

ABF Malaysia Bond Index Fund

Quarterly Report

30 June 2014

TRUST DIRECTORY

Manager

AmInvestment Services Berhad
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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

22nd Floor, Bangunan AmBank Group
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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 April 2014 to 30 June 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 30 June 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
	PZ00197S	Bank Pembangunan Malaysia Berhad	7.500	30 October 2025	500,000,000
	(Forward)				

Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
VG120430	Cagamas Berhad	3.500	21 December 2015	575,000,000
UI110086	Cagamas Berhad	3.730	11 November 2016	825,000,000
VJ100354	Cagamas Berhad	3.850	20 October 2016	500,000,000
UK100107	Cagamas Berhad	3.980	20 October 2017	1,000,000,000
VS120272	DanaInfra Nasional Bhd	4.040	20 July 2027	900,000,000
VN140099	DanaInfra Nasional Bhd	4.550	19 April 2024	500,000,000
VS130277	DanaInfra Nasional Bhd	4.580	31 October 2028	600,000,000
VX130278	DanaInfra Nasional Bhd	4.800	31 October 2033	900,000,000
VZ140102	DanaInfra Nasional Bhd	5.380	21 April 2039	700,000,000
UI120008	The Export-Import Bank of Korea	4.070	02 February 2017	500,000,000
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
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
DN120017	Khazanah Nasional Berhad	0.000	02 September 2022	1,500,000,000
DX120016	Khazanah Nasional Berhad	0.000	03 September 2032	1,000,000,000
DK140001	Khazanah Nasional Berhad	0.000	24 February 2021	1,300,000,000
MH130001	Government of Malaysia	3.172	15 July 2016	11,500,000,000
MH120003	Government of Malaysia	3.197	15 October 2015	8,237,700,000
MI130002	Government of Malaysia	3.260	01 March 2018	8,486,560,000
MJ120005	Government of Malaysia	3.314	31 October 2017	10,500,000,000
MG140002	Government of Malaysia	3.394	15 March 2017	7,000,000,000
MO120001	Government of Malaysia	3.418	15 August 2022	10,500,000,000
MN130003	Government of Malaysia	3.480	15 March 2023	11,000,000,000
(Forward)				

Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
ML120006	Government of Malaysia	3.492	31 March 2020	11,000,000,000
MX070003	Government of Malaysia	3.502	31 May 2027	6,000,000,000
MK110005	Government of Malaysia	3.580	28 September 2018	10,000,000,000
MJ140004	Government of Malaysia	3.654	31 October 2019	5,300,000,000
MS130005	Government of Malaysia	3.733	15 June 2028	5,000,000,000
MN070002	Government of Malaysia	3.814	15 February 2017	9,500,000,000
MJ100001	Government of Malaysia	3.835	12 August 2015	10,000,000,000
MX130004	Government of Malaysia	3.844	15 April 2033	4,500,000,000
MX130006	Government of Malaysia	3.889	31 July 2020	7,973,060,000
MS120002	Government of Malaysia	3.892	15 March 2027	5,500,000,000
ML100002	Government of Malaysia	4.012	15 September 2017	14,000,000,000
ML140003	Government of Malaysia	4.048	30 September 2021	5,000,000,000
MX120004	Government of Malaysia	4.127	15 April 2032	5,500,000,000
MO110001	Government of Malaysia	4.160	15 July 2021	10,500,000,000
MO140001	Government of Malaysia	4.181	15 July 2024	7,000,000,000
MX110004	Government of Malaysia	4.232	30 June 2031	3,500,000,000
MO060001	Government of Malaysia	4.262	15 September 2016	19,700,000,000
MO090002	Government of Malaysia	4.378	29 November 2019	17,600,000,000
MS110003	Government of Malaysia	4.392	15 April 2026	8,000,000,000
MX100003	Government of Malaysia	4.498	15 April 2030	5,520,000,000
MX060002	Government of Malaysia	4.709	15 September 2026	3,110,000,000
MO05002S	Government of Malaysia	4.720	30 September 2015	11,035,000,000
(Forward)				

Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
MY050003	Government of Malaysia	4.837	15 July 2025	3,000,000,000
MZ130007	Government of Malaysia	4.935	30 September 2043	2,500,000,000
MX080003	Government of Malaysia	5.248	15 September 2028	4,040,000,000
MS04003H	Government of Malaysia	5.734	30 July 2019	6,886,000,000
GH120001	Government of Malaysia	3.186	31 July 2015	4,000,000,000
GH120090	Government of Malaysia	3.235	08 February 2016	7,000,000,000
GJ120009	Government of Malaysia	3.309	30 August 2017	9,500,000,000
GG130067	Government of Malaysia	3.389	22 July 2016	4,000,000,000
GJ130055	Government of Malaysia	3.399	30 November 2018	4,000,000,000
GI100042	Government of Malaysia	3.473	15 July 2015	3,000,000,000
GO130033	Government of Malaysia	3.493	31 October 2023	4,000,000,000
GJ130070	Government of Malaysia	3.558	30 April 2019	6,500,000,000
GL120098	Government of Malaysia	3.576	15 May 2020	11,000,000,000
GH140001	Government of Malaysia	3.680	23 November 2017	4,000,000,000
GO120037	Government of Malaysia	3.699	15 November 2022	8,500,000,000
GL120021	Government of Malaysia	3.704	30 September 2019	8,000,000,000
GL130069	Government of Malaysia	3.716	23 March 2021	9,500,000,000
GN060019	Government of Malaysia	3.820	15 November 2016	11,000,000,000
GJ100009	Government of Malaysia	3.860	30 September 2015	3,500,000,000
GT130001	Government of Malaysia	3.871	08 August 2028	3,000,000,000
GL110001	Government of Malaysia	3.872	30 August 2018	6,500,000,000
GS120059	Government of Malaysia	3.899	15 June 2027	5,000,000,000
(Forward)				

Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
GO090001	Government of Malaysia	3.910	13 August 2019	3,500,000,000
GN070008	Government of Malaysia	3.941	15 June 2017	3,000,000,000
GN100060	Government of Malaysia	3.998	30 November 2020	3,000,000,000
GN110025	Government of Malaysia	4.170	30 April 2021	10,000,000,000
GN100021	Government of Malaysia	4.284	15 June 2020	5,500,000,000
GN080031	Government of Malaysia	4.295	31 October 2018	7,500,000,000
GO130071	Government of Malaysia	4.444	22 May 2024	6,500,000,000
GO090061	Government of Malaysia	4.492	30 April 2020	3,500,000,000
GX130068	Government of Malaysia	4.582	30 August 2033	2,500,000,000
GS130072	Government of Malaysia	4.943	06 December 2028	3,500,000,000
VI110195	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
VI140030	Pengurusan Air SPV Berhad	4.160	07 February 2019	1,000,000,000
VN110049	Pengurusan Air SPV Berhad	4.380	29 April 2021	500,000,000
VN120343	Perbadanan Tabung Pendidikan Tinggi Nasional	3.800	15 September 2022	1,000,000,000
VN120202	Perbadanan Tabung Pendidikan Tinggi Nasional	3.850	15 June 2022	2,500,000,000
(Forward)				

	Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
	VS130151	Perbadanan Tabung Pendidikan Tinggi Nasional	4.190	31 May 2028	500,000,000
	VS130090	Perbadanan Tabung Pendidikan Tinggi Nasional	4.220	28 February 2028	830,000,000
	VN140090	Perbadanan Tabung Pendidikan Tinggi Nasional	4.670	28 March 2024	1,800,000,000
	PN120073	Syarikat Prasarana Negara Berhad	3.770	06 September 2022	1,000,000,000
	PS120074	Syarikat Prasarana Negara Berhad	4.000	06 September 2027	1,000,000,000
	VI140036	Syarikat Prasarana Negara Berhad	4.080	12 March 2019	1,500,000,000
	VS110260	Syarikat Prasarana Negara Berhad	4.350	04 August 2026	1,200,000,000
	VX090825	Syarikat Prasarana Negara Berhad	5.070	28 September 2029	1,500,000,000
	<i>Source: Markit Indices Limited</i>				
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 30 June 2014		As at 31 March 2014	
		No of units held	Number of unitholders	No of units held	Number of unitholders
	Less than 100	199	4	199	4
	100 – 1,000	8,001	18	8,601	18
	1,001 -10,000	37,200	7	37,200	7
	10,001 – 100,000	135,000	3	135,000	3
	100,001 to less than 5% of issue units	18,983,530	8	18,982,930	8
5% and above of issue units	628,257,870	1	628,257,870	1	

Fund Performance Data

Portfolio Composition	Details of portfolio composition of the Fund for the financial period as at 30 June 2014, 31 March 2014 and three financial years as at 31 December are as follows:					
		As at 30-6-2014 %	As at 31-3-2014 %	FY 2013 %	FY 2012 %	FY 2011 %
	Malaysian Government Securities	88.4	91.3	90.7	80.3	89.8
	Quasi-Government bonds	8.3	8.4	8.3	13.6	6.9
	Cash and others	3.3	0.3	1.0	6.1	3.3
	Total	100.0	100.0	100.0	100.0	100.0
	<i>Note: The abovementioned percentages are based on total investment carrying value plus cash.</i>					
Performance Details	Performance details of the Fund for the financial period ended 30 June 2014, 31 March 2014 and three financial years ended 31 December are as follows:					
		3 months ended 30-6-2014	3 months ended 31-3-2014	FY 2013	FY 2012	FY 2011
	Net asset value (RM)	699,583,264	689,903,371	684,340,987	584,660,282	590,794,246
	Units in circulation	647,421,800	647,421,800	647,421,800	537,421,800	537,421,800
(Forward)						

	3 months ended 30-6-2014	3 months ended 31-3-2014	FY 2013	FY 2012	FY 2011
Net asset value per unit (RM)	1.0806*	1.0656*	1.0570	1.0879	1.0993
Highest net asset value per unit (RM)	1.0806*	1.0677 *	1.1136	1.1200	1.0993
Lowest net asset value per unit (RM)	1.0655*	1.0563 *	1.0553	1.0863	1.0642
Closing quoted price (RM/unit)	1.0800*	1.0700*	1.0970	1.1030	1.0720
Highest quoted price (RM/unit)	1.0800*	1.1020*	1.1030	1.1030	1.0900
Lowest quoted price (RM/unit)	1.0650*	1.0650*	1.0840	1.0680	1.0650
Benchmark performance (%)	1.23	0.99	0.84	4.18	4.85
Total return (%) ⁽¹⁾	1.41	0.81	0.36	3.80	4.57
- Capital growth (%)	1.41	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	0.19
Portfolio turnover ratio (times) ⁽⁴⁾	0.03	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 periods/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 0.12 times (80.0%) as compared to 0.15 times for the financial period ended 31 March 2014 mainly due to decrease in investing activities.

Average Total Return (as at 30 June 2014)

	ABFMY1^(a) %	iBoxx Index^(b) %
One year	1.89	2.06
Three years	3.04	3.38
Five years	3.65	3.90
Since launch (13 July 2005)	3.52	3.84

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 1.41% which was entirely capital growth in nature.

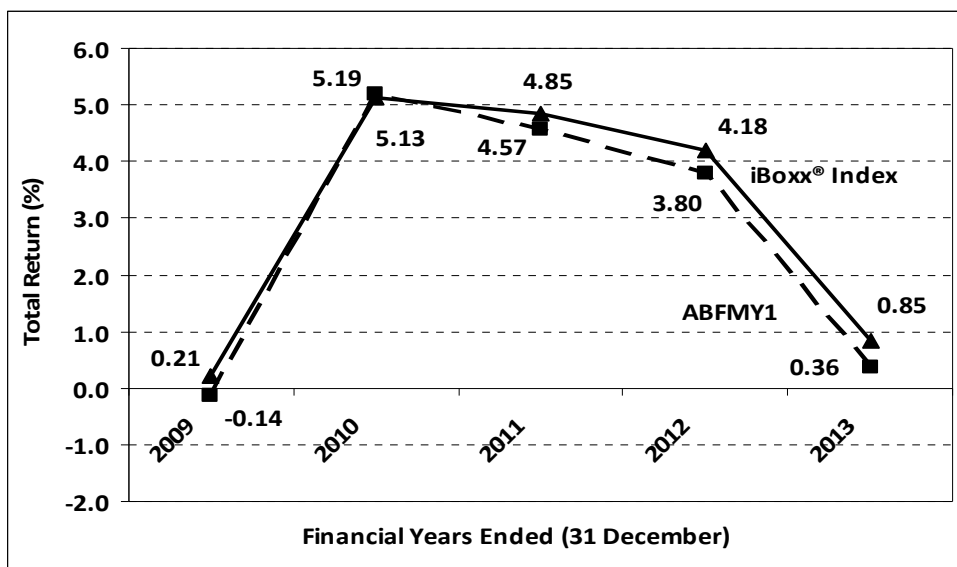
Thus, the Fund's return of 1.41% has outperformed the benchmark's return of 1.23% by 0.18%.

As compared with the financial period ended 31 March 2014, the net asset value ("NAV") per unit of the Fund increased by 1.41% from RM1.0656 to RM1.0806, while units in circulation was maintained at 647,421,800 units.

The closing price quoted at Bursa Malaysia of the Fund increased by 0.93% from RM1.0700 to RM1.0800.

(Forward)

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.

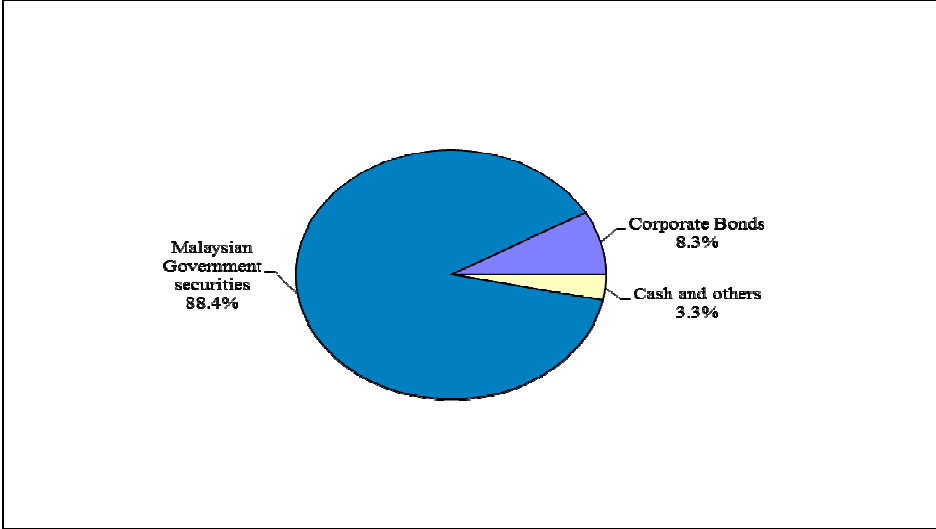
Portfolio Structure

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

	As at 30-6-2014 %	As at 31-3-2014 %	Changes %
Malaysian Government Securities	88.4	91.3	-2.9
Quasi-Government bonds	8.3	8.4	-0.1
Cash and others	3.3	0.3	3.0
Total	100.0	100.0	

There has been no significant change to the asset allocation since the last reporting period.

(Forward)

	<p>This pie chart below shows the sectoral composition of the Fund for the financial period under review.</p>  <table border="1" data-bbox="435 285 1365 810"> <caption>Sectoral Composition of the Fund</caption> <thead> <tr> <th>Sector</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Malaysian Government securities</td> <td>88.4%</td> </tr> <tr> <td>Corporate Bonds</td> <td>8.3%</td> </tr> <tr> <td>Cash and others</td> <td>3.3%</td> </tr> </tbody> </table>	Sector	Percentage	Malaysian Government securities	88.4%	Corporate Bonds	8.3%	Cash and others	3.3%
Sector	Percentage								
Malaysian Government securities	88.4%								
Corporate Bonds	8.3%								
Cash and others	3.3%								
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	<p>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.</p> <p>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.</p>								
Market Review	<p>In April 2014, the Malaysian government bonds (“MGS”) flattened marginally, aided primarily by gains in the US Treasuries market as well as strong demand in the recent primary debt auctions. As of end April 2014, trading volume in the Malaysia Government Securities/Government Investment Issues (MGS/GII) market improved further with RM44.4 billion recorded compared to RM42.2 billion in March. Overall, the yields on the 3-year, 5-year, 7-year, 10-year, 15-year and 20-year close at 3.38%, 3.62%, 3.92%, 4.07%, 4.42%, and 4.61% respectively while the 30-year MGS yields closed c.3bps higher at 4.90%. In the primary market, the auction of the 15-year GII garnered strong demand with a bid-to-cover ratio of 2.773 times on the back of RM1.5 billion of the securities up for tender. The average yield generated was 4.547%. Similar reaction was seen in the auction for the new 5-year MGS with bid-to-cover ratio of 2.715 times and with notably strong demand from offshore investors. The average yield generated at the auction was 3.654%.</p>								

	<p>The MGS yield curve bearish flattened in May as market sentiment turned cautious after the release of Monetary Policy Committee (MPC) statement which market players interpreted it to be more hawkish than previous MPC statements. As of end May 2014, trading volume in the MGS/GII market rose slightly to RM52.1billion compared to RM44.4billion in April. Overall, the yields on the 3-year, 5-year, 7-year, 10-year, 15-year and 20-year close at 3.48%, 3.73%, 3.94%, 4.03%, 4.42%, and 4.58% respectively while the 30-year MGS yields closed lower at 4.84%. In the primary market, the reopening RM2.0billion 20-year MGS 04/33 and RM3.0billion 10-year MGS 07/24 auctions gather relatively healthy bid-to-cover ratio of 2.883 times and 2.363 times at average yield of 4.639% and 4.021% respectively while the new RM4billion 3.5-year GII auction garnered bid-to-cover of 2.470 times at average yield of 3.678%.</p> <p>The MGS yield curve started bearish-flattening after Bank Negara Malaysia (BNM's) hawkish MPC statement on 8 May 2014 and continue to bearish flatten in June, with the the longer tenors rallying up to 18bps. As of end June 2014, trading volume in the MGS/GII market dropped by a third to RM32.6billion compared to RM52.1billion in May. Overall, the yields on the 3-year, 5-year, 7-year, 10-year, 15-year and 20-year close at 3.51%, 3.72%, 3.91%, 4.03%, 4.33%, and 4.40% respectively while the 30-year MGS yields closed lower at 4.74%. In the primary market, the re-opening of the RM3billion 3-year MGS 03/17 attracted a low response of 1.389 times bid-to-cover ratio, with average yield at 3.486% as investors stayed away due to the impending expectation of Overnight Policy Rate (OPR) hike in July. However, the following reopening auction of the RM3billion 7-year GII regained investor's interest with bid-to-cover ratio coming in at 2.345 times, at an average yield of 4.112%. The momentum continued with the re-opening of the RM1.5billion 20-year GII 08/33. The GII 08/33 tender garnered strong bid-to-cover ratio of 3.277 times helped by a smaller than expected issuance size but also due to investor interest in longer tenured bonds. Average yield was recorded at 4.675%.</p>
<p>Market Outlook</p>	<p>The US Federal Reserve (Fed) trimmed its bond buying program by another USD10billion to USD35billion a month and reiterated that the Fed will refrain from raising its benchmark rate until 2015. The Fed further forecasted that the benchmark Fed Fund Rate will rise to 1.13% in 2015 (previous: 1.00%) and to 2.50% (previous: 2.25%) in 2016.</p> <p>While the Fed's overall dovish stance was welcomed by the global market, there was not much reaction locally as local investors attention was focused on the upcoming MPC meeting on the 10 July 2014. To reiterate, our Central Bank Governor had opined that the current elevated domestic inflationary pressures are likely to remain contained with little expectation of second-round effects on prices. What BNM is more concerned of is the potential of financial imbalances from the current negative real interest rate environment.</p> <p>Recent news flow also point to further development in the Government's subsidies rationalization plan as the Government targets to revamp the fuel subsidy program to a more "targeted" approach as soon as September 2014. Although details are sparse as to how it would be implemented, a targeted approach would mean that the lower income groups are not expected to be impacted by the revamp and hence the impact on inflation may be mitigated.</p>

Nevertheless, in the longer term, we continue to expect the Government's on-going fiscal consolidation and tightening exercise to induce a period of elevated inflation which is likely to result in CPI hovering between 3.0% - 4.0% in 2014 and likely to sustain in 2015 when the proposed goods & services tax ("GST") is implemented. On the positive side, we expect Malaysia's Gross Domestic Product (GDP) growth to be supported by strong domestic demand in view of the upcoming festive seasons spending as well as an improved external environment, which will provide support to Malaysia's exports.

Foreign holdings in MGS have increased markedly above the range of 44% – 45% that it has been hovering at for the past one year. At 46.3% in May, there may have been some spillover of speculative demand by short term funds seeking to benefit from the strengthening Ringgit which would likely react to a potential hike in the OPR in July 2014.

We have also seen market players taking active positions in recent days in anticipation of an OPR hike in the 10 July MPC meeting. Looking at the current MGS yield curve, the market has priced in a rate hike of not more than 25bps as reflected in the 3-year MGS 03/17 which is trading at around 50bps above the current OPR level at point of writing. Nevertheless, the 3-months KLIBOR continue to inch up gradually from 3.22% in Nov 2013 to 3.56% as at 3 July 2014, a strong indication of where interest rate direction are heading.

Given the above, we expect the result of the MPC meeting to determine the future direction of the yield curve and invariably the positioning of a crowd of cashed up investors. Some certainty on the interest rate outlook guidance by BNM would likely provide a boost to the MGS market and the strengthening Ringgit will provide some support in the market.

Kuala Lumpur, Malaysia
AmInvestment Services Berhad

31 July 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 April 2014 to 30 June 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 period (From 1 April 2014 to 30	: One (1)

June 2014)	
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 period (From 1 April 2014 to 30 June 2014)	: Two (2)
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 period (From 1 April 2014 to 30 June 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 meetings attended for the financial period (From 1 April 2014 to 30 June 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 period (From 1 April 2014 to 30 June 2014)	: One (1)
Member of any other Board Committee	: None
Date of appointment to the Investment Committee	: Not applicable
Number of Investment Committee meetings attended for the financial period (From 1 April 2014 to 30 June 2014)	: One (1)
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) • 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 period (From 1 April 2014 to 30 June 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 meetings attended for the financial period (From 1 April 2014 to 30 June 2014)	: Two (2)
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	: 63 years old
Nationality	: Malaysian
Qualification	: Masters of Arts (Economic Policy), Boston University Bachelor of Economics (Analytical), University of Malaya
Executive/Non-Executive Director	: Non-Executive Director

Independent/Non-Independent Director	:	Independent Director
Working Experience	:	<p>1975-1988 : Ministry of Finance-various positions, last as Head, Macroeconomic Section, Economic and International Division</p> <p>1988-1990 : Manager, Treasury Department, Development & Commercial Bank Berhad.</p> <p>March 1990-August 1992 : Chief Economist, Arab Malaysian Securities Sdn Bhd</p> <p>September 1992-December 2001 : Executive Director/Chief Economist, AmSecurities Sdn Bhd</p> <p>January 2002-December 2005 : Managing Director, AmSecurities Sdn Bhd</p> <p>January 2006-May 2009 (Retirement) : Economic Advisor, AmInvestment Bank Berhad Group</p> <p>September 2009-August 2012 (Contract) : Senior Vice President/Head, Research Division of Permodalan Nasional Berhad</p>
Occupation	:	Director
Date of appointment	:	3 March 2014
Directorship of other public companies	:	KUISAS Berhad
Number of Board meeting attended for the financial period (From 1 April 2014 to 30 June 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 meetings attended for the financial period (From 1 April 2014 to 30 June 2014)	:	Two (2)
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-third 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 April 2014 to 30 June 2014, there were two (2) 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)
- Y Bhg Dato' Mohd Effendi bin Abdullah (profile as mentioned below)

Name	: Dato' Mohd Effendi bin Abdullah
Age	: 52
Nationality	: Malaysian
Qualification	: Bachelor of Economics (major in Accounting and Financial Management), Macquarie University, 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 period (From 1 April 2014 to 30 June 2014)	: Two (2)
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 April 2014 to 30 June 2014, there were two (2) 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	628,257,870	97.04%
AmINVESTMENT BANK BERHAD	13,716,000	2.12%
CIMB INVESTMENT BANK BERHAD	2,000,000	0.31%
AmINVESTMENT BANK BERHAD	1,583,530	0.24%
CIMB INVESTMENT BANK BERHAD	599,000	0.093%
CITIBANK BERHAD	400,000	0.062%
CIMB INVESTMENT BANK BERHAD	300,000	0.046%
HWANGDBS INVESTMENT BANK BERHAD	245,000	0.038%
CITIBANK BERHAD	140,000	0.022%
PUBLIC INVESTMENT BANK BERHAD	100,000	0.015%
UOB KAY HIAN SECURITIES (M) SDN. BHD.	20,000	0.0031%
PUBLIC INVESTMENT BANK BERHAD	15,000	0.0023%
CIMB INVESTMENT BANK BERHAD	10,000	0.0015%
CIMB INVESTMENT BANK BERHAD	9,600	0.0015%
ALLIANCE INVESTMENT BANK BERHAD	6,000	0.00093%
CIMB INVESTMENT BANK BERHAD	3,600	0.00056%
INTER-PACIFIC SECURITIES SDN BHD	3,000	0.00046%
CIMB INVESTMENT BANK BERHAD	3,000	0.00046%
HWANGDBS INVESTMENT BANK BERHAD	2,000	0.00031%
CIMB INVESTMENT BANK BERHAD	1,000	0.00015%
INTER-PACIFIC SECURITIES SDN BHD	1,000	0.00015%
CIMB INVESTMENT BANK BERHAD	1,000	0.00015%
KENANGA INVESTMENT BANK BERHAD	1,000	0.00015%
MAYBANK INVESTMENT BANK BERHAD	1,000	0.00015%
CIMB INVESTMENT BANK BERHAD	700	0.00011%
KENANGA INVESTMENT BANK BERHAD	500	0.000077%
MAYBANK INVESTMENT BANK BERHAD	300	0.000046%
MAYBANK INVESTMENT BANK BERHAD	300	0.000046%
HWANGDBS INVESTMENT BANK BERHAD	300	0.000046%
AmINVESTMENT BANK BERHAD	200	0.000031%

STATEMENT OF FINANCIAL POSITION

As At 30 June 2014

	Note	30-6-2014 (unaudited) RM	31-12-2013 (audited) RM
ASSETS			
Investments	4	676,925,418	689,099,440
Deposit with financial institution	5	22,956,607	6,879,279
Cash at banks		1,495	1,498
TOTAL ASSETS		<u>699,883,520</u>	<u>695,980,217</u>
LIABILITIES			
Amount due to Manager	6	59,271	60,815
Amount due to Trustee	7	41,489	42,570
Amount due to index provider	8	62,084	59,028
Distribution payable		-	11,329,882
Sundry payables and accrued expenses		137,412	146,935
TOTAL LIABILITIES		<u>300,256</u>	<u>11,639,230</u>
EQUITY			
Unitholders' capital	10(a)	680,206,741	680,157,976
Retained earnings	10(b)(c)	19,376,523	4,183,011
TOTAL EQUITY	10	<u>699,583,264</u>	<u>684,340,987</u>
TOTAL EQUITY AND LIABILITIES		<u>699,883,520</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>108.06 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 April 2014 To 30 June 2014

	Note	1-4-2014 to 30-6-2014 RM	1-4-2013 to 30-6-2013 RM
INVESTMENT INCOME/(LOSS)			
Interest income		6,205,147	6,126,388
Net gain/(loss) from investments:			
– Financial assets at fair value through profit or loss (“FVTPL”)	9	<u>3,800,148</u>	<u>(7,711,943)</u>
Gross Income/(Loss)		<u>10,005,295</u>	<u>(1,585,555)</u>
EXPENDITURE			
Manager’s fee	6	173,302	178,067
Trustee’s fee	7	121,312	124,647
Licence fee	8	25,653	26,129
Auditors’ remuneration		1,920	2,418
Tax agent’s fee		997	748
Administrative expenses		<u>2,218</u>	<u>1,703</u>
Total Expenditure		<u>325,402</u>	<u>333,712</u>
NET INCOME/(LOSS) BEFORE TAX		9,679,893	(1,919,267)
LESS: INCOME TAX	12	<u>-</u>	<u>-</u>
NET INCOME/(LOSS) AFTER TAX		9,679,893	(1,919,267)
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u><u>9,679,893</u></u>	<u><u>(1,919,267)</u></u>
Total comprehensive income/(loss) comprises the following:			
Realised income		5,974,252	6,544,007
Unrealised gain/(loss)		<u>3,705,641</u>	<u>(8,463,274)</u>
		<u>9,679,893</u>	<u>(1,919,267)</u>
Distribution for the period:			
Net distribution	13	<u>-</u>	<u>11,329,882</u>
Gross/net distribution per unit (sen)	13	<u>-</u>	<u>1.75</u>

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

STATEMENT OF CHANGES IN EQUITY *(Unaudited)*

For The Financial Period From 1 April 2014 To 30 June 2014

	Note	Unitholders' capital RM	Retained earnings RM	Total equity RM
At 1 April 2013		684,329,381	26,894,563	711,223,944
Total comprehensive loss for the period		-	(1,919,267)	(1,919,267)
Distribution	13	<u>(4,171,405)</u>	<u>(7,158,477)</u>	<u>(11,329,882)</u>
Balance at 30 June 2013		<u>680,157,976</u>	<u>17,816,819</u>	<u>697,974,795</u>
At 1 April 2014		680,206,741	9,696,630	689,903,371
Total comprehensive income for the period		<u>-</u>	<u>9,679,893</u>	<u>9,679,893</u>
Balance at 30 June 2014		<u>680,206,741</u>	<u>19,376,523</u>	<u>699,583,264</u>

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

STATEMENT OF CASH FLOWS (Unaudited)**For The Financial Period From 1 April 2014 To 30 June 2014**

	1-4-2014 to 30-6-2014 RM	1-4-2013 to 30-6-2013 RM
CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES		
Proceeds from sale of investments	35,296,870	32,025,000
Interest received	5,345,432	5,970,842
Manager's fee paid	(172,649)	(175,476)
Trustee's fee paid	(120,856)	(122,833)
Tax agent's fee paid	(4,000)	-
Licence fee paid	(47,787)	(24,839)
Payments for other administrative expenses	(971)	(456)
Purchase of investments	<u>(19,445,000)</u>	<u>(61,863,800)</u>
Net cash generated from/(used in) operating and investing activities	<u>20,851,039</u>	<u>(24,191,562)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	20,851,039	(24,191,562)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,107,063</u>	<u>42,456,526</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>22,958,102</u></u>	<u><u>18,264,964</u></u>
Cash and cash equivalents comprise:		
Deposit with financial institution	22,956,607	18,261,516
Cash at banks	<u>1,495</u>	<u>3,448</u>
	<u><u>22,958,102</u></u>	<u><u>18,264,964</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 premiums and accretion of discounts, 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

	30-6-2014	31-12-2013
	RM	RM
Financial assets at FVTPL		
At nominal value:		
Quasi-Government Bonds	60,000,000	60,000,000
Malaysian Government Securities	510,920,000	516,710,000
Government Investment Issues	105,000,000	110,150,000
	<u>675,920,000</u>	<u>686,860,000</u>
At fair value:		
Quasi-Government Bonds	57,912,027	58,088,296
Malaysian Government Securities	515,338,061	521,933,575
Government Investment Issues	103,675,330	109,077,569
	<u>676,925,418</u>	<u>689,099,440</u>

Details of investments as at 30 June 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	9,838,123	10,024,396	1.41
14.06.2022	Johor Corporation	NR	<u>50,000,000</u>	<u>48,073,904</u>	<u>50,411,879</u>	<u>6.87</u>
			<u>60,000,000</u>	<u>57,912,027</u>	<u>60,436,275</u>	<u>8.28</u>

(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						
12.08.2015	Government of Malaysia	NR	25,000,000	25,543,139	25,516,556	3.65
30.09.2015	Government of Malaysia	NR	15,000,000	15,468,967	15,292,401	2.21
15.10.2015	Government of Malaysia	NR	15,000,000	15,100,889	15,129,324	2.16
15.07.2016	Government of Malaysia	NR	10,000,000	10,111,333	10,156,805	1.45
15.09.2016	Government of Malaysia	NR	105,800,000	109,056,144	108,982,093	15.59
15.02.2017	Government of Malaysia	NR	20,000,000	20,448,288	20,354,301	2.92
15.03.2017	Government of Malaysia	NR	10,000,000	10,068,985	10,095,373	1.44
31.10.2017	Government of Malaysia	NR	10,000,000	9,980,139	10,084,002	1.42
01.03.2018	Government of Malaysia	NR	20,000,000	19,952,152	19,986,714	2.85
31.03.2020	Government of Malaysia	NR	40,000,000	39,619,108	40,844,449	5.66
31.07.2020	Government of Malaysia	NR	10,000,000	10,197,398	10,355,576	1.46
15.07.2021	Government of Malaysia	NR	60,000,000	61,919,470	63,877,243	8.85
15.08.2022	Government of Malaysia	NR	10,120,000	9,859,991	10,209,391	1.41
15.07.2024	Government of Malaysia	NR	40,000,000	41,265,260	41,006,969	5.90
15.04.2026	Government of Malaysia	NR	45,000,000	46,086,300	47,787,955	6.59
15.03.2027	Government of Malaysia	NR	10,000,000	9,728,338	10,284,447	1.39

(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						
15.06.2028	Government of Malaysia	NR	35,000,000	32,876,547	32,527,693	4.70
15.04.2033	Government of Malaysia	NR	30,000,000	28,055,613	30,113,246	4.01
			<u>510,920,000</u>	<u>515,338,061</u>	<u>522,604,538</u>	<u>73.66</u>
Government Investment Issues						
30.09.2015	Government of Malaysia	NR	2,000,000	2,032,606	2,022,550	0.29
08.02.2016	Government of Malaysia	NR	8,000,000	8,093,930	8,105,854	1.16
15.06.2017	Government of Malaysia	NR	5,000,000	5,063,076	5,031,153	0.72
30.08.2017	Government of Malaysia	NR	20,000,000	20,046,866	20,212,181	2.87
30.08.2018	Government of Malaysia	NR	10,000,000	10,167,562	10,128,734	1.45
15.05.2020	Government of Malaysia	NR	20,000,000	19,611,843	20,174,090	2.80
30.04.2021	Government of Malaysia	NR	10,000,000	10,094,639	10,456,223	1.44
31.10.2023	Government of Malaysia	NR	10,000,000	9,506,849	9,511,738	1.36
15.06.2027	Government of Malaysia	NR	20,000,000	19,057,959	20,300,642	2.73
			<u>105,000,000</u>	<u>103,675,330</u>	<u>105,943,165</u>	<u>14.82</u>
Total financial assets at FVTPL			<u>675,920,000</u>	<u>676,925,418</u>	<u>688,983,978</u>	<u>96.76</u>
Shortfall of fair value over cost				<u>(12,058,560)</u>		

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

	Effective yield*	
	30-6-2014	31-12-2013
	%	%
Quasi-Government Bonds	4.40	4.33
Malaysian Government Securities	3.75	3.73
Government Investment Issues	3.93	3.81

* As provided by Markit Indices Limited

Analyses of the remaining maturity of unquoted investments as at 30 June 2014 and 31 December 2013 are as follows:

	Less than 1 year RM	1 year to 5 years RM	More than 5 years RM
2014			
At nominal value:			
Quasi-Government Bonds	-	10,000,000	50,000,000
Malaysian Government Securities	-	230,800,000	280,120,000
Government Investment Issues	-	45,000,000	60,000,000
2013			
At nominal value:			
Quasi-Government Bonds	-	-	60,000,000
Malaysian Government Securities	-	266,590,000	250,120,000
Government Investment Issues	5,150,000	42,000,000	63,000,000

5. DEPOSIT WITH FINANCIAL INSTITUTION

	30-6-2014 RM	31-12-2013 RM
At nominal value:		
Short-term deposit with a licensed bank	22,954,500	6,878,600
At carrying value:		
Short-term deposit with a licensed bank	22,956,607	6,879,279

Details of deposit with financial institution as at 30 June 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					
01.07.2014	United Overseas Bank (Malaysia) Bhd.	<u>22,954,500</u>	<u>22,956,607</u>	<u>22,954,500</u>	<u>3.28</u>

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

	Weighted average interest rate		Remaining maturity	
	30-6-2014 %	31-12-2013 %	30-6-2014 Day	31-12-2013 Days
Short-term deposit with a licensed bank	<u>3.35</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 on 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 on 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/(LOSS) FROM INVESTMENTS

	1-4-2014 to 30-6-2014 RM	1-4-2013 to 30-6-2013 RM
Net gain/(loss) on financial assets at FVTPL comprised:		
– Net realised gain on sale of investments	94,507	751,331
– Net unrealised gain/(loss) on changes in fair values of investments	<u>3,705,641</u>	<u>(8,463,274)</u>
	<u>3,800,148</u>	<u>(7,711,943)</u>

10. TOTAL EQUITY

Total equity is represented by:

	Note	30-6-2014 RM	31-12-2013 RM
Unitholders' capital	(a)	680,206,741	680,157,976
Retained earnings			
– Realised income	(b)	31,435,083	22,878,849
– Unrealised loss	(c)	<u>(12,058,560)</u>	<u>(18,695,838)</u>
		<u>699,583,264</u>	<u>684,340,987</u>

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

	1-4-2014 to 30-6-2014		1-1-2013 to 31-12-2013	
	Number of units	RM	Number of units	RM
At beginning of the period/year	647,421,800	680,206,741	537,421,800	563,972,881
Creation during the period/year	-	-	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**

	1-4-2014 to 30-6-2014 RM	1-1-2013 to 31-12-2013 RM
At beginning of the period/year	25,460,831	17,222,287
Total comprehensive income for the period/year	9,679,893	1,983,968
Net unrealised (gain)/loss attributable to investments held transferred to unrealised reserve [Note 10(c)]	(3,705,641)	22,160,952
Distributions out of realised reserve	-	(18,488,358)
Net increase in realised reserve for the period/year	<u>5,974,252</u>	<u>5,656,562</u>
At end of the period/year	<u>31,435,083</u>	<u>22,878,849</u>

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

	1-4-2014 to 30-6-2014 RM	1-1-2013 to 31-12-2013 RM
At beginning of the period/year	(15,764,201)	3,465,114
Net unrealised gain/(loss) attributable to investments held transferred from realised reserve [Note 10(b)]	<u>3,705,641</u>	<u>(22,160,952)</u>
At end of the period/year	<u>(12,058,560)</u>	<u>(18,695,838)</u>

11. UNITS HELD BY RELATED PARTIES

	1-4-2014 to 30-6-2014		1-1-2013 to 31-12-2013	
	Number of units	RM	Number of units	RM
Parties related to the Manager *	<u>15,299,530</u>	<u>16,523,492</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 30 June 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/(loss) before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Fund are as follows:

	1-4-2014 to 30-6-2014 RM	1-4-2013 to 30-6-2013 RM
Net income/(loss) before tax	<u>9,679,893</u>	<u>(1,919,267)</u>
Taxation at Malaysian statutory rate of 25%	2,420,000	(479,800)
Tax effects of:		
Income not subject to tax	(2,501,300)	(1,719,400)
Loss not deductible for tax purposes	-	2,115,800
Restriction on tax deductible expenses for unit trust fund	39,400	40,600
Non-permitted expenses for tax purposes	37,500	38,300
Permitted expenses not used and not available for future periods	<u>4,400</u>	<u>4,500</u>
Tax expense for the financial period	<u>-</u>	<u>-</u>

13. DISTRIBUTION

Distribution to unitholders declared on 20 June 2013 was from the following sources:

	1-4-2014 to 30-6-2014 RM	1-4-2013 to 30-6-2013 RM
Undistributed net income brought forward	-	5,641,488
Interest income	-	1,604,588
Net realised gain on sale of investments	-	246,113
Distributions/loss equalisation	-	4,171,405
	<hr/>	<hr/>
Less: Expenses	-	11,663,594
	<hr/>	<hr/>
Total amount of distribution	-	11,329,882
	<hr/>	<hr/>
Gross/net distribution per unit (sen)	-	1.75
	<hr/>	<hr/>
Distribution made out of:		
– Realised gain	-	7,158,477
– Distribution/loss equalisation	-	4,171,405
	<hr/>	<hr/>
	-	11,329,882
	<hr/>	<hr/>
Comprising:		
Cash distribution	-	11,329,882
	<hr/>	<hr/>

Included in the distributions for the financial period ended 30 June 2013 was an amount of RM5,641,488 distributed from previous financial periods' realised income.

14. MANAGEMENT EXPENSE RATIO (“MER”)

The Fund's MER is as follows:

	1-4-2014 to 30-6-2014 % p.a.	1-4-2013 to 30-6-2013 % p.a.
Manager's fee	0.10	0.10
Trustee's fee	0.07	0.07
Licence fee	0.01	0.01
Trust administrative expenses	0.01	0.01
	<hr/>	<hr/>
Total MER	0.19	0.19
	<hr/>	<hr/>

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 0.03 times (2013: 0.07 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 30 June 2014 are as follows:

Financial institutions	Transaction value	
	RM	%
Public Bank Berhad	944,051,200	93.28
United Overseas Bank (Malaysia) Bhd.	22,954,500	2.27
Bank Islam Malaysia Berhad	15,362,132	1.52
Citibank Berhad	10,129,815	1.00
AmBank (M) Berhad*	10,018,995	0.99
RHB Investment Bank Berhad	9,491,764	0.94
Total	<u>1,012,008,406</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 are no less favourable than those arranged with independent third parties.

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
30 June 2014				
Assets				
Investments	676,925,418	-	-	676,925,418
Deposit with financial institution	-	22,956,607	-	22,956,607
Cash at banks	-	1,495	-	1,495
	<u>676,925,418</u>	<u>22,958,102</u>	<u>-</u>	<u>699,883,520</u>
Total financial assets	<u>676,925,418</u>	<u>22,958,102</u>	<u>-</u>	<u>699,883,520</u>
Liabilities				
Amount due to Manager	-	-	59,271	59,271
Amount due to Trustee	-	-	41,489	41,489
Amount due to index provider	-	-	62,084	62,084
Sundry payables and accrued expenses	-	-	137,412	137,412
	<u>-</u>	<u>-</u>	<u>300,256</u>	<u>300,256</u>
Total financial liabilities	<u>-</u>	<u>-</u>	<u>300,256</u>	<u>300,256</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 December 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
Total financial liabilities	-	-	11,639,230	11,639,230

	Income, expense, gains and losses	
	1-4-2014 to 30-6-2014 RM	1-4-2013 to 30-6-2013 RM
Net gain/(loss) from financial assets at FVTPL	3,800,148	(7,711,943)
Income, of which derived from:		
– Interest income from financial assets at FVTPL	6,086,474	5,958,865
– Interest income from loans and receivables	118,673	167,523

(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
30 June 2014				
Financial assets at FVTPL	-	676,925,418	-	676,925,418
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	0.26	0.26
Average Daily	0.29	0.29
Highest	0.31	0.31
Lowest	0.26	0.26
2013	0.38	0.38
Average Daily	0.26	0.26
Highest	0.38	0.38
Lowest	0.19	0.19

Based on Gaussian VaR, using historical weekly data for the past 180 weeks, ABF Malaysia Bond Index Fund portfolio that invests mainly in Ringgit denominated fixed income securities had a daily 1% Value-at-Risk (VaR) of approximately 0.26% (2013: 0.38%). This implies that not more than 1 out of 100 trading days would record a daily loss exceeding 0.26% (2013: 0.38%) 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 30 June 2014 and 30 June 2013:

Credit rating	RM	As a % of debt securities	As a % of net asset value
2014			
NR	<u>676,925,418</u>	<u>100.00</u>	<u>96.76</u>
2013			
AAA	5,190,048	0.75	0.74
NR	<u>686,141,757</u>	<u>99.25</u>	<u>98.30</u>
	<u>691,331,805</u>	<u>100.00</u>	<u>99.05</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 30 June 2014 and 30 June 2013:

Credit rating	RM	As a % of deposit	As a % of net asset value
2014			
P1/MARC-1	<u>22,956,607</u>	<u>100.00</u>	<u>3.28</u>
2013			
P1/MARC-1	<u>18,261,516</u>	<u>100.00</u>	<u>2.62</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 30 June 2014 and 30 June 2013:

Sector	RM	As a % of debt securities	As a % of net asset value
2014			
Sovereign	619,013,391	91.44	88.48
State government	57,912,027	8.56	8.28
	<u>676,925,418</u>	<u>100.00</u>	<u>96.76</u>
2013			
Sovereign	616,678,223	89.20	88.35
State government	59,370,027	8.59	8.51
Venture capital	10,093,507	1.46	1.45
Transportation	5,190,048	0.75	0.74
	<u>691,331,805</u>	<u>100.00</u>	<u>99.05</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, $\$ = \text{Nominal} * (R/F)$
 At maturity: maturity payment, $\$ = \text{Nominal} + (\text{Nominal} * R/F)$
- (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: $\$ = \text{Nominal} + (\text{Nominal} * R * d / 365)$

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	26,314,998	90,203,248	172,219,500	67,210,452	35,868,252	468,720,606
Deposit with financial institution	22,956,607	-	-	-	-	-
Other assets	1,495	-	-	-	-	-
Total assets	49,273,100	90,203,248	172,219,500	67,210,452	35,868,252	468,720,606
Financial liabilities						
Other liabilities	300,256	-	-	-	-	-
2013						
Financial assets						
Investments	36,540,155	91,914,905	109,199,398	158,776,550	44,052,202	414,690,957
Deposit with financial institution	18,261,516	-	-	-	-	-
Other assets	3,448	-	-	-	-	-
Total assets	54,805,119	91,914,905	109,199,398	158,776,550	44,052,202	414,690,957
Financial liabilities						
Other liabilities	11,621,974	-	-	-	-	-

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 30 June 2014 and 30 June 2013.