

PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND
ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

CONTENTS	PAGE(S)
INVESTORS' LETTER	i
MANAGER'S REPORT	ii - ix
Fund Objective and Policy	
Performance Data	
Market Review	
Fund Performance	
Portfolio Structure	
Market Outlook	
Investment Strategy	
Soft Commissions and Rebates	
Securities Financing Transactions	
State of Affair of the Fund	
Circumstances That Materially Affect Any Interest of Unit Holders	
Cross Trade	
Unit Split	
STATEMENT BY MANAGER	1
TRUSTEE'S REPORT	2
SHARIAH ADVISER'S REPORT	3
INDEPENDENT AUDITORS' REPORT	4 - 7
STATEMENT OF COMPREHENSIVE INCOME	8
STATEMENT OF FINANCIAL POSITION	9
STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS	10
STATEMENT OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12 - 30
DIRECTORY	31

INVESTORS' LETTER

Dear Valued Investor,

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

We are pleased to bring you a copy of the Annual Fund Report of the Principal Islamic Malaysia Government Sukuk Fund for the financial year ended 31 December 2023. You may also download this report from our website at www.principal.com.my.

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

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

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

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

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

MANAGER'S REPORT

FUND OBJECTIVE AND POLICY

What is the investment objective of the Fund?

To provide regular income through investments primarily in Malaysian government Sukuk.

Has the Fund achieved its objective?

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

What are the Fund investment policy and principal investment strategy?

The Fund seeks to achieve its Fund objective by investing up to 98% of its NAV primarily in Malaysian government Sukuk which includes but not limited to Government Investment Issue ("GII") and Government Guaranteed Issuances ("GG"). At least 2% of its NAV will be invested in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits for liquidity purposes.

The asset allocation strategy for this Fund is as follows:

- Up to 98% of its NAV in Malaysian government Sukuk; and
- At least 2% of its NAV in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits

Base Currency

MYR

Fund category/type

Wholesale Fund (Sukuk) / Income

When was the Fund launched?

Name of Class	Launch Date
Class A	21 June 2021
Class B	21 June 2021
Class C	21 June 2021
Class D	21 June 2021

What was the size of the Fund as at 31 December 2023?

RM519.31 million (499.85 million units)

What is the Fund's benchmark?

The Fund adheres to the benchmark of the TR BPAM All Bond Index – Islamic – Government – 1 year to 3 years for performance comparison purpose only.

What is the Fund distribution policy?

Monthly, depending on the availability of realised income and/or realised gains and at the Manager's discretion. The Manager has the right to make provisions for reserves in respect of distribution of the Fund. If the income available is too small or insignificant, any distribution may not be of benefit to the unit holders as the total cost to be incurred in any such distribution may be higher than the amount for distribution. The Manager has the discretion to decide on the amount to be distributed to the unit holders. The Manager also has the discretion to make income distribution on an ad-hoc basis, taking into consideration the level of its 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 2023?

The Fund distributed a total net income of RM4.94 million to unit holders for the financial year ended 31 December 2023.

FUND OBJECTIVE AND POLICY (CONTINUED)

The Fund's NAV per unit were as follows:

Date	NAV per unit	NAV per unit
	(before distribution) RM	(after distribution) RM
Distribution on 25 July 2023		
- Class C	1.0357	1.0275
Distribution on 26 October 2023		
- Class C	1.0315	1.0268

Source of distribution	31.12.2023		21.06.2021 (date of launch) to 31.12.2022	
	RM	%	RM	%
Distribution out of current year's income	4,943,883	100.00	-	-
Distribution out of prior year's income/capital	-	-	-	-
Total	4,943,883	100.00	-	-

PERFORMANCE DATA

Details of portfolio composition of the Fund for the last two audited financial year/period were as follows:

	31.12.2023	31.12.2022
	%	%
Unquoted Sukuk	78.58	46.75
Shariah-compliant deposits with licensed Islamic financial institutions with maturity more than 3 months	18.73	37.68
Cash and other assets	2.70	15.59
Liabilities	(0.01)	(0.02)
	100.00	100.00

Performance details of the Fund for the last two audited financial year/period were as follows:

	31.12.2023	31.12.2022
NAV (MYR Million)		
- Class A	0.00*	0.00*
- Class B	0.00*	0.00*
- Class C	519.31	205.41
- Class D	0.00*	0.00*
Units in circulation (Million)		
- Class A	0.00*	0.00*
- Class B	0.00*	0.00*
- Class C	499.85	203.35
- Class D	0.00*	0.00*
NAV per unit (MYR)		
- Class A	1.0500	1.0100
- Class B	1.0520	1.0100
- Class C	1.0389	1.0101
- Class D	1.0550	1.0100

*0.00 denotes amount less than 0.01 million.

PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND

PERFORMANCE DATA (CONTINUED)

Performance details of the Fund for the last two audited financial year/period were as follows (continued):

	31.12.2023	21.06.2021 (date of launch) to 31.12.2022
Highest NAV per unit (MYR)		
- Class A	1.0495	1.0099
- Class B	1.0523	1.0104
- Class C	1.0389	1.0101
- Class D	1.0547	1.0104
Lowest NAV per unit (MYR)		
- Class A	1.0105	0.9998
- Class B	1.0111	0.9999
- Class C	1.0108	0.9999
- Class D	1.0101	0.9999
Total return (%)		
- Class A	3.94	0.97
- Class B	4.16	1.03
- Class C	4.17	1.00
- Class D	4.39	1.03
Capital growth (%)		
- Class A	3.94	0.97
- Class B	4.16	1.03
- Class C	2.86	1.00
- Class D	4.39	1.03
Income distribution (%)		
- Class A	-	-
- Class B	-	-
- Class C	1.27	-
- Class D	-	-
Total Expense Ratio ("TER") (%) ^	0.13	0.24
Portfolio Turnover Ratio ("PTR") (times) #	0.71	2.47

^ The Fund's TER has decreased from 0.24% to 0.13% due to decreased on expenses for the financial year under review.

The Fund's PTR for the financial year under review decreased from 2.47 times compared to the previous year's corresponding period due to the decrease in number of transactions.

	31.12.2023	21.06.2021 (date of launch) to 31.12.2022
Gross/Net distribution per unit (sen)		
Distribution on 25 July 2023		
- Class C	0.83	-
Distribution on 26 October 2023		
- Class C	0.47	-

PERFORMANCE DATA (CONTINUED)

	31.12.2023	Since inception to 31.12.2022 %
Annual total return	3.94	1.93
- Class A	4.16	2.03
- Class B	2.86	2.03
- Class C	4.39	2.13
- Class D		

(Launch date: 21 June 2021)

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/period have been extracted from Lipper.

MARKET REVIEW (1 JANUARY 2023 TO 31 DECEMBER 2023)

Bank Negara Malaysia (“BNM”) raised its Overnight Policy Rate (“OPR”) to 3.00% (+25 basis points (“bps”)) during Monetary Policy Meeting (“MPC”) meeting in May 2023. The hike came after two consecutive pauses in January 2023 and March 2023. In November 2023, BNM kept its monetary policy rate unchanged at 3.00% for a third straight MPC meeting which was largely within market consensus. BNM said it will ensure the monetary policy stance remains conducive to sustain economic growth amid price stability.

Malaysia’s economic growth accelerated in the third quarter as consumer spending along with services and construction sectors helped counter the impact of faltering exports. Gross Domestic Product (“GDP”) expanded 3.3% in third quarter of 2023 (“3Q2023”) Year-on-Year (“y-o-y”), in line with the preliminary reading last month and from a 2.9% gain in second quarter of 2023 (“2Q2023”).

Malaysia’s Industrial Production Index (“IPI”) recovered to expand by 2.7% in October 2023, after reporting a 0.5% contraction the month prior, led by the improved performance of the mining sector, and continuous growth in electricity and manufacturing sector’s output. According to the data released by the Department of Statistics Malaysia (“DOSM”) on Monday, the growth in October 2023 was the highest since May 2023, as the mining sector grew 8.7% (September 2023: -5.2%), while the electricity and manufacturing sector grew 5.8% (September 2023: 2.5%) and 0.9% (September 2023: 0.4%) respectively.

The seasonally adjusted Standard & Poor’s (“S&P”) Global Malaysia Manufacturing Purchasing Manager Index (“PMI”) rose to a seven-month high of 47.9 in November 2023, up from 46.8 in October 2023, signaling a muted moderation in the sector’s health. The latest reading pointed to the sixteenth straight month of decline in factory activity, as new orders moderated, with new export orders falling for the eighth month in a row, while output shrank for the seventeenth month running.

Headline inflation eased to 1.5% y-o-y in November 2023 (October 2023: 1.8%), marking a sustained deceleration since September 2022 to a 33-month low. The reading came in below market consensus of 1.7%. The faster pace of deceleration was mainly due to lower gains in the food & non-alcoholic beverages subcomponents. Core inflation also eased to 2.0% (October 2023: 2.4%).

Malaysia’s labour market kept a steady pace with the unemployment rate holding at 3.4% for the fifth straight month amid a continued uptrend in total employed persons (+0.2% m/m to 16.4 million) and increased labor force (+0.1% month-on-month (“m-o-m”) to 16.97 million). The labour force participation rate held at 70.1% in October 2023. The labor market recorded consistent increase in employment in the services sectors notably wholesale & retail trade; food & beverage services; and transportation & storage activities. The manufacturing, construction, mining & quarrying, and agriculture sectors also saw more hirings. The employment-to-population ratio was unchanged at 67.7%, signaling the ability of the Malaysian economy to create employment.

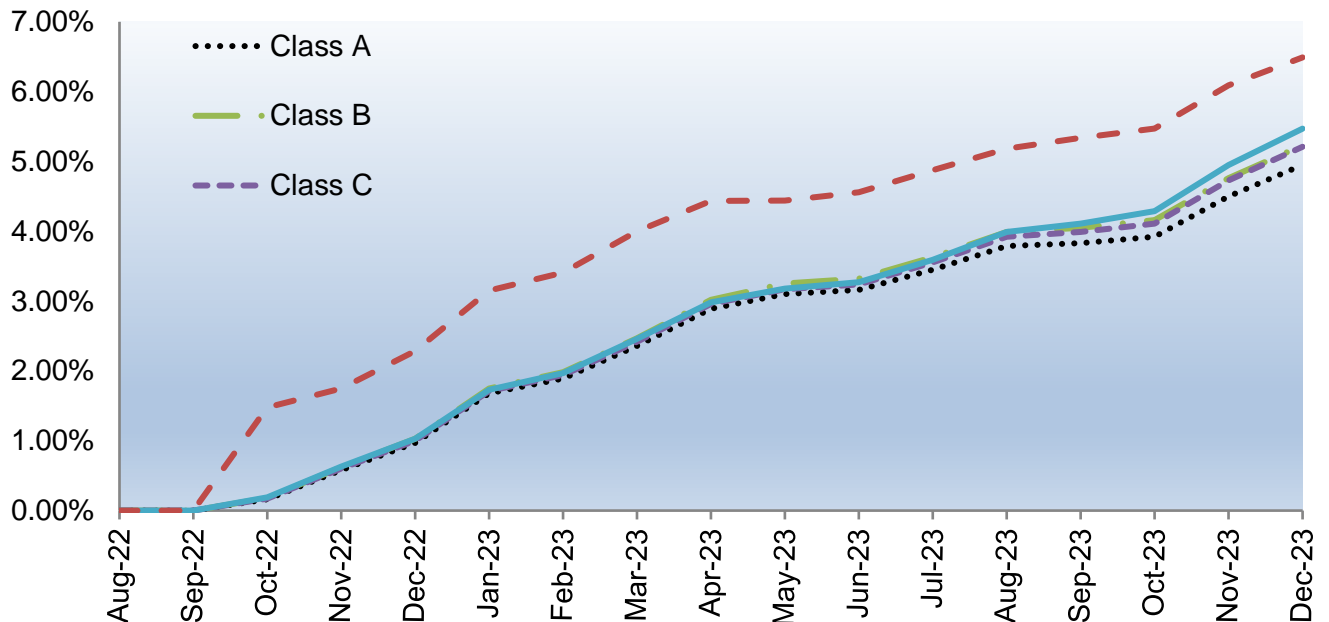
FUND PERFORMANCE

	1 year to 31.12.2023 %	Since inception to 31.12.2023 %
Income Distribution		
- Class A	-	-
- Class B	-	-
- Class C	-	1.27
- Class D	-	-
Capital Growth		
- Class A	3.94	4.95
- Class B	4.16	5.23
- Class C	2.86	3.89
- Class D	4.39	5.47
Total Return		
- Class A	3.94	4.95
- Class B	4.16	5.23
- Class C	4.17	3.89
- Class D	4.39	5.47
Benchmark		
- Class A	4.10	6.49
- Class B	4.10	6.49
- Class C	4.10	6.49
- Class D	4.10	6.49
Average Total Return		
- Class A	3.94	1.93
- Class B	4.16	2.03
- Class C	4.17	2.03
- Class D	4.39	2.13

For the financial year under review as at 31 December 2023, the Fund registered a total return of 3.94% for Class A, 4.16% for Class B, 4.17% for Class C and 4.39% for Class D, against the benchmark returns of 4.10%.

Since inception up to 31 December 2023, the Fund registered a total return of 4.95% for Class A, 5.23% for Class B, 3.89% for Class C and 5.47% for Class D, against the benchmark returns of 6.49%.

Since Inception



FUND PERFORMANCE (CONTINUED)

Changes in NAV

	31.12.2023	31.12.2022	Changes %
CLASS A			
NAV (RM Million)*	0.00*	0.00*	-
NAV/Unit (RM)*	1.0500	1.0100	3.96
CLASS B			
NAV (RM Million)*	0.00*	0.00*	-
NAV/Unit (RM)*	1.0520	1.0100	4.16
CLASS C			
NAV (RM Million)*	519.31	205.41	>100
NAV/Unit (RM)*	1.0389	1.0101	2.85
CLASS D			
NAV (RM Million)*	0.00*	0.00*	-
NAV/Unit (RM)*	1.0550	1.0100	4.46

*0.00 denotes amount less than 0.01 million.

As at 31 December 2023, the Fund's NAV stood at RM519.31 million for Class C. The Fund's NAV per unit for class C came in higher at RM1.0389 per unit as it grew by 2.85% during the financial year.

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/period have been extracted from Lipper.

PORTFOLIO STRUCTURE

Asset allocation

(% of NAV)	31.12.2023	31.12.2022
Unquoted Sukuk	78.58	46.75
Shariah-compliant deposits with licensed Islamic financial institutions with maturity more than 3 months	18.73	37.68
Cash and other assets	2.70	15.59
Liabilities	(0.01)	(0.02)
TOTAL	100.00	100.00

As at 31 December 2023, about 78.58% of the Fund's assets were in unquoted Sukuk and 18.73% in Shariah-compliant deposits with licensed Islamic financial institutions with maturity more than 3 months, with the remaining in cash and other net assets (net of liabilities). The holdings in unquoted Sukuk comprises Islamic Malaysian Government Securities.

MARKET OUTLOOK*

We remain positive on the local bond markets as we believe the tightening trend on monetary policies has reached its peak with the last rate hike by MPC in May 2023. BNM highlighted that the monetary policy stance is slightly accommodative and remains supportive of the economy. The MPC will continue to ensure that the monetary policy stance remains consistent with the current assessment of the inflation and growth prospects. We believe BNM will keep its OPR unchanged for now with core inflation being modest and weak external demand.

*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 aims to invest up to 98% of its cash in Islamic Malaysian government debt instruments, while retaining at least 2% in cash and deposits for liquidity purposes.

SOFT COMMISSIONS AND REBATES

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

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

During the financial year 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

There were no significant changes in the state of affairs of the Fund during the 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 MALAYSIA GOVERNMENT SUKUK FUND**

We, being the Directors of Principal Asset Management Berhad (the “Manager”), do hereby state that, in the opinion of the Manager, the accompanying audited financial statements set out on pages 8 to 30 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 2023 and of its financial performance, changes in net assets attributable to unit holders and cash flows for the financial year then ended in accordance with the provisions of the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

For and on behalf of the Manager

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

MUNIRAH KHAIRUDDIN

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

UDAY JAYARAM

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

Kuala Lumpur
16 February 2024

TRUSTEE'S REPORT

**TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND ("Fund")**

We have acted as Trustee of the Fund for the financial year ended 31 December 2023 and we hereby confirm to the best of our knowledge, after having made all reasonable enquires, Principal Asset Management Berhad has operated and managed the Fund during the year covered by these financial statements in accordance with the following:-

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

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

For HSBC (Malaysia) Trustee Berhad

Yap Lay Guat
Manager, Investment Compliance Monitoring

Kuala Lumpur
16 February 2024

SHARIAH ADVISER'S REPORT

To the Unit Holders of Principal Islamic Malaysia Government Sukuk Fund ("Fund")

For the Financial Year Ended 31 December 2023

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 year 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 comprise instruments that have been classified as Shariah-compliant.

For Amanie Advisors Sdn Bhd

Tan Sri Dr Mohd Daud Bakar
Executive Chairman

Kuala Lumpur
16 February 2024

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Principal Islamic Malaysia Government Sukuk Fund (the "Fund"), which comprise the statement of financial position of the Fund as at 31 December 2023, 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 material accounting policy information as set out on pages 8 to 30.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023, 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 MALAYSIA GOVERNMENT SUKUK FUND (cont'd.)**

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager and the Trustee 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 MALAYSIA GOVERNMENT SUKUK FUND (cont'd.)**

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF
PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND (cont'd.)**

Report on the audit of the financial statements (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
16 February 2024

PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

	Note	31.12.2023 RM	21.06.2021 (date of launch) to 31.12.2022 RM
INCOME			
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions and current account		4,143,808	726,627
Profit income from unquoted fixed income securities at fair value through profit or loss		8,011,043	701,874
Net gain on financial assets fair value through profit or loss	8	<u>1,366,431</u>	<u>599,634</u>
		<u>13,521,282</u>	<u>2,028,135</u>
EXPENSES			
Management fee	4	331,348	40,866
Trustee fee	5	66,270	8,173
Audit fee		10,500	11,000
Tax agent's fee		5,000	5,000
Other expenses		<u>9,216</u>	<u>-</u>
		<u>422,334</u>	<u>65,039</u>
PROFIT BEFORE DISTRIBUTION AND TAXATION		13,098,948	1,963,096
Distribution:			
- Class C	6	<u>4,943,883</u>	<u>-</u>
PROFIT BEFORE TAXATION		8,155,065	-
Taxation	7	<u>-</u>	<u>-</u>
PROFIT AFTER TAXATION, REPRESENTING TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR/PERIOD		<u>8,155,065</u>	<u>1,963,096</u>
Profit after taxation is made up as follows:			
Realised amount		7,114,901	1,722,551
Unrealised amount		<u>1,040,164</u>	<u>240,545</u>
		<u>8,155,065</u>	<u>1,963,096</u>

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

PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND

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

	Note	31.12.2023 RM	31.12.2022 RM
ASSETS			
Cash and cash equivalents	9	14,017,805	12,233,370
Shariah-compliant deposits with licensed Islamic financial institution with maturity more than 3 months		97,287,252	77,391,220
Financial assets at fair value through profit or loss	8	408,079,700	96,023,139
Amount due from dealers		-	19,803,621
TOTAL ASSETS		<u>519,384,757</u>	<u>205,451,350</u>
LIABILITIES			
Accrued management fee		43,824	17,420
Amount due to Trustee		8,765	3,484
Other payables and accruals		21,000	16,000
TOTAL LIABILITIES		<u>73,589</u>	<u>36,904</u>
NET ASSET VALUE OF THE FUND		<u>519,311,168</u>	<u>205,414,446</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>519,311,168</u>	<u>205,414,446</u>
REPRESENTED BY:			
FAIR VALUE OF OUTSTANDING UNITS			
- Class A		1,050	1,010
- Class B		1,052	1,010
- Class C		519,308,011	205,411,416
- Class D		1,055	1,010
		<u>519,311,168</u>	<u>205,414,446</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)			
- Class A		1,000	1,000
- Class B		1,000	1,000
- Class C		499,843,030	203,352,392
- Class D		1,000	1,000
	10	<u>499,846,030</u>	<u>203,355,392</u>
NET ASSET VALUE PER UNIT (RM)			
- Class A		1.0500	1.0100
- Class B		1.0520	1.0100
- Class C		1.0389	1.0101
- Class D		1.0550	1.0100

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

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

	Note	31.12.2023 RM	31.12.2022 RM
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE BEGINNING OF THE FINANCIAL YEAR/PERIOD		205,414,446	-
Movement in unit holders' contributions:			
Creation of units from applications			
- Class A		-	1,000
- Class B		-	1,000
- Class C		311,166,762	203,448,350
- Class D		-	1,000
		311,166,762	203,451,350
Creation of units from distribution			
- Class C		4,575,871	-
Cancellation of units			
- Class C		(10,000,976)	-
Total comprehensive income for the financial year/period		8,155,065	1,963,096
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE END OF THE FINANCIAL YEAR/PERIOD		519,311,168	205,414,446

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

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023**

	Note	31.12.2023 RM	31.12.2022 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Purchase of unquoted fixed income securities		(392,201,220)	(114,636,351)
Proceeds from disposal of unquoted fixed income securities		101,640,990	-
Placement of Shariah-compliant deposits with licensed Islamic financial institutions with maturity more than 3 months		(97,287,252)	(77,391,220)
Maturity of Shariah-compliant deposits with licensed Islamic financial institutions with maturity more than 3 months		77,391,220	-
Profit income received from deposits with licensed Islamic financial institutions and current account		4,143,808	726,627
Profit income received from unquoted fixed income securities		7,684,764	111,099
Management fee paid		(304,944)	(23,446)
Trustee fee paid		(60,989)	(4,689)
Payment of other fees and expenses		(19,716)	-
Net cash used in operating activities		(299,013,339)	(191,217,980)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		311,166,762	203,451,350
Payments for cancellation of units		(10,000,976)	-
Distribution paid		(368,012)	-
Net cash generated from financing activities		300,797,774	203,451,350
Net increase in cash and cash equivalents		1,784,435	12,233,370
Cash and cash equivalents at the beginning of the financial year/period		12,233,370	-
Cash and cash equivalents at the end of the financial year/period	9	14,017,805	12,233,370
<u>Cash and cash equivalents comprised:</u>			
Bank balance		20,355	20,487
Shariah-compliant deposit with licensed Islamic financial institutions		13,997,450	12,212,883
Cash and cash equivalents at the end of the financial year/period	9	14,017,805	12,233,370

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 2023**

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

Principal Islamic Malaysia Government Sukuk Fund (the “Fund”) is governed by a Principal Deed dated 27 February 2020 (collectively referred to as the “Deed”) made between Principal Asset Management Berhad (the “Manager”) and HSBC (Malaysia) Trustee Berhad (the “Trustee”).

The Fund seeks to achieve its Fund objective by investing up to 98% of its NAV primarily in Malaysian government Sukuk which includes but not limited to Government Investment Issue (“GII”) and Government Guaranteed Issuances (“GG”). At least 2% of its NAV will be invested in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits for liquidity purposes.

The asset allocation strategy for this Fund is as follows:

- Up to 98% of its NAV in Malaysian government Sukuk; and
- At least 2% of its NAV in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits.

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 Deed, except where exemptions or variations have been approved by the SC, internal policies and procedures and the Fund’s objective.

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

2. MATERIAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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 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 estimates and assumptions are significant to the financial statements are disclosed in Note 2(j).

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

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

(b) Financial assets and financial liabilities

Classification

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

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

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

The contractual cash flows of the Fund's debt securities are solely payment of principal and interest¹ ("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, Shariah-compliant deposit with licensed Islamic financial institutions with maturity more than 3 months and amount due from dealers as financial assets at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

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

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Fund commits to purchase or sell the asset. Investments with licensed 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 investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Shariah-compliant deposits with licensed Islamic financial institutions are stated at cost plus accrued profit calculated on the effective profit method over the year from the date of placement to the date of maturity of the respective deposits.

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

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(b) Financial assets and financial liabilities (continued)

Recognition and measurement (continued)

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

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

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

Unquoted Sukuk denominated in RM are revalued on a daily basis based on fair value prices quoted by a Bond Pricing Agency (“BPA”) registered with the SC as per the SC Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework. Refer to Note 2(j) for further explanation.

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 considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12 month ECL as any such impairment would be wholly insignificant to the Fund.

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 deposit with licensed Islamic financial institutions is recognised on a time proportionate basis using the effective interest rate method on an accrual basis.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(c) Income recognition (continued)

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

(d) Functional and presentation currency

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

(e) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise bank balances and Shariah-compliant deposits held in highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

(f) Taxation

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

(g) Distribution

A distribution to the Fund's unit holders is accounted for as a distribution in the statement of comprehensive income as the unit holder's contributions are classified as financial liability as per Note 2(h). A proposed distribution is recognised as a liability in the financial year in which it is approved by the Trustee.

(h) Unit holders' contributions

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

The Fund issues cancellable units, in four classes of units, known respectively as the Class A, Class B, Class C and Class D 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 members of respective classes with the total number of outstanding units of respective classes.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(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 prepared in accordance with SC GUTF¹

(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.

Estimate of fair value of unquoted Sukuk

In undertaking any of the Fund's Shariah-compliant 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.

MYR-denominated unquoted Sukuk are valued using fair value prices quoted by a BPA. Where the Manager is of the view that the price quoted by BPA for a specific unquoted Sukuk differs from the market price by more than 20 bps, the Manager may use market price, provided that the Manager records its basis for using a non-BPA price, obtains necessary internal approvals to use the non-BPA price, and keeps an audit trail of all decisions and basis for adopting the use of non-BPA price.

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

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
2023			
Cash and cash equivalents (Note 9)	-	14,017,805	14,017,805
Shariah-compliant deposits with licensed Islamic financial institutions with maturity more than 3 months	-	97,287,252	97,287,252
Unquoted Sukuk (Note 8)	408,079,700	-	408,079,700
	<u>408,079,700</u>	<u>111,305,057</u>	<u>519,384,757</u>

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

Financial instruments of the Fund were as follows (continued):

	Financial assets at fair value through profit or loss RM	Financial assets at amortised cost RM	Total RM
2022			
Cash and cash equivalents (Note 9)	-	12,233,370	12,233,370
Shariah-compliant deposits with licensed Islamic financial institutions with maturity more than 3 months	-	77,391,220	77,391,220
Unquoted Sukuk (Note 8)	96,023,139	-	96,023,139
Amount due from stockbrokers	-	19,803,621	19,803,621
	<u>96,023,139</u>	<u>109,428,211</u>	<u>205,451,350</u>

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

The Fund seeks to achieve its Fund objective by investing up to 98% of its NAV primarily in Malaysian government Sukuk which includes but not limited to GII and GG. At least 2% of its NAV will be invested in Islamic liquid assets such as Islamic money market instruments and/or Islamic Deposits for liquidity purposes.

The Fund is exposed to a variety of risks which include market risk (inclusive of price risk, interest rate risk), liquidity risk and credit 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 Deed and SC Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

(a) Market risk

(i) Price risk

This is the risk that the fair value of an investment in unquoted Sukuk will fluctuate because of changes in market prices (other than those arising from interest rate risk).

The Fund is exposed to price risk arising from profit rate fluctuation in relation to its investments of RM408,079,700 (2022: RM96,023,139) in unquoted Sukuk. The Fund's exposure to price risk arising from profit rate fluctuation and the related sensitivity analysis are disclosed in "interest rate risk" below.

(ii) Interest rate risk

In general, when interest rates rise, unquoted Sukuk prices will tend to fall and vice versa. Therefore, the NAV of the Fund may also tend to fall when interest rates rise or are expected to rise. However, investors should be aware that should the Fund hold an unquoted Sukuk till maturity, such price fluctuations would dissipate as it approaches maturity, and thus the growth of the NAV shall not be affected at maturity.

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

(a) Market risk (continued)

(ii) Interest rate risk (continued)

In order to mitigate interest rates exposure of the Fund, the Manager will manage the duration of the portfolio via shorter or longer tenured assets depending on the view of the future interest rate trend of the Manager, which is based on its continuous fundamental research and analysis.

Investors should note that the movement in prices of unquoted Sukuk and Shariah-compliant money market instruments are benchmarked against interest rates. As such, the investments are exposed to the movement of the interest rates. However, it does not in any way suggest that this Fund will invest in conventional financial instruments. All investments carried out for the Fund including placement and deposits are in accordance with Shariah.

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

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

The table below summarises the sensitivity of the Fund's profit or loss and NAV to movements in prices of unquoted Sukuk held by the Fund as a result of movement in interest rate at the end of each reporting year. The analysis is based on the assumptions that the interest rate changed by 1% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the interest rate, having regard to the historical volatility of the interest rate.

% Change in interest rate	Impact on profit or loss/NAV	
	2023	2022
	RM	RM
+1%	(389,236)	(74,453)
-1%	389,768	74,530
	389,768	74,530

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

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

	2023	2022
	%	%
Shariah-compliant deposits with licensed Islamic financial institutions	0.78	2.60

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

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

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining year/period as at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows:

	Less than 1 month RM	Between 1 month to 1 year RM	Total RM
2023			
Accrued management fee	43,824	-	43,824
Amount due to Trustee	8,765	-	8,765
Other payables and accruals	-	21,000	21,000
Net assets attributable to unit holders	<u>519,311,168</u>	<u>-</u>	<u>519,311,168</u>
Contractual undiscounted cash flows	<u><u>519,363,757</u></u>	<u><u>21,000</u></u>	<u><u>519,384,757</u></u>
2022			
Accrued management fee	17,420	-	17,420
Amount due to Trustee	3,484	-	3,484
Other payables and accruals	-	16,000	16,000
Net assets attributable to unit holders	<u>205,414,446</u>	<u>-</u>	<u>205,414,446</u>
Contractual undiscounted cash flows	<u><u>205,435,350</u></u>	<u><u>16,000</u></u>	<u><u>205,451,350</u></u>

(c) Credit risk

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

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

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

(c) Credit risk (continued)

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	Shariah-compliant deposits with licensed Islamic financial institutions at amortised cost RM	Financial assets at fair value through profit or loss RM	Amount due from dealers RM	Total RM
31.12.2023					
- AAA	14,017,805	97,287,252	-	-	111,305,057
- GB/GG	-	-	408,079,700	-	408,079,700
	<u>14,017,805</u>	<u>97,287,252</u>	<u>408,079,700</u>	<u>-</u>	<u>519,384,757</u>
31.12.2022					
- AAA	12,233,370	77,391,220	-	19,803,621	109,428,211
- GB/GG	-	-	96,023,139	-	96,023,139
	<u>12,233,370</u>	<u>77,391,220</u>	<u>96,023,139</u>	<u>19,803,621</u>	<u>205,451,350</u>

Shariah-compliant deposits with licensed Islamic financial institutions of the Fund have an average maturity of 102 days (2022: 43 days).

(d) Capital risk management

The capital of the Fund is net assets attributable to unit holders of RM 519,311,168 (2022: RM205,414,446). The amount of capital can change significantly on a daily basis as the Fund is subjected to daily subscriptions and redemptions at the discretions 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 holder and benefits for other stakeholders and to maintain 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.

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

(e) Fair value estimation (continued)

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 difference levels have been defined as follows:

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

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

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

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

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

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
31.12.2023				
Financial assets at fair value through profit or loss:				
- Unquoted Sukuk	-	408,079,700	-	408,079,700
	-	408,079,700	-	408,079,700
31.12.2022				
Financial assets at fair value through profit or loss:				
- Unquoted Sukuk	-	96,023,139	-	96,023,139
	-	96,023,139	-	96,023,139

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

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

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

(ii) The carrying values of cash and cash equivalents, Shariah-compliant deposits with licensed Islamic financial institutions with maturity more than 3 months, amount due from dealers 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 for each class, calculated daily based on the NAV of the Fund.

For the financial year ended 31 December 2023 and 31 December 2022, the management fee is recognised at the following rates:

Class A	Class B	Class C	Class D
0.20%	0.15%	0.10%	0.07%

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

5. TRUSTEE FEE

In accordance with the Deeds, the Trustee is entitled to a fee up to 0.02% per annum, calculated daily based on the NAV of the Fund. The Trustee fee includes local custodian fees and charges but excludes foreign sub-custodian fees and charges.

For the financial year ended 31 December 2023, the Trustee fee is recognised at a rate of 0.02% per annum for each class (2022: 0.02% per annum).

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

6. DISTRIBUTION

Breakdown of distribution were as follows:

Source of distribution	31.12.2023		21.06.2021 (date of launch) to 31.12.2022	
	RM	%	RM	%
Distribution out of current year's income	4,943,883	100.00	-	-
Distribution out of prior year's income/capital*	-	-	-	-
Total	4,943,883	100.00	-	-

Distributions to unit holders were derived from the following sources (assessed up to distribution declaration date):

	31.12.2023	21.06.2021 (date of launch) to 31.12.2022
	RM	RM
Profit income	4,637,247	-
Net realised gain from disposal of financial assets at fair value through profit or loss	610,043	-
	<u>5,247,290</u>	-
Less:		
Expenses	303,407	-
Net distribution amount	<u>4,943,883</u>	<u>-</u>

Gross/Net distribution per unit (sen)

Distribution on 25 July 2023		
- Class C	0.83	-
Distribution on 26 October 2023		
- Class C	0.47	-

* Distribution income has been accrued as at the end of the prior financial year but is not declared and paid as distribution.

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

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

There were no unrealised losses during the financial year ended 31 December 2023 (2022: nil).

PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND

7. TAXATION

	31.12.2023	21.06.2021 (date of launch) to 31.12.2022 RM
Tax charged for the financial year/period:		
- Taxation	<u>-</u>	<u>-</u>

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

	31.12.2023	21.06.2021 (date of launch) to 31.12.2022 RM
Profit before taxation	<u>8,155,065</u>	<u>1,963,096</u>
Taxation at Malaysian statutory rate of 24% (2022: 24%)	1,957,216	471,143
Tax effects of:		
- Investment income not subject to tax	(3,245,108)	(486,752)
- Expenses not deductible for tax purposes	1,205,849	3,162
- Restriction on tax deductible expenses for Wholesale Fund	<u>82,043</u>	<u>12,447</u>
Taxation	<u>-</u>	<u>-</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.12.2023 RM	31.12.2022 RM
At fair value through profit or loss:		
- Unquoted Sukuk	<u>408,079,700</u>	<u>96,023,139</u>

	31.12.2023 RM	21.06.2021 (date of launch) to 31.12.2022 RM
Net gain on financial assets at fair value through profit or loss:		
- Realised gain on disposal	326,267	359,088
- Unrealised fair value gain	<u>1,040,164</u>	<u>240,546</u>
	<u>1,366,431</u>	<u>599,634</u>

PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
31.12.2023				
UNQUOTED SUKUK				
GII Murabahah 3.42% 30/09/2027 (GB) #	20,000,000	20,077,013	20,096,741	3.87
GII Murabahah 3.60% 31/07/2028 (GB) #	30,000,000	30,396,162	30,451,831	5.86
GII Murabahah 3.66% 15/10/2024 (GB) #	10,000,000	10,094,810	10,107,217	1.95
GII Murabahah 3.73% 31/03/2026 (GB)	10,000,000	10,040,539	10,152,577	1.96
GII Murabahah 4.07%# 30/09/2026 (GB)	174,030,000	178,187,515	178,504,388	34.37
GII Murabahah 4.13% 09.07.2029 (GB)	35,000,000	36,173,325	36,443,826	7.02
GII Murabahah 4.37% 31/10/2028 (GB) #	20,000,000	20,776,397	20,807,834	4.00
Govt Investment Issues 3.99% 15/10/2025 (GG) #	80,000,000	81,123,126	81,572,831	15.71
Malaysian Islamic Treasury Bil 364D 02/09/2024 (GG) #	10,000,000	9,780,846	9,784,300	1.88
Jambatan Kedua Sdn Bhd 4.30% 28/05/2025 (GG) #	10,000,000	10,149,257	10,158,155	1.96
TOTAL UNQUOTED SUKUK	<u>399,030,000</u>	<u>406,798,990</u>	<u>408,079,700</u>	<u>78.58</u>
ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>1,280,710</u>		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>408,079,700</u>		

PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND

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

Name of issuer	Nominal value RM	Aggregate cost RM	Market value RM	Percentage of NAV %
31.12.2022				
UNQUOTED SUKUK				
GII Murabahah 3.66% 15/10/2024 (GB) #	50,000,000	50,429,661	50,418,567	24.55
GII Murabahah 3.72% 31/03/2026 (GB) #	10,000,000	10,018,675	10,069,097	4.90
Government Investment Issues 3.99% 15/10/2025 (GB) #	30,000,000	30,252,187	30,450,923	14.82
Government Investment Issues 4.44% 22/05/2024 (GB) #	5,000,000	5,082,070	5,084,552	2.48
TOTAL UNQUOTED SUKUK	<u>95,000,000</u>	<u>95,782,593</u>	<u>96,023,139</u>	<u>46.75</u>

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

240,546

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

96,023,139

GB – Government Bond

GG – Government Guaranteed

9. CASH AND CASH EQUIVALENTS

	31.12.2023 RM	31.12.2022 RM
Shariah-compliant deposits with licensed Islamic financial institutions	13,997,450	12,212,883
Bank balance	20,355	20,487
	<u>14,017,805</u>	<u>12,233,370</u>

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	31.12.2023	21.06.2021 (date of launch) to 31.12.2022
	No. of units	No. of units
Class A (i)	1,000	1,000
Class B (ii)	1,000	1,000
Class C (iii)	499,843,030	203,352,392
Class D (iv)	1,000	1,000
	<u>499,846,030</u>	<u>203,355,392</u>
 (i) Class A		
At the beginning of the financial year/period	1,000	-
Add : Creation of units from applications	-	1,000
At the end of the financial year/period	<u>1,000</u>	<u>1,000</u>
 (ii) Class B		
At the beginning of the financial year/period	1,000	-
Add : Creation of units from applications	-	1,000
At the end of the financial year/period	<u>1,000</u>	<u>1,000</u>
 (iii) Class C		
At the beginning of the financial year/period	203,352,392	-
Add : Creation of units from applications	301,871,708	203,352,392
Add : Distribution	4,454,655	-
Less: Cancellation of units	(9,835,725)	-
At the end of the financial year/period	<u>499,843,030</u>	<u>203,352,392</u>
 (iv) Class D		
At the beginning of the financial year/period	1,000	-
Add : Creation of units from applications	-	1,000
At the end of the financial year/period	<u>1,000</u>	<u>1,000</u>

11. TOTAL EXPENSE RATIO (“TER”)

	31.12.2023	21.06.2021 (date of launch) to 31.12.2022
	%	%
TER	<u>0.13</u>	<u>0.24</u>

11. TOTAL EXPENSE RATIO (“TER”) (CONTINUED)

TER is derived from the following calculation:

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

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

The average NAV of the Fund for the financial year/period calculated on a daily basis is RM332,139,310 (2022: RM27,097,395).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

	31.12.2023	21.06.2021 (date of launch) to 31.12.2022
PTR (times)	<u>0.71</u>	<u>2.47</u>

PTR is derived based on the following calculation:

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

where:

- total acquisition for the financial year/period = RM388,560,140 (2022: RM114,284,000)
- total disposal for the financial year/period = RM80,795,000 (2022: RM19,625,000)

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 were 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

PRINCIPAL ISLAMIC MALAYSIA GOVERNMENT SUKUK FUND

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

The related parties and their relationship with the Fund were as follows (continued):

<u>Related parties</u>	<u>Relationship</u>
Subsidiaries and associates of CIMB Group Holdings Bhd, other than above, as disclosed in its financial statements	Fellow subsidiary and associated companies of the ultimate holding company of the Manager

Units held by the Manager and parties related to the Manager

	<u>31.12.2023</u>		<u>31.12.2022</u>	
	No. of units	RM	No. of units	RM
Manager				
Principal Asset Management Berhad				
- Class A	1,000	1,050	1,000	1,010
- Class B	1,000	1,052	1,000	1,010
- Class C	61	63	1,000	1,010
- Class D	1,000	1,055	1,000	1,010

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

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

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

	<u>31.12.2023</u>	<u>31.12.2022</u>
	RM	RM
<u>Significant related party transactions</u>		
Profit income from Shariah-compliant deposits with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	<u>911,398</u>	<u>2,907</u>
<u>Significant related party balances</u>		
Shariah-compliant deposits with licensed Islamic financial institution:		
- CIMB Islamic Bank Bhd	<u>29,261,781</u>	<u>30,167,712</u>

14. TRANSACTIONS WITH DEALERS

Details of transactions with the top 10 dealers for the financial year ended 31 December 2023 are as follows:

Dealers	Value of trades RM	Percentage of total trades %
Citi Bank Bhd	222,531,190	47.41
CIMB Islamic Bank Bhd #	116,005,000	24.72
CIMB Bank Bhd #	40,178,000	8.56
JP Morgan Chase Bank Bhd	30,667,000	6.53
Malayan Banking Bhd	24,277,450	5.17
Standard Chartered Bank	20,492,000	4.37
Hong Leong Investment Bank Bhd	10,112,000	2.15
Bank of America Malaysia Bhd	5,092,500	1.09
	469,355,140	100.00

Details of transactions with the top 10 dealers for the financial period ended 31 December 2022 are as follows:

Dealers	Value of trades RM	Percentage of total trades %
Citi Bank Bhd	58,889,000	43.98
Malayan Banking Bhd	39,950,000	29.83
CIMB Islamic Bank Bhd #	25,063,000	18.72
CIMB Bank Bhd #	10,007,000	7.47
	133,909,000	100.00

Included in the transactions are trades conducted with CIMB Islamic Bank Berhad and CIMB Bank Berhad, fellow related parties to the Manager, amounting to RM116,005,000 (2022: RM25,063,000) and RM40,178,000 (2022: RM10,007,000). 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. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 16 February 2024.

DIRECTORY

Head Office of the Manager

Principal Asset Management Berhad (Company No.: 199401018399 (304078-K))
Level 32, Exchange 106,
Lingkaran TRX,
55188 Tun Razak Exchange, Kuala Lumpur
MALAYSIA.
Tel: (03) 8680 8000

Website

www.principal.com.my

E-mail address

myservice@principal.com

Customer Care Centre

(03) 7723 7260

Chat with us via WhatsApp:

(6016) 299 9792

Trustee for the Principal Islamic Malaysia Government Sukuk Fund

HSBC (Malaysia) Trustee Berhad (Company No.: 193701000084 (1281-T))
19th Floor, Menara IQ, Lingkaran TRX,
55188 Tun Razak Exchange, Kuala Lumpur, MALAYSIA.
Tel: (03) 2075 7800
Fax: (03) 8894 2611

Shariah Adviser of the Principal Islamic Malaysia Government Sukuk Fund

Amanie Advisors Sdn. Bhd. (Company No.: 200501007003 (684050-H))
Level 13A-2, Menara Tokio Marine Life,
No 189, Jalan Tun Razak,
50400 Kuala Lumpur, MALAYSIA.
Tel: (03) 2161 0260
Fax: (03) 2161 0262

Auditors of the Fund and Manager

Ernst & Young PLT 202006000003 (LLP0022760-LCA) & AF 0039
Level 23A, Menara Millennium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
Tel: +603 7495 8000
Fax: +603 2095 5332