,736,833 |
| Shariah-compliant quoted securities and unquoted Sukuk (Note 8) | 28,231,679 | - | 28,231,679 |
| Amount due from Manager | - | 497,618 | 497,618 |
| Dividends receivable | - | 31,660 | 31,660 |
| | <u>28,231,679</u> | <u>6,266,111</u> | <u>34,497,790</u> |
| 2019 | | | |
| Cash and cash equivalents (Shariah-compliant) (Note 9) | - | 1,078,858 | 1,078,858 |
| Shariah-compliant quoted securities and unquoted Sukuk (Note 8) | 25,397,255 | - | 25,397,255 |
| Amount due from stockbrokers | - | 121,135 | 121,135 |
| Amount due from Manager | - | 19,675 | 19,675 |
| Dividends receivable | - | 15,499 | 15,499 |
| | <u>25,397,255</u> | <u>1,235,167</u> | <u>26,632,422</u> |

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

The Fund aims to grow the value of unit holders' investments over the medium-term in Sukuk portfolio with most tenures ranging from 3 to 10 years as well as to provide regular income.

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

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

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

(a) Market risk

(i) Price risk

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

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

| | 2020 | 2019 |
|--|--------------------------|--------------------------|
| | RM | RM |
| Financial assets at fair value through profit or loss: | | |
| - Shariah-compliant quoted securities | 3,477,922 | 4,971,382 |
| - Unquoted Sukuk* | <u>24,753,757</u> | <u>20,425,873</u> |
| | <u><u>28,231,679</u></u> | <u><u>25,397,255</u></u> |

* Includes profit receivable of RM315,051 (2019: RM288,568).

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

| % Change in price of Shariah-compliant quoted securities | Market value RM | Impact on profit or loss/NAV RM |
|---|------------------------|--|
| 2020 | | |
| -5% | 3,304,026 | (173,896) |
| 0% | 3,477,922 | - |
| +5% | <u>3,651,818</u> | <u>173,897</u> |
| 2019 | | |
| -5% | 4,722,813 | (248,569) |
| 0% | 4,971,382 | - |
| +5% | <u>5,219,951</u> | <u>248,569</u> |

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

(a) Market risk (continued)

(i) Price risk (continued)

The Fund is exposed to price risk arising from profit rate fluctuation in relation to its investment of RM24,753,757 (2019: RM20,425,873) 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.

(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.

Investors should note that the movement in prices of unquoted Sukuk and Shariah-compliant money market instruments are benchmarked against interest rates. As such, the investments are exposed to the movement of the interest rates. 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 interest 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 interest 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 profit rate | Impact on profit or loss/NAV | |
|------------------------------------|-------------------------------------|--------------------|
| | 2020 RM | 2019 RM |
| +1% | (48,238) | (35,934) |
| -1% | 48,401 | 36,084 |

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

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

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

| | 2020 | 2019 |
|---|-------------|-------------|
| | % | % |
| Shariah-compliant deposits with licensed Islamic financial institutions | 2.64 | 3.45 |

(b) Credit risk

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

Investment in unquoted 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 investment must satisfy a minimum credit requirement of at least "BBB3" or "P2" by RAM or equivalent rating by MARC or by local rating agency(ies) of the country issuance; "BBB-" by S&P or equivalent rating by any other international rating agencies.

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

For amount due from stockbrokers, the settlement terms are governed by the relevant rules and regulations as prescribed by respective stock exchanges. The credit risk is minimal as all transactions in Shariah-compliant quoted securities are settled/paid upon delivery using approved stockbrokers.

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.

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

(b) Credit risk (continued)

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

| | Cash and cash equivalents RM | Financial assets at fair value through profit or loss RM | Amount due from Manager RM | Dividends receivable RM | Total RM |
|-------------|---------------------------------------|--|-------------------------------------|-------------------------------|-------------------|
| 2020 | | | | | |
| - AAA | 5,736,833 | 2,156,085 | - | 31,660 | 7,924,578 |
| - AA1 | - | 4,117,823 | - | - | 4,117,823 |
| - AA2 | - | 152,656 | - | - | 152,656 |
| - AA3 | - | 10,334,451 | - | - | 10,334,451 |
| - AA | - | 4,766,178 | - | - | 4,766,178 |
| - A2 | - | 1,598,774 | - | - | 1,598,774 |
| - A3 | - | 122,773 | - | - | 122,773 |
| - NR | - | 1,505,017 | 497,618 | - | 2,002,635 |
| | <u>5,736,833</u> | <u>24,753,757</u> | <u>497,618</u> | <u>31,660</u> | <u>31,019,868</u> |

| | Cash and cash equivalents RM | Financial assets at fair value through profit or loss RM | Amount due from stock- brokers RM | Amount due from Manager RM | Dividends receivable RM | Total RM |
|-------------|---------------------------------------|--|--|-------------------------------------|-------------------------------|-------------------|
| 2019 | | | | | | |
| - AAA | 1,078,858 | 1,047,516 | - | - | 12,995 | 2,139,369 |
| - AA1 | - | 512,171 | - | - | - | 512,171 |
| - AA2 | - | 5,109,858 | - | - | - | 5,109,858 |
| - AA3 | - | 6,230,028 | - | - | 1,044 | 6,231,072 |
| - A1 | - | 3,493,199 | - | - | - | 3,493,199 |
| - A2 | - | 1,011,832 | - | - | - | 1,011,832 |
| - NR | - | 3,021,269 | 121,135 | 19,675 | 1,460 | 3,163,539 |
| | <u>1,078,858</u> | <u>20,425,873</u> | <u>121,135</u> | <u>19,675</u> | <u>15,499</u> | <u>21,661,040</u> |

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

(c) Liquidity risk

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

The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellations of the units by unit holders. Liquid assets comprise bank balances 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.

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 |
|--|-------------------------------------|---|---------------------|
| 2020 | | | |
| Amount due to Manager | 26,073 | - | 26,073 |
| Accrued management fee | 26,959 | - | 26,959 |
| Amount due to Trustee | 1,887 | - | 1,887 |
| Other payables and accruals | - | 16,100 | 16,100 |
| Contractual undiscounted cash flows | 54,919 | 16,100 | 71,019 |
| 2019 | | | |
| Amount due to Manager | 15,833 | - | 15,833 |
| Amount due to stockbrokers | 111,218 | - | 111,218 |
| Accrued management fee | 22,617 | - | 22,617 |
| Amount due to Trustee | 1,583 | - | 1,583 |
| Other payables and accruals | - | 14,945 | 14,945 |
| Contractual undiscounted cash flows | 151,251 | 14,945 | 166,196 |

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

(d) Capital risk management

The capital of the Fund is represented by equity consisting of unit holders' capital of RM33,676,188 (2019: RM24,928,071) and retained earnings of RM750,583 (2019: RM1,538,155). 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 where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of the fair value.

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

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

(i) Fair value hierarchy

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

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

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

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

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 |
|--|------------------|-------------------|---------------|-------------------|
| 2020 | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| - Shariah-compliant quoted securities | 3,477,922 | - | - | 3,477,922 |
| - Unquoted Sukuk | - | 24,753,757 | - | 24,753,757 |
| | <u>3,477,922</u> | <u>24,753,757</u> | <u>-</u> | <u>28,231,679</u> |
| 2019 | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| - Shariah-compliant quoted securities | 4,971,382 | - | - | 4,971,382 |
| - Unquoted Sukuk | - | 20,425,873 | - | 20,425,873 |
| | <u>4,971,382</u> | <u>20,425,873</u> | <u>-</u> | <u>25,397,255</u> |

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

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 stockbrokers, amount due to Manager, dividends receivable and all current liabilities are a reasonable approximation of their fair values due to their short term nature.

4. MANAGEMENT FEE

In accordance with the Deeds, the Manager is entitled to a maximum management fee of 1.50% per annum, calculated daily based on the NAV of the Fund.

For the financial year ended 31 March 2020, the management fee is recognised at a rate of 1.00% per annum (2019: 1.00% per annum).

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

5. TRUSTEE'S FEE

In accordance with the Deeds, the Trustee is entitled to a maximum fee of 0.07% per annum, calculated daily based on the NAV of the Fund. The Trustee's fee includes local custodian fees but excludes foreign sub-custodian fees (if any).

For the financial year ended 31 March 2020, the Trustee's fee is recognised at a rate of 0.07% per annum (2019: 0.07% 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:

| | 2020 | 2019 |
|--|-------------|-------------|
| | RM | RM |
| Dividend income | 142,597 | - |
| Profit income | 1,079,003 | 1,093,816 |
| Prior financial year's realised income | - | 673,223 |
| | 1,221,600 | 1,767,039 |
| Less: | | |
| Expenses | (27,999) | (57,314) |
| Net distribution amount | 1,193,601 | 1,709,725 |
| Distribution on 24 April 2019 | | |
| Gross/Net distribution per unit (sen) | 4.80 | - |
| Distribution on 18 April 2018 | | |
| Gross/Net distribution per unit (sen) | - | 4.45 |

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

The Fund incurred unrealised loss of RM338,834 during financial year (2019: RM269,642).

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7. TAXATION

| | 2020 | 2019 |
|-------------------------------------|-------------|-------------|
| | RM | 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:

| | 2020 | 2019 |
|---|----------------|----------------|
| | RM | RM |
| Profit before taxation | <u>406,029</u> | <u>404,371</u> |
| Taxation at Malaysian statutory rate of 24% | 97,447 | 97,049 |
| Tax effects of: | | |
| - Income not subject to tax | (197,070) | (201,358) |
| - Expenses not deductible for tax purposes | 107,324 | 112,343 |
| - Restriction on tax deductible expenses for Unit Trust Funds | <u>(7,701)</u> | <u>(8,034)</u> |
| Taxation | <u>-</u> | <u>-</u> |

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

| | 2020 | 2019 |
|--|-------------------|-------------------|
| | RM | RM |
| Financial assets at fair value through profit or loss: | | |
| - Shariah-compliant quoted securities | 3,477,922 | 4,971,382 |
| - Unquoted Sukuk | <u>24,753,757</u> | <u>20,425,873</u> |
| | <u>28,231,679</u> | <u>25,397,255</u> |
| Net loss on financial assets at fair value through profit or loss: | | |
| - Realised loss on disposals | (101,091) | (245,594) |
| - Unrealised fair value loss | <u>(357,868)</u> | <u>(274,580)</u> |
| | <u>(458,959)</u> | <u>(520,174)</u> |

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

| Name of counter | Quantity Units | Aggregate cost RM | Market value RM | Percentage of NAV % |
|--|-------------------|-------------------------|-----------------------|---------------------------|
| 2020 | | | | |
| SHARIAH-COMPLIANT QUOTED SECURITIES | | | | |
| Construction | | | | |
| Econpile Holdings Bhd | 300,000 | 203,110 | 121,500 | 0.36 |
| Gamuda Bhd | 50,075 | 182,109 | 141,713 | 0.41 |
| IJM Corporation Bhd | 50,000 | 98,628 | 79,500 | 0.23 |
| | <u>400,075</u> | <u>483,847</u> | <u>342,713</u> | <u>1.00</u> |
| Consumer Products & Services | | | | |
| Nestle Malaysia Bhd | 1,000 | 144,499 | 136,700 | 0.40 |
| Sime Darby Bhd | 30,000 | 70,618 | 50,700 | 0.15 |
| | <u>31,000</u> | <u>215,117</u> | <u>187,400</u> | <u>0.55</u> |
| Energy | | | | |
| Dayang Enterprise Holding Bhd | 49,500 | 90,168 | 56,925 | 0.16 |
| Dialog Group Bhd | 40,000 | 126,737 | 121,600 | 0.35 |
| Hibiscus Petroleum Bhd | 120,000 | 118,970 | 40,800 | 0.12 |
| Wah Seong Corporation Bhd | 12,300 | 15,472 | 6,519 | 0.02 |
| Yinson Holdings Bhd | 12,900 | 72,409 | 61,533 | 0.18 |
| | <u>234,700</u> | <u>423,756</u> | <u>287,377</u> | <u>0.83</u> |
| Financial Services | | | | |
| Syarikat Takaful Malaysia Keluarga Bhd | 30,000 | 141,868 | 97,500 | 0.28 |
| Health Care | | | | |
| Hartalega Holding Bhd | 25,000 | 155,433 | 172,000 | 0.50 |
| Top Glove Corporation Bhd | 40,000 | 236,113 | 258,000 | 0.75 |
| | <u>65,000</u> | <u>391,546</u> | <u>430,000</u> | <u>1.25</u> |
| Plantation | | | | |
| Kuala Lumpur Kepong Bhd | 12,074 | 266,790 | 250,656 | 0.73 |
| Sime Darby Plantation Bhd | 44,800 | 222,752 | 221,312 | 0.64 |
| | <u>56,874</u> | <u>489,542</u> | <u>471,968</u> | <u>1.37</u> |
| REIT | | | | |
| Axis REIT | 70,000 | 129,082 | 128,100 | 0.37 |

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

| Name of counter | Quantity Units | Aggregate cost RM | Market value RM | Percentage of NAV % |
|--|-------------------------|-------------------------|-------------------------|---------------------------|
| 2020 (CONTINUED) | | | | |
| SHARIAH-COMPLIANT QUOTED SECURITIES (CONTINUED) | | | | |
| Technology | | | | |
| D&O Green Technologies Bhd | 200,000 | 151,441 | 106,000 | 0.31 |
| Globetronics Technology Bhd | 27,400 | 57,781 | 44,388 | 0.13 |
| Unisem Bhd | 50,000 | 110,470 | 79,000 | 0.23 |
| Vitrox Corporation Bhd | 15,700 | 109,299 | 111,941 | 0.32 |
| | <u>293,100</u> | <u>428,991</u> | <u>341,329</u> | <u>0.99</u> |
| Telecommunications/ Media | | | | |
| Axiata Group Bhd | 72,000 | 330,134 | 236,160 | 0.69 |
| Digi.com Bhd | 60,000 | 280,253 | 261,000 | 0.76 |
| Media Chinese International Ltd | 357,500 | 87,016 | 60,775 | 0.18 |
| | <u>489,500</u> | <u>697,403</u> | <u>557,935</u> | <u>1.63</u> |
| Utilities | | | | |
| Ranhill Holdings Bhd | 103,000 | 143,912 | 92,700 | 0.27 |
| Tenaga Nasional Bhd | 45,000 | 610,973 | 540,900 | 1.57 |
| | <u>148,000</u> | <u>754,885</u> | <u>633,600</u> | <u>1.84</u> |
| TOTAL SHARIAH-COMPLIANT QUOTED SECURITIES | <u>1,818,249</u> | <u>4,156,037</u> | <u>3,477,922</u> | <u>10.11</u> |
| ACCUMULATED UNREALISED LOSS ON SHARIAH-COMPLIANT QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | | <u>(678,115)</u> | | |
| TOTAL SHARIAH-COMPLIANT QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | | <u>3,477,922</u> | | |

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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 % |
|---|---------------------|----------------------|--------------------|------------------------|
| 2020 (CONTINUED) | | | | |
| UNQUOTED SUKUK | | | | |
| DRB-Hicom Bhd 4.55% 12/12/2024 (AA) | 1,150,000 | 1,165,913 | 1,135,035 | 3.30 |
| Edra Solar Sdn Bhd 4.40% 09/10/2026 (AA2) | 150,000 | 153,128 | 152,656 | 0.44 |
| Fortune Premiere Sdn Bhd 4.65% 21/12/2022 (AA) | 2,000,000 | 2,011,979 | 2,076,879 | 6.03 |
| IJM Land Bhd 4.73% 17/03/2119 (AA) | 600,000 | 601,672 | 576,172 | 1.67 |
| IJM Land Bhd 5.65% 17/03/2119 (A2) | 1,000,000 | 1,002,012 | 1,022,602 | 2.97 |
| Mah Sing Group Bhd 4.35% 13/03/2025 # | 1,500,000 | 1,503,397 | 1,505,017 | 4.37 |
| Malayan Banking Bhd 4.08% 22/02/2117 (AA3) | 1,000,000 | 1,000,782 | 1,000,612 | 2.91 |
| MBSB Bank Bhd 5.05% 20/12/2029 (A3) | 120,000 | 121,710 | 122,773 | 0.36 |
| MMC Corporation Bhd 5.29% 26/04/2023 (AA3) | 2,000,000 | 2,060,722 | 2,087,989 | 6.07 |
| MMC Corporation Bhd 5.80% 12/11/2025 (AA3) | 2,000,000 | 2,044,811 | 2,135,691 | 6.20 |
| Penang Port Sdn Bhd 4.68% 26/12/2031 (AA3) | 350,000 | 354,308 | 360,524 | 1.05 |
| Press Metal Aluminum Holding Bhd 4.10% 17/10/2024 (AA3) | 950,000 | 967,821 | 962,672 | 2.80 |
| Quantum Solar Park 5.80% 04/10/30 (AA) | 1,500,000 | 1,560,998 | 1,554,264 | 4.51 |
| Sarawak Energy Bhd 4.70% 24/11/2028 (AAA) | 1,000,000 | 1,048,640 | 1,073,573 | 3.12 |
| Sepangar Bay Power Corporation 5.00% 03/07/2025 (AA1) | 1,000,000 | 1,055,322 | 1,065,172 | 3.09 |
| TAQA Abu Dhabi National Energy 4.65% 03/03/2022 # | 3,000,000 | 3,026,712 | 3,052,651 | 8.87 |
| Tenaga Nasional Bhd 4.98% 27/08/2038 (AAA) | 1,000,000 | 1,004,502 | 1,082,512 | 3.14 |
| TG Excellence Bhd 3.95% 27/02/2120 (AA3) | 650,000 | 652,392 | 644,754 | 1.87 |
| UEM Sunrise Bhd 4.98% 31/10/2023 (AA3) | 1,000,000 | 1,022,531 | 1,056,555 | 3.07 |
| WCT Holdings Bhd 5.32% 11/5/2022 (AA3) | 2,000,000 | 2,042,639 | 2,085,654 | 6.06 |

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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 % |
|---|--------------------------|--------------------------|--------------------------|---------------------------|
| 2020 (CONTINUED) UNQUOTED SUKUK (CONTINUED) | | | | |
| TOTAL UNQUOTED SUKUK | <u>23,970,000</u> | 24,401,991 | <u>24,753,757</u> | <u>71.90</u> |
| ACCUMULATED UNREALISED GAIN ON UNQUOTED SUKUK AT FAIR VALUE THROUGH PROFIT OR LOSS | | <u>351,766</u> | | |
| TOTAL UNQUOTED SUKUK AT FAIR VALUE THROUGH PROFIT OR LOSS | | <u>24,753,757</u> | | |

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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

| Name of counter | Quantity Units | Aggregate cost RM | Market value RM | Percentage of NAV % |
|--|---------------------------|----------------------------------|--------------------------------|------------------------------------|
| 2019 | | | | |
| SHARIAH-COMPLIANT QUOTED SECURITIES | | | | |
| Construction | | | | |
| Econpile Holdings Bhd | 148,400 | 72,093 | 74,942 | 0.28 |
| Gamuda Bhd | 29,400 | 70,198 | 84,672 | 0.32 |
| IJM Corporation Bhd | 75,700 | 143,322 | 168,054 | 0.63 |
| TRC Synergy Bhd | 278,000 | 170,136 | 172,360 | 0.65 |
| | <u>531,500</u> | <u>455,749</u> | <u>500,028</u> | <u>1.88</u> |
| Consumer Products & Services | | | | |
| Nestle (Malaysia) Bhd | 400 | 57,598 | 58,720 | 0.22 |
| Petronas Dagangan Bhd | 4,300 | 105,041 | 107,500 | 0.41 |
| Sime Darby Bhd | 46,700 | 115,807 | 104,141 | 0.39 |
| Sime Darby Plantation Bhd | 68,200 | 352,683 | 342,364 | 1.29 |
| UMW Holdings Bhd | 25,000 | 140,762 | 143,250 | 0.54 |
| | <u>144,600</u> | <u>771,891</u> | <u>755,975</u> | <u>2.85</u> |
| Energy | | | | |
| Dialog Group Bhd | 118,700 | 376,093 | 376,279 | 1.42 |
| Hibiscus Petroleum Bhd | 108,000 | 108,432 | 115,560 | 0.44 |
| | <u>226,700</u> | <u>484,525</u> | <u>491,839</u> | <u>1.86</u> |
| Health Care | | | | |
| IHH Healthcare Bhd | 60,600 | 345,323 | 349,662 | 1.32 |
| Industrial Products & Services | | | | |
| HSS Engineers Bhd | 1,000 | 1,166 | 1,190 | 0.01 |
| Petronas Chemicals Group Bhd | 38,500 | 330,024 | 352,660 | 1.33 |
| Sunway Bhd | 52,200 | 88,413 | 87,696 | 0.33 |
| Uchi Technologies Bhd | 72,300 | 219,600 | 193,041 | 0.73 |
| | <u>164,000</u> | <u>639,203</u> | <u>634,587</u> | <u>2.40</u> |
| Plantation | | | | |
| IOI Corporation Bhd | 34,500 | 156,597 | 153,870 | 0.58 |
| Kuala Lumpur Kepong Bhd | 2,000 | 48,418 | 49,600 | 0.19 |
| | <u>36,500</u> | <u>205,015</u> | <u>203,470</u> | <u>0.77</u> |
| REITs | | | | |
| Axis REIT | 60,800 | 109,648 | 109,440 | 0.41 |

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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

| Name of counter | Quantity Units | Aggregate cost RM | Market value RM | Percentage of NAV % |
|--|-------------------------|-------------------------|-------------------------|---------------------------|
| 2019 (CONTINUED) | | | | |
| SHARIAH-COMPLIANT QUOTED SECURITIES (CONTINUED) | | | | |
| Technology | | | | |
| Globetronics Technology Bhd | 15,766 | 38,312 | 27,433 | 0.11 |
| Telecommunications & Media | | | | |
| Axiata Group Bhd | 61,200 | 248,374 | 253,980 | 0.96 |
| Digi.com Bhd | 63,300 | 276,791 | 288,015 | 1.09 |
| Time Dotcom Bhd | 12,900 | 110,919 | 112,230 | 0.43 |
| | <u>137,400</u> | <u>636,084</u> | <u>654,225</u> | <u>2.48</u> |
| Transportation & Logistics | | | | |
| MISC Bhd | 17,100 | 113,723 | 114,399 | 0.43 |
| Utilities | | | | |
| Petronas Gas Bhd | 12,700 | 242,387 | 223,774 | 0.85 |
| Ranhill Holdings Bhd | 146,000 | 135,766 | 191,260 | 0.72 |
| Tenaga Nasional Bhd | 56,500 | 863,848 | 715,290 | 2.70 |
| | <u>215,200</u> | <u>1,242,001</u> | <u>1,130,324</u> | <u>4.27</u> |
| TOTAL SHARIAH-COMPLIANT QUOTED SECURITIES | <u>1,610,166</u> | <u>5,041,474</u> | <u>4,971,382</u> | <u>18.78</u> |
| ACCUMULATED UNREALISED LOSS ON SHARIAH-COMPLIANT QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | | <u>(70,092)</u> | | |
| TOTAL SHARIAH-COMPLIANT QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS | | <u>4,971,382</u> | | |

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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 | | | | |
| Fortune Premiere Sdn Bhd 4.65% 21/12/2022 (AA2) | 2,000,000 | 2,007,736 | 2,040,494 | 7.71 |
| Golden Assets Intl Fin Ltd 5.35% 05/08/2019 (A1) | 2,000,000 | 2,016,646 | 2,020,157 | 7.63 |
| IJM Land Bhd 5.65% 17/03/2119 (A2) | 1,000,000 | 1,002,012 | 1,011,832 | 3.82 |
| Imtiaz Sukuk Bhd 4.50% 22/11/2019 (AA2) | 1,500,000 | 1,522,336 | 1,528,147 | 5.77 |
| Malakoff Power Bhd 5.15% 17/12/2020 (AA3) | 1,000,000 | 1,015,542 | 1,030,185 | 3.89 |
| MMC Corporation Bhd 5.80% 12/11/2025 (AA3) | 2,000,000 | 2,044,493 | 2,098,553 | 7.93 |
| Quantum Solar Park Green Sri Sukuk 5.80% 04/10/2030 (A1) | 1,500,000 | 1,561,804 | 1,473,042 | 5.57 |
| Sabah Credit Corp 4.70% 08/05/2020 (AA1) | 500,000 | 510,498 | 512,171 | 1.94 |
| TAQA Abu Dhabi National Energy 4.65% 03/03/2022 # | 3,000,000 | 3,034,786 | 3,021,269 | 11.42 |
| Tenaga Nasional Bhd 4.98% 27/08/2038 (AAA) | 1,000,000 | 1,004,366 | 1,047,516 | 3.96 |
| UEM Sunrise Bhd 4.98% 31/10/2023 (AA3) | 1,000,000 | 1,022,733 | 1,038,099 | 3.92 |
| UMW Holdings Bhd 4.82% 04/10/2019 (AA2) | 1,500,000 | 1,538,658 | 1,541,217 | 5.82 |
| WCT Holdings Bhd 5.32% 11/05/2022 (AA3) | 2,000,000 | 2,042,652 | 2,063,191 | 7.80 |
| TOTAL UNQUOTED SUKUK | <u>20,000,000</u> | <u>20,324,262</u> | <u>20,425,873</u> | <u>77.18</u> |
| ACCUMULATED UNREALISED GAIN ON UNQUOTED SUKUK AT FAIR VALUE THROUGH PROFIT OR LOSS | | <u>101,611</u> | | |
| TOTAL UNQUOTED SUKUK AT FAIR VALUE THROUGH PROFIT OR LOSS | | <u>20,425,873</u> | | |

The unquoted Sukuk which are not rated as at the end of each financial year are issue, backed or guaranteed by Government or Government agencies.

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

9. CASH AND CASH EQUIVALENTS (SHARIAH-COMPLIANT)

| | 2020 | 2019 |
|--|------------------|------------------|
| | RM | RM |
| Shariah-compliant deposits with licensed Islamic financial institution | 5,709,712 | 1,052,298 |
| Bank balances | 27,121 | 26,560 |
| | 5,736,833 | 1,078,858 |

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| | No. of units | No. of units |
| At the beginning of the financial year | 25,869,935 | 31,147,969 |
| Add: Creation of units from applications | 25,886,322 | 15,944,993 |
| Add: Creation of units from distribution | 1,197,663 | 1,675,494 |
| Less: Cancellation of units | (18,087,646) | (22,898,521) |
| At the end of the financial year | 34,866,274 | 25,869,935 |

11. MANAGEMENT EXPENSE RATIO ("MER")

| | 2020 | 2019 |
|-----|-------------|-------------|
| | % | % |
| MER | 1.21 | 1.17 |

MER is derived from the following calculation:

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

- A = Management fee
- B = Trustee's fee
- C = Audit fee
- D = Tax Agent's fee
- E = Other expenses excluding CDS transfer fee and withholding tax
- F = Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial year calculated on daily basis is RM29,476,064 (2019: RM30,516,372).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

| | 2020 | 2019 |
|-------------|-------------|-------------|
| PTR (times) | 0.57 | 0.82 |

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 | = | RM20,340,072 (2019: RM24,373,395) |
| Total disposal for the financial year | = | RM13,555,423 (2019: RM25,742,146) |

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 |
| 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 Investment Bank Bhd | Fellow related party to Manager |

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
(formerly known as CIMB Islamic Enhanced Sukuk Fund)

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

| | <u>2020</u> | | <u>2019</u> |
|-----------------------------------|---------------------|-----------|---------------------|
| | <u>No. of units</u> | <u>RM</u> | <u>No. of units</u> |
| | | | <u>RM</u> |
| Manager | | | |
| Principal Asset Management Berhad | 5,191 | 5,125 | 1,256 |
| | | | 1,285 |

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.

| | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| | <u>RM</u> | <u>RM</u> |
| <u>Significant related party transactions</u> | | |
| Profit income from Shariah-compliant deposits with licensed Islamic financial institution: | | |
| - CIMB Islamic Bank Bhd | 14,401 | 21,329 |
| Cash placements with licensed Islamic financial institution: | | |
| - CIMB Islamic Bank Bhd | 81,972,000 | 116,842,000 |
| <u>Significant related party balances</u> | | |
| Shariah-compliant deposits with licensed Islamic financial institution: | | |
| - CIMB Islamic Bank Bhd | 2,000,279 | - |

PRINCIPAL ISLAMIC LIFETIME ENHANCED SUKUK FUND
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14. TRANSACTIONS WITH BROKERS/DEALERS

Details of transactions with the top 10 brokers/dealers for the financial year ended 31 March 2020 are as follows:

| Brokers/Dealers | Value of trades RM | Percentage of total trades % | Brokerage fees RM | Percentage of total brokerage fees % |
|---|-------------------------------|---|----------------------------------|---|
| RHB Investment Bank Bhd | 8,924,844 | 26.74 | 4,342 | 12.16 |
| Hong Leong Bank Bhd | 4,555,812 | 13.65 | 5,698 | 15.96 |
| Malayan Banking Bhd | 3,600,480 | 10.79 | - | - |
| UBS Securities Malaysia Sdn Bhd | 2,547,469 | 7.63 | 2,412 | 6.76 |
| Macquarie Capital Securities (M) Sdn Bhd | 2,317,281 | 6.94 | 4,241 | 11.88 |
| CLSA Securities (M) Sdn Bhd | 1,724,258 | 5.17 | 3,508 | 9.83 |
| Affin Hwang Investment Bank Bhd | 1,376,459 | 4.12 | 3,276 | 9.18 |
| J.P. Morgan Securities (M) Sdn Bhd | 1,374,138 | 4.12 | 1,815 | 5.08 |
| KAF Equities Sdn Bhd | 1,354,272 | 4.06 | 3,252 | 9.11 |
| Maybank Investment Bank Bhd | 1,298,908 | 3.89 | 3,059 | 8.57 |
| Others # | 4,305,358 | 12.89 | 4,099 | 11.47 |
| | <u>33,379,279</u> | <u>100.00</u> | <u>35,702</u> | <u>100.00</u> |

14. TRANSACTIONS WITH BROKERS/DEALERS (CONTINUED)

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

| Brokers/Dealers | Value of trades RM | Percentage of total trades % | Brokerage fees RM | Percentage of total brokerage fees % |
|---|-----------------------|---------------------------------|----------------------|---|
| RHB Investment Bank Bhd | 13,400,243 | 26.76 | 5,534 | 10.48 |
| KAF-Seagroatt & Campbell Securities Sdn Bhd | 5,523,459 | 11.03 | 12,498 | 23.68 |
| Standard Chartered Bank Malaysia Bhd | 5,019,200 | 10.02 | - | - |
| CIMB Bank Bhd # | 4,002,200 | 7.99 | - | - |
| Affin Hwang Investment Bank Bhd | 3,531,781 | 7.05 | 5,798 | 10.98 |
| Maybank Investment Bank Bhd | 3,528,157 | 7.05 | 8,005 | 15.17 |
| RHB Bank Bhd | 2,511,645 | 5.02 | - | - |
| Credit Suisse Securities (Malaysia) Sdn Bhd | 2,492,550 | 4.98 | 5,678 | 10.76 |
| CIMB Investment Bank Bhd # | 2,020,398 | 4.03 | 4,047 | 7.67 |
| Hong Leong Bank Bhd | 1,501,350 | 3.00 | - | - |
| Others | 6,548,806 | 13.07 | 11,223 | 21.26 |
| | <u>50,079,789</u> | <u>100.00</u> | <u>52,783</u> | <u>100.00</u> |

Included in the transactions are trades conducted with CIMB Bank Bhd and CIMB Investment Bank Bhd, fellow related parties to the Manager amounting to RM951,200 (2019: RM4,002,200) and nil (2019: RM2,020,398) 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. SIGNIFICANT EVENT DURING THE YEAR

The worsening of the macro-economic outlook as a result of COVID-19, both domestically and globally, has impacted the Fund's performance during the financial year end.

The Manager continues monitoring the situation closely and will be managing the portfolio to achieve the Fund's objective.

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 14 May 2020.

DIRECTORY

Head Office of the Manager

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Trustee for the Principal Islamic Lifetime Enhanced Sukuk Fund **(formerly known as CIMB Islamic Enhanced Sukuk Fund)**

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Auditors of the Fund and of the Manager

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