

Principal Lifetime Enhanced Bond

(formerly known as CIMB-Principal Strategic
Bond Fund)

Annual Report

For the Financial Year Ended 31 December 2020

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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INVESTORS' LETTER

Dear Valued Investor,

Firstly, allow me to wish you a very Happy New Year! Every year is a new beginning, for us to look back at our achievements and set new goals. My guess is all of us will remember 2020 as one of the most interesting, if not most challenging periods of our lives. Families, businesses and communities are all adjusting as we face new challenges and opportunities.

Here at Principal, it means a renewed commitment to helping our customers. In 2021, we will continue to deliver exciting new investment opportunities and digital innovations for our customers. We are grateful for the opportunity to serve you and for the trust you place in us.

Amid a global pandemic, it might be tempting to think about delaying your investment goals. But, in reality “now” is always a better time than “later” for pursuing your goals and dreams. At Principal, customers are a top priority. We will always work to help you reach your goals, as we did last year throughout the pandemic. We will continue to focus on finding ways to make it easier for you to do investments with us, by offering new solutions around digital payments, digital submissions and digital onboarding to name a few. And, we’re just getting started.

We continue to prefer equities over bonds and are more comfortable with our overweight position. Growth will remain as the core strategy as it is complemented by tactical strategies on value plays. We maintain our preference for Asian over global equities due to higher growth, resilient economies and currencies and higher anticipated inflows.

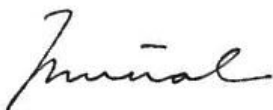
As we look towards this year, the team is excited to bring you more insights, tips and innovative solutions to help you manage your investments and reach your long-term financial goals. Visit our website (www.principal.com.my) and follow our Facebook page (@PrincipalAssetMY) in order not to miss these updates and promotions.

The Fund has changed its name from CIMB-Principal Strategic Bond Fund to Principal Lifetime Enhanced Bond Fund following the issuance of the Replacement Master Prospectus dated 17 April 2020.

We also wish to inform that we have appointed Ernst & Young PLT (“EY”) as the auditor of the Fund in respect of the audit for the financial year ended 31 December 2020 onwards. The change of Fund Auditor has been approved by the Trustee of the Fund, Maybank Trustees Berhad, in accordance with the provisions of the Deed in relation to the Fund.

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 provide growth to the value of Unit holders' investments over the medium-term in a medium to long-term bond portfolio as well as to provide a source of regular income.

Has the Fund achieved its objective?

The Fund has achieved its objective by investing in a pool of diversified fixed income and equity securities that provide medium to long-term income return as well as potential capital gain.

What are the Fund investment policy and principal investment strategy?

The Fund may invest between 70% to 98% (both inclusive) of its Net Asset Value ("NAV") in debentures rated at least "BBB3" or "P3" by RAM Ratings ("RAM") or equivalent rating by Malaysian Rating Corporation Berhad ("MARC") or by local rating agency(ies) of the country of issuance or "BB" by Standard & Poor's ("S&P") or equivalent rating by Moody's or Fitch. The Fund may invest up to 40% of its NAV in Unrated Debentures; up to 28% of its NAV in other permissible investments; up to 20% of its NAV in equities; of which up to 10% of its NAV in warrants and options; and up to 10% of its NAV in Irredeemable Convertible Unsecured Loan Stock ("ICULS") and/or exchangeable bonds.

As a strategic bond fund, the Fund may also allocate part of its fixed income portfolio to be invested in ICULS and/or exchangeable bonds listed on Bursa Malaysia Securities Berhad ("Bursa Malaysia") and other eligible exchanges, but subject to a maximum of 10% of its NAV. In line with its objective, the investment strategy and policy of the Fund is to invest in a diversified portfolio of approved fixed income securities aimed to provide a steady stream of income while utilising warrants and options to provide added returns when appropriate. To achieve its objective, the Fund may also invest in structured products and/or derivatives such as forward contracts, options, futures contracts and swap agreements, that are related/linked to fixed income securities. The Fund may also opt to seek investment exposure via collective investment scheme that is in line with the Fund's objective, subject to the requirement of the Securities Commission Malaysia ("SC") Guidelines.

Fund category/type

Bond/Income & Growth

When was the Fund launched?

23 March 2004

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

RM29.15 million (24.35 million units)

What is the Fund's benchmark?

Quant shop Malaysian Government Securities ("MGS") Bond Index (Medium Sub-Index)

Note: The benchmark is for performance comparison only. Investors are cautioned that the risk profile of the Fund is higher than benchmark. Information on the benchmark can be obtained from <http://www.quantshop.com>.

What is the Fund distribution policy?

Distribution (if any) is expected to be distributed once a year every January at the Manager's discretion.

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

FUND OBJECTIVE AND POLICY (CONTINUED)

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

The Fund distributed a total net income of RM1.23 million to unit holders. As a result of the distribution, the NAV per unit has dropped from RM1.1778 to RM1.1278 on 23 January 2020 during the financial year ended 31 December 2020.

PERFORMANCE DATA

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

	31.12.2020	31.12.2019	31.12.2018
	%	%	%
Quoted securities			
- Construction	0.09	-	-
- Energy	0.55	0.33	-
- Financial Services	1.29	1.81	-
- Health Care	1.27	0.30	-
- Industrials Products & Services	1.39	0.89	-
- Plantation	-	0.17	-
- Properties	-	0.32	-
- Technology	3.20	0.94	-
Unquoted fixed income securities	86.71	93.95	93.60
Cash	5.50	1.29	6.40
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

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

	31.12.2020	31.12.2019	31.12.2018
NAV (RM Million)	29.15	28.40	28.70
Units in circulation (Million)	24.35	24.39	26.22
NAV per unit (RM)	1.1970	1.1643	1.0945
Highest NAV per unit (RM)	1.2006	1.1644	1.1255
Lowest NAV per unit (RM)	1.0903	1.0787	1.0516
Total return (%)	7.39	8.12	3.13
- Capital growth (%)	2.81	6.35	(1.74)
- Income distribution (%)	4.43	1.67	4.99
Management Expense Ratio ("MER") (%) ^	1.27	1.24	1.35
Portfolio Turnover Ratio ("PTR") (times) #	0.50	0.78	1.17

^ The Fund's MER increased from 1.24% to 1.27% mainly due to increase in expenses during the financial year.

The Fund's PTR decreased from 0.78 times to 0.50 times as portfolio mainly held on to similar securities.

Date of distribution	23.01.2020	23.01.2019	26.01.2018
Gross/Net distribution per unit (sen)	5.00	1.80	5.35

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

PERFORMANCE DATA (CONTINUED)

	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
	%	%	%	%	%
Annual total return	7.39	8.12	3.13	3.30	5.24

(Launch date: 23 March 2004)

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

MARKET REVIEW (1 JANUARY 2020 TO 31 DECEMBER 2020)

Equity

The FTSE Bursa Malaysia (“FBM”) Kuala Lumpur Composite Index (“FBMKLCI”) rose 2.42% in Malaysian Ringgit (“MYR”) terms during the period under review. It started the year positively before succumbing to sell-down amid concerns over uncertainty in domestic politics and the Coronavirus 2019 (“COVID-19”) outbreak towards mid-year before ending the year on positive sentiments from successful COVID-19 vaccines testing spillover to December 2020.

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.

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. In order to cushion the pandemic impact to the country, the Government has implemented RM250 billion fiscal stimulus package as well as cut its Overnight Policy Rate (“OPR”) by 100 basis points (“bps”) year-to-date (“YTD”) to 2.0% and has slashed its Statutory Reserve Requirement (“SSR”) by 100 bps to 2.0% in order to inject liquidity into the economy. The second quarter of 2020 (2Q2020) earnings season was a disappointment despite earlier expectation of severe earnings contraction due to the full impact of MCO.

In October 2020, after a period of flattened curve of domestic COVID-19 new cases, a second wave is unravelling especially in Sabah which has now spread to Peninsular Malaysia. With threats to the economy is growing by the day, there have been high hopes on the current Government to deliver a Budget that will provide enough economic stimulus to steer past the COVID-19 and providing enough safety net for the B40. Warily, politically, due to Prime Minister Muhyiddin weak coalition, there will a threat that the Budget may not get enough support for approval.

To end the year on the budget front, the opposition failed in its attempt to the Budget 2021 as it was passed in the final approval stage in the Dewan Rakyat today via an en bloc vote. The vote ended with 111 Members of Parliament (“MPs”) in favour and 108 MPs against the passing of the budget.

PRINCIPAL LIFETIME ENHANCED BOND FUND
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MARKET REVIEW (1 JANUARY 2020 TO 31 DECEMBER 2020) (CONTINUED)

Fixed Income

Bank Negara Malaysia (“BNM”) reduced OPR by 1.25% in 2020 mainly to combat the slowdown in economy due to the spread of COVID-19. Domestic growth plummeted to lowest point in 2Q2020 (-17.1% year-on-year (“y-o-y”)) as lockdown measures impacted economic activities. While growth recorded a sharp V-shape rebound in third quarter of 2020 (“3Q2020”), market was concerned with the expected increase in fiscal deficit as a result of the direct fiscal stimulus announced and implemented by the Government – which also saw a change in the administration. The flattening of Government yield curve which fuelled by monetary policy actions came to a halt in second half of 2020 and started to adjust higher - especially on the long-end curve - as sovereign rating downgrades (by Fitch Ratings and S&P Ratings), increase in Debt/Gross Domestic Product (“GDP”) ratio as well as fragile political alliance weigh on investors’ sentiment. With y-o-y inflation turned negative in April 2020 and continued for the next 9 consecutive months, most investors expect BNM to continue to remain accommodative stance on interest rate outlook until growth pick-up again.

At the end of 2020, the 3-year, 5-year, 7-year, 10-year, 15-year, 20-year and 30-year MGS were recorded at 1.94% (-1.13% compared to 2019), 2.15% (-1.07%), 2.43% (-0.88%), 2.59% (-0.73%), 3.25% (-0.36%), 3.40% (-0.29%) and 3.86% (-0.31%) respectively.

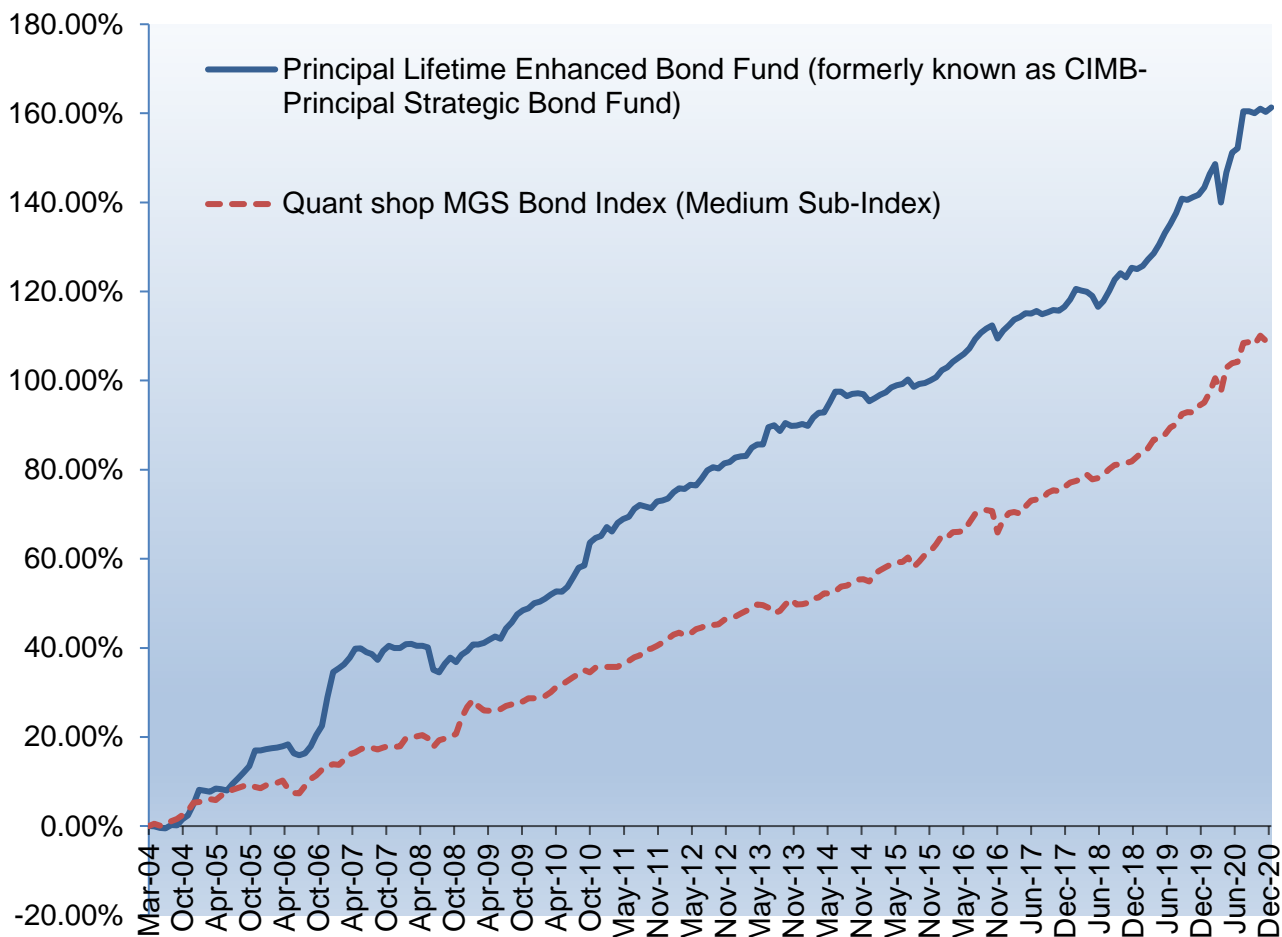
FUND PERFORMANCE

	1 year to 31.12.2020	3 years to 31.12.2020	5 years to 31.12.2020	Since inception to 31.12.2020
	%	%	%	%
Income Distribution	4.43	11.47	16.80	118.00
Capital Growth	2.81	7.43	11.48	16.66
Total Return	7.39	19.76	30.19	161.32
Benchmark	7.87	18.80	28.90	110.45
Average Total Return	7.39	6.19	5.42	5.89

The Fund delivered 7.39% total return in 2020, which underperformed the benchmark by 48 bps. Underperformance was due to the benchmark MGS outperformed the Fund’s credit and equity securities.

PRINCIPAL LIFETIME ENHANCED BOND FUND
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FUND PERFORMANCE (CONTINUED)



Changes in NAV

	31.12.2020	31.12.2019	Changes %
NAV (RM Million)	29.15	28.40	2.64
NAV/Unit (RM)	1.1970	1.1643	<u>2.81</u>

The Fund's NAV remained largely unchanged at circa RM29.15 million (2019: RM28.40 million) while the Fund's NAV per unit increased to RM1.1970 (2019: RM1.1643), in line with the Fund's total return.

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.

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

PORTFOLIO STRUCTURE

Asset allocation

(% of NAV)	31.12.2020	31.12.2019
Quoted securities	7.79	4.76
Unquoted fixed income securities	86.71	93.95
Cash and other net assets	5.50	1.29
TOTAL	100.00	100.00

The Fund's asset allocation as at December 2020 saw 3.03% increase in quoted securities, 7.24% drop in unquoted fixed income securities and 4.21% increase in cash and other net assets. The increase in equity is mainly due to our expectation of 2021 economic recovery while the decrease in fixed income securities is mainly due to lower expected return as interest rate environment remains low.

MARKET OUTLOOK*

Equity

The approval of 2021 Budget by the Parliament was the biggest short-term positive development that would help to alleviate political risk in Malaysia. Despite noises of a possible no confidence vote against the Prime Minister and the Budget 2021, it was passed and all measures will be implemented in 2021. Despite the downgrade in rating by Fitch from 'A-' to 'BBB+', MYR and bond yield remained stable. To end the year 2020 on a positive note, the Ministry of Finance ("MoF") announced the extension of the vehicle sales tax exemption period, due to expire on 31 December 2020, by a further six months until 30 June 2021.

Fixed Income

There were only a handful of domestic economic data released in December 2020. Industrial production dropped 0.5% y-o-y in October 2020, swinging from September 2020 +1.0% y-o-y increase and contracting for the first time in four months. October 2020 downturn was largely attributed to a stronger decline in mining and quarrying output, largely due the reimplementation of MCO in most of the states since early October 2020. Consumer Price Index ("CPI") continue to slip for the 9th consecutive month in November-2020 to -1.7% y-o-y mainly attributed to the decrease in transportation (-11%) and utilities (-3%). Soft inflation continues to provide support for low bond yield which is crucial for 2021 economic recovery. Lastly, trade surplus in November 2020 surged to RM16.8 billion as exports rose by 4.3% y-o-y, while import dropped by 9.3% y-o-y. The better export performance for the month was supported mainly by higher exports to US, Singapore, China and Hong Kong (Electrical and Electronic products). Despite with the revised Budget 2021, the official fiscal deficit target from MoF was unchanged at -5.4% for 2021. Based on our forecast, that should translate to around RM160 billion of gross funding requirement. The 37 government bond auctions in 2021 will see higher frequency of issuance in the 3 year – 5 year bucket but we expect the actual amount supply to come in the 7 year – 10 year bucket.

* This market outlook does not constitute an offer, invitation, commitment, advice or recommendation to make a purchase of any investment. The information given in this article represents the views of Principal Asset Management Berhad ("Principal Malaysia") or based on data obtained from sources believed to be reliable by Principal Malaysia. Whilst every care has been taken in preparing this, Principal Malaysia makes no guarantee, representation or warranty and is under no circumstances liable for any loss or damage caused by reliance on, any opinion, advice or statement made in this market outlook.

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

INVESTMENT STRATEGY

Equity

With major headwinds (US Presidential Election and Malaysia Budget 2021) being addressed and with Malaysia coming from an attractive valuation, we are now cautiously optimistic towards first half of 2021. We will be focusing on post COVID-19 recovery theme; positioning in companies with high growth, resilient earnings and solid track record.

Fixed Income

For MYR fixed income strategy, we carry on with our fourth quarter of 2020 strategy to take profit on MGS and move to corporate credits for better yield pick-up. With that said, we continue to be mindful in our credit selection with a preference on issuers/sectors which are more resilient with stronger fundamentals, as well as better liquidity. Any sell-off in the market is an opportunity to buy on dip as we continue to expect government bond yields to remain range-bound but to be mindful that it is for trading purposes only.

UNIT HOLDINGS STATISTICS

Breakdown of unit holdings by size as at 31 December 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	92	0.29	1.19
5,001 to 10,000	67	0.51	2.09
10,001 to 50,000	100	2.24	9.20
50,001 to 500,000	22	2.95	12.11
500,001 and above	6	18.36	75.41
Total	287	24.35	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 Principal Malaysia Funds (“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 commissions in the form of goods and services such as financial wire services and stock quotations system incidental to investment management of the Funds.

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

**STATEMENT BY MANAGER TO THE UNIT HOLDERS OF
PRINCIPAL LIFETIME ENHANCED BOND FUND**
(formerly known as CIMB-Principal Strategic Bond 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 15 to 47 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the financial position of the Fund as at 31 December 2020 and of its financial performance, changes in equity and cash flows for the financial year then ended in accordance with the provisions of the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

For and on behalf of the Manager

Principal Asset Management Berhad (Company No.: 199401018399 (304078-K))

MUNIRAH KHAIRUDDIN
Chief Executive Officer/Executive Director

JUAN IGNACIO EYZAGUIRRE BARAONA
Director

Kuala Lumpur
15 February 2021

**TRUSTEE'S REPORT TO THE UNIT HOLDERS OF
PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)**

We have acted as Trustee for PRINCIPAL LIFETIME ENHANCED BOND FUND (*formerly known as CIMB-PRINCIPAL STRATEGIC BOND FUND*) ("the Fund") for the financial year ended 31 December 2020. To the best of our knowledge, Principal Asset Management Berhad ("the Manager") has managed the Fund in the financial year under review in accordance with the following:

1. Limitations imposed on the investment powers of the Manager under the deeds, securities laws and Guidelines on Unit Trust Funds;
2. Valuation and pricing of the Fund are carried out in accordance with the deeds and any regulatory requirement; and
3. Creation and cancellation of units are carried out in accordance with the deeds and any regulatory requirement.

An income distribution of 5.00 sen per unit (gross) has been declared to the unit holders of the Fund for the financial year ended 31 December 2020.

We are of the view that the distribution is consistent with the objective and distribution policy of the Fund.

For **Maybank Trustees Berhad**
(Company No: 196301000109 (5004-P))

BERNICE K M LAU
Head, Operations

Kuala Lumpur
12 February 2021

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Principal Lifetime Enhanced Bond Fund (*formerly known as CIMB-Principal Strategic Bond Fund*) (the "Fund"), which comprise the statement of financial position as at 31 December 2020, and statement of comprehensive income, statement of changes in equity and statement of cash flows of the Fund for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 15 to 47.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2020, and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL LIFETIME ENHANCED BOND FUND (CONTINUED)**
(formerly known as CIMB-Principal Strategic Bond Fund)

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL LIFETIME ENHANCED BOND FUND (CONTINUED)**
(formerly known as CIMB-Principal Strategic Bond Fund)

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL LIFETIME ENHANCED BOND FUND (CONTINUED)**
(formerly known as CIMB-Principal Strategic Bond Fund)

Other matters

This report is made solely to the unit holders of the Fund, as a body, in accordance with the Guidelines on Unit Trust Funds issued by the Securities Commission Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

The financial statements of the Fund for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 13 February 2020.

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

Yeo Beng Yean
No. 03013/10/2022 J
Chartered Accountant

Kuala Lumpur, Malaysia
15 February 2021

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

	Note	2020 RM	2019 RM
INCOME			
Dividend income		40,228	48,439
Interest income from unquoted fixed income securities at fair value through profit or loss		1,229,156	1,341,797
Interest income from deposits with licensed financial institutions		69,889	41,635
Net gain on financial assets at fair value through profit or loss	8	<u>1,343,377</u>	<u>1,208,500</u>
		<u>2,682,650</u>	<u>2,640,371</u>
EXPENSES			
Management fee	4	320,021	288,167
Trustee and custodian fees	5	62,152	39,798
Audit fee		5,500	15,400
Tax agent's fee		8,200	2,700
Transaction costs		29,412	35,060
Other expenses		<u>10,265</u>	<u>12,560</u>
		<u>435,550</u>	<u>393,685</u>
PROFIT BEFORE TAXATION		2,247,100	2,246,686
Taxation	7	-	-
PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		<u>2,247,100</u>	<u>2,246,686</u>
Profit after taxation is made up as follows:			
Realised amount		1,693,804	1,638,927
Unrealised amount		<u>553,296</u>	<u>607,759</u>
		<u>2,247,100</u>	<u>2,246,686</u>

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

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 RM	2019 RM
ASSETS			
Cash and cash equivalents	9	1,558,809	473,082
Financial assets at fair value through profit or loss	8	27,551,583	28,035,189
Amount due from stockbrokers		85,738	60,068
Amount due from Manager		29,407	5,600
Dividends receivable		5,597	-
TOTAL ASSETS		<u>29,231,134</u>	<u>28,573,939</u>
LIABILITIES			
Amount due to Manager		36,054	127,128
Accrued management fee		24,727	24,442
Amount due to Trustee		1,236	1,222
Other payables and accruals		14,900	19,000
TOTAL LIABILITIES		<u>76,917</u>	<u>171,792</u>
NET ASSET VALUE OF THE FUND		<u>29,154,217</u>	<u>28,402,147</u>
EQUITY			
Unit holders' capital		24,970,457	25,235,466
Retained earnings		4,183,760	3,166,681
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>29,154,217</u>	<u>28,402,147</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)	10	<u>24,354,861</u>	<u>24,392,147</u>
NET ASSET VALUE PER UNIT (RM)		<u>1.1970</u>	<u>1.1643</u>

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

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

	Note	Unit holders' capital RM	Retained earnings RM	Total RM
Balance as at 1 January 2020		25,235,466	3,166,681	28,402,147
Movement in unit holders' contributions:				
- Creation of units from applications		16,210,869	-	16,210,869
- Creation of units from distribution		1,209,614	-	1,209,614
- Cancellation of units		(17,685,492)	-	(17,685,492)
Total comprehensive income for the financial year		-	2,247,100	2,247,100
Distribution	6	-	(1,230,021)	(1,230,021)
Balance as at 31 December 2020		<u>24,970,457</u>	<u>4,183,760</u>	<u>29,154,217</u>
Balance as at 1 January 2019		27,314,795	1,388,231	28,703,026
Movement in unit holders' contributions:				
- Creation of units from applications		4,096,177	-	4,096,177
- Creation of units from distribution		460,857	-	460,857
- Cancellation of units		(6,636,363)	-	(6,636,363)
Total comprehensive income for the financial year		-	2,246,686	2,246,686
Distribution	6	-	(468,236)	(468,236)
Balance as at 31 December 2019		<u>25,235,466</u>	<u>3,166,681</u>	<u>28,402,147</u>

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

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

	Note	2020	2019
		RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from disposal of unquoted fixed income securities		4,467,650	16,444,254
Proceeds from disposal of quoted securities		(4,698,039)	5,961,520
Proceeds from redemption of unquoted fixed income securities		-	1,000,000
Purchases of unquoted fixed income securities		12,509,417	(15,976,179)
Purchases of quoted securities		(10,490,668)	(7,039,716)
Dividend income received		34,631	36,084
Interest income received from deposits with licensed financial institutions		69,889	41,634
Interest income received from unquoted fixed income securities		1,212,697	1,192,058
Management fee paid		(319,736)	(288,262)
Trustee and custodian fees paid		(62,137)	(39,802)
Payments for other fees and expenses		(28,066)	(23,160)
Net cash generated from operating activities		2,695,638	1,308,431
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		16,187,062	4,099,890
Payments for cancellation of units		(17,776,566)	(6,520,225)
Distribution paid		(20,407)	(7,379)
Net cash used in financing activities		(1,609,911)	(2,427,714)
Net increase/(decrease) in cash and cash equivalents		1,085,727	(1,119,283)
Cash and cash equivalents at the beginning of the financial year		473,082	1,592,365
Cash and cash equivalents at the end of the financial year	9	1,558,809	473,082
<u>Cash and cash equivalents comprised of:</u>			
Bank balance		122,661	23,016
Deposits with licensed financial institutions		1,436,148	450,066
Cash and cash equivalents at the end of the financial year	9	1,558,809	473,082

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

Principal Lifetime Enhanced Bond Fund (*formerly known as CIMB-Principal Strategic Bond Fund*) (the “Fund”) is governed by a Principal Master Deed dated 15 May 2008, an Eighth Supplemental Master Deed date 14 June 2010, a Thirteenth Supplemental Master Deed dated 26 June 2012, an Eighteenth Supplemental Master Deed dated 25 March 2015 and Twentieth Supplemental Master Deed dated 21 October 2019 (collectively referred to as the “Deeds”), between Principal Asset Management Berhad (the “Manager”) and Maybank Trustees Berhad (the “Trustee”).

The Fund may invest between 70% to 98% (both inclusive) of its NAV in debentures rated at least “BBB3” or “P3” by RAM or equivalent rating by MARC or by local rating agency(ies) of the country of issuance or “BB” by S&P or equivalent rating by any other international rating agencies. The Fund may invest up to 40% of its NAV in Unrated Debentures; up to 28% of its NAV in other permissible investments; up to 20% of its NAV in equities; of which up to 10% of its NAV in warrants and options; and up to 10% of its NAV in ICULS and/or exchangeable bonds.

As a strategic bond fund, the Fund may also allocate part of its fixed income portfolio to be invested in ICULS and/or exchangeable bonds listed on Bursa Malaysia and other eligible exchanges, but subject to a maximum of 10% of its NAV. In line with its objective, the investment strategy and policy of the Fund is to invest in a diversified portfolio of approved fixed income securities aimed to provide a steady stream of income while utilizing warrants and options to provide added returns when appropriate. To achieve its objective, the Fund may also invest in structured products and/or derivatives such as forward contracts, options, futures contracts and swap agreements, that are related/linked to fixed income securities. The Fund may also opt to seek investment exposure via Collective Investment Scheme that is in line with the Fund’s objective, subject to the requirement of the SC Guidelines.

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-Principal Strategic Bond Fund to Principal Lifetime Enhanced Bond Fund following the issuance of the Replacement Master Prospectus dated 17 April 2020.

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

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

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

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

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

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2020 that have a material effect on the financial statements of the Fund.

None of the standards, amendments to standards or interpretations that are effective for the financial year beginning on/after 1 January 2021 are applicable to the Fund.

(b) Financial assets and financial liabilities

Classification

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

Classification (continued)

The contractual cash flows of the Fund's debt securities are solely principal and interest. However, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

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

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

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. Investments are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income.

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

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

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

Dividend income from financial assets at fair value through profit and 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.

Quoted securities in Malaysia are valued at the last done market price quoted on Bursa Malaysia Securities Berhad ("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 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 quoted securities for a period exceeding 14 days, or such shorter period as agreed by the Trustee, then the quoted securities are valued as determined in good faith by the Manager, based on the methods or bases approved by the Trustee after appropriate technical consultation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

Recognition and measurement (continued)

Unquoted fixed income securities 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(k) for further explanation.

Deposits with licensed financial institutions are stated at cost plus accrued interest calculated on the effective interest 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 interest method.

Impairment for assets carried at amortised costs

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

Significant increase in credit risk

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

Definition of default and credit-impaired financial assets

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

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 period.

(c) Income recognition

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

Interest income from deposits with licensed financial institutions and unquoted fixed income securities are recognised on a time proportionate basis using the effective interest rate method on an accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Income recognition (continued)

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

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

Realised gain or loss on disposal of unquoted fixed income securities is accounted for as the difference between the net disposal proceeds and the carrying amount of investments, 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 MYR, 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 deposits held in highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Taxation

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

Withholding taxes on investment income from investment are based on tax regime of the respective countries that the Fund invests in. Such withholding taxes are not "income tax" in nature and are recognised and measured based on the requirements of MFRS 137. They are presented within other expenses line in the statement of comprehensive income.

(g) Distribution

A proposed distribution to the Fund's unit holders is recognised in the statement of comprehensive income and is recognised as a liability in the financial year in which it is approved by the Trustee.

(h) Transaction 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, advisors, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Amount due from/to stockbrokers

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

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund measure the loss allowance on amounts due from broker 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, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management 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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Estimate of fair value of unquoted fixed income securities

In undertaking any of the Fund's investment, the Manager will ensure that all assets of the Fund under management will be valued appropriately, that is at fair value and in compliance with the SC Guidelines on Unit Trust Funds.

Ringgit-denominated unquoted fixed income securities 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 fixed income securities 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 LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond 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 (Note 9)	-	1,558,809	1,558,809
Quoted securities (Note 8)	2,272,475	-	2,272,475
Unquoted fixed income securities (Note 8)	25,279,108	-	25,279,108
Amount due from stockbrokers	-	85,738	85,738
Amount due from Manager	-	29,407	29,407
Dividend receivable	-	5,597	5,597
	<u>27,551,583</u>	<u>1,679,551</u>	<u>29,231,134</u>
2019			
Cash and cash equivalents (Note 9)	-	473,082	473,082
Quoted securities (Note 8)	1,353,118	-	1,353,118
Unquoted fixed income securities (Note 8)	26,682,071	-	26,682,071
Amount due from stockbrokers	-	60,068	60,068
Amount due from Manager	-	5,600	5,600
	<u>28,035,189</u>	<u>538,750</u>	<u>28,573,939</u>

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

The investment objective of the Fund to provide growth to the value of Unit holders' investments over the medium-term in a medium to long-term bond portfolio as well as to provide a source of regular income.

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

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

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

(a) Market risk

(i) Price risk

This is the risk that the fair value of an investment in quoted securities and unquoted fixed income securities will fluctuate because of changes in market prices (other than those arising from interest rate risk). The value of investments in quoted securities and unquoted fixed income securities may fluctuate according to the activities of individual companies, sector and overall political and economic conditions. Such fluctuation may cause the Fund's NAV and prices of units to fall as well as rise, and income produced by the Fund may also fluctuate.

The price risk is managed through diversification and selection of quoted securities, unquoted fixed income securities 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:		
- Quoted securities	2,272,475	1,353,118
- Unquoted fixed income securities*	<u>25,279,108</u>	<u>26,682,071</u>
	<u>27,551,583</u>	<u>28,035,189</u>

* Includes interest receivables of RM278,467 (2019: RM357,055).

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

% Change in price of quoted securities	Market value RM	Impact on profit or loss/NAV RM
2020		
- 5 %	2,158,851	(113,624)
0 %	2,272,475	-
5 %	<u>2,386,099</u>	<u>113,624</u>
2019		
- 5 %	1,285,462	(67,656)
0 %	1,353,118	-
5 %	<u>1,420,774</u>	<u>67,656</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 interest rate fluctuation in relation to its investments of RM25,279,108 (2019: RM26,682,071) in unquoted fixed income securities. The Fund's exposure to price risk arising from interest 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 fixed income securities 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 fixed income securities 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 movement in prices of unquoted fixed income securities and money market instruments are benchmarked against interest rates. As such, the investments are exposed to the movement of the interest rates.

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

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

The table below summarises the sensitivity of the Fund's profit or loss and NAV to movements in prices of unquoted fixed income securities held by the Fund as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate fluctuates 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.

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

(a) Market risk (continued)

(ii) Interest rate risk (continued)

% Change in interest rate	Impact on profit or loss/NAV	
	2020	2019
	RM	RM
+1%	(56,597)	(61,153)
-1%	56,819	61,392
	56,819	61,392

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

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

	2020	2019
	%	%
Deposits with licensed financial institutions	1.88	3.12
	1.88	3.12

(b) Credit risk

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

Investment in unquoted fixed income securities 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 fixed income securities 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 fixed income securities must satisfy a minimum credit rating of "BBB3" or "P3" by RAM or equivalent rating by MARC or by local rating agency (ies) of the country of issuance or "BB" by S&P or equivalent rating by Moody's or Fitch.

The credit risk arising from bank balance and placements of deposits in licensed financial institutions is managed by ensuring that the Fund will only place deposits in reputable licensed financial institutions.

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

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as *CIMB-Principal Strategic Bond Fund*)

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

(b) Credit risk (continued)

For amount due from stockbrokers, the settlement terms are governed by the relevant rules and regulations as prescribed by respective stock exchange. The credit risk is minimal as all transactions in unquoted fixed income securities are settled or paid upon delivery using approved stockbrokers.

The following table sets out the credit risk concentration of the Fund at the end of each reporting financial year:

	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Amount due from Manager RM	Amount due from stockbrokers RM	Dividend receivable RM	Total RM
2020						
- AAA	1,558,809	1,836,854	-	-	-	3,395,663
- AA1	-	6,269,814	-	-	-	6,269,814
- AA2	-	-	-	-	3,300	3,300
- AA3	-	4,146,742	-	-	147	4,146,889
- AA	-	2,828,450	-	-	-	2,828,450
- A1	-	1,216,562	-	-	-	1,216,562
- A2	-	621,134	-	-	-	621,134
- A	-	3,755,062	-	-	-	3,755,062
- GB	-	1,146,408	-	-	-	1,146,408
- GG	-	204,136	-	-	-	204,136
- Not Rated	-	3,253,946	29,407	85,738	2,150	3,371,241
	<u>1,558,809</u>	<u>25,279,108</u>	<u>29,407</u>	<u>85,738</u>	<u>5,597</u>	<u>26,958,659</u>

	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Amount due from Manager RM	Amount due from stockbrokers RM	Total RM
2019					
- AAA	473,082	8,149,992	-	-	8,623,074
- AA1	-	2,818,363	-	-	2,818,363
- AA3	-	6,121,953	-	-	6,121,953
- A1	-	8,844,776	-	-	8,844,776
- A2	-	626,766	-	-	626,766
- A3	-	120,221	-	-	120,221
- Not Rated	-	-	5,600	60,068	65,668
	<u>473,082</u>	<u>26,682,071</u>	<u>5,600</u>	<u>60,068</u>	<u>27,220,821</u>

Deposits with licensed financial institutions of the Fund have an average remaining maturity of 3 days (2019: 2 days).

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 balance, deposits with licensed financial institutions and other instruments, which are capable of being converted into cash within 7 business days. Generally, all investments are subject to a certain degree of liquidity risk depending on the nature of the investment instruments, market, sector and other factors. For the purpose of the Fund, the Manager will attempt to balance the entire portfolio by investing in a mix of assets with satisfactory trading volume and those that occasionally could encounter poor liquidity. This is expected to reduce the risks for the entire portfolio without limiting the Fund's growth potentials.

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining 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	36,054	-	36,054
Accrued management fee	24,727	-	24,727
Amount due to Trustee	1,236	-	1,236
Other payables and accruals	-	14,900	14,900
Contractual undiscounted cash flows	62,017	14,900	76,917
2019			
Amount due to Manager	127,128	-	127,128
Accrued management fee	24,442	-	24,442
Amount due to Trustee	1,222	-	1,222
Other payables and accruals	-	19,000	19,000
Contractual undiscounted cash flows	152,792	19,000	171,792

(d) Capital risk management

The capital of the Fund is represented by equity consisting of unit holders' capital of RM24,970,457 (2019: RM25,235,466) and retained earnings of RM4,183,760 (2019: RM3,166,681). The amount of equity 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 for unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

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

(e) Fair value estimation

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

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

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

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

(i) Fair value hierarchy

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

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

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

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

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

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

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

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:				
- Quoted securities	2,272,475	-	-	2,272,475
- Unquoted fixed income securities	-	25,279,108	-	25,279,108
	<u>2,272,475</u>	<u>25,279,108</u>	<u>-</u>	<u>27,551,583</u>
2019				
Financial assets at fair value through profit or loss:				
- Quoted securities	1,353,118	-	-	1,353,118
- Unquoted fixed income securities	-	26,682,071	-	26,682,071
	<u>1,353,118</u>	<u>26,682,071</u>	<u>-</u>	<u>28,035,189</u>

Investments which 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. These include unquoted fixed income securities. 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).

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

(e) Fair value estimation (continued)

- (ii) The carrying values of cash and cash equivalents, amount due from Manager, amount due from stockbrokers 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 December 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 AND CUSTODIAN FEES

In accordance with the Deeds, the Trustee is entitled to a maximum fee of 0.05% per annum calculated daily based on the NAV of the Fund. The Trustee fee includes the local custodian fee but excludes the foreign sub-custodian fee (if any). The foreign sub-custodian fee is dependent on the country invested and is charged monthly in arrears.

For the financial year ended 31 December 2020, the Trustee fee is recognised at a rate of 0.05% per annum (2019: 0.05% per annum).

For the financial year ended 31 December 2020, the custodian fee is RM46,151 (2019: RM25,390).

There is no further liability to the Trustee and custodian in respect of Trustee and custodian fees other than the amount recognised above.

PRINCIPAL LIFETIME ENHANCED BOND FUND
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6. DISTRIBUTION

Distribution to unit holders is derived from the following sources:

	2020	2019
	RM	RM
Interest income	82,004	124,119
Dividend income	-	48,439
Net realised gain on disposal of financial assets at fair value through profit or loss	39,976	214,394
Prior financial year's realised income	<u>1,128,184</u>	<u>143,840</u>
	<u>1,250,164</u>	<u>530,792</u>
Less:		
Expenses	<u>(20,143)</u>	<u>(62,556)</u>
Net distribution amount	<u>1,230,021</u>	<u>468,236</u>
Distribution on 23 January 2020		
Gross/net distribution per unit (sen)	<u>5.00</u>	<u>-</u>
Distribution on 23 January 2019		
Gross/net distribution per unit (sen)	<u>-</u>	<u>1.80</u>

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

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

7. TAXATION

	2020	2019
	RM	RM
Tax charged for the financial year	<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>2,247,100</u>	<u>2,246,686</u>
Taxation at Malaysian statutory rate of 24% (2019: 24%)	539,304	539,205
Tax effects of:		
- Investment income not subject to tax	(643,836)	(633,689)
- Expenses not deductible for tax purposes	26,001	19,265
- Restriction on tax deductible expenses for Unit Trust Funds	<u>78,531</u>	<u>75,219</u>
Taxation	<u>-</u>	<u>-</u>

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	RM	RM
Financial assets at fair value through profit or loss:		
- Quoted securities	2,272,475	1,353,118
- Unquoted fixed income securities	<u>25,279,108</u>	<u>26,682,071</u>
	<u><u>27,551,583</u></u>	<u><u>28,035,189</u></u>
Net gain on financial assets at fair value through profit or loss:		
- Realised gain on disposals	759,809	630,574
- Unrealised fair value gain	<u>583,568</u>	<u>577,926</u>
	<u><u>1,343,377</u></u>	<u><u>1,208,500</u></u>

Name of counter	Quantity	cost	value	of NAV
	Units	RM	RM	%
2020				
QUOTED SECURITIES				
Consumer Products & Services				
QL Resources Bhd	<u>4,600</u>	<u>26,761</u>	<u>26,680</u>	<u>0.09</u>
Energy				
Serba Dinamik Holdings Bhd	<u>91,200</u>	<u>177,030</u>	<u>160,512</u>	<u>0.55</u>
Financial Services				
Public Bank Bhd	9,000	178,684	185,400	0.64
RHB Bank Bhd	<u>35,000</u>	<u>197,450</u>	<u>190,750</u>	<u>0.65</u>
	<u>44,000</u>	<u>376,134</u>	<u>376,150</u>	<u>1.29</u>
Health Care				
Duopharma Biotech Bhd	20,000	80,990	67,600	0.23
Hartalega Holdings Bhd	15,000	103,855	182,100	0.62
Top Glove Corporation Bhd	<u>20,000</u>	<u>166,046</u>	<u>122,400</u>	<u>0.42</u>
	<u>55,000</u>	<u>350,891</u>	<u>372,100</u>	<u>1.27</u>
Industrial Products & Services				
Kelington Group Bhd	60,000	86,727	101,400	0.35
Press Metal Aluminium Holdings Bhd	14,700	115,526	123,333	0.42
V.S. Industry Bhd	<u>70,000</u>	<u>142,200</u>	<u>181,300</u>	<u>0.62</u>
	<u>144,700</u>	<u>344,453</u>	<u>406,033</u>	<u>1.39</u>
Technology				
D&O Green Technologies Bhd	130,000	115,899	296,400	1.02
Inari Amertron Bhd	90,000	152,001	248,400	0.85
JHM Consolidation Bhd	70,000	88,182	133,700	0.46
Pentamaster Corporation Bhd	<u>50,000</u>	<u>192,921</u>	<u>252,500</u>	<u>0.87</u>
	<u>340,000</u>	<u>549,003</u>	<u>931,000</u>	<u>3.20</u>

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

Name of counter	Quantity Units	cost RM	value RM	of NAV %
2020 (CONTINUED)				
QUOTED SECURITIES (CONTINUED)				
TOTAL QUOTED SECURITIES	<u>679,500</u>	1,824,272	<u>2,272,475</u>	<u>7.79</u>
ACCUMULATED UNREALISED GAIN ON QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u>448,203</u>		
TOTAL QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u>2,272,475</u>		
Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2020 (CONTINUED)				
UNQUOTED FIXED INCOME SECURITIES				
Aeon Credit Service (M) Bhd 3.85% 10/02/2028 (AA3)	100,000	101,519	103,857	0.36
Aeon Credit Service (M) Bhd 3.95% 12/03/2030 (A1)	500,000	506,834	508,908	1.75
Ara Bintang Bhd 5.50% 17/03/2026 (Non-rated)	1,500,000	1,503,390	1,567,005	5.37
AZRB Capital Sdn Bhd 5.00% 24/12/2026 (AA)	330,000	330,181	345,087	1.19
Bermaz Auto Bhd 3.26% 18/12/2023 (AA3)	210,000	210,263	210,389	0.72
DanaInfra Nasional Bhd 5.06% 12/02/2049 (Non- rated)	50,000	62,912	58,389	0.20
Danum Capital Bhd 2.97% 13/05/2025 (AAA)	150,000	150,598	152,664	0.52
Danum Capital Bhd 3.14% 13/05/2027 (AAA)	150,000	150,632	152,783	0.53
DRB-Hicom Bhd 4.15% 12/12/2022 (A1)	150,000	150,341	151,093	0.52
DRB-Hicom Bhd 4.85% 11/12/2026 (A1)	450,000	451,196	459,939	1.58
DRB-Hicom Bhd 5.10% 12/12/2029 (A1)	700,000	701,956	713,233	2.45

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2020 (CONTINUED)				
UNQUOTED FIXED INCOME				
SECURITIES				
(CONTINUED)				
Edra Energy Sdn Bhd 6.71% 05/01/2038 (AA3)	1,000,000	1,207,126	1,298,497	4.45
GENM Capital Bhd 4.98% 11/07/2023 (AAA)	2,500,000	2,558,668	2,662,293	9.13
Genting Bhd 4.18% 08/11/2029 (AAA)	500,000	503,035	513,140	1.76
GII Murabahah 4.12% 30/11/2034 (Non-rated)	50,000	55,989	54,581	0.19
GII Murabahah 4.64% 15/11/2049 (Non-rated)	150,000	177,042	169,179	0.58
GII Murabahah 4.90% 08/05/2047 (Non-rated)	150,000	184,190	172,692	0.59
Guan Chong Bhd 3.84% 03/12/2027 (AA)	310,000	312,809	312,623	1.07
IJM Land Bhd 4.73% 17/03/2119 (A2)	300,000	304,308	302,610	1.04
IJM Land Bhd 5.65% 17/03/2119 (A2)	300,000	304,830	318,525	1.09
Kedah Cement Sdn Bhd 4.55% 07/07/2023 (A1)	200,000	204,600	205,638	0.71
Lafarge Cement Sdn Bhd 4.40% 11/12/2023 (A1)	500,000	501,937	502,016	1.72
LBS Bina Group Bhd 6.80% 29/03/2120 (Non-rated)	400,000	406,988	425,416	1.46
Mah Sing Group Bhd 4.35% 13/03/2025 (Non-rated)	1,200,000	1,215,588	1,261,524	4.33
Malayan Banking Bhd 4.08% 22/02/2117 (AA3)	500,000	505,477	522,292	1.79
Malaysia Airports Holding Bhd 3.30% 05/11/2027 (AAA)	1,000,000	1,005,063	1,005,273	3.45
Malaysia Government Securities 3.76% 22/05/2040 (Non-rated)	100,000	102,588	105,965	0.36
Malaysia Government Securities 4.07% 15/06/2050 (Non-rated)	400,000	401,519	417,479	1.43
Malaysia Government Securities 4.23% 30/06/2031 (Non-rated)	200,000	225,871	226,511	0.78
Northern Gateway Infrastructure Sdn Bhd 5.20% 29/08/2029 (AA1)	1,000,000	1,023,420	1,154,651	3.96
Pelabuhan Tanjung Pelepas Sdn Bhd 4.05% 18/06/2030 (AA3)	100,000	100,155	104,884	0.36

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2020 (CONTINUED)				
UNQUOTED FIXED INCOME SECURITIES (CONTINUED)				
Penang Port Sdn Bhd 4.30% 24/12/2026 (AA3)	50,000	50,024	53,167	0.18
Penang Port Sdn Bhd 4.48% 27/12/2029 (AA3)	100,000	100,049	108,103	0.37
Penang Port Sdn Bhd 4.68% 26/12/2031 (AA3)	200,000	200,103	219,523	0.75
Perbadanan Kemajuan Pertanian Negeri Pahang 4.36% 29/10/2027 (AA3)	1,000,000	1,010,397	1,003,975	3.44
Prasarana Malaysia Bhd 3.44% 24/02/2040 (Non- rated)	150,000	151,824	145,747	0.50
Press Metal Aluminium Holdings Bhd 4.10% 17/10/2024 (AA3)	450,000	453,740	457,219	1.57
Projek Lebuhraya Usahasama Bhd 4.88% 12/01/2028 (AAA)	100,000	112,416	113,462	0.39
Quantum Solar Park (Semenanjung) Sdn Bhd 5.72% 05/10/2029 (A1)	2,250,000	2,313,067	2,430,796	8.34
SEGI Astana Sdn Bhd 5.70% 07/01/2028 (AA3)	600,000	634,423	663,241	2.27
Sports Toto Malaysia Sdn Bhd 4.95% 30/06/2022 (AA3)	1,000,000	1,001,260	1,021,823	3.50
Starbright Capital Bhd 4.08% 27/12/2023 (AAA)	250,000	248,350	256,584	0.88
Starbright Capital Bhd 4.55% 27/12/2028 (AAA)	150,000	147,593	156,089	0.54
Tadau Energy Sdn Bhd 5.40% 28/7/2025 (AA3)	500,000	513,672	550,513	1.89
YTL Corporation Bhd 4.60% 23/06/2034 (AA1)	550,000	554,149	579,152	1.99
YTL Power International Bhd 4.65% 24/08/2023 (AA1)	500,000	525,760	529,006	1.81
YTL Power International Bhd 4.99% 24/08/2028 (AA1)	750,000	782,037	831,572	2.85

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2020 (CONTINUED)				
UNQUOTED FIXED INCOME SECURITIES (CONTINUED)				
TOTAL UNQUOTED FIXED INCOME SECURITIES	23,750,000	24,419,889	25,279,108	86.71
ACCUMULATED UNREALISED GAIN ON UNQUOTED FIXED INCOME SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		859,219		
TOTAL UNQUOTED FIXED INCOME SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		25,279,108		
Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
2019				
QUOTED SECURITIES				
Energy				
Serba Dinamik Holdings Bhd	39,900	81,145	87,780	0.31
Serba Dinamik Holdings Bhd - Warrant	11,400	-	5,016	0.02
	<u>51,300</u>	<u>81,145</u>	<u>92,796</u>	<u>0.33</u>
Financial Services				
CIMB Group Holdings Bhd	39,400	209,039	202,910	0.71
Malayan Banking Bhd	10,100	87,659	87,264	0.31
Public Bank Bhd	4,300	85,052	83,592	0.29
RHB Bank Bhd	24,700	137,941	142,766	0.50
	<u>78,500</u>	<u>519,691</u>	<u>516,532</u>	<u>1.81</u>
Health Care				
Hartalega Hldg Bhd	15,700	85,055	86,036	0.30
Industrial Products & Services				
Petronas Chemicals Group Bhd	11,500	86,439	84,525	0.30
Press Metal Aluminium Holdings Bhd	16,044	77,560	74,605	0.26
Sunway Bhd	52,700	89,722	94,860	0.33
	<u>80,244</u>	<u>253,721</u>	<u>253,990</u>	<u>0.89</u>

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

Name of counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
2019 (CONTINUED)				
QUOTED SECURITIES				
(CONTINUED)				
Plantation				
Kuala Lumpur Kepong Bhd	<u>2,000</u>	<u>43,648</u>	<u>49,600</u>	<u>0.17</u>
Property				
Sime Darby Property Bhd	<u>100,000</u>	<u>73,977</u>	<u>91,500</u>	<u>0.32</u>
Technology				
D&O Green Technologies Bhd	200,000	151,932	170,000	0.60
Malaysian Pacific Industries Bhd	<u>8,100</u>	<u>88,905</u>	<u>92,664</u>	<u>0.34</u>
	<u>208,100</u>	<u>240,837</u>	<u>262,664</u>	<u>0.94</u>
TOTAL QUOTED SECURITIES	<u>535,844</u>	<u>1,298,074</u>	<u>1,353,118</u>	<u>4.76</u>
ACCUMULATED UNREALISED GAIN ON QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>55,044</u>		
TOTAL QUOTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>1,353,118</u>		

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2019				
UNQUOTED FIXED				
INCOME SECURITIES				
Affin Bank Bhd 5.45% 05/02/2027 (A1)	2,500,000	2,554,873	2,639,923	9.29
Ara Bintang Bhd 5.50% 17/03/2026 (AAA)	1,500,000	1,503,390	1,508,820	5.31
AZRB Capital Sdn Bhd 5.00% 24/12/2026 (AA3)	330,000	330,271	330,268	1.16
Celcom Networks Sdn Bhd 5.20% 27/08/2027 (AA1)	300,000	314,321	332,834	1.17
DRB-Hicom Bhd 4.15% 12/12/2022 (A1)	150,000	150,341	150,482	0.53
DRB-Hicom Bhd 4.55% 12/12/2024 (A1)	250,000	250,623	251,518	0.89
DRB-Hicom Bhd 4.85% 11/12/2026 (A1)	450,000	451,195	453,630	1.60
DRB-Hicom Bhd 5.10% 12/12/2029 (A1)	700,000	701,956	703,664	2.48
Edra Energy Sdn Bhd 6.71% 05/01/2038 (AA3)	1,000,000	1,213,594	1,261,060	4.44
GENM Capital Bhd 4.98% 11/07/2023 (AAA)	2,500,000	2,559,351	2,655,176	9.35
Genting Bhd 4.18% 08/11/2029 (AAA)	500,000	503,092	505,077	1.78
Gulf Investment Corporation 5.10% 16/03/2021 (AAA)	1,300,000	1,320,451	1,334,984	4.70
IJM Land Bhd 4.73% 17/03/2119 (A2)	300,000	304,373	304,791	1.07
IJM Land Bhd 5.65% 17/03/2119 (A2)	300,000	304,830	321,975	1.13
Malayan Banking Bhd 4.08% 22/02/2117 (AA3)	500,000	505,477	509,072	1.79
MBSB Bank Bhd 5.05% 20/12/2029 (A3)	120,000	120,197	120,221	0.42
Northern Gateway Infrastructure Sdn Bhd 5.20% 29/8/2029 (AA1)	1,000,000	1,023,775	1,110,238	3.91
Penang Port Sdn Bhd 4.30% 24/12/2026 (AA3)	50,000	50,030	50,029	0.18
Penang Port Sdn Bhd 4.48% 27/12/2029 (AA3)	100,000	100,061	100,060	0.35
Penang Port Sdn Bhd 4.68% 26/12/2031 (AA3)	200,000	200,128	200,126	0.70
Press Metal Aluminium Holding Bhd 4.10% 17/10/2024 (AA3)	450,000	453,842	453,878	1.60
Quantum Solar Park Green 5.72% 5/10/29 (A1)	3,000,000	3,087,405	3,122,752	10.99

PRINCIPAL LIFETIME ENHANCED BOND FUND
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8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
2019 (CONTINUED)				
UNQUOTED FIXED INCOME SECURITIES (CONTINUED)				
Sarawak Energy Bhd 5.50% 04/07/2029 (AAA)	1,500,000	1,632,722	1,749,231	6.16
SEGI Astana Sdn Bhd 5.70% 07/01/2028 (AA3)	600,000	636,489	638,851	2.25
Sports Toto Malaysia Sdn Bhd 4.95% 30/6/2022 (AA3)	1,000,000	1,001,448	1,010,881	3.56
Starbright Capital Bhd 4.08% 27/12/2023 (AAA)	250,000	247,871	248,505	0.87
Starbright Capital Bhd 4.55% 27/12/2028 (AAA)	150,000	147,381	148,199	0.52
Tadau Energy Sdn Bhd 5.40% 28/7/2025 (AA3)	500,000	513,903	537,285	1.89
Tan Chong Motor Holdings Bhd 4.70% 24/11/2021 (A1)	1,500,000	1,483,418	1,522,807	5.36
WCT Holdings Bhd 5.32% 11/05/2022 (AA3)	1,000,000	1,008,121	1,030,443	3.63
YTL Corporation Bhd 4.60% 23/06/2034 (AA1)	550,000	554,490	567,631	2.00
YTL Power International Bhd 4.99% 24/08/2028 (AA1)	750,000	783,842	807,660	2.85
TOTAL UNQUOTED FIXED INCOME SECURITIES	<u>25,300,000</u>	<u>26,013,261</u>	<u>26,682,071</u>	<u>93.93</u>
ACCUMULATED UNREALISED GAIN ON UNQUOTED FIXED INCOME SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>668,810</u>		
TOTAL UNQUOTED FIXED INCOME SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>26,682,071</u>		

PRINCIPAL LIFETIME ENHANCED BOND FUND
(formerly known as CIMB-Principal Strategic Bond Fund)

9. CASH AND CASH EQUIVALENTS

	2020	2019
	RM	RM
Deposits with licensed financial institutions	1,436,148	450,066
Bank balance	122,661	23,016
	<u>1,558,809</u>	<u>473,082</u>

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2020	2019
	No. of units	No. of units
At the beginning of the financial year	24,392,147	26,224,762
Add : Creation of units from applications	13,813,262	3,628,360
Add : Creation of units from distribution	1,072,543	426,719
Less : Cancellation of units	(14,923,091)	(5,887,694)
At the end of the financial year	<u>24,354,861</u>	<u>24,392,147</u>

11. MANAGEMENT EXPENSE RATIO ("MER")

	2020	2019
	%	%
MER	<u>1.27</u>	<u>1.24</u>

MER is derived based on the following calculation:

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

A = Management fee

B = Trustee fee

C = Audit fee

D = Tax Agent's fee

E = Other expenses excluding withholding tax and CDS fee

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 RM31,995,645 (2019: RM28,805,228).

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12. PORTFOLIO TURNOVER RATIO (“PTR”)

	2020	2019
PTR (times)	0.50	0.78

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	=	RM15,148,477 (2019: RM22,943,977)
total disposal for the financial year	=	RM16,865,673 (2019: RM21,986,117)

13. UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER, AND SIGNIFICANT RELATED PARTIES 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
CGS-CIMB Securities Sdn Bhd	Fellow related party to Manager
CIMB Bank Bhd	Fellow related party to Manager

Units held by the Manager and parties related to the Manager

	<u>2020</u>		<u>2019</u>	
	No. of units	RM	No. of units	RM
Manager				
Principal Asset Management Berhad	28,402	33,997	25,127	29,255

PRINCIPAL LIFETIME ENHANCED BOND FUND
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13. UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER, AND SIGNIFICANT RELATED PARTIES TRANSACTIONS AND BALANCES (CONTINUED)

Units held by the Manager and parties related to the Manager

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 the 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.

	2020	2019
	RM	RM
<u>Significant related party transactions</u>		
Dividend income		
- CIMB Group Holdings Bhd	4,728	12,360
Interest income from deposits with licensed financial institutions:		
- CIMB Bank Bhd	4,855	1,596
<u>Significant related party balance</u>		
Bank balances:		
- CIMB Bank Bhd	122,661	23,016

14. TRANSACTIONS WITH BROKERS/DEALERS

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

Brokers/Dealers	Value of trades	Percentage of total trades	Brokerage fees	Percentage of total brokerage fees
	RM	%	RM	%
RHB Investment Bank Bhd	6,171,007	19.28	2,017	10.69
CIMB Bank Bhd #	5,214,570	16.29	-	-
Hong Leong Investment Bank Bhd	3,193,534	9.98	2,563	13.58
RHB Bank Bhd	2,999,325	9.37	-	-
Malayan Banking Bhd	2,241,171	7.00	2,879	-
Maybank Investment Bank Bhd	1,482,940	4.63	2,633	15.25
CGS-CIMB Securities Sdn Bhd #	1,343,134	4.20	-	13.95
Alliance Bank Malaysia Bhd	1,319,045	4.12	-	-
Citi Bank Bhd	1,191,295	3.72	-	-
HSBC Bank Malaysia Bhd	1,000,000	3.12	-	-
Others	5,856,747	18.29	8,783	46.53
	32,012,768	100.00	18,875	100.00

PRINCIPAL LIFETIME ENHANCED BOND FUND
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14. TRANSACTIONS WITH BROKERS/DEALERS (CONTINUED)

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

Brokers/Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
Hong Leong Investment Bank Bhd	10,145,692	22.96	4,146	19.50
RHB Investment Bank Bhd	6,486,729	14.68	2,039	9.59
CIMB Bank Bhd #	4,681,632	10.59	-	-
RHB Bank Bhd	3,578,826	8.10	-	-
Malayan Banking Bhd	3,180,336	7.20	-	-
Macquarie Capital Securities (Malaysia) Sdn Bhd	2,332,343	5.28	2,190	-
AmBank Bhd	2,240,460	5.07	-	10.30
CGS-CIMB Securities Sdn Bhd #	1,559,689	3.53	2,321	-
Standard Chartered Bank	1,365,995	3.09	-	10.92
Affin Hwang Investment Bank Bhd	1,315,946	2.98	3,027	14.24
Others	7,307,729	16.52	7,538	35.45
	<u>44,195,377</u>	<u>100.00</u>	<u>21,261</u>	<u>100.00</u>

Included in the transactions are trades conducted with CIMB Bank Bhd and CGS-CIMB Securities Sdn Bhd, fellow related parties to the Manager amounting to RM5,214,570 (2019: RM4,681,632) and RM 1,343,134 (2019: RM1,559,689). 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 FINANCIAL 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.

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 15 February 2021.

DIRECTORY

Head Office of the Manager

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(formerly known as CIMB-Principal Strategic Bond Fund)

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