

Principal Malaysia Government Bond Fund

Annual Report

For The Financial Year Ended 31 December 2023

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

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INVESTORS' LETTER

Dear Valued Investor,

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

Firstly, allow us to wish you a fantastic New Year 2024! As we kick off another year, it's time to set new investment goals and embrace fresh opportunities. Despite the challenges of 2023, here's to a brighter and promising year ahead!

We are pleased to bring you a copy of the Annual Fund Report of the Principal Malaysia Government Bond 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 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) and follow us on our Instagram account (@principalassetmanagement_my) and LinkedIn page (Principal Asset Management Berhad) for the latest updates, market insights and investment articles.

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

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

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

MANAGER'S REPORT**FUND OBJECTIVE AND POLICY****What is the investment objective of the Fund?**

The Fund aims to provide regular income through investments primarily in Malaysian government debt instruments.

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 in a portfolio of Malaysian Government debt instruments, which includes but not limited to Malaysia Government Securities ("MGS"), Government Investment Issue ("GII") and Government Guaranteed Issuances ("GG"). At least 2% of its NAV may be invested in money market instruments and/or deposits for liquidity purposes.

The Manager will formulate an interest rate outlook through examining factors such as the Malaysian inflation rate, monetary policy, and economic growth. With an interest rate outlook and yield curve analysis, The Manager will identify the weighting of the investment tenure, credit, and sector for the Fund.

The Manager will adopt a buy-and-hold strategy for the Fund where debt instruments purchased will be held until the maturity of the debt instruments. However, The Manager reserve the right to deal with the debt instruments in the best interest of the Unit holders including but not limited to circumstances where there is a change in the laws, rules, regulations, policies and/ or market/economic outlook, which may affect the investment of the Fund, or simply to meet withdrawal requests.

Asset Allocation

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

Fund category/type

Wholesale Fund (Bond)/Income

When was the Fund launched?

Name of Class	Launch Date
Class B	15 April 2020
Class C	15 April 2020
Class D	15 April 2020

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

RM653.90 million (648.62 million units)

What is the Fund's benchmark?

The Thomson Reuters ("TR") Bond Pricing Agency Malaysia ("BPAM") All Bond Index – Government – 1Y to 3Y for performance comparison purpose only.

Note: The Information on the benchmark can be obtained from <https://www.bpam.com.my>.

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 the Manager discretion. The Manager have 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 unit holder as the total cost to be incurred in any such distribution may be higher than the amount for distribution. The Manager have the discretion to decide on the amount to be distributed to unit holder. The Manager also have 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 RM12.09 million to unit holders for the financial year ended 31 December 2023.

The Fund's NAV per unit were as follows:

Date	NAV per unit (before distribution) RM	NAV per unit (after distribution) RM
<u>Class D</u>		
31.03.2023	1.0028	0.9982
28.06.2023	1.0059	0.9993
27.09.2023	1.0072	1.0007
26.12.2023	1.0103	1.0076

Breakdown of distribution were as follows:

	<u>2023</u>		<u>2022</u>	
	RM	%	RM	%
Source of distribution				
Distribution out of current year's income	6,253,314	51.71	12,344,432	100.00
Distribution out of prior year's income/capital	5,840,871	48.29	-	-
Total	<u>12,094,185</u>	<u>100.00</u>	<u>12,344,432</u>	<u>100.00</u>

PERFORMANCE DATA

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
	%	%	%
Unquoted fixed income securities	88.79	50.45	49.73
Deposits with licensed financial institutions with maturity more than 3 months	8.46	1.09	48.51
Cash and other assets	2.76	48.48	1.77
Liabilities	(0.01)	(0.02)	(0.01)
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

PERFORMANCE DATA (CONTINUED)

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

	2023	2022	2021
NAV (RM Million)			
- Class B	0.00*	0.00*	0.00*
- Class C	0.00*	0.00*	0.00*
- Class D	653.90	458.75	249.81
Units in circulation (Million)			
- Class B	0.00*	0.00*	0.00*
- Class C	0.00*	0.00*	0.00*
- Class D	648.62	463.82	250.69
NAV per unit (RM)			
- Class B	1.0570	1.0161	0.9966
- Class C	1.0570	1.0163	0.9966
- Class D	1.0081	0.9890	0.9965
			15.04.2020
			(since launch)
	31.12.2023	31.12.2022	to 31.12.2021
Highest NAV per unit (RM)			
- Class B	1.0571	1.0162	1.0027
- Class C	1.0573	1.0163	1.0027
- Class D	1.0100	1.0021	1.0027
Lowest NAV per unit (RM)			
- Class B	1.0162	0.9917	0.9906
- Class C	1.0163	0.9918	0.9907
- Class D	0.9891	0.9871	0.9905
Total return (%)			
- Class B	4.05	1.95	(0.34)
- Class C	4.04	1.97	(0.34)
- Class D	4.05	1.98	(0.35)
Capital growth (%)			
- Class B	4.05	1.95	(0.34)
- Class C	4.04	1.97	(0.34)
- Class D	1.95	(0.76)	(0.35)
Income distribution (%)			
- Class B	-	-	-
- Class C	-	-	-
- Class D	2.06	2.77	-
Total Expense Ratio ("TER") (%) ^	0.09	0.10	0.06
Portfolio Turnover Ratio ("PTR") (times) #	0.30	0.15	0.84

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

^ The Fund's TER decreased from 0.10% to 0.09% for the financial year under review due to the increase in average NAV during the financial year.

The Fund's PTR for the financial year under review increased from 0.15 times to 0.30 times compared to the previous year's corresponding year due to the increase in number of transactions.

PERFORMANCE DATA (CONTINUED)

			15.04.2020 (since launch) to 31.12.2021
Gross/Net distribution per unit (sen)	31.12.2023	31.12.2022	
<u>Class D</u>			
Distribution on 31 March 2023	0.45	-	-
Distribution on 28 June 2023	0.66	-	-
Distribution on 27 September 2023	0.66	-	-
Distribution on 26 December 2023	0.27	-	-
Distribution on 28 March 2022	-	0.22	-
Distribution on 24 June 2022	-	0.94	-
Distribution on 28 September 2022	-	0.40	-
Distribution on 27 December 2022	-	1.15	-
	31.12.2023	31.12.2022	Since inception to 31.12.2021
	%	%	%
Annual total return			
- Class B	4.05	1.95	(0.34)
- Class C	4.04	1.97	(0.34)
- Class D	4.05	1.98	(0.35)

(Launch date: 15 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 (1 JANUARY 2023 TO 31 DECEMBER 2023)

Bank Negara Malaysia (“BNM”) unexpectedly raised its Overnight Policy Rate (“OPR”) to 3.00% (+25 basis points (“bps”)) in its latest Monetary Policy Committee (“MPC”) meeting on 3 May 2023. The hike came after two consecutive pauses in January 2023 and March 2023, and it was justified on resilient demand. BNM maintained the OPR for rest of the year 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 Products (“GDP”) expanded 3.3% in third quarter of 2023 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.

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 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%).

FUND PERFORMANCE

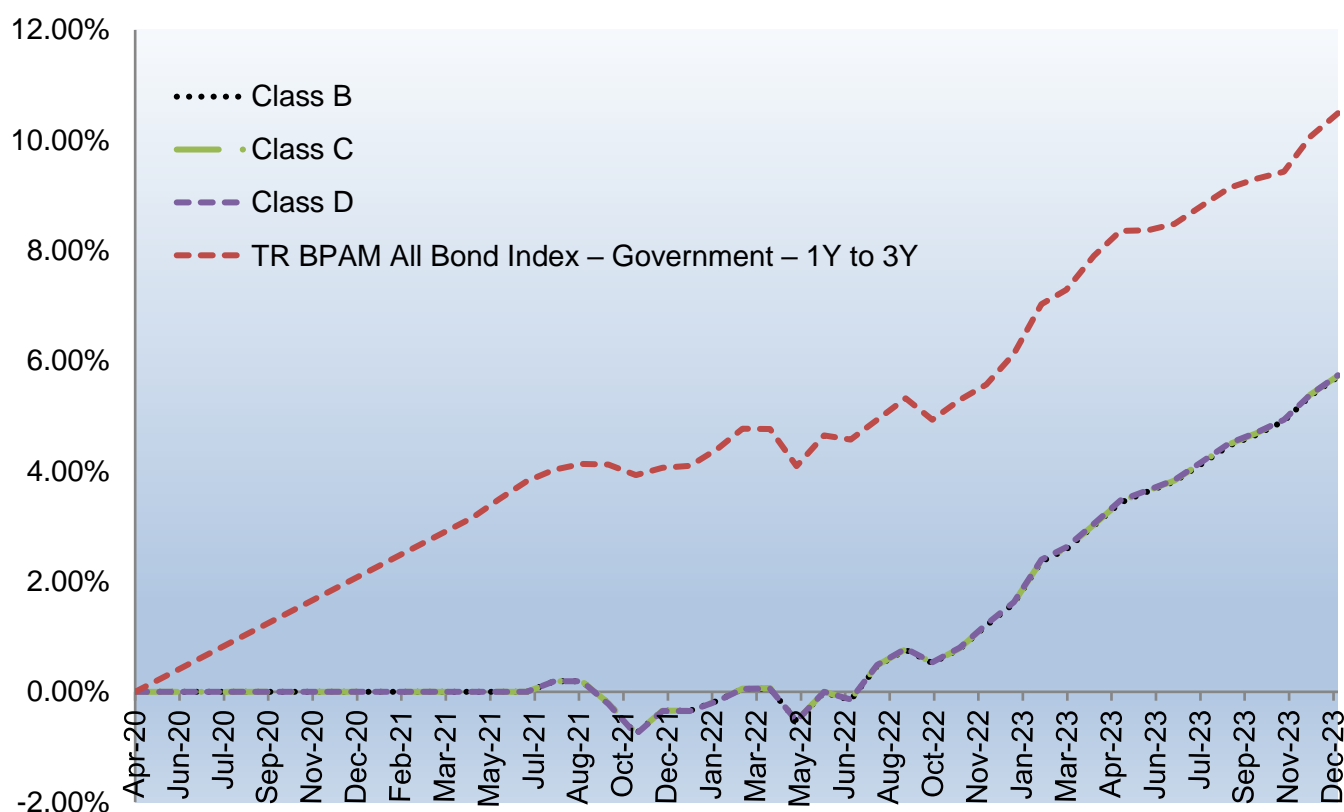
	1 year to 31.12.2023 %	3 years to 31.12.2023 %	Since inception to 31.12.2023 %
Income Distribution			
- Class B	-	-	-
- Class C	-	-	-
- Class D	2.06	4.88	4.88

FUND PERFORMANCE (CONTINUED)

	1 year to 31.12.2023 %	3 years to 31.12.2023 %	Since inception 31.12.2023 %
Capital Growth			
- Class B	4.05	5.71	5.71
- Class C	4.04	5.73	5.73
- Class D	1.95	0.82	0.82
Total Return			
- Class B	4.05	5.71	5.71
- Class C	4.04	5.73	5.73
- Class D	4.05	5.74	5.74
Benchmark			
- Class B	4.10	7.42	10.49
- Class C	4.10	7.42	10.49
- Class D	4.10	7.42	10.49
Average Total Return			
- Class B	4.05	1.87	1.51
- Class C	4.04	1.87	1.51
- Class D	4.05	1.88	1.51

As of 31 December 2023, the 1-year return for Class B, Class C and Class D stood at 4.05%, 4.04% and 4.05% respectively. All classes underperformed the benchmark in the respective years. Since inception, the Class B, Class C and Class D achieved a total return of 5.71%, 5.73% and 5.74% respectively, also underperforming the benchmark returns.

Since inception



FUND PERFORMANCE (CONTINUED)

Changes in NAV

	2023	2022	Changes %
CLASS B			
NAV (RM Million)	0.00*	0.00*	-
NAV/Unit (RM)	1.0570	1.0161	4.03
CLASS C			
NAV (RM Million)	0.00*	0.00*	-
NAV/Unit (RM)	1.0570	1.0163	4.00
CLASS D			
NAV (RM Million)	653.90	458.75	42.54
NAV/Unit (RM)	1.0081	0.9890	1.93

Note: 0.00* denotes value less than 0.01 million.

The NAV per unit as of 31 December 2023 for Class B and Class C both increased by 4.03% and 4.00% from RM1.0161 and RM1.0163 to RM1.0570 and RM1.0573 respectively.

The Fund's NAV for class D as of 31 December 2023 increased by 42.54% to RM653.90 million from RM458.75 million on 31 December 2022. Meanwhile, the NAV per unit increased by 1.93% from RM0.9890 to RM1.0081.

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)	2023	2022
Unquoted fixed income securities	88.79	50.45
Deposits with licensed financial institutions with maturity more than 3 months	8.46	1.09
Cash and other assets	2.76	48.48
Liabilities	(0.01)	(0.02)
TOTAL	100.00	100.00

As at 31 December 2023, the Fund was 88.79% invested in unquoted fixed income securities and 8.46% in deposits with licensed financial institutions with maturity more than 3 months, with the remaining in cash and other net assets (net of liabilities).

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 Bhd ("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

We continue to diversify the investments in Malaysian Government Securities ("MGS"), Government Investment Issue ("GII") and Government guaranteed issuances as well as deposit with decent yields.

SOFT COMMISSIONS AND REBATES

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

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

SECURITIES FINANCING TRANSACTIONS

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

STATE OF AFFAIR OF THE FUND

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

CIRCUMSTANCES THAT MATERIALLY AFFECT ANY INTEREST OF UNIT HOLDERS

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

CROSS TRADE

No cross-trade transactions have been carried out during the financial year 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 MALAYSIA GOVERNMENT BOND FUND**

We, being the Directors of Principal Asset Management Berhad (the “Manager”), do hereby state that, in the opinion of the Manager, the accompanying audited financial statements set out on pages 7 to 29 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 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 MALAYSIA GOVERNMENT BOND 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

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Principal Malaysia Government Bond 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 7 to 29.

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 MALAYSIA GOVERNMENT BOND 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 MALAYSIA GOVERNMENT BOND FUND (cont'd.)**

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

Auditors' responsibilities for the audit of the financial statements

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

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We 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 MALAYSIA GOVERNMENT BOND 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
16 February 2024

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

	Note	2023 RM	2022 RM
INCOME/(LOSS)			
Interest income from unquoted fixed income securities at fair value through profit and loss		8,950,868	6,295,234
Interest income from deposits with licensed financial institutions at amortised cost		10,188,571	5,898,280
Net gain/(loss) on financial assets at fair value through profit or loss	8	3,204,063	(2,874,142)
		<u>22,343,502</u>	<u>9,319,372</u>
EXPENSES			
Management fee	4	396,821	315,744
Trustee fee	5	113,378	90,212
Audit fee		13,300	13,300
Tax agent's fee		5,600	8,000
Other expenses		3,600	3,413
		<u>532,699</u>	<u>430,669</u>
PROFIT BEFORE DISTRIBUTION AND TAXATION		21,810,803	8,888,703
Distribution:			
- Class D	6	12,094,185	12,344,432
PROFIT/(LOSS) BEFORE TAXATION		9,716,618	(3,455,729)
Taxation	7	-	-
PROFIT/(LOSS) AFTER TAXATION, REPRESENTING TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR		<u>9,716,618</u>	<u>(3,455,729)</u>
Profit/(Loss) after taxation is made up as follows:			
Realised amount		6,512,555	(577,294)
Unrealised amount		3,204,063	(2,878,435)
		<u>9,716,618</u>	<u>(3,455,729)</u>

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

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

	Note	2023 RM	2022 RM
ASSETS			
Cash and cash equivalents	9	18,028,057	222,397,597
Deposits with licensed financial institutions with maturity more than 3 months		55,345,245	5,007,233
Financial assets at fair value through profit or loss	8	580,594,680	231,435,858
Amount due from Manager		5,200	3,770
TOTAL ASSETS		<u>653,973,182</u>	<u>458,844,458</u>
LIABILITIES			
Amount due to Manager		-	39,544
Accrued management fee		38,815	27,240
Amount due to Trustee		11,091	7,783
Other payables and accruals		18,300	18,300
TOTAL LIABILITIES		<u>68,206</u>	<u>92,867</u>
NET ASSET VALUE OF THE FUND		<u>653,904,976</u>	<u>458,751,591</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>653,904,976</u>	<u>458,751,591</u>
REPRESENTED BY:			
FAIR VALUE OF OUTSTANDING UNITS			
- Class B		1,057	1,016
- Class C		1,057	1,016
- Class D		653,902,862	458,749,559
		<u>653,904,976</u>	<u>458,751,591</u>
NUMBER OF UNITS IN CIRCULATION (UNITS)			
- Class B		1,000	1,000
- Class C		1,000	1,000
- Class D		648,614,219	463,818,495
	10	<u>648,616,219</u>	<u>463,820,495</u>
NET ASSET VALUE PER UNIT (RM)			
- Class B		1.0570	1.0161
- Class C		1.0570	1.0163
- Class D		<u>1.0081</u>	<u>0.9890</u>

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

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

	2023 RM	2022 RM
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE BEGINNING OF THE FINANCIAL YEAR	<u>458,751,591</u>	<u>249,815,298</u>
Movement due to units created and cancelled during the financial year:		
Creation of units from applications		
- Class D	<u>173,360,780</u>	<u>200,087,134</u>
Creation of units from distributions		
- Class D	<u>12,094,185</u>	<u>12,344,432</u>
Cancellation of units		
- Class D	<u>(18,198)</u>	<u>(39,544)</u>
Total comprehensive income/(loss) for the financial year	<u>9,716,618</u>	<u>(3,455,729)</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE END OF THE FINANCIAL YEAR	<u><u>653,904,976</u></u>	<u><u>458,751,591</u></u>

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

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

	Note	2023 RM	2022 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from disposal of unquoted fixed income securities		-	10,174,449
Purchase of unquoted fixed income securities		(347,362,655)	(122,154,577)
(Placement)/Proceeds from maturity of deposits with licensed financial institutions with maturity more than 3 months		(50,338,012)	116,178,027
Interest income received from deposits with licensed financial institutions and current account		10,188,571	5,898,280
Interest income received from unquoted fixed income securities		10,358,764	8,197,000
Management fee paid		(385,246)	(303,161)
Trustee fee paid		(110,070)	(86,617)
Payments for other fees and expenses		(22,500)	(24,714)
Net cash (used in)/generated from operating activities		(377,671,148)	17,878,687
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		173,359,350	200,085,464
Payments for cancellation of units		(57,742)	-
Net cash generated from financing activities		173,301,608	200,085,464
Net (decrease)/increase in cash and cash equivalents		(204,369,540)	217,964,151
Cash and cash equivalents at the beginning of the financial year		222,397,597	4,433,446
Cash and cash equivalents at the end of the financial year	9	18,028,057	222,397,597
<u>Cash and cash equivalents comprised:</u>			
Bank balances		20,322	39,922
Deposits with licensed financial institutions		18,007,735	222,357,675
Cash and cash equivalents at the end of the financial year	9	18,028,057	222,397,597

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 Malaysia Government Bond Fund (the “Fund”) is governed by a Principal Deed dated 27 February 2020 (the “Deed”), made between Principal Asset Management Bhd (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 in a portfolio of Malaysian Government debt instruments, which includes but not limited to MGS, GII and GG. At least 2% of its NAV may be invested in money market instruments and/or deposits for liquidity purposes.

The Manager will formulate an interest rate outlook through examining factors such as the Malaysian inflation rate, monetary policy, and economic growth. With an interest rate outlook and yield curve analysis, The Manager will identify the weighting of the investment tenure, credit, and sector for the Fund.

The Manager will adopt a buy-and-hold strategy for the Fund where debt instruments purchased will be held until the maturity of the debt instruments. However, The Manager reserve the right to deal with the debt instruments in the best interest of the Unit holders including but not limited to circumstances where there is a change in the laws, rules, regulations, policies and/ or market/economic outlook, which may affect the investment of the Fund, or simply to meet withdrawal requests.

Asset Allocation

- Up to 98% of its NAV in Malaysian government debt instruments; and
- At least 2% of its NAV in liquid assets such as money market instruments and/or 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 Deeds, except where exemptions or variations have been approved by the SC, internal policies and procedures and the Fund’s objective.

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

2. MATERIAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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(j).

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 Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income ("OCI").

The Fund classifies cash and cash equivalents, deposits with licensed financial institutions with maturity more than 3 months 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.

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

Recognition and measurement

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

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

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

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

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

Unquoted fixed income securities 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.

Deposits with licensed financial institutions are stated at cost plus accrued interest calculated on the effective interest method over the year from the date of placement to the date of maturity of the respective deposits.

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

Impairment for assets carried at amortised costs

The Fund measures credit risk and expected credit losses ("ECL") using probability of default, exposure at default and loss given default. The Manager 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

Interest income from deposits with licensed financial institutions and unquoted fixed income securities are recognised on a time proportionate basis using the effective interest method on an accrual basis.

Interest income is 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).

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)**(c) Income recognition (continued)**

Realised gain or loss on disposal of unquoted fixed income securities is accounted for as the difference between the net disposal proceeds and the carrying amount of unquoted fixed income securities, determined on cost adjusted for accretion of discount or amortisation of premium.

(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) Unit holder's 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 three classes of units, known respectively as the Class B, Class C and Class D which are cancelled at the unit holder's option and do not have identical features subject to restrictions as stipulated in the Prospectus and Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework. 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.

(f) Cash and cash equivalents

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

(g) Taxation

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

Tax on interest income from foreign quoted securities is based on the tax regime of the respective countries that the Fund invests in.

(h) Distribution

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

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 taxation as presented on the statement of comprehensive income is guided by SC Guidelines on Unit Trust Funds¹.

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

Estimate of fair value of unquoted fixed income securities

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

Malaysian Ringgit-denominated unquoted fixed income securities 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 fixed income securities 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)	-	18,028,057	18,028,057
Unquoted fixed income securities (Note 8)	580,594,680	-	580,594,680
Deposits with licensed financial institutions with maturity more than 3 months	-	55,345,245	55,345,245
Amount due from Manager	-	5,200	5,200
	<u>580,594,680</u>	<u>73,378,502</u>	<u>653,973,182</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)	-	222,397,597	222,397,597
Unquoted fixed income securities (Note 8)	231,435,858	-	231,435,858
Deposits with licensed financial institutions with maturity more than 3 months	-	5,007,233	5,007,233
Amount due from Manager	-	3,770	3,770
	<u>231,435,858</u>	<u>227,408,600</u>	<u>458,844,458</u>

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

The Fund seeks to provide regular income through investments primarily in Malaysian government debt instruments.

The Fund is exposed to a variety of risks which include market risk (inclusive of price risk and 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 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 fixed income securities 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 interest rate fluctuation in relation to its investments of RM580,594,680 (2022: RM231,435,858) in unquoted fixed income securities. The Fund's exposure to price risk arising from interest 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 fixed income securities 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 holds unquoted fixed income securities 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 fixed income securities and money market instruments are benchmarked against interest rates. As such, the investments are exposed to the movement of the interest rates.

This risk is crucial since unquoted fixed income securities portfolio management depends on forecasting interest rate movements. Prices of unquoted fixed income securities move inversely to interest rate movements, therefore as interest rates rise, the prices of unquoted fixed income securities decrease and vice versa. Furthermore, unquoted fixed income securities with longer maturity and lower yield coupon 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 issuer 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 fixed income securities held by the Fund as a result of movement in interest rate. 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 RM	2022 RM
+1%	(290,836)	(243,922)
-1%	291,091	244,282

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

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

	2023 %	2022 %
Deposits with licensed financial institutions	3.92	4.67

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

(b) Credit risk

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

Investment in unquoted fixed income securities may involve a certain degree of credit/default risk with regards to the issuers. Generally, credit risk or default risk is the risk of loss due to the issuer's non-payment or untimely payment of the investment amount as well as the returns on investment. This will cause a decline in value of the defaulted unquoted fixed income securities and subsequently depress the NAV of the Fund. Usually, credit risk is more apparent for an investment with a longer tenure, i.e. the longer the duration, the higher the credit risk.

Credit risk can be managed by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of its issuer. In addition, the Manager imposes a minimum rating requirement as rated by either local and/or foreign rating agencies and manages the duration of the investment in accordance with the objective of the Fund

The credit risk arising from bank balances and placements of deposits in licensed financial institutions is managed by ensuring that the Fund will only place deposits in reputable licensed financial institutions.

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

	Deposits with licensed financial institutions with maturity more than 3 months RM	Cash and cash equivalents RM	Financial assets at fair value through profit or loss RM	Amount due from Manager RM	Total RM
2023					
AA3	15,146,642				15,146,642
AA2	20,093,233	-	-	-	20,093,233
AAA	20,105,370	18,028,057	-	-	38,133,427
GG/GB	-	-	580,594,680	-	580,594,680
NR	-	-	-	5,200	5,200
Total	<u>55,345,245</u>	<u>18,028,057</u>	<u>580,594,680</u>	<u>5,200</u>	<u>653,973,182</u>
2022					
AA1	-	6,008,581	-	-	6,008,581
AA3	-	77,085,496	-	-	77,085,496
AAA	5,007,233	139,303,520	-	-	144,310,753
GG/GB	-	-	231,435,858	-	231,435,858
NR	-	-	-	3,770	3,770
Total	<u>5,007,233</u>	<u>222,397,597</u>	<u>231,435,858</u>	<u>3,770</u>	<u>458,844,458</u>

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

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

(c) Liquidity risk

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

The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellations of the units by unit holders. Liquid assets comprise bank balances and deposits with licensed 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 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	38,815	-	38,815
Amount due to Trustee	11,091	-	11,091
Other payables and accruals	-	18,300	18,300
Net assets attributable to unit holders	653,904,976	-	653,904,976
Contractual undiscounted cash flows	653,954,882	18,300	653,973,182
2022			
Amount due to Manager	39,544	-	39,544
Accrued management fee	27,240	-	27,240
Amount due to Trustee	7,783	-	7,783
Other payables and accruals	-	18,300	18,300
Net assets attributable to unit holders	458,751,591	-	458,751,591
Contractual undiscounted cash flows	458,826,158	18,300	458,844,458

(d) Capital risk management

The capital of the Fund is represented by net assets attributable to unit holders of RM653,904,976 (2022: RM458,751,591). The amount of capital can change significantly on a daily basis as the Fund is subjected to daily subscriptions and redemptions at the discretion of unit holder. 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 a strong capital base to support the development of the investment activities of the Fund.

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

(e) Fair value estimation

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

The fair value of financial assets traded in active markets (such as trading securities) are based on quoted market prices at the close of trading on the financial year end date. The

Fund utilises the last traded market price for financial assets where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of the fair value.

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

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

(i) Fair value hierarchy

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

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

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

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

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

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

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

(e) Fair value estimation (continued)

(i) Fair value hierarchy (continued)

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2023				
Financial assets at fair value through profit or loss:				
- Unquoted fixed income securities	-	580,594,680	-	580,594,680
2022				
Financial assets at fair value through profit or loss:				
- Unquoted fixed income securities	-	231,435,858	-	231,435,858

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. These include unquoted fixed income securities. 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, deposits with licensed financial institutions with maturity more than 3 months, amount due from Manager and all current liabilities are a reasonable approximation of their fair values due to their short-term nature.

4. MANAGEMENT FEE

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

For the financial year ended 31 December 2023 and 31 December 2022, the management fee for the respective classes is:

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

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

5. TRUSTEE FEE

In accordance with the Deeds, the Trustee is entitled to a maximum fee of 0.02% per annum, calculated daily based on the NAV of the Fund.

For the financial year ended 31 December 2023 and 31 December 2022, the Trustee fee is recognised at a rate of 0.02% per annum.

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

6. DISTRIBUTION

Breakdown of distribution were as follows:

	2023		2022	
	RM	%	RM	%
Source of distribution				
Distribution out of current year's income	6,253,314	51.71	12,344,432	100.00
Distribution out of prior year's income/capital*	5,840,871	48.29	-	-
Total	12,094,185	100.00	12,344,432	100.00

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

	2023 RM	2022 RM
Interest income	6,373,873	14,835,101
Net realised loss from disposal of financial assets at fair value through profit or loss	(58,130)	(2,002,771)
Prior financial period's realised income	5,840,871	-
	12,156,614	12,832,330
Less:		
Expenses	62,429	487,898
Net distribution amount	12,094,185	12,344,432

Gross/Net distribution per unit (sen)

Distribution on 31 March 2023	0.45	-
Distribution on 28 June 2023	0.66	-
Distribution on 27 September 2023	0.66	-
Distribution on 26 December 2023	0.27	-
Distribution on 28 March 2022	-	0.22
Distribution on 24 June 2022	-	0.94
Distribution on 28 September 2022	-	0.40
Distribution on 27 December 2022	-	1.15

* 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 mainly sourced from current and prior financial years' realised income.

6. DISTRIBUTION (CONTINUED)

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: RM2,878,435).

7. TAXATION

	2023 RM	2022 RM
Tax charged for the financial year:		
- Current taxation	-	-

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

	2023 RM	2022 RM
Profit/(Loss) before taxation	9,716,618	(3,455,729)
Taxation at Malaysian statutory rate of 24% (2022: 24%)	2,331,988	(829,375)
Tax effects:		
Investment income not subject to tax	(5,362,440)	(2,236,649)
Expenses not deductible for tax purposes	2,931,353	2,986,513
Restriction on tax deductible expenses for Wholesale Funds	99,099	79,511
Taxation	-	-

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RM	2022 RM
At fair value through profit or loss:		
- Unquoted fixed income securities	580,594,680	231,435,858
Net gain/(loss) on financial assets at fair value through profit or loss:		
- Realised gain on disposals	-	4,293
- Unrealised fair value gain/(loss)	3,204,063	(2,878,435)
	3,204,063	(2,874,142)

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 %
2023				
UNQUOTED FIXED INCOME SECURITIES				
GII Murabahah 3.42% 30/09/2027 #	50,000,000	50,362,750	50,241,851	7.68
GII Murabahah 3.65% 15/10/2024 #	75,000,000	75,880,771	75,804,130	11.59
GII Murabahah 3.72% 31/03/2026 #	40,000,000	40,779,741	40,610,308	6.21
GII Murabahah 4.07% 30/09/2026 #	20,000,000	20,936,055	20,514,209	3.14
Jambatan Kedua Sdn Bhd 4.30% 28/05/2025 (GG)	25,000,000	25,368,007	25,395,387	3.88
Malaysia Government Securities 3.478% 14/06/2024 #	40,000,000	40,147,183	40,096,420	6.13
Malaysia Government Securities 3.88% 14/03/2025 #	30,000,000	30,523,628	30,528,740	4.67
Malaysia Government Securities 3.90% 30/11/2026 #	20,000,000	20,597,162	20,313,997	3.12
Malaysia Government Securities 4.05% 30/09/2024 #	10,000,000	10,159,526	10,162,833	1.55
Malaysian Government Securities 3.95% 15/09/2025 #	120,000,000	122,774,489	122,548,154	18.74
Malaysian Government Securities 4.18% 15/07/2024 #	20,000,000	20,580,144	20,478,881	3.13
Malaysian Islamic Treasury 15/08/2024 #	40,000,000	39,188,874	39,200,800	5.99
Malaysian Treasury 15/11/2024 #	40,000,000	38,867,416	38,868,800	5.94
Pengurusan Air SPV Bhd 4.56% 06/06/2025 (GG)	45,000,000	45,812,824	45,830,170	7.02
TOTAL UNQUOTED FIXED INCOME SECURITIES	<u>575,000,000</u>	<u>581,978,570</u>	<u>580,594,680</u>	<u>88.79</u>
ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>(1,383,890)</u>		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		<u>580,594,680</u>		

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 %
2022				
UNQUOTED FIXED INCOME SECURITIES				
GII Murabahah 3.42% 30/09/2027 #	50,000,000	50,338,983	49,499,651	10.79
GII Murabahah 3.65% 15/10/2024 #	20,000,000	20,543,063	20,167,426	4.40
GII Murabahah 3.73% 31/03/2026 #	40,000,000	40,951,634	40,276,389	8.78
GII Murabahah 4.07% 30/09/2026 #	20,000,000	21,186,531	20,375,973	4.44
Malaysia Government Securities 3.48% 14/06/2024 #	40,000,000	40,321,366	40,039,996	8.73
Malaysia Government Securities 3.90% 30/11/2026 #	20,000,000	20,769,441	20,143,171	4.39
Malaysian Government Securities 3.96% 15/09/2025 #	20,000,000	20,970,580	20,367,789	4.44
Malaysian Government Securities 4.18% 15/07/2024 #	20,000,000	20,942,213	20,565,463	4.48
TOTAL UNQUOTED FIXED INCOME SECURITIES	<u>230,000,000</u>	<u>236,023,811</u>	<u>231,435,858</u>	<u>50.45</u>
ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u>(4,587,953)</u>		
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
		<u>231,435,858</u>		

The unquoted fixed income securities which are not rated as at the end of each financial year are issued, backed or guaranteed by government or government agencies.

9. CASH AND CASH EQUIVALENTS

	2023 RM	2022 RM
Deposits with licensed financial institutions	18,007,735	222,357,675
Bank balances	20,322	39,922
	<u>18,028,057</u>	<u>222,397,597</u>

10. NUMBER OF UNITS IN CIRCULATION (UNITS)

	2023	2022
	No. of units	No. of units
Class B (i)	1,000	1,000
Class C (ii)	1,000	1,000
Class D (iii)	648,614,219	463,818,495
	<u>648,616,219</u>	<u>463,820,495</u>
(i) Class B		
At the beginning of the financial year	1,000	-
Add: Creation of units from applications	-	1,000
At the end of the financial year	<u>1,000</u>	<u>1,000</u>
(ii) Class C		
At the beginning of the financial year	1,000	-
Add: Creation of units from applications	-	1,000
At the end of the financial year	<u>1,000</u>	<u>1,000</u>
(iii) Class D		
At the beginning of the financial year	463,818,495	250,686,176
Add: Creation of units from applications	172,729,314	200,689,607
Add: Creation of units from distribution	12,084,580	12,482,712
Less: Cancellation of units	(18,170)	(40,000)
At the end of the financial year	<u>648,614,219</u>	<u>463,818,495</u>

11. TOTAL EXPENSE RATIO ("TER")

	2023	2022
	%	%
TER	<u>0.09</u>	<u>0.10</u>

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 calculated on a daily basis is RM567,010,549 (2022: RM451,048,062).

12. PORTFOLIO TURNOVER RATIO (“PTR”)

	2023	2022
PTR (times)	<u>0.30</u>	<u>0.15</u>

PTR is derived from the following calculation:

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

where:

total acquisition for the financial year = RM344,954,269 (2022: RM120,885,000)
total disposal for the financial year = Nil (2022: RM10,117,000)

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
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 shareholder of the Manager
CIMB Investment Bank Bhd	Fellow related party to the Manager
CIMB Bank Bhd	Fellow related party to 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

	2023		2022	
	No. of units	RM	No. of units	RM
Manager				
Principal Asset Management Berhad				
- Class B	1,000	1,057	1,000	1,016
- Class C	1,000	1,057	1,000	1,016
- Class D	1,334	1,345	15,102	14,936

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.

	2023	2022
	RM	RM
<u>Significant related parties' transactions</u>		
Interest income from deposits with licensed financial institutions:		
- CIMB Bank Bhd	168,154	-
- CIMB Islamic Bank Bhd	604,259	840,464
	<u>772,413</u>	<u>840,464</u>

14. TRANSACTIONS WITH DEALERS

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

Dealers	Value of trades	Percentage of total trades	Brokerage fees	Percentage of total brokerage fees
	RM	%	RM	%
AmBank (M) Bhd	87,621,669	25.40	-	-
JP Morgan Chase Bank Bhd	70,682,000	20.49	-	-
Hong Leong Bank Bhd	45,679,500	13.24	-	-
CIMB Islamic Bank Bhd #	45,153,000	13.09	-	-
Citi Bank Bhd	40,314,100	11.69	-	-
CIMB Bank Bhd #	30,221,000	8.76	-	-
Hong Leong Investment Bank Bhd	15,174,000	4.40	-	-
RHB Bank Bhd	10,109,000	2.93	-	-
	<u>344,954,269</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

14. TRANSACTIONS WITH DEALERS (CONTINUED)

Details of transactions with the dealers for the financial year ended 31 December 2022 were as follows:

Dealers	Value of trades RM	Percentage of total trades %	Brokerage fees RM	Percentage of total brokerage fees %
Malayan Banking Bhd	42,310,000	32.30	-	-
CIMB Bank Bhd #	30,266,000	23.10	-	-
CIMB Islamic Bank Bhd #	16,150,200	12.33	-	-
United Overseas Bank (Malaysia) Bhd	11,962,800	9.13	-	-
HSBC Bank Malaysia Bhd	10,188,000	7.78	-	-
Citi Bank Bhd	10,117,000	7.72	-	-
JP Morgan Chase Bank Bhd	10,008,000	7.64	-	-
	<u>131,002,000</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

Included in the transactions are trades conducted with CIMB Bank Bhd and CIMB Islamic Bank Bhd, related parties to the Manager amounting to RM30,221,000 (2022: RM30,266,000) and RM45,153,000 (2022: RM16,150,200) respectively. 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

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