

Maybank Asset Management  
Sdn. Bhd. (421779-M)  
Level 12, Tower C,  
Dataran Maybank,  
No.1, Jalan Maarof,  
59000 Kuala Lumpur, Malaysia  
Telephone +603 2297 7888  
Facsimile +603 2297 7998  
[www.maybank-am.com](http://www.maybank-am.com)

# Maybank Financial Institutions Income Fund

Annual Report for the financial year ended  
31 January 2015

## **MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

<b>CONTENTS</b>	<b>PAGE</b>
Manager's report	1 - 9
Trustee's report	10
Statement by manager	11
Independent auditors' report	12 - 13
Statement of comprehensive income	14
Statement of financial position	15
Statement of changes in equity	16
Statement of cash flows	17
Notes to the financial statements	18 - 42

# Maybank Financial Institutions Income Fund

## *Manager's Report*

*For the financial period from 1 February 2014 to 31 January 2015*

## Fund's Information

### **1. Type of Fund**

Income

### **2. Category of Fund**

Fixed Income

### **3. Fund launching date / commencement date**

17 December 2009 / 14 January 2010

### **4. Fund's investment objective and policy**

The objective of Maybank Financial Institutions Income Fund ("the Fund" or "FIIN") is to achieve regular income stream which is derived from the portfolio. The Fund will be actively managed by investing in a diversified portfolio of bonds issued by financial institutions and/or bank guaranteed bonds and/or money market instruments and fixed deposits. The active management of the Fund aims to provide steady returns.

### **5. Fund distribution policy**

The Fund intends to distribute income, if any, at least half-yearly on best effort basis. However, the Manager reserves the right not to distribute income, at its absolute discretion.

# Risk Factors

## **General Risks**

An Investor should consider the following when investing in the Fund:-

**i. Returns are not guaranteed**

Investors should be aware that there is no guarantee of any income distribution or capital appreciation by investing in the Fund. Unlike fixed deposits placed directly by the investors with any financial institutions which carry a specific rate of return, the Fund does not provide a fixed rate return.

**ii. Market risk**

The value of investment may increase or decrease due to changes in market factors such as uncertainties in the economy, political and social environment that impact large portions of the market. This is a risk associated with all securities and cannot be eliminated. Hence, the Manager will monitor the financial markets closely and act on any adverse news accordingly.

**iii. Inflation risk**

Inflation creates uncertainties over the future value of investments. There is a risk that the Fund may generate a return on investment lower than the inflation rate. This would reduce investors' purchasing power per RM even though the nominal value of the investment in monetary terms has increased.

**iv. Liquidity risk**

Liquidity risk arises from the lack of ease which an investment can be traded at or near its fair value, depending on the volume traded on the market. It may occur when the Fund holds securities which are thinly traded, and if at the same time, the Fund experiences large redemptions, which in turn, would require the selling of securities at a point in time when prices are unfavourable due to insufficient buyers in the market at the actual or desired prices. This risk is mitigated by diversifying the investment in a wide range of securities and avoiding securities with poor liquidity.

**v. Management risk**

The performance of the Fund is very much dependent on the experience, expertise, investment techniques and investment decisions of the fund manager while the quality of management is also dependent on internal circumstances such as operational and system matters within the Manager. Poor management of the Fund would adversely affect the Fund's performance and jeopardise investment of Unit Holders. In order to mitigate this risk, the implementation of internal controls and a structured investment process and operational procedures has been put in place by the Manager.

**vi. Non-compliance risk**

This risk refers to the possibility that the Manager may not follow the provisions set out in this Info Memo or the Deed or the laws, rules, guidelines or internal operating policies which governs the Fund. Non-compliance may occur directly due to factors such as human error or system failure and can also occur indirectly due to amendment on the relevant regulatory frameworks, laws, rules, and other legal practices affecting the Fund. This risk may result in operational disruptions and potential losses to the Fund. The Manager aims to mitigate this risk by placing stringent internal policies and procedures and compliance monitoring processes to ensure that the Fund is in compliance with the relevant fund regulations or guidelines.

**vii. Loan financing risk**

The price of Units fluctuates accordingly with the value of the underlying portfolio.

Investors should assess the inherent risk of investing with borrowed money which should include the following:

- The ability to service the loan repayments and the effect of increase in interest rates on loan repayments; and
- (in case where Units are used as collateral to the loan) the ability to provide additional collateral should Unit prices fall beyond a certain level.

Investors are discouraged from financing the purchase of Units via borrowings and should assess the inherent risk of investing with borrowed money as returns are not guaranteed.

***Specific Risk of the Fund***

**i. Market risk**

The value of an investment will decrease due to adverse changes in market factors i.e. economic, political, social, environmental changes or other adverse events that impact large portions of the market. Market risk cannot be eliminated but asset allocation and diversification may minimize against market risk.

**ii. Interest rate Risk**

Interest rate risk refers to the risk which investment value of a Fund may be reduced due to a rise in interest rates. The returns of bonds are influenced by the movement in interest rates. The bond's prices moves in an inverse relationship with interest rates. When interest rates rise, the value of bonds falls and vice versa, thus affecting the NAV of the Fund. The magnitude of the drop in price of the bonds is normally greater for longer-tenure securities rather than shorter-tenure securities as they are more sensitive to interest rate changes.

Depending on the Manager's view of the interest rate trend, the Manager attempts to mitigate the interest rate risk of the Fund by managing the duration of the Fund's investments. When interest rates are expected to rise, the Manager will switch to bonds with a shorter duration.

**iii. Credit/default risk**

This risk will arise when the issuer of a bond fails to make timely payment of interest and/or principal repayments on the maturity date of the bond. This may cause the value of the Fund to be adversely affected.

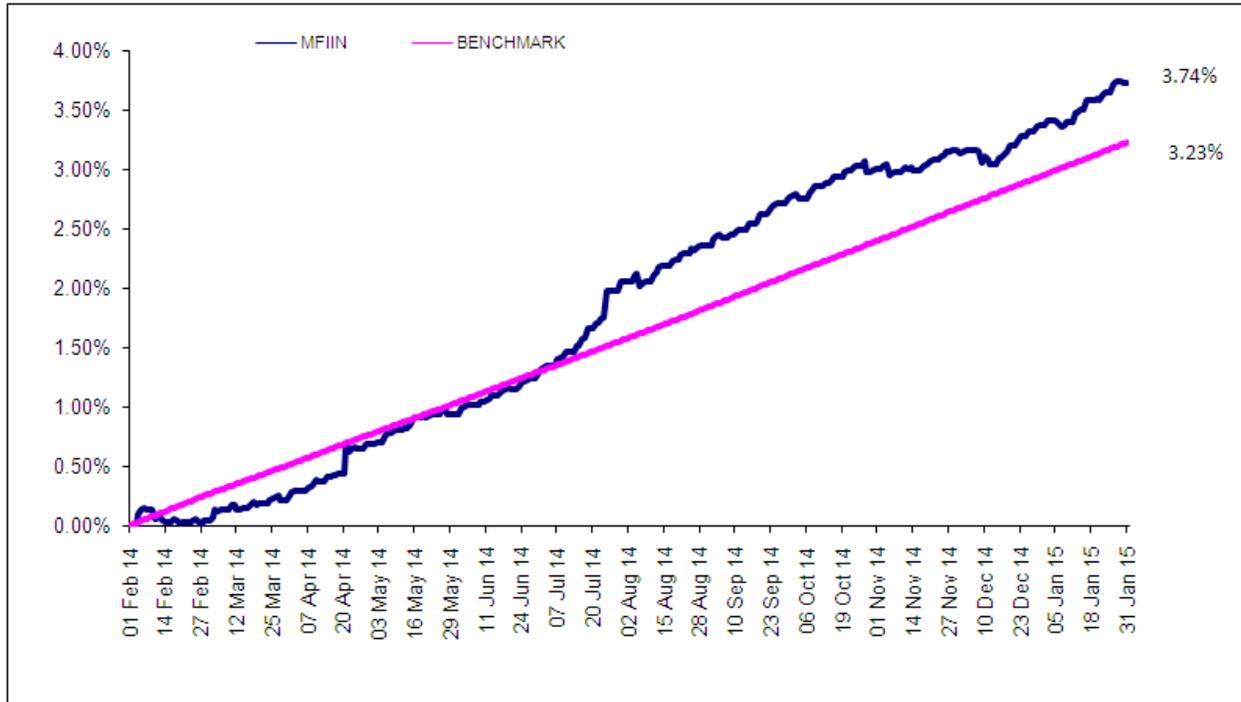
Deposits that the Fund has placed with financial institutions are also exposed to credit/default risk. If the issuer become insolvent, the Fund may suffer capital losses with regards to the capital invested and interest foregone, causing the performance of the Fund to be adversely affected. The Manager aims to manage this risk by ensuring rigorous research and credit analysis are conducted prior to the selection of the bonds. Placement with financial institutions shall also be made based on prudent selection.

**iv. Liquidity risk**

This refers to the ease with which an investment can be sold at or near its fair value depending on the volume traded on the market. Should an investment become illiquid, it may be sold at a discount to its fair value, thus lowering the value of the Fund's investments.

# Performance Review

Performance of Maybank Financial Institution Income Fund for the period from 1 February 2014 to 31 January 2015.



Benchmark = 12-month Maybank fixed deposit rate.

Source: Maybank Asset Management Sdn Bhd

***Investors are reminded that past performance of the Fund is not necessarily indicative of its future performance and that unit prices and investment returns may fluctuate.***

Maybank Financial Institution Income Fund recorded a return of 3.74% for the period from 1 February 2014 to 31 January 2015, compared to the benchmark of 3.23% over the same period.

## Market Review

In Malaysia, economic growth proved to be robust as 4Q 2014 Gross Domestic Product (“GDP”) exceeded expectations at 5.8% year on year, marking 6.0% year on year for 2014, the strongest since 2010, on the back of strong investment and private consumption. Inflation rose earlier in the period under review before easing to 1.0% year on year in January on lower retail fuel prices following the implementation of a managed float system starting in December 2014. Amidst robust economic growth and elevated inflation, Bank Negara Malaysia (“BNM”) raised the Overnight Policy Rate (“OPR”) by 25bps to 3.25% at the Monetary Policy Committee (“MPC”) meeting in July, as expected.

The Malaysian Government Securities (“MGS”) market saw some volatility in foreign holdings over 2014, with percentage share held by foreigners rising to 48% in July before closing the year near to where it started at 44%. MGS yields also saw increasing volatility over the period, largely driven by newsflow, particularly with the fall in oil prices towards the end of 2014 and its subsequent knock-on effect Malaysian Ringgit (“MYR”). The MYR weakened by 8.6% over the period under review, to 3.6295 as of end-January 2015 from 3.3430 at 1 Feb 2014. The yield curve flattened over the year, with the 3x5 MGS spread at around 15-20 bps in 4Q 2014 compared with 40-50 bps in 1Q2014 and the 5x10 spread at 20-30 bps versus over 50 bps in Q1 2014.

2014 saw a healthy primary pipeline for Private Debt Securities (“PDS”), with issuance totalling RM75.4 billion amidst a low-yield environment. This is an increase on 2013’s RM68.6 billion, but down from the record RM117.8 billion in 2012. PDS issuances in 2014 were aided by a number of large offerings by government-linked companies and projects and related funding. The secondary market saw a reduction in volume compared to previous years however, as credit spreads widened on Quantitative Easing (“QE”) tapering concerns in the first half of the year and investors were reluctant to crystallise losses. Bearish sentiment continued in the second half following BNM’s policy tightening in July.

## Market Outlook

We expect global growth to continue to recover modestly in 2015, largely driven by stronger growth in the US. Outside of the US, we expect weak recovery in both European Union (“EU”) and Japan. In Asia ex-Japan, we expect regional growth to improve slightly as India and most of ASEAN offset a slowing China. We expect the US to raise policy rates in second half 2015, and the Bank of Japan and European Central Bank (“ECB”) to stay easy. While the region has proved to be vulnerable in the past to Federal Reserve rate hikes/QE tapering, the impact on equity markets should be less than that seen in the summer of 2013. That said, rising rates may impede performance in Hong Kong, parts of ASEAN and high yielding sectors.

The United States Dollar (“USD”) is likely to continue to strengthen against Asian currencies, including Ringgit, thereby reducing the positive impact of lower oil prices and lowering asset returns in USD terms. Historically, Asia ex-Japan equities have struggled with a rising USD, with the region seeing weaker foreign equity portfolio inflows.

We expect inflationary pressures to remain relatively muted. Most of the region (with the exception of Malaysia) should get a boost from weaker commodity (namely oil) prices from a macro perspective (i.e., consumption, inflation or current account). Subdued commodity prices should also drive stock performance on margins/earnings upgrades.

We expect 2015 to be a challenging year for Malaysia, for two main reasons: (1) Implementation of a 6% Government Service Tax (“GST”) for the first time, which will hurt domestic consumption, as consumer sentiment will likely remain dampened; and (2) lower commodity prices such as oil, palm oil and rubber which will have negative implications on the Malaysian economy. Most economists now see BNM holding the OPR steady at 3.25% well into 2015.

## Investment Strategy

We have decreased our duration positioning to underweight on a portfolio basis. We do, however, continue to hold a constructive view of the market in light of an increase in opportunities given better yield levels. We are able to remain optimistic and seek to continue to raise cash where possible in order to take advantage of attractive new issuances and opportunities in the secondary market.

## Cross Trades

There were cross trades undertaken between FIIN and other client accounts during the period under review. All transactions were executed in accordance with the Maybank Asset Management Investment Policy and with the requisite approvals from the Trustee of FIIN as well as the relevant committees within Maybank Asset Management. All trade transactions were executed through a financial institution at arms length basis at the prevailing mark-to-market rate.

## Asset Allocation

As at 31 January 2015, 66.57% of the Fund was invested in debt securities, with the remaining 33.43% in cash / deposits with financial institutions.

ASSET ALOCATION	RM	%
Debt securities	118,352,432	66.57
Cash / Deposits with financial institutions	59,427,349	33.43
<b>TOTAL</b>	<b>177,779,781</b>	<b>100.00</b>

## Illiquid Holdings

There were no illiquid holdings in the Fund as at 31 January 2015.

## Net Asset Value

Net asset value (NAV) as at 31 January 2015.

<b>NAV (RM)</b>	177,779,781
<b>Units in circulation</b>	176,749,171
<b>NAV per unit (RM)</b>	1.0058

## Performance Data

Return of Maybank Financial Institutions Income Fund as at 31 January 2015.

Period	FIIN	Benchmark
1 February 2014 to 31 January 2015	3.74%	3.23%

*Investors are reminded that past performance of the Fund is not necessarily indicative of its future performance and that unit prices and investment returns may fluctuate.*

## Policy on Soft Commission

Soft commissions receive from brokers will be retained by the Manager as goods and services, such as research materials and advisory services that assist in decision making process relating to the investment of the Fund (i.e. research materials, data and quotation services, computer hardware and software incidental to the investment management of the Fund and investment advisory services) which are of demonstrable benefits to the Unit Holders.

## **MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

### **TRUSTEE'S REPORT TO THE UNITHOLDERS OF MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

We have acted as Trustee of Maybank Financial Institutions Income Fund ("the Fund") for the financial year ended 31 January 2015. To the best of our knowledge, Maybank Asset Management Sdn. Bhd. ("the Manager" or "the Management Company"), has operated and managed the Fund in accordance with the following:-

- (a) limitations imposed on the investment powers of the Manager and the Trustee under the Deed, the Securities Commission's Guidelines on Wholesale Funds, the Capital Markets and Services Act 2007, and other applicable laws;
- (b) valuation/pricing of units of the Fund has been carried out in accordance with the Deed and relevant regulatory requirements;
- (c) creation and cancellation of units have been carried out in accordance with the Deed and relevant regulatory requirements; and
- (d) the distributions to the Unitholders during the financial year ended 31 January 2015 are consistent with the objectives of the Fund.

For and on behalf of  
PB Trustee Services Berhad

Julia Mustaffa  
Manager

Kuala Lumpur, Malaysia  
26 March 2015

## **MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

### **STATEMENT BY MANAGER**

We, Datuk Mohaiyani binti Shamsudin and Badrul Hisyam Bin Abu Bakar, being two of the directors of Maybank Asset Management Sdn. Bhd. do hereby state that, in the opinion of the Manager, the accompanying financial statements set out on pages 14 to 42 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of Maybank Financial Institutions Income Fund as at 31 January 2015 and of its results, changes in equity and cash flows for the year then ended.

For and on behalf of the Manager

Datuk Mohaiyani binti Shamsudin

Badrul Hisyam Bin Abu Bakar

Kuala Lumpur, Malaysia  
26 March 2015

## **Independent Auditors' Report to the Unitholders of Maybank Financial Institutions Income Fund**

### **Report on the financial statements**

We have audited the financial statements of Maybank Financial Institutions Income Fund, which comprise the statement of financial position as at 31 January 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 42.

### *Manager's and Trustee's responsibility for the financial statements*

The Manager of the Fund is responsible for the preparation of financial statements so as to 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 that are free from material misstatement, whether due to fraud or error. The Trustee is 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.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

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

## **Independent Auditors' Report to the Unitholders of Maybank Financial Institutions Income Fund (cont'd.)**

### *Opinion*

In our opinion, the financial statements have been prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Fund as at 31 January 2015 and of its financial performance, the changes in equity and the cash flows of the Fund for the financial year then ended.

### **Other matters**

This report is made solely to the Unitholders of the Fund, as a body, in accordance with the Securities Commission's Guidelines on Wholesale Funds in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young  
AF: 0039  
Chartered Accountants

Kuala Lumpur, Malaysia  
26 March 2015

Megat Iskandar Shah Bin  
Mohamad Nor  
No. 3083/07/15(J)  
Chartered Accountant

**MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2015**

	Note	2015 RM	2014 RM
<b>INVESTMENT INCOME</b>			
Interest income		12,237,903	17,932,954
Net realised loss from investments:			
- available-for-sale ("AFS") financial assets		(2,394,351)	(111,073)
Amortisation of premium, net of accretion of discount		(1,488,156)	(1,664,925)
Other income		-	108,665
		<u>8,355,396</u>	<u>16,265,621</u>
<b>EXPENSES</b>			
Manager's fee	3	1,468,679	2,552,680
Trustee's fee	4	122,390	212,723
Auditors' remuneration		7,800	7,500
Tax agent's fee		4,850	2,200
Administrative expenses		4,740	4,785
		<u>1,608,459</u>	<u>2,779,888</u>
<b>Net income before tax</b>		6,746,937	13,485,733
Income tax expense	5	-	-
<b>Net income after tax</b>		<u>6,746,937</u>	<u>13,485,733</u>
<b>Other comprehensive income/(loss)</b>			
<u>Items that may be reclassified subsequently</u>			
<u>to profit or loss</u>			
Net changes in fair value		(168,203)	(4,508,984)
Net realised loss transferred to profit or loss		2,394,351	111,073
Net changes in fair value of AFS financial assets		<u>2,226,148</u>	<u>(4,397,911)</u>
<b>Net income after tax is made up of the following:</b>			
Net realised income		6,746,937	13,485,733
		<u>6,746,937</u>	<u>13,485,733</u>
<b>Dividends for the financial year:</b>			
Net distributions	9	8,181,856	14,109,110
Net distributions per unit (sen)	9	4.00	3.50
Gross distributions per unit (sen)	9	<u>4.00</u>	<u>3.50</u>

The accompanying notes are an integral part of the financial statements.

**MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 JANUARY 2015**

	Note	2015 RM	2014 RM
<b>ASSETS</b>			
Investments	6	118,352,432	315,933,472
Deposits with financial institutions	7	64,876,349	27,553,153
Interest receivables		1,712,978	3,258,272
Cash at bank		1,390	219,777
<b>TOTAL ASSETS</b>		<u>184,943,149</u>	<u>346,964,674</u>
<b>LIABILITIES</b>			
Due to Manager		3,597,589	1,179,591
Due to Trustee		7,881	14,966
Dividends payable		3,534,983	6,327,895
Other payables		22,915	28,215
<b>TOTAL LIABILITIES</b>		<u>7,163,368</u>	<u>7,550,667</u>
<b>EQUITY</b>			
Unitholders' capital		177,405,121	342,782,757
Retained earnings		1,518,764	1,502
AFS reserve		(1,144,104)	(3,370,252)
<b>TOTAL EQUITY / NET ASSET VALUE ("NAV")</b>	8	<u>177,779,781</u>	<u>339,414,007</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>184,943,149</u>	<u>346,964,674</u>
<b>UNITS IN CIRCULATION</b>	8(a)	<u>176,749,171</u>	<u>336,590,172</u>
<b>NAV PER UNIT</b>		<u>1.0058</u>	<u>1.0084</u>

The accompanying notes are an integral part of the financial statements.

**MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2015**

	<b>Unitholders' capital RM</b>	<b>Distributable Retained earnings RM</b>	<b>AFS reserve RM</b>	<b>Total equity RM</b>
As at 1 February 2013	409,919,361	531,830	1,027,659	411,478,850
Total comprehensive income for the year	-	13,485,733	(4,397,911)	9,087,822
Creation of units	281,023,645	-	-	281,023,645
Cancellation of units	(348,067,200)	-	-	(348,067,200)
Dividends (Note 9)	(93,049)	(14,016,061)	-	(14,109,110)
At 31 January 2014	<u>342,782,757</u>	<u>1,502</u>	<u>(3,370,252)</u>	<u>339,414,007</u>
As at 1 February 2014	342,782,757	1,502	(3,370,252)	339,414,007
Total comprehensive income for the year	-	6,746,937	2,226,148	8,973,085
Creation of units	23,137,248	-	-	23,137,248
Cancellation of units	(185,562,703)	-	-	(185,562,703)
Dividends (Note 9)	(2,952,181)	(5,229,675)	-	(8,181,856)
At 31 January 2015	<u>177,405,121</u>	<u>1,518,764</u>	<u>(1,144,104)</u>	<u>177,779,781</u>

The accompanying notes are an integral part of the financial statements.

**MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

**STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2015**

	<b>2015 RM</b>	<b>2014 RM</b>
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	209,887,195	175,512,035
Purchase of investments	(13,962,514)	(123,914,300)
Interest received	13,783,197	20,587,287
Other income received	-	108,665
Manager's fee paid	(2,553,695)	(10,652,501)
Trustee's fee paid	(129,475)	(215,884)
Payment of other fees and expenses	(22,690)	(4,784)
Increase in deposits with maturity of more than 3 months from the reporting date	(20,000,000)	-
Net cash generated from operating and investing activities	<u>187,002,018</u>	<u>61,420,518</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash received from units created	23,137,248	281,023,645
Cash paid on units cancelled	(182,059,689)	(347,067,200)
Dividends to Unitholders	(10,974,768)	(17,043,888)
Net cash used in financing activities	<u>(169,897,209)</u>	<u>(83,087,443)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	17,104,809	(21,666,925)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>27,772,930</u>	<u>49,439,855</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>44,877,739</u>	<u>27,772,930</u>
Cash and cash equivalents comprise:		
Cash at bank	1,390	219,777
Deposits with financial institutions with maturities of less than 3 months from the reporting date (Note 7)	44,876,349	27,553,153
	<u>44,877,739</u>	<u>27,772,930</u>

The accompanying notes are an integral part of the financial statements.

## **MAYBANK FINANCIAL INSTITUTIONS INCOME FUND**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 JANUARY 2015**

#### **1. THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES**

Maybank Financial Institutions Income Fund ("the Fund") was constituted pursuant to the execution of a Deed dated 5 November 2009, 14 June 2012 (first supplemental deed) and 15 October 2012 (second supplemental deed), between the Manager, Maybank Asset Management Sdn. Bhd. ("Maybank AM"), the Trustee, PB Trustee Services Berhad and the registered holders of the Fund.

The principal activity of the Fund is to invest in a diversified portfolio of bonds issued with a minimum A3 rating by RAM or its equivalent rating by MARC and/or bank guaranteed bonds and/or money market instruments and fixed deposit issued by financial institutions as defined in the Information Memorandum. The Fund was launched on 17 December 2009 and will continue its operations until terminated by the Trustee as provided under Part 12 of the Deed.

The Manager of the Fund is Maybank AM, a company incorporated in Malaysia. It is a holder of the Capital Markets Services License with fund management as its regulated activity under the Capital Markets and Services Act 2007. The principal place of business of Maybank AM is at level 12, Tower C Dataran Maybank, No. 1 Jalan Maarof, 59000 Kuala Lumpur. Maybank AM is a wholly-owned subsidiary of Maybank Asset Management Group Berhad, which in turn is a wholly-owned subsidiary of Malayan Banking Berhad ("MBB").

The financial statements were authorised for issue by the Board of Directors of the Manager in accordance with a resolution of the directors on 26 March 2015.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **2.1 Basis of preparation**

The financial statements of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards.

The Fund has adopted the Standards, Amendments to Standards and IC Interpretations which have become effective during the financial period ended 31 January 2015. The adoption of the new pronouncements did not result in any material impact to the financial statements of the Fund.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below and are presented in Ringgit Malaysia ("RM").

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 2.2 Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following Standards, Amendments to Standards and IC Interpretations have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective and have not been adopted by the Fund.

<b>Description</b>	<b>Effective for annual periods beginning on or after</b>
Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions	1 July 2014
Annual Improvements to MFRSs 2010 – 2012 Cycle	1 July 2014
Annual Improvements to MFRSs 2011 – 2013 Cycle	1 July 2014
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants	1 January 2016
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, MFRS 12 and MFRS 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2017
MFRS 9 Financial Instruments	1 January 2018

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **2.2 Standards issued but not yet effective**

The Fund will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have any significant impact to the financial statements of the Fund upon their initial application except as described below:

#### **(i) Amendments to MFRS 101: Disclosure Initiatives**

The amendments to MFRS 101 include narrow-focus improvements in the following five areas:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income arising from equity accounted investments

The Fund does not anticipate that the application of these amendments will have a material impact on the Fund's results as this would only impact the presentation and disclosures of the Fund's financial statements.

#### **(ii) MFRS 9 Financial Instruments**

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Fund's financial assets, but no impact on the classification and measurement of the Fund's financial liabilities.

#### **(iii) Annual Improvements to MFRSs 2011–2013 Cycle - MFRS 13 Fair Value Measurement**

The amendments to MFRS 13 clarify that the portfolio exception in MFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of MFRS 9 (or MFRS 139 as applicable).

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **2.3 Summary of significant accounting policies**

#### **(a) Financial assets**

Financial assets 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.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss ("FVTPL"), directly attributable transaction costs.

The Fund determines the classification of its financial assets at initial recognition, and the category applicable to the Fund are AFS financial assets and loans and receivables.

#### **(i) AFS financial assets**

AFS are financial assets that are designated as available for sale or are not classified as financial assets at FVTPL or loans and receivables.

After initial recognition, AFS financial assets are measured at fair value. Any gains and losses from changes in fair value of the AFS financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments, dividend income and interest calculated using the effective interest method are recognised in profit or loss.

The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an AFS equity instrument are recognised in profit or loss when the Fund's right to receive payment is established.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations without any deductions for transaction costs.

#### **(ii) Loans and receivables**

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. The Fund includes deposits with financial institutions and short term receivables in this classification.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **2.3 Summary of significant accounting policies (cont'd)**

#### **(a) Financial assets (cont'd)**

##### **(ii) Loans and receivables (cont'd)**

A financial asset is derecognised when the asset is disposed and the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Fund commits to purchase or sell the asset.

#### **(b) Impairment of financial assets**

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

##### **(i) AFS financial assets**

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as AFS financial assets are impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

Impairment losses on AFS equity investments are not reversed in profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss is recognised in other comprehensive income. For AFS debt investments, impairment losses are subsequently reversed in profit or loss, up to the amount previously recognised as impairment loss, if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in profit or loss.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **2.3 Summary of significant accounting policies (cont'd)**

#### **(b) Impairment of financial assets (cont'd)**

##### **(ii) Loans and receivables**

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Fund considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

#### **(c) Fair value measurement**

The Fund measures its financial instruments at fair value, at each reporting date. Fair value is 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (i) In the principal market for the asset or liability, or
- (ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **2.3 Summary of significant accounting policies (cont'd)**

#### **(c) Fair value measurement (cont'd)**

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- (i) Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- (ii) Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- (iii) Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### **(d) Classification of realised and unrealised gains and losses**

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised (i.e. sold, redeemed or matured) during the reporting period.

Realised gains and losses on disposals of financial instruments classified as part AFS are calculated using the weighted average method. They represent the difference between an instrument's initial carrying amount and disposal amount.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **2.3 Summary of significant accounting policies (cont'd)**

#### **(e) Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, 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 liabilities are classified as other financial liabilities.

The Fund's financial liabilities which include trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

#### **(f) Functional and presentation currency**

The financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Fund's functional currency.

#### **(g) Unitholders' capital**

The Unitholders' contributions is classified as equity instruments.

Distribution equalisation represents the average distributable amount included in the creation and cancellation prices of units. This amount is either refunded to Unitholders by way of distribution and/or adjusted accordingly when units are cancelled.

#### **(h) Dividend distributions**

Dividend distributions are at the discretion of the Manager. A dividend distribution to the Fund's Unitholders is accounted for as a deduction from realised reserves except where dividend is sourced out of distribution equalisation which is accounted for as a deduction from Unitholders' capital. A proposed dividend is recognised as a liability in the period in which it is approved.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **2.3 Summary of significant accounting policies (cont'd)**

#### **(i) Cash and cash equivalents**

Cash and cash equivalents comprises of cash at bank and deposits with financial institutions with maturity lesser than 3 months which have an insignificant risk of changes in value.

#### **(j) Income**

Income is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. Income is measured at the fair value of consideration received or receivable. Interest income is recognised using the effective interest method.

#### **(k) Income tax**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

No deferred tax is recognised as no material temporary differences have been identified.

#### **(l) Segment reporting**

For management purposes, the Fund is managed by two main portfolios, namely (1) AFS financial assets and (2) deposits with financial institutions. Each segment engages in separate business activities and the operating results are regularly reviewed by the Manager and the Investment Committee. The Investment Committee assumes the role of chief operating decision maker, for performance assessment purposes and to make decisions about resources allocated to each investment segment.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

### **2.3 Summary of significant accounting policies (cont'd)**

#### **(m) Significant accounting estimates and judgements**

The preparation of the Fund's financial statements requires the Manager to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in the future.

No major judgements have been made by the Manager in applying the Fund's accounting policies. There are no key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year.

## **3. MANAGER'S FEE**

The manager's fee is computed on a daily basis at 0.60% per annum of the NAV of the Fund before deducting the Manager's fee and Trustee's fees for that particular day.

## **4. TRUSTEE'S FEE**

The Trustee's fee is computed on a daily basis at 0.05% per annum of the NAV of the Fund before deducting the Manager's fee and Trustee's fees for that particular day, subject to a minimum fee of RM18,000 per annum.

## **5. INCOME TAX EXPENSE**

Income tax is calculated at the Malaysian statutory tax rate of 25% (2014: 25%) of the estimated assessable income for the financial year.

The tax charge for the financial year period is in relation to the taxable income earned by the Fund after deducting tax allowable expenses. In accordance with Schedule 6 of the Income Tax Act 1967, interest income earned by the Fund is exempted from tax.

## 5. INCOME TAX EXPENSE (CONT'D)

A reconciliation of income tax expense applicable to net income before tax at the statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	2015 RM	2014 RM
Net income before tax	6,746,937	13,485,733
Tax at Malaysian statutory rate of 25% (2014: 25%)	1,686,734	3,371,433
Effects of interest on deposits and other income not subject to tax	(3,059,476)	(4,510,405)
Effect of expenses not deductible for tax purposes	1,372,742	1,138,972
Tax expense for the financial year	-	-

## 6. INVESTMENTS

	2015 RM	2014 RM
<b>Investment AFS financial assets</b>		
Unquoted debt securities	118,352,432	315,933,472

Investments of the Fund relate to unquoted debt securities in Malaysia. The details of unquoted debt securities as at 31 January 2015 are as follows:

	Quantity Units	Amortised Value RM	Fair Value RM	% of NAV
<b>Unquoted debt securities</b>				
CIMB Bank Berhad - 4.80% - 13/09/2018	2,300,000	2,308,587	2,301,863	1.29
CIMB Bank Berhad - 4.80% - 23/12/2020	2,500,000	2,544,372	2,484,950	1.40
CIMB Group Holdings Berhad - 6.35% - 03/04/2020	14,000,000	15,114,850	14,915,320	8.39
CIMB THAI 5.600% 05.07.2024 - 5.60% - 08/07/2019	2,400,000	2,418,405	2,447,376	1.38

## 6. INVESTMENTS (CONT'D)

	Quantity Units	Amortised Value RM	Fair Value RM	% of NAV
<b>Unquoted debt securities</b>				
Hong Leong Bank Berhad - 5.05% - 05/05/2016	2,000,000	2,013,389	2,006,740	1.13
Hong Leong Bank Berhad - 4.50% - 24/06/2019	7,200,000	7,223,843	7,067,520	3.98
HSBC Bank Malaysia Berhad - 5.05% - 02/11/2022	8,670,000	9,042,255	8,914,407	5.01
Malayan Banking Berhad - 6.30% - 25/09/2018	4,500,000	4,795,758	4,732,065	2.66
Malayan Banking Berhad - 4.25% - 10/05/2019	20,000,000	20,036,420	19,745,800	11.11
PBFIN Berhad - 7.50% - 05/06/2019	24,700,000	27,535,011	27,554,579	15.50
Public Bank Berhad - 4.77% - 29/10/2018	1,500,000	1,506,848	1,512,855	0.85
RHB Bank Berhad - 5.60% - 29/04/2020	14,500,000	15,241,309	15,008,515	8.44
RHB Bank Berhad - 8.00% - 29/03/2019	5,000,000	5,615,110	5,563,500	3.13
RHB Bank Berhad - 4.30% - 05/05/2017	1,500,000	1,500,000	1,492,860	0.84
RHB Bank Berhad - 4.99% - 08/07/2019	2,600,000	2,600,379	2,604,082	1.46
<b>Total AFS financial assets</b>	<b>113,370,000</b>	<b>119,496,536</b>	<b>118,352,432</b>	<b>66.57</b>
<b>Shortfall of fair value over amortised value</b>			<b>(1,144,104)</b>	

## 7. DEPOSITS WITH FINANCIAL INSTITUTIONS

	2015 RM	2014 RM
These are short-term placements with:		
Licensed bank	36,000,000	-
Licensed Islamic bank	20,000,000	15,000,000
Licensed Investment banks	8,876,349	12,553,153
	<u>64,876,349</u>	<u>27,553,153</u>

The weighted average effective profit/interest rates ("WAEPR"/"WAEIR") per annum and average maturity of deposits with financial institutions as at the reporting date were as follows:

	2015		2014	
	WAEPR/ WAEIR % p.a.	Average Maturity Days	WAEPR/ WAEIR % p.a.	Average Maturity Days
<b>Fixed deposits</b>				
Licensed bank	3.93	64	-	-
Licensed Islamic bank	3.90	59	3.17	7
Licensed investment bank	3.36	7	3.00	5

Included in deposits with licensed Islamic banks are short term deposits with maturity periods of less than 3 months from the reporting date amounting to RM44,876,349 (2013: RM27,553,153) which have been classified as cash and cash equivalents for the purpose of the statement of cash flows.

## 8. TOTAL EQUITY / NET ASSET VALUE ("NAV")

	Note	2015 RM	2014 RM
Unitholders' capital	(a)	177,405,121	342,782,757
Retained earnings		1,518,764	1,502
AFS reserves		(1,144,104)	(3,370,252)
		<u>177,779,781</u>	<u>339,414,007</u>

### (a) Unitholders' capital

	2015		2014	
	No. of units	RM	No. of units	RM
As at beginning of the year	336,590,172	342,782,757	402,724,927	409,919,361
Creation of units	22,788,321	23,137,248	273,995,623	281,023,645
Cancellation of units	(182,629,322)	(185,562,703)	(340,130,378)	(348,067,200)
	<u>176,749,171</u>	<u>180,357,302</u>	<u>336,590,172</u>	<u>342,875,806</u>
Dividends (Note 9)	-	(2,952,181)	-	(93,049)
As at end of the financial year	<u>176,749,171</u>	<u>177,405,121</u>	<u>336,590,172</u>	<u>342,782,757</u>

## 9. DIVIDENDS

Details of dividends declared to Unitholders are as follows:

### 2015

	<b>RM</b>
Investment income	6,465,503
Less: Expenses	<u>(1,235,828)</u>
Distributions out of retained earnings	5,229,675
Distributions out of distribution equalisation (Note 8(a))	<u>2,952,181</u>
Distributions for the financial year	<u><u>8,181,856</u></u>

The gross and net dividends declared on the following dates are as follows:

<b>Distribution dates</b>	<b>Gross dividends per unit (sen)</b>	<b>Net dividends per unit (sen)</b>
31.07.2014	2.00	2.00
31.01.2015	2.00	2.00
	<u>4.00</u>	<u>4.00</u>

### 2014

	<b>RM</b>
Investment income	16,947,484
Less: Expenses	<u>(2,931,423)</u>
Distributions out of retained earnings	14,016,061
Distributions out of distribution equalisation (Note 8(a))	93,049
Distributions for the financial year	<u><u>14,109,110</u></u>

The gross and net dividends declared on the following dates are as follows:

<b>Distribution dates</b>	<b>Gross dividends per unit (sen)</b>	<b>Net dividends per unit (sen)</b>
31.07.2013	1.62	1.62
31.01.2014	1.88	1.88
	<u>3.50</u>	<u>3.50</u>

## 10. TRANSACTIONS WITH RELATED PARTIES AND OTHER FINANCIAL INSTITUTIONS

Details of transactions with related parties and other financial institutions for the financial year ended 31 January 2015 are as follows:

Name	Value of Trade RM	% of Total Trade
Malayan Banking Berhad (MBB) *	94,319,000	2.76%
Maybank Islamic Berhad (MIB) **	40,000,000	1.17%
Public Bank Berhad	97,584,000	2.86%
Public Investment Bank Berhad	3,098,126,778	90.66%
RHB Islamic Bank Berhad	15,000,000	0.44%
United Overseas Bank Malaysia Berhad	72,209,000	2.11%
	<u>3,417,238,778</u>	<u>100.00%</u>

\* MBB is the ultimate holding company of the Manager.

\*\* MIB is a wholly-owned subsidiary of MBB, the ultimate holding company of the Manager.

The directors of the Management Company are of the opinion that the transactions with the related parties have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties. These dealings with the related parties have been transacted at arm's length basis.

## 11. MANAGEMENT EXPENSE RATIO ("MER")

The MER of the Fund is the ratio of the sum of fees and expenses incurred by the Fund to the average NAV of the Fund calculated on a daily basis. The fees and expenses include Manager's fee, Trustee's fee, auditors' remuneration, tax agent's fee and other administrative expenses. For the financial year ended 31 January 2015, the MER of the Fund stood at 0.66% (2014: 0.65%).

## 12. PORTFOLIO TURNOVER RATIO ("PTR")

The PTR of the Fund is the ratio of average acquisitions and disposals of the Fund for the financial year to the average NAV of the Fund calculated on a daily basis. For the financial year ended 31 January 2015, the PTR of the Fund stood at 0.46 times (2014: 0.35 times).

### 13. SEGMENT INFORMATION

The Manager is responsible for allocating resources available to the Fund in accordance with the overall investment strategies as set out in the Investment Guidelines of the Fund. The Fund is managed by two segments:

- A portfolio of fixed income instruments, including debt securities
- A portfolio of deposits with financial institutions

The investment objective of each segment is to achieve consistent returns from the investments in each segment while safeguarding capital by investing in diversified portfolios. The segment information provided is presented to the Manager.

	<b>AFS financial assets portfolio RM</b>	<b>Deposits with financial institutions portfolio RM</b>	<b>Total RM</b>
<b>2015</b>			
Interest Income	11,339,496	898,407	12,237,903
Net realised loss from investments:			
- AFS financial assets	(2,394,351)	-	(2,394,351)
Amortisation of premium, net of accretion of discount	(1,488,156)	-	(1,488,156)
Total segment operating income for the year	<u>7,456,989</u>	<u>898,407</u>	<u>8,355,396</u>
AFS financial assets	118,352,432	-	118,352,432
Deposits with financial institutions	-	64,876,349	64,876,349
Other assets	1,497,093	217,275	1,714,368
Total segment assets	<u>119,849,525</u>	<u>65,093,624</u>	<u>184,943,149</u>
<b>2014</b>			
Interest Income	16,237,162	1,695,792	17,932,954
Net realised loss from investments:			
- AFS financial assets	(111,073)	-	(111,073)
Accretion of discount, net of amortisation of premium	(1,664,925)	-	(1,664,925)
Total segment operating income for the year	<u>14,461,164</u>	<u>1,695,792</u>	<u>16,156,956</u>
AFS financial assets	315,933,472	-	315,933,472
Deposits with financial institutions	-	27,555,153	27,555,153
Other assets	3,253,603	4,669	3,258,272
Total segment assets	<u>319,187,075</u>	<u>27,559,822</u>	<u>346,746,897</u>

Expenses of the Fund are not considered part of the performance of any operating segment. Liabilities of the Fund are also not considered to be part of the net liabilities of any individual segment.

## 14. FINANCIAL INSTRUMENTS

### (a) Classification of financial instruments

The Fund's financial assets and financial liabilities are measured on an ongoing basis at either fair value or at amortised cost based on their respective classification. The significant accounting policies in Note 2.3 describe how the classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the financial assets and liabilities of the Fund in the statement of financial position as at the reporting date by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

<b>2015</b>	<b>AFS financial assets RM</b>	<b>Loans and receivables RM</b>	<b>Financial liabilities at amortised cost RM</b>	<b>Total RM</b>
<b>Assets</b>				
Investments	118,352,432	-	-	118,352,432
Deposits with financial institutions	-	64,876,349	-	64,876,349
Interest receivables	-	1,712,978	-	1,712,978
Cash at bank	-	1,390	-	1,390
<b>Total financial assets</b>	<b>118,352,432</b>	<b>66,590,717</b>	<b>-</b>	<b>184,943,149</b>
<b>Liabilities</b>				
Due to Manager	-	-	3,597,589	3,597,589
Due to Trustee	-	-	7,881	7,881
Dividends payable	-	-	3,534,983	3,534,983
Other payables	-	-	22,915	22,915
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>7,163,368</b>	<b>7,163,368</b>
<b>2014</b>				
<b>Assets</b>				
Investments	315,933,472	-	-	315,933,472
Deposits with financial institutions	-	27,553,153	-	27,553,153
Interest receivables	-	3,258,272	-	3,258,272
Cash at bank	-	219,777	-	219,777
<b>Total financial assets</b>	<b>315,933,472</b>	<b>31,031,202</b>	<b>-</b>	<b>346,964,674</b>
<b>Liabilities</b>				
Due to Manager	-	-	1,179,591	1,179,591
Due to Trustee	-	-	14,966	14,966
Dividends payable	-	-	6,327,895	6,327,895
Other payables	-	-	28,215	28,215
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>7,550,667</b>	<b>7,550,667</b>

## 14. FINANCIAL INSTRUMENTS (CONT'D)

### (b) Financial instruments that are carried at fair value

The Fund uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 RM	Level 2 RM	Level 3 RM
<b>2015</b>			
Unquoted debt securities	-	118,352,432	-
	<hr/>		
<b>2014</b>			
Unquoted debt securities	-	315,933,472	-
	<hr/>		

During the financial period ended 31 January 2015, there were no transfers between Level 1 and Level 2 fair value hierarchy.

### (c) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair value

The carrying amounts of the Fund's financial instruments that are not carried at fair value but their carrying amount are reasonable approximations of fair value due to their short term maturity.

There were no financial instrument which are not carried at fair value and whose carrying amount are not reasonable approximations of their respective fair values.

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### (a) Introduction

The Fund's objective in managing risk is the creation and protection of Unitholders' value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring of risks. Financial risk management is also carried out through sound internal control systems and adherence to the investment restrictions as stipulated in the Deed, the Securities Commission's Guidelines on Wholesale Funds and the Capital Markets and Services Act, 2007.

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and security prices. However the Fund is not exposed to currency risk as it does not hold investments denominated in currencies other than Ringgit Malaysia as at the reporting date.

#### (i) Interest rate risk

Fixed income securities are particularly sensitive to movements in market interest rates. When interest rates rise, the value of fixed income securities will fall and vice versa, thus affecting the NAV of the Fund. The sensitivity to market interest rate changes are normally greater for longer tenured securities when compared to shorter tenured securities.

The Fund's investments in debt securities carry a fixed interest rates and mature within ten years. The maturity period of the debt securities are disclosed in Note 6.

The table below summarises the sensitivity of the Fund's net asset value to movements in prices of debt securities held by the Fund as a result of movements in market interest rate. The analysis is based on the assumptions that the interest rate increased and decreased by 1% (100 basis point) with all other variables held constant.

	2015		2014	
	Change in interest rate %	Effects on NAV RM Increase/ (Decrease)	Change in interest rate %	Effects on NAV RM Increase/ (Decrease)
AFS financial assets	+1	(4,714,453)	+1	(12,634,368)
	-1	4,960,565	-1	13,346,264

The Fund's deposits with licensed financial institutions carry a fixed rate and therefore is not affected by movements in market interest/profit rate.

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (b) Market risk (cont'd)

#### (ii) Price risk

Management's best estimate of the effect on the income for the year due to a reasonably possible change in price, with all other variables held constant is indicated in the table below:

	2015		2014	
	Change in price of investments %	Effects on NAV RM Increase/ (Decrease)	Change in price of investments %	Effects on NAV RM Increase/ (Decrease)
AFS financial assets	+5	5,917,622	+5	15,796,674
	-5	(5,917,622)	-5	(15,796,674)

In practice, the actual trading results may differ from the sensitivity analysis above and the difference could be material.

### (c) Credit risk

Credit risk is the risk that the issuer/counterparty to a financial instrument will cause a financial loss for the Fund by failing to discharge an obligation. The Fund is exposed to the risk of credit-related losses that can occur as a result of an issuer/counterparty's inability or unwillingness to honour its contractual obligations to make timely repayments of interest, principal and proceeds from realisation of investments. These credit exposures exist within financing relationships and other transactions.

The Manager manages the Fund's credit risk by undertaking credit evaluation and close monitoring of any changes to the issuer/counterparty's credit profile to minimise such risk. It is the Fund's policy to enter into financial instruments with reputable counterparties. The Manager also closely monitors the creditworthiness of the Fund's counterparties (e.g., brokers, custodian, banks, etc.) by reviewing their credit ratings and credit profile on a regular basis.

#### (i) Credit risk exposure

At the reporting date, the Fund's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position. None of the Fund's financial assets were past due or impaired as at the reporting date.

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (c) Credit risk (cont'd)

#### (ii) Credit quality of financial assets

The Fund invests only in debt securities with at least single A credit rating by a credit rating agency and only makes deposit placements in financial institutions with a minimum single A rating by RAM, MARC or equivalent rating by other recognized rating agencies. In the event that such a rating is not available, the Manager shall depend on the rating given by RAM or MARC to the holding company of the respective financial institutions.

#### (iii) Credit risk concentration

The following table analyses the Fund's portfolio of AFS financial assets, deposits with financial institutions, interest receivable and cash at bank by rating categories.

	2015		2014	
	RM	As a % of NAV	RM	As a % of NAV
<b>AFS financial assets and interest receivables</b>				
AAA	-	-	7,277,286	2.14
AA1	30,493,128	17.15	108,206,549	31.88
AA2	44,627,132	25.10	74,962,655	22.09
AA3	39,028,485	21.95	84,024,313	24.76
A1	5,699,390	3.21	44,716,272	13.17
	<u>119,848,135</u>	<u>67.41</u>	<u>319,187,075</u>	<u>94.04</u>
<b>Deposits with financial institutions and interest receivables</b>				
	2015	As a % of NAV	2014	As a % of NAV
	RM		RM	
AAA	65,093,624	36.61	12,555,217	3.70
AA-	-	-	15,002,605	4.42
	<u>65,093,624</u>	<u>36.61</u>	<u>27,557,822</u>	<u>8.12</u>
<b>Cash at bank</b>				
AAA	1,390	0.01	219,777	6.48
	<u>1,390</u>	<u>0.01</u>	<u>219,777</u>	<u>6.48</u>

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (d) Liquidity risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities or redeem its units earlier than expected.

The Fund is exposed to cash redemptions of its units on a regular basis. Units sold to Unitholders by the Manager are redeemable at the Unitholder's option based on the Fund's NAV per unit at the time of redemption calculated in accordance with the Fund's Trust Deed.

It is the Fund's policy that the Manager monitors the Fund's liquidity position on a daily basis. The Fund also manages its obligation to redeem units when required to do so.

The Manager's policy is to always maintain a prudent and sufficient level of liquid assets so as to meet normal operating requirements and expected redemption requests by Unitholders. Liquid assets comprise cash, deposits with financial institutions and other instruments which are capable of being converted into cash within 7 days.

The following table summarises the maturity profile of the Fund's financial assets, liabilities and Unitholders' capital to provide a complete view of the Fund's contractual commitments and liquidity. Balances due within six months equal their carrying amounts, as the impact of discounting is insignificant.

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (d) Liquidity risk (cont'd)

2015	Less than 1 month RM	1 month - 1 year RM	1 year - 5 years RM	More than 5 year RM	Total RM
<b>Financial assets</b>					
AFS financial assets	-	-	77,029,240	41,323,192	118,352,432
Deposits with financial institutions	8,876,349	56,000,000	-	-	64,876,349
Other assets	3,171	214,104	878,284	617,419	1,712,978
Cash at bank	1,390	-	-	-	1,390
<b>Total undiscounted financial assets</b>	<b>8,880,910</b>	<b>56,214,104</b>	<b>77,907,524</b>	<b>41,940,611</b>	<b>184,943,149</b>
<b>Financial liabilities</b>					
Other liabilities, representing total financial liabilities	7,163,368	-	-	-	7,163,368
Unitholders' capital	177,779,781	-	-	-	177,779,781
Liquidity (gap)/surplus	(176,062,239)	56,214,104	77,907,524	41,940,611	-
<b>2014</b>					
<b>Financial assets</b>					
AFS financial assets	-	-	139,099,100	176,834,372	315,933,472
Deposits with financial institutions	27,553,153	-	-	-	27,553,153
Other assets	3,258,272	-	-	-	-
Cash at bank	219,777	-	-	-	219,777
<b>Total undiscounted financial assets</b>	<b>31,031,202</b>	<b>-</b>	<b>139,099,100</b>	<b>176,834,372</b>	<b>343,706,402</b>

## 15. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

### (d) Liquidity risk (cont'd)

2014 (cont'd)	Less than 1 month	1 month - 1 year	1 year - 5 years	More than 5 year	Total
Financial liabilities	RM	RM	RM	RM	RM
Other liabilities, representing total financial liabilities	7,550,667	-	-	-	7,550,667
Unitholders' capital	339,414,007	-	-	-	339,414,007
Liquidity (gap)/ surplus	(315,933,472)	-	139,099,100	176,834,372	(3,258,272)

Notes:

#### (i) Financial assets

Deposits are grouped based on the expected date on which these assets will be realised. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date on which the assets will be realised.

#### (ii) Financial liabilities

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Fund can be required to pay.

#### (iii) Unitholders' capital

As Unitholders can request for redemption on their units by giving the Manager a 5-day notice period, the Unitholders' capital have been categorised as having a maturity of "less than 1 month".

As a result, it appears that the Fund has a liquidity gap within "less than 1 month". However, the Fund believes that it would be able to liquidate its investments should the need arise to satisfy all the redemption requirements.

## 16. CAPITAL MANAGEMENT

The capital of the Fund can vary depending on the demand for redemptions and subscriptions to the Fund.

The Fund's objectives for managing capital are:

- (a) To invest in investments meeting the description, risk exposure and expected returns indicated in its prospectus;
- (b) To achieve consistent returns while safeguarding capital by using various investment strategies;
- (c) To maintain sufficient liquidity to meet the expenses of the Fund, and to meet redemption requests as they arise; and
- (d) To maintain sufficient fund size to make the operations of the Fund cost-efficient.

No changes were made to the capital management objectives, policies or processes during the current financial year.