

PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 31 MAY 2020

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INVESTORS' LETTER

Dear Valued Investor,

In Malaysia, things are looking much closer to the “old norm” now, yet with proper social distancing protocols still in place. We’re taking each day and each decision with a mix of enthusiasm and caution. This is how we can continue to flatten the curve of Coronavirus Disease 2019 (“COVID-19”) and remain a viable and dynamic economy. And, this is how our team handle your investments with us. We do our best to make the right decisions to maximise fund returns to help you meet your long-term investment needs.

Markets globally continue to look positive and show signs that the economies worldwide are on the path to recovery. We are increasing exposure to equities vis-à-vis fixed income, as policymakers are assessing the impact of the policies implemented earlier this year to help revive economies. We are positive on Asian equities on a 12-month basis and have added ASEAN names in anticipation of a broader market recovery going forward. For our:

- **Conservative investors, we recommend:** Malaysia focus bond and balanced funds that are income focussed.
- **More aggressive investors, we recommend:** Growth-oriented funds that offer exposure to growth areas in China, Asia-Pacific, Global Technology, ASEAN and Malaysian aggressive funds.

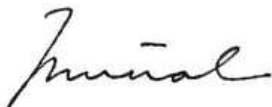
Continue to log on to our website (www.principal.com.my) to receive updates on our latest insights and investing articles.

We are pleased to share that we have won awards for Best Asset Manager (Money Market & Balanced funds) and Best Absolute Return Strategy at the Alpha Southeast Asia Fund Management Awards 2020.

Please be informed that effective 1 April 2020, the Fund has been renamed as Principal Islamic Deposit Fund 2 following the issuance of the Replacement Prospectus issue No.M2.

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

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



Munirah Khairuddin
Chief Executive Officer

MANAGER'S REPORT

FUND OBJECTIVE AND POLICY

What is the investment objective of the Fund?

The Fund aims to provide investors with liquidity and regular income, whilst maintaining capital stability by investing primarily in Islamic deposits.

Has the Fund achieved its objective?

For the financial year under review, the Fund is in line with its stated objectives.

What are the Fund investment policy and principal investment strategy?

The Fund will invest at least 70% of the Fund's Net Asset Value ("NAV") in Islamic deposits with Islamic financial institutions. Up to 30% of the Fund's NAV may be invested in Islamic money market instruments, all of which have a remaining maturity period of not more than 365 days. The Fund may also invest up to 10% of the Fund's NAV in Islamic deposits and Islamic money market instruments with a remaining maturity period of more than 365 days but less than 732 days. The minimum credit rating for the Islamic money market instruments must be at least "BBB3" or "P2" by RAM Ratings ("RAM") or equivalent rating by Malaysian Rating Corporation Bhd ("MARC") or by local rating agency(ies) of the country or "BBB" by Standard & Poor's ("S&P") or equivalent rating by any other international rating agencies. The Manager will manage the portfolio actively with trading frequency that will depend on the view of the interest rate outlook. The investment policy and strategy is to invest in liquid and low risk short-term investments for capital preservation* and to accommodate the short-term cash flow requirements of its unit holders. The investment policy and strategy is to invest in liquid and low risk short-term investments for capital preservation* and to accommodate the short-term cash flow requirements of its unit holders.

Note: *The Fund is neither a capital guaranteed fund nor a capital protected fund within the definition in the Securities Commission Malaysia ("SC") Guidelines.

Base Currency

Malaysian Ringgit ("MYR")

Fund category/type

Money Market (Islamic)/Income

How long should you invest for?

Recommended for short term

When was the Fund launched?

Name of Class	Launch Date
Class A	7 November 2017
Class B	7 November 2017
Class C	7 November 2017
Class D	1 April 2020
Class E	1 April 2020
Class F	1 April 2020

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

RM4.73 million (4.74 million units)

What is the Fund's benchmark?

CIMB Islamic Bank Overnight Rate*

* The benchmark is for performance comparison only. Investors are cautioned that the risk profile of the Fund is higher than benchmark.

FUND OBJECTIVE AND POLICY (CONTINUED)

What is the Fund distribution policy?

Monthly, depending on the availability of realised income and/or realised gains and at Manager's discretion.

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

The Fund distributed a total of RM0.14 million to unit holders for the financial year ended 31 May 2020.

The Fund's NAV per unit are as follows:

Class B

Date	NAV per unit (Before distribution)	NAV per unit (After distribution)
28.06.2019	1.0026	1.0000
31.07.2019	1.0027	1.0000
30.09.2019	1.0012	1.0000
31.10.2019	1.0021	1.0000
29.11.2019	1.0018	1.0000
31.12.2019	1.0016	1.0000
31.01.2020	1.0023	1.0000
28.02.2020	1.0021	1.0000
31.03.2020	1.0019	1.0000
30.04.2020	1.0017	1.0000
29.05.2020	1.0019	1.0000

Class C

Date	NAV per unit (Before distribution)	NAV per unit (After distribution)
28.06.2019	1.0027	1.0000
31.07.2019	1.0028	1.0000
30.08.2019	1.0019	1.0000
30.09.2019	1.0020	1.0000
31.10.2019	1.0022	1.0000
29.11.2019	1.0019	1.0000
31.12.2019	1.0017	1.0000
31.01.2020	1.0024	1.0000
28.02.2020	1.0021	1.0000
31.03.2020	1.0020	1.0000
30.04.2020	1.0017	1.0000
29.05.2020	1.0017	1.0000

Class D

Date	NAV per unit (Before distribution)	NAV per unit (After distribution)
30.04.2020	1.0017	1.0000
29.05.2020	1.0017	1.0000

PRINCIPAL ISLAMIC DEPOSIT FUND 2
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FUND OBJECTIVE AND POLICY (CONTINUED)

The Fund's NAV per unit are as follows: (continued)

Class E

Date	NAV per unit (Before distribution)	NAV per unit (After distribution)
30.04.2020	1.0017	1.0000
29.05.2020	1.0018	1.0000

Class F

Date	NAV per unit (Before distribution)	NAV per unit (After distribution)
30.04.2020	1.0020	1.0000
29.05.2020	1.0019	1.0000

PERFORMANCE DATA

Details of portfolio composition of the Fund for the financial years/period are as follows:

	31.05.2020	31.05.2019	31.05.2018
	%	%	%
Shariah-compliant deposits with licensed Islamic financial institutions	99.86	99.98	-
Cash and other net assets	0.14	0.02	100.00
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Performance details of the Fund for the financial years/period are as follows:

	31.05.2020	31.05.2019	31.05.2018
	%	%	%
NAV (RM Million)			
- Class A	0.00*	0.00*	0.00*
- Class B	3.30	10.04	-
- Class C	1.43	0.00*	-
- Class D	0.00*	-	-
- Class E	0.00*	-	-
- Class F	0.00*	-	-
Units in circulation (Million)			
- Class A	0.00*	0.00*	0.00*
- Class B	3.31	10.03	-
- Class C	1.43	0.00*	-
- Class D	0.00*	-	-
- Class E	0.00*	-	-
- Class F	0.00*	-	-
NAV per unit (RM)			
- Class A	1.0000	1.0000	1.0000
- Class B	0.9988	1.0001	-
- Class C	0.9988	1.0000	-
- Class D	0.9990	-	-
- Class E	0.9990	-	-
- Class F	0.9990	-	-

Note: 0.00* denotes value less than 0.01 million.

PRINCIPAL ISLAMIC DEPOSIT FUND 2
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PERFORMANCE DATA (CONTINUED)

	31.05.2020	31.05.2019	07.11.2017 (date of launch) to 31.05.2018
	%	%	%
Highest NAV per unit (RM)			
- Class A	1.0000	1.0000	1.0000
- Class B	1.0025	1.0026	-
- Class C	1.0026	1.0030	-
- Class D	1.0017	-	-
- Class E	1.0017	-	-
- Class F	1.0019	-	-
Lowest NAV per unit (RM)			
- Class A	1.0000	1.0000	1.0000
- Class B	0.9988	1.0000	-
- Class C	0.9988	1.0000	-
- Class D	0.9990	-	-
- Class E	0.9990	-	-
- Class F	0.9990	-	-
Total return (%)			
- Class A	-	-	-
- Class B	2.25	0.33	-
- Class C	2.59	1.26	-
- Class D	0.36	-	-
- Class E	0.36	-	-
- Class F	0.40	-	-
Capital growth (%)			
- Class A	-	-	-
- Class B	-	-	-
- Class C	-	-	-
- Class D	-	-	-
- Class E	-	-	-
- Class F	-	-	-
Income distribution (%)			
- Class A	-	-	-
- Class B	2.25	0.33	-
- Class C	2.59	1.26	-
- Class D	0.36	-	-
- Class E	0.36	-	-
- Class F	0.40	-	-
Management Expense Ratio ("MER") (%) ^	0.74	0.18	>100.00
Portfolio Turnover Ratio ("PTR") (times) #	20.70	30.72	-

^ The Fund's MER was increase from 0.18% to 0.74% was mainly due to decrease in the average NAV during the financial year under review.

The Fund's PTR has decreased from 30.72 times to 20.70 times mainly due to decrease in transactions during the financial year under review.

PRINCIPAL ISLAMIC DEPOSIT FUND 2
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PERFORMANCE DATA (CONTINUED)

	31.05.2020	31.05.2019	07.11.2017 (date of launch) to 31.05.2018
	RM	RM	RM
Gross/Net distribution per unit (sen)			
Date of distribution			
Distribution on 28 June 2019			
- Class B	0.27	-	-
- Class C	0.28	-	-
Distribution on 31 July 2019			
- Class B	0.27	-	-
- Class C	0.29	-	-
Distribution on 30 August 2019			
- Class C	0.19	-	-
Distribution on 30 September 2019			
- Class B	0.12	-	-
- Class C	0.20	-	-
Distribution on 31 October 2019			
- Class B	0.21	-	-
- Class C	0.22	-	-
Distribution on 29 November 2019			
- Class B	0.19	-	-
- Class C	0.20	-	-
Distribution on 31 December 2019			
- Class B	0.16	-	-
- Class C	0.17	-	-
Distribution on 31 January 2020			
- Class B	0.23	-	-
- Class C	0.24	-	-
Distribution on 28 February 2020			
- Class B	0.21	-	-
- Class C	0.22	-	-
Distribution on 31 March 2020			
- Class B	0.19	-	-
- Class C	0.20	-	-
Distribution on 30 April 2020			
- Class B	0.17	-	-
- Class C	0.18	-	-
- Class D	0.18	-	-
- Class E	0.18	-	-
- Class F	0.20	-	-

PRINCIPAL ISLAMIC DEPOSIT FUND 2
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PERFORMANCE DATA (CONTINUED)

	31.05.2020	31.05.2019	07.11.2017 (date of launch) to 31.05.2018
	RM	RM	RM
Gross/Net distribution per unit (sen)			
Date of distribution			
Distribution on 29 May 2020			
- Class B	0.19	-	-
- Class C	0.18	-	-
- Class D	0.18	-	-
- Class E	0.18	-	-
- Class F	0.19	-	-
Distribution on 31 January 2019			
- Class C	-	0.32	-
Distribution on 28 February 2019			
- Class C	-	0.28	-
Distribution on 29 March 2019			
- Class C	-	0.30	-
Distribution on 30 April 2019			
- Class B	-	0.06	-
- Class C	-	0.05	-
Distribution on 31 May 2019			
- Class B	-	0.27	-
- Class C	-	0.31	-

	31.05.2020	31.05.2019	Since inception to 31.05.2018
	%	%	%
Annual total return			
- Class A	-	-	-
- Class B	2.25	0.33	-
- Class C	2.59	1.26	-
(Launch date: 7 November 2017)			

	Since inception to 31.05.2020
	%
Annual total return	
- Class D	0.36
- Class E	0.36
- Class F	0.40
(Launch date: 1 April 2020)	

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 (01 JUNE 2019 TO 31 MAY 2020)

Bank Negara Malaysia (“BNM”) has delivered a total of 100 basis points (“bps”) reduction in the Overnight Policy Rate (“OPR”) to 2.00%, in the period during review. This includes the latest 50 bps cut to the OPR in May 2020, mainly due to the significant weakening of the global and local economic conditions from the measures implemented to contain the spread of the COVID-19. The statement also reflects some “hope” that the monetary and fiscal stimulus, plus easing of lockdowns, both on the global and local front, will be able to gradually improve the economy. BNM, however, noted that this outlook is still subjected to a high degree of uncertainty.

Malaysia’s first quarter of 2020 Gross Domestic Products (“GDP”) growth remained in positive territory, despite slowing to +0.7% year-on-year (“y-o-y”) (fourth quarter of 2019: +3.6% y-o-y), which came above consensus estimates of -1.0% y-o-y. Positive surprises came from the relative resiliency of domestic demand growth (+3.7% y-o-y; fourth quarter of 2019: +4.9% y-o-y), while being dragged down by a material contraction in net external demand (mainly on exports: -7.1% y-o-y versus -3.4% y-o-y in fourth quarter of 2019) and the supply side, especially on construction (-7.9% y-o-y versus +1.0 y-o-y in fourth quarter of 2019). Unemployment numbers ticked up from 3.3% in February 2020 to 3.9% in March 2020 (highest since 4.0% in March 2009). The economic data is expected to worsen in second quarter of 2020, before gradually improving in the third and fourth quarter of 2020, albeit in negative territory.

Malaysia’s headline inflation rate in April 2020 fell by -2.9% y-o-y (March 2020: -0.2% y-o-y), mainly due to the lower transport and fuel costs from lower crude oil prices. In addition, the 18% reduction in Project Lebuhraya Utara Selatan (“PLUS”) tolled highways also contributed to the low inflation figure. Core inflation, however, sustained at +1.3% y-o-y (March 2020: +1.3% y-o-y), underscoring the dominant impact of global crude oil prices on headline inflation. BNM expects inflationary pressures to remain muted in 2020, with average headline inflation likely to be negative due to lower crude oil prices. Underlying inflation to remain weak, given weaker domestic growth prospects and labour market conditions.

On the fiscal side, Prime Minister Muhyiddin Yassin announced a RM260 billion stimulus package, with the primary focus of (i) sustaining private consumption and confidence; (ii) preserving the viability and continuity of domestic business entities; and (iii) strengthening the domestic economy. While the stimulus package amounts to 17% of GDP, direct Government spending is only RM35 billion which is equivalent to 2.5% of GDP.

PRINCIPAL ISLAMIC DEPOSIT FUND 2
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FUND PERFORMANCE

Class A	1 year to 31.05.2020 %	Since inception to 31.05.2020 %
Income distribution	-	-
Capital growth	-	-
Total Return	-	-
Benchmark	2.75	7.94
Average Total Return	-	-

Class B	1 year to 31.05.2020 %	Since inception to 31.05.2020 %
Income distribution	2.25	2.58
Capital growth	-	-
Total Return	2.25	2.58
Benchmark	2.75	7.94
Average Total Return	2.25	1.00

Class C	1 year to 31.05.2020 %	Since inception to 31.05.2020 %
Income distribution	2.59	3.89
Capital growth	-	-
Total Return	2.59	3.89
Benchmark	2.75	7.94
Average Total Return	2.59	1.50

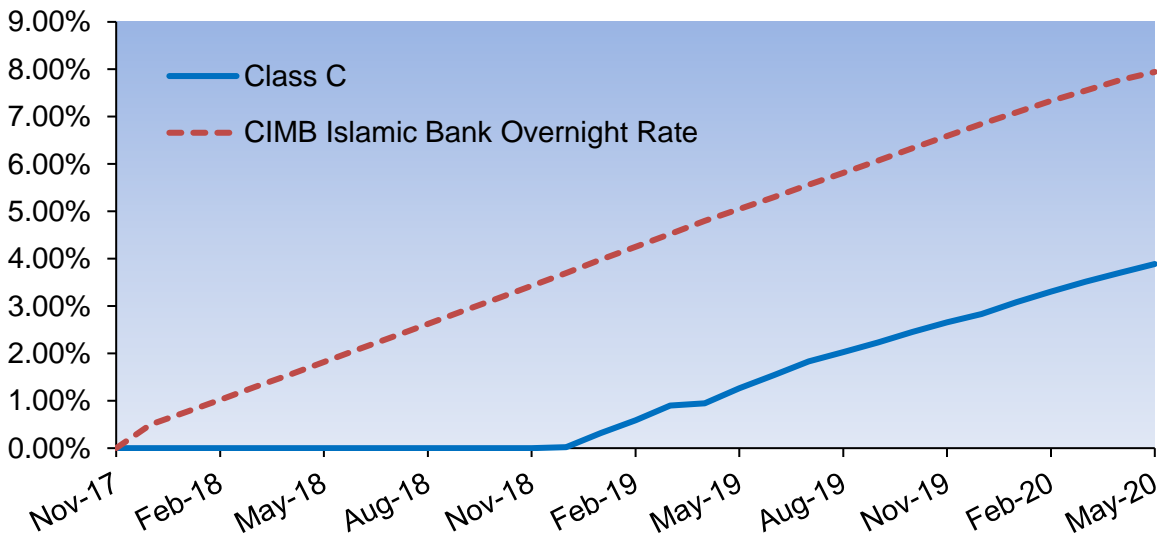
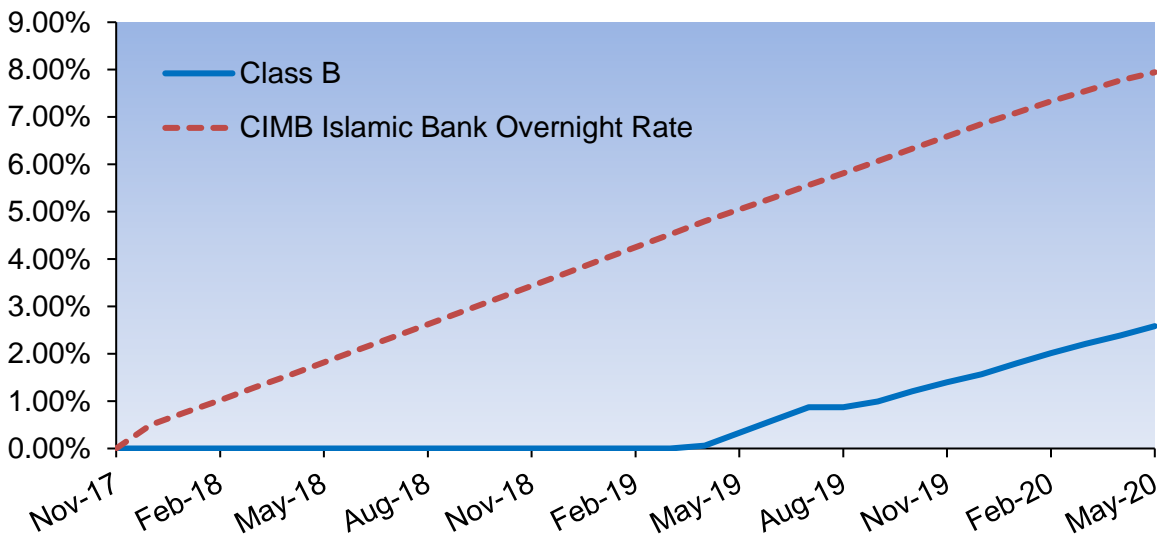
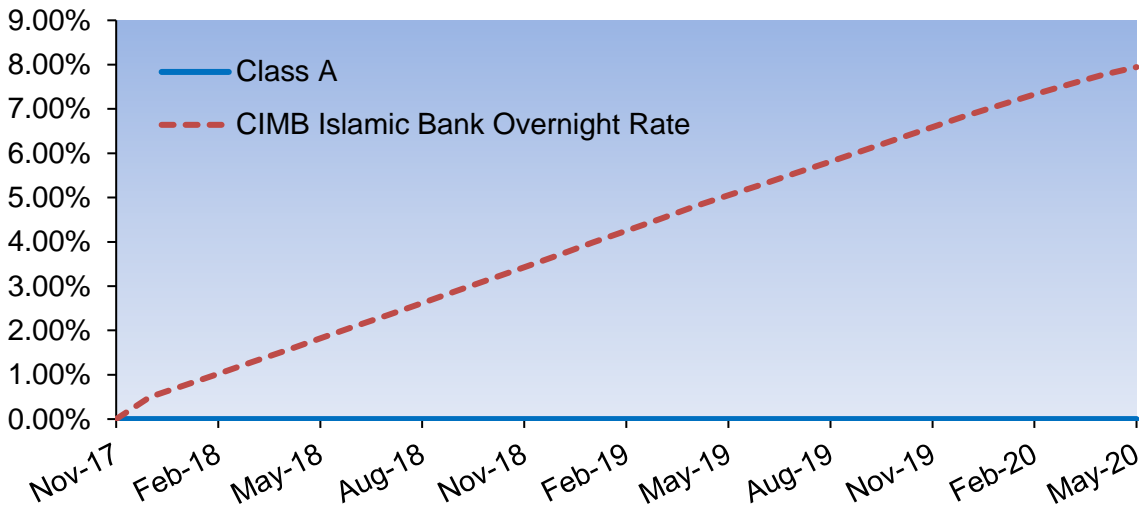
Class D	Since inception to 31.05.2020 %
Income distribution	0.36
Capital growth	-
Total Return	0.36
Benchmark	0.37
Average Total Return	N/A

Class E	Since inception to 31.05.2020 %
Income distribution	0.36
Capital growth	-
Total Return	0.36
Benchmark	0.37
Average Total Return	N/A

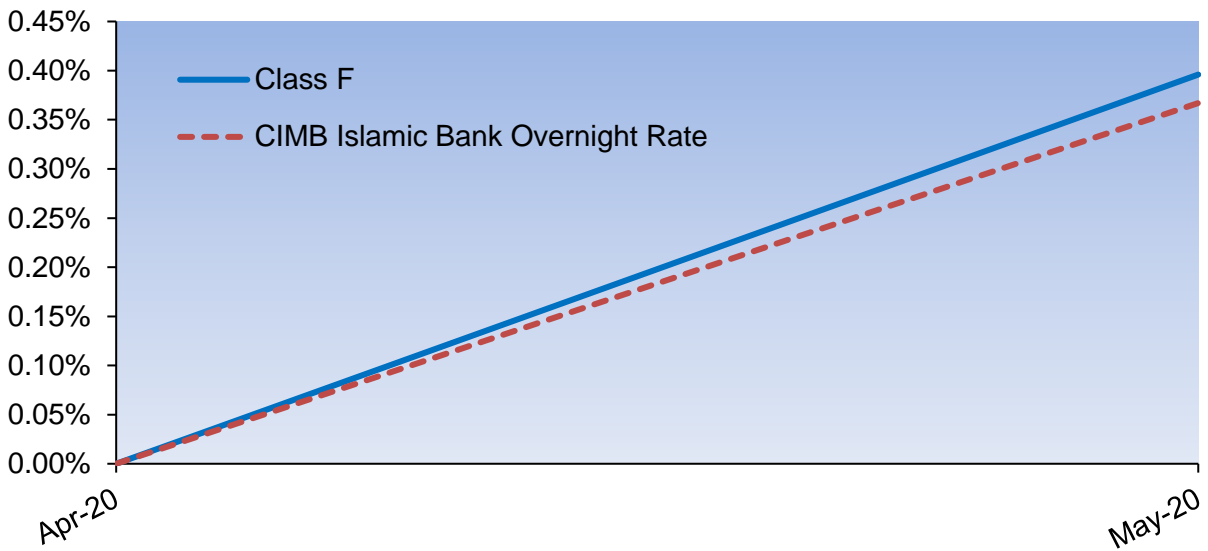
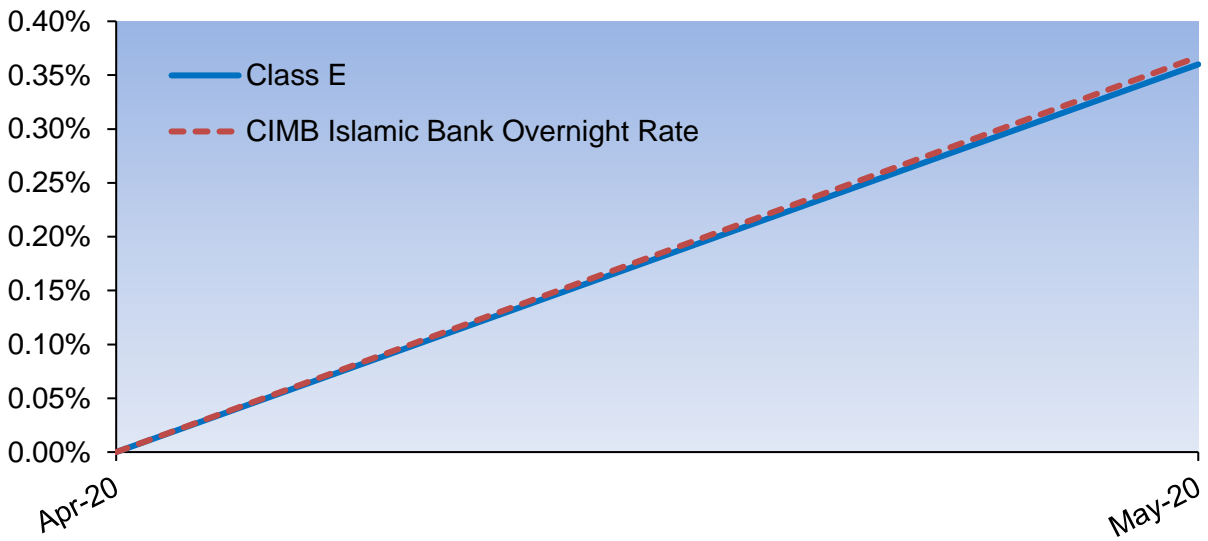
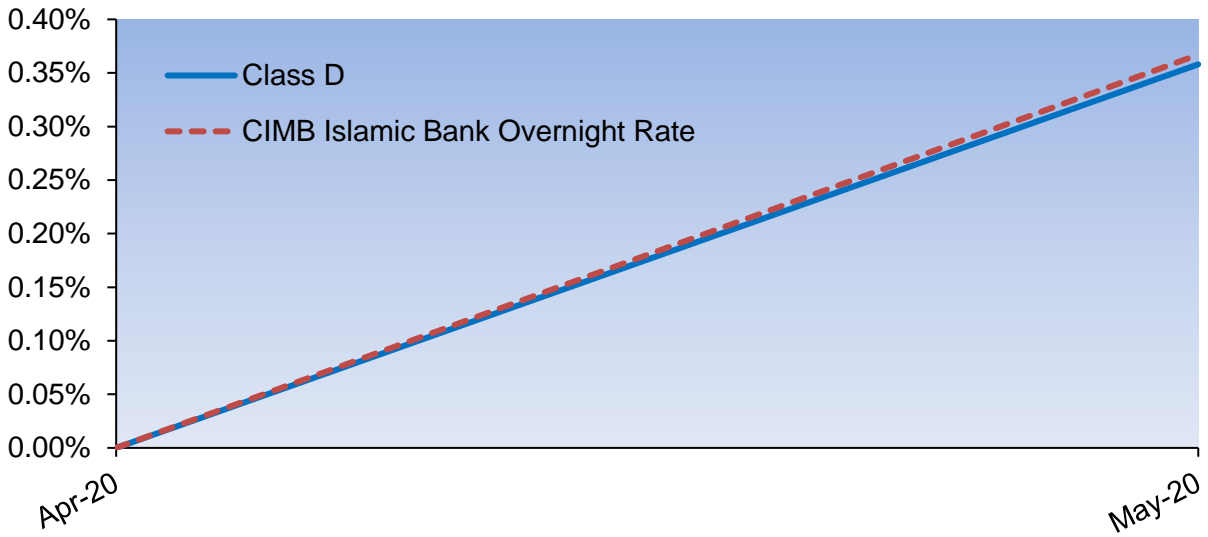
Class F	Since inception to 31.05.2020 %
Income distribution	0.40
Capital growth	-
Total Return	0.40
Benchmark	0.37
Average Total Return	N/A

FUND PERFORMANCE (CONTINUED)

The Fund recorded a total return of 2.25% and 2.59% for Class B and Class C respectively during the financial year under review. For since inception to 31 May 2020, the Fund recorded a total return of 2.58% and 3.89% for Class B and Class C respectively.



FUND PERFORMANCE (CONTINUED)



FUND PERFORMANCE (CONTINUED)

Changes in NAV

	31.05.2020	31.05.2019	Changes
Class A			%
NAV (RM Million)	0.00	0.00	-
NAV/Unit (RM)	1.0000	1.0000	-
Class B			
NAV (RM Million)	3.30	10.04	(67.13)
NAV/Unit (RM)	0.9988	1.0001	(0.13)
Class C			
NAV (RM Million)	1.43	0.00	>100.00
NAV/Unit (RM)	0.9988	1.0000	(0.12)
			31.05.2020
Class D			
NAV (RM Million)			0.00
NAV/Unit (RM)			0.9990
Class E			
NAV (RM Million)			0.00
NAV/Unit (RM)			0.9990
Class F			
NAV (RM Million)			0.00
NAV/Unit (RM)			0.9990

As at 31 May 2020, the Fund's NAV in Class B stood at RM3.30 million, Class C stood at RM1.43 million, while Class A stood at RM0.00 million. The decrease in NAV per unit for Class B and Class C were mainly due to under provision of liabilities.

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)	31.05.2020	31.05.2019
Shariah-compliant deposits with licensed Islamic financial institutions	99.86	99.98
Cash and other net assets	0.14	0.02
TOTAL	100.00	100.00

As at 31 May 2020, the Fund was 99.86% in Shariah-compliant deposits with licensed Islamic financial institutions.

MARKET OUTLOOK*

While we believe the weak global and domestic economic outlook from the COVID-19 outbreak and lower oil price environment will continue to pose a weak backdrop for monetary policy, we believe that BNM will continue to be data-dependent and may not cut the OPR in its July 2020 meeting.

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

INVESTMENT STRATEGY

The Fund's objective is to provide investors with liquidity and regular income hence its investment strategy is to invest primarily in deposits with licensed Islamic financial institutions.

UNIT HOLDINGS STATISTICS

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

Class A

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	100.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	-	-	-
Total	1	0.00	100.00

Class B

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	0.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	1	3.31	100.00
Total	2	3.31	100.00

Class C

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	0.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	1	1.43	100.00
Total	2	1.43	100.00

UNIT HOLDINGS STATISTICS (CONTINUED)

Breakdown of unit holdings by size as at 31 May 2020 are as follows: (continued)

Class D

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	100.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	-	-	-
Total	1	0.00	100.00

Class E

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	100.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	-	-	-
Total	1	0.00	100.00

Class F

Size of unit holdings (units)	No. of unit holders	No. of units held (million)	% of units held
5,000 and below	1	0.00	100.00
5,001-10,000	-	-	-
10,001-50,000	-	-	-
50,001-500,000	-	-	-
500,001 and above	-	-	-
Total	1	0.00	100.00

SOFT COMMISSIONS AND REBATES

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

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

**STATEMENT BY MANAGER TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC DEPOSIT FUND 2**
(formerly known as CIMB Islamic Deposit Fund 2)

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 22 to 46 are drawn up in accordance with the provisions of the Deed and give a true and fair view of the financial position of the Fund as at 31 May 2020 and of its financial performance, changes in net assets attributable to unit holders and cash flows for the financial year then ended in accordance with the provisions of the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

For and on behalf of the Manager

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

MUNIRAH KHAIRUDDIN
Chief Executive Officer/Executive Director

JUAN IGNACIO EYZAGUIRRE BARAONA
Director

Kuala Lumpur
14 July 2020

**TRUSTEE'S REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC DEPOSIT FUND 2**
(formerly known as CIMB Islamic Deposit Fund 2)

We have acted as the Trustee of Principal Islamic Deposit Fund 2 (*formerly known as CIMB Islamic Deposit Fund 2*) (the "Fund") for the financial year ended 31 May 2020. To the best of our knowledge, Principal Asset Management Berhad (the "Manager"), has operated and managed the Fund in accordance with the following:

- (a) limitations imposed on the investment powers of the Manager and Trustee under the Deed, the Securities Commission Malaysia ("SC") Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- (b) valuation or pricing is carried out in accordance with the Deed of the Fund and applicable regulatory requirements; and
- (c) creation and cancellation of units have been carried out in accordance with the Deed of the Fund and applicable regulatory requirements.

During this financial year, a total distribution of 2.21 sen per unit (gross) for Class B, 2.57 sen per unit (gross) for Class C, 0.36 sen per unit (gross) for Class D, 0.36 sen per unit (gross) for Class E and 0.39 sen per unit (gross) for Class F have been distributed to the unit holders of the Fund. We are of the view that the distribution is not inconsistent with the objective of the Fund.

For and on behalf of the Trustee
PB TRUSTEE SERVICES BERHAD

CHEAH KUAN YOON
Chief Executive Officer

Kuala Lumpur
14 July 2020

**SHARIAH ADVISER'S REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)**

For The Financial Year Ended 31 May 2020

We have acted as the Shariah Adviser of Principal Islamic Deposit Fund 2 (*formerly known as CIMB Islamic Deposit Fund 2*) ("the Fund"). Our responsibility is to ensure that the procedures and processes employed by Principal Asset Management Berhad (the "Manager") are in accordance with Shariah principles.

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

In addition, we confirm that the investment portfolio of the Fund comprises securities and/or instruments which have been classified as Shariah compliant by the Shariah Advisory Council (SAC) of the SC and/or Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM), where applicable. For securities and/or instruments which are not classified as Shariah-compliant by the SAC of the SC and/or SAC of BNM, we have determined that such securities and/or instruments are in accordance with Shariah principles and have complied with the applicable Shariah Guidelines.

This report is made solely to the unit holders of the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report and we shall not be liable for any errors or non-disclosure on the part of the Manager.

For **Amanie Advisors Sdn Bhd**,

DATUK DR MOHD DAUD BAKAR
Executive Chairman

14 July 2020

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Principal Islamic Deposit Fund 2 (the "Fund") (formerly known as CIMB Islamic Deposit Fund 2) give a true and fair view of the financial position as at 31 May 2020, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 May 2020, and the statement of comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 22 to 46.

Basis for opinion

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

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

Independence and other ethical responsibilities

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC DEPOSIT FUND 2 (CONTINUED)**
(formerly known as CIMB Islamic Deposit Fund 2)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC DEPOSIT FUND 2 (CONTINUED)**
(formerly known as CIMB Islamic Deposit Fund 2)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC DEPOSIT FUND 2 (CONTINUED)**
(formerly known as CIMB Islamic Deposit Fund 2)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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

OTHER MATTERS

This report is made solely to the unit holders of the Fund and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
14 July 2020

PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)

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

	Note	2020 RM	2019 RM
INCOME			
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions at fair value through profit or loss		105,232	3,956,184
Hibah		79	42
		105,311	3,956,226
EXPENSES			
Management fee	4	13,607	163,921
Trustee's fee	5	589	10,858
Audit fee		11,200	10,700
Tax agent's fee		4,600	4,000
Other expenses		13,275	3,465
		43,271	192,944
PROFIT BEFORE FINANCE COSTS AND TAXATION		62,040	3,763,282
Finance costs (excluding increase in net assets attributable to unit holders):			
- Class B		(109,369)	(32,918)
- Class C		(28,276)	(3,387,787)
- Class D		(4)	-
- Class E		(4)	-
- Class F		(4)	-
	6	(137,657)	(3,420,705)
(LOSS)/PROFIT BEFORE TAXATION		(75,617)	342,577
Taxation	7	-	-
(DECREASE)/INCREASE IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		(75,617)	342,577
(Decrease)/Increase in net assets attributable to unit holders are made up as follows:			
Realised amount		(75,617)	342,577

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

PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)

STATEMENT OF FINANCIAL POSITION
AS AT 31 MAY 2020

	Note	2020 RM	2019 RM
ASSET			
Cash and cash equivalents	9	21,217	23,039
Financial assets at fair value through profit or loss (Shariah-compliant)	8	4,724,195	10,033,485
Amount due from Manager		60	-
		4,745,472	10,056,524
LIABILITIES			
Accrued management fee		881	2,128
Amount due to Trustee		40	3,085
Other payables and accruals		13,600	15,582
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS)		14,521	20,795
NET ASSET VALUE OF THE FUND		4,730,951	10,035,729
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		4,730,951	10,035,729
REPRESENTED BY:			
FAIR VALUE OF OUTSTANDING UNITS (RM)			
- Class A		2	2
- Class B		3,301,228	10,033,956
- Class C		1,426,712	1,771
- Class D		1,003	-
- Class E		1,003	-
- Class F		1,003	-
		4,730,951	10,035,729
NUMBER OF UNITS IN CIRCULATION (UNITS)			
- Class A		2	2
- Class B		3,305,156	10,032,919
- Class C		1,428,409	1,771
- Class D		1,004	-
- Class E		1,004	-
- Class F		1,004	-
	10	4,736,579	10,034,692
NET ASSET VALUE PER UNIT (EX-DISTRIBUTION)			
- Class A		1.0000	1.0000
- Class B		0.9988	1.0001
- Class C		0.9988	1.0000
- Class D		0.9990	-
- Class E		0.9990	-
- Class F		0.9990	-

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

PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE FINANCIAL YEAR ENDED 31 MAY 2020**

	Note	2020 RM	2019 RM
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE BEGINNING OF THE FINANCIAL YEAR		10,035,729	1
Movement due to units created and cancelled during the financial year:			
- Creation of units from applications			
- Class A		-	1
- Class B		3,250,000	10,000,001
- Class C		1,400,740	481,515,306
- Class D		1,000	-
- Class E		1,000	-
- Class F		1,000	-
		<u>4,653,740</u>	<u>491,515,308</u>
- Creation of units from distributions			
- Class B		109,369	32,918
- Class C		28,276	3,387,787
- Class D		4	-
- Class E		4	-
- Class F		4	-
		<u>137,657</u>	<u>3,420,705</u>
- Cancellation of units			
- Class B		(10,020,558)	-
- Class C		-	(485,242,862)
		<u>(10,020,558)</u>	<u>(485,242,862)</u>
(Decrease)/Increase in net assets attributable to unit holders during the financial year		(75,617)	342,577
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE END OF THE FINANCIAL YEAR		<u><u>4,730,951</u></u>	<u><u>10,035,729</u></u>

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

PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)

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

	Note	2020 RM	2019 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from maturity of Shariah-compliant deposits with licensed Islamic financial institutions		112,778,000	3,257,593,000
Placement of Shariah-compliant deposits with licensed Islamic financial institutions		(118,664,000)	(3,340,855,000)
Redemption of Shariah-compliant deposits with licensed Islamic financial institutions		11,200,000	73,250,000
Profit income received from Shariah-compliant deposits with licensed Islamic financial institutions		100,522	3,934,699
Hibah earned		79	42
Management fee paid		(14,854)	(161,793)
Trustee's fee paid		(3,634)	(10,773)
Payments for other fees and expenses		(31,057)	(2,542)
Net cash generated from/(used in) operating activities		<u>5,365,056</u>	<u>(6,252,367)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		4,653,680	491,515,308
Payment for cancellation of units		(10,020,558)	(485,242,862)
Net cash (used in)/generated from financing activities		<u>(5,366,878)</u>	<u>6,272,446</u>
Net (decrease)/increase in cash and cash equivalents		(1,822)	20,079
Cash and cash equivalents at the beginning of the financial year		23,039	2,960
Cash and cash equivalents at the end of the financial year	9	<u>21,217</u>	<u>23,039</u>
<u>Cash and cash equivalents comprised of:</u>			
Bank balance	9	<u>21,217</u>	<u>23,039</u>

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

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

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

Principal Islamic Deposit Fund 2 (*formerly known as CIMB Islamic Deposit Fund 2*) (the “Fund”) is governed by a Principal Master Deed dated 8 March 2017 and First Supplemental Master Deed dated 12 December 2019, between Principal Asset Management Berhad (the “Manager”) and PB Trustee Services Berhad (the “Trustee”) and Registered Holders of Units in The Trust (the “Unit Holders”).

The Fund will invest at least 70% of the Fund’s NAV in Islamic deposits with Islamic financial institutions. Up to 30% of the Fund’s NAV may be invested in Islamic money market instruments, all of which have a remaining maturity period of not more than 365 days. The Fund may also invest up to 10% of the Fund’s NAV in Islamic deposits and Islamic money market instruments with a remaining maturity period of more than 365 days but less than 732 days. The minimum credit rating for the Islamic money market instruments must be at least “BBB3” or “P2” by RAM or equivalent rating by MARC or by local rating agency(ies) of the country or “BBB” by S&P or equivalent rating by any other international rating agencies. The Manager will manage the portfolio actively with trading frequency that will depend on the view of the interest rate outlook. The investment policy and strategy is to invest in liquid and low risk short-term investments for capital preservation* and to accommodate the short-term cash flow requirements of its unit holders. The investment policy and strategy is to invest in liquid and low risk short-term investments for capital preservation* and to accommodate the short-term cash flow requirements of its unit holders.

Note: *The Fund is neither a capital guaranteed fund nor a capital protected fund within the definition in the SC Guidelines.

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

The Fund has changed its name from CIMB Islamic Deposit Fund 2 to Principal Islamic Deposit Fund 2 following the issuance of the Replacement Prospectus issue No.M2 dated 1 April 2020.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of the MFRS and International IFRS.

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

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

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities

Classification

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

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

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

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

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

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

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Fund commits to purchase or sell the asset. Shariah-compliant deposits with licensed Islamic financial institutions are initially recognised at fair value.

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

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

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

Deposits with licensed financial institutions are stated at fair value. Due to the short-term nature of the deposits, the cost plus accrued profit calculated based on the effective profit method over the period from the date of placement to the date of maturity of the respective deposits is a reasonable estimate of fair value.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

Impairment for assets carried at amortised costs

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

Significant increase in credit risk

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

Definition of default and credit-impaired financial assets

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

Write-off

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

(c) Income recognition

Profit income from Shariah-compliant deposits with licensed Islamic financial institutions is recognised on a time proportionate basis using effective profit rate 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).

(d) Functional and presentation currencies

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia (“RM”), which is the Fund’s functional and presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balance which is subject to an insignificant risk of changes in value.

(f) Taxation

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

(g) Finance cost

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

(h) Increase/decrease in net assets attributable to unit holders

Income not distributed is included in net assets attributable to unit holders.

(i) Unit holders' contributions

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

The Fund issues cancellable units, in six classes of units, known respectively as the Class A, Class B, Class C, Class D, Class E and Class F which are cancelled at the unit holder's option. The units are classified as financial liabilities. Cancellable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's NAV of respective classes. The outstanding units are carried at the redemption amount that is payable at the date of the statement of financial position if the member exercises the right to put back the unit to the Fund.

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

(j) Realised and unrealised portions of increase/decrease in net assets attributable to unit holders.

The analysis of realised and unrealised portions of increase/decrease in net assets attributable to unit holders as presented on the statement of comprehensive income is prepared in accordance with SC Guidelines on Unit Trust Funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) 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.

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

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

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments of the Fund are as follows:

	Financial assets at fair value through profit or loss RM	Financial assets at amortised cost RM	Total RM
2020			
Cash and cash equivalents (Note 9)	-	21,217	21,217
Shariah-compliant deposits with licensed Islamic financial institutions (Note 8)	4,724,195	-	4,724,195
Amount due from Manager	-	60	60
	<u>4,724,195</u>	<u>21,277</u>	<u>4,745,472</u>
2019			
Cash and cash equivalents (Note 9)	-	23,039	23,039
Shariah-compliant deposits with licensed Islamic financial institutions (Note 8)	10,033,485	-	10,033,485
	<u>10,033,485</u>	<u>23,039</u>	<u>10,056,524</u>

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

The investment objective is to provide investors with liquidity and regular income, whilst maintaining capital stability by investing primarily in Islamic deposits.

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

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

(a) Market risk

(i) Interest rate risk

Interest rate is a general economic indicator that will have an impact on the management of the Fund.

It does not in any way suggest that this Fund will invest in conventional financial instruments. All investment carried out for the Fund including placements and deposits are in accordance with Shariah requirements.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

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

(a) Market risk (continued)

(i) Interest rate risk (continued)

The Fund's exposure to fair value interest rate risk arises from Shariah-compliant deposits with licensed Islamic financial institutions. The interest rate risk is expected to be minimal as the Fund's investments comprise mainly short-term deposits with approved licensed Islamic financial institutions.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is not exposed to cash flow interest rate risk as the Fund does not hold any financial instruments at variable interest rate.

As at the end of each financial year, the Fund is not exposed to a material level of interest rate risk.

(b) Credit risk

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

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

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

	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Amount due from Manager RM	Total RM
2020				
- AAA	21,217	1,657,261	-	1,678,478
- AA2	-	856,900	-	856,900
- AA3	-	601,811	-	601,811
- A1		908,943	-	908,943
- A2		699,280	-	699,280
- Not rated	-	-	60	60
	<u>21,217</u>	<u>4,724,195</u>	<u>60</u>	<u>4,745,472</u>

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

(b) Credit risk (continued)

	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Total RM
2019			
- AAA	23,039	4,012,663	4,035,702
- AA2	-	2,007,233	2,007,233
- AA3	-	2,006,838	2,006,838
- A2	-	2,006,751	2,006,751
	<u>23,039</u>	<u>10,033,485</u>	<u>10,056,524</u>

All financial assets of the Fund as at the end of the financial year are neither past due nor impaired.

(c) Liquidity risk

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

The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellations of the units by unit holders. Liquid assets comprise bank balances, Shariah-compliant deposits with licensed Islamic financial institutions and other instruments, which are capable of being converted into cash within 7 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 year on the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month RM	Between 1 month to 1 year RM	Total RM
2020			
Accrued management fee	881	-	881
Amount due to Trustee	40	-	40
Other payables and accruals	-	13,600	13,600
Net assets attributable to unit holders*	<u>4,730,951</u>	<u>-</u>	<u>4,730,951</u>
Contractual undiscounted cash flows	<u>4,731,872</u>	<u>13,600</u>	<u>4,745,472</u>

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

(c) Liquidity risk (continued)

	Less than 1 month RM	Between 1 month to 1 year RM	Total RM
2019			
Accrued management fee	2,128	-	2,128
Amount due to Trustee	85	3,000	3,085
Other payables and accruals	-	15,582	15,582
Net assets attributable to unit holders*	10,035,729	-	10,035,729
Contractual undiscounted cash flows	10,037,942	18,582	10,056,524

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

(d) Capital risk management

The capital of the Fund is represented by net assets attributable to unit holder's RM4,730,951 (2019: RM10,035,729). 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 values of financial assets traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the financial year end date. The Fund utilises the last traded market price for financial assets where the last traded price falls within the bid-ask spread. In circumstances where the last traded market price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of the fair value.

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

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

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

(e) Fair value estimation (continued)

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

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

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

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

(i) Fair value hierarchy

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

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

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

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

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

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

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

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

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2020				
Financial assets at fair value through profit or				
- Shariah-compliant deposits with licensed Islamic financial institutions	-	<u>4,724,195</u>	-	<u>4,724,195</u>
2019				
Financial assets at fair value through profit or				
- Shariah-compliant deposits with licensed Islamic financial institutions	-	<u>10,033,485</u>	-	<u>10,033,485</u>

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. This includes deposits with licensed financial institutions.

As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. The Fund's policies of valuation of these financial assets are stated in Note 2(b).

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

4. MANAGEMENT FEE

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

For the financial year ended 31 May 2019 and 31 May 2020, the management fee is recognised at the following rate: (Class D, Class E and Class F were launched since 1 April 2020)

Class A	Class B	Class C	Class D	Class E	Class F
0.35%	0.25%	0.15%	0.20%	0.10%	0.05%

The management fee was charged starting from December 2018 and April 2019 for Class C and Class B respectively. On the other hand, the management fee was charged starting from April 2020 for Class D, Class E and Class F. There is no management fee charged for Class A during the financial year ended 31 May 2019 and 31 May 2020.

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

5. TRUSTEE'S FEE

In accordance with the Deed, the Trustee is entitled to a maximum fee of 0.07% per annum for each class, calculated daily based on the NAV of the Fund.

For the financial year ended 31 May 2020, the Trustee's fee is recognised at a rate of 0.01% per annum (2019: 0.01% per annum) of the NAV of the Fund.

The Trustee's fee was charged starting from December 2018 and April 2019 for Class C and Class B respectively. On the other hand, the Trustee's fee was charged starting from April 2020 for Class D, Class E and Class F. There is no Trustee's fee charged for Class A during the financial year ended 31 May 2019 and 31 May 2020.

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

6. FINANCE COSTS

Distributions to unit holders are derived from the following sources:

	2020	2019
	RM	RM
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions at fair value through profit or loss	105,311	3,955,781
Distribution equalisation	2,378	(342,132)
Prior financial years' realised income	63,525	-
	<u>171,214</u>	<u>3,613,649</u>
Less:		
Expenses	<u>(33,557)</u>	<u>(192,944)</u>
Net distribution amount	<u>137,657</u>	<u>3,420,705</u>

6. FINANCE COSTS (CONTINUED)

	2020	2019
	RM	RM
Gross/Net distribution per unit (sen)		
Distribution on 28 June 2019		
- Class B	0.27	-
- Class C	0.28	-
Distribution on 31 July 2019		
- Class B	0.27	-
- Class C	0.29	-
Distribution on 30 August 2019		
- Class C	0.19	-
Distribution on 30 September 2019		
- Class B	0.12	-
- Class C	0.20	-
Distribution on 31 October 2019		
- Class B	0.21	-
- Class C	0.22	-
Distribution on 29 November 2019		
- Class B	0.19	-
- Class C	0.20	-
Distribution on 31 December 2019		
- Class B	0.16	-
- Class C	0.17	-
Distribution on 31 January 2020		
- Class B	0.23	-
- Class C	0.24	-
Distribution on 28 February 2020		
- Class B	0.21	-
- Class C	0.22	-
Distribution on 31 March 2020		
- Class B	0.19	-
- Class C	0.20	-
Distribution on 30 April 2020		
- Class B	0.17	-
- Class C	0.18	-
- Class D	0.18	-
- Class E	0.18	-
- Class F	0.20	-

6. FINANCE COSTS (CONTINUED)

	2020	2019
	RM	RM
Gross/Net distribution per unit (sen)		
Distribution on 29 May 2020		
- Class B	0.19	-
- Class C	0.18	-
- Class D	0.18	-
- Class E	0.18	-
- Class F	0.19	-
Distribution on 31 January 2019		
- Class C	-	0.32
Distribution on 28 February 2019		
- Class C	-	0.28
Distribution on 29 March 2019		
- Class C	-	0.30
Distribution on 30 April 2019		
- Class B	-	0.06
- Class C	-	0.05
Distribution on 31 May 2019		
- Class B	-	0.27
- Class C	-	0.31
Total distributions		
- Class B	2.21	0.33
- Class C	2.57	1.26
- Class D	0.36	-
- Class E	0.36	-
- Class F	0.39	-

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

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

Distribution equalisation represents the average amount of distributable income included in the creation and cancellation prices of units. It is computed as at each date of creation and cancellation of units. For the purpose of determining amount available for distribution, distribution equalisation is included in the computation of realised gains or income available for distribution.

PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)

7. TAXATION

	2020	2019
	RM	RM
Tax charged for the financial year:		
- Current taxation	<u>-</u>	<u>-</u>

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

	2020	2019
	RM	RM
(Loss)/Profit before taxation	<u>(75,617)</u>	<u>342,577</u>
Taxation at Malaysian statutory rate of 24%	(18,148)	82,218
Tax effects of:		
Loss/Income not subject to tax	(25,275)	(949,494)
Expenses not deductible for tax purposes	36,723	824,791
Restriction on tax deductible expenses for Unit Trust Funds	<u>6,700</u>	<u>42,485</u>
Taxation	<u>-</u>	<u>-</u>

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

	2020	2019
	RM	RM
At fair value through profit or loss:		
- Shariah-compliant deposits with licensed Islamic financial institutions*	<u>4,724,195</u>	<u>10,033,485</u>

* Includes profit receivable of RM26,195 (2019: RM21,485).

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

	2020	2019
	%	%
Shariah-compliant deposits with licensed Islamic financial institutions	<u>2.82</u>	<u>3.52</u>

Shariah-compliant deposits with licensed Islamic financial institutions of the Fund have an average maturity of 18 days (2019: 178 days).

PRINCIPAL ISLAMIC DEPOSIT FUND 2
(formerly known as CIMB Islamic Deposit Fund 2)

9. CASH AND CASH EQUIVALENTS

	2020	2019
	RM	RM
Bank balance	21,217	23,039

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2020	2019
	No. of units	No. of units
Class A (i)	2	2
Class B (ii)	3,305,156	10,032,919
Class C (iii)	1,428,409	1,771
Class D (iv)	1,004	-
Class E (v)	1,004	-
Class F (vi)	1,004	-
	4,736,579	10,034,692

(i) Class A

	2020	2019
	No. of units	No. of units
At the beginning of the financial year	2	1
Add: Creation of units from applications	-	1
At the end of the financial year	2	2

(ii) Class B

	2020	2019
	No. of units	No. of units
At the beginning of the financial year	10,032,919	-
Add: Creation of units from applications	3,250,000	10,000,001
Add: Creation of units from distributions	109,370	32,918
Less: Cancellation of units	(10,087,133)	-
At the end of the financial year	3,305,156	10,032,919

(iii) Class C

	2020	2019
	No. of units	No. of units
At the beginning of the financial year	1,771	-
Add: Creation of units from applications	1,398,362	481,460,290
Add: Creation of units from distributions	28,276	3,387,787
Less: Cancellation of units	-	(484,846,306)
At the end of the financial year	1,428,409	1,771

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

(iv) Class D

	2020	2019
	No. of units	No. of units
Add: Creation of units from applications	1,000	-
Add: Creation of units from distributions	4	-
At the end of the financial year	1,004	-

(v) Class E

	2020	2019
	No. of units	No. of units
Add: Creation of units from applications	1,000	-
Add: Creation of units from distributions	4	-
At the end of the financial year	1,004	-

(vi) Class F

	2020	2019
	No. of units	No. of units
Add: Creation of units from applications	1,000	-
Add: Creation of units from distributions	4	-
At the end of the financial year	1,004	-

11. MANAGEMENT EXPENSE RATIO (“MER”)

	2020	2019
	%	%
MER	0.74	0.18

MER is derived from the following calculation:

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

A	=	Management fee
B	=	Trustee’s 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 RM5,859,781 (2019: RM108,590,999).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

	2020	2019
PTR (times)	20.70	30.72

PTR is derived based on the following calculation:

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

where:

total placement for the financial year = RM118,664,000 (2019: RM3,340,855,000)

total maturity for the financial year = RM123,978,000 (2019: RM3,330,843,000)

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

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

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

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

Units held by the Manager and parties related to the Manager

	2020		2019	
	No. of units	RM	No. of units	RM
Manager				
Principal Asset				
Management Berhad				
- Class A	2	2	2	2
- Class B	1	1	1	1
- Class C	2,010	2,008	1,771	1,771
- Class D	1,004	1,003	-	-
- Class E	1,004	1,003	-	-
- Class F	1,004	1,003	-	-

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

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

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

	2020	2019
	RM	RM
<u>Significant related party transactions</u>		
Profit income received from Shariah-compliant deposits with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	16,918	473,739
<u>Significant related party balances</u>		
Bank balance:		
- CIMB Islamic Bank Bhd	21,217	23,039
Shariah-compliant deposits with licensed Islamic financial institutions:		
- CIMB Islamic Bank Bhd	504,233	-

14. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

Details of transactions with the financial institutions for the financial year ended 31 May 2020 are as follows:

Financial Institutions	Value of placements RM	Percentage of total placements %
Public Islamic Bank Bhd	35,801,000	30.17
o CIMB Islamic Bank Bhd #	34,473,000	29.05
e Maybank Islamic Bhd	25,398,000	21.40
t Bank Muamalat Malaysia Bhd	7,607,000	6.41
a Hong Leong Islamic Bank Bhd	6,890,000	5.81
i RHB Islamic Bank Bhd	4,410,000	3.72
l Bank Islam Malaysia Bhd	3,185,000	2.68
s Alliance Islamic Bank Malaysia Bhd	900,000	0.76
o	<u>118,664,000</u>	<u>100.00</u>

Details of transactions with the financial institutions for the financial year ended 31 May 2019 are as follows:

Financial Institutions	Value of placements RM	Percentage of total placements %
CIMB Islamic Bank Bhd #	1,096,580,800	32.82
Hong Leong Islamic Bank Bhd	627,277,800	18.78
Public Islamic Bank Bhd	548,816,800	16.43
Maybank Islamic Bhd	503,078,800	15.06
Bank Muamalat Malaysia Bhd	260,076,800	7.78
Affin Islamic Bank Bhd	195,299,000	5.85
RHB Islamic Bank Bhd	106,000,000	3.17
Bank Islam Malaysia Bhd	3,725,000	0.11
	<u>3,340,855,000</u>	<u>100.00</u>

Included in the transactions are trades conducted with CIMB Islamic Bank Bhd, a fellow related party of the Manager amounting to RM34,473,000 (2019: RM1,096,580,800). The Manager is of the opinion that all transactions with the related party have been entered into in the normal course of business at agreed terms between the related party.

15. SIGNIFICANT EVENT DURING THE YEAR

The worsening macro-economic outlook as a result of COVID-19, both domestically and globally, has resulted in the deterioration of the Fund NAV per unit as of the date of this report. This is mainly due to the decrease in main revenue due to reduce in interest rate.

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

16. APPROVAL OF FINANCIAL STATEMENTS

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

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