

ABF Malaysia Bond Index Fund

Quarterly Report

31 March 2014

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
Datin Maznah Mahbob
Harinder Pal Singh
Mustafa Mohd Nor

Investment Committee

Professor Dr Annuar Md. Nassir
Dato' Mohd Effendi Abdullah
Harinder Pal Singh
Mustafa Mohd Nor

Investment Manager

AmInvestment Management Sdn Bhd

Trustee

HSBC (Malaysia) Trustee Berhad

Auditors and Reporting Accountants

Ernst & Young

Taxation Adviser

Deloitte Tax Services Sdn Bhd
(formerly known as Deloitte KassimChanTax Services Sdn Bhd)

CORPORATE DIRECTORY

AmInvestment Services Berhad

Registered Office

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55, Jalan Raja Chulan, 50200 Kuala Lumpur
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AmInvestment Management Sdn Bhd

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Secretary

Koh Suet Peng (MAICSA 7019861)
22nd Floor, Bangunan AmBank Group
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HSBC (Malaysia) Trustee Berhad

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MANAGER'S REPORT

Dear Unitholders,

We are pleased to present you the Manager's report and the unaudited quarterly accounts of ABF Malaysia Bond Index Fund ("Fund") for the financial period from 1 January 2014 to 31 March 2014.

Salient Information of the Fund

| | | | | | |
|------------------------|--|----------------------------------|-----------------|-----------------------|-----------------------------|
| Name | ABF Malaysia Bond Index Fund ("Fund") | | | | |
| Category/ Type | Fixed Income ETF/ Income | | | | |
| Objective | <p>A listed bond fund that is passively managed against the given benchmark and the returns will be expected to correspond closely to the performance of the benchmark index.</p> <p>Any material change to the Fund's investment objective will require the unitholders' approval by way of special resolution.</p> | | | | |
| Index Component | Details of the index component as at 31 March 2014 are as follows: | | | | |
| | Code | Issuer | Coupon % | Final Maturity | Notional Amount (RM) |
| | VZ090241 | 1Malaysia Development Berhad | 5.750 | 27 May 2039 | 600,000,000 |
| | VZ090245 | 1Malaysia Development Berhad | 5.750 | 27 May 2039 | 650,000,000 |
| | VZ090246 | 1Malaysia Development Berhad | 5.750 | 27 May 2039 | 650,000,000 |
| | VZ090247 | 1Malaysia Development Berhad | 5.750 | 27 May 2039 | 650,000,000 |
| | VZ090248 | 1Malaysia Development Berhad | 5.750 | 27 May 2039 | 650,000,000 |
| | UN070014 | Asian Development Bank | 4.000 | 08 February 2017 | 500,000,000 |
| | UI100019 | Bank Pembangunan Malaysia Berhad | 4.150 | 10 April 2015 | 1,500,000,000 |
| | PZ00197S | Bank Pembangunan Malaysia Berhad | 7.500 | 30 October 2025 | 500,000,000 |
| | VG110222 | Cagamas Berhad | 3.700 | 11 July 2014 | 620,000,000 |
| | VG120430 | Cagamas Berhad | 3.500 | 21 December 2015 | 575,000,000 |
| | VJ100354 | Cagamas Berhad | 3.850 | 20 October 2016 | 500,000,000 |
| | UI110086 | Cagamas Berhad | 3.730 | 11 November 2016 | 825,000,000 |
| | UK100107 | Cagamas Berhad | 3.980 | 20 October 2017 | 1,000,000,000 |
| | VN120270 | DanaInfra Nasional | 3.740 | 20 July 2022 | 700,000,000 |
| | VP120271 | DanaInfra Nasional | 3.870 | 19 July 2024 | 500,000,000 |
| | VS120272 | DanaInfra Nasional | 4.040 | 20 July 2027 | 900,000,000 |
| | VI100060 | Danga Capital Bhd | 4.350 | 13 April 2015 | 2,000,000,000 |
| | UI120008 | The Export Import Bank of Korea | 4.070 | 02 February 2017 | 500,000,000 |
| | (Forward) | | | | |

| Code | Issuer | Coupon % | Final Maturity | Notional Amount (RM) |
|-------------|---------------------------------|-----------------|-----------------------|-----------------------------|
| UN080007 | The Export Import Bank of Korea | 4.500 | 12 March 2018 | 500,000,000 |
| VK120194 | Johor Corporation | 3.680 | 14 June 2019 | 800,000,000 |
| VN120195 | Johor Corporation | 3.840 | 14 June 2022 | 1,800,000,000 |
| DN120017 | Khazanah Nasional Berhad | 0.000 | 02 September 2022 | 1,500,000,000 |
| DS081080 | Khazanah Nasional Berhad | 0.000 | 14 August 2023 | 2,000,000,000 |
| DS120018 | Khazanah Nasional Berhad | 0.000 | 12 October 2027 | 1,000,000,000 |
| DX120016 | Khazanah Nasional Berhad | 0.000 | 03 September 2032 | 1,000,000,000 |
| GI090042 | Government of Malaysia | 3.909 | 31 July 2014 | 4,500,000,000 |
| GH110017 | Government of Malaysia | 3.505 | 30 September 2014 | 7,000,000,000 |
| GJ090030 | Government of Malaysia | 3.902 | 30 December 2014 | 5,500,000,000 |
| GN050001 | Government of Malaysia | 4.419 | 16 March 2015 | 2,000,000,000 |
| GI100042 | Government of Malaysia | 3.473 | 15 July 2015 | 3,000,000,000 |
| GH120001 | Government of Malaysia | 3.186 | 31 July 2015 | 4,000,000,000 |
| GJ100009 | Government of Malaysia | 3.860 | 30 September 2015 | 3,500,000,000 |
| GH120090 | Government of Malaysia | 3.235 | 08 February 2016 | 7,000,000,000 |
| GN060019 | Government of Malaysia | 3.820 | 15 November 2016 | 11,000,000,000 |
| GN070008 | Government of Malaysia | 3.941 | 15 June 2017 | 3,000,000,000 |
| GJ120009 | Government of Malaysia | 3.309 | 30 August 2017 | 9,500,000,000 |
| GL110001 | Government of Malaysia | 3.872 | 30 August 2018 | 6,500,000,000 |
| GN080031 | Government of Malaysia | 4.295 | 31 October 2018 | 7,500,000,000 |
| GO090001 | Government of Malaysia | 3.910 | 13 August 2019 | 3,500,000,000 |
| GL120021 | Government of Malaysia | 3.704 | 30 September 2019 | 8,000,000,000 |
| GO090061 | Government of Malaysia | 4.492 | 30 April 2020 | 3,500,000,000 |
| GL120098 | Government of Malaysia | 3.576 | 15 May 2020 | 7,000,000,000 |
| GN100021 | Government of Malaysia | 4.284 | 15 June 2020 | 5,500,000,000 |
| GN100060 | Government of Malaysia | 3.998 | 30 November 2020 | 3,000,000,000 |
| (Forward) | | | | |

| Code | Issuer | Coupon % | Final Maturity | Notional Amount (RM) |
|-------------|------------------------|-----------------|-----------------------|-----------------------------|
| GN110025 | Government of Malaysia | 4.170 | 30 April 2021 | 10,000,000,000 |
| GO120037 | Government of Malaysia | 3.699 | 15 November 2022 | 8,500,000,000 |
| GS120059 | Government of Malaysia | 3.899 | 15 June 2027 | 5,000,000,000 |
| GT130001 | Government of Malaysia | 3.871 | 08 August 2028 | 3,000,000,000 |
| MN04002W | Government of Malaysia | 5.094 | 30 April 2014 | 4,000,000,000 |
| MH110002 | Government of Malaysia | 3.434 | 15 August 2014 | 7,700,000,000 |
| MJ090004 | Government of Malaysia | 3.741 | 27 February 2015 | 13,500,000,000 |
| MJ100001 | Government of Malaysia | 3.835 | 12 August 2015 | 10,000,000,000 |
| MO05002S | Government of Malaysia | 4.720 | 30 September 2015 | 6,975,000,000 |
| MH120003 | Government of Malaysia | 3.197 | 15 October 2015 | 6,000,000,000 |
| MH130001 | Government of Malaysia | 3.172 | 15 July 2016 | 4,500,000,000 |
| MO060001 | Government of Malaysia | 4.262 | 15 September 2016 | 19,700,000,000 |
| MN070002 | Government of Malaysia | 3.814 | 15 February 2017 | 9,500,000,000 |
| ML100002 | Government of Malaysia | 4.012 | 15 September 2017 | 14,000,000,000 |
| MJ120005 | Government of Malaysia | 3.314 | 31 October 2017 | 10,500,000,000 |
| MI130002 | Government of Malaysia | 3.260 | 01 March 2018 | 4,500,000,000 |
| MK110005 | Government of Malaysia | 3.580 | 28 September 2018 | 10,000,000,000 |
| MS04003H | Government of Malaysia | 5.734 | 30 July 2019 | 6,500,000,000 |
| MO090002 | Government of Malaysia | 4.378 | 29 November 2019 | 17,600,000,000 |
| ML120006 | Government of Malaysia | 3.492 | 31 March 2020 | 7,500,000,000 |
| MO110001 | Government of Malaysia | 4.160 | 15 July 2021 | 10,500,000,000 |
| MO120001 | Government of Malaysia | 3.418 | 15 August 2022 | 10,500,000,000 |
| MN130003 | Government of Malaysia | 3.480 | 15 March 2023 | 4,500,000,000 |
| MY050003 | Government of Malaysia | 4.837 | 15 July 2025 | 3,000,000,000 |
| (Forward) | | | | |

| Code | Issuer | Coupon % | Final Maturity | Notional Amount (RM) |
|-------------|--|-----------------|-----------------------|-----------------------------|
| MS110003 | Government of Malaysia | 4.392 | 15 April 2026 | 8,000,000,000 |
| MX060002 | Government of Malaysia | 4.709 | 15 September 2026 | 3,000,000,000 |
| MS120002 | Government of Malaysia | 3.892 | 15 March 2027 | 5,500,000,000 |
| MX070003 | Government of Malaysia | 3.502 | 31 May 2027 | 6,000,000,000 |
| MX080003 | Government of Malaysia | 5.248 | 15 September 2028 | 4,000,000,000 |
| MX100003 | Government of Malaysia | 4.498 | 15 April 2030 | 2,000,000,000 |
| MX110004 | Government of Malaysia | 4.232 | 30 June 2031 | 3,500,000,000 |
| MX120004 | Government Of Malaysia | 4.127 | 15 April 2032 | 5,500,000,000 |
| VII10195 | Pengurusan Air Spv Berhad | 3.840 | 17 June 2016 | 1,400,000,000 |
| VJ110196 | Pengurusan Air Spv Berhad | 3.980 | 16 June 2017 | 1,500,000,000 |
| VK110197 | Pengurusan Air Spv Berhad | 4.040 | 15 June 2018 | 1,500,000,000 |
| VL110198 | Pengurusan Air Spv Berhad | 4.150 | 17 June 2019 | 500,000,000 |
| VN110049 | Pengurusan Air Spv Berhad | 4.380 | 29 April 2021 | 500,000,000 |
| VN120202 | Perbadanan Tabung Pendidikan Tinggi Nasional | 3.850 | 15 June 2022 | 2,500,000,000 |
| VN120343 | Perbadanan Tabung Pendidikan Tinggi Nasional | 3.800 | 15 September 2022 | 1,000,000,000 |
| VS130090 | Perbadanan Tabung Pendidikan Tinggi Nasional | 4.220 | 28 February 2028 | 830,000,000 |
| PK070017 | Silterra Capital Berhad | 3.900 | 06 June 2014 | 1,800,000,000 |
| PR03062E | Syarikat Prasarana Negara Berhad | 4.270 | 30 November 2016 | 1,913,853,702 |
| PN120073 | Syarikat Prasarana Negara Berhad | 3.770 | 06 September 2022 | 1,000,000,000 |
| VS110260 | Syarikat Prasarana Negara Berhad | 4.350 | 04 August 2026 | 1,200,000,000 |
| PS120074 | Syarikat Prasarana Negara Berhad | 4.000 | 06 September 2027 | 1,000,000,000 |
| VX090825 | Syarikat Prasarana Negara Berhad | 5.070 | 28 September 2029 | 1,500,000,000 |

Source: Markit Indices Limited (Formerly known as International Index Company Limited ("IIC"))

| | | | | | |
|---|---|----------------------------|------------------------------|-------------------------------|------------------------------|
| Duration | The 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 647,421,800 units. | | | | |
| | Size of holding | As at 31 March 2014 | | As at 31 December 2013 | |
| | | No of units held | Number of unitholders | No of units held | Number of unitholders |
| | Less than 100 | - | - | - | - |
| | 100 – 1,000 | - | - | - | - |
| | 1,001 -10,000 | - | - | - | - |
| | 10,001 – 100,000 | - | - | - | - |
| | 100,001 to less than 5% of issue units | - | - | - | - |
| | 5% and above of issue units | 647,421,800 | 2 | 647,421,800 | 2 |

Fund Performance Data

| | | | | | |
|------------------------------|---|------------------------|----------------|----------------|----------------|
| Portfolio Composition | Details of portfolio composition of the Fund for the financial period as at 31 March 2014 and three financial years as at 31 December are as follows: | | | | |
| | | As at 31-3-2014 | FY 2013 | FY 2012 | FY 2011 |
| | | % | % | % | % |
| | Malaysian Government Securities | 91.3 | 90.7 | 80.3 | 89.8 |
| | Quasi-Government bonds | 8.4 | 8.3 | 13.6 | 6.9 |
| | Cash and others | 0.3 | 1.0 | 6.1 | 3.3 |
| | Total | 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 period ended 31 March 2014 and three financial years ended 31 December are as follows:

| | As at 31-3-2014 | FY 2013 | FY 2012 | FY 2011 |
|---|--------------------|-------------|-------------|-------------|
| Net asset value (RM) | 689,903,371 | 684,340,987 | 584,660,282 | 590,794,246 |
| Units in circulation | 647,421,800 | 647,421,800 | 537,421,800 | 537,421,800 |
| Net asset value per unit (RM) | 1.0656* | 1.0570 | 1.0879 | 1.0993 |
| Highest net asset value per unit (RM) | 1.0677 * | 1.1136 | 1.1200 | 1.0993 |
| Lowest net asset value per unit (RM) | 1.0563 * | 1.0553 | 1.0863 | 1.0642 |
| Closing quoted price (RM/unit) | 1.0700* | 1.0970 | 1.1030 | 1.0720 |
| Highest quoted price (RM/unit) | 1.1020* | 1.1030 | 1.1030 | 1.0900 |
| Lowest quoted price (RM/unit) | 1.0650* | 1.0840 | 1.0680 | 1.0650 |
| Benchmark performance (%) | 0.99 | 0.84 | 4.18 | 4.85 |
| Total return (%) ⁽¹⁾ | 0.81 | 0.36 | 3.80 | 4.57 |
| - Capital growth (%) | 0.81 | -2.86 | -0.98 | 1.12 |
| - Income distribution (%) | - | 3.22 | 4.78 | 3.45 |
| Gross distribution (sen per unit) | - | 3.50 | 5.25 | 3.75 |
| Net distribution (sen per unit) | - | 3.50 | 5.25 | 3.75 |
| Distribution yield (%) ⁽²⁾ | - | 3.19 | 4.76 | 3.50 |
| Management expense ratio (%) ⁽³⁾ | 0.19 | 0.19 | 0.19 | 0.19 |
| Portfolio turnover ratio (times) ⁽⁴⁾ | 0.15 | 0.23 | 0.91 | 0.26 |

* Above price and net asset value per unit are not shown as ex-distribution.

Note:

- (1) Total return is the actual/annualised return of the Fund for the respective financial period/years computed based on the net asset value per unit and net of all fees.
- (2) Distribution yield is calculated based on the total distribution for the respective financial years divided by the closing quoted price.
- (3) Management expense ratio ("MER") 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 calculated 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 decreased by 0.08 times (34.8%) as compared to 0.23 times for the financial year ended 31 December 2013 mainly due to decrease in investing activities.

Average Total Return (as at 31 March 2014)

| | ABFMY1^(a) % | iBoxx Index^(b) % |
|-----------------------------|----------------------------------|---------------------------------------|
| One year | 0.20 | 0.82 |
| Three years | 3.09 | 3.56 |
| Five years | 3.22 | 3.49 |
| Since launch (13 July 2005) | 3.45 | 3.82 |

Annual Total Return

| Financial Years Ended (31 December) | ABFMY1^(a) % | iBoxx Index^(b) % |
|--|----------------------------------|---------------------------------------|
| 2013 | 0.36 | 0.85 |
| 2012 | 3.80 | 4.18 |
| 2011 | 4.57 | 4.85 |
| 2010 | 5.19 | 5.13 |
| 2009 | -0.14 | 0.21 |

(a) Independently verified by Novagni Analytics and Advisory Sdn Bhd.

(b) iBoxx ABF Malaysia Index (“iBoxx Index”) (Obtainable from www.aminvest.com)

The Fund performance is calculated based on the net asset value per unit of the Fund. Average total return of the Fund and its benchmark for a period is computed based 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 go down, as well as up.

Fund Performance

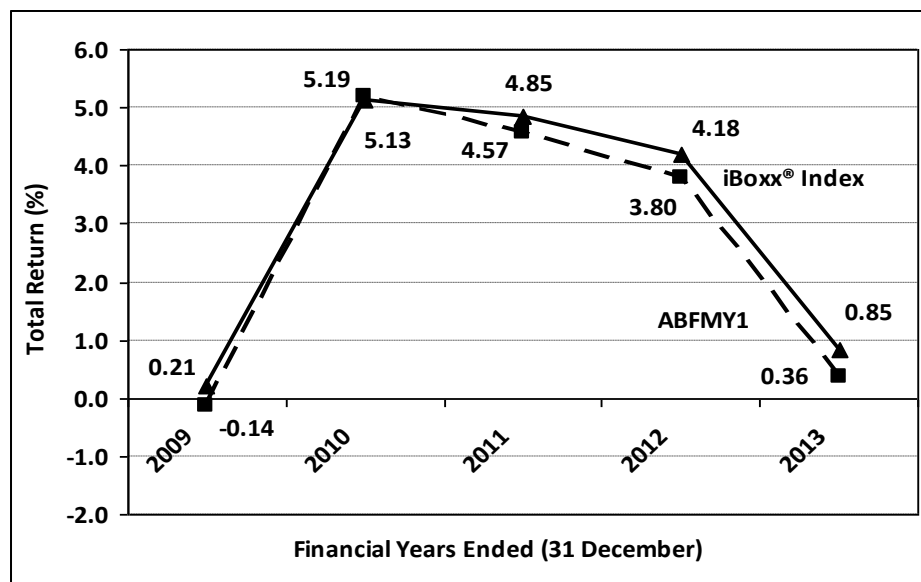
For the financial period under review, the Fund registered a return of 0.81% which was entirely capital growth in nature.

Thus, the Fund’s return of 0.81% has underperformed the benchmark’s return of 0.99% by 0.18%.

As compared with the financial year ended 31 December 2013, the net asset value (“NAV”) per unit of the Fund increased by 0.81% from RM1.0570 to RM1.0656, while units in circulation was maintained at 647,421,800 units.

The closing price quoted at Bursa Malaysia of the Fund decreased by 2.46% from RM1.0970 to RM1.0700.

The line chart below shows the comparison between the annual performance of ABFMYI and its benchmark, iBoxx® Index for the financial years ended 31 December.



Note: Past performance is not necessarily indicative of future performance and that unit prices and investment returns may go down, as well as up.

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.

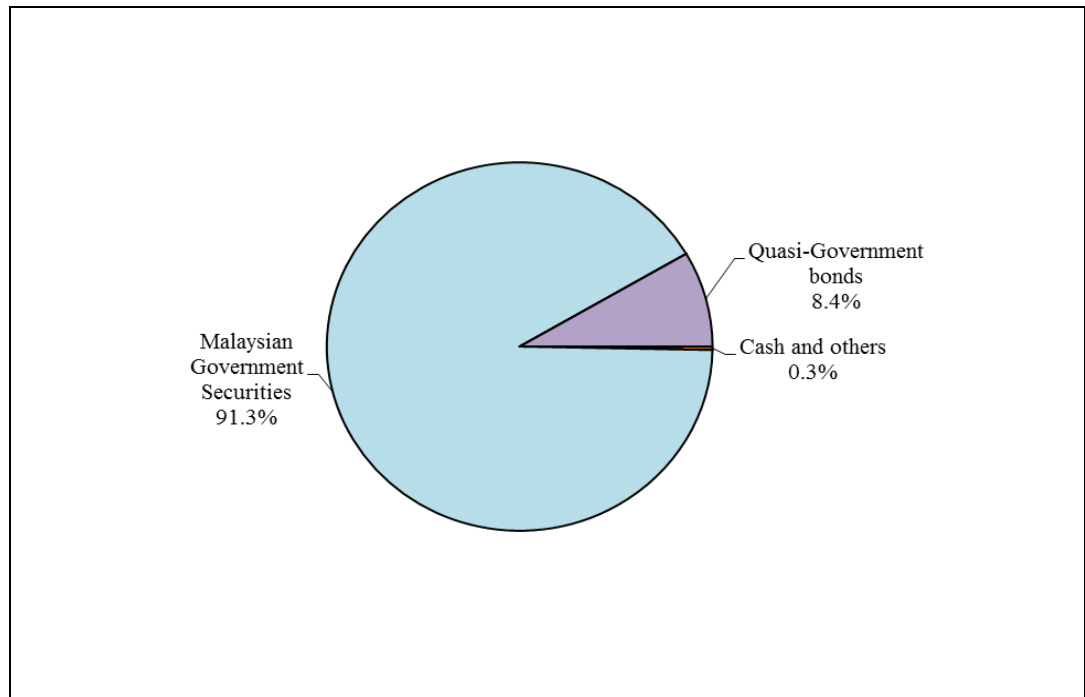
Portfolio Structure

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

| | As at 31-3-2014 % | As at 31-12-2013 % | Changes % |
|---------------------------------|-------------------------|--------------------------|--------------|
| Malaysian Government Securities | 91.3 | 90.7 | 0.6 |
| Quasi-Government bonds | 8.4 | 8.3 | 0.1 |
| Cash and others | 0.3 | 1.0 | -0.7 |
| Total | 100.0 | 100.0 | |

There has been a change to the asset allocation since the last reporting period due to our regular portfolio rebalancing exercise. Investment in Malaysian Government Securities (MGS) bonds increased by 0.6% while investments in Quasi-Government bonds increased by 0.1%. Meanwhile, investment in cash decreased by 0.7%.

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



Distribution/ unit splits There was no income distribution and unit split declared for the financial period under review.

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. Soft commission received from brokers/dealers are retained by the Manager only if the goods and services provided are of demonstrable benefit to unitholders of the Fund.

During the financial period under review, the Manager had received on behalf of the Fund, soft commissions in the form of fundamental database, financial wire services, technical analysis software and stock quotation system incidental to investment management of the Fund. These soft commissions received by the Manager are deemed to be beneficial to the unitholders of the Fund.

Market Review In January, economic data releases were mixed with November's Industrial Production surprising on the upside at +4.4% year of year (YoY) but moderated by the slower growth in exports which came in at +6.7% YoY in November, short of market expectations of +10.3%.

Talks of rising prices were also somewhat confirmed in the latest Consumer Price Index (CPI) number which came in higher at 3.2% YoY in December, above the Overnight Policy Rate ("OPR"), resulting in negative real interest rate for the first time since end-2011. Nevertheless, this has been broadly expected following a series of subsidy rationalisation exercise towards the end of last year, such as the adjustment in electricity tariff as well as fuel price hike to name a few.

The Malaysian Government Securities/Government Investment Issues (MGS/GII) market also saw some selloffs with trading volume still relatively weak although slightly better than the previous month with RM37billion done in January largely attributed to

the festive holidays. Nevertheless, the MGS yield curve bearish steepened on the back of fund outflows out of the Emerging Market (EM) region as investors focus on weakness in emerging market economies. Overall, the 5-year, 7-year, 10-year, 20-year and 30-year MGS yields rose up to 17bps to close at 3.70%, 4.02%, 4.20%, 4.68%, and 4.97% respectively while the 3-year MGS yields closed c.10bps lower at 3.24% and the 15-year MGS yields closed relatively unchanged at 4.50%.

In February, Malaysia announced its final exports number for the last month of 2013 which came in on high note. With a 14.4% YoY growth, December exports growth handily beat market expectations of 9.8%. The impressive growth was credited to continued firm recovery in the E&E sector, strong rebound in crude oil and refined petroleum products and improvement in demand from advanced economies. The higher trade surplus of RM27.4billion in 4Q2013 also helped boost Malaysia's current account surplus to RM16.7billion or 6.6% of GDP, thereby alleviating concerns on a current account deficit scenario.

Meanwhile, Malaysia's 4Q2013 GDP growth was also announced in February. At 5.1% YoY, Malaysia's full-year growth of 4.7% YoY was within market expectations. The higher than expected growth was helped mainly by higher exports, resilient consumer demand as well as robust private investment spending.

Lastly, Malaysia's CPI extended its upward trajectory for the fifth straight month. Headline inflation increased 3.4% YoY in January 2014 (+3.2% in December 2013) due to the follow through impact of the Government's fiscal consolidation policy.

With tapering in progress and market players gradually returning from their long Chinese New Year break, the MGS market continued to be range bound and generally directionless. The thin flows in the last week of January till early February caused some exaggerated yield movements, especially in the 7-year and 10-year MGS but which eventually settled in a range bound mode. As of end February 2014, trading volume in the MGS/GII market was flat with RM38.6billion recorded compared to RM38.1billion in November. Overall, the yields on the 3-year, 5-year, 7-year, 10-year, 15-year and 20-year rallied up to 13bps to close at 3.24%, 3.57%, 3.92%, 4.11%, 4.47%, and 4.60% respectively while the 30-year MGS yields closed c.3bps lower at 4.94%.

In the primary market, the auction of the 15-year MGS garnered steady demand with a bid-to-cover ratio of 2.288 times for the RM2.5billion of the securities up for tender. The average yield generated was 4.655%. Meanwhile, the first issuance of the Sukuk Perumahan Kerajaan (SPK) paper for the year was issued with a RM2.0billion (public) + RM2.0billion size (private placement). The public tender garnered a bid-to-cover ratio of 1.765 times and an average yield of 4.731%.

In the primary market, both the new RM4.0billion 10.5-year MGS 07/24 and the reopening RM3.5billion 5-year GII 04/19 garnered lukewarm demand with respective bid-to-cover ratio of 1.814x and 1.957x at average yield of 4.181% and 3.953%.

Malaysia's economic releases for the month of February fared relatively better as industrial production grew +3.6% in January while manufacturing sales jumped +12.3% YoY. Likewise, exports expanded +12.2% YoY in January, driven by a jump in electrical and electronics shipments which surged +14.6% YoY in January as well as a general broad based growth from all sectors.

Headline inflation rate continues to edge higher with February's CPI coming in at 3.5% YoY (consensus: 3.4% YoY) compared to 3.4% in the previous month. This is largely attributed to the second-round price effects from the earlier subsidy cuts (i.e. fuel

subsidy cuts and increase in electricity tariffs).

Meanwhile, in the Monetary Policy Meeting held during the start of month, Bank Negara kept its policy rate unchanged at 3.0% as expected and continued to maintain a neutral stance with no hint of possible rate adjustment. The Central Bank also continued to downplay the rising cost-push inflationary pressures and also added concerns regarding destabilizing risks of fiscal imbalances arising from the prolonged low interest rate environment. Going forward, BNM expects the Malaysian economy to expand steadily, with support from domestic demand, albeit rising at a moderate pace given the ongoing fiscal consolidation.

The month of March also saw BNM released its Annual Report for 2013, which highlighted three important points. Firstly, the central bank is projecting a 5.3% real GDP growth in 2014, slightly more optimistic than the 5.0% forecasts made by the Ministry of Finance (MoF) in October 2013. However, in reflecting the downside risk, BNM widened the forecast range to 4.5-5.5% in 2014 compared to the previous range of 5.0-5.5% by MoF.

In addition, BNM also revised its inflation forecast substantially higher to 3.0-4.0% (previous: 2.0-3.0%) premised on the rising domestic cost factors. Lastly, BNM hinted that concerns over risk of financial imbalances will likely be addressed with other policy instruments such as macroprudential measures.

The MGS market continue to trade range bound despite a more hawkish tone from the Fed on the possibility of an earlier than expected tightening in monetary policy. Meanwhile, foreign holdings in MGS increased further to RM139.4billion from RM137.9billion in the previous month but remained steady at 44.7% of total outstanding MGS (Jan 2014: 44.6%).

In terms of market activities, trading volume was relatively flat in the month of March with RM38.2billion done compared to RM38.6billion in the previous month. Bulk of the interest continued to be centered on the benchmark MGS such the MGS 7/24 and MGS 3/17, driven by interest from not just local investors but foreign investors as well. Overall, the 3-year, 5-year, 7-year, 10-year, 15-year, 20-year and 30-year MGS yields closed mixed with shorter at 3.40%, 3.56%, 4.02%, 4.11%, 4.49%, 4.59% and 4.87% respectively.

During the month, the Malaysian Government raised a total of RM10.5b in the primary market. The new RM4.0billion 3-year MGS 3/17 and RM4.0 7.5-year MGS 9/21 attracted a fairly decent bid to cover ratio of 2.177x and 2.269x at an average yield of 3.394% and 4.048% respectively while the RM2.5billion 10-year GII 5/24 reopening garnered bid-to-cover ratio of 2.511x at average yield of 4.236%.

Market Outlook

Against the abovementioned backdrop, we reckon that market players will likely remain cautious in the domestic scene. With inflation creeping higher, we believe that the upward trajectory for inflation will likely persist in the near term as highlighted by Bank Negara Malaysia (BNM) in its 2013 annual report.

Nonetheless, we note that BNM continue to maintain that the current inflationary pressure is still very much cost push rather than demand induced. Coupled with our expectation of moderate domestic growth, we believe that the Overnight Policy Rate (OPR) will likely remain unchanged in the first half of 2014. In the longer term, we do not discount of the possibility of a rate hike if inflation continues to be elevated although this will very much be dependent on economic data releases in the coming months ahead.

Looking ahead, we think that the MGS market will likely remain relatively well supported in the near term driven by the supply-demand dynamics of the MGS market with huge maturity amounting to RM16billion in MGS due at the end of April.

Over the longer term, we maintain our cautious stance on the MGS market and opine that the bearish steepening bias in the MGS yield curve is likely to persist due to the following headwinds.

Inflation continues to climb and show no signs of easing thereby pushing investors to price in expectations of an OPR hike this year.

Investors are expected to continue to shorten duration to reduce the effect of rising yields in view of the ongoing quantitative easing (QE) tapering and resultant outflow of foreign funds.

The great rotational play which saw a shift in asset allocation back to developed markets and triggered fund outflows from Emerging Market (EM) in the 2H2013 may persist in 2014 although market sentiment will very much hinge on the pace and quantum of QE tapering (which remains highly data dependent), growth prospects in EU and China, effect of “Abenomics” on Japanese economy as well as EM debt rationalization and growth prospects.

Despite the risk factors highlighted above, we think that the MGS market will remain somewhat supported by the presence of long term institutional investors and insurance funds and this could possibly smooth out the expected volatilities in the months ahead.

Kuala Lumpur, Malaysia
AmInvestment Services Berhad

30 April 2014

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 January 2014 to 31 March 2014, there was one (1) Board of Directors meeting held by the Manager.

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

| | |
|---|--|
| Name | : Harinder Pal Singh a/l Joga Singh |
| Age | : 52 years old |
| Nationality | : Malaysian |
| Qualification | : Bachelor Degree in Accounting, University of Malaya |
| Executive/Non-Executive Director | : Executive Director |
| Independent/Non-Independent Director | : Non-Independent Director |
| Working Experience | : Bank Negara Malaysia Senior Administrative Officer, Insurance Inspection Department (1986 – 1993) Securities Commission Malaysia Assistant Manager, Market Surveillance Department (1993 – 1995) Arab-Malaysian Securities Sdn Bhd Seconded to PT Arab-Malaysian Capital Indonesia as Director of Operations (1995 – 1998) AmMerchant Bank Berhad Manager, Corporate Services (1998 – 2000) AmInvestment Services Berhad <ul style="list-style-type: none"> • Manager, Client Service & Operations (July 2001 – June 2002) • Senior Manager, Client Service & Operations (July 2002 – 2003) • Head, Sales Services (2003-December 2006) • Principal Officer / Director of Operations (Present) |
| Occupation | : Principal Officer/Director of Operations of AmInvestment Services Berhad |
| Date of appointment | : 22 September 2008 |
| Directorship of other public companies | : Federation of Investment Managers Malaysia |
| Number of Board meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : One (1) |
| Member of any other Board Committee | : Investment Committee (Non-Independent) |
| Date of appointment to the Investment Committee | : 12 July 2005 |

| | |
|---|-------------|
| Number of Investment Committee meetings attended for the financial year (From 1 January 2014 to 31 March 2014) | : Three (3) |
| Family relationship with any director | : None |
| Conflict of interest with the Fund | : None |
| List of convictions for offences within the past 10 years (if any) | : None |

| | |
|--|---|
| Name | : Kok Tuck Cheong |
| Age | : 58 years old |
| Nationality | : Malaysian |
| Qualification | : Bachelor of Science (Honours) in Commerce and Accountancy and Master of Science in Financial Managerial Controls, University of Southampton. |
| Executive/Non-Executive Director | : Non-Executive Director |
| Independent/Non-Independent Director | : Non-Independent Director |
| Working Experience | : 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. |
| Occupation | : Chief Executive Officer of AmInvestment Bank Berhad |
| Date of appointment | : 9 November 2001 |
| Directorship of other public companies | : None |
| Number of Board meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : One (1) |
| Member of any other Board Committee | : Audit Committee of Directors |
| Date of appointment to the Investment Committee | : Not applicable |
| Number of Investment Committee meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : Not applicable |
| Family relationship with any director | : None |
| Conflict of interest with the Fund | : None |
| List of convictions for offences within the past 10 years (if any) | : None |

| | |
|--|---|
| Name | : Datin Maznah binti Mahbob |
| Age | : 55 years old |
| Nationality | : Malaysian |
| Qualification | : A graduate of the Institute of Chartered Secretaries and Administrators (UK) and holds the Capital Markets Services Representative's Licence |
| Executive/Non-Executive Director | : Non-Executive Director |
| Independent/Non-Independent Director | : Non-Independent Director |
| Working Experience | : She has been in the funds management industry since Year 1987, in a fund management role, before assuming the responsibility as the Chief Executive Officer of Funds Management Division, AmInvestment Bank Group in Year 2002. Prior to this, she was in the Corporate Finance Department of AmInvestment Bank Berhad for 3 years. |
| Occupation | : Chief Executive Officer of Funds Management Division and Chief Executive Officer/Executive Director of AmInvestment Management Sdn Bhd. |
| Date of appointment | : 29 December 2005 |
| Directorship of other public companies | : None |
| Number of Board meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : One (1) |
| Member of any other Board Committee | : None |
| Date of appointment to the Investment Committee | : Not applicable |
| Number of Investment Committee meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : Not applicable |
| Family relationship with any director | : None |
| Conflict of interest with the Fund | : None |
| List of convictions for offences within the past 10 years (if any) | : None |

| | |
|---|---|
| Name | : Professor Dr Annuar bin Md Nassir |
| Age | : 56 years old |
| Nationality | : Malaysian |
| Qualification | : Doctor of Philosophy, University Putra Malaysia |
| Executive/Non-Executive Director | : Non-Executive Director |
| Independent/Non-Independent Director | : Independent Director |
| Working Experience | : University Putra Malaysia, Serdang <ul style="list-style-type: none"> • Dean (February 2006 – April 2011) • Deputy Dean (September 2002 – January 2006) |

| | |
|--|--|
| | <ul style="list-style-type: none"> • Professor (March 2000-Present) • Associate Professor (March 1993 – March 2000) <p>University Pertanian Malaysia Tutor (1981 – 1984)</p> |
| Occupation | : Professor, Faculty of Economics and Management of University Putra Malaysia |
| Date of appointment | : 8 April 2003 |
| Directorship of other public companies | : None |
| Number of Board Meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : One (1) |
| Member of any other Board Committee | : Investment Committee and Audit Committee of Directors (Independent) |
| Date of appointment to the Investment Committee | : 12 July 2005 |
| Number of Investment Committee meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : Three (3) |
| Family relationship with any director | : None |
| Conflict of interest with the Fund | : None |
| List of convictions for offences within the past 10 years (if any) | : None |

| | |
|---|--|
| Name | : Mustafa bin Mohd Nor |
| Age | : 62 years old |
| Nationality | : Malaysian |
| Qualification | : Masters of Arts (Economic Policy), 1984 Bachelor of Economics (Analytical) - 1975 |
| Executive/Non-Executive Director | : Non-Executive Director |
| Independent/Non-Independent Director | : Independent Director |
| Working Experience | : 1975-1988 : Ministry of Finance-various positions, last as Head, Macroeconomic Section, economic and International Division 1988-1990 : Manager, treasury Department, Development & Commercial Bank Berhad. March 1990-August 1992 : Chief Economist, Arab Malaysian Securities Sdn Bhd September 1992-December 2001 : Executive Director/Chief Economist, AmSecurities Sdn Bhd January 2002-December 2005 : Managing Director, AmSecurities Sdn Bhd |

| | |
|--|---|
| | January 2006-May 2009 (Retirement) : Economic Advisor, AmInvestment Bank Berhad Group September 2009-August 2012 (Contract) : Senior Vice President/Head Research Division of Permodalan Nasional Berhad |
| Occupation | : Director |
| Date of appointment | : 3 March 2014 |
| Directorship of other public companies | : KUISAS Berhad |
| Number of Board meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : One (1) |
| Member of any other Board Committee | : Investment Committee and Audit Committee of Directors (Independent) |
| Date of appointment to the Investment Committee | : 3 March 2014 |
| Number of Investment Committee meeting attended for the financial year (From 1 January 2014 to 31 March 2014) | : Not applicable |
| Family relationship with any director | : None |
| Conflict of interest with the Fund | : None |
| List of convictions for offences within the past 10 years (if any) | : None |

Investment Committee

The Investment Committee, of which one-half are independent members, exercise ultimate select appropriate strategies and efficiently implemented to achieve the proper performance, actively monitor, measure and evaluate the fund management performance of the Manager. For the financial period under review from 1 January 2014 to 31 March 2014, there were three (3) Investment Committee meetings held by the Manager.

- Professor Dr Annuar bin Md Nassir (profile as mentioned above)
- En. Mustafa bin Mohd Nor (profile as mentioned above)
- Mr. Harinder Pal Singh a/l Joga Singh (profile as mentioned above)
- Yg Bhg Dato' Mohd Effendi bin Abdullah (profile as mentioned below)

| | |
|---|---|
| Name | : Dato' Mohd Effendi bin Abdullah |
| Age | : 52 |
| Nationality | : Malaysian |
| Qualification | : Bachelor of Economics (majoring in Accounting and Financial Management from Macquarie University, Sydney, Australia.) |
| Executive/Non-Executive Director | : Not applicable |
| Independent/Non-Independent Director | : Not applicable |

| | |
|---|--|
| Working Experience | : AmInvestment Bank Berhad <ul style="list-style-type: none"> • Corporate Banking (1985 – 1993) • Islamic Markets (1993 - present) |
| Occupation | : Director, Islamic Markets of AmInvestment Bank Berhad |
| Directorship of other public companies | : Islamic Banking and Finance Institute Malaysia (IBFIM) |
| Member of any other Board Committee | : None |
| Date of appointment to the Investment Committee | : 2 September 2013 |
| Number of Investment Committee meetings attended for the financial year (From 1 January 2014 to 31 March 2014) | : Three (3) |
| Family relationship with any director | : None |
| Conflict of interest with the Fund | : None |
| List of convictions for offences within the past 10 years (if any) | : 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 has also 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 Securities Commission Malaysia 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, a wholly owned subsidiary of AmInvestment Group Berhad, has been in the fund management industry since Year 1982.

Investment Committee

The Investment Committee reviews the Fund's investment objective and guidelines; and to ensure that the Fund is invested appropriately. For the financial period under review from 1 January 2014 to 31 March 2014, there were three (3) Investment Committee meetings held by the Manager.

Unitholders

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

| NAME | Number of Unit Held | Unit Held (%) |
|----------------------------------|---------------------|---------------|
| HSBC BANK MALAYSIA BERHAD | 617557870 | 95.39% |
| AMINVESTMENT BANK BERHAD | 24416000 | 3.77% |
| CIMB INVESTMENT BANK BERHAD | 2000000 | 0.31% |
| AMINVESTMENT BANK BERHAD | 1590730 | 0.25% |
| CIMB INVESTMENT BANK BERHAD | 599000 | 0.093% |
| CITIBANK BERHAD | 400000 | 0.062% |
| CIMB INVESTMENT BANK BERHAD | 300000 | 0.046% |
| HWANGDBS INVESTMENT BANK BERHAD | 245000 | 0.038% |
| CITIBANK BERHAD | 140000 | 0.022% |
| PUBLIC INVESTMENT BANK BERHAD | 100000 | 0.015% |
| MAYBANK INVESTMENT BANK BERHAD | 20000 | 0.0031% |
| PUBLIC INVESTMENT BANK BERHAD | 15000 | 0.0023% |
| CIMB INVESTMENT BANK BERHAD | 10000 | 0.0015% |
| CIMB INVESTMENT BANK BERHAD | 9600 | 0.0015% |
| INTER-PACIFIC SECURITIES SDN BHD | 3000 | 0.00046% |
| HWANGDBS INVESTMENT BANK BERHAD | 2000 | 0.00031% |
| ALLIANCE INVESTMENT BANK BERHAD | 2000 | 0.00031% |
| CIMB INVESTMENT BANK BERHAD | 1600 | 0.00025% |
| CIMB INVESTMENT BANK BERHAD | 1600 | 0.00025% |
| INTER-PACIFIC SECURITIES SDN BHD | 1000 | 0.00015% |
| CIMB INVESTMENT BANK BERHAD | 1000 | 0.00015% |
| KENANGA INVESTMENT BANK BERHAD | 1000 | 0.00015% |
| MAYBANK INVESTMENT BANK BERHAD | 1000 | 0.00015% |
| CIMB INVESTMENT BANK BERHAD | 800 | 0.00012% |
| RHB INVESTMENT BANK BERHAD | 700 | 0.00011% |
| CIMB INVESTMENT BANK BERHAD | 700 | 0.00011% |
| KENANGA INVESTMENT BANK BERHAD | 500 | 0.000077% |
| MAYBANK INVESTMENT BANK BERHAD | 300 | 0.000046% |
| HWANGDBS INVESTMENT BANK BERHAD | 300 | 0.000046% |
| MAYBANK INVESTMENT BANK BERHAD | 200 | 0.000031% |

STATEMENT OF FINANCIAL POSITION

As At 31 March 2014

| | Note | 31-3-2014 (unaudited) RM | 31-12-2013 (audited) RM |
|---|----------|--------------------------------|-------------------------------|
| ASSETS | | | |
| Investments | 4 | 688,117,425 | 689,099,440 |
| Deposit with financial institution | 5 | 2,105,597 | 6,879,279 |
| Cash at banks | | 1,466 | 1,498 |
| TOTAL ASSETS | | <u>690,224,488</u> | <u>695,980,217</u> |
| LIABILITIES | | | |
| Amount due to Manager | 6 | 58,618 | 60,815 |
| Amount due to Trustee | 7 | 41,033 | 42,570 |
| Amount due to index provider | 8 | 84,218 | 59,028 |
| Distribution payable | | - | 11,329,882 |
| Sundry payables and accrued expenses | | 137,248 | 146,935 |
| TOTAL LIABILITIES | | <u>321,117</u> | <u>11,639,230</u> |
| EQUITY | | | |
| Unitholders' capital | 10(a) | 680,206,741 | 680,157,976 |
| Retained earnings | 10(b)(c) | 9,696,630 | 4,183,011 |
| TOTAL EQUITY | 10 | <u>689,903,371</u> | <u>684,340,987</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>690,224,488</u> | <u>695,980,217</u> |
| UNITS IN CIRCULATION | 10(a) | <u>647,421,800</u> | <u>647,421,800</u> |
| NET ASSET VALUE PER UNIT – EX DISTRIBUTION | | <u>106.56 sen</u> | <u>105.70 sen</u> |

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

STATEMENT OF COMPREHENSIVE INCOME (Unaudited)*For The Financial Period From 1 January 2014 To 31 March 2014*

| | Note | 1-1-2014 to 31-3-2014 RM | 1-1-2013 to 31-3-2013 RM |
|--|------|--------------------------------|--------------------------------|
| INVESTMENT INCOME | | | |
| Interest income | | 5,347,497 | 5,309,145 |
| Net gain from investments: | | | |
| – Financial assets at fair value through profit or loss (“FVTPL”) | 9 | <u>485,347</u> | <u>1,184,744</u> |
| Gross Income | | <u>5,832,844</u> | <u>6,493,889</u> |
| EXPENDITURE | | | |
| Manager’s fee | 6 | 169,589 | 151,514 |
| Trustee’s fee | 7 | 118,712 | 106,060 |
| Licence fee | 8 | 25,190 | 23,200 |
| Auditors’ remuneration | | 1,898 | 2,339 |
| Tax agent’s fee | | 986 | 723 |
| Administrative expenses | | <u>2,850</u> | <u>2,891</u> |
| Total Expenditure | | <u>319,225</u> | <u>286,727</u> |
| NET INCOME BEFORE TAX | | 5,513,619 | 6,207,162 |
| LESS: INCOME TAX | 12 | <u>-</u> | <u>-</u> |
| NET INCOME AFTER TAX | | 5,513,619 | 6,207,162 |
| OTHER COMPREHENSIVE INCOME | | <u>-</u> | <u>-</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | <u><u>5,513,619</u></u> | <u><u>6,207,162</u></u> |
| Total comprehensive income comprises the following: | | | |
| Realised income | | 2,581,982 | 5,161,782 |
| Unrealised gain | | <u>2,931,637</u> | <u>1,045,380</u> |
| | | <u>5,513,619</u> | <u>6,207,162</u> |

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

STATEMENT OF CHANGES IN EQUITY (Unaudited)*For The Financial Period From 1 January 2014 To 31 March 2014*

| | Note | Unitholders' capital RM | Retained earnings RM | Total equity RM |
|---|-------|-------------------------------|----------------------------|-----------------------|
| At 1 January 2013 | | 563,972,881 | 20,687,401 | 584,660,282 |
| Total comprehensive income for the period | | - | 6,207,162 | 6,207,162 |
| Creation of units | | 120,356,500 | - | 120,356,500 |
| Balance at 31 March 2013 | | 684,329,381 | 26,894,563 | 711,223,944 |
| At 1 January 2014 | | 680,157,976 | 4,183,011 | 684,340,987 |
| Total comprehensive income for the period | | - | 5,513,619 | 5,513,619 |
| Creation/adjustment | 10(a) | 48,765 | - | 48,765 |
| Balance at 31 March 2014 | | 680,206,741 | 9,696,630 | 689,903,371 |

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

STATEMENT OF CASH FLOWS (Unaudited)

For The Financial Period From 1 January 2014 To 31 March 2014

| | 1-1-2014 to 31-3-2014 RM | 1-1-2013 to 31-3-2013 RM |
|--|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | 104,869,372 | 20,462,500 |
| Interest received | 8,232,987 | 5,513,977 |
| Manager's fee paid | (171,786) | (149,605) |
| Trustee's fee paid | (120,249) | (104,724) |
| Licence fee paid | - | (21,949) |
| Payments for other administrative expenses | (15,421) | (14,080) |
| Purchase of investments | <u>(106,287,500)</u> | <u>(130,582,500)</u> |
| Net cash generated from/(used in) operating and investing activities | <u>6,507,403</u> | <u>(104,896,381)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from creation/adjustment | 48,765 | 120,356,500 |
| Distributions paid | <u>(11,329,882)</u> | <u>(9,404,882)</u> |
| Net cash (used in)/generated from financing activities | <u>(11,281,117)</u> | <u>110,951,618</u> |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (4,773,714) | 6,055,237 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>6,880,777</u> | <u>36,401,289</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u><u>2,107,063</u></u> | <u><u>42,456,526</u></u> |
| Cash and cash equivalents comprise: | | |
| Deposit with financial institution | 2,105,597 | 42,455,008 |
| Cash at banks | <u>1,466</u> | <u>1,518</u> |
| | <u><u>2,107,063</u></u> | <u><u>42,456,526</u></u> |

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

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 of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) as issued by the Malaysian Accounting Standards Board (“MASB”) and also prepared in compliance with International Financial Reporting Standards.

The financial statements of the Fund have been prepared under the historical cost convention, unless otherwise stated in the accounting policies.

Standards effective during the financial period

The adoption of MFRS which have been effective during the financial period did not have any material financial impact to the financial statements.

Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following Standards, Amendments and Interpretations of the Issues Committee (“IC Interpretations”) have been issued by MASB but are not yet effective and have not been adopted by the Fund.

| | | Effective for financial periods beginning on or after |
|--|---|--|
| Amendments to MFRS 132 | Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |
| Amendments to MFRS 139 | Novation of Derivatives and Continuation of Hedge Accounting | 1 January 2014 |
| Amendments to MFRS 10, MFRS 12 and MFRS 127 | Investment Entities | 1 January 2014 |

(Forward)

| | | Effective for financial periods beginning on or after |
|------------------------|---|--|
| Amendments to MFRS 136 | Recoverable Amount Disclosures for Non-Financial Assets | 1 January 2014 |
| IC Interpretation 21 | Levies | 1 January 2014 |
| Amendments to MFRS 9 | Financial Instruments – Classification and Measurement | To be announced by MASB |

The Fund plans to adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are expected to have no significant impact to the financial statements of the Fund upon their initial application except as described below:

MFRS 9 *Financial Instruments*

MFRS 9, as issued, reflects the first phase of the International Accounting Standards Board’s (“IASB”) work on the replacement of MFRS 139 Financial Instruments: Recognition and Measurement (“MFRS 139”) and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139 and replaces the guidance in MFRS 139.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of MFRS 9 may have an effect on the classification and measurement of the Fund’s financial assets but will not have an impact on the classification and measurement of financial liabilities. The Fund will quantify the effect in conjunction with the other phases when the final standard including all phases is issued.

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.

Interest income on fixed income securities and short-term deposits are recognised on an accrual basis using the effective interest method, which includes the accretion of discounts and amortisation of premiums.

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 at 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 reserves except where distribution is sourced out of distribution/loss 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 and is classified as equity instruments under MFRS 132 Financial Instruments: Presentation ("MFRS 132").

Distribution/loss equalisation

Distribution/loss 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 financial assets at fair value through profit or loss ("FVTPL") 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 by the Fund 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 element of such instrument is recorded in 'Interest income'.

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, Markit Indices Limited, 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 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 losses recognised in profit or loss are 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 profit or loss.

(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.

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.

Impairment of financial assets

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

(i) Loans and receivables carried at amortised cost

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 through the use of an allowance account. When loans and receivables become uncollectible, they are 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.

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.

The Fund's financial liabilities 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.

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 at fair value through profit or loss are calculated using the 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 may sell its investments in the short-term for profit-taking or to meet unitholders' cancellation of units.

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 financial period.

4. INVESTMENTS

| | 31-3-2014 RM | 31-12-2013 RM |
|----------------------------------|--------------------|--------------------|
| Financial assets at FVTPL | | |
| At nominal value: | | |
| Quasi-Government Bonds | 60,000,000 | 60,000,000 |
| Malaysian Government Securities | 520,920,000 | 516,710,000 |
| Government Investment Issues | <u>110,150,000</u> | <u>110,150,000</u> |
| | <u>691,070,000</u> | <u>686,860,000</u> |
| At fair value: | | |
| Quasi-Government Bonds | 57,991,460 | 58,088,296 |
| Malaysian Government Securities | 520,835,858 | 521,933,575 |
| Government Investment Issues | <u>109,290,107</u> | <u>109,077,569</u> |
| | <u>688,117,425</u> | <u>689,099,440</u> |

Details of investments as at 31 March 2014 are as follows:

| Maturity date | Issuer | Credit rating | Nominal value RM | Fair value RM | Adjusted cost RM | Fair value as a percentage of net asset value % |
|--|------------------------|---------------|-------------------|-------------------|-------------------|---|
| Quasi-Government Bonds | | | | | | |
| 14.06.2019 | Johor Corporation | NR | 10,000,000 | 9,903,871 | 10,116,611 | 1.44 |
| 14.06.2022 | Johor Corporation | NR | <u>50,000,000</u> | <u>48,087,589</u> | <u>50,900,994</u> | <u>6.97</u> |
| | | | <u>60,000,000</u> | <u>57,991,460</u> | <u>61,017,605</u> | <u>8.41</u> |
| Malaysian Government Securities | | | | | | |
| 12.08.2015 | Government of Malaysia | NR | 25,000,000 | 25,434,250 | 25,373,352 | 3.69 |
| 30.09.2015 | Government of Malaysia | NR | 15,000,000 | 15,346,934 | 15,139,205 | 2.22 |
| 15.10.2015 | Government of Malaysia | NR | 35,000,000 | 35,545,882 | 35,582,124 | 5.15 |
| 15.07.2016 | Government of Malaysia | NR | 10,000,000 | 10,031,595 | 10,078,345 | 1.45 |

(Forward)

| Maturity date | Issuer | Credit rating | Nominal value RM | Fair value RM | Adjusted cost RM | Fair value as a percentage of net asset value % |
|--|------------------------|----------------------|-------------------------|----------------------|-------------------------|--|
| Malaysian Government Securities | | | | | | |
| 15.09.2016 | Government of Malaysia | NR | 105,800,000 | 108,226,759 | 108,079,408 | 15.69 |
| 15.02.2017 | Government of Malaysia | NR | 20,000,000 | 20,303,469 | 20,167,550 | 2.94 |
| 31.10.2017 | Government of Malaysia | NR | 10,000,000 | 10,056,151 | 10,169,096 | 1.46 |
| 01.03.2018 | Government of Malaysia | NR | 20,000,000 | 19,778,924 | 19,810,563 | 2.87 |
| 31.03.2020 | Government of Malaysia | NR | 40,000,000 | 39,115,816 | 40,518,535 | 5.67 |
| 31.07.2020 | Government of Malaysia | NR | 10,000,000 | 10,049,173 | 10,266,263 | 1.46 |
| 15.07.2021 | Government of Malaysia | NR | 60,000,000 | 61,094,022 | 63,346,274 | 8.85 |
| 15.08.2022 | Government of Malaysia | NR | 10,120,000 | 9,698,679 | 10,120,659 | 1.41 |
| 15.07.2024 | Government of Malaysia | NR | 40,000,000 | 40,580,152 | 40,603,469 | 5.88 |
| 15.04.2026 | Government of Malaysia | NR | 45,000,000 | 46,073,255 | 48,329,042 | 6.68 |
| 15.03.2027 | Government of Malaysia | NR | 10,000,000 | 9,493,039 | 10,190,502 | 1.38 |
| 15.06.2028 | Government of Malaysia | NR | 35,000,000 | 32,587,568 | 32,813,128 | 4.72 |
| 15.04.2033 | Government of Malaysia | NR | 30,000,000 | 27,420,190 | 30,400,108 | 3.97 |
| | | | <u>520,920,000</u> | <u>520,835,858</u> | <u>530,987,623</u> | <u>75.49</u> |

Government Investment Issues

| | | | | | | |
|------------|------------------------|----|------------|------------|------------|------|
| 30.12.2014 | Government of Malaysia | NR | 5,150,000 | 5,234,780 | 5,204,952 | 0.76 |
| 16.03.2015 | Government of Malaysia | NR | 10,000,000 | 10,132,110 | 10,036,251 | 1.47 |
| 30.09.2015 | Government of Malaysia | NR | 2,000,000 | 2,017,211 | 2,003,983 | 0.29 |
| 08.02.2016 | Government of Malaysia | NR | 8,000,000 | 8,026,545 | 8,040,678 | 1.16 |

(Forward)

| Maturity date | Issuer | Credit rating | Nominal value RM | Fair value RM | Adjusted cost RM | Fair value as a percentage of net asset value % |
|--|------------------------|----------------------|-------------------------|----------------------|-------------------------|--|
| Government Investment Issues | | | | | | |
| 15.06.2017 | Government of Malaysia | NR | 5,000,000 | 5,100,883 | 5,082,404 | 0.74 |
| 30.08.2017 | Government of Malaysia | NR | 20,000,000 | 19,838,502 | 20,044,819 | 2.88 |
| 30.08.2018 | Government of Malaysia | NR | 10,000,000 | 10,071,228 | 10,031,230 | 1.46 |
| 15.05.2020 | Government of Malaysia | NR | 20,000,000 | 19,740,670 | 20,356,406 | 2.86 |
| 30.04.2021 | Government of Malaysia | NR | 10,000,000 | 10,145,094 | 10,574,741 | 1.47 |
| 15.06.2027 | Government of Malaysia | NR | 20,000,000 | 18,983,084 | 20,500,934 | 2.75 |
| | | | <u>110,150,000</u> | <u>109,290,107</u> | <u>111,876,398</u> | <u>15.84</u> |
| Total financial assets at FVTPL | | | <u>691,070,000</u> | <u>688,117,425</u> | <u>703,881,626</u> | <u>99.74</u> |
| Shortfall of fair value over cost | | | | <u>(15,764,201)</u> | | |

The weighted average effective yield on unquoted investments are as follows:

| | Effective yield* | |
|---------------------------------|-------------------------|-------------------|
| | 31-3-2014 | 31-12-2013 |
| | % | % |
| Quasi-Government Bonds | 4.45 | 4.33 |
| Malaysian Government Securities | 3.76 | 3.73 |
| Government Investment Issues | 3.79 | 3.81 |

* As provided by Markit Indices Limited

Analyses of the remaining maturity of unquoted investments as at 31 March 2014 and 31 December 2013 are as follows:

| | Less than 1 year RM | 1 to 5 years RM | More than 5 years RM |
|------------------------|----------------------------|------------------------|-----------------------------|
| 2014 | | | |
| At nominal value: | | | |
| Quasi-Government Bonds | - | - | 60,000,000 |

(Forward)

| | Less than 1 year RM | 1 to 5 years RM | More than 5 years RM |
|---------------------------------|------------------------------------|----------------------------|-------------------------------------|
| 2014 | | | |
| At nominal value: | | | |
| Malaysian Government Securities | - | 240,800,000 | 280,120,000 |
| Government Investment Issues | <u>15,150,000</u> | <u>45,000,000</u> | <u>50,000,000</u> |
| 2013 | | | |
| At nominal value: | | | |
| Quasi-Government Bonds | - | - | 60,000,000 |
| Malaysian Government Securities | - | 266,590,000 | 250,120,000 |
| Government Investment Issues | <u>5,150,000</u> | <u>42,000,000</u> | <u>63,000,000</u> |

5. **DEPOSIT WITH FINANCIAL INSTITUTION**

| | 31-3-2014 RM | 31-12-2013 RM |
|---|-------------------------|--------------------------|
| At nominal value: | | |
| Short-term deposit with a licensed bank | <u>2,105,400</u> | <u>6,878,600</u> |
| At carrying value: | | |
| Short-term deposit with a licensed bank | <u>2,105,597</u> | <u>6,879,279</u> |

Details of deposit with financial institution as at 31 March 2014 are as follows:

| Maturity date | Bank | Nominal value RM | Carrying value RM | Purchase cost RM | Carrying value as a percentage of net asset value % |
|--|--------------------|-----------------------------|------------------------------|-----------------------------|--|
| Short-term deposit with a licensed bank | | | | | |
| 01.04.2014 | Public Bank Berhad | <u>2,105,400</u> | <u>2,105,597</u> | <u>2,105,400</u> | <u>0.31</u> |

The weighted average interest rate and average remaining maturity of short-term deposit is as follows:

| | Weighted average interest rate | | Remaining maturity | |
|---|---|-------------------------|-------------------------------|----------------------------|
| | 31-3-2014 % | 31-12-2013 % | 31-3-2014 Day | 31-12-2013 Days |
| Short-term deposit with a licensed bank | <u>3.42</u> | <u>3.60</u> | <u>1</u> | <u>2</u> |

6. AMOUNT DUE TO MANAGER

Manager's fee was charged at a rate of 0.10% per annum of the net asset value of the Fund, calculated on a daily basis (2013: 0.10%).

The normal credit period in the previous and current financial year/period for Manager's fee payable is one month.

7. AMOUNT DUE TO TRUSTEE

Trustee's fee was charged at a rate of 0.07% per annum of the net asset value of the Fund, calculated on a daily basis (2013: 0.07%).

The normal credit period in the previous and current financial year/period for Trustee's fee payable is one month.

8. AMOUNT DUE TO INDEX PROVIDER

Amount due to index provider is the licence fee payable to Markit Indices Limited, the provider of the benchmark index.

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

| Fund Size | % p.a. |
|---|---------------|
| 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.

9. NET GAIN FROM INVESTMENTS

| | 1-1-2014 to 31-3-2014 RM | 1-1-2013 to 31-3-2013 RM |
|--|---|---|
| Net gain on financial assets at FVTPL comprised: | | |
| – Net realised (loss)/gain on sale of investments | (2,446,290) | 139,364 |
| – Net unrealised gain on changes in fair values of investments | 2,931,637 | 1,045,380 |
| | <u>485,347</u> | <u>1,184,744</u> |

10. TOTAL EQUITY

Total equity is represented by:

| | Note | 31-3-2014 RM | 31-12-2013 RM |
|----------------------|------|--------------------|--------------------|
| Unitholders' capital | (a) | 680,206,741 | 680,157,976 |
| Retained earnings | | | |
| – Realised income | (b) | 25,460,831 | 22,878,849 |
| – Unrealised loss | (c) | (15,764,201) | (18,695,838) |
| | | <u>689,903,371</u> | <u>684,340,987</u> |

(a) UNITHOLDERS' CAPITAL/UNITS IN CIRCULATION

| | 1-1-2014 to 31-3-2014 | | 1-1-2013 to 31-12-2013 | |
|--|-----------------------|--------------------|------------------------|--------------------|
| | Number of units | RM | Number of units | RM |
| At beginning of the period/year | 647,421,800 | 680,157,976 | 537,421,800 | 563,972,881 |
| Creation/adjustment during the period/year | - | 48,765 | 110,000,000 | 120,356,500 |
| Distributions out of distribution/loss equalisation | - | - | - | (4,171,405) |
| At end of the period/year | <u>647,421,800</u> | <u>680,206,741</u> | <u>647,421,800</u> | <u>680,157,976</u> |

(b) REALISED – DISTRIBUTABLE

| | 1-1-2014 to 31-3-2014 RM | 1-1-2013 to 31-12-2013 RM |
|---|--------------------------------|---------------------------------|
| At beginning of the period/year | 22,878,849 | 17,222,287 |
| Total comprehensive income for the period/year | 5,513,619 | 1,983,968 |
| Net unrealised (gain)/loss attributable to investments held transferred to unrealised reserve [Note 10(c)] | (2,931,637) | 22,160,952 |
| Distributions out of realised reserve | - | (18,488,358) |
| Net increase in realised reserve for the period/year | <u>2,581,982</u> | <u>5,656,562</u> |
| At end of the period/year | <u>25,460,831</u> | <u>22,878,849</u> |

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

| | 1-1-2014 to 31-3-2014 RM | 1-1-2013 to 31-12-2013 RM |
|--|---|--|
| At beginning of the period/year | (18,695,838) | 3,465,114 |
| Net unrealised gain/(loss) attributable to investments held transferred from realised reserve [Note 10(b)] | <u>2,931,637</u> | <u>(22,160,952)</u> |
| At end of the period/year | <u>(15,764,201)</u> | <u>(18,695,838)</u> |

11. **UNITS HELD BY RELATED PARTIES**

| | 1-1-2014 to 31-3-2014 | | 1-1-2013 to 31-12-2013 | |
|----------------------------------|------------------------------|-------------------|-------------------------------|-------------------|
| | Number of units | RM | Number of units | RM |
| Parties related to the Manager * | <u>15,298,930</u> | <u>16,369,855</u> | <u>26,006,730</u> | <u>28,529,383</u> |

* The parties related to the Manager are the legal and beneficial owners of the units. The Manager did not hold any units in the Fund as at 31 March 2014 and 31 December 2013.

12. **INCOME TAX**

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 of the Income Tax Act, 1967, interest income derived by the Fund is exempted from tax.

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 of the Fund are as follows:

| | 1-1-2014 to 31-3-2014 RM | 1-1-2013 to 31-3-2013 RM |
|--|---|---|
| Net income before tax | <u>5,513,619</u> | <u>6,207,162</u> |
| Taxation at Malaysian statutory rate of 25% | 1,378,400 | 1,551,800 |
| Tax effects of: | | |
| Income not subject to tax | (2,069,800) | (1,623,500) |
| Loss not deductible for tax purposes | 611,600 | - |
| Restriction on tax deductible expenses for unit trust fund | 38,200 | 34,600 |
| Non-permitted expenses for tax purposes | 37,400 | 33,200 |
| Permitted expenses not used and not available for future periods | <u>4,200</u> | <u>3,900</u> |
| Tax expense for the financial period | <u>-</u> | <u>-</u> |

13. **DISTRIBUTION**

No distribution was declared by the Fund for the financial periods ended 31 March 2014 and 31 March 2013.

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

The Fund’s MER is as follows:

| | 1-1-2014 to 31-3-2014 % p.a. | 1-1-2013 to 31-3-2013 % p.a. |
|-------------------------------|---|---|
| Manager’s fee | 0.10 | 0.10 |
| Trustee’s fee | 0.07 | 0.07 |
| Licence fee | 0.02 | 0.01 |
| Trust administrative expenses | - | 0.01 |
| | <hr/> | <hr/> |
| Total MER | <u>0.19</u> | <u>0.19</u> |

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

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

The PTR of the Fund is the ratio of average total acquisitions and disposals of investments to the average net asset value of the Fund calculated on a daily basis, is 0.15 times (2013: 0.12 times).

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 instruments 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 separately identifiable business or geographical segments.

17. **TRANSACTIONS WITH FINANCIAL INSTITUTIONS**

Details of transactions with financial institutions for the financial period ended 31 March 2014 are as follows:

| Financial institutions | Transaction value | |
|---|--------------------------|---------------|
| | RM | % |
| Public Bank Berhad | 710,290,300 | 69.28 |
| Citibank Berhad | 116,403,676 | 11.35 |
| CIMB Bank Berhad | 92,694,200 | 9.04 |
| Malayan Banking Berhad | 53,521,059 | 5.22 |
| Standard Chartered Bank Malaysia Berhad | 35,332,816 | 3.45 |
| Hong Leong Bank Berhad | 17,001,483 | 1.66 |
| | <hr/> | <hr/> |
| Total | <u>1,025,243,534</u> | <u>100.00</u> |

There was no transaction with financial institutions related to the Manager.

The above transactions were in respect of fixed income instruments and money market deposits. Transactions in these investments do not involve any commission or brokerage.

18. FINANCIAL INSTRUMENTS

(a) Classification of financial instruments

The significant accounting policies in Note 3 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 by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

| | Financial assets at FVTPL RM | Loans and receivables at amortised cost RM | Financial liabilities at amortised cost RM | Total RM |
|--------------------------------------|---|---|---|---------------------|
| 31 March 2014 | | | | |
| Assets | | | | |
| Investments | 688,117,425 | - | - | 688,117,425 |
| Deposit with financial institution | - | 2,105,597 | - | 2,105,597 |
| Cash at banks | - | 1,466 | - | 1,466 |
| | <u>688,117,425</u> | <u>2,107,063</u> | <u>-</u> | <u>690,224,488</u> |
| Total financial assets | <u>688,117,425</u> | <u>2,107,063</u> | <u>-</u> | <u>690,224,488</u> |
| Liabilities | | | | |
| Amount due to Manager | - | - | 58,618 | 58,618 |
| Amount due to Trustee | - | - | 41,033 | 41,033 |
| Amount due to index provider | - | - | 84,218 | 84,218 |
| Sundry payables and accrued expenses | - | - | 137,248 | 137,248 |
| | <u>-</u> | <u>-</u> | <u>321,117</u> | <u>321,117</u> |
| Total financial liabilities | <u>-</u> | <u>-</u> | <u>321,117</u> | <u>321,117</u> |
| 31 December 2013 | | | | |
| Assets | | | | |
| Investments | 689,099,440 | - | - | 689,099,440 |
| Deposit with financial institution | - | 6,879,279 | - | 6,879,279 |
| Cash at banks | - | 1,498 | - | 1,498 |
| | <u>689,099,440</u> | <u>6,880,777</u> | <u>-</u> | <u>695,980,217</u> |
| Total financial assets | <u>689,099,440</u> | <u>6,880,777</u> | <u>-</u> | <u>695,980,217</u> |

(Forward)

| | Financial assets at FVTPL RM | Loans and receivables at amortised cost RM | Financial liabilities at amortised cost RM | Total RM |
|--|---|---|---|---|
| 31 March 2013 | | | | |
| Liabilities | | | | |
| Amount due to Manager | - | - | 60,815 | 60,815 |
| Amount due to Trustee | - | - | 42,570 | 42,570 |
| Amount due to index provider | - | - | 59,028 | 59,028 |
| Distribution payable | - | - | 11,329,882 | 11,329,882 |
| Sundry payables and accrued expenses | - | - | 146,935 | 146,935 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total financial liabilities | - | - | 11,639,230 | 11,639,230 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | | | Income, expense, gains and losses | |
| | | | 1-1-2014 to 31-3-2014 RM | 1-1-2013 to 31-3-2013 RM |
| Net gain from financial assets at FVTPL | | | 485,347 | 1,184,744 |
| Income, of which derived from: | | | | |
| – Interest income from financial assets at FVTPL | | | 5,246,882 | 5,124,401 |
| – Interest income from loans and receivables | | | 100,615 | 184,744 |
| | | | <hr/> <hr/> | <hr/> <hr/> |

(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, Markit Indices 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; or
- 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:

| | Level 1 RM | Level 2 RM | Level 3 RM | Total RM |
|---------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| 31 March 2014 | | | | |
| Financial assets at FVTPL | - | 688,117,425 | - | 688,117,425 |
| 31 December 2013 | | | | |
| Financial assets at FVTPL | - | 689,099,440 | - | 689,099,440 |

(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:

- Deposit with financial institution
- Cash at banks
- Amount due to Manager
- Amount due to Trustee
- Amount due to index provider
- Distribution payable
- Sundry payables and accrued expenses

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 POLICIES

The Fund is exposed to a variety of risks that included market risk, credit risk, liquidity risk, single issuer risk, regulatory risk, management risk and non-compliance risk.

Risk management is carried out by closely monitoring, measuring and mitigating the above said risks, careful selection of investment coupled with stringent compliance to investment restrictions as stipulated by the Capital Market and Services Act 2007, 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 models the 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 movement 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 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.

| | Value-at-Risk (%) | |
|---------------|---------------------------|------------------|
| | Interest rate risk | Total VaR |
| 2014 | 0.36 | 0.36 |
| Average daily | 0.36 | 0.36 |
| Highest | 0.37 | 0.37 |
| Lowest | 0.36 | 0.36 |
| 2013 | 0.18 | 0.18 |
| Average daily | 0.21 | 0.21 |
| Highest | 0.23 | 0.23 |
| Lowest | 0.18 | 0.18 |

Based on Gaussian VaR, using historical weekly data for the past 180 weeks, ABF Malaysia Bond Index Fund, an exchange-traded fund that invests mainly in government, sovereign and sub-sovereign Ringgit denominated fixed income securities had a daily 1% Value-at-Risk (VaR) of approximately 0.36% (2013: 0.18%). This implies that not more than 1 out of 100 trading days would record a daily loss exceeding 0.36% (2013: 0.18%) of the net asset value.

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 instruments. As such the Fund would be exposed to the risk of bond issuers defaulting on its repayment obligations which in turn would affect the net asset value of the Fund. This risk is mitigated by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of the relevant counterparties.

(a) **Credit quality of financial assets**

The following table analyses the Fund's portfolio of debt securities by rating category as at 31 March 2014 and 31 March 2013:

| Credit rating | RM | As a % of debt securities | As a % of net asset value |
|----------------------|--------------------|----------------------------------|----------------------------------|
| 2014 | | | |
| NR | <u>688,117,425</u> | <u>100.00</u> | <u>99.74</u> |
| 2013 | | | |
| AAA | <u>669,049,402</u> | <u>100.00</u> | <u>94.07</u> |

Malaysian government issues which were internally tagged as AAA in the previous years are now tagged as "NR" (non-rated) to reflect their non-rated status.

For deposits with financial institutions, the Fund only makes placements with financial institutions with sound rating. The following table presents the Fund's portfolio of deposit by rating category as 31 March 2014 and 31 March 2013:

| Credit rating | RM | As a % of deposit | As a % of net asset value |
|----------------------|-------------------|--------------------------|----------------------------------|
| 2014 | | | |
| P1/MARC-1 | <u>2,105,597</u> | <u>100.00</u> | <u>0.31</u> |
| 2013 | | | |
| P1/MARC-1 | <u>42,455,008</u> | <u>100.00</u> | <u>5.97</u> |

Cash at banks are held for liquidity purposes and are not exposed to significant credit risk.

(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 by sectorial distribution as at 31 March 2014 and 31 March 2013:

| Sector | RM | As a % of debt securities | As a % of net asset value |
|--------------------|--------------------|----------------------------------|----------------------------------|
| 2014 | | | |
| State Government | 57,991,460 | 8.43 | 8.41 |
| Sovereign | <u>630,125,965</u> | <u>91.57</u> | <u>91.33</u> |
| | <u>688,117,425</u> | <u>100.00</u> | <u>99.74</u> |
| 2013 | | | |
| Financial services | 15,346,946 | 2.29 | 2.16 |
| Sovereign | <u>653,702,456</u> | <u>97.71</u> | <u>91.91</u> |
| | <u>669,049,402</u> | <u>100.00</u> | <u>94.07</u> |

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

Liquidity risk

Liquidity risk is defined as the risk of being unable to raise funds or borrowing to meet payment obligations as they fall due. The Fund maintains sufficient level of liquid assets, after consultation with the Trustee, to meet anticipated payments and cancellation of units by unitholders. Liquid assets comprise of cash deposits with licensed financial institutions and other instruments, which are capable of being converted into cash within 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

For each security in the fund, the cash flows are projected according to its asset class. Each asset class, if any, follows the calculation method as below:

- (i) For bonds
 - (a) For zero-coupon bonds, the nominal amount will be returned at maturity date.
 - (b) For non-zero coupon bonds, the coupons could be paid on annual, bi-annual or quarterly basis.

Cash received from bonds are calculated as follows:

\$ = cash received

R = annual coupon rate

F = coupon frequency

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

- (ii) For money market instruments and deposits
The nominal amount and interest will be paid at maturity date. Cash received are calculated as follows:

\$ = cash received

R = annual interest rate

F = time to maturity (days)

At maturity: \$ = Nominal + (Nominal * R * d / 365)

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

| | Contractual cash flows (undiscounted) | | | | | |
|--|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--|
| | 0 – 1 year RM | 1 – 2 years RM | 2 – 3 years RM | 3 – 4 years RM | 4 – 5 years RM | More than > 5 years RM |
| 2014 | | | | | | |
| Financial assets | | | | | | |
| Investments | 42,058,551 | 110,393,723 | 156,530,800 | 72,125,377 | 25,518,952 | 471,466,831 |
| Deposit with financial institution | 2,105,597 | - | - | - | - | - |
| Other assets | 1,466 | - | - | - | - | - |
| Total assets | 44,165,614 | 110,393,723 | 156,530,800 | 72,125,377 | 25,518,952 | 471,466,831 |
| Financial liabilities | | | | | | |
| Other liabilities | 321,117 | - | - | - | - | - |
| 2013 | | | | | | |
| Financial assets | | | | | | |
| Investments | 24,171,705 | 99,741,455 | 92,390,423 | 151,996,300 | 37,594,877 | 364,286,157 |
| Deposit with financial institution | 42,462,025 | - | - | - | - | - |
| Other assets | 1,518 | - | - | - | - | - |
| Total assets | 66,635,248 | 99,741,455 | 92,390,423 | 151,996,300 | 37,594,877 | 364,286,157 |
| Financial liabilities | | | | | | |
| Other liabilities | 281,984 | - | - | - | - | - |

Single issuer risk

Internal policy restricts the Fund from investing in securities issued by any issuer of not more than a certain percentage of its net asset value. Under such restriction, the risk exposure to the securities of any single issuer is diversified and managed based on internal/external ratings.

Regulatory risk

Any changes in national policies and regulations may have effects on the capital market and the net asset value of the Fund.

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.

Non-compliance risk

This is the risk of the Manager, the Trustee or the Fund not complying with internal policies, the Deed of the Fund, securities law or guidelines issued by the regulators. Non-compliance

risk may adversely affect the investments of the Fund when the Fund is forced to rectify the non-compliance.

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.

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, make distribution payment, or return capital to unitholders by way of redemption of units.

No changes were made in the objective, policies or processes during the financial periods ended 31 March 2014 and 31 March 2013.