

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS
ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

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INVESTORS' LETTER

Dear Valued Investor,

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

Firstly, allow me to wish you a very Happy New Year! The new year marks a fresh start and an opportunity to establish new goals. While many of us had a challenging year in 2022, we look forward to 2023 and hope it will be a better year for everyone.

We are pleased to bring you a copy of the Annual Fund Report of the Principal Islamic Balanced Wholesale Fund-of-Funds for the financial year ended 31 December 2022. You may also download this report from our website at www.principal.com.my.

We are pleased to share that Principal Malaysia was accorded with the ESG Asset Management Company of the Year-Highly Commended (Malaysia) award at The Asset Triple A Sustainable Investing Awards 2022 for Institutional Investor, ETF, and Asset Servicing Providers 2022. Principal Malaysia was also awarded the Top Investment House, Asset Manager-Highly Commended (Malaysia) award at the Asset Benchmark Research Asian Local Currency Bond Benchmark Review 2022.

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) and 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
Chief Executive Officer

MANAGER'S REPORT

FUND OBJECTIVE AND POLICY

What is the investment objective of the Fund?

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

Has the Fund achieved its objective?

For the financial year under review, the Fund underperformed its benchmark. However, it is in line to achieve its long-term objective of achieving moderate capital growth as stated under the Fund investment policy.

What are the Fund investment policy and principal investment strategy?

The Fund aims to invest at least three (3) Islamic collective investment schemes investing predominantly in Shariah-compliant equities and/or Sukuk. In line with its objective, the investment policy and strategy of the Fund is to maintain a balanced portfolio between Islamic collective investment schemes investing predominantly in Shariah-compliant equities and Islamic collective investment schemes investing predominantly in Sukuk.

The allocation between the Islamic collective investment schemes is done through a combination of macroeconomic data, liquidity trends and the outlook to overweight or underweight a particular Islamic collective investment schemes. The Fund may invest in Islamic collective investment schemes that focus its investment in the Asia Pacific ex Japan region, i.e. companies that are domiciled in, listed in, and/or have operations or businesses that focus in the Asia Pacific ex Japan region, where the regulatory authority is an ordinary or associate member of the International Organization of Securities Commissions ("IOSCO") which include but not limited to Australia, the People's Republic of China, Hong Kong Special Administrative Region ("SAR"), India, Indonesia, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and Sri Lanka.

Asset Allocation:

- Between 40% to 60% of the Fund's NAV will be invested in Islamic collective investment scheme investing predominantly in Shariah-compliant equities;
- Between 40% to 60% of the Fund's NAV will be invested in Islamic collective investment scheme investing predominantly in Sukuk; and
- Up to 5% of the Fund's NAV may be invested in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits.

Fund category/type

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

When was the Fund launched?

24 November 2017

What was the size of the Fund as at 31 December 2022?

RM4.35 million (4.43 million units)

What is the Fund's benchmark?

As a Fund-of-Funds, the Fund is benchmark unconstrained, i.e. it will be managed without reference to any specific benchmark. However, for performance comparison purpose, the Fund can be compared to the 30% Quantshop Government Investment Issue ("GII") Medium Index + 20% CIMB Islamic 1-month Fixed Return Income Account-I ("FRIA-i") + 50% FTSE Bursa Malaysia ("FBM") EMAS Shariah ("FBMS") Index.

Note: You are cautioned that the risk profile of the Fund is different from the benchmark. The information on Quantshop GII Medium Index can be obtained from <http://www.quantshop.com>. The information on CIMB Islamic 1-month FRIA-i can be obtained from <http://www.cimbislamic.com>. Information on the FTSE Bursa Malaysia EMAS Shariah Index can be obtained from <http://www.bursamalaysia.com>.

FUND OBJECTIVE AND POLICY (CONTINUED)

What is the Fund distribution policy?

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

What was the net income distribution for the financial year ended 31 December 2022?

There was no distribution made for the financial year ended 31 December 2022.

PERFORMANCE DATA

Details of portfolio composition of the Fund for the last three audited financial year were as follows:

	31.12.2022	31.12.2021	31.12.2020
	%	%	%
Shariah-compliant collective investment schemes	95.66	96.86	92.70
Cash and other assets	4.74	3.62	7.44
Liabilities	(0.40)	(0.48)	(0.14)
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Performance details of the Fund for the last three audited financial year were as follows:

	31.12.2022	31.12.2021	31.12.2020
NAV (RM Million)	4.35	2.58	1.28
Units in circulation (Million)	4.43	2.39	1.17
NAV per unit (RM)	0.9808	1.0808	1.0921
Highest NAV per unit (RM)	1.0799	1.1356	1.0950
Lowest NAV per unit (RM)	0.9421	1.0531	0.8900
Total return (%)	(9.25)	(1.10)	7.79
- Capital growth (%)	(9.25)	(1.10)	7.79
- Income distribution (%)	-	-	-
Total Expense Ratio ("TER") (%) ^	0.78	1.11	0.87
Portfolio Turnover Ratio ("PTR") (times) #	0.31	0.38	0.62

^ The Fund's TER has decreased from 0.78% to 1.11% mainly due to an increase in average NAV during the financial year under review.

For the financial year under review, the Fund's PTR for the Fund decreased from 0.38 times to 0.31 times, as there were an increase in average NAV during the financial year under review.

	31.12.2022	31.12.2021	31.12.2020	31.12.2019	Since inception to 31.12.2018
	%	%	%	%	%
Annual total return	(9.25)	(1.10)	7.79	7.62	(5.80)

(Launch date: 24 November 2017)

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

MARKET REVIEW (1 JANUARY 2022 TO 31 DECEMBER 2022)

Local Equity

The FBMS Index decreased 1,324.55 points (“pts”) or 10.80% to 10,938.55 points (“pts”) in MYR terms over the financial year under review.

The FBMS Index lost 694 pts or 5.66% in January 2022, fully undoing previous month’s gain. Inflation fears trumped the positive sentiment on reopening aided by data points showing Omicron being less fatal than previous variants. Beneficiaries of inflation and interest rate hikes – Financials, Commodities (Energy and Steel stocks) – dominated gainers during the month, while Technology, Healthcare and to lesser extent Telecommunication languished.

In February 2022, the FBMS Index rebounded 548 pts or 4.74%. The index benefited from the rally in commodities (Plantations, Energy and Alum/Steel), further stoked by the Russian-Ukraine conflict exacerbating supply worries. Technology, Healthcare, and select Telecommunications languished.

The FBMS Index declined 174 pts or 1.44% in March 2022. Construction was the largest gainer driven by anticipation of a revival in jobs, followed by Telecommunication and Financials. Technology bounced as investors acclimatized with the US Federal Reserve (the “Fed”) interest rate hikes, which saw its first lift-off of 25 bps. Tourism plays also saw interest with the 1 April 2022 border reopening. Commodities (Plantations, Energy and Aluminum/Steel) corrected following the strong rally in the previous month stoked by the Russian-Ukraine conflict.

In April 2022, the FBMS Index gained 78.93 pts or 0.7%. Plantation (+11%) and Energy (8%) dominated the gainers leaderboard driven by continued strength in the underlying commodities, partly fueled by the prolonged Russian-Ukraine conflict which has now entered its third month.

The FBMS Index lost 512.65 pts or 4.26% in May 2022, despite the short month due to the Eid celebrations. Plantations (-9%), Healthcare (-6%) and Property (-6%) languished, while Energy (+8%) shined, fueled by elevated oil prices amidst the prolonged Russian-Ukraine conflict which has now entered its fourth month and European proposed ban on Russian oil. Despite the re-opening of borders and businesses following the lifting of Coronavirus Disease 2019 (“COVID-19”) restrictions, the central bank expects some impact from the Russia-Ukraine conflict.

The FBMS Index lost 1,005.66 pts or 8.74% in June 2022. The sell-off was triggered by the release of the US May 2022 inflation data with the Consumer Price Index (“CPI”) at 8.6% which was a fresh 40-year high and renewed fears that the Fed could over-tighten and landing the world’s largest economy into a recession. Meanwhile, Malaysia’s manufacturing sector picked up in June 2022, with an improvement in the PMI from 50.1 pts in May 2022 to 50.4 pts. Production levels stabilized for the first time after five consecutive months of decline, while new orders rose for the third month running.

The FBMS Index rebounded 230.8 pts or 2.2% to 10,734.77 pts in July 2022, mainly on the back of easing inflation concerns and rising hopes that a hard landing of the US economy may be avoided. The compression in bond yields also raised the appeal of equities, especially growth stocks.

In August 2022, the FBMS Index extended gains, up 78.7 pts or 0.7% to 10,813.46 pts. Sentiment was earlier lifted by a cooler US inflation print of 8.5% in July 2022 versus 9.1% in the previous month, but subsequently dented by comments from Jerome Powell at Jackson Hole that the fight against inflation was not over and the Fed will continue to hike interest rates to cool the economy further.

The FBMS Index slumped 805.4 pts or 7.5% to 10,008 pts in September 2022. Markets reeled from renewed fears of a global recession stoked by the ever-so-hawkish the Fed which remained adamant about sustaining hikes to cool the economy further. The strong US dollar, which is at the strongest it has ever been since 1997 also trigger flows out of emerging markets and commodities.

MARKET REVIEW (1 JANUARY 2022 TO 31 DECEMBER 2022) (CONTINUED)

Local Equity (continued)

The FBMS Index jumped 403.08 pts or 4.0% to 10,411 pts in October 2022 in tandem with the rebound in global and regional markets. Investors shrugged off recent hot inflation print and strong employment data in the US, and instead focused on pockets of softness in the economy and expect the Fed to ease off its aggressive rate hikes soon.

In November 2022, the FBMS Index fell 371.98 pts or 3.57% to end the month at 10,783.09 pts. Recent Institute for Supply Management ("ISM") data showed an unexpected rise in services industry in November 2022 while employment and wage growth remain robust, albeit US home prices fell for the fourth month running.

In December 2022, the FBMS Index rose by 155.46 pts and ended the year at 10,938.55 pts, aided by year-end window-dressing and optimism over China's reopening come 8th January 2023. However, these were negated by renewed fears of a US recession with concerns of inflation staying higher for longer and as the pace of the Fed rate hikes starts taking a toll on the economy.

Asian Equity

The Morgan Stanley Capital International All Country ("MSCI AC") Asia ex Japan Islamic ("MIASJ") Index decreased by 20.99%, in USD terms, closing at 1,311.86 points over the period under review.

The MSCI AC Index fell 2.6% in January 2022 with the broad-based selloff led by South Korea and Australia while Philippines and Indonesia posted positive returns. Concerns on tightening monetary policy and Russia-Ukraine tensions weighed on markets. The US 10-year bond yield rose by 27 bps to 1.78% while crude oil price rose by 17% to USD91.20 per barrel.

The MSCI AC Index fell 2.3% in February 2022, led by China and India while ASEAN was more resilient and posted positive returns. The selloff was led by the Russia-Ukraine conflict towards the end of the month, which led to a spike in global energy prices in oil, natural gas and coal. The US 10-year bond yield rose beyond 2.0% during the month before the Ukraine invasion led to a retreat to safe-haven assets, bringing the yield back down to 1.8% subsequently.

In March 2022, the MSCIAJ Index fell 2.0%, led by China while Australia and India outperformed. Geopolitical tensions and elevated inflation weighed on investors' sentiment. Commodity prices across the board continued to rise with Brent oil fluctuating from USD129 per barrel at the height to USD108 per barrel towards month end. The US 10-year bond yield rose meaningfully to 2.34% during the month.

The MIASJ Index fell 5.6% in USD terms in April 2022, led by Taiwan, Singapore and China while Indonesia outperformed. The US 10-year bond yield rose meaningfully by 60 basis points ("bps") to 2.94% and the USD appreciated 4.7% during the month as we approach the Fed's much anticipated rate hike in May 2022.

The MIASJ Index rose by 1.1% in USD terms in May 2022, led by Taiwan and China while India, Indonesia and Singapore were detractors. The US 10-year bond yield fell marginally by 9 bps to 2.85% while crude oil rose 12% to USD 123 per barrel.

The MIASJ Index fell 9.0% in USD terms in June 2022, led by Korea and Taiwan as the US Fed tightened the policy rate by 75 percentage points, its third this year and bringing cumulative hikes thus far to 1.5%. Most equity markets posted negative returns except for China. The US 10-year bond yield reached a peak of 3.5% during the month before falling back down to 3.0% on increasing recessionary concerns.

MARKET REVIEW (1 JANUARY 2022 TO 31 DECEMBER 2022) (CONTINUED)

Asian Equity (continued)

The MIASJ Index rose by 1.8% in USD terms in July 2022 as most countries posted positive returns except for China due to a brewing mortgage crisis and fluid COVID-19 situation. The US 10-year bond yield declined 36bps to 2.65% as the Fed commented on slowing the pace of rate increases.

The MIASJ Index fell 0.5% in USD terms in August 2022 with India, Indonesia and Thailand outperforming while Singapore, North Asia and China were laggards. The US 10-year bond yield rose by 54 bps to 3.2% with a more hawkish commentary by the Fed Chairman during its Jackson Hole meeting. Crude oil declined 12% amidst recessionary concerns, which could lead Organization of Petroleum Exporting Countries (“OPEC”) to adjust its supply in the coming months.

In September 2022, the MIASJ Index fell 11.0% in USD terms with top detractors being South Korea, Taiwan and China while Indonesia was the most resilient. Sentiment deteriorated post a resolute tone by the Federal Reserve Chair to combat inflation during the Jackson Hole meeting, leading to volatility in most asset classes including currencies, bonds and equities. The US 10-year bond yield rose 64bps to 3.8% while the Dollar Index rose 3.1% during the month. Crude oil declined 8.8% to USD88 per barrel amidst recessionary fears.

The MIASJ Index rose by 0.8% in USD terms in October 2022 with top performers being South Korea, Malaysia, India and Australia while China was a major detractor. Sentiment deteriorated post the China congress due to the lack of representation of more market oriented leaders in the Politburo. The US 10-year bond yield rose 22 bps to 4.05% while the USD decline 0.5% during the month. Crude oil rebounded 7.8% to USD94.80 per barrel after OPEC made a decision to cut production by 2 million barrel per day.

In November 2022, the MIASJ Index rose by 13.6% in USD terms with a broad based performance led by China and Taiwan. Sentiment improved markedly after US inflation came in lower than expected and China unexpectedly loosened its approach towards zero COVID-19. The US-10 year bond yield declined by 44 bps to 3.61% while the USD declined 5.0% during the month.

The MIASJ Index declined 3.8% in USD terms in December 2022 mainly due to weakness in Korea and Taiwan while China was the top performer. Sentiment improved significantly in China after more measures were announced towards reopening the economy, shifting further away from its previous zero COVID-19 approach. The US 10-year bond yield rose 27 bps to 3.89% while the USD declined by 2.3% during the month.

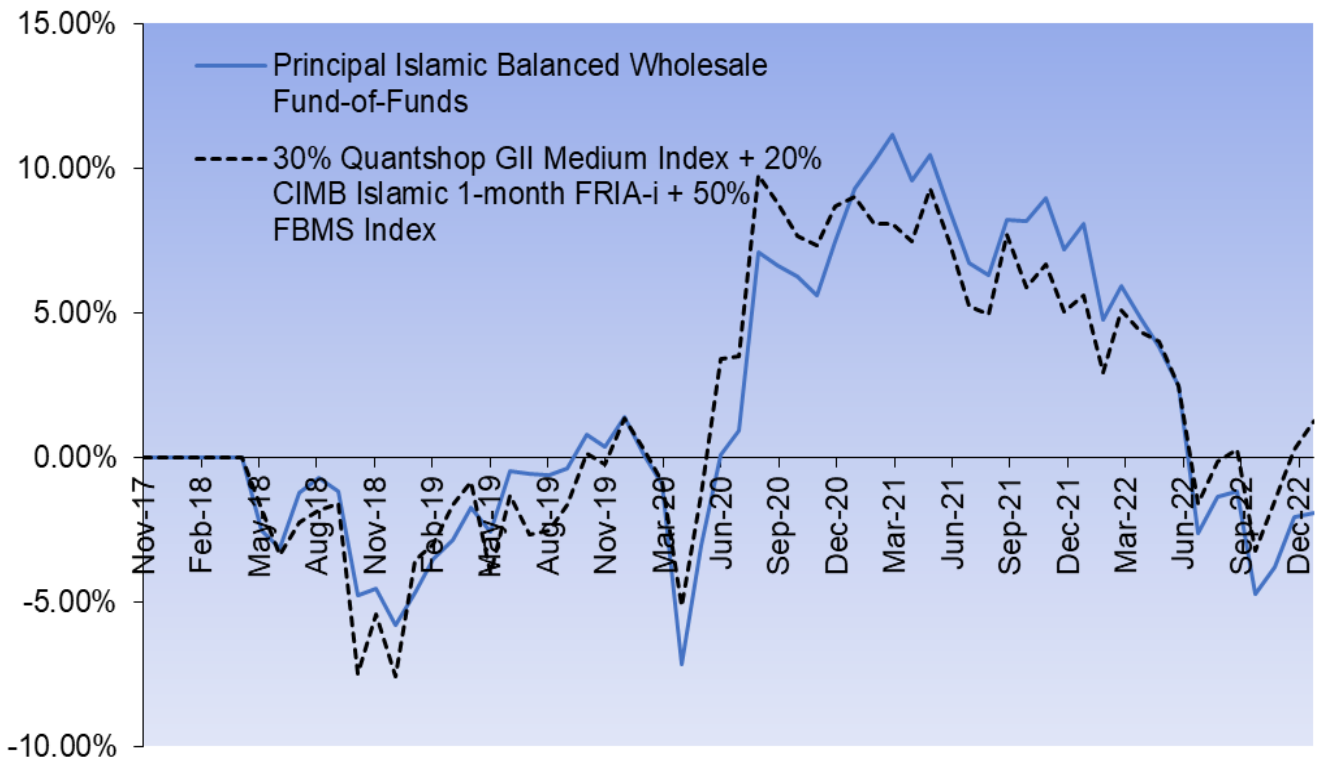
FUND PERFORMANCE

	1 year to 31.12.2022	3 year to 31.12.2022	5 years to 31.12.2022	Since inception to 31.12.2022
	%	%	%	%
Income Distribution	-	-	-	-
Capital Growth	(9.25)	(3.26)	(1.92)	(1.92)
Total Return	(9.25)	(3.26)	(1.92)	(1.92)
Benchmark	(4.11)	(0.06)	(0.71)	1.27
Average Total Return	(9.25)	(1.10)	(0.39)	(0.38)

For the financial year under review, the Fund declined 9.25% underperforming the benchmark which fell 4.11%.

FUND PERFORMANCE (CONTINUED)

Since inception



Changes in NAV

	31.12.2022	31.12.2021	Changes %
NAV (RM Million)	4.35	2.58	68.60
NAV/Unit (RM)	0.9808	1.0808	(9.25)

For the financial year under review, total NAV of the fund increased by 68.60%, while the NAV per unit fell by 9.25%. The gains and losses in the total NAV and NAV per unit were due to creation and investment performance of the Asia ex-Japan markets over the period.

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

PORTFOLIO STRUCTURE

Asset allocation

(% of NAV)	31.12.2022	31.12.2021
Shariah-compliant collective investment schemes	95.66	96.86
Cash and other assets	4.74	3.62
Liabilities	(0.40)	(0.48)
TOTAL	100.00	100.00

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

MARKET OUTLOOK*

Local Equity

Domestic political uncertainties have amplified the effects of global macroeconomic and geopolitical headwinds, resulting in Malaysia's equity market valuations being extremely compressed. Beyond the initial celebratory rally, there needs to be some clarity on the policy direction of the new Government, hopefully via a new Budget 2023 that is slated to be proposed soon. That said, risk premiums should fall over time as some of these concerns abate. Malaysia should also play catch-up to recent positive shift in global investor sentiment on the back of easing monetary tightening measures and China's reopening.

Given the recent positive market momentum as well as the prospects of reduced risk premium and upside in valuation, we are cautiously positive on Malaysia. Key risks are derailment of Malaysia's macro recovery, corporate earnings growth due to a larger-than-expected impact of rising inflation, elections, slower global economic growth as well as heightened geopolitical risks.

Asian Equity

With bulk of monetary policy tightening being implemented in 2022, we are near the last leg of rate hike increases. The Fed dot plot suggests a rate of 5.125% by end 2023 vs the current midpoint of 4.38% suggesting only minor increases going forward. However, near term volatility could arise with the market as implied by the Fed Funds Futures expecting a peak policy rate of 4.9% by June 2023, a half year mismatch optimism against the Fed's prediction. Much of the policy rate trajectory would depend on the inflation rate, which has started to come in lower than expected in its recent data.

While we expect economic repair to be the focus for 2023, the key issues are a) Will stimulative policies be sufficient to turnaround the sectors which had been hard hit b) To what extent will corporates, e.g. in internet be able to normalize their business activities.

* 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

Local Equity

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

Asian Equity

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

SOFT COMMISSIONS AND REBATES

Principal Asset Management Berhad (the "Manager") and the Trustee will not retain any form of rebate or soft commission from, or otherwise share in any commission with, any broker in consideration for directing dealings in the investments of the Principal Malaysia Funds ("Funds") unless the soft commission received is retained in the form of goods and services such as research and advisory services that assists in the decision-making process relating to the Fund's investments. All dealings with brokers are executed on best available terms.

SOFT COMMISSIONS AND REBATES (CONTINUED)

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

SECURITIES FINANCING TRANSACTIONS

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

STATE OF AFFAIR OF THE FUND

Latest changes to the Statement by Manager's signatory as follows:

Mr. Juan Ignacio Eyzaguirre Baraona (retired on 30 June 2022)
Mr. Uday Jayaram (appointed on 30 June 2022)

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

CIRCUMSTANCES THAT MATERIALLY AFFECT ANY INTEREST OF UNIT HOLDERS

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

CROSS TRADE

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

UNIT SPLIT

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

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

We, being the Directors of Principal Asset Management Berhad (the “Manager”), do hereby state that, in the opinion of the Manager, the accompanying audited financial statements set out on pages 8 to 28 are drawn up in accordance with the provisions of the Deeds and give a true and fair view of the financial position of the Fund as at 31 December 2022 and of its financial performance, changes in net assets attributable to unit holders and cash flows for the financial year ended 31 December 2022 in accordance with the provisions of the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

For and on behalf of the Manager

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

MUNIRAH KHAIRUDDIN
Chief Executive Officer/Executive Director

UDAY JAYARAM
Director

Kuala Lumpur
17 February 2023

**TRUSTEE'S REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS**

We have acted as Trustee of Principal Islamic Balanced Wholesale Fund-of-Funds (the "Fund") for the financial year ended 31 December 2022. To the best of our knowledge, Principal Asset Management Berhad (the "Manager"), has operated and managed the Fund in accordance with the following:-

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

For and on behalf of the Trustee
PB TRUSTEE SERVICES BERHAD

CHEAH KUAN YOON
Chief Executive Officer

Kuala Lumpur
13 February 2023

Shariah Adviser's Report

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

For the Financial Year ended 31 December 2022

We hereby confirm the following:

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

For Amanie Advisors Sdn Bhd

Tan Sri Dr Mohd Daud Bakar
Executive Chairman

Kuala Lumpur
13 February 2023

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Principal Islamic Balanced Wholesale Fund-of-Funds (the "Fund"), which comprise the statement of financial position as at 31 December 2022, and statement of comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows of the Fund for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 8 to 28.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2022, and of its financial performance and cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for opinion

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

Independence and other ethical responsibilities

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

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

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

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

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

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional 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 ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS (cont'd.)**

Other matters

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

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

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

Kuala Lumpur, Malaysia
17 February 2023

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022**

	Note	2022 RM	2021 RM
(LOSS)/INCOME			
Dividend income		95,517	71,065
Net loss on financial assets at fair value through profit or loss	7	(286,210)	(42,876)
Hibah		97	60
		(190,596)	28,249
EXPENSES			
Management fee	4	47,885	27,078
Trustee fee	5	1,117	632
Audit fee		7,000	-
Tax Agent 's fee		5,000	-
Other expenses		7,715	17,001
		68,717	44,711
LOSS BEFORE TAXATION		(259,313)	(16,462)
Taxation	6	-	-
LOSS AFTER TAXATION, REPRESENTING TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR		(259,313)	(16,462)
Loss after taxation is made up as follows:			
Realised amount		70,551	51,013
Unrealised amount		(329,864)	(67,475)
		(259,313)	(16,462)

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

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022**

	Note	2022 RM	2021 RM
ASSETS			
Cash and cash equivalents	8	132,990	52,727
Financial assets at fair value through profit or loss	7	4,160,307	2,501,654
Amount due from Manager - creation of units		73,556	40,844
TOTAL ASSETS		<u>4,366,853</u>	<u>2,595,225</u>
LIABILITIES			
Accrued management fee		481	271
Amount due to Trustee		124	74
Other payable		17,000	12,000
TOTAL LIABILITIES		<u>17,605</u>	<u>12,345</u>
NET ASSET VALUE OF THE FUND		<u>4,349,248</u>	<u>2,582,880</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS	9	<u>4,349,248</u>	<u>2,582,880</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)	10	<u>4,434,105</u>	<u>2,389,773</u>
NET ASSET VALUE PER UNIT (RM)		<u>0.9808</u>	<u>1.0808</u>

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

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022**

	2022	2021
	RM	RM
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE BEGINNING OF THE FINANCIAL YEAR	<u>2,582,880</u>	<u>1,277,284</u>
Movement due to units created and cancelled during the financial year:		
- Creation of units from applications	2,043,523	1,322,058
- Cancellation of units	<u>(17,842)</u>	<u>-</u>
	<u>2,025,681</u>	<u>1,322,058</u>
Total comprehensive loss for the financial year	<u>(259,313)</u>	<u>(16,462)</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE END OF THE FINANCIAL YEAR	<u>4,349,248</u>	<u>2,582,880</u>

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

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022**

	Note	2022 RM	2021 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Purchase of Shariah-compliant collective investment schemes		(1,988,518)	(1,385,066)
Dividend income received		95,517	71,065
Hibah		97	60
Management fee paid		(47,675)	(26,994)
Management fee rebate received		43,654	24,600
Trustee fee paid		(1,067)	(593)
Payments for other fees and expenses		(14,714)	(6,592)
Net cash used in operating activities		(1,912,706)	(1,323,520)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		2,010,811	1,310,693
Payments for cancellation of units		(17,842)	-
Net cash generated from financing activities		1,992,969	1,310,693
Net increase/(decreased) in cash and cash equivalents		80,263	(12,827)
Cash and cash equivalents at the beginning of the financial year		52,727	65,554
Cash and cash equivalents at the end of the financial year	8	132,990	52,727
<u>Cash and cash equivalents comprised of:</u>			
Bank balance		132,990	52,727
Cash and cash equivalents at the end of the financial year	8	132,990	52,727

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022**

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

Principal Islamic Balanced Wholesale Fund-of-Funds (the "Fund") is governed by a Principal Deed dated 20 November 2017 and first supplemental deed dated 20 September 2019 (collectively referred to as the "Deeds"), made between Principal Asset Management Berhad (the "Manager") and PB Trustee Services Berhad (the "Trustee").

The Fund aims to invest at least three (3) Islamic collective investment schemes investing predominantly in Shariah-compliant equities and/or Sukuk. In line with its objective, the investment policy and strategy of the Fund is to maintain a balanced portfolio between Islamic collective investment schemes investing predominantly in Shariah-compliant equities and Islamic collective investment schemes investing predominantly in Sukuk.

As a balanced Fund, the Fund will invest between 40% to 60% of its NAV in Islamic collective investment schemes investing predominantly in Shariah-compliant equities as well as between 40% to 60% of its NAV in Islamic collective investment schemes investing predominantly in Sukuk. The Islamic collective investment schemes investing predominantly in Sukuk will provide some capital stability to the Fund whilst the Islamic collective investment schemes investing predominantly in equity portion will provide the added return in a rising market. The Fund may also invest up to 5% of its NAV in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits for liquidity purposes.

The allocation between the Islamic collective investment schemes is done through a combination of macroeconomic data, liquidity trends and the outlook to overweight or underweight a particular Islamic collective investment schemes. The Fund may invest in Islamic collective investment schemes that focus its investment in the Asia Pacific ex Japan region, i.e. companies that are domiciled in, listed in, and/or have operations or businesses that focus in the Asia Pacific ex Japan region, where the regulatory authority is an ordinary or associate member of the IOSCO which include but not limited to Australia, the People's Republic of China, Hong Kong SAR, India, Indonesia, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand and Sri Lanka.

Asset Allocation:

- Between 40% to 60% of the Fund's NAV will be invested in Islamic collective investment scheme investing predominantly in Shariah-compliant equities;
- Between 40% to 60% of the Fund's NAV will be invested in Islamic collective investment scheme investing predominantly in Sukuk; and
- Up to 5% of the Fund's NAV may be invested in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits.

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES (CONTINUED)

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

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

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

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2022 that have a material effect on the financial statements of the Fund.

None of the standards, amendments to standards or interpretations that are effective for the financial year beginning on/after 1 January 2023 are applicable to the Fund.

Classification

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities

The Fund classifies cash and cash equivalents and amount due from Manager - creation of units 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. Shariah-compliant investments are initially recognised at fair value.

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

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

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

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

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

published NAV per unit or share of such Shariah-compliant 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 profit method.

Impairment for assets carried at amortised costs

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

2. SUMMARY OF SIGNIFICANT 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) Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the "functional currency"). The financial statements are presented in MYR, which is the Fund's functional and presentation currency.

(d) Management fee rebate

Management fee rebate is derived from the Fund's investment in Shariah-compliant 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 Shariah-compliant collective investment scheme held.

(e) Income recognition

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Cash and cash equivalents

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

(g) Taxation

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

(h) Unit holders' contributions

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 were as follows:

	Financial assets at fair value through profit or loss RM	Financial assets at amortised cost RM	Total RM
2022			
Cash and cash equivalents (Note 8)	-	132,990	132,990
Shariah-compliant collective investment schemes (Note 7)	4,160,307	-	4,160,307
Amount due from Manager - creation of units	-	73,556	73,556
	<u>4,160,307</u>	<u>206,546</u>	<u>4,366,853</u>
2021			
Cash and cash equivalents (Note 8)	-	52,727	52,727
Shariah-compliant collective investment schemes (Note 7)	2,501,654	-	2,501,654
Amount due from Manager - creation of units	-	40,844	40,844
	<u>2,501,654</u>	<u>93,571</u>	<u>2,595,225</u>

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

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

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

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

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 Shariah-compliant collective investment schemes will fluctuate because of changes in market prices (other than those arising from interest rate risk). The value of Shariah-compliant collective investment schemes may fluctuate according to the activities of individual companies, sector, and overall political and economic conditions. Such fluctuation may cause the Fund's NAV and prices of units to fall as well as rise, and income produced by the Fund may also fluctuate.

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

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

	2022	2021
	RM	RM
Financial assets at fair value through profit or loss:		
- Shariah-compliant collective investment schemes	4,160,307	2,501,654

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

% Change in price of Shariah-compliant collective investment schemes	Market Value	Impact on profit or loss/NAV
	RM	RM
2022		
-5%	3,952,292	(208,015)
0%	4,160,307	-
+5%	4,368,322	208,015
2021		
-5%	2,376,571	(125,083)
0%	2,501,654	-
+5%	2,626,737	125,083

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

(b) Credit risk

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

For amount due from Manager, the settlement terms of the proceeds from the creation of units' receivable from the Manager are governed by the SC Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

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

	Cash and cash equivalents RM	Amount due from Manager – creation of units RM	Total RM
2022			
- AAA	132,990	-	132,990
- Not Rated	-	73,556	73,556
	<u>132,990</u>	<u>73,556</u>	<u>206,546</u>
2021			
- AAA	52,727	-	52,727
- Not Rated	-	40,844	40,844
	<u>52,727</u>	<u>40,844</u>	<u>93,571</u>

(c) Liquidity risk

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

The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellations of the units by unit holders. Liquid assets comprise bank balance, which are capable of being converted into cash within 7 business days. The Fund's investments in collective investment 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 as at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month RM
2022	
Accrued management fee	481
Amount due to Trustee	124
Other payable	17,000
Contractual undiscounted cash flows	<u>17,605</u>

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

(c) Liquidity risk (continued)

	Less than 1 month RM
2021	
Accrued management fee	271
Amount due to Trustee	74
Other payable	12,000
Contractual undiscounted cash flows	12,345

(d) Capital risk management

The capital of the Fund is represented by net assets attributable to unit holders of RM4,349,248 (31.12.2021: RM2,582,880). The amount of capital can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns to unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

(e) Fair value estimation

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

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

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

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

(i) Fair value hierarchy

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

- Quoted prices (unadjusted) in active market for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)

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

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

- 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.

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2022				
Financial assets at fair value through profit or loss:				
- Shariah-compliant collective investment schemes	4,160,307	-	-	4,160,307
2021				
Financial assets at fair value through profit or loss:				
- Shariah-compliant collective investment schemes	2,501,654	-	-	2,501,654

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

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

(e) Fair value estimation (continued)

- (ii) The carrying values of cash and cash equivalents, amount due from Manager - creation of units and all current liabilities are a reasonable approximation of their fair values due to their short-term nature.

4. MANAGEMENT FEE

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

For the financial year ended 31 December 2022, the management fee is recognised at a rate of 1.50% per annum (31.12.2021: 1.50%).

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

5. TRUSTEE FEE

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

For the financial year ended 31 December 2022, the Trustee fee is recognised at a rate of 0.035% per annum (31.12.2021: 0.035%).

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

6. TAXATION

	2022 RM	2021 RM
Tax charged for the financial year:		
- Current taxation	-	-
	-	-

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:

	2022 RM	2021 RM
Loss before taxation	(259,313)	(16,462)
Taxation at Malaysian statutory rate of 24% (2021: 24%)	(62,235)	(3,951)
Tax effects of:		
- Loss not deductible for tax purpose/(Investment income not subject to tax)	45,743	(6,780)
- Expenses not deductible for tax purposes	3,210	4,232
- Restriction on tax deductible expenses for Wholesale Funds	13,282	6,499
Taxation	-	-

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RM	2021 RM
At fair value through profit or loss:		
- Shariah-compliant collective investment schemes	<u>4,160,307</u>	<u>2,501,654</u>
Net loss on financial assets at fair value through profit or loss:		
- Unrealised fair value loss	(329,864)	(67,476)
- Management fee rebate #	<u>43,654</u>	<u>24,600</u>
	<u>(286,210)</u>	<u>(42,876)</u>

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

For the financial year ended 31 December 2022 and 31 December 2021, management fee rebate is recognised at a rate as per table below, calculated and accrued daily based on the NAV of the Shariah-compliant collective investment schemes.

	2022 %	2021 %
Principal Islamic Lifetime Enhanced Sukuk Fund	1.00	1.00
Principal Islamic Lifetime Sukuk Fund	0.95	0.95
Principal DALI Equity Fund	1.85	1.85

Name of Counter	Quantity Units	Aggregate cost RM	Market value RM	Percentage of NAV %
2022				
SHARIAH-COMPLIANT COLLECTIVE INVESTMENT SCHEMES				
Principal Islamic Lifetime Enhanced Sukuk Fund	1,055,182	1,074,597	1,029,119	23.66
Principal Islamic Lifetime Sukuk Fund	820,044	1,060,554	1,029,401	23.67
Principal DALI Equity Fund	<u>2,185,719</u>	<u>2,357,196</u>	<u>2,101,787</u>	<u>48.33</u>
TOTAL SHARIAH-COMPLIANT COLLECTIVE INVESTMENT SCHEMES	<u>4,060,945</u>	<u>4,492,347</u>	<u>4,160,307</u>	<u>95.66</u>
ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u>(332,040)</u>		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
			<u>4,160,307</u>	

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS

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

2021

**SHARIAH-COMPLIANT
COLLECTIVE INVESTMENT
SCHEMES**

Principal Islamic Lifetime Enhanced Sukuk Fund	591,019	618,576	616,137	23.86
Principal Islamic Lifetime Sukuk Fund	469,664	621,387	606,900	23.50
Principal DALI Equity Fund	<u>1,085,506</u>	<u>1,263,867</u>	<u>1,278,617</u>	<u>49.50</u>
TOTAL SHARIAH- COMPLIANT COLLECTIVE INVESTMENT SCHEMES	<u>2,146,189</u>	<u>2,503,830</u>	<u>2,501,654</u>	<u>96.86</u>

**ACCUMULATED
UNREALISED LOSS ON
FINANCIAL ASSETS AT
FAIR VALUE THROUGH
PROFIT OR LOSS**

(2,176)

**TOTAL FINANCIAL
ASSETS AT FAIR VALUE
THROUGH PROFIT OR
LOSS**

2,501,654

8. CASH AND CASH EQUIVALENTS

	2022 RM	2021 RM
Bank balance	<u>132,990</u>	<u>52,727</u>

9. NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS

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

	2022 RM	2021 RM
Unit holders' contributions	4,558,089	2,532,408
(Accumulated losses)/Retained earnings	<u>(208,841)</u>	<u>50,472</u>
	<u>4,349,248</u>	<u>2,582,880</u>

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS

9. NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS (CONTINUED)

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

	Unit holders' capital RM	(Accumulated losses)/Retained earnings RM	Total RM
Balance as at 1 January 2022	2,532,408	50,472	2,582,880
Movement in unit holders' contributions:			
- Creation of units from applications	2,043,523	-	2,043,523
- Cancellation of units	(17,842)	-	(17,842)
Total comprehensive loss for the financial year	-	(259,313)	(259,313)
Balance as at 31 December 2022	<u>4,558,089</u>	<u>(208,841)</u>	<u>4,349,248</u>
Balance as at 1 January 2021	1,210,350	66,934	1,277,284
Movement in unit holders' contributions:			
- creation of units from applications	1,322,058	-	1,322,058
Total comprehensive loss for the financial year		(16,462)	(16,462)
Balance as at 31 December 2021	<u>2,532,408</u>	<u>50,472</u>	<u>2,582,880</u>

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2022 No. of units	2021 No. of units
At the beginning of the financial year	2,389,773	1,169,539
Add: Creation of units from applications	2,061,470	1,220,234
Less : Cancellation of units	(17,138)	-
At the end of the financial year	<u>4,434,105</u>	<u>2,389,773</u>

11. TOTAL EXPENSE RATIO ("TER")

	2022 %	2021 %
TER	<u>0.78</u>	<u>1.11</u>

TER is derived based on the following calculation:

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

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

The average NAV of the Fund for the financial year calculated on a daily basis is RM3,200,002 (31.12.2021: RM1,809,353).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

	2022	2021
PTR (times)	0.31	0.38

PTR is derived based on the following calculation:

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

where:

$$\text{total acquisition for the financial year} = \text{RM1,988,517 (31.12.2021: RM1,385,065)}$$

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

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

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

Units held by the Manager and parties related to the Manager

	2022	2021
	No. of units	RM
Manager	No. of units	RM
Principal Asset Management Berhad	1	1
	1	1

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

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

PRINCIPAL ISLAMIC BALANCED WHOLESALE FUND-OF-FUNDS

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

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions. The Manager is of the opinion that all transactions with the related companies have been entered into in the normal course of business at agreed terms between the related parties.

	2022	2021
	RM	RM
<u>Significant related party transactions</u>		
Purchase of Shariah-compliant collective investment schemes:		
- Principal Asset Management Berhad	<u>1,988,517</u>	<u>1,385,065</u>
<u>Significant related party balance</u>		
Shariah-compliant collective investment schemes managed by the Manager:		
- Principal Islamic Lifetime Enhanced Sukuk Fund	1,029,119	616,137
- Principal Islamic Lifetime Sukuk Fund	1,029,401	606,900
- Principal DALI Equity Fund	<u>2,101,787</u>	<u>1,278,617</u>
	<u>4,160,307</u>	<u>2,501,654</u>
Bank balance:		
- CIMB Islamic Bank Bhd	<u>132,990</u>	<u>52,727</u>

14. TRANSACTIONS WITH DEALER

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

Dealer	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
Principal Asset Management Berhad #	<u>1,988,517</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

Details of transactions with the dealer for the financial year ended 31 December 2021 are as follows:

Dealer	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
Principal Asset Management Berhad #	<u>1,385,065</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

Included in the transactions are trades conducted with Principal Asset Management Berhad, the Manager, amounting to RM1,988,517 (2021: RM1,385,065). The Manager is of the opinion that all transactions with the related companies have been entered into in the normal course of business at agreed terms between the related parties.

15. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

The COVID-19 pandemic, with its related lockdowns and movement restrictions, together with geopolitical tensions and heightened inflationary environment globally have had, and will continue to have, a significant impact on global economic conditions and the environment which the Fund operates.

The Manager continues to closely monitor the macro-economic outlook as a result of COVID-19 pandemic and its impact to the Fund's performance and will be managing the risks to achieve the Fund's objective.

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 17 February 2023.

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