

PRINCIPAL US MORTGAGE FUND

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2024

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INVESTORS' LETTER

Dear Valued Investor,

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

We are pleased to bring you a copy of the Annual Fund Report of the Principal US Mortgage Fund for the financial year ended 31 January 2024. You may also download this report from our website at www.principal.com.my.

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

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

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

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

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

MANAGER’S REPORT

FUND OBJECTIVE AND POLICY

What is the investment objective of the Fund?

The Fund aims to maximise total return through investments in one collective investment scheme, which invests primarily in mortgage related securities in the United States (“US”).

Has the Fund achieved its objective?

For the year under review, the Fund has not achieved its objectives as stated under the Fund Performance section. However, we are taking the necessary action to ensure that the Fund would provide capital growth in the long-term, in line with the Fund’s investment objective.

What are the Fund investment policy and principal investment strategy?

The Fund is a feeder fund and it invests in a single collective investment scheme, i.e. BNP Paribas Flexi I US Mortgage Fund (“Target Fund”). The Fund may also invest in liquid asset for liquidity purpose.

In order to achieve its investment objective, the Fund will invest at least 95% of its Net Asset Value (“NAV”) in the BNP Paribas Flexi I US Mortgage Fund; a Undertakings for Collective Investment in Transferable Securities (“UCITS”) domiciled in Luxembourg and established on 25 September 2015¹. The Fund will also maintain up to 5% of its NAV in liquid assets for liquidity purposes.

Information on the Target Fund:

Company	: BNP Paribas Flexi I, an open-ended investment company with variable capital (société d’investissement à capital variable) incorporated on 4 July 2006 under the name “FORTIS SOLUTIONS” for an indefinite period in accordance with the provisions of Part I of the Luxembourg law of 20 December 2002 governing undertakings for collective investment. It was renamed “BNP Paribas Flexi I” on 13 September 2010.
Management Company	: BNP Paribas Asset Management Luxembourg.
Investment Manager	: BNP Paribas Asset Management USA and BNP Paribas Asset Management UK (FX Management).
Regulatory authority	: Commission de Surveillance du Secteur Financier

Note 1: On 25 September 2015, the Target Fund was established and merged with the Irish Fund Parselect US Mortgage that was launched on 1 December 2007.

Base Currency

USD

Fund category/type

Feeder fund/Income & Growth

When was the Fund launched?

Name of Class	Launch Date
Class USD	8 March 2017
Class MYR-Hedged (“Class MYR-H”)	8 March 2017
Class AUD-Hedged (“Class AUD-H”)	8 March 2017
Class SGD-Hedged (“Class SGD-H”)	8 March 2017
Class MYR	8 September 2017 ¹

Note 1: The Manager have the discretion to determine the launch date, which shall be 8 September 2017 or such other date as may be determined by us.

What was the size of the Fund as at 31 January 2024?

USD0.11 million (0.33 million units)

FUND OBJECTIVE AND POLICY (CONTINUED)

What is the Fund's benchmark?

The Fund adheres to the benchmark of the Target Fund for performance comparison. The benchmark of the Target Fund is Barclays Mortgage-Backed Securities ("MBS") Index for performance measurement.

What is the Fund distribution policy?

Quarterly, depending on the availability of realised income and/or realised gains and at our discretion.

What was the net income distribution for the financial year ended 31 January 2024?

The Fund distributed a total net income of USD1,648 to unit holders for the financial year ended 31 January 2024.

The Fund's NAV per unit are as follows:

Date	NAV per unit	NAV per unit
	(before distribution)	(after distribution)
	USD	USD
Distribution on 20 March 2023		
Class AUD-H	0.4835	0.4813
Class MYR-H	0.1561	0.1554
Class USD	0.7917	0.7885
Distribution on 20 June 2023		
Class AUD-H	0.4831	0.4794
Class MYR-H	0.1481	0.1469
Class USD	0.7838	0.7778

Breakdown of distribution were as follows:

Source of distribution	2024		2023	
	RM	%	RM	%
Distribution out of current year's income	1,648	100.00	2,712	100.00
Distribution out of prior year's income/capital *	-	-	-	-
Total	<u>1,648</u>	<u>100.00</u>	<u>2,712</u>	<u>100.00</u>

PERFORMANCE DATA

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

	31.01.2024	31.01.2023	31.01.2022
	%	%	%
Collective investment scheme	103.72	100.38	101.93
Cash and other assets	2.90	5.05	2.12
Liabilities	<u>(6.62)</u>	<u>(5.43)</u>	<u>(4.05)</u>
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

PERFORMANCE DATA (CONTINUED)

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

	31.01.2024	31.01.2023	31.01.2022
NAV (USD Million)			
- Class AUD-H	0.10	0.12	0.13
- Class MYR-H	0.02	0.04	0.05
- Class SGD-H	0.00*	0.00*	0.00*
- Class USD	0.00*	0.00*	0.00*
Units in circulation (Million)			
- Class AUD-H	0.22	0.22	0.22
- Class MYR-H	0.12	0.24	0.23
- Class SGD-H	0.00*	0.00*	0.00*
- Class USD	0.00*	0.00*	0.00*
NAV per unit (USD)			
- Class AUD-H	0.4605	0.5182	0.6162
- Class MYR-H	0.1409	0.1679	0.2013
- Class SGD-H	0.4239	0.4487	0.5047
- Class USD	0.7837	0.8057	0.9407
Highest NAV per unit (USD)			
- Class AUD-H	0.5280	0.6337	0.7475
- Class MYR-H	0.1699	0.2013	0.2258
- Class SGD-H	0.4549	0.5070	0.7177
- Class USD	0.8124	0.9407	1.0213
Lowest NAV per unit (USD)			
- Class AUD-H	0.4032	0.4384	0.6089
- Class MYR-H	0.1281	0.1416	0.1999
- Class SGD-H	0.3774	0.3878	0.5029
- Class USD	0.7065	0.7520	0.9369
Total return (%)			
- Class AUD-H	(4.22)	(13.95)	(7.91)
- Class MYR-H	(5.76)	(13.49)	(5.59)
- Class SGD-H	(3.88)	(13.56)	(27.36)
- Class USD	(1.58)	(12.87)	(5.88)
Capital growth (%)			
- Class AUD-H	(5.34)	(15.41)	(9.59)
- Class MYR-H	(6.94)	(14.96)	(7.33)
- Class SGD-H	(3.88)	(13.56)	(28.16)
- Class USD	(2.73)	(14.35)	(7.57)
Income distribution (%)			
- Class AUD-H	1.19	1.72	1.86
- Class MYR-H	1.27	1.73	1.88
- Class SGD-H	-	-	1.11
- Class USD	1.18	1.73	1.82

Note: 0.00* denotes fair value less than 0.01 million.

PERFORMANCE DATA (CONTINUED)

	31.01.2024	31.01.2023	31.01.2022
Total Expense Ratio ("TER") (%) ^	4.62	3.79	1.67
Portfolio Turnover Ratio ("PTR") (times) #	0.19	0.18	4.29

^ During the year under review, the Fund's TER increased from 3.79% to 4.62% due to decrease in average NAV for the financial year.

During the year under review, the Fund's PTR increased from 0.18 times to 0.19 times as there were more investment trading activities.

	31.01.2024	31.01.2023	31.01.2022
Gross/ Net distribution per unit (cent)			
Distribution on 20 March 2023			
- Class AUD-H	0.21	-	-
- Class MYR-H	0.07	-	-
- Class USD	0.32	-	-
Distribution on 20 June 2023			
- Class AUD-H	0.36	-	-
- Class MYR-H	0.12	-	-
- Class USD	0.60	-	-
Distribution on 17 March 2022			
- Class AUD-H	-	0.25	-
- Class MYR-H	-	0.08	-
- Class USD	-	0.38	-
Distribution on 17 June 2022			
- Class AUD-H	-	0.26	-
- Class MYR-H	-	0.08	-
- Class USD	-	0.39	-
Distribution on 22 September 2022			
- Class AUD-H	-	0.22	-
- Class MYR-H	-	0.07	-
- Class USD	-	0.35	-
Distribution on 19 December 2022			
- Class AUD-H	-	0.18	-
- Class MYR-H	-	0.06	-
- Class USD	-	0.31	-
Distribution on 17 March 2021			
- Class AUD-H	-	-	0.44
- Class MYR-H	-	-	0.14
- Class SGD-H	-	-	0.59
- Class USD	-	-	0.61
Distribution on 17 June 2021			
- Class AUD-H	-	-	0.29
- Class MYR-H	-	-	0.09
- Class USD	-	-	0.40

PERFORMANCE DATA (CONTINUED)

	31.01.2024	31.01.2023	31.01.2022		
Gross/ Net distribution per unit (cent)					
Distribution on 20 September 2021					
- Class AUD-H					0.26
- Class MYR-H	-	-	-		0.08
- Class USD	-	-	-		0.38
Distribution on 20 December 2021					
- Class AUD-H	-	-	-		0.26
- Class MYR-H					0.08
- Class USD	-	-	-		0.38
	31.01.2024	31.01.2023	31.01.2022	31.01.2021	31.01.2020
	%	%	%	%	%
Annual total return					
- Class AUD-H	(4.22)	(13.95)	(7.91)	1.58	4.16
- Class MYR-H	(5.76)	(13.49)	(5.59)	2.41	5.62
- Class SGD-H	(3.88)	(13.56)	(27.36)	1.41	4.33
- Class USD	(1.58)	(12.87)	(5.88)	1.52	5.19

(Launch date: 8 March 2017)

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

MARKET REVIEW (1 FEBRUARY 2023 TO 31 JANUARY 2024)

A much stronger than anticipated jobs report and higher than anticipated inflation readings had United States (“US”) interest rates moving higher in for a start in 2023. Labor markets remain tight with upward pressures on wages, with consumer spending surged and exceeded market expectations. Stronger economic data and stronger readings on inflation signals that the US Federal Reserve (the “Fed”) needs to do more rate hikes in order to achieve a sufficiently restrictive rate to bring inflation back toward the Fed’s 2% target.

The FOMC (“Federal Open Market Committee”) in June 2023, skipped a rate hike after 10 consecutive meetings. While inflation remains elevated and well above the 2% target, the Fed took a pause to assess tighter credit conditions and the long and variable lags associated with adjusting monetary policy. The US economy has proved remarkably resilient in the face of high price levels, aggressive monetary tightening, banking sector turmoil and credit contraction. The widely predicted economic slowdown/recession gets pushed further into the future.

The FOMC once again left the Fed Funds rate unchanged at their meeting in September 2023, November 2023 and December 2023, the Fed statement noted that tighter credit conditions were weighing on economic activity and credit conditions which are likely to weigh on economic activity going forward.

The broad rally in the final two months of 2023 has helped to end the year with solid gains, as well as a spillover of optimism from investors into the start of 2024. At the same time, some signals of softening in the tight labour market, dampening one major concern of policymakers.

FUND PERFORMANCE

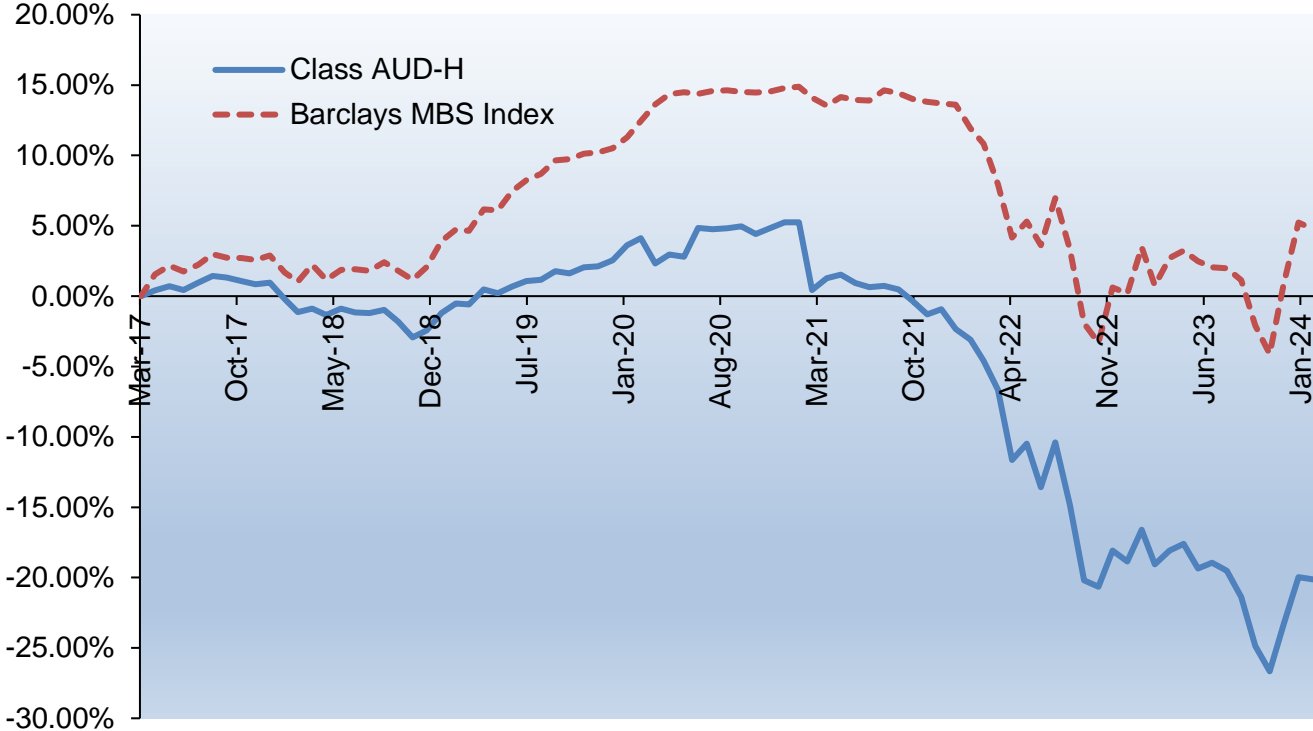
	1 year to 31.01.2024 %	3 years to 31.01.2024 %	5 years to 31.01.2024 %	Since inception to 31.01.2024 %
Income Distribution				
- Class AUD-H	1.19	4.85	8.61	14.18
- Class MYR-H	1.27	4.96	11.54	26.11
- Class SGD-H	-	1.11	5.92	10.33
- Class USD	1.18	4.81	9.37	9.63
Capital Growth				
- Class AUD-H	(5.34)	(27.61)	(26.05)	(30.04)
- Class MYR-H	(6.94)	(26.66)	(25.36)	(33.35)
- Class SGD-H	(3.88)	(40.31)	(39.52)	(43.20)
- Class USD	(2.73)	(22.99)	(21.20)	(21.63)
Total Return				
- Class AUD-H	(4.22)	(24.10)	(19.69)	(20.12)
- Class MYR-H	(5.76)	(23.03)	(16.74)	(15.95)
- Class SGD-H	(3.88)	(39.65)	(36.15)	(37.33)
- Class USD	(1.58)	(19.29)	(13.81)	(14.08)
Benchmark				
- Class AUD-H	1.23	(8.82)	0.01	4.75
- Class MYR-H	1.23	(8.82)	0.01	4.75
- Class SGD-H	1.23	(8.82)	0.01	4.75
- Class USD	1.23	(8.82)	0.01	4.75
Average Total Return				
- Class AUD-H	(4.22)	(8.78)	(4.29)	(3.20)
- Class MYR-H	(5.76)	(8.35)	(3.60)	(2.49)
- Class SGD-H	(3.88)	(15.49)	(8.58)	(6.55)
- Class USD	(1.58)	(6.89)	(2.93)	(2.17)

For the financial year under review, the Fund posted negative returns for all classes. Class AUD-H, Class MYR-H, Class SGD-H, and Class USD decreased by 4.22%, 5.76%, 3.88%, and 1.58% respectively. This marks an underperformance against each of their benchmark that increased by 1.23% during the same period under review.

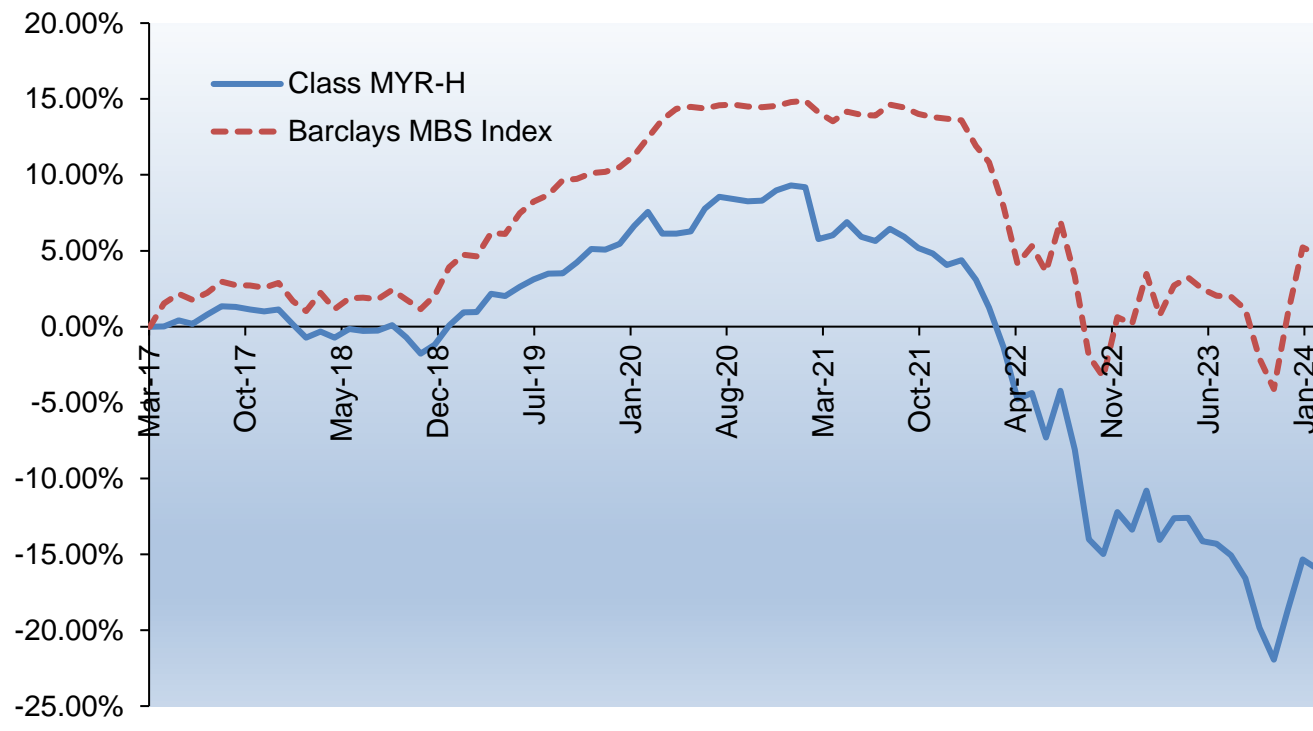
FUND PERFORMANCE (CONTINUED)

Since Inception

CLASS AUD-H



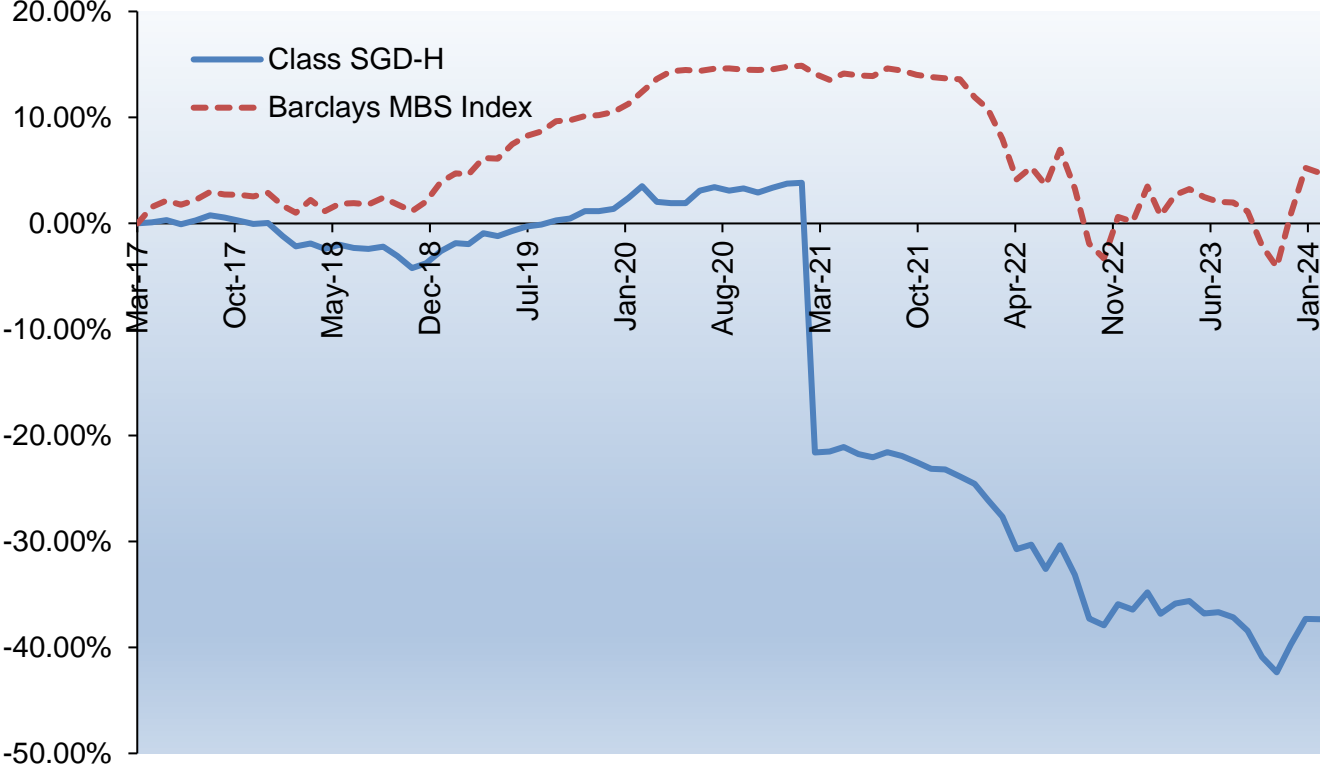
CLASS MYR-H



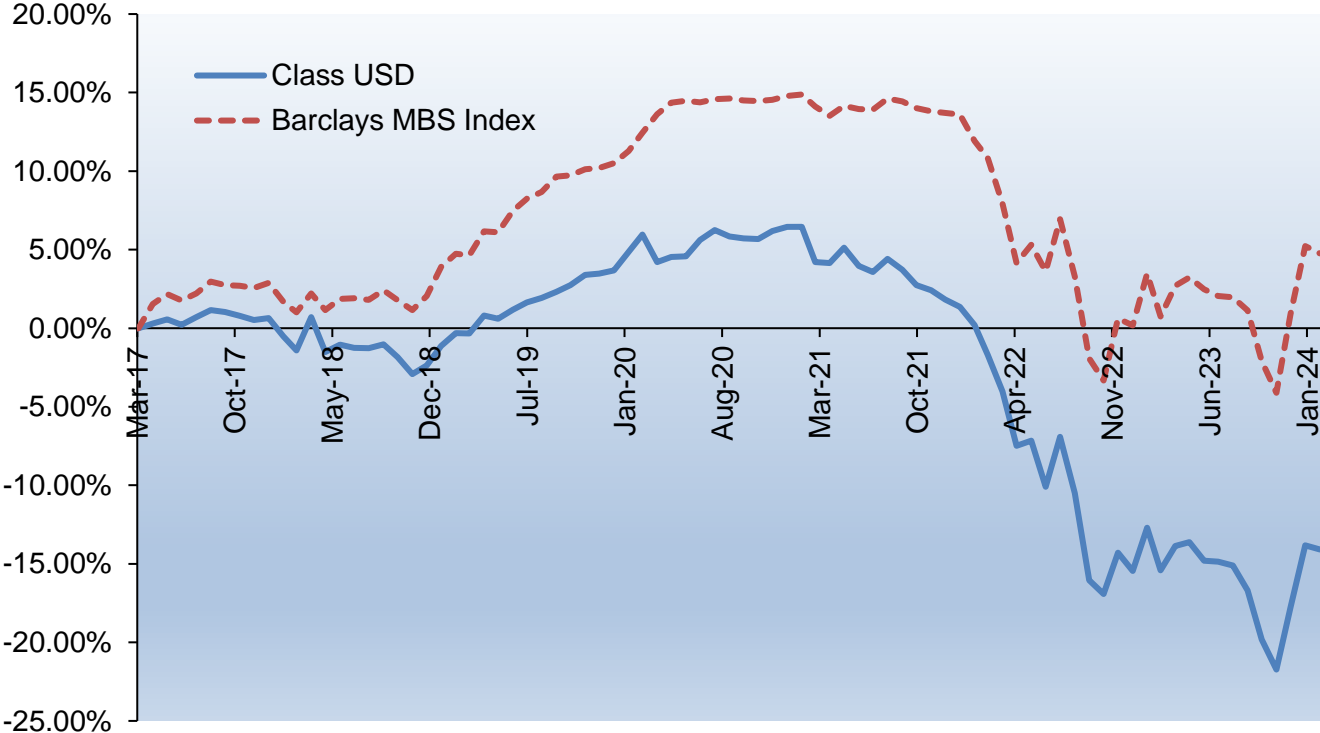
FUND PERFORMANCE (CONTINUED)

Since Inception

CLASS SGD-H



CLASS USD



FUND PERFORMANCE (CONTINUED)

Changes in NAV

	31.01.2024	31.01.2023	Changes %
CLASS AUD-H			
NAV (USD Million)	0.10	0.12	(16.67)
NAV/Unit (USD)	0.4605	0.5182	(11.13)
CLASS MYR-H			
NAV (USD Million)	0.02	0.04	(50.00)
NAV/Unit (USD)	0.1409	0.1679	(16.08)
CLASS SGD-H			
NAV (USD Million)	0.00*	0.00*	-
NAV/Unit (USD)	0.4239	0.4487	(5.53)
CLASS USD			
NAV (USD Million)	0.00*	0.00*	-
NAV/Unit (USD)	0.7837	0.8057	(2.73)

Note: 0.00* denotes fair value less than 0.01 million.

During the financial year under review, the Fund's NAV for Class AUD-H, and MYR-H fell by 16.67%, and 50.00% respectively. Meanwhile Class SGD-H and Class USD returned flat. The lower NAV was mainly due to net redemptions during the financial year under review.

In addition, the Fund's NAV per unit for Class AUD-H, Class MYR-H, Class SGD-H, and Class USD decreased by 11.13%, 16.08%, 5.53%, and 2.73% respectively over the same period under review. The changes in NAV per unit for the different classes was due to the respective investment performance achieved as per the Fund Performance section.

At the time of reporting, Class AUD-H had the largest total NAV at USD0.11 million.

Performance data represents the combined income and capital return as a result of holding units in the Fund for the specified length of time, based on NAV to NAV price. The performance data assumes that all earnings from the Fund are reinvested and are net of management and trustee fees. Past performance is not reflective of future performance and income distributions are not guaranteed. Unit prices and income distributions, if any, may fall and rise. All performance figures for the financial year have been extracted from Lipper.

PORTFOLIO STRUCTURE

Asset allocation

(% of NAV)	31.01.2024	31.01.2023
Collective investment scheme	103.72	100.38
Cash and other assets	2.90	5.05
Liabilities	(6.62)	(5.43)
Total	100.00	100.00

The Fund was fully invested during the financial year under review. A minimal level of liquid assets was maintained primarily for redemption purposes.

PORTFOLIO STRUCTURE (CONTINUED)

Top 10 holdings of the Target Fund for the financial year ended:

	% of NAV
Top 10 holdings *	31.01.2024
UMBS 30YR TBA (REG A) 5.50 PCT	15.52
UMBS 30YR TBA(REG A) 2.50 PCT	4.79
GNMA2 30YR TBA(REG C) 5.50 PCT	4.12
BNPP INSC USD 1D LVNAV X C	3.49
GNMA2 30YR TBA(REG C) 2.00 PCT	3.11
UMBS 30YR TBA(REG A) 2.00 PCT	2.72
UMBS 15YR TBA(REG B) 2.00 PCT	2.19
UMBS 30YR TBA(REG A) 3.00 PCT	1.95
Government National Mortgage	1.89
UMBS 30YR TBA(REG A) 4.50 PCT	1.76

	% of NAV
Top 10 holdings *	31.01.2023
UMBS 30YR TBA (REG A) 5.00 PCT	27.75
UMBS 30YR TBA (REG A) 2.50 PCT	7.31
UMBS 30YR TBA 2.00 PCT 25-NOV2051	7.10
GNMA2 30YR TBA (REG C) 2.00 PCT	5.28
GNMA2 30YR TBA (REG C) 2.50 PCT	4.42
UMBS 30YR TBA (REG A) 3.00 PCT	3.42
UMBS 30YR TBA (REG A) 4.50 PCT	2.85
Government National Mortgage	2.62
Federal National Mortgage	2.40
UMBS 30YR TBA (REG A) 5.50 PCT	2.11

* As per disclosed in Fund Fact Sheet.

MARKET OUTLOOK*

The US economy continued to prove resilient with activity expanding at a strong pace, strong labour markets and strong retail sales continue to drive growth. Inflation is moderating at slower than expected pace, but headed towards the right direction, while still well away from the Fed's 2% target.

The economic slowdown which began in fourth quarter of 2023 ("4Q23") should gain steam coming to 2024, coupled with expectation of the Fed reaching its peak interest rate, signalling a pause of rate hike could happen in foreseeable term in 2024. As the market comes to terms with higher for longer rates, the range trade in 10years yields can get established, and in turn could steepen the yield curve and bring volatility down. These developments could benefit MBS (Mortgage-Backed Securities) as positive Net Interest Margin ("NIM") returns to the sector. The supply/demand dynamic for Mortgage Backed Securities ("MBS") is a positive tailwind and potentially attract further flows into MBS and out of credit sectors.

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

INVESTMENT STRATEGY

The Fund will continue to remain fully invested in the Target Fund with minimal cash kept for liquidity purposes. Our asset allocation decisions will remain subjected towards market conditions.

SOFT COMMISSIONS AND REBATES

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

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

During the financial year review, the Manager and Trustee did not receive any rebates from the brokers or dealers but the Manager has retained soft commission in the form of goods and services for the benefit of the fund such as financial wire services and stock quotations system incidental to investment management of the Funds and there was no churning of trades.

SECURITIES FINANCING TRANSACTIONS

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

STATE OF AFFAIR OF THE FUND

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

CIRCUMSTANCES THAT MATERIALLY AFFECT ANY INTEREST OF UNIT HOLDERS

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

CROSS TRADE

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

UNIT SPLIT

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

**STATEMENT BY MANAGER TO THE UNIT HOLDERS OF
PRINCIPAL US MORTGAGE 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 7 to 32 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 January 2024 and of its financial performance, changes in net assets attributable to unit holders 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

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

UDAY JAYARAM

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

Kuala Lumpur
15 March 2024

TRUSTEE'S REPORT

**TO THE UNIT HOLDERS OF
PRINCIPAL US MORTGAGE FUND ("Fund")**

We have acted as Trustee of the Fund for the financial year ended 31 January 2024 and we hereby confirm to the best of our knowledge, after having made all reasonable enquiries, Principal Asset Management Berhad has operated and managed the Fund during the year covered by these financial statements in accordance with the following:

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

We are of the opinion that the distributions of income by the Fund are appropriate and reflects the investment objective of the Fund.

For HSBC (Malaysia) Trustee Berhad

Yap Lay Guat
Manager, Investment Compliance Monitoring

Kuala Lumpur
15 March 2024

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL US MORTGAGE FUND**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Principal US Mortgage Fund (the "Fund"), which comprise the statement of financial position as at 31 January 2024 of the Fund, and statement of comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows of the Fund for the year ended, and notes to the financial statements, including material accounting policies of information, as set out on pages 7 to 32.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 January 2024, and of its financial performance and cash flows for the 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 US MORTGAGE FUND (cont'd.)**

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL US MORTGAGE FUND (cont'd.)**

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

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We are 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 US MORTGAGE FUND (cont'd.)**

Other matters

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

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

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

Kuala Lumpur, Malaysia
15 March 2024

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2024**

	Note	2024 USD	2023 USD
INCOME/(LOSS)			
Dividend income		5,106	3,681
Net loss on financial assets at fair value through profit or loss	8	(2,614)	(20,421)
Net loss on derivatives at fair value through profit or loss	9	(12,384)	(2,894)
Net loss on foreign exchange		(74)	(6)
		<u>(9,966)</u>	<u>(19,640)</u>
EXPENSES			
Management fee	4	1,608	2,014
Trustee fee	5	45	64
Audit fee		2,543	2,247
Tax agent's fee		1,555	1,577
Other expenses		662	701
		<u>6,413</u>	<u>6,603</u>
LOSS BEFORE DISTRIBUTION AND TAXATION		(16,379)	(26,243)
Distribution:			
- Class AUD-H		1,188	2,018
- Class MYR-H		453	684
- Class SGD-H		-	3
- Class USD		7	7
	6	<u>1,648</u>	<u>2,712</u>
LOSS BEFORE TAXATION		(18,027)	(28,955)
Taxation	7	(1,485)	(706)
LOSS AFTER TAXATION, REPRESENTING TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR		<u>(19,512)</u>	<u>(29,661)</u>
Loss after taxation is made up as follows:			
Realised amount		(24,184)	(20,400)
Unrealised amount		4,672	(9,261)
		<u>(19,512)</u>	<u>(29,661)</u>

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

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

	Note	2024 USD	2023 USD
ASSETS			
Cash and cash equivalents	10	3,061	5,594
Financial assets at fair value through profit or loss	8	117,924	158,009
Derivative assets at fair value through profit or loss	9	241	2,353
TOTAL ASSETS		<u>121,226</u>	<u>165,956</u>
LIABILITIES			
Amount due to Manager of collective investment scheme			
- Purchase of Shariah-compliant collective investment scheme		-	3,000
Accrued management fee		121	165
Amount due to Trustee		3	5
Tax Payable		274	100
Other payables and accruals		7,131	5,277
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS)		<u>7,529</u>	<u>8,547</u>
NET ASSET VALUE OF THE FUND		<u>113,697</u>	<u>157,409</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>113,697</u>	<u>157,409</u>
REPRESENTED BY:			
FAIR VALUE OF OUTSTANDING UNITS			
- Class AUD-H		96,726	116,187
- Class MYR-H		16,539	40,025
- Class SGD-H		429	454
- Class USD		3	743
		<u>113,697</u>	<u>157,409</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)			
- Class AUD-H		210,061	224,209
- Class MYR-H		117,417	238,419
- Class SGD-H		1,011	1,011
- Class USD		4	922
	11	<u>328,493</u>	<u>464,561</u>

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2024 (CONTINUED)

	Note	2024 USD	2023 USD
NET ASSET VALUE PER UNIT (USD)			
- Class AUD-H		0.4605	0.5182
- Class MYR-H		0.1409	0.1679
- Class SGD-H		0.4239	0.4487
- Class USD		<u>0.7837</u>	<u>0.8057</u>
NET ASSET VALUE PER UNIT IN RESPECTIVE CURRENCIES			
- Class AUD-H		AUD0.6995	AUD0.7391
- Class MYR-H		MYR0.6603	MYR0.7162
- Class SGD-H		SGD0.5679	SGD0.5909
- Class USD		<u>USD0.7836</u>	<u>USD0.8057</u>

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

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2024**

	2024 USD	2023 USD
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE BEGINNING OF THE FINANCIAL YEAR	<u>157,409</u>	<u>184,358</u>
Movement due to units created and cancelled during the financial year:		
Creation of units from applications		
- Class USD	<u>-</u>	<u>5</u>
	<u>-</u>	<u>5</u>
Creation of units from distributions		
- Class AUD-H	1,188	2,018
- Class MYR-H	453	684
- Class USD	<u>7</u>	<u>5</u>
	<u>1,648</u>	<u>2,707</u>
Cancellation of units		
- Class AUD-H	(8,432)	-
- Class MYR-H	(16,738)	-
- Class USD	<u>(678)</u>	<u>-</u>
	<u>(25,848)</u>	<u>-</u>
Total comprehensive loss for the financial year	<u>(19,512)</u>	<u>(29,661)</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE END OF THE FINANCIAL YEAR	<u><u>113,697</u></u>	<u><u>157,409</u></u>

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

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2024**

	Note	2024 USD	2023 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from disposal of collective investment scheme		43,000	34,000
Purchase of collective investment scheme		(9,000)	(22,000)
Dividend income received		5,106	3,681
Management fee paid		(1,652)	(2,052)
Management fee rebate received		471	492
Trustee fee paid		(47)	(65)
Tax paid		(1,311)	(606)
Payments for other fees and expenses		(2,901)	(4,016)
Net realised loss on forward foreign currency contracts		(10,272)	(7,737)
Payment of other foreign exchange gain		58	4
Net cash generated from operating activities		<u>23,452</u>	<u>1,701</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from units created		-	5
Payments for cancellation of units		(25,848)	-
Distributions paid		-	(5)
Net cash used in financing activities		<u>(25,848)</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents		(2,396)	1,701
Effects of foreign exchange differences		(137)	(10)
Cash and cash equivalents at the beginning of the financial year		<u>5,594</u>	<u>3,903</u>
Cash and cash equivalents at the end of the financial year	10	<u><u>3,061</u></u>	<u><u>5,594</u></u>
<u>Cash and cash equivalents comprised of:</u>			
Bank balances		<u>3,061</u>	<u>5,594</u>
Cash and cash equivalents at the end of financial year	10	<u><u>3,061</u></u>	<u><u>5,594</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2024**

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

Principal US Mortgage Fund (the “Fund”) is governed by Principal Deed dated 21 November 2016 and a First Supplemental Deed dated 30 December 2019 (collectively referred to as the “Deeds”), made between Principal Asset Management Berhad (the “Manager”) and HSBC (Malaysia) Trustee Berhad (the “Trustee”).

The Fund is a feeder fund, and it invests in a single collective investment scheme, i.e. BNP Paribas Flexi I US Mortgage Fund (“Target Fund”). The Fund may also invest in liquid asset for liquidity purpose.

In order to achieve its investment objective, the Fund will invest at least 95% of its NAV in the BNP Paribas Flexi I US Mortgage Fund; a UCITS domiciled in Luxembourg and established on 25 September 2015¹. The Fund will also maintain up to 5% of its NAV in liquid assets for liquidity purposes.

Information on the Target Fund:

Company	: BNP Paribas Flexi I, an open-ended investment company with variable capital (société d’investissement à capital variable) incorporated on 4 July 2006 under the name “FORTIS SOLUTIONS” for an indefinite period in accordance with the provisions of Part I of the Luxembourg law of 20 December 2002 governing undertakings for collective investment. It was renamed “BNP Paribas Flexi I” on 13 September 2010.
Management Company	: BNP Paribas ASSET MANAGEMENT Luxembourg.
Investment Manager	: BNP Paribas Asset Management USA and BNP Paribas Asset Management UK (FX Management).
Regulatory authority	: Commission de Surveillance du Secteur Financier

Note 1: On 25 September 2015, the Target Fund was established and merged with the Irish Fund Parselect US Mortgage that was launched on 1 December 2007.

All investments are subjected to the Securities Commission Malaysia’s (“SC”) Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, SC requirements, the Deeds, except where exemptions or variations have been approved by the SC, internal policies and procedures and the Fund’s objective.

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

2. MATERIAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of the MFRS as issued by the Malaysian Accounting Standards Board (“MASB”) and IFRS as issued by the International Accounting Standards Board (“IASB”).

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

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

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

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

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

(b) Financial assets and financial liabilities

Classification

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

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

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed, and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

The contractual cash flows of the Fund's debt securities are solely payment of principal and interest ("SPPI"). 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.

Investment in collective investment schemes have debt instrument with contractual cash flow that do not represent SPPI and therefore are classified as fair value through profit or loss.

Derivatives are financial assets/ liabilities at fair value through profit or loss unless they are designated hedges (Note 2(k)).

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

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

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

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.

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

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

Foreign collective investment scheme is valued based on the most recent published NAV per unit or share of such collective investment scheme or, if unavailable, on the last published price of such unit or share (excluding any sales charge included in such selling price).

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

Impairment for assets carried at amortised costs

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

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**(b) Financial assets and financial liabilities (continued)**Significant increase in credit risk

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

Definition of default and credit-impaired financial assets

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

Write-off

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

(c) Income recognition

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

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

(d) Cash and cash equivalents

For the purpose of statement of cash flow, cash and cash equivalent comprise bank balances which are subject to an insignificant risk of changes in value.

(e) Distributions

Distributions to the Fund's unit holders are accounted for as finance cost in the statement of comprehensive income, as the unit holders' contributions are classified as financial liability as per Note 2(j).

Distribution is either reinvested (on ex-date) or paid in cash (on income payment date) to the unit holders. Proposed distributions are recognised as a liability in the financial year in which it is approved by the Trustee.

(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.

Tax on income from foreign collective investment scheme is based on the tax regime of the respective countries that the Fund invests in.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

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

The analysis of realised and unrealised portions of profit or loss after tax as presented on the statement of comprehensive income is guided by SC Guidelines on Unit Trust Funds¹.

(h) Management fee rebate

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

(i) Functional and presentation currency

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 USD, which is the Fund’s functional and presentation currency.

Due to mixed factors in determining the functional currency of the Fund, the Manager has used its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions and have determined the functional currency to be in USD primarily due to the following factors:

- i) The Fund’s investments are denominated in USD;
- ii) Significant portion of the cash is denominated in USD for the purpose of making settlement of the foreign trades; and
- iii) Significant portion of the Fund’s expenses are denominated in USD.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of comprehensive income.

(j) Unit holders’ contributions

The unit holders’ contributions to the Fund meet the definition of puttable instruments classified as financial liability under MFRS 132 “Financial Instruments: Presentation”.

The Fund issues cancellable units, in four classes of units, known respectively as the Class AUD-H, Class MYR-H, Class SGD-H and Class USD which are cancelled at the unit holder’s option. The units are classified as financial liabilities.

¹ The presentation of the analysis of realised and unrealised portions of increase/decrease in net assets attributable to unit holders as presented on the statement of comprehensive income is provided as per the SC Guidelines on Unit Trust Funds. However, the Fund is not guided by the SC Guidelines on Unit Trust Funds.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**(j) Unit holders' contributions (continued)**

Cancellable units can be reinvested to the Fund at any time for cash equal to a proportionate share of the Fund's NAV of respective classes. The outstanding units are carried at the redemption amount that is payable at the date of the statement of financial position if the member exercises the right to reinvest the unit to the Fund.

Units are created and cancelled at the unit holders' option at prices based on the Fund's NAV per unit of respective classes at the close of business on the relevant dealing day. The Fund's NAV per unit of respective classes is calculated by dividing the net assets attributable to unit holders of respective classes with the total number of outstanding units of respective classes.

(k) Derivative financial instruments

A derivative financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The Fund's derivative financial instruments comprise forward foreign exchange contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the date of statements of financial position, with the resulting value discounted back to present value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held-for-trading and accounted for in accordance with the accounting policy set out in Note 2(b).

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

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

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

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

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

In undertaking any of the Fund's investment, the Manager will ensure that all assets of the Fund under management will be valued appropriately, that is at fair value and in compliance with the SC Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

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

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 USD	Financial assets at amortised cost USD	Total USD
2024			
Cash and cash equivalents (Note 10)	-	3,061	3,061
Collective investment scheme (Note 8)	117,924	-	117,924
Derivative assets at fair value through profit or loss (Note 9)	241	-	241
	<u>118,165</u>	<u>3,061</u>	<u>121,226</u>
2023			
Cash and cash equivalents (Note 10)	-	5,594	5,594
Collective investment scheme (Note 8)	158,009	-	158,009
Derivative assets at fair value through profit or loss (Note 9)	2,353	-	2,353
	<u>160,362</u>	<u>5,594</u>	<u>165,956</u>

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

The Fund aims to maximize total return through investments in one collective investment scheme, which invests primarily in mortgage related securities in the US.

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

Financial risk management is carried out through internal control process adopted by the Manager and adherence to the investment restrictions as stipulated in the Deeds and SC Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

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

(a) Market risk

(i) Price risk

Price risk is the risk that the fair value of an investment in collective investment scheme will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk). The value of collective investment scheme 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 collective investment scheme and other financial instruments within specified limits according to the Deeds.

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

	2024	2023
	USD	USD
Financial assets at fair value through profit or loss:		
- Collective investment scheme	<u>117,924</u>	<u>158,009</u>

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

% Change in price of collective investment scheme	Market value USD	Impact on profit or loss/NAV USD
2024		
-5%	112,028	(5,896)
0%	117,924	-
5%	<u>123,820</u>	<u>5,896</u>
2023		
-5%	150,109	(7,900)
0%	158,009	-
5%	<u>165,909</u>	<u>7,900</u>

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

(a) Market risk (continued)

(ii) Currency risk

Currency risk is associated with investments that are quoted and/or priced in foreign currency denomination. Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Manager will evaluate the likely directions of a foreign currency versus USD based on considerations of economic fundamentals such as interest rate differentials, balance of payments position, debt levels, and technical chart considerations.

The following table sets out the foreign currency risk concentrations arising from the denomination of the Fund's financial instruments in foreign currencies of the Fund:

Financial assets	Cash and cash equivalents USD	Derivative assets at fair value through profit or loss USD	Total USD
2024			
AUD	253	244	497
MYR	356	(4)	352
SGD	386	1	387
	<u>995</u>	<u>241</u>	<u>1,236</u>
2023			
AUD	270	1,797	2,067
MYR	442	554	996
SGD	392	2	394
	<u>1,104</u>	<u>2,353</u>	<u>3,457</u>

The table below summarises the sensitivity of the Fund's profit or loss and NAV to changes in foreign exchange rate movements at the end of the reporting year. The analysis is based on the assumption that the foreign exchange rate fluctuated by 5%, with all other variables remain constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rate, having regard to historical volatility of this rate. Disclosures below are shown in absolute terms, changes and impacts could be positive or negative.

	Change in foreign exchange rate %	Impact on profit or loss/NAV	
		2024 USD	2023 USD
AUD	+/-5	-/+ 25	+/- 103
MYR	+/-5	+/- 18	+/- 50
SGD	+/-5	+/- 19	+/- 20
		<u>+/- 12</u>	<u>+/- 34</u>

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

(b) Credit risk

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

In derivative activities, credit risk arises when counterparties to derivative contracts, are unable or unwilling to fulfil their obligation to pay the positive fair value or receivable resulting from the execution of contract terms.

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

	Cash and cash equivalents USD	Total USD
2024		
- AAA	3,061	3,061
	3,061	3,061
2023		
- AAA	5,594	5,594
	5,594	5,594

(c) Liquidity risk

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

The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellations of the units by unit holders. Liquid assets comprise bank balances and other instruments, which are capable of being converted into cash within 7 business days. The Fund's investments in collective investment scheme are realisable which are capable of being converted into cash within 10 business days. This is expected to reduce the risks for the entire portfolio without limiting the Fund's growth potentials.

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining period on 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 USD	Between 1 month to 1 year USD	Total USD
2024			
Accrued management fee	121	-	121
Amount due to Trustee	3	-	3
Other payables and accruals	-	7,131	7,131
Tax Payable	274	-	274

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

(c) Liquidity risk (continued)

	Less than 1 month USD	Between 1 month to 1 year USD	Total USD
2024			
Net assets attributable to unit holders*	113,697	-	113,697
Contractual undiscounted cash flows	<u>114,095</u>	<u>7,131</u>	<u>121,226</u>
2023			
Amount due to Manager of collective investment scheme			
- Purchase of Shariah-compliant collective investment scheme	3,000	-	3,000
Accrued management fee	165	-	165
Amount due to Trustee	5	-	5
Other payables and accruals	-	5,277	5,277
Tax Payable	100	-	100
Net assets attributable to unit holders*	157,409	-	157,409
Contractual undiscounted cash flows	<u>160,679</u>	<u>5,277</u>	<u>165,956</u>

* Outstanding units are redeemed on demand at the holder's option. However, the Manager does not envisage that the contractual maturity disclosed in the table above will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

(d) Capital risk management

The capital of the Fund is represented by net assets attributable to unit holders of USD113,697 (2023: USD157,409). The amount of capital can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

(e) Fair value estimation

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

The fair value of financial assets traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the financial year end date. The Fund utilises the last traded market price for financial assets where the last traded price falls within the bid-ask spread.

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

(e) Fair value estimation (continued)

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

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

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

(i) Fair value hierarchy

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

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

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

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

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

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

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

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
2024				
Financial assets at fair value through profit or loss:				
- Collective investment scheme	<u>117,924</u>	<u>-</u>	<u>-</u>	<u>117,924</u>
Derivative assets at fair value through profit or loss:				
- Forward foreign currency contracts	<u>-</u>	<u>241</u>	<u>-</u>	<u>241</u>
2023				
Financial assets at fair value through profit or loss:				
- Collective investment scheme	<u>158,009</u>	<u>-</u>	<u>-</u>	<u>158,009</u>
Derivative liabilities at fair value through profit or loss:				
- Forward foreign currency contracts	<u>-</u>	<u>2,353</u>	<u>-</u>	<u>2,353</u>

Investments whose values are based on quoted market prices in active markets and are therefore classified within Level 1, include collective investment scheme which invest in 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 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 forward foreign currency contracts.

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.

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

4. MANAGEMENT FEE

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

For the financial year ended 31 January 2024 and 31 January 2023, the management fee is recognised at the following rates:

Class AUD-H	Class MYR	Class MYR-H	Class SGD-H	Class USD
1.25%	1.25%	1.25%	1.25%	1.25%

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

5. TRUSTEE FEE

In accordance with the Deeds, the Trustee is entitled to a fee up to 0.08% per annum, calculated daily based on the NAV of the Fund. The Trustee fee includes local custodian fees and charges but excludes foreign sub-custodian fees and charges, if any.

For the financial period from 1 November 2022 until 31 July 2023 the Trustee fee is recognised at the rate of 0.04%. Effective 1 August 2023, the Trustee fee is recognised at the rate of 0.03 per annum (31.01.2023:0.04% per annum).

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

6. DISTRIBUTION

Breakdown of distribution were as follows:

Source of distribution	2024		2023	
	RM	%	RM	%
Distribution out of current year's income	1,648	100.00	2,712	100.00
Distribution out of prior year's income/capital*	-	-	-	-
Total	1,648	100.00	2,712	100.00

Distribution to members were derived from the following sources (assessed up to distribution declaration date):

	2024	2023
	USD	USD
Dividend income	1,648	2,712
	1,648	2,712
Less:		
Expenses	-	-
Net distribution amount	1,648	2,712

6. DISTRIBUTION (CONTINUED)

	2024	2023
Gross/ Net distribution per unit (cent)		
Distribution on 20 March 2023		
- Class AUD-H	0.21	-
- Class MYR-H	0.07	-
- Class USD	0.32	-
Distribution on 20 June 2023		
- Class AUD-H	0.36	-
- Class MYR-H	0.12	-
- Class USD	0.60	-
Distribution on 17 March 2022		
- Class AUD-H	-	0.25
- Class MYR-H	-	0.08
- Class USD	-	0.38
Distribution on 17 June 2022		
- Class AUD-H	-	0.26
- Class MYR-H	-	0.08
- Class USD	-	0.39
Distribution on 22 September 2022		
- Class AUD-H	-	0.22
- Class MYR-H	-	0.07
- Class USD	-	0.35
Distribution on 19 December 2022		
- Class AUD-H	-	0.18
- Class MYR-H	-	0.06
- Class USD	-	0.31
	1.68	2.63

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

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

7. TAXATION

	2024 USD	2023 USD
Tax charged for the financial year:		
- Tax on foreign source income	1,485	706

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

	2024 USD	2023 USD
Loss before taxation	(18,027)	(28,955)

7. TAXATION (CONTINUED)

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

	2024	2023
	USD	USD
Taxation at Malaysian statutory rate of 24% (2023: 24%)	(4,326)	(6,949)
Tax effects of:		
- Investment loss not deductible for tax purpose	2,392	4,714
- Expenses not deductible for tax purposes	938	1,212
- Restriction on tax deductible expenses for Wholesale Funds	996	1,023
Tax on foreign source income	1,485	706
Taxation	<u>1,485</u>	<u>706</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2024	2023
	USD	USD
At fair value through profit or loss:		
- Collective investment scheme	<u>117,924</u>	<u>158,009</u>
Net loss on financial assets at fair value through profit or loss:		
- Realised loss on disposals	(10,001)	(6,819)
- Unrealised fair value gain/(loss)	6,916	(14,094)
- Management fee rebate #	471	492
	<u>(2,614)</u>	<u>(20,421)</u>

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

For the financial year ended 31 January 2024, management fee rebate is recognised at a rate of 0.30% per annum (2023: 0.30% per annum) for each class.

Name of counter	Quantity	Aggregate	Market	Percentage
	Units	cost	value	of NAV
		USD	USD	%
2024				
COLLECTIVE				
INVESTMENT SCHEME				
BNP Paribas Investment Partners Luxembourg SA - BNP Paribas Flexi I - US Mortgage	<u>1,491</u>	<u>139,398</u>	<u>117,924</u>	<u>103.72</u>

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

Name of counter	Quantity Units	Aggregate cost USD	Market value USD	Percentage of NAV %
2024				
COLLECTIVE INVESTMENT SCHEME				
TOTAL COLLECTIVE INVESTMENT SCHEME	<u>1,491</u>	<u>139,398</u>	<u>117,924</u>	<u>103.72</u>
ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>(21,474)</u>		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>117,924</u>		
2023				
COLLECTIVE INVESTMENT SCHEME				
BNP Paribas Investment Partners Luxembourg SA - BNP Paribas Flexi I - US Mortgage	<u>1,976</u>	<u>186,399</u>	<u>158,009</u>	<u>100.38</u>
TOTAL COLLECTIVE INVESTMENT SCHEME	<u>1,976</u>	<u>186,399</u>	<u>158,009</u>	<u>100.38</u>
ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>(28,390)</u>		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>158,009</u>		

9. DERIVATIVE ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2024	2023
	USD	USD
Forward foreign currency contracts:		
Derivative assets	241	2,353
	241	2,353
Net loss on derivative assets/liabilities at fair value through profit or loss:		
- Realised loss on forward foreign currency contracts	(10,272)	(7,737)
- Unrealised fair value (loss)/gain on forward foreign currency contracts	(2,112)	4,843
	(12,384)	(2,894)

As at 31 January 2024, there were 3 outstanding (2023: 3 outstanding) USD/Australian Dollar ("AUD"), USD/Malaysian Ringgit ("MYR"), USD/Singapore Dollar ("SGD") forward foreign currency contracts. The notional principal amount of the outstanding forward foreign currency contracts amounted to USD112,617 (2023: USD154,589).

The USD/AUD, USD/MYR and USD/SGD forward foreign currency contracts were entered into during the financial year to minimise the risk of foreign currency exposure between the USD and the foreign currencies of the Fund.

As the Fund has not adopted hedge accounting during the financial year, any changes in the fair value of the forward foreign currency contracts are recognised immediately in the statement of comprehensive income during the year in which it was incurred.

10. CASH AND CASH EQUIVALENTS

	2024	2023
	USD	USD
Bank balances	3,061	5,594
	3,061	5,594

11. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2024	2023
	No. of units	No. of units
Class AUD-H (i)	210,061	224,209
Class MYR-H (ii)	117,417	238,419
Class SGD-H (iii)	1,011	1,011
Class USD (iv)	4	922
	328,493	464,561
(i) Class AUD-H		
At the beginning of the financial year	224,209	220,408
Add : Creation of units from distributions	2,474	3,801
Less : Cancellation of units	(16,622)	-
At the end of the financial year	210,061	224,209

11. NUMBER OF UNITS IN CIRCULATION (UNITS) (CONTINUED)

	2024	2023
	No. of units	No. of units
(ii) Class MYR-H		
At the beginning of the financial year	238,419	234,376
Add : Creation of units from distributions	3,021	4,043
Less : Cancellation of units	(124,023)	-
At the end of the financial year	<u>117,417</u>	<u>238,419</u>
(iii) Class SGD-H		
At the beginning of the financial year	<u>1,011</u>	<u>1,011</u>
At the end of the financial year	<u>1,011</u>	<u>1,011</u>
(iv) Class USD		
At the beginning of the financial year	922	907
Add : Creation of units from distributions	10	15
Less : Cancellation of units	(928)	-
At the end of the financial year	<u>4</u>	<u>922</u>

12. TOTAL EXPENSE RATIO (“TER”)

	2024	2023
	%	%
TER	<u>4.62</u>	<u>3.79</u>

TER is derived from the following calculation:

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

- A = Management fee (exclude management fee rebate)
- B = Trustee fee
- C = Audit fee
- D = Tax agent’s fee
- E = Other expenses
- F = Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial year calculated on a daily basis is USD128,707 (2023: USD161,118).

13. PORTFOLIO TURNOVER RATIO (“PTR”)

	2024	2023
PTR (times)	<u>0.19</u>	<u>0.18</u>

PTR is derived based on the following calculation:

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

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

where:

total acquisition for the financial year = USD6,000 (2023: USD25,000)
 total disposal for the financial year = USD43,000 (2023: USD34,000)

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

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

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

Units held by the Manager and parties related to the Manager

	2024		2023	
	No. of units	USD	No. of units	USD
Manager				
Principal Asset Management Berhad				
- Class AUD-H	3	2	62	32
- Class MYR-H	8	1	182	31
- Class SGD-H	1,011	454	1,011	454
- Class USD	4	3	93	75

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.

Other than those disclosed elsewhere in the financial statements, there were no significant related party transactions and balances during the financial year.

15. TRANSACTIONS WITH BROKER/DEALER

Details of transactions with the broker/dealer for the financial year ended 31 January 2024 are as follows:

Broker/ Dealer	Value of trades USD	Percentage of total trades %
BNP Paribas Investment Partners Luxembourg	<u>49,000</u>	<u>100.00</u>

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

Broker/ Dealer	Value of trades USD	Percentage of total trades %
BNP Paribas Investment Partners Luxembourg	<u>59,000</u>	<u>100.00</u>

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 15 March 2024.

DIRECTORY

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