

FIRST SUPPLEMENTAL PROSPECTUS FOR PRINCIPAL ASIA DYNAMIC BOND FUND

Manager : **Principal Asset Management Berhad** (199401018399 (304078-K))

Trustee : **HSBC (Malaysia) Trustee Berhad** (193701000084 (1281-T))

This First Supplemental Prospectus is dated 31 December 2021 and is to be read in conjunction with the Prospectus Issue No. 2 for the Principal Asia Dynamic Bond Fund dated 16 January 2020 ("Prospectus").

The Fund was constituted on 29 May 2017.

INVESTORS ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THE PROSPECTUS AND THIS FIRST SUPPLEMENTAL PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.

THIS IS A FIRST SUPPLEMENTAL PROSPECTUS WHICH HAS TO BE READ IN CONJUNCTION WITH THE PROSPECTUS

RESPONSIBILITY STATEMENTS

This First Supplemental Prospectus has been reviewed and approved by the directors of the Principal Malaysia and they collectively and individually accept full responsibility for the accuracy of the information. Having made all reasonable enquiries, they confirm to the best of their knowledge and belief, that there are no false or misleading statements, or omission of other facts which would make any statement in this First Supplemental Prospectus false or misleading.

STATEMENTS OF DISCLAIMER

The Securities Commission Malaysia has authorised the Fund and a copy of this First Supplemental Prospectus has been registered with the Securities Commission Malaysia.

The authorisation of the Fund, and registration of this First Supplemental Prospectus, should not be taken to indicate that Securities Commission Malaysia recommends the Fund or assumes responsibility for the correctness of any statement made, opinion expressed or report contained in the Prospectus or First Supplemental Prospectus.

The Securities Commission Malaysia is not liable for any non-disclosure on the part of the Principal Malaysia responsible for the Fund and takes no responsibility for the contents in this First Supplemental Prospectus. The Securities Commission Malaysia makes no representation on the accuracy or completeness of this First Supplemental Prospectus, and expressly disclaims any liability whatsoever arising from, or in reliance upon, the whole or any part of its contents.

YOU SHOULD RELY ON YOUR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF THE INVESTMENT. IF YOU ARE UNABLE TO MAKE YOUR OWN EVALUATION, YOU ARE ADVISED TO CONSULT PROFESSIONAL ADVISERS.

ADDITIONAL STATEMENTS

You should note that you may seek recourse under the *Capital Markets and Services Act 2007* for breaches of securities laws including any statement in the First Supplemental Prospectus that is false, misleading, or from which there is a material omission; or for any misleading or deceptive act in relation to the First Supplemental Prospectus or the conduct of any other person in relation to the Fund.

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1.0. GENERAL

- 1.1 This First Supplemental Prospectus is issued to reflect the amendments made to the Prospectus as stated under paragraph 2 to 9 below.
- 1.2 All terms used in this First Supplemental Prospectus shall have the same meanings as those defined in the Definitions Chapter of the Prospectus unless where the context otherwise requires.
- 1.3 All information provided herein is practicable as of 30 September 2021 and shall remain current and relevant as at such date.

2.0. ABOUT THIS DOCUMENT

- 2.1 The second paragraph under the section of “**About this document**” at page i has been replaced and read as below:

If you have any questions about the information in this Prospectus or would like to know more about investing in the Principal Malaysia family of unit trust funds, please contact our **Customer Care Centre** during business hour at **(603) 7723 7260** between 8:45 a.m. and 5:45 p.m. (Malaysian time) on Mondays to Fridays (except on Kuala Lumpur public holidays).

3.0. CORPORATE DIRECTORY

- 3.1 The contact details of the Customer Care Centre under the section “**The Manager**” at page iv has been amended and read as below:

Customer Care Centre
Ground floor Bangunan CIMB
Jalan Semantan, Damansara Heights
50490 Kuala Lumpur MALAYSIA
Tel : (603) 7723 7260
Fax : (603) 7718 3003

- 3.2 The contact details of the Trustee under the section “**The Trustee**” at page iv has been amended and read as below:

Business/Registered address
13th Floor, Bangunan HSBC, South Tower
No. 2, Leboh Ampang
50100 Kuala Lumpur MALAYSIA
Tel : (603) 2075 7800
Fax : (603) 8894 2611

4.0. FUND INFORMATION

- 4.1 The information under the section of “**Benchmark**” at page 1 has been replaced and read as below:

Benchmark : **Before 1 January 2022**
London Interbank Overnight Rate (LIBOR) + 2.50% per annum.

With effect from 1 January 2022
Secured Overnight Financing Rate (SOFR) + 2.50% per annum.

Note: The Fund's benchmark is for performance comparison purpose only. You are cautioned that the risk profile of the Fund is higher than the benchmark. You may obtain more information on LIBOR from www.global-rates.com and SOFR from www.newyorkfed.org.

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5.0. ADDITIONAL INFORMATION

- 5.1. The fifth paragraph under the section “**4.2 Information on your investment**” at page 17 has been replaced and read as below:

If you have any questions about the information in this Prospectus or would like to know more about investing in the Principal Malaysia family of unit trust funds, please contact our **Customer Care Centre** during business hour at **(603) 7723 7260** between 8:45 a.m. and 5:45 p.m. (Malaysian time) on Mondays to Fridays (except on Kuala Lumpur public holidays) or you can email us at **service@principal.com.my**.

6.0. CONSENT

- 6.1. The information under the section “**4.5 Consent**” at page 18 has been replaced and read as below:

Ernst & Young Tax Consultants Sdn. Bhd. and HSBC (Malaysia) Trustee Berhad have given their written consent to act in their respective capacity. They have also given their consent for the inclusion of their names, statements and/or reports in this Prospectus in the form and context in which it appears and have not subsequently withdrawn their consent to the inclusion of their names, statements and/or reports in the form and context in which it appears in this Prospectus.

7.0. THE MANAGER

- 7.1. The information under the section “**5.1.1 The Board of Directors**” at page 20 has been replaced and read as below:

As of LPD, the Board of Directors consists of twelve (12) members including four (4) Independent members and three (3) alternate directors. The Board of Directors oversees the management and operations of the Principal Malaysia and meets at least four (4) times a year.

Effendy bin Shahul Hamid	- Non-independent director	Lai Mee Fong ²	- Non-independent director
Thomas Cheong Wee Yee	- Non-independent director	Chong Chooi Wan ³	- Non-independent director
Munirah binti Khairuddin	- Non-independent director	Wong Joon Hian	- Independent director
Juan Ignacio Eyzaguirre Baraona	- Non-independent director	Liew Swee Lin	- Independent director
Mohd Haniz bin Mohd Nazlan	- Non-independent director	Hisham bin Zainal Mokhtar	- Independent director
Julian Christopher Vivian Pull ¹	- Non-independent director	Dato' Jaganath Derek Steven Sabapathy	- Independent director

¹ Alternate Director to Thomas Cheong Wee Yee

² Alternate Director to Effendy bin Shahul Hamid

³ Alternate director to Mohd Haniz bin Mohd Nazlan

- 7.2. The information under the section of “**Designated Person Responsible for Fund Management Function**” at page 20 has been replaced and read as below:

Name:	Patrick Chang Chian Ping
Designation:	Chief Investment Officer (CIO), Malaysia & Chief Investment Officer, Equities, ASEAN Region
Experience:	Patrick Chang joined Principal Malaysia on 22 February 2016 and currently holds the positions of CIO, Malaysia and CIO Equities, ASEAN Region effective 1 October 2018. He comes with more than 19 years of experience in asset management. He was previously the Head of ASEAN equities at BNP Paribas Investment Partners, Malaysia where he oversees ASEAN equities for both Malaysian and offshore clients from 2012. Prior to that, he served as Senior Vice President for CIMB-Principal Asset Management where he specialized in ASEAN and specialist Asia ex Japan funds. He also worked as a portfolio manager at Riggs and Co International Private Banking in London specializing in managing global ETF portfolios and holds the Capital Markets Services Representative License.
Qualifications:	MSc Finance from City University Business School and BSc Accounting and Financial Analysis from University of Warwick, UK.

Note: For more and/or updated information, please refer to our website at **www.principal.com.my**.

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8.0. TAXATION REPORT

8.1. The information at this section at page 26 to 29 has been replaced and read as below:

Ernst & Young Tax Consultants Sdn Bhd
Level 23A Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur

The Board of Directors
Principal Asset Management Berhad
10th Floor, Bangunan CIMB
Jalan Semantan
Damansara Heights
50490 Kuala Lumpur

30 September 2021

Dear Sirs

Taxation of the unit trust fund and unit holders

This letter has been prepared for inclusion in this First Supplemental Prospectus in connection with the offer of units in the unit trust known as Principal Asia Dynamic Bond Fund (hereinafter referred to as “the Fund”).

The purpose of this letter is to provide prospective unit holders with an overview of the impact of taxation on the Fund and the unit holders.

Taxation of the Fund

The taxation of the Fund is subject to the provisions of the Malaysian Income Tax Act 1967 (MITA), particularly Sections 61 and 63B.

Subject to certain exemptions, the income of the Fund comprising profits and other investment income derived from or accruing in Malaysia after deducting tax allowable expenses, is subject to Malaysian income tax at the rate of 24% with effect from the year of assessment 2016.

Tax allowable expenses would comprise expenses falling under Section 33(1) and Section 63B of the MITA. Section 33(1) permits a deduction for expenses that are wholly and exclusively incurred in the production of gross income. In addition, Section 63B allows unit trusts a deduction for a portion of other expenses (referred to as ‘permitted expenses’) not directly related to the production of income, as explained below.

“Permitted expenses” refer to the following expenses incurred by the Fund which are not deductible under Section 33(1) of the MITA:

- the manager's remuneration,
- maintenance of the register of unit holders,
- share registration expenses,
- secretarial, audit and accounting fees, telephone charges, printing and stationery costs and postage.

These expenses are given a partial deduction under Section 63B of the MITA, based on the following formula:

$$A \times \frac{B}{4C}$$

where A is the total of the permitted expenses incurred for that basis period;
B is gross income consisting of dividend¹, interest and rent chargeable to tax for that basis period; and
C is the aggregate of the gross income consisting of dividend¹ and interest (whether such dividend or interest is exempt or not) and rent, and gains made from the realisation of investments (whether chargeable to tax or not) for that basis period,

provided that the amount of deduction to be made shall not be less than 10% of the total permitted expenses incurred for that basis period.

¹ Pursuant to Section 15 of the Finance Act 2011, with effect from the year of assessment 2011, dividend income is deemed to include income distributed by a unit trust which includes distributions from Real Estate Investment Trusts.

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Exempt income

The following income of the Fund is exempt from income tax:

- **Malaysian sourced dividends**

All Malaysian-sourced dividends should be exempt from income tax.

- **Malaysian sourced interest**

- (i) interest from securities or bonds issued or guaranteed by the Government of Malaysia;
- (ii) interest from debentures or *sukuk*, other than convertible loan stock, approved or authorized by, or lodged with, the Securities Commission;
- (iii) interest from Bon Simpanan Malaysia issued by Bank Negara Malaysia;
- (iv) interest derived from Malaysia and paid or credited by banks licensed under the Financial Services Act 2013 or the Islamic Financial Services Act 2013²;
- (v) interest derived from Malaysia and paid or credited by any development financial institution prescribed under the Development Financial Institutions Act 2002²;
- (vi) interest from *sukuk* originating from Malaysia, other than convertible loan stock, issued in any currency other than Ringgit and approved or authorized by, or lodged with, the Securities Commission or approved by the Labuan Financial Services Authority (LFSA)³; and
- (vii) interest which is specifically exempted by way of statutory orders or any other specific exemption provided by the Minister.

- **Discount**

Tax exemption is given on discount paid or credited to any unit trust in respect of investments as specified in items (i), (ii) and (iii) above.

Foreign sourced income

Dividends, interest and other income derived from sources outside Malaysia and received in Malaysia by a resident unit trust is exempt from Malaysian income tax. However, such income may be subject to tax in the country from which it is derived.

Gains from the realisation of investments

Pursuant to Section 61(1) (b) of the MITA, gains from the realisation of investments will not be treated as income of the Fund and hence, are not subject to income tax. Such gains may be subject to real property gains tax (RPGT) under the Real Property Gains Tax Act 1976 (RPGT Act), if the gains are derived from the disposal of chargeable assets, as defined in the RPGT Act.

Implementation of Sales and Service Tax (“SST”)

Sales and Service Tax (“SST”) was re-introduced effective 1 September 2018. Sales Tax of 10% (most common rate) or 5% is charged by Malaysian manufacturers of taxable goods or upon importation into Malaysia of such taxable goods, unless specifically exempted under the Sales Tax (Goods Exempted From Tax) Order 2018. Service Tax at the rate of 6% is charged on certain prescribed taxable services performed by taxable persons as stipulated under Service Tax Regulations 2018. The input tax recovery mechanism under the previous GST regime does not apply to SST. Therefore, any SST incurred is not recoverable and will form a cost element for businesses.

Based on the Service Tax Regulations 2018, a unit trust fund is neither regarded as a taxable person nor as providing taxable services and is therefore not liable for SST registration. Where the Fund incurs expenses such as management fees, the management services provided by asset and fund managers are specifically excluded from the scope of Service Tax. As for other fees, such as trustee fees and other administrative charges, these may be subject to 6% service tax provided they fall within the scope of service tax (i.e. are provided by a “taxable person”, who exceeds the required annual threshold (in most cases RM 500,000 per annum) and the services qualify as “taxable services”).

² Effective from 1 January 2019, the income tax exemption for a unit trust fund, pursuant to Paragraph 35A, Schedule 6 of the Income Tax Act shall not apply to a wholesale fund which is a money market fund. Further, we understand that the Ministry of Finance has decided to withdraw the income tax exemption for corporate investors in Retail Money Market Funds, effective from 1 January 2022. The relevant legislative amendments have not yet been effected and are expected to be included in the Finance Bill 2021.

³ Effective from the year of assessment 2017, the exemption shall not apply to interest paid or credited to a company in the same group or interest paid or credited to a bank licensed under the Financial Services Act 2013 or the Islamic Financial Services Act 2013; or a development financial institution prescribed under the Development Financial Institutions Act 2002.

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Taxation of unit holders

For Malaysian income tax purposes, unit holders will be taxed on their share of the distributions received from the Fund.

The income of unit holders from their investment in the Fund broadly falls under the following categories:

1. taxable distributions; and
2. non-taxable and exempt distributions.

In addition, unit holders may also realise a gain from the sale of units.

The tax implications of each of the above categories are explained below:

1. Taxable distributions

Distributions received from the Fund will have to be grossed up to take into account the underlying tax paid by the Fund and the unit holder will be taxed on the grossed up amount.

Such distributions carry a tax credit, which will be available for set-off against any Malaysian income tax payable by the unit holder. Should the tax deducted at source exceed the tax liability of the unit holder, the excess is refundable to the unit holder.

Please refer to the paragraph below for the income tax rates applicable to the grossed up distributions.

2. Non-taxable and exempt distributions

Tax exempt distributions made out of gains from the realisation of investments and exempt income earned by the Fund will not be subject to Malaysian income tax in the hands of the unit holders.

Rates of tax

The Malaysian income tax chargeable on the unit holders would depend on their tax residence status and whether they are individuals, corporations or trust bodies. The relevant income tax rates are as follows:

Unit holders	Malaysian income tax rates
Malaysian tax resident: <ul style="list-style-type: none">• Individual and non-corporate unit holders (such as associations and societies)• Co-operatives⁴• Trust bodies	<ul style="list-style-type: none">• Progressive tax rates ranging from 0% to 30%• Progressive tax rates ranging from 0% to 24%• 24%
<ul style="list-style-type: none">• Corporate unit holders<ul style="list-style-type: none">(i) A company with paid up capital in respect of ordinary shares of not more than RM2.5 million (at the beginning of the basis period for the year of assessment) and gross income from a source or sources consisting of a business not exceeding RM50 million for the basis period for the year of assessment^{5 6}	<ul style="list-style-type: none">• First RM600,000 of chargeable income @ 17%• Chargeable income in excess of RM600,000 @ 24%

⁴ Pursuant to Paragraph 12(1), Schedule 6 of the MITA, the income of any co-operative society—

(a) in respect of a period of five years commencing from the date of registration of such co-operative society; and
(b) thereafter where the members' funds [as defined in Paragraph 12(2)] of such co-operative society as at the first day of the basis period for the year of assessment is less than seven hundred and fifty thousand ringgit, is exempt from tax.

⁵ A company would not be eligible for the 17% tax rate on the first RM600,000 of chargeable income if:-

(a) more than 50% of the paid up capital in respect of the ordinary shares of the company is directly or indirectly owned by a related company which has paid up capital in respect of ordinary shares of more than RM2.5 million at the beginning of a basis period for a year of assessment;
(b) the company owns directly or indirectly more than 50% of the paid up capital in respect of the ordinary shares of a related company which has paid up capital in respect of ordinary shares of more than RM2.5 million at the beginning of a basis period for a year of assessment;

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Unit holders	Malaysian income tax rates
(ii) Companies other than (i) above	<ul style="list-style-type: none"> 24%
Non-Malaysian tax resident (Note 1):	
<ul style="list-style-type: none"> Individual and non-corporate unit holders 	<ul style="list-style-type: none"> 30%
<ul style="list-style-type: none"> Corporate unit holders and trust bodies 	<ul style="list-style-type: none"> 24%

Note 1:

Non-resident unit holders may be subject to tax in their respective countries depending on the provisions of the tax legislation in the respective countries and any existing double taxation arrangements with Malaysia.

Gains from sale of units

Gains arising from the realisation of investments will generally not be subject to income tax in the hands of unit holders unless they are insurance companies, financial institutions or traders / dealers in securities.

Unit splits and reinvestment of distributions

Unit holders may also receive new units as a result of unit splits or may choose to reinvest their distributions. The income tax implications of these are as follows:

- Unit splits – new units issued by the Fund pursuant to a unit split will not be subject to income tax in the hands of the unit holders.
- Reinvestment of distributions – unit holders may choose to reinvest their income distribution in new units by informing the Manager. In this event, the unit holder will be deemed to have received the distribution and reinvested it with the Fund.

We hereby confirm that, as at the date of this letter, the statements made in this letter correctly reflect our understanding of the tax position under current Malaysian tax legislation and the related interpretation and practice thereof, all of which are subject to change, possibly on a retrospective basis. We have not been retained (unless specifically instructed hereafter), nor are we obligated to monitor or update the statements for future conditions that may affect these statements.

The statements made in this letter are not intended to be a complete analysis of the tax consequences relating to an investor in the Fund. As the particular circumstances of each investor may differ, we recommend that investors obtain independent advice on the tax issues associated with an investment in the Fund.

Yours faithfully

Ernst & Young Tax Consultants Sdn Bhd

Bernard Yap
Partner

Ernst & Young Tax Consultants Sdn Bhd has given its consent to the inclusion of the Taxation Adviser's Letter in the form and context in which it appears in this Prospectus and has not withdrawn such consent before the date of issue of this Prospectus.

(c) more than 50% of the paid up capital in respect of the ordinary shares of the company and a related company which has a paid up capital in respect of ordinary shares of more than RM2.5 million at the beginning of a basis period for a year of assessment is directly or indirectly owned by another company.

⁶ The above excludes a business trust and a company which is established for the issuance of asset-backed securities in a securitization transaction approved by the Securities Commission.

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9.0. DISTRIBUTORS OF THE FUND

- 9.1. The information at the end of this section, “**Distributors of the Fund**” at page 33 has been replaced and read as below:

Note: We have the discretion in determining the Distributors of the Classes of the Fund, including its appointment and/or termination from time to time. For updated information on the Distributors of the Classes of the Fund, please contact our **Customer Care Centre** during business hour at **(603) 7723 7260** between 8:45 a.m. and 5:45 p.m. (Malaysian time) on Mondays to Fridays (except on Kuala Lumpur public holidays) or refer to our website at **www.principal.com.my**.

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