

**ABF Malaysia Bond Index Fund**

**Quarterly Report**

**30 June 2011**

## **Trust Directory**

### **Manager**

AmInvestment Services Berhad  
9th Floor, Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur

### **Board of Directors**

Kok Tuck Cheong  
Professor Dr Annuar Md. Nassir  
Dato' Dr Mahani Zainal Abidin  
Lee Siang Korn @ Lee Siang Chin  
Datin Maznah Mahbob  
Harinder Pal Singh

### **Investment Committee**

Professor Dr Annuar Md. Nassir  
Dato' Dr Mahani Zainal Abidin  
Lee Siang Korn @ Lee Siang Chin  
Harinder Pal Singh

### **Investment Manager**

AmInvestment Management Sdn Bhd

### **Trustee**

HSBC (Malaysia) Trustee Berhad

### **Auditors and Reporting Accountants**

Ernst & Young

### **Taxation Adviser**

Deloitte KassimChan Tax Services Sdn Bhd

**AmInvestment Services Bhd**

*Registered Office*

22nd Floor, Bangunan Ambank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur  
Tel:03-2036 2633 Fax: 03-2032 1914

*Head Office*

9th Floor, Bangunan AmBank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur  
Tel:03-2036 1503 Fax: 03-2026 5630

**AmInvestment Management Sdn Bhd**

*Registered Office*

22nd Floor, Bangunan Ambank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur  
Tel:03-2036 2633 Fax: 03-2032 1914

*Head Office*

9th Floor, Bangunan AmBank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur  
Tel:03-2036 2633 Fax: 03-2026 5630

**Secretaries**

Koid Phaik Gunn (MAICSA 7007433)  
Quah Khian Khoon (MAICSA 7030264)

22nd Floor, Bangunan Ambank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur

**HSBC (Malaysia) Trustee Berhad**

*Business/Registered Office/Head Office*

Suite 901, 9th Floor,  
Wisma Hamzah-Kwong Hing  
No.1, Leboh Ampang, 50100 Kuala Lumpur  
Tel: 03-2074 3200 Fax: 03-2078 0145

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## Manager's Report

Dear Unitholders,

We are pleased to present you the Manager's Report and the unaudited accounts of ABF Malaysia Bond Index Fund ("the Fund") for the financial period ended 1 April 2011 to 30 June 2011.

### *Salient Information of the Fund*

**Name** ABF MALAYSIA BOND INDEX FUND

**Category/Type** Fixed Income ETF/ Income

**Objective** ABF Malaysia Bond Index Fund is a fixed income exchange traded fund ("ETF") which is a listed bond fund that is passively managed against the given benchmark, which is iBoxx® ABF Malaysia Bond Index ("the Benchmark Index" or "iBoxx® Index"). The returns of the Fund will be expected to correspond closely to the performance of the Benchmark Index.

**Index Component** Details of the index component as at 30 June 2011 are as follows:

Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
MJ060005	Malaysian Government	3.718	15 June 2012	12,563,197,000
MH090001	Malaysian Government	2.509	27 August 2012	14,000,000,000
GI070029	Malaysia Investment Issue	3.581	14 September 2012	3,500,000,000
MN03003V	Malaysian Government	3.702	25 February 2013	16,575,000,000
GH090053	Malaysia Investment Issue	3.278	15 March 2013	4,000,000,000
GI080001	Malaysia Investment Issue	3.604	29 March 2013	2,000,000,000
UG100018	Bank Pembangunan Malaysia Berhad	3.660	12 April 2013	500,000,000
VG100059	Bank Pembangunan Malaysia Berhad	3.640	12 April 2013	500,000,000
VG100104	Cagamas Berhad	3.650	7 May 2013	600,000,000
MJ070005	Malaysian Government	3.700	15 May 2013	3,000,000,000
MH090005	Malaysian Government	3.210	31 May 2013	9,000,000,000
GH100001	Malaysia Investment Issue	3.288	15 July 2013	3,000,000,000
MJ080001	Malaysian Government	3.461	31 July 2013	7,000,000,000

(Forward)

<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
VG100225	Cagamas Berhad	3.480	19 August 2013	1,000,000,000
GG100053	Malaysia Investment Issue	3.199	30 September 2013	3,000,000,000
VG100401	Cagamas Berhad	3.550	10 December 2013	700,000,000
GJ080019	Malaysia Investment Issue	4.273	14 February 2014	3,500,000,000
VI090137	Danga Capital Berhad	4.220	24 April 2014	1,100,000,000
MN04002W	Malaysian Government	5.094	30 April 2014	24,000,000,000
PK070017	Silterra Capital Berhad	3.900	6 June 2014	1,800,000,000
GI090042	Malaysia Investment Issue	3.909	31 July 2014	4,500,000,000
PS00196F	Bank Pembangunan Malaysia	7.000	30 October 2015	500,000,000
VK090138	Danga Capital Berhad	4.490	22 April 2016	500,000,000
MO060001	Malaysian Government	4.262	15 September 2016	12,700,000,000
VJ100354	Cagamas Berhad	3.850	20 October 2016	500,000,000
GN060019A	Government Investment Issue	3.820	15 November 2016	4,000,000,000
GN060019	Malaysia Investment Issue	3.820	15 November 2016	3,000,000,000
PR03062E	Syarikat Prasarana Negara Berhad	4.270	30 November 2016	1,913,853,702
DN060825	Khazanah Nasional Berhad	0.000	8 December 2016	2,000,000,000
UN070014	Asian Development Bank	4.000	08 February 2017	500,000,000
MN070002	Malaysian Government	3.814	15 February 2017	9,500,000,000
GN070008	Malaysia Investment Issue	3.941	15 June 2017	3,000,000,000
ML100002	Malaysian Government	4.012	15 September 2017	14,000,000,000
UK100107	Cagamas Berhad	3.980	20 October 2017	1,000,000,000
DN080403	Syarikat Prasarana Negara Berhad	4.400	30 May 2018	1,200,000,000
GL110001	Malaysia Investment Issue	3.872	30 August 2018	3,500,000,000
GN080031	Malaysia Investment Issue	4.295	31 October 2018	7,500,000,000
DN090051	Khazanah Nasional Berhad	0.000	20 March 2019	1,000,000,000

(Forward)

Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
MS04003H	Malaysian Government	5.734	30 July 2019	6,500,000,000
GO090001	Malaysia Investment Issue	3.910	13 August 2019	3,500,000,000
DN090197	Khazanah Nasional Berhad	0.000	27 August 2019	1,500,000,000
MO090002	Malaysian Government	4.378	29 November 2019	17,600,000,000
GO090061	Malaysia Investment Issue	4.492	30 April 2020	3,500,000,000
GN100021	Malaysia Investment Issue	4.284	15 June 2020	5,500,000,000
GN100060	Malaysia Investment Issue	3.998	30 November 2020	3,000,000,000
GN110025	Malaysia Investment Issue	4.170	30 April 2021	6,000,000,000
MO110001	Malaysian Government	4.160	15 July 2021	3,500,000,000
DS080404	Syarikat Prasarana Negara Berhad	4.650	30 May 2023	500,000,000
DS081080	Khazanah Nasional Berhad	0.000	14 August 2023	2,000,000,000
DS090052	Khazanah Nasional Berhad	0.000	20 March 2024	1,500,000,000
VS090824	Syarikat Prasarana Negara Berhad	4.850	27 September 2024	500,000,000
MY050003	Malaysian Government	4.837	15 July 2025	3,000,000,000
PZ00197S	Bank Pembangunan Malaysia Berhad	7.500	30 October 2025	500,000,000
MS110003	Malaysian Government	4.392	15 April 2026	3,000,000,000
MX060002	Malaysian Government	4.709	15 September 2026	3,000,000,000
MX070003	Malaysian Government	3.502	31 May 2027	6,000,000,000
MX080003	Malaysian Government	5.248	15 September 2028	4,000,000,000
VX090825	Syarikat Prasarana Negara Berhad	5.070	28 September 2029	1,500,000,000
MX100003	Malaysian Government	4.498	15 April 2030	2,000,000,000

Source: International Index Company Limited (“IIC”)

#### Duration

ABF Malaysian Bond Index Fund was established on 12 July 2005 and shall exist for as long as it appears to the Manager and the Trustee that it is in the interests of the unitholders for it to continue. In some circumstances, the unitholders can resolve at a meeting to terminate the Fund.

#### Performance Benchmark

iBoxx® ABF Malaysia Bond Index

**Income Distribution Policy**

Income distribution (if any) will be paid semi annually.

**Breakdown of Unit Holdings by Size**

For the financial period under review, the size of the Fund stood at 537,421,800 units.

Size of holding	As at 30 June 2011		As at 31 March 2011	
	No of units held ('000)	Number of unitholders	No of units held ('000)	Number of unitholders
Less than 100	-	-	-	-
100 – 1,000	5.4	15	4.9	10
1,001 -10,000	19.0	5	19.0	5
10,001 – 100,000	70.0	4	70.0	4
100,001 to less than 5% of issue units	5,231.5	5	13,972.0	3
5% and above of issue units	532,095.9	2	523,355.9	2

**Fund Performance Data**

**Portfolio Composition**

Details of portfolio composition of ABF Malaysia Bond Index Fund (“the Fund”) for the financial periods as at 30 June 2011 and 31 March 2011 and three financial years as at 31 December are as follows:

	As at 30-06-2011 %	As at 31-03-2011 %	FY 2010 %	FY 2009 %	FY 2008 %
Malaysian Government securities	89.6	89.7	91.9	83.4	88.3
Quasi-Government bonds	7.0	7.1	7.0	11.4	10.7
Cash and others	3.4	3.2	1.1	5.2	1.0
	100.0	100.0	100.0	100.0	100.0

*Note: The abovementioned percentages are based on total investment carrying value plus cash.*



**Performance  
Details**

Performance details of the Fund for the financial periods as at 30 June 2011 and 31 March 2011 and three financial year ended 31 December are as follows:

	<b>3 months ended 30-06-2011</b>	<b>3 months ended 31-03-2011</b>	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
Net asset value (RM)	584,536,419	575,544,863	584,921,826	516,936,480	536,418,866
Units in circulation (units)	537,421,800	537,421,800	537,421,800	481,921,800	481,921,800
Net asset value per unit (RM)	1.0877	1.0709*	1.0884*	1.0727*	1.1131*
Highest net asset value per unit (RM)	1.0878	1.0888*	1.0917*	1.1197*	1.1134*
Lowest net asset value per unit (RM)	1.0717	1.0642*	1.0559*	1.0510*	1.0215*
Closing quoted price (RM/unit)	1.0690	1.0660*	1.0620*	1.0700*	1.0980*
Highest quoted price (RM/unit)	1.0700	1.0900*	1.0830*	1.1170*	1.0980*
Lowest quoted price (RM/unit)	1.0690	1.0660*	1.0620*	1.0550*	1.0570*
Benchmark performance (%)	6.11	2.08	5.13	0.21	6.00
Total return (%) <sup>(1)</sup>	6.44	0.96	5.19	-0.14	7.71
- Capital growth (%)	6.44	-0.88	1.60	-3.60	6.23
- Income distribution (%)	-	1.84	3.59	3.46	1.48
Gross distribution per unit (sen)	-	2.00	3.85	3.85	1.55
Net distribution per unit (sen)	-	2.00	3.85	3.85	1.55
Distribution yield (%) <sup>(2)</sup>	-	1.88	3.54	3.60	1.41

	<b>3 months ended 30-06-2011</b>	<b>3 months ended 31-03-2011</b>	<b>FY 2010</b>	<b>FY 2009</b>	<b>FY 2008</b>
Management expense ratio (%) <sup>(3)</sup>	0.19	0.19	0.19	0.20	0.23
Portfolio Turnover ratio (%) <sup>(4)</sup>	0.05	0.01	0.33	0.21	0.33

\* Above price and net asset value per unit are shown as ex-distribution.

- Note: (1) Total return is the annualised return of the Fund for the respective financial periods/years, computed based on net asset value per unit and net of all fees, annualised over one year.
- (2) Distribution yield is calculated based on the total distribution for the respective financial periods/years divided by the closing quoted price.
- (3) Management expense ratio is calculated based on the total fees and expenses incurred by the Fund divided by the average fund size calculated on a daily basis.
- (4) Portfolio turnover ratio (“PTR”) is computed based on the average of the total acquisitions and total disposals of investment securities of the Fund divided by the average fund size calculated on a daily basis. The PTR increased by 0.04 times (>100%) as compared to 0.01 times for the quarter ended 31 March mainly due to increase in investing activities.

#### Average Total Return (as at 30 June 2011)

	<b>ABFMY1<sup>(a)</sup> %</b>	<b>iBoxx Index<sup>(b)</sup> %</b>
One year	4.0	4.2
Three years	5.2	5.5
Five years	4.6	4.9
Since launch of Fund (13 July 2005)	3.8	4.1

#### Annual Total Return

<b>Financial Year (31 December)</b>	<b>ABFMY1<sup>(a)</sup> %</b>	<b>iBoxx Index<sup>(b)</sup> %</b>
2010	5.2	5.1
2009	-0.1	0.2
2008	7.7	6.0
2007	2.7	2.8
2006	4.6	5.2

(a) Independently verified by Perkasa Normandy Advisers Sdn Bhd.

(b) iBoxx ABF Malaysia Index (“iBoxx Index”) (Source:www.indexco.com).

The Fund's performance above is calculated based on net asset value per unit. Average total return of ABF Malaysia Bond Index Fund ("ABFMY1") for a period is computed on the absolute return for that period annualised over one year.

**Note: Past performance is not necessarily indicative of future performance and that unit prices and investment returns may fluctuate.**

**Has the Fund achieved its objective?**

For the financial period under review, the Fund has met its objective i.e. passively managed against the given benchmark and the return corresponded closely to the performance of the benchmark index.

**Fund Performance**

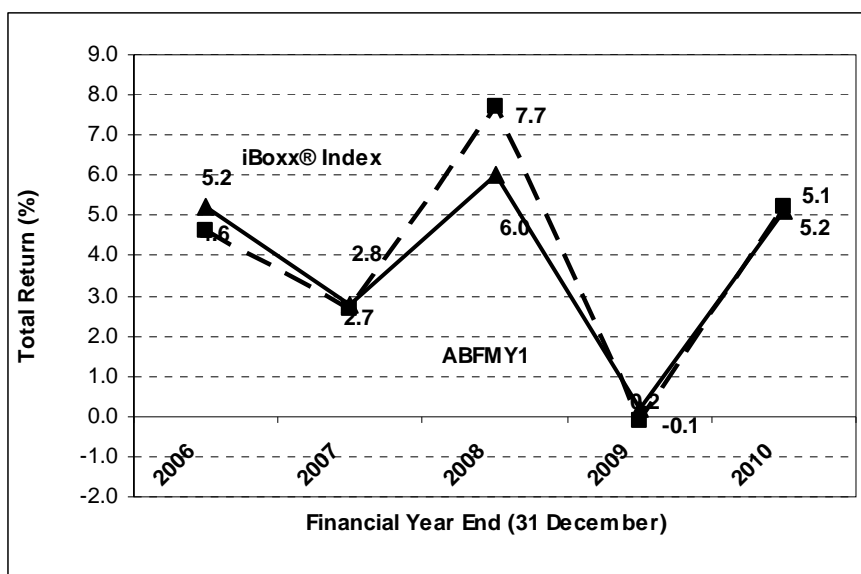
For the financial period under review, the Fund recorded a return of 6.44% which was entirely capital growth in nature.

Thus, the Fund's return of 6.44% has outperformed the benchmark return of 6.11% by 0.33%.

The NAV of the Fund increased by 1.56% from RM575,544,863 to RM584,536,419. The NAV per unit of the Fund increased by 1.57% from RM1.0709 to RM1.0877, while units in circulation remain unchanged at 537,421,800 units.

The closing price quoted at Bursa Malaysia of the Fund increased by 0.28% from RM1.0660 to RM1.0690.

The Line Chart below shows the comparison between the annual performance of ABFMYI and iBoxx® Index for each of the financial years/period ended 31 December.



**Past performance is not an indication of the future performance of the Fund.**

**Strategies and Policies Employed**

For the financial period under review, the Fund used a passive strategy whereby the Manager aims, by way of representative sampling, to achieve a return on the Fund Assets that closely tracks the returns of the benchmark index.

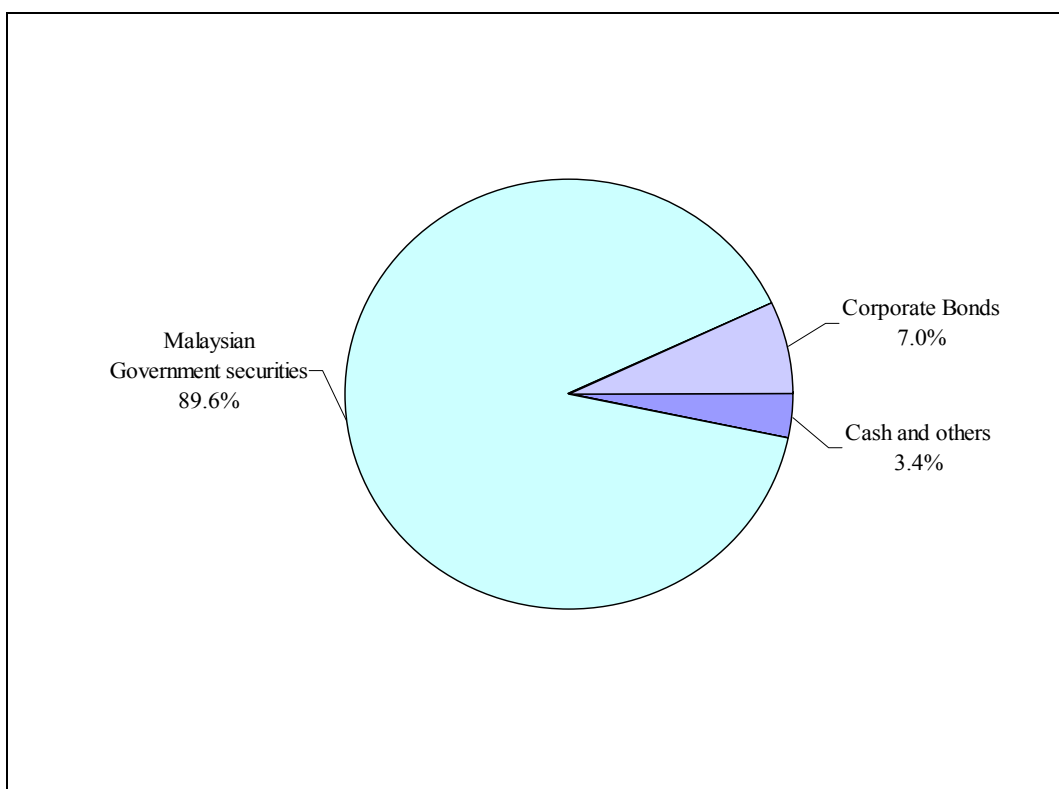
## Portfolio Structure

This table below is the asset allocation of the Fund for the financial period under review.

	<b>30 June 2011</b>	<b>31 March 2011</b>	<b>Changes</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
Malaysian Government securities	89.6	89.7	-0.1
Quasi-Government bonds	7.0	7.1	-0.1
Cash and others	3.4	3.2	0.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

There have been no significant changes to the asset allocation since the last reporting. Investment in Malaysian Government securities (MGS) and Quasi-Government bonds both decreased by 0.1% while investment in cash increased by 0.2%.

This pie chart below shows the sectoral composition of the Fund for the financial period under review.



**Distribution/  
unit splits**

There were no income distribution and no unit split was made for the period under review.

However, subsequent to the financial period under review, the Fund declared an income distribution of 1.75 sen per unit on 15 July 2011, details as follows:

1.75 sen per unit interim income distribution	Change in the unit price prior and subsequent to the interim distribution	Before income distribution on 15 July 2011 (RM)	After income distribution on 15 July 2011 (RM)
	Net asset value per unit	1.0913	1.0738

**State of Affairs  
of the Fund**

There has been neither significant change to the state of affairs of the Fund nor any circumstances that materially affect any interests of the unit holders during the financial period under review.

**Rebates and Soft  
Commission**

It is our policy to pay all rebates to the Fund. However, soft commissions received for goods and services such as fundamental database, financial wire services, technical analysis software and stock quotation system incidental to investment management of the Fund are retained by the Manager. For the financial period under review, the Manager has received soft-commissions.

**Market Review**

In the month of April across the benchmark tenures the 3 year, 5 year, 7 year and 10 year MGS yields ended the month lower compared to the previous month at 3.29%, 3.55%, 3.72% and 3.97% respectively. The MGS yield curve bull flattened. The below-consensus CPI figure and strong demand for the 10-year GII auction led to net buying interest while the strengthening of the Ringgit to below USD/MYR 3.000 lent support to the shorter tenors as they attracted foreign interest.

There were two new auctions in April. The RM3 bn 15-year MGS saw a healthy bid-to-cover of 2.3 times with an average yield of 4.392% (low of 4.372% and high of 4.400%) while the RM3.5 bn 10-year GII saw a strong bid-to-cover of 3.03 times with an average yield of 4.170% (low of 4.157% and high of 4.175%).

The Corporate Bond market saw lighter trading as monthly traded volume fell 10% compared to the previous month, with RM6.4 bn done. Trading interest continued to cluster at AAA and AA due to better liquidity in those segments. Spreads widened compared to the previous month-end due to the firmer MGS market. Notable primary issuances were Alliance Bank's Subordinated Debt and Westports' Islamic MTN. Telekom Malaysia Bhd (TM') also launched a RM2 bn Islamic CP/MTN programme to meet its capital expenditure requirements. During the month, TM made its first issuance of RM150 mn Islamic CPs pursuant to the programme.

In May, across the benchmark tenures the 3 year, 5 year, 7 year and 10 year, MGS yields ended the month mixed compared to the previous month at 3.31%, 3.52, 3.92% and 4.02% respectively.

There were two auctions in May. The RM3.5 billion 7-year MGS saw a bid-to-cover of 1.64 times with an average yield of 3.747% (low of 3.730% and high of 3.755%) while the RM4.0 billion 5.5-year GII saw a bid-to-cover of 1.91 times with an average yield of 3.710% (low of 3.690% and high of 3.719%).

In June, across the benchmark tenures the 3 year, 5 year, 7 year and 10 year, MGS yields ended the month lower compared to the previous month at 3.24%, 3.51%, 3.72% and 3.93% respectively. The longer end received a boost from the smaller than expected issue size of the new 20-year MGS of RM2 bn versus expectations of RM4 bn. The MGS yield curve moved down as soft economic numbers and concerns over Greece's debt crisis led to safe haven flows. However, at month end the market weakened slightly after US Treasury yields rose on the back of a poor 7 year US Treasury auction as well as the passage of Greece's austerity budget bill vote.

There were two auctions in June. The reopening of the RM4 bn 10-year MGS saw a healthy bid-to-cover of 2.3 times with an average yield of 3.970% (low of 3.959% and high of 3.977%) while the new RM2 bn 20-year MGS also saw good demand with a bid-to-cover of 2.5 times and an average yield of 4.232% (low of 4.205% and high of 4.250%).

Malaysia sold USD1.2 bn 5 year Sukuk at CT+145 bps and USD800 mn 10 year Sukuk at CT+165 bps. The proceeds will be used to redeem the country's USD1.75 bn bond maturing on 15 July 2011. The issuance attracted USD9 bn of orders from investors in Europe, Asia, the Middle East and the United States.

## Market Outlook

The tone for the MGS market over the coming weeks is likely to be set by this play of factors:

- Changing supply/demand dynamics in 2H2011 – the limited MGS/GII issuance on the longer end in the 2H2011 compared to the 1H2011 suggests limited volumes of long dated papers
- Large amount of MGS maturities in 3Q2011 suggests opportunities to pick up bonds
- Quantum of pre-emptive monetary policy tightening – now that BNM has adopted a pause mode market would be gyrating to a new equilibrium on the back of expectations of a September hike – IRS curve which was low following the rally in June weakened further after the pause stance of BNM
- Prospects of further gains in MYR over the near and medium term underpinned by expectations of Asian currency appreciation
- US Treasury movements, especially, the end of QE2 on June 30th 2011 which has resulted in 10yr yields moving higher and the resulting debate on growth/inflation dynamics – a major variable influencing inflows/outflows into EM debt markets as well as AXJ currency appreciation
- Developments in the European sovereign space which triggered safe haven flows to USTs and pressured both MYR IRS and MGS yields lower in June

As we write, the flattening bias of the yield curve which materialized last month is likely to continue. Tactically we are inclined towards a neutral view from the positive view, held earlier on account of valuations which are looking unattractive at this very juncture. We intend to re-enter the MGS market when valuations look more compellingly attractive.

That being said we also remain vigilant of the substantial offshore positioning in MGS which carries the risk of sharp and swift reversal in the event of MYR weakness or acceleration of inflationary pressures. Note much of flows have been biased to short dated papers (*60% foreign ownership of BNM bills*) indicating an inclination to position for carry and FX gains.

Kuala Lumpur, Malaysia  
AmInvestment Services Berhad

29 July 2011

## Additional Information

### *Board of Directors of the Manager*

The Board of Directors, of which one-third are independent members, exercise ultimate control over the operations of the Manager. For the financial period under review from 1 April 200 to 30 June 2011, there was a Board of Director Meeting held by the Manager.

Details of the Directors of the Manager are set out as below:

<b>Name: Harinder Pal Singh A/L Joga Singh</b>	
<b>Age</b>	: 49
<b>Nationality</b>	: Malaysia
<b>Qualification</b>	: Bachelors Degree in Accounting, University Malaya
<b>Executive/Non-Executive Director</b>	: Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: <i>Bank Negara Malaysia</i> Senior Administrative Officer, Insurance Inspection Department (1986 – 1993)  <i>Securities Commission</i> Assistant Manager, Market Surveillance Department (1993 – 1995)  <i>AmSecurities Sdn Bhd</i> Seconded to PT Arab-Malaysian Capital Indonesia as Director of Operations (1995 – 1998)  <i>AmMerchant Bank Berhad</i> Manager, Corporate Services (1998 – 2000)  <i>AmInvestment Services Berhad</i> <ul style="list-style-type: none"><li>• Manager, Client Service &amp; Operations (July 2001 – June 2002)</li><li>• Senior Manager, Client Service &amp; Operation (July 2002 – 2003)</li><li>• Head, Sales Services (2003-Dec 2006)</li><li>• Principal Officer / Director of Operations (present)</li><li>• Director (September 2008 - present)</li></ul>
<b>Occupation</b>	: Principal Officer/Director of Operations of AmInvestment Services Berhad
<b>Date of appointment</b>	: 22 September 2008
<b>Directorship of other public companies</b>	: None
<b>Number of board meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	: One (1)
<b>Member of any other board committee</b>	: Investment Committee of AmInvestment Services Berhad (Non-Independent)



<b>Date of appointment to the investment committee</b>	: 12 July 2005
<b>Number of investment committee meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	: One (1)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None
<b>Name: Kok Tuck Cheong</b>	
<b>Age</b>	: 55
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Bachelor of Science (Honours) in Commerce and Accountancy and Master of Science in Financial Managerial Controls from University of Southampton.
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: He started his career with AmMerchant Bank Berhad in the Treasury Department before joining the Banking and Corporate Finance Department and later the Investment Department where he served in various positions. He was appointed as General Manager, Banking in January 1989 and later served as Senior General Manager until his appointment as Executive Director in September 2000.
<b>Occupation</b>	: Managing Director and Chief Executive Officer of AmInvestment Bank Berhad
<b>Date of appointment</b>	: 9 November 2001
<b>Directorship of other public companies</b>	: AmInvestment Bank Berhad and AmInvestment Group Berhad
<b>Number of board meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	: One (1)
<b>Member of any other board committee</b>	: Audit Committee of AmInvestment Services Berhad
<b>Date of appointment to the investment committee</b>	: None
<b>Number of investment committee meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	: None
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None

List of convictions for offences : None  
within the past 10 years (if  
any)

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**Name: Datin Maznah Binti Mahbob**

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<b>Age</b>	:	52
<b>Nationality</b>	:	Malaysian
<b>Qualification</b>	:	A graduate of the Institute of Chartered Secretaries and Administrators (UK) and holds the Capital Markets Services Representative License
<b>Executive/Non-Executive Director</b>	:	Non-Executive Director
<b>Independent/Non-Independent Director</b>	:	Non-Independent Director
<b>Working Experience</b>	:	She has been in the funds management industry since 1987, in a fund management role, before assuming responsibility as the Chief Executive Officer of the Funds Management Division, AmInvestment Bank Group in 2002. Prior to this, she was in the Corporate Finance Department of AmInvestment Bank Berhad for 3 years.
<b>Occupation</b>	:	Chief Executive Officer of the Funds Management Division of AmInvestment Bank Group and Chief Executive Officer/Executive Director of AmInvestment Management Sdn Bhd.
<b>Date of appointment</b>	:	29 December 2005
<b>Directorship of other public companies</b>	:	None
<b>Number of board meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	:	One (1)
<b>Member of any other board committee</b>	:	None
<b>Date of appointment to the investment committee</b>	:	None
<b>Number of investment committee meeting attended in the financial period (1 April 2011 to 30 June 2011)</b>	:	None
<b>Family relationship with any director</b>	:	None
<b>Conflict of interest with the Fund</b>	:	None
<b>List of convictions for offences within the past 10 years (if any)</b>	:	None

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**Name: Professor Dr. Annuar Bin Md. Nasir**

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<b>Age</b>	:	53
<b>Nationality</b>	:	Malaysian
<b>Qualification</b>	:	Doctor of Philosophy, University Putra Malaysia

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<b>Executive/Non-Executive Director</b>	:	Non-Executive Director
<b>Independent/Non-Independent Director</b>	:	Independent Director
<b>Working Experience</b>	:	<i>University Pertanian Malaysia</i> Tutor (1981 – 1984)  <i>University Putra Malaysia, Serdang</i> <ul style="list-style-type: none"> <li>• Dean (February 2006-Present)</li> <li>• Deputy Dean (September 2002 – January 2006)</li> <li>• Professor (March 2000-Present)</li> <li>• Associate Professor (March 1993 – March 2000)</li> </ul>
<b>Occupation</b>	:	Professor and Dean Faculty of Economics and Management of University Putra Malaysia
<b>Date of appointment</b>	:	8 April 2003
<b>Directorship of other public companies</b>	:	None
<b>Number of board meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	:	One (1)
<b>Member of any other board committee</b>	:	Investment Committee of AmInvestment Services Berhad (Independent) and Audit Committee of AmInvestment Services Berhad (Independent)
<b>Date of appointment to the investment committee</b>	:	12 July 2005
<b>Number of investment committee meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	:	One (1)
<b>Family relationship with any director</b>	:	None
<b>Conflict of interest with the Fund</b>	:	None
<b>List of convictions for offences within the past 10 years (if any)</b>	:	None

**Name: Dato' Dr Mahani Binti Zainal Abidin**

<b>Age</b>	:	57
<b>Nationality</b>	:	Malaysian
<b>Qualification</b>	:	Doctor of Philosophy in Development Economics, University of London.
<b>Executive/Non-Executive Director</b>	:	Non-Executive Director
<b>Independent/Non-Independent Director</b>	:	Independent Director
<b>Working Experience</b>	:	<i>Prime Minister's Department, Malaysia</i> Head, Special Consultancy Team on Globalisation National Economic Action Council (April 2001 – July 2005)

***BHLB Unit Trust***

Member of Investment Panel (April 1999 – June 2004)

***Employees Provident Fund Board, Malaysia***

Board Member (June 1998 – 2001)

<b>Occupation</b>	:	Chief Executive, Institute of Strategic and International Studies (ISIS) Malaysia.
<b>Date of appointment</b>	:	14 July 2004
<b>Directorship of other public companies</b>	:	AmIslamic Bank Berhad
<b>Number of board meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	:	One (1)
<b>Member of any other board committee</b>	:	Investment Committee of AmInvestment Services Berhad (Independent) and Audit Committee of AmInvestment Services Berhad (Independent)
<b>Date of appointment to the investment committee</b>	:	12 July 2005
<b>Number of investment committee meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	:	One (1)
<b>Family relationship with any director</b>	:	None
<b>Conflict of interest with the Fund</b>	:	None
<b>List of convictions for offences within the past 10 years (if any)</b>	:	None

**Name: Lee Siang Korn @ Lee Siang Chin**

<b>Age</b>	:	62
<b>Nationality</b>	:	Malaysian
<b>Qualification</b>	:	Fellow of the Institute of Chartered Accountants, England and Wales (July 1972)  Member of the Malaysian Association of Certified Public Accountants (June 1975)
<b>Executive/Non-Executive Director</b>	:	Non-Executive Director
<b>Independent/Non-Independent Director</b>	:	Independent Director
<b>Working Experience</b>	:	<i>Arab-Malaysian Merchant Bank Berhad</i> General Manager, Corporate Finance (1983-1986)  <i>Arab-Malaysian Securities Sdn. Bhd.</i> Managing Director (1986-1999)  <i>Surf88.Com Sdn.Bhd</i> Chairman and Founding shareholder (1999-2004)

<b>Occupation</b>	:	Director
<b>Date of appointment</b>	:	20 December 2006
<b>Directorship of other public companies</b>	:	Star Publications (Malaysia) Berhad UniAsia Life Assurance Berhad
<b>Number of board meeting attended in the financial period (From 1 April 2011 to 30 June 2011)</b>	:	One (1)
<b>Member of any other board committee</b>	:	Investment Committee of AmInvestment Services Berhad (Independent) and Audit Committee of AmInvestment Services Berhad (Independent)
<b>Date of appointment to the investment committee</b>	:	12 July 2005
<b>Number of investment committee meetings attended in the financial year</b>	:	One (1)
<b>Family relationship with any director</b>	:	None
<b>Conflict of interest with the Fund</b>	:	None
<b>List of convictions for offences within the past 10 years (if any)</b>	:	None

### *Material Litigation*

For the financial period under review, neither the directors of the management company nor the Manager of the Fund were engaged in any material litigation and arbitration, including those pending or threatened, and any facts likely to give any proceedings, which might materially affect the business/financial position of the Manager and of its delegates. The Fund also is not engaged in any material litigation and arbitration, including those pending or threatened, and any facts likely to give any proceedings, which might materially affect the Fund.

### *Investment Manager*

We have appointed AmInvestment Management Sdn Bhd, a licensed fund manager approved by the Securities Commission on 4 March 1997, to implement the Fund's investment strategy on behalf of us to achieve the objectives of the Fund. AmInvestment Management Sdn Bhd, is a wholly owned subsidiary of AmInvestment Group Berhad, has been in the fund management industry since 1982.

### *Investment Committee*

The Committee reviews the Fund's investment objective and guidelines, and to ensure that the Fund is invested appropriately. For the financial period under review, there were one (1) Investment Committee Meetings held by the Manager.

## Unitholders

List of the unit holders having the largest number of units:

NAME	Number of Units Held	Units Held (in %)
HSBC BANK MALAYSIA BERHAD	476,595,870.00	88.681901
AmINVESTMENT BANK BERHAD	55,500,000.00	10.327084
AmINVESTMENT BANK BERHAD	4,641,530.00	0.863666
CIMB INVESTMENT BANK BERHAD	202,000.00	0.037587
HWANGDBS INVESTMENT BANK BERHAD	145,000.00	0.026981
CITIBANK BERHAD	140,000.00	0.026050
PUBLIC INVESTMENT BANK BERHAD	103,000.00	0.019166
MAYBANK INVESTMENT BANK BERHAD	20,000.00	0.003721
OSK INVESTMENT BANK BERHAD	20,000.00	0.003721
JF APEX SECURITIES BERHAD	15,000.00	0.002791
PUBLIC INVESTMENT BANK BERHAD	15,000.00	0.002791
CIMB INVESTMENT BANK BERHAD	10,000.00	0.001861
ALLIANCE INVESTMENT BANK BERHAD	3,000.00	0.000558
HONG LEONG INVESTMENT BANK BERHAD	2,000.00	0.000372
HWANGDBS INVESTMENT BANK BERHAD	2,000.00	0.000372
HWANGDBS INVESTMENT BANK BERHAD	2,000.00	0.000372
INTER-PACIFIC SECURITIES SDN BHD	1,000.00	0.000186
ECM LIBRA INVESTMENT BANK BERHAD	1,000.00	0.000186
MAYBANK INVESTMENT BANK BERHAD	1,000.00	0.000186
KENANGA INVESTMENT BANK BERHAD	500.00	0.000093
JUPITER SECURITIES SDN BHD	396.00	0.000074
MAYBANK INVESTMENT BANK BERHAD	300.00	0.000056
HWANGDBS INVESTMENT BANK BERHAD	300.00	0.000056
HWANGDBS INVESTMENT BANK BERHAD	300.00	0.000056
MAYBANK INVESTMENT BANK BERHAD	200.00	0.000056
ECM LIBRA INVESTMENT BANK BERHAD	100.00	0.000037
OSK INVESTMENT BANK BERHAD	100.00	0.000019
PUBLIC INVESTMENT BANK BERHAD	100.00	0.000019
KAF-SEAGROATT & CAMPBELL SECURITIES SDN BHD	50.00	0.000009
KAF-SEAGROATT & CAMPBELL SECURITIES SDN BHD	50.00	0.000009

**STATEMENT OF FINANCIAL POSITION (unaudited)**  
**AS AT 30 JUNE 2011**

		<b>30-6-2011</b>	<b>31-12-2010</b>	<b>31-12-2009</b>
	<b>Note</b>	<b>RM</b>	<b>(Restated)</b>	<b>(Restated)</b>
			<b>RM</b>	<b>RM</b>
<b>ASSETS</b>				
Investments	4	564,934,030	578,438,535	490,316,248
Deposit with financial institution	5	19,635,568	6,555,503	26,890,071
Sundry receivable		13,000	-	-
Cash at banks		228,340	195,608	589
<b>TOTAL ASSETS</b>		<u>584,810,938</u>	<u>585,189,646</u>	<u>517,206,908</u>
<b>LIABILITIES</b>				
Sundry payables and accrued expenses		151,074	147,679	163,462
Amount due to index provider	6	42,001	38,406	32,411
Amount due to Manager	7	47,908	48,080	43,856
Amount due to Trustee	8	33,536	33,655	30,699
<b>TOTAL LIABILITIES</b>		<u>274,519</u>	<u>267,820</u>	<u>270,428</u>
<b>EQUITY</b>				
Unitholders' capital	10(a)	563,972,881	563,972,881	505,268,959
Retained earnings	10(b)(c)	20,563,539	20,948,945	11,667,521
<b>TOTAL EQUITY</b>	10	<u>584,536,420</u>	<u>584,921,826</u>	<u>516,936,480</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>584,810,939</u>	<u>585,189,646</u>	<u>517,206,908</u>
<b>UNITS IN CIRCULATION</b>	10(a)	<u>537,421,800</u>	<u>537,421,800</u>	<u>481,921,800</u>
<b>NET ASSET VALUE PER UNIT – EX DISTRIBUTION</b>		<u>108.77 sen</u>	<u>108.84 sen</u>	<u>107.27 sen</u>

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

**STATEMENT OF COMPREHENSIVE INCOME (unaudited)  
FOR THE PERIOD FROM 1 APRIL 2011 TO 30 JUNE 2011**

	Note	1-4-2011 to 30-6-2011 RM	1-4-2010 to 30-6-2010 RM
<b>INVESTMENT INCOME</b>			
Interest income		5,345,815	4,886,513
Net gain from investments:			
– Financial assets at fair value through profit and loss (“FVTPL”)	9	3,918,817	-
Net realised gain on sale of investments		-	949,395
Net unrealised gain on changes in value of investments		-	2,257,834
Gross Income		<u>9,264,632</u>	<u>8,093,742</u>
<b>EXPENDITURE</b>			
Manager’s fee	7	144,592	129,246
Trustee’s fee	8	101,214	90,472
License fee	6	22,782	21,248
Auditor’s remuneration		2,262	1,993
Administrative expenses		1,257	13,929
Tax agent’s fee		969	1,479
Total Expenditure		<u>273,076</u>	<u>258,367</u>
NET INCOME BEFORE TAX		8,991,556	7,835,375
LESS: INCOME TAX EXPENSE	12	<u>-</u>	<u>-</u>
NET INCOME AFTER TAX		<u>8,991,556</u>	<u>7,835,375</u>
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>8,991,556</u>	<u>7,835,375</u>
Total comprehensive income comprises the following:			
Realised income		5,588,666	5,577,541
Unrealised gain		3,402,890	2,257,834
		<u>8,991,556</u>	<u>7,835,375</u>
Distribution for the period:			
Net distribution	13	<u>-</u>	<u>9,638,436</u>
Net/gross distribution per unit (sen)	13	<u>-</u>	<u>2.00</u>

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



**STATEMENT OF CHANGES IN NET ASSET VALUE (unaudited)  
FOR THE PERIOD FROM 1 APRIL 2011 TO 30 JUNE 2011**

	Note	Unitholders' capital RM	Retained earnings RM	Total net asset value RM
At 1 April 2010 as previously stated		505,257,375	10,030,876	515,288,251
Reclassification of distribution equalisation		<u>11,584</u>	<u>(11,584)</u>	<u>-</u>
At 1 April 2010 as restated		505,268,959	10,019,292	515,288,251
Total comprehensive income for the period		-	7,835,375	7,835,375
Distributions	13	<u>-</u>	<u>(9,638,436)</u>	<u>(9,638,436)</u>
Balance at 30 June 2010		<u>505,268,959</u>	<u>8,216,231</u>	<u>513,485,190</u>
At 1 April 2011		563,972,881	11,571,983	575,544,864
Total comprehensive income for the period		<u>-</u>	<u>8,991,556</u>	<u>8,991,556</u>
Balance at 30 June 2011		<u>563,972,881</u>	<u>20,563,539</u>	<u>584,536,420</u>

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

**STATEMENT OF CASH FLOWS (unaudited)**  
**FOR THE PERIOD FROM 1 APRIL 2011 TO 30 JUNE 2011**

	<b>1-4-2011 to 30-6-2011 RM</b>	<b>1-4-2010 to 30-6-2010 RM</b>
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	25,547,500	80,893,000
Interest received	4,647,059	4,007,177
Payments for other administrative expenses	(711)	(767)
License fee paid	(34,917)	(19,494)
Trustee's fee paid	(101,919)	(94,152)
Manager's fee paid	(145,598)	(134,503)
Purchase of investments	<u>(28,389,495)</u>	<u>(95,295,000)</u>
 Net Cash Generated From/(Used In) Operating And Investing Activities	 <u>1,521,919</u>	 <u>(10,643,739)</u>
 <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 1,521,919	 (10,643,739)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	 <u>18,341,989</u>	 <u>27,985,006</u>
 <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	 <u>19,863,908</u>	 <u>17,341,267</u>
 Cash and cash equivalents comprise:		
Short-term deposit with licensed bank under short- term money market deposit (Note5)	19,635,568	17,145,665
Cash at banks	<u>228,340</u>	<u>195,602</u>
	<u>19,863,908</u>	<u>17,341,267</u>

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

## ABF Malaysia Bond Index Fund

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. GENERAL INFORMATION

ABF Malaysia Bond Index Fund (“the Fund”) was established pursuant to a Deed dated 12 July 2005 as amended by Deeds Supplemental thereto (“the Deed”), between AmInvestment Services Berhad as the Manager, HSBC (Malaysia) Trustee Berhad as the Trustee and all unitholders.

The Fund was set up with the objective for investors who seek an “index-based” approach to investing in a portfolio of Ringgit Malaysia denominated Government and quasi-Government debt securities. As provided in the Deeds, the “accrual period” or financial year shall end on 31 December and the units in the Fund were first offered for sale on 13 July 2005.

#### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with applicable Financial Reporting Standards (“FRS”).

##### **Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and revised FRSs and IC Interpretations which are effective for financial year beginning on or after 1 July 2009, 1 January 2010 or 1 March 2010. Except as discussed below, these new and revised FRSs and IC Interpretations do not give rise to any significant effects on the financial statements of the Fund.

##### FRS 7 *Financial Instruments: Disclosures*

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 *Financial Instruments: Disclosure and Presentation*. FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about market risk, credit risk and liquidity risk, including VaR analyses to market risk.

The Fund has applied FRS 7 prospectively in accordance with the transitional provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the financial statements for the period from 1 April 2011 to 30 June 2011.

##### FRS 8 *Operating Segments*

FRS 8, which replaces FRS 114 *Segment Reporting*, requires disclosure of information about the Fund's operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance, and replaces the requirement of the Fund to determine primary (business) and secondary (geographical) reporting segments. For management purposes, the Fund only has one reporting segment as disclosed in Note 16.

## FRS 101 *Presentation of Financial Statements (Revised)*

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. The standard also introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Fund has elected to present this statement as one single statement.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Fund to make new disclosures to enable users of financial statements to evaluate the Fund's objectives, policies and processes for managing capital (Note 20).

The revised FRS 101 was adopted retrospectively by the Fund.

## Amendments to FRS 132 *Financial Instruments: Presentation* and FRS 101 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

Amendments to FRS 132 and FRS 101 became effective for annual periods beginning on or after 1 January 2010. The amendment to FRS 132 requires entities to classify puttable financial instruments as equity if the instruments have certain particular features and meet specific conditions. The amendments to FRS 101 require disclosure of certain information relating to puttable instruments classified as equity.

The unitholders' capital has the features and meets the conditions for classification as equity instruments. Consequently, upon adoption of the Amendments to FRS 132, unitholders' capital amounting to RM563,972,881 (31 December 2010: RM563,972,881) is reclassified from financial liabilities to equity. Distributions made by the Fund are recognised as dividends in equity in the period in which they are declared.

## FRS 139 *Financial Instruments: Recognition and Measurement*

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Fund has adopted FRS 139 prospectively on 1 January 2010 in accordance with the transitional provisions.

The effects arising from the adoption of this standard has been accounted for by adjusting the opening balance of reserves as at 1 January 2010. Comparatives are not restated. The details of the changes in accounting policies and the effects arising from the adoption of FRS 139 are discussed below:

- Fixed income securities investment schemes

Prior to 1 January 2010, the Fund's investments in fixed income securities were carried at indicative prices quoted by International Index Company Limited through iBoxx as at the reporting date. The fair value adjustments on the investments were recognised in profit or loss.

Upon the adoption of FRS 139, these investments are classified on 1 January 2010 as financial instruments at FVTPL and are stated at their respective fair values. The determination of fair values of the various types of financial instruments is as described in Note 18(b). The classification of these investments as financial instruments at FVTPL did not materially affect the financial statements of the Fund.

The Fund has not adopted the following FRSs, amendments to FRSs, Interpretation of the Issues Committee (“IC Interpretations”) and Technical Releases (“TR”) which have effective date as follows:

		<b>Effective for financial periods beginning on or after</b>
FRS 1	First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3	Business Combinations (revised)	1 July 2010
FRS 124	Related Party Disclosure	1 January 2012
FRS 127	Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 1	First-time Adoption of Financial Reporting Standards	1 January 2011
Amendments to FRS 1	Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
Amendments to FRS 1	Additional Exemption for First-time Adopters	1 January 2011
Amendments to FRS 2	Share-based Payment	1 July 2010
Amendments to FRS 2	Group Cash-settled Share-based Payment Transactions	1 January 2011
Amendments to FRS 3	Business Combinations	1 January 2011
Amendments to FRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 7	Financial Instruments: Disclosures	1 January 2011
Amendments to FRS 7	Improving Disclosures about Financial Instruments	1 January 2011
Amendments to FRS 101	Presentation of Financial Statements	1 January 2011
Amendments to FRS 121	The Effects of Changes in Foreign Exchange Rate	1 January 2011
Amendments to FRS 128	Investments in Associates	1 January 2011
Amendments to FRS 131	Interests in Joint Ventures	1 January 2011
Amendments to FRS 132	Financial Instruments: Presentation	1 January 2011
Amendments to FRS 134	Interim Financial Reporting	1 January 2011
Amendments to FRS 138	Intangible Assets	1 July 2010
Amendments to FRS 139	Financial Instruments: Recognition and Measurement	1 January 2011
IC Interpretation 4	Determining whether an Arrangement Contains a Lease	1 January 2011
IC Interpretation 12	Service Concession Arrangements	1 July 2010

(Forward)

		<b>Effective for financial periods beginning on or after</b>
IC Interpretation 15	Agreements for the Construction of Real Estate	1 January 2012
IC Interpretation 16	Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17	Distributions of Non-cash Assets to Owners	1 July 2010
IC Interpretation 18	Transfer of Assets from Customers	1 January 2011
IC Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
Amendments to IC Interpretation 9	Reassessment of Embedded Derivatives	1 July 2010
Amendments to IC Interpretation 13	Customer Loyalty Programmes	1 January 2011
Amendments to IC Interpretation 14	Prepayment of a Minimum Funding Requirements	1 July 2011
TR 3	Guidance on disclosures of Transition to IFRSs	1 January 2011
TR i-4	Shariah-Compliant Sale Contracts	1 January 2011

Other than Amendments to FRS 7, the other FRSs, amendments to FRSs, IC Interpretations and TR are either not applicable or are expected not to have any significant impact on the financial statements of the Fund upon their initial application.

### 3. **SIGNIFICANT ACCOUNTING POLICIES**

#### **Income Recognition**

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.

Dividend/distribution income is recognised when the Fund's right to receive payment is established. Interest on fixed income securities and short-term deposits, if any, is recognised on an accrual basis using the effective interest method.

#### **Income Tax Expense**

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.

#### **Functional and Presentation Currency**

Functional currency is the currency of the primary economic environment in which the Fund operates that most faithfully represents the economic effects of the underlying transactions. This is the Ringgit Malaysia which reflects the currency of the economy in which the Fund

competes for funds, issues and redeems units. The Fund has also adopted Ringgit Malaysia as its presentation currency.

### **Statement of Cash Flows**

The Fund adopts the direct method in the preparation of the statement of cash flows.

Cash equivalents are short term, highly liquid investments that are readily convertible to cash with insignificant risk of changes in value.

### **Distribution**

Distributions are at the discretion of the Fund. A distribution to the Fund's unitholders is accounted for as a deduction from realised reserve except where distribution is sourced out of distribution equalisation which is accounted for as a deduction from unitholders' capital. A proposed distribution is recognised as a liability in the period in which it is approved.

### **Unitholders' Capital**

The unitholders' capital of the Fund meets the definition of puttable instruments classified as equity instruments under the revised FRS 132.

### **Distribution Equalisation**

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.

### **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, directly attributable transaction costs.

The Fund determines the classification of its financial assets at initial recognition, and the categories applicable to the Fund include as financial assets at fair value through profit or loss and loans and receivables.

#### **(i) Financial assets at FVTPL**

Financial assets are classified as financial assets at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading include fixed income securities acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Changes in the fair value of those financial instruments are recorded in 'Net gain or loss on financial assets at fair value through profit or loss'. Interest earned and dividend revenue elements of such instruments, if any, are recorded separately in 'Interest income' and 'Gross dividend income', respectively. Exchange differences on financial assets at FVTPL are not recognised separately in profit or loss but are included in net gains or net losses on changes in fair value of financial assets at FVTPL.

Investments are stated at fair value on a portfolio basis in accordance with the provisions of the Deed, fair value is determined based on prices provided by the index provider, International Index Company Limited (“IIC”), plus accrued interest. Adjusted cost of investments relates to the purchase cost plus accrued interest, adjusted for amortisation of premium and accretion of discount, if any, calculated on the effective interest rate method over the period from the date of acquisition to the date of maturity of the respective securities as approved by the Manager and the Trustee. Unrealised gains or a loss recognised in the statement of comprehensive income is not distributable in nature.

On disposal of investments, the net realised gain or loss on disposal is measured as the difference between the net disposal proceeds and the carrying amount of the investments. The net realised gain or loss is recognised in the statement of comprehensive income.

(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 short term receivables in this classification.

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

### **Financial Liabilities**

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

The Fund’s financial liabilities which include amount due to Trustee, amount due to Manager, amount due to index provider and sundry payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method.

The Fund’s financial liabilities which include amount due to Manager and Trustee, amount due to Index Provider and sundry payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the straight line 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.

### **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 of ‘at fair value through profit or loss’ are calculated using weighted average method. They represent the difference between an instrument’s initial carrying amount and disposal amount

### Significant Accounting Estimates and Judgments

The preparation of the Fund’s financial statements requires the Manager to make judgments, 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.

The Fund classifies its investments as financial assets at FVTPL as the Fund is an open-ended fund that may sell its investments for short-term profit-taking or to meet unitholders cancellation.

No other major judgments 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 next year.

#### 4. INVESTMENTS

	<b>30-6-2011</b>	<b>31-12-2010</b>	<b>31-12-2009*</b>
	<b>Financial</b>	<b>Financial</b>	
	<b>assets at</b>	<b>assets at</b>	
	<b>FVTPL</b>	<b>FVTPL</b>	
	<b>RM</b>	<b>RM</b>	<b>RM</b>
At nominal value:			
Quasi-Government bonds	40,000,000	40,000,000	60,000,000
Malaysian Government Securities	406,660,000	435,000,000	375,000,000
Government Investment Issues	96,650,000	80,000,000	45,000,000
	<u>543,310,000</u>	<u>955,000,000</u>	<u>1,080,000,000</u>
At carrying value:			
Quasi-Government bonds	40,686,285	40,724,017	59,001,414
Malaysian Government Securities	425,046,263	455,396,455	385,936,777
Government Investment Issues	99,201,482	82,318,063	45,378,057
	<u>564,934,030</u>	<u>578,438,535</u>	<u>490,316,248</u>

\* Prior to 1 January 2010, the investments of the Fund, although carried at fair values, need not be classified as “Financial assets at FVTPL”.

Details of investments as at 30 June 2011 are as follows:

<b>Maturity date</b>	<b>Issuer</b>	<b>Nominal value RM</b>	<b>Fair value RM</b>	<b>Purchase cost RM</b>	<b>Fair value as a percentage of net asset value %</b>
<b>Quasi-government bonds</b>					
12.03.2013	The Export-Import Bank of Korea	10,000,000	10,166,841	10,028,474	1.74
06.06.2014	Sil Terra Capital Berhad	15,000,000	15,156,965	15,233,013	2.59
30.11.2016	Syarikat Prasarana Negara Berhad	5,000,000	5,115,218	4,911,737	0.88
30.05.2018	Syarikat Prasarana Negara Berhad	10,000,000	10,247,261	9,968,253	1.75
		<u>40,000,000</u>	<u>40,686,285</u>	<u>40,141,477</u>	<u>6.96</u>
<b>Malaysia Government Securities</b>					
15.06.2012	Government of Malaysia	30,000,000	30,270,761	30,502,620	5.18
27.08.2012	Government of Malaysia	20,000,000	20,077,564	19,980,715	3.43
25.02.2013	Government of Malaysia	50,000,000	51,114,271	50,014,630	8.74
15.05.2013	Government of Malaysia	5,000,000	5,064,251	5,182,945	0.87
31.05.2013	Government of Malaysia	15,000,000	15,052,783	15,233,531	2.58
30.04.2014	Government of Malaysia	40,070,000	42,370,113	43,306,623	7.25
15.08.2014	Government of Malaysia	10,000,000	10,189,247	10,098,645	1.74
27.02.2015	Government of Malaysia	30,790,000	31,456,335	31,135,898	5.38
12.08.2015	Government of Malaysia	25,000,000	25,776,896	25,809,760	4.41
30.09.2015	Government of Malaysia	15,000,000	15,933,967	15,988,833	2.73
15.09.2016	Government of Malaysia	20,800,000	21,788,167	21,260,054	3.73
15.02.2017	Government of Malaysia	20,000,000	20,424,050	20,504,800	3.49
15.09.2017	Government of Malaysia	10,000,000	10,274,744	10,309,924	1.76
30.07.2019	Government of Malaysia	25,000,000	28,897,166	28,646,488	4.94

(Forward)

<b>Maturity date</b>	<b>Issuer</b>	<b>Nominal value RM</b>	<b>Fair value RM</b>	<b>Purchase cost RM</b>	<b>Fair value as a percentage of net asset value %</b>
29.11.2019	Government of Malaysia	30,000,000	31,212,833	31,349,549	5.34
15.07.2025	Government of Malaysia	10,000,000	10,885,934	10,366,331	1.86
15.09.2026	Government of Malaysia	10,000,000	10,791,199	10,305,114	1.85
31.05.2027	Government of Malaysia	5,000,000	4,636,331	4,517,448	0.79
15.09.2028	Government of Malaysia	25,000,000	28,465,044	28,232,286	4.87
15.04.2030	Government of Malaysia	<u>10,000,000</u>	<u>10,364,607</u>	<u>10,346,951</u>	<u>1.77</u>
		<u>406,660,000</u>	<u>425,046,263</u>	<u>423,093,145</u>	<u>72.71</u>

#### **Government Investment Issues**

15.03.2013	Government of Malaysia	5,000,000	5,054,101	5,035,441	0.86
31.07.2013	Government of Malaysia	15,000,000	15,287,362	15,110,654	2.61
30.12.2014	Government of Malaysia	11,650,000	11,805,022	11,730,946	2.02
16.03.2015	Government of Malaysia	10,000,000	10,439,487	10,329,639	1.79
30.09.2015	Government of Malaysia	5,000,000	5,116,014	5,053,511	0.88
15.06.2017	Government of Malaysia	5,000,000	5,066,614	5,151,990	0.87
30.08.2018	Government of Malaysia	15,000,000	15,220,077	15,073,431	2.60
31.10.2018	Government of Malaysia	20,000,000	20,739,593	20,985,934	3.55
30.04.2020	Government of Malaysia	<u>10,000,000</u>	<u>10,473,212</u>	<u>10,232,273</u>	<u>1.79</u>
		<u>96,650,000</u>	<u>99,201,482</u>	<u>98,703,819</u>	<u>16.97</u>

#### **Total Financial Assets At FVTPL**

**Excess of fair value over cost**

<u>543,310,000</u>	<u>564,934,030</u>	<u>561,938,441</u>	<u>96.64</u>
		<u>2,995,589</u>	

The weighted average effective yields on unquoted securities are as follows:

	Effective yield*	
	30-6-2011 %	31-12-2010 %
Quasi-government bonds	3.80	3.80
Malaysian Government Securities	3.45	3.50
Government Investment Issues	3.59	3.56

\* As provided by International Index Company Limited

Analyses of the remaining maturity of investments as at 30 June 2011 are as follows:

	Less than 1 year RM	1 to 2 years RM	2 to 5 years RM	More than 5 years RM
At nominal value:				
Quasi-Government bonds	-	10,000,000	15,000,000	15,000,000
Malaysian Government Securities	30,000,000	90,000,000	120,860,000	165,800,000
Government Investment Issues	-	5,000,000	41,650,000	50,000,000

#### 5. DEPOSITS WITH FINANCIAL INSTITUTIONS

	30-6-2011 RM	31-12-2010 RM	31-12-2009 RM
At nominal value:			
Short-term deposit with licensed bank under short-term money market deposit	19,633,900	6,555,000	26,888,600
At carrying value:			
Short-term deposit with licensed bank under short-term money market deposit	19,635,568	6,555,503	26,890,071

Details of short-term deposit as at 30 June 2011 are as follows:

Maturity date	Issuer	Nominal value RM	Carrying value RM	Purchase cost RM	Carrying value as a percentage of net asset value %
<b>Short-term deposit with licensed bank under short-term money market deposit</b>					
01.07.2011	OCBC Bank (Malaysia) Berhad	19,633,900	19,635,568	19,633,900	3.36

The weighted average interest rate and average remaining maturities of short-term deposit with licensed bank under short-term money market deposit are as follows:

	Weighted average interest rate		Remaining maturities	
	30-6-2011 %	31-12-2010 %	30-6-2011 Day	31-12-2010 Days
Short-term deposit with licensed bank under short-term money market deposit	3.10	2.80	1	3

**6. AMOUNT DUE TO INDEX PROVIDER**

Included in amount due to index provider is the license fee payable to International Index Company Limited, the provider of the benchmark index.

License fee is calculated on a daily basis at the following rate:

**% p.a.**

**Fund Size**

**From 1 July 2008 onwards**

For amount equal to or less than Initial Funding	0.0175
For amount above Initial Funding, but equal to or less than 275% of Initial Funding	0.01
For amount above 275% of Initial Funding	No charge

subject to a minimum annual fee of USD21,234

\* Initial Funding for the Fund was USD115,400,000

**7. AMOUNT DUE TO MANAGER**

Amount due to Manager represents the manager's fee payable.

Manager's fee was charged at a rate of 0.10% per annum on the net asset value of the Fund, calculated on a daily basis, for the financial period from 1 April 2011 to 30 June 2011 (0.10% in 2010).

The normal credit period for Manager's fee payable is one month.

**8. AMOUNT DUE TO TRUSTEE**

Amount due to Trustee represents the trustee's fee payable.

Trustee's fee was charged at a rate of 0.07% per annum on the net asset value of the Fund, calculated on a daily basis, for the financial period from 1 April 2011 to 30 June 2011 (0.07% in 2010).

The normal credit period for Trustee's fee payable is one month.

9. **NET GAIN FROM INVESTMENT - FVTPL**

	<b>30-6-2011</b>	<b>31-12-2010</b>
	<b>RM</b>	<b>RM</b>
Financial assets at FVTPL comprises the following:		
– Net unrealised (loss)/gain on changes in value of investments	3,402,890	5,857,894
– Net realised gain on sale of investments	<u>515,927</u>	<u>1,309,720</u>
	<u><u>3,918,817</u></u>	<u><u>7,167,614</u></u>

10. **TOTAL EQUITY**

Net asset value attributable to unitholders is represented by:

	<b>Note</b>	<b>30-6-2010</b>	<b>31-12-2010</b>	<b>31-12-2009</b>
		<b>RM</b>	<b>RM</b>	<b>RM</b>
				<b>(Restated)</b>
Unitholders' capital	(a)	563,972,881	563,972,881	505,268,959
Retained earnings				
- Realised reserve	(b)	15,106,156	15,121,477	11,697,947
- Unrealised reserve/(loss)	(c)	<u>5,457,383</u>	<u>5,827,468</u>	<u>(30,426)</u>
		<u><u>584,536,420</u></u>	<u><u>584,921,826</u></u>	<u><u>516,936,480</u></u>

(a) **UNITHOLDERS' CAPITAL/UNITS IN CIRCULATION**

	<b>1-4-2011 to 31-6-2011</b>		<b>1-1-2010 to 31-12-2010</b>	
	<b>Number of units</b>	<b>RM</b>	<b>Number of units</b>	<b>RM</b>
As at beginning of the period/year as previously stated	537,421,800	563,972,881	481,921,800	505,257,375
Reclassification of distribution equalisation	-	-	-	11,584
As at beginning of the period/year as restated	537,421,800	563,972,881	481,921,800	505,268,959
Creation of units	-	-	55,500,000	60,495,000
	537,421,800	563,972,881	537,421,800	565,763,959
Distribution out of distribution equalisation (Note 13)	-	-	-	(1,791,078)
As at end of the period/year	<u>537,421,800</u>	<u>563,972,881</u>	<u>537,421,800</u>	<u>563,972,881</u>

As provided in the Deed, the initial size of the Fund shall not exceed 1 billion units.

(b) **REALISED - DISTRIBUTABLE**

	<b>1-4-2011 to 30-6-2011 RM</b>	<b>1-1-2010 to 31-12-2010 RM</b>
Balance as at beginning of the period/year as previously stated	<b>9,517,490</b>	<b>11,709,531</b>
Reclassification of distribution equalisation	-	(11,584)
Balance as at beginning of the period/year as restated	<b>9,517,490</b>	<b>11,697,947</b>
Net income after tax	8,991,556	26,044,335
Net unrealised loss/(gain) attributable to investments held transferred to unrealised reserve	(3,402,890)	(5,857,894)
Distribution out of realised reserve (Note 13)	-	(16,762,911)
Net increase in realised reserve for the period/year	<u>5,588,666</u>	<u>3,423,530</u>
Balance as at end of the period/year	<u>15,106,156</u>	<u>15,121,477</u>

(c) **UNREALISED – NON-DISTRIBUTABLE**

	<b>1-4-2011 to 30-6-2011 RM</b>	<b>1-1-2010 to 31-12-2010 RM</b>
Balance at beginning of the period/year	2,054,493	(30,426)
Net unrealised (loss)/gain attributable to investments held transferred from realised reserve	<u>3,402,890</u>	<u>5,857,894</u>
Balance as at end of the period/year	<u><u>5,457,383</u></u>	<u><u>5,827,468</u></u>

11. **UNITS HELD BY RELATED PARTIES**

	<b>30-6-2011</b>		<b>31-12-2010</b>	
	<b>Number of units</b>	<b>RM</b>	<b>Number of units</b>	<b>RM</b>
Parties related to the Manager*	<u>60,141,530</u>	<u>64,291,296</u>	<u>69,129,430</u>	<u>75,143,690</u>

\* The parties related to the Manager are the legal and beneficial owners of the units.

The Manager, AmInvestment Services Berhad, did not hold any unit in the Fund as at 30 June 2011 and 31 December 2010.

12. **INCOME TAX EXPENSE**

Income tax payable is calculated on investment income less deduction for permitted expenses as provided for under Section 63B of the Income Tax Act, 1967.

Pursuant to Schedule 6 paragraph 35 of the Income Tax Act, 1967, interest income on short-term deposit with licensed financial institutions derived by the Fund is exempted from tax.



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

	<b>1-4-2011 to 30-6-2011 RM</b>	<b>1-4-2010 to 30-6-2010 RM</b>
Net income before income tax	<u>8,991,556</u>	<u>7,835,375</u>
Taxation at Malaysian statutory rate of 25%	2,247,800	1,958,900
Tax effects of:		
Income not subject to tax	(2,316,200)	(2,023,500)
Permitted expenses not deductible for tax purposes	38,800	30,500
Restriction on tax deductible expenses for unit trust funds	25,900	30,700
Permitted expenses not used and not available for future years	<u>3,700</u>	<u>3,400</u>
Tax expense for the financial period	<u>-</u>	<u>-</u>

### 13. DISTRIBUTIONS

Distributions to Unitholders declared on 11 January 2010 and 16 June 2010 for the previous financial period are from the following sources:

	<b>1-4-2011 to 30-6-2011 RM</b>	<b>1-4-2010 to 30-6-2010 RM</b>
Undistributed net income brought forward – realised	-	5,331,934
Interest income	-	3,834,351
Net realised gain on sale of investments	<u>-</u>	<u>730,518</u>
Less: Expenses	<u>-</u>	<u>9,896,803</u>
	-	(258,367)
Total amount of distribution	<u>-</u>	<u>9,638,436</u>
Net/gross distribution per unit (sen)	<u>-</u>	<u>2.00</u>
Distribution made out of:		
- Realised reserve	<u>-</u>	<u>9,638,436</u>
Comprising:		
Cash distributions	<u>-</u>	<u>9,638,436</u>

Included in the income distribution for the financial period from 1 January 2010 to 30 June 2011 was an amount distributed from the previous financial year's realised income of RM5,331,934.

#### 14. MANAGEMENT EXPENSE RATIO (“MER”)

The Fund’s MER is as follows:

	1-4-2011 to 30-6-2011 % p.a.	1-4-2010 to 30-6-2010 % p.a.
Manager’s fee	0.10	0.10
Trustee’s fee	0.07	0.07
License fee	0.01	0.02
Trust administrative expenses	0.01	0.01
Total MER	<u>0.19</u>	<u>0.20</u>

The MER of the Fund is the ratio of the sum of annualised fees and expenses incurred by the Fund to the average NAV of the Fund calculated on a daily basis.

#### 15. PORTFOLIO TURNOVER RATIO (“PTR”)

The portfolio turnover ratio, calculated by dividing the average of total acquisitions and total disposals of investment securities by the average net asset value of the Fund calculated on a daily basis, is 0.05 times for the financial period from 1 April 2011 to 30 June 2011 (0.17 for the financial period from 1 April 2010 to 30 June 2010).

#### 16. SEGMENTAL REPORTING

In accordance with the objective of the Fund, substantially all of the Fund’s investments are made in the form of fixed income securities in Malaysia. The Manager is of the opinion that the risk and rewards from these investments are not individually or segmentally distinct and hence the Fund does not have a separate identifiable business or geographical segments.

#### 17. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

Details of transactions with financial institutions for the financial period from 1 April 2011 to 30 June 2011 are as follows:

Financial institutions	Transaction value	
	RM	%
CIMB Bank Berhad	35,856,973	66.02
AmBank (M) Berhad*	15,073,431	27.75
OCBC Bank (Malaysia) Berhad	3,383,840	6.23
Total	<u>54,314,244</u>	<u>100.00</u>

*\* A financial institution related to the Manager. The Manager and the Trustee are of the opinion that the above transactions have been entered in the normal course of business and have been established under terms that no less favourable than those arranged with independent third parties.*

The above transaction values are in respect of local fixed income instruments. Transactions in these fixed income instruments do not involve any commission or brokerage.

## 18. FINANCIAL INSTRUMENTS

### (a) Classification of financial instruments

With effect from 1 January 2010, 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 classifications. The significant accounting policies in Note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities of the Fund in the statement of financial position as at 30 June 2011 by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

	<b>Financial assets at FVTPL RM</b>	<b>Loans and receivables RM</b>	<b>Financial liabilities at amortised cost RM</b>	<b>Total RM</b>
<b>Assets</b>				
Unquoted investments	564,934,030	-	-	564,934,030
Deposits with financial institutions	-	19,635,568	-	19,635,568
Sundry receivable	-	13,000	-	13,000
Cash at bank	-	228,340	-	228,340
Total financial assets	<u>564,934,030</u>	<u>19,876,908</u>	<u>-</u>	<u>584,810,938</u>
<b>Liabilities</b>				
Other payables and accruals	-	-	151,074	151,074
Amount due to index provider	-	-	42,001	42,001
Amount due to Manager	-	-	47,908	47,908
Amount due to Trustee	-	-	33,536	33,536
Total financial liabilities	<u>-</u>	<u>-</u>	<u>274,519</u>	<u>274,519</u>
			<b>Income, expense, gains and losses RM</b>	
Net gains and losses from financial assets FVTPL			3,918,817	
Interest income, of which derived from:				
Interest income from loans and receivables			<u>5,345,815</u>	

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

The Fund's financial assets at FVTPL are carried at fair value. The fair values of these financial assets were determined using prices in active markets for identical assets.

### Unquoted debt securities

The indicative prices for RM-denominated unquoted debt securities are based on information provided by the index provider, International Index Company Limited via iBoxx.

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair values are observable; either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by the level of the fair value hierarchy:

	30 June 2011			
	Level 1	Level 2	Level 3	Total
	RM	RM	RM	RM
<b>Financial assets at FVTPL</b>				
Unquoted fixed income securities	-	564,934,03	-	564,934,030

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

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value due to their short period to maturity or short credit period:

- Deposits with financial institutions
- Sundry payables
- Amounts due to index provider
- Amounts due to Manager
- Amounts due to Trustee

There were no financial instruments which are not carried at fair values and whose carrying amounts are not reasonable approximation of their respective fair values.

## 19. RISK MANAGEMENT

The Fund is exposed to a variety of risks that included market risk, credit risk, liquidity risk, regulatory risk, management risk and stock risk.

Risk management is carried out by closely monitoring, measuring and mitigating the above said risk, careful selection of stocks for investment coupled with stringent compliance to investment restrictions as stipulated by the Securities Commission Act, Securities

Commission's Guidelines on Exchange Traded Funds and the Deed as the backbone of risk management of the Fund.

## **Market Risk**

Market risk is the risk that the value of a portfolio would decrease due to changes in market risk factors such as equity prices, foreign exchange rates, interest rates and commodity prices.

### **(a) Objectives and limitations of the Value at Risk ("VaR") methodology**

The Fund model is Value-at-Risk based on Gaussian distribution to assess possible changes in the market value of the portfolio. Based on 180 weekly historical data points, the potential loss at the 99% confidence level is estimated. The VaR model is designed to measure market risk during normal market conditions. Due to the fact that VaR relies on historical data to provide information and that there is no prediction of the future change in the risk factors, the probability of large market movements may be underestimated. VaR may also be under- or over-estimated due to the interdependence between the market risk factors. Even though positions may change throughout the day, the VaR only represents the risk of the portfolio at the close of each business day. Analysis is carried out to estimate potential losses at the 99% confidence level.

In practice, the actual portfolio results will differ from the VaR calculation. In particular, the calculation does not provide a meaningful indication of losses under stressed market conditions.

### **(b) VaR assumptions**

The VaR that the Fund measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days.

	<b>Value-at-Risk (%)</b>	
	<b>Interest rate risk</b>	<b>Total VaR</b>
	<b>RM</b>	<b>RM</b>
30 June 2011	0.54	0.54
Average Daily	0.54	0.54
Highest	0.56	0.56
Lowest	0.53	0.53

Based on the Gaussian VaR, using historical weekly data for the past 180 weeks, ABF Malaysia Bond Index that invests mainly in Ringgit denominated fixed income securities had a daily 1% Value-at-Risk (VaR) of approximately 0.54% as 30 June 2011. This implies that not more than 1 out of 100 trading days would record a daily loss exceeding 0.54% of the NAV.

## Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Fund by failing to discharge an obligation. The Fund invests in fixed income securities and money market instruments. As such the Fund would be exposed to the risk of bond issuers and financial institutions defaulting on their repayment obligations which in turn would affect the net asset value of the Fund. This risk is mitigated by the Fund investing mostly in Government and quasi Government agencies bonds.

### (a) Credit quality of financial assets

The following table analyses the Fund's portfolio of debt securities by rating category rated by rating agencies, i.e. RAM or MARC as at 30 June 2011:

Credit rating	RM	As a % of debt securities	As a % of net asset value
AAA	<u>564,934,030</u>	<u>100.00</u>	<u>96.65</u>

For deposit in financial institution, the Fund only makes placement with financial institutions with sound rating. The following table presents the Fund's portfolio of deposit by rating category as at 30 June 2011:

Credit rating	RM	As a % of debt securities	As a % of net asset value
P1/MARC1	<u>19,635,568</u>	<u>100.00</u>	<u>3.36</u>

### (b) Credit risk concentration

Concentration of risk is monitored and managed based on sectorial distribution. The table below analyses the Fund's portfolio of debt securities analysed by sectorial distribution as at 30 June 2011:

Sector	RM	As a % of debt securities	As a % of net asset value
Government	554,767,189	98.20	94.91
Supranational	<u>10,166,841</u>	<u>1.80</u>	<u>1.74</u>
	<u>564,934,030</u>	<u>100.00</u>	<u>96.65</u>

There is no geographical risk as the Fund invests only in Malaysia.

## Liquidity Risk

Liquidity risk is defined as the risk of being unable to raise funds to meet payment obligations as they fall due. This is also the risk of the unit trust fund experiencing large redemptions, where the Investment Manager could be forced to sell large volumes of its holdings at unfavorable prices to meet redemption requirements.

The Fund maintains sufficient level of liquid assets, after consultation with the Trustee, to meet anticipated payments and cancellations of units by unitholders. Liquid assets comprise deposits with licensed financial institutions and other instruments, which are capable of being converted into cash between 5 to 7 days. The Fund's policy is to always maintain a prudent level of liquid assets so as to reduce liquidity risk.

### Objectives and Assumptions

The coupons could be paid on annual, biannual or quarterly basis. Alongside with those bonds are zero coupon bonds that only pay the nominal amount at maturity date. Cash received from bonds are as calculation follows:

\$ = cash received

R = annual coupon rate

F = coupon frequency

- For zero coupon bonds,  $F = 0$   
At maturity:  $\$ = \text{Nominal}$
- For  $F > 0$   
Before maturity: coupon payment,  $\$ = \text{Nominal} * (R/F)$   
At maturity: maturity payment,  $\$ = \text{Nominal} + (\text{Nominal} * R/F)$

The following table presents undiscounted contractual cash flows from different asset classes in the Fund:

<b>Contractual Cash Flows (Undiscounted)</b>						
	<b>0 – 1 year</b>	<b>1 – 2 years</b>	<b>2 – 3 years</b>	<b>3 – 4 years</b>	<b>4 – 5 years</b>	<b>&gt; 5 years</b>
<b>Financial assets</b>						
Financial assets held at FVTPL	52,531,849	126,165,549	87,635,674	76,720,941	56,358,321	282,964,998
Deposits with financial institutions	19,635,568	-	-	-	-	-
Other assets	241,340	-	-	-	-	-
<b>Total assets</b>	<u>72,408,757</u>	<u>126,165,549</u>	<u>87,635,674</u>	<u>76,720,941</u>	<u>56,358,321</u>	<u>282,964,998</u>
<b>Financial liabilities</b>						
Other liabilities	<u>274,519</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### Regulatory Risk

Any changes in national policies and regulations may have an effect on the capital market.

### Management Risk

Poor management of the Fund may cause considerable losses to the Fund that in turn may affect the net asset value of the Fund.

## **Stock Risk**

Stock risk is that specific to a stock and is not correlated with the specific risks of other stocks.

## 20. **CAPITAL MANAGEMENT**

The primary objective of the Fund's capital management is to ensure that it maximises unitholder's value by expanding its fund size to benefit from economies of scale and achieving growth in net asset value from the performance of its investments. As disclosed in Note 10, the approved fund size by the Securities Commission is 1,000,000,000 units of which 537,421,800 units have been issued and a further 462,578,200 units can be issued in future period based on the daily net asset value per unit on the respective creation dates.

The Fund manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Fund may issue new or bonus units, adjust the distribution payment, or return capital to unitholder by way of redemption of units.

No changes were made in the objective, policies or processes during the period from 1 April 2011 to 30 June 2011 and 1 April 2010 to 30 June 2010.