

# **ABF Malaysia Bond Index Fund**

**Quarterly Report**

**30 September 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

## **CORPORATE DIRECTORY**

### **AmInvestment Services Berhad**

Registered Office

22<sup>nd</sup> Floor, Bangunan AmBank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur  
Tel:03-2036 2633 Fax: 03-2032 1914

Head Office

9<sup>th</sup> Floor, Bangunan AmBank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur  
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### **AmInvestment Management Sdn Bhd**

Registered Office

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Head Office

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55, Jalan Raja Chulan, 50200 Kuala Lumpur  
Tel:03-2036 2888 Fax: 03-2026 5630

### **Secretary**

Koh Suet Peng (MAICSA 7019861)  
22<sup>nd</sup> Floor, Bangunan AmBank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur

### **HSBC (Malaysia) Trustee Berhad**

Business/Registered Office/Head Office

Fund Services, Bangunan HSBC, 13<sup>th</sup> Floor, South Tower  
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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 July 2014 to 30 September 2014.

### Salient Information of the Fund

<b>Name</b>	ABF Malaysia Bond Index Fund ("Fund")				
<b>Category/ Type</b>	Fixed Income ETF/ Income				
<b>Objective</b>	<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>				
<b>Index Component</b>	Details of the index component as at 30 September 2014 are as follows:				
	<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
	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)				

<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
VJ100354	Cagamas Berhad	3.850	20 October 2016	500,000,000
UK100107	Cagamas Berhad	3.980	20 October 2017	1,000,000,000
UI110086	Cagamas Berhad	3.730	11 November 2016	825,000,000
VG120430	Cagamas Berhad	3.500	21 December 2015	575,000,000
VS120272	DanaInfra Nasional Bhd	4.040	20 July 2027	900,000,000
VX130278	DanaInfra Nasional Bhd	4.800	31 October 2033	900,000,000
VZ140102	DanaInfra Nasional Bhd	5.380	21 April 2039	700,000,000
VX140199	DanaInfra Nasional Bhd	4.930	24 July 2034	500,000,000
VZ140201	DanaInfra Nasional Bhd	5.290	22 July 2044	500,000,000
UN080007	The Export-Import Bank of Korea	4.500	12 March 2018	500,000,000
UI120008	The Export-Import Bank of Korea	4.070	02 February 2017	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
MS04003H	Government of Malaysia	5.734	30 July 2019	6,886,000,000
MO05002S	Government of Malaysia	4.720	30 September 2015	11,035,000,000
MY050003	Government of Malaysia	4.837	15 July 2025	3,000,000,000
MO060001	Government of Malaysia	4.262	15 September 2016	15,708,000,000
MX060002	Government of Malaysia	4.709	15 September 2026	3,110,000,000
MN070002	Government of Malaysia	3.814	15 February 2017	9,500,000,000
MX070003	Government of Malaysia	3.502	31 May 2027	6,000,000,000
(Forward)				

<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
MX080003	Government of Malaysia	5.248	15 September 2028	4,040,000,000
MO090002	Government of Malaysia	4.378	29 November 2019	17,600,000,000
ML100002	Government of Malaysia	4.012	15 September 2017	14,000,000,000
MX100003	Government of Malaysia	4.498	15 April 2030	5,520,000,000
MO110001	Government of Malaysia	4.160	15 July 2021	10,500,000,000
MS110003	Government of Malaysia	4.392	15 April 2026	8,000,000,000
MX110004	Government of Malaysia	4.232	30 June 2031	3,500,000,000
MK110005	Government of Malaysia	3.580	28 September 2018	10,000,000,000
MO120001	Government of Malaysia	3.418	15 August 2022	10,500,000,000
MS120002	Government of Malaysia	3.892	15 March 2027	5,500,000,000
MH120003	Government of Malaysia	3.197	15 October 2015	8,237,700,000
MX120004	Government of Malaysia	4.127	15 April 2032	5,500,000,000
MJ120005	Government of Malaysia	3.314	31 October 2017	10,500,000,000
ML120006	Government of Malaysia	3.492	31 March 2020	11,000,000,000
MH130001	Government of Malaysia	3.172	15 July 2016	11,500,000,000
MI130002	Government of Malaysia	3.260	01 March 2018	8,486,560,000
MN130003	Government of Malaysia	3.480	15 March 2023	11,000,000,000
MX130004	Government of Malaysia	3.844	15 April 2033	4,500,000,000
MS130005	Government of Malaysia	3.733	15 June 2028	5,000,000,000
MK130006	Government of Malaysia	3.889	31 July 2020	7,973,060,000
MZ130007	Government of Malaysia	4.935	30 September 2043	2,500,000,000
MO140001	Government of Malaysia	4.181	15 July 2024	7,000,000,000
(Forward)				

<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
MG140002	Government of Malaysia	3.394	15 March 2017	7,000,000,000
ML140003	Government of Malaysia	4.048	30 September 2021	8,500,000,000
MJ140004	Government of Malaysia	3.654	31 October 2019	8,300,000,000
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
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
GO090061	Government of Malaysia	4.492	30 April 2020	3,500,000,000
GJ100009	Government of Malaysia	3.860	30 September 2015	3,500,000,000
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
GL110001	Government of Malaysia	3.872	30 August 2018	6,500,000,000
GN110025	Government of Malaysia	4.170	30 April 2021	10,000,000,000
GJ120009	Government of Malaysia	3.309	30 August 2017	9,500,000,000
GL120021	Government of Malaysia	3.704	30 September 2019	8,000,000,000
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
GH120090	Government of Malaysia	3.235	08 February 2016	7,000,000,000
GL120098	Government of Malaysia	3.576	15 May 2020	11,000,000,000
GT130001	Government of Malaysia	3.871	08 August 2028	3,000,000,000
GO130033	Government of Malaysia	3.493	31 October 2023	4,000,000,000
GJ130055	Government of Malaysia	3.399	30 November 2018	4,000,000,000
(Forward)				



<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
GG130067	Government of Malaysia	3.389	22 July 2016	4,000,000,000
GX130068	Government of Malaysia	4.582	30 August 2033	4,000,000,000
GL130069	Government of Malaysia	3.716	23 March 2021	9,500,000,000
GJ130070	Government of Malaysia	3.558	30 April 2019	6,500,000,000
GO130071	Government of Malaysia	4.444	22 May 2024	6,500,000,000
GS130072	Government of Malaysia	4.943	06 December 2028	5,000,000,000
GH140001	Government of Malaysia	3.678	23 November 2017	4,000,000,000
VN110049	Pengurusan Air SPV Berhad	4.380	29 April 2021	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
VN120202	Perbadanan Tabung Pendidikan Tinggi Nasional	3.850	15 June 2022	2,500,000,000
VS130090	Perbadanan Tabung Pendidikan Tinggi Nasional	4.220	28 February 2028	830,000,000
VS130151	Perbadanan Tabung Pendidikan Tinggi Nasional	4.190	31 May 2028	500,000,000
VN140090	Perbadanan Tabung Pendidikan Tinggi Nasional	4.670	28 March 2024	1,800,000,000
(Forward)				

	Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
	VP140207	Perbadanan Tabung Pendidikan Tinggi Nasional	4.530	27 August 2026	500,000,000
	VX090825	Syarikat Prasarana Negara Berhad	5.070	28 September 2029	1,500,000,000
	VS110260	Syarikat Prasarana Negara Berhad	4.350	04 August 2026	1,200,000,000
	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

(Source: Markit Indices Limited)

<b>Duration</b>	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.
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<b>Performance Benchmark</b>	iBoxx® ABF Malaysia Bond Index
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<b>Income Distribution Policy</b>	Income distribution (if any) will be paid semi-annually.
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<b>Breakdown of Unit Holdings by Size</b>	For the financial period under review, the size of the Fund stood at 647,421,800 units.				
	Size of holding	As at 30 September 2014		As at 30 June 2014	
		No of units held	Number of unitholders	No of units held	Number of unitholders
	Less than 100	200	5	199	4
	100 – 1,000	7,900	17	8,001	18
	1,001 -10,000	37,200	7	37,200	7
	10,001 – 100,000	15,000	1	135,000	3
	100,001 to less than 5% of issue units	19,103,630	8	18,983,530	8
5% and above of issue units	628,257,870	1	628,257,870	1	

## Fund Performance Data

<b>Portfolio Composition</b>	Details of portfolio composition of the Fund for the financial period as at 30 September 2014, 30 June 2014, and three financial years as at 31 December are as follows:					
		<b>As at 30-9-2014 %</b>	<b>As at 30-6-2014 %</b>	<b>FY 2013 %</b>	<b>FY 2012 %</b>	<b>FY 2011 %</b>
	Corporate bonds	1.4	-	-	-	-
	Malaysian Government Securities	89.3	88.4	90.7	80.3	89.8
	Quasi-Government bonds	7.1	8.3	8.3	13.6	6.9
	Cash and others	2.2	3.3	1.0	6.1	3.3
	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	<i>Note: The abovementioned percentages are based on total investment carrying value plus cash.</i>					
<b>Performance Details</b>	Performance details of the Fund for the financial period ended 30 September 2014, 30 June 2014, and three financial years ended 31 December are as follows:					
		<b>3 months ended 30-9-2014</b>	<b>3 months ended 30-6-2014</b>	<b>FY 2013</b>	<b>FY 2012</b>	<b>FY 2011</b>
	Net asset value (RM)	696,341,980	699,583,264	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
	Net asset value per unit (RM)	1.0756	1.0806*	1.0570	1.0879	1.0993
	Highest net asset value per unit (RM)	1.0818	1.0806*	1.1136	1.1200	1.0993
	Lowest net asset value per unit (RM)	1.0621	1.0655*	1.0553	1.0863	1.0642
	Closing quoted price (RM/unit)	1.0650	1.0800*	1.0970	1.1030	1.0720
	Highest quoted price (RM/unit)	1.0650	1.0800*	1.1030	1.1030	1.0900
		(Forward)				

	3 months ended 30-9-2014	3 months ended 30-6-2014	FY 2013	FY 2012	FY 2011
Lowest quoted price (RM/unit)	1.0650	1.0650*	1.0840	1.0680	1.0650
Benchmark performance (%)	1.33	1.23	0.84	4.18	4.85
Total return (%) <sup>(1)</sup>	1.41	1.41	0.36	3.80	4.57
- Capital growth (%)	-0.44	1.41	-2.86	-0.98	1.12
- Income distribution (%)	1.85	-	3.22	4.78	3.45
Gross distribution (sen per unit)	2.00	-	3.50	5.25	3.75
Net distribution (sen per unit)	2.00	-	3.50	5.25	3.75
Distribution yield (%) <sup>(2)</sup>	1.88	-	3.19	4.76	3.50
Management expense ratio (%) <sup>(3)</sup>	0.19	0.19	0.19	0.19	0.19
Portfolio turnover ratio (times) <sup>(4)</sup>	0.23	0.03	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 periods/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 increased by 0.20 times (>100%) as compared to 0.03 times for the financial period ended 30 June 2014 mainly due to increase in investing activities.

#### Average Total Return (as at 30 September 2014)

	ABFMY1 <sup>(a)</sup> %	iBoxx Index <sup>(b)</sup> %
One year	3.25	3.10
Three years	3.03	3.32
Five years	3.62	3.87
Since launch (13 July 2005)	3.58	3.89

(Forward)

## Annual Total Return

Financial Years Ended (31 December)	ABFMY1 <sup>(a)</sup> %	iBoxx Index <sup>(b)</sup> %
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](http://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% comprising of negative 0.44% capital and 1.85% income distribution.

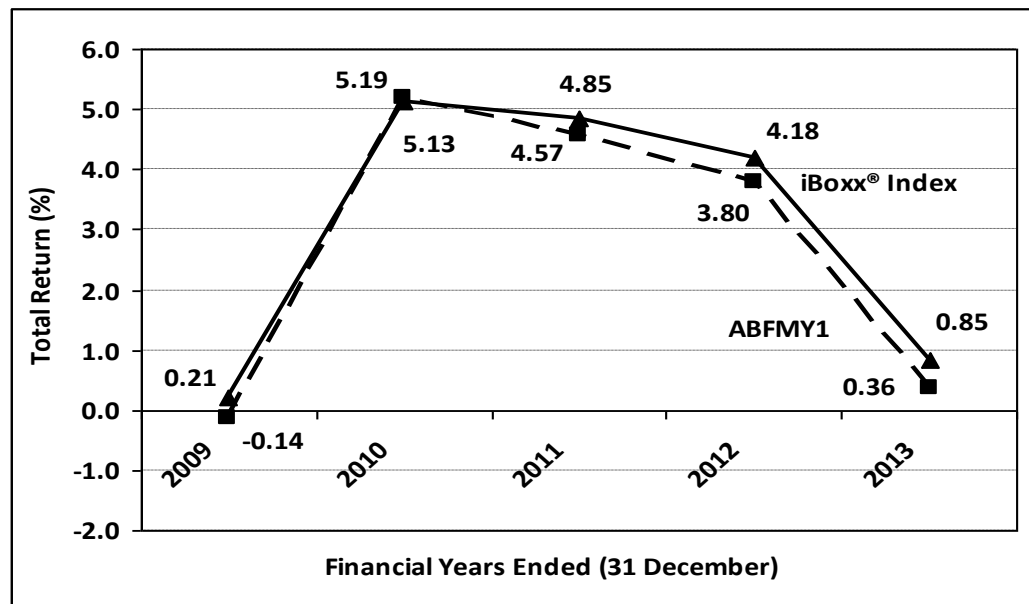
Thus, the Fund's return of 1.41% has outperformed the benchmark's return of 1.33% by 0.08%.

As compared with the financial period ended 30 June 2014, the net asset value ("NAV") per unit of the Fund decreased by 0.46% from RM1.0806 to RM1.0756, while units in circulation was maintained at 647,421,800 units.

The closing price quoted at Bursa Malaysia of the Fund decreased by 1.39% from RM1.0800 to RM1.0650.

(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**

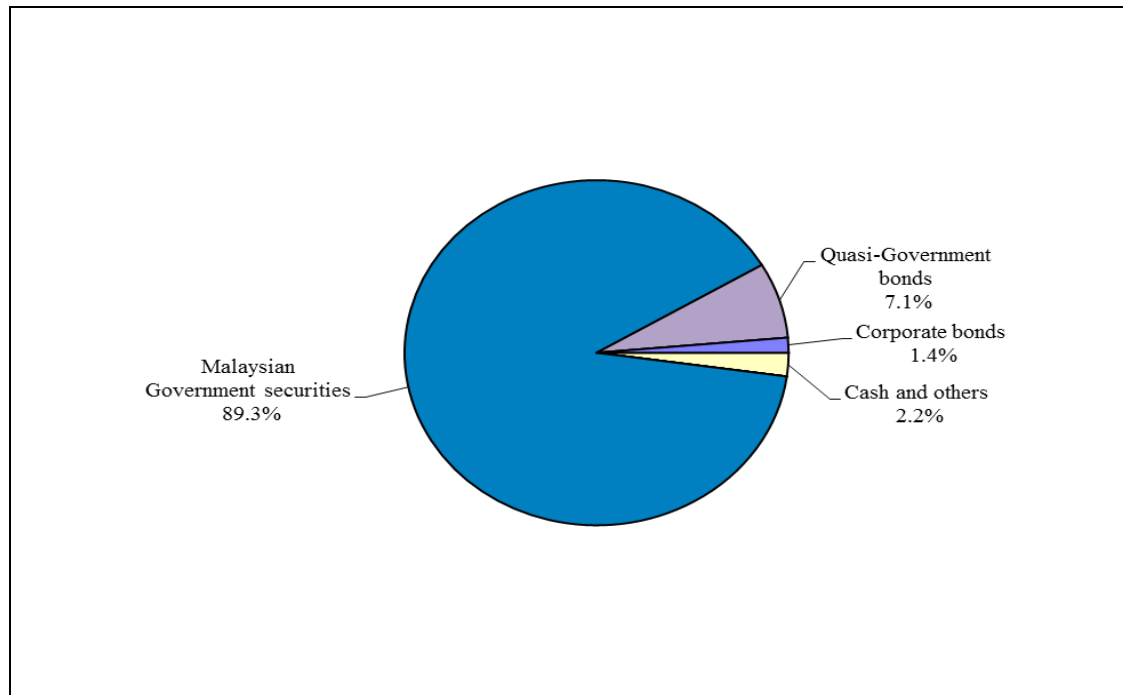
This table below is the asset allocation of the Fund for the financial periods under review.

	As at 30-9-2014 %	As at 30-6-2014 %	Changes %
Corporate bonds	1.4	-	1.4
Malaysian Government Securities	89.3	88.4	0.9
Quasi-Government bonds	7.1	8.3	-1.2
Cash and others	2.2	3.3	-1.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

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

(Forward)

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



**Distribution/  
unit splits**

During the financial period under review, the Fund declared income distributions, detailed as follows:

<b>2.00 sen per unit income distribution*</b>	<b>Change in the unit price prior and subsequent to the income distribution</b>	<b>Before income distribution on 4 July 2014 (RM)</b>	<b>After income distribution on 4 July 2014 (RM)</b>
	Net asset value per unit	1.0821	1.0621

There was no 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 July’s Monetary Policy Committee (“MPC”) meeting, Bank Negara Malaysia (“BNM”) raised the Overnight Policy Rate (“OPR”) by 25bps to 3.25%, in line with market expectations. This came on the back of a stronger economic growth outlook, above long-run average inflation and concerns over the continued build-up in economic

and financial imbalances, which was highlighted by BNM in the previous MPC meeting. Nonetheless from the recent MPC statement, BNM appeared to leave the option open for further policy rate normalization although this would largely be dependent on the trend of economic data coming in over the next few months, especially if signs of inflationary pressure as well as whether risks posed by growing financial imbalances are contained. Meanwhile, in the latest BNM data for June 2014, foreign holdings in both the Malaysian Government Securities (“MGS”) as well as the Government Investment Issues (“GII”) rose to RM147.3 billion and RM7.4 billion, accounting for 46.7% and 3.9% of total outstanding respectively. However, this was moderated by huge outflow of RM5.6 billion in BNM bills and notes (including Islamic). The MGS yield curve generally continued its flattening trend throughout the month following the 25 bps hike in OPR by BNM on 10 July 2014 with yields on the long end of the curve coming down by around 9bps. Meanwhile, trade volume in the MGS/GII market rose to RM45.3b compared to RM32.6b in June despite fewer numbers of working days during the month. Overall as of end July, the yields on the 3-year, 5-year, 7-year, 10-year, 15-year, 20-year and 30-year closed at lower at 3.48%, 3.66%, 3.78%, 3.88%, 4.20% and 4.27% and 4.64% respectively. In the primary market, the RM3b 5-year MGS 10/19 reopening auction and the RM1.5b 15-year GII 12/28 reopening auction drew bid-to-cover ratios of 2.18 times and 3.81 times at average yield of 3.707% and 4.393% respectively. The robust demand in the 15-year GII auction generally reflects continued investors’ appetite in the long end of the curve.

During the month of August, Malaysia reported its 2Q2014 GDP growth figures which came in at a higher-than-expected +6.4% YoY versus consensus expectation of +5.8%. This beat our neighboring peers such as Indonesia (2Q +5.1%), Thailand (2Q +0.4%) and comparable to Philippines (2Q +6.4%). Malaysia’s 2Q2014 GDP growth was the fastest since 1Q2013 and was boosted primarily by net exports as exports grew (+14.2% YoY) faster than imports (+8.6% YoY) during the quarter. Meanwhile, private investments increased on the back of a better global outlook with investments in the services and manufacturing sectors remaining firm. However, private consumption continues to moderate to a softer pace of +6.5% compared to +7.1% in 1Q2014. Finally, private spending remains supported by stable employment conditions and wage growth. On the inflation front, Consumer price index (“CPI”) continues to moderate downwards, coming in at 3.2% YoY in July (June: +3.3%). The moderate inflation is primarily attributed to the price of food & non-alcoholic beverages, which rose a softer 3.1% YoY (June: +3.5%). Lastly, foreign holdings of MGS continue to rise steadily. For the month of July, foreign net inflows in MGS totaled RM6.7b, bringing total foreign holdings to RM154b, the highest on record and increasing the % of foreign ownership to 48.4%. Notably, total foreign holdings of MGS are again approaching the peak of 49.5% recorded in May 2013 before the start of QE tapering. After several months of rallies, the longer end of the MGS yield curve has started to stabilize with investors focusing on the front to the belly of the curve. In August, the curve experienced a slight bearish-flattening movement as market began to factor in the potential of the next interest rate hike. As of end August 2014, trading volume in the MGS/GII market increase to RM48.2b compared to RM45.3b in July. Overall, the yields on the 3-year, 5-year, 7-year, 10-year, 15-year and 20-year close at 3.50%, 3.68%, 3.81%, 3.91%, 4.21%, and 4.30% respectively while the 30-year MGS yields closed unchanged at 4.64%.

In the MPC meeting held on the 18 September, BNM kept OPR unchanged at 3.25%. This came on the back of the release of softer and weaker than expected domestic economic data as exports grew at a slower pace of +0.6% YoY in July compared to



	<p>+7.9% in the previous month (consensus: +5.5% YoY) while industrial production grew a disappointing +0.5% YoY in July versus +7.0% YoY in Jun (consensus: +4.3% YoY), suggesting a possible slowdown. In the MPC statement, BNM highlighted that domestic demand and private consumption are expected to moderate while exports, although likely to benefit from recovery in the advanced economies, will be slower due to the base effect in the second half of 2013. Although BNM maintained that the current monetary policy stance remains supportive of growth, the tone of the MPC statement appears slightly dovish and suggests that domestic growth outlook is less upbeat than in its previous MPC statements. Meanwhile, inflation appeared to have stabilized with August's CPI coming in at 3.3% YoY% compared to 3.2% recorded in July. However, with the government pressing ahead with its fiscal consolidation plan through the recent resumption of the subsidy rationalization (where fuel subsidies were cut by 20 cents), inflation is expected to inch up in the coming months. The MGS yield curve bearish flattened in the first two weeks of the month as investors were generally cautious in the run up to the September MPC meeting due to the possibility of a hike in the OPR. However, following BNM's decision to keep OPR unchanged at 3.25% and coupled with the relatively dovish tone of the MPC statement, the MGS market rallied back to pre-MPC meeting levels. As at end-September, trading volume in the MGS/GII market dropped to RM36.0b. Overall, the yields on the 3-year, 5-year, 7-year, 10-year, 15-year and 20-year close at 3.47%, 3.67%, 3.80%, 3.89%, 4.21%, and 4.31% respectively while the 30-year MGS yields closed 7bps higher at 4.71%. In the primary market, the re-opening of the RM3.5b 3-year MGS attracted a relatively low bid-to-cover ratio of 1.734 times with average yield at 3.583% as investors generally stayed cautious ahead of September's MPC meeting. Likewise, the demand for re-opening auction of the RM2b 30-year MGS was subdued with bid-to-cover ratio of 1.365 times at an average yield of 4.715%. However, the re-opening tender of the RM3.5b 5-year GII garnered a relatively healthy bid-to-cover ratio of 2.359 times at average yield of 3.793%.</p>
<p><b>Market Outlook</b></p>	<p>At the last MPC meeting in September, Bank Negara Malaysia ("BNM") kept its Overnight Policy Rate ("OPR") unchanged at 3.25%. In terms of forward guidance, the MPC statement mentioned that "any further adjustment to the degree of monetary accommodation may be taken depending on how new information will affect the assessment on the balance of risks surrounding the outlook for domestic growth and inflation." Recent domestic economic numbers suggest that the near term growth is likely to be softer relative to first half of the year, but remain resilient for the remaining months of the year. This is partly attributed to expectations of more moderate consumer spending and investment on the back of higher domestic cost factors arising from the recent resumption of subsidies rationalization.</p> <p>As a result, scope for further OPR normalization in the last MPC meeting of the year has reduced substantially given the policymakers' concern on the risk posed by the still uncertain global environment. This view is also shared by most research houses with 18 out of the 19 economists polled by Bloomberg expecting BNM to pause in the upcoming MPC meeting in November. However, upside risks to inflation outlook could pave way for policy rate normalization to resume over the longer term when the effects of the recent fuel subsidies cut comes into play coupled with the impact arising from the 6% Goods and Services Tax ("GST") which is to be implemented from April 2015. In the meantime, market participants are likely to remain on the sidelines pending further guidance from the upcoming MPC statement with regards to BNM's monetary policy stance.</p>

With the gross MGS/GII issuance guided to come in at RM84.5b for 2014 and YTD issuance at RM71.5b, the remaining tender size is estimated at RM13.0b with each tender to range between RM3.0b – RM3.5b compared to the total MGS/GII maturities of RM5.5b in the last two months of 2014. Given as such, we believe that the market will remain well supported due to the ample domestic liquidity. Trading opportunities may present on the back of small corrections in the market recently. Nevertheless, we expect market players to remain on the sidelines in the near term until the release of the auction calendar as well as the 3Q14 GDP growth number for further cue. Meanwhile, the budget deficit guidance of 3.0% of GDP in the 2015 Budget would translate to RM35.7b and coupled with around RM54.9b worth of maturities to be refinanced, the estimated gross issuance in 2015 is estimated to be RM90.6b. Looking at the Malaysian government debt maturity profile, it appears to be relatively front loaded and suggest that there is still room for government to lengthen its debt maturity profile especially on the mid to longer end (i.e. 7 years tenure and above).

Traditionally as we enter into the last two months of the year, trading volume is likely to gradually reduce and we expect MGS yield curve to stay range bound until more meaningful economic data is released.

Kuala Lumpur, Malaysia  
AmInvestment Services Berhad

31 October 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 July 2014 to 30 September 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:

<b>Name</b>	: Harinder Pal Singh a/l Joga Singh
<b>Age</b>	: 52 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Bachelor Degree in Accounting, University of Malaya
<b>Executive/Non-Executive Director</b>	: Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: 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"><li>• Manager, Client Service &amp; Operations (July 2001 – June 2002)</li><li>• Senior Manager, Client Service &amp; Operations (July 2002 – 2003)</li><li>• Head, Sales Services (2003-December 2006)</li><li>• Principal Officer / Director of Operations (Present)</li></ul>
<b>Occupation</b>	: Principal Officer/Director of Operations of AmInvestment Services Berhad
<b>Date of appointment</b>	: 22 September 2008
<b>Directorship of other public companies</b>	: Federation of Investment Managers Malaysia
<b>Number of Board meeting attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: One (1)
<b>Member of any other Board</b>	: Investment Committee (Non-Independent)

<b>Committee</b>	
<b>Date of appointment to the Investment Committee</b>	: 12 July 2005
<b>Number of Investment Committee meetings attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: Four (4)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None

<b>Name</b>	: Kok Tuck Cheong
<b>Age</b>	: 58 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Bachelor of Science (Honours) in Commerce and Accountancy and Master of Science in Financial Managerial Controls, University of Southampton.
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: He started his career with AmMerchant Bank Berhad in the Treasury Department before joining the Banking and Corporate Finance Department and later the Investment Department where he served in various positions. He was appointed as General Manager, Banking in January 1989 and later served as Senior General Manager until his appointment as Executive Director in September 2000.
<b>Occupation</b>	: Chief Executive Officer of AmInvestment Bank Berhad
<b>Date of appointment</b>	: 9 November 2001
<b>Directorship of other public companies</b>	: None
<b>Number of Board meeting attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: One (1)
<b>Member of any other Board Committee</b>	: Audit Committee of Directors
<b>Date of appointment to the Investment Committee</b>	: Not applicable
<b>Number of Investment Committee meetings attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: Not applicable
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None

<b>List of convictions for offences within the past 10 years (if any)</b>	: None
<b>Name</b>	: Datin Maznah binti Mahbob
<b>Age</b>	: 55 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: A graduate of the Institute of Chartered Secretaries and Administrators (UK) and holds the Capital Markets Services Representative's Licence
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: She has been in the funds management industry since 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.
<b>Occupation</b>	: Chief Executive Officer of Funds Management Division and Chief Executive Officer/Executive Director of AmInvestment Management Sdn Bhd.
<b>Date of appointment</b>	: 29 December 2005
<b>Directorship of other public companies</b>	: None
<b>Number of Board meeting attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: One (1)
<b>Member of any other Board Committee</b>	: None
<b>Date of appointment to the Investment Committee</b>	: Not applicable
<b>Number of Investment Committee meetings attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: Four (4)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None
<b>Name</b>	: Professor Dr Annuar bin Md Nassir
<b>Age</b>	: 56 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Doctor of Philosophy, University Putra Malaysia
<b>Executive/Non-Executive Director</b>	: Non-Executive Director

<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	: University Putra Malaysia, Serdang <ul style="list-style-type: none"> <li>• Dean (February 2006 – April 2011)</li> <li>• Deputy Dean (September 2002 – January 2006)</li> <li>• Professor (March 2000-Present)</li> <li>• Associate Professor (March 1993 – March 2000)</li> </ul> <p>University Pertanian Malaysia Tutor (1981 – 1984)</p>
<b>Occupation</b>	: Professor, Faculty of Economics and Management of University Putra Malaysia
<b>Date of appointment</b>	: 8 April 2003
<b>Directorship of other public companies</b>	: None
<b>Number of Board meeting attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: One (1)
<b>Member of any other Board Committee</b>	: Investment Committee and Audit Committee of Directors (Independent)
<b>Date of appointment to the Investment Committee</b>	: 12 July 2005
<b>Number of Investment Committee meetings attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: Four (4)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None
<b>Name</b>	: Mustafa bin Mohd Nor
<b>Age</b>	: 63 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Masters of Arts (Economic Policy), Boston University Bachelor of Economics (Analytical), University of Malaya
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	: 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

	<p>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>
<b>Occupation</b>	: Director
<b>Date of appointment</b>	: 3 March 2014
<b>Directorship of other public companies</b>	: KUISAS Berhad
<b>Number of Board meeting attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: One (1)
<b>Member of any other Board Committee</b>	: Investment Committee and Audit Committee of Directors (Independent)
<b>Date of appointment to the Investment Committee</b>	: 3 March 2014
<b>Number of Investment Committee meetings attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: Four (4)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None

## 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 July 2014 to 30 September 2014, there were four (4) 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)

<b>Name</b>	: Dato' Mohd Effendi bin Abdullah
<b>Age</b>	: 53
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Bachelor of Economics (major in Accounting and Financial Management), Macquarie University, Australia.
<b>Executive/Non-Executive Director</b>	: Not applicable
<b>Independent/Non-Independent Director</b>	: Not applicable
<b>Working Experience</b>	: AmInvestment Bank Berhad <ul style="list-style-type: none"> <li>• Corporate Banking (1985 – 1993)</li> <li>• Islamic Markets (1993 - present)</li> </ul>
<b>Occupation</b>	: Director, Islamic Markets of AmInvestment Bank Berhad
<b>Directorship of other public companies</b>	: Islamic Banking and Finance Institute Malaysia (IBFIM)
<b>Member of any other Board Committee</b>	: None
<b>Date of appointment to the Investment Committee</b>	: 2 September 2013
<b>Number of Investment Committee meetings attended for the financial period (From 1 July 2014 to 30 September 2014)</b>	: Four (4)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None



## Material Litigation

For the financial period under review, neither the Directors of the management company nor the Manager of the Fund were engaged in any material litigation and arbitration, including those pending or threatened, and any facts likely to give any proceedings, which might materially affect the business/financial position of the Manager and of its delegates. The Fund 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 July 2014 to 30 September 2014, there were four (4) 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	1,703,630	0.26%
CIMB INVESTMENT BANK BERHAD	599,000	0.093%
CITIBANK BERHAD	400,000	0.062%
CIMB INVESTMENT BANK BERHAD	300,000	0.046%
AFFIN HWANG INVESTMENT BANK BERHAD	245,000	0.038%
CITIBANK BERHAD	140,000	0.022%
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%
AFFIN HWANG 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%
AFFIN HWANG INVESTMENT BANK BERHAD	300	0.000046%
AMINVESTMENT BANK BERHAD	200	0.000031%
KENANGA INVESTMENT BANK BERHAD	100	0.000015%
RHB INVESTMENT BANK BERHAD	100	0.000015%

## STATEMENT OF FINANCIAL POSITION

*As At 30 September 2014*

	Note	30-9-2014 (unaudited) RM	31-12-2013 (audited) RM
<b>ASSETS</b>			
Investments	4	681,670,395	689,099,440
Deposit with financial institution	5	15,002,559	6,879,279
Cash at banks		1,514	1,498
<b>TOTAL ASSETS</b>		<u>696,674,468</u>	<u>695,980,217</u>
<b>LIABILITIES</b>			
Amount due to Manager	6	60,906	60,815
Amount due to Trustee	7	42,635	42,570
Amount due to index provider	8	87,969	59,028
Distribution payable		-	11,329,882
Sundry payables and accrued expenses		140,978	146,935
<b>TOTAL LIABILITIES</b>		<u>332,488</u>	<u>11,639,230</u>
<b>EQUITY</b>			
Unitholders' capital	10(a)	680,206,741	680,157,976
Retained earnings	10(b)(c)	16,135,239	4,183,011
<b>TOTAL EQUITY</b>	10	<u>696,341,980</u>	<u>684,340,987</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>696,674,468</u>	<u>695,980,217</u>
<b>UNITS IN CIRCULATION</b>	10(a)	<u>647,421,800</u>	<u>647,421,800</u>
<b>NET ASSET VALUE PER UNIT – EX DISTRIBUTION</b>		<u>107.56 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 July 2014 To 30 September 2014*

	Note	1-7-2014 to 30-9-2014 RM	1-7-2013 to 30-9-2013 RM
<b>INVESTMENT INCOME</b>			
Interest income		6,347,581	6,272,580
Net gain/(loss) from investments:			
– Financial assets at fair value through profit or loss (“FVTPL”)	9	<u>3,686,998</u>	<u>(5,432,318)</u>
Gross Income		<u>10,034,579</u>	<u>840,262</u>
<b>EXPENDITURE</b>			
Manager’s fee	6	174,716	179,243
Trustee’s fee	7	122,301	125,470
Licence fee	8	25,886	26,521
Auditors’ remuneration		1,941	1,002
Tax agent’s fee		1,008	1,521
Administrative expenses		<u>1,575</u>	<u>2,393</u>
Total Expenditure		<u>327,427</u>	<u>336,150</u>
<b>NET INCOME BEFORE TAX</b>		9,707,152	504,112
<b>LESS: INCOME TAX</b>	12	<u>-</u>	<u>-</u>
<b>NET INCOME AFTER TAX</b>		9,707,152	504,112
<b>OTHER COMPREHENSIVE INCOME</b>		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u><u>9,707,152</u></u>	<u><u>504,112</u></u>
Total comprehensive income comprises the following:			
Realised income		5,659,039	5,989,188
Unrealised gain/(loss)		<u>4,048,113</u>	<u>(5,485,076)</u>
		<u>9,707,152</u>	<u>504,112</u>
Distribution for the period:			
Net distribution	13	<u>12,948,436</u>	<u>-</u>
Gross/net distribution per unit (sen)	13	<u>2.00</u>	<u>-</u>

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

**STATEMENT OF CHANGES IN EQUITY (Unaudited)*****For The Financial Period From 1 July 2014 To 30 September 2014***

	<b>Note</b>	<b>Unitholders' capital RM</b>	<b>Retained earnings RM</b>	<b>Total equity RM</b>
At 1 July 2013		680,157,976	17,816,819	697,974,795
Total comprehensive income for the period		-	504,112	504,112
<b>Balance at 30 September 2013</b>		<u>680,157,976</u>	<u>18,320,931</u>	<u>698,478,907</u>
At 1 July 2014		680,206,741	19,376,523	699,583,264
Total comprehensive income for the period		-	9,707,152	9,707,152
Distribution	13	-	(12,948,436)	(12,948,436)
<b>Balance at 30 September 2014</b>		<u>680,206,741</u>	<u>16,135,239</u>	<u>696,341,980</u>

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

**STATEMENT OF CASH FLOWS (Unaudited)****FOR THE FINANCIAL PERIOD FROM 1 JULY 2014 TO 30 SEPTEMBER 2014**

	<b>1-7-2014 to 30-9-2014 RM</b>	<b>1-7-2013 to 30-9-2013 RM</b>
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	157,041,000	10,052,000
Interest received	8,012,050	8,289,550
Manager's fee paid	(173,081)	(174,714)
Trustee's fee paid	(121,155)	(122,299)
Tax agent's fee paid	-	(4,000)
Payments for other administrative expenses	(959)	(1,966)
Purchase of investments	<u>(159,763,448)</u>	<u>-</u>
Net cash generated from operating and investing activities	<u>4,994,407</u>	<u>18,038,571</u>
<b>CASH FLOW FROM FINANCING ACTIVITY</b>		
Distributions paid	<u>(12,948,436)</u>	<u>(11,329,882)</u>
Net cash used in financing activity	<u>(12,948,436)</u>	<u>(11,329,882)</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(7,954,029)</b>	<b>6,708,689</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>22,958,102</u>	<u>18,264,964</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u><u>15,004,073</u></u>	<u><u>24,973,653</u></u>
Cash and cash equivalents comprise:		
Deposit with financial institution	15,002,559	24,972,173
Cash at banks	<u>1,514</u>	<u>1,480</u>
	<u>15,004,073</u>	<u>24,973,653</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 are 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.

		<b>Effective for financial periods beginning on or after</b>
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
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. The functional currency of the Fund is Ringgit Malaysia which reflects the currency 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 separately 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 the next financial period.

## **4. INVESTMENTS**

	<b>30-9-2014</b>	<b>31-12-2013</b>
	<b>RM</b>	<b>RM</b>
<b>Financial assets at FVTPL</b>		
At nominal value:		
Corporate bonds	10,000,000	-
Quasi-Government Bonds	50,000,000	60,000,000
Malaysian Government Securities	470,920,000	516,710,000
Government Investment Issues	150,460,000	110,150,000
	<u>681,380,000</u>	<u>686,860,000</u>

(Forward)

	30-9-2014 RM	31-12-2013 RM
<b>Financial assets at FVTPL</b>		
At fair value:		
Corporate bonds	10,081,674	-
Quasi-Government Bonds	49,157,849	58,088,296
Malaysian Government Securities	473,023,320	521,933,575
Government Investment Issues	149,407,552	109,077,569
	<u>681,670,395</u>	<u>689,099,440</u>

Details of investments as at 30 September 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 %
<b>Corporate Bonds</b>						
02.02.2017	The Export - Import Bank of Korea	AAA	10,000,000	10,081,674	10,084,198	1.45
<b>Quasi-Government Bonds</b>						
14.06.2022	Johor Corporation	NR	50,000,000	49,157,849	50,885,279	7.06
<b>Malaysian Government Securities</b>						
15.07.2016	Government of Malaysia	NR	30,000,000	30,119,836	30,139,371	4.32
15.09.2016	Government of Malaysia	NR	60,800,000	61,959,663	62,010,181	8.90
15.02.2017	Government of Malaysia	NR	20,000,000	20,242,896	20,154,775	2.91
15.03.2017	Government of Malaysia	NR	30,000,000	29,996,756	29,996,034	4.31
31.10.2017	Government of Malaysia	NR	10,000,000	10,074,442	10,165,200	1.44
01.03.2018	Government of Malaysia	NR	40,000,000	39,736,464	39,696,693	5.71
31.10.2019	Government of Malaysia	NR	30,000,000	30,419,736	30,435,349	4.37
31.03.2020	Government of Malaysia	NR	40,000,000	39,475,837	40,475,565	5.67

(Forward)

<b>Maturity date</b>	<b>Issuer</b>	<b>Credit rating</b>	<b>Nominal value RM</b>	<b>Fair value RM</b>	<b>Adjusted cost RM</b>	<b>Fair value as a percentage of net asset value %</b>
<b>Malaysian Government Securities</b>						
31.07.2020	Government of Malaysia	NR	10,000,000	10,142,879	10,251,059	1.46
15.07.2021	Government of Malaysia	NR	40,000,000	41,072,174	42,114,542	5.90
15.08.2022	Government of Malaysia	NR	10,120,000	9,860,339	10,123,005	1.41
15.07.2024	Government of Malaysia	NR	40,000,000	41,221,932	40,577,777	5.92
15.04.2026	Government of Malaysia	NR	35,000,000	36,605,800	37,515,390	5.26
15.03.2027	Government of Malaysia	NR	10,000,000	9,763,108	10,184,823	1.40
15.06.2028	Government of Malaysia	NR	35,000,000	33,589,970	32,901,698	4.82
15.04.2033	Government of Malaysia	NR	30,000,000	28,741,488	30,404,856	4.13
			<u>470,920,000</u>	<u>473,023,320</u>	<u>477,146,318</u>	<u>67.93</u>

#### **Government Investment Issues**

30.09.2015	Government of Malaysia	NR	2,000,000	2,009,012	2,002,722	0.29
08.02.2016	Government of Malaysia	NR	13,460,000	13,483,169	13,521,189	1.94
15.06.2017	Government of Malaysia	NR	5,000,000	5,097,108	5,078,719	0.73
30.08.2017	Government of Malaysia	NR	40,000,000	39,730,034	39,953,370	5.71
30.04.2019	Government of Malaysia	NR	20,000,000	20,085,789	20,140,584	2.88
15.05.2020	Government of Malaysia	NR	20,000,000	19,919,620	20,350,339	2.86
23.03.2021	Government of Malaysia	NR	10,000,000	9,848,212	9,866,038	1.41
30.04.2021	Government of Malaysia	NR	10,000,000	10,245,459	10,546,825	1.47
31.10.2023	Government of Malaysia	NR	10,000,000	9,645,175	9,613,828	1.38

(Forward)

<b>Maturity date</b>	<b>Issuer</b>	<b>Credit rating</b>	<b>Nominal value RM</b>	<b>Fair value RM</b>	<b>Adjusted cost RM</b>	<b>Fair value as a percentage of net asset value %</b>
<b>Government Investment Issues</b>						
15.06.2027	Government of Malaysia	NR	<u>20,000,000</u>	<u>19,343,974</u>	<u>20,491,433</u>	<u>2.78</u>
			<u>150,460,000</u>	<u>149,407,552</u>	<u>151,565,047</u>	<u>21.45</u>
<b>Total financial assets at FVTPL</b>			<u>681,380,000</u>	<u>681,670,395</u>	<u>689,680,842</u>	<u>97.89</u>
<b>Shortfall of fair value over cost</b>				<u>(8,010,447)</u>		

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

	<b>Effective yield*</b>	
	<b>30-9-2014 %</b>	<b>31-12-2013 %</b>
Corporate Bonds	4.00	-
Quasi-Government Bonds	4.27	4.33
Malaysian Government Securities	3.72	3.73
Government Investment Issues	<u>3.83</u>	<u>3.81</u>

\* As provided by Markit Indices Limited

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

	<b>Less than 1 year RM</b>	<b>1 year to 5 years RM</b>	<b>More than 5 years RM</b>
<b>2014</b>			
At nominal value:			
Corporate Bonds	-	10,000,000	-
Quasi-Government Bonds	-	-	50,000,000
Malaysian Government Securities	-	190,800,000	280,120,000
Government Investment Issues	<u>2,000,000</u>	<u>78,460,000</u>	<u>70,000,000</u>
<b>2013</b>			
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**

	<b>30-9-2014</b>	<b>31-12-2013</b>
	<b>RM</b>	<b>RM</b>
At nominal value:		
Short-term deposit with a licensed bank	<u>15,001,100</u>	<u>6,878,600</u>
At carrying value:		
Short-term deposit with a licensed bank	<u>15,002,559</u>	<u>6,879,279</u>

Details of deposit with financial institution as at 30 September 2014 are as follows:

<b>Maturity date</b>	<b>Bank</b>	<b>Nominal value RM</b>	<b>Carrying value RM</b>	<b>Purchase cost RM</b>	<b>Carrying value as a percentage of net asset value %</b>
<b>Short-term deposit with a licensed bank</b>					
01.10.2014	Public Bank Berhad	<u>15,001,100</u>	<u>15,002,559</u>	<u>15,001,100</u>	<u>2.15</u>

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

	<b>Weighted average interest rate</b>		<b>Remaining maturity</b>	
	<b>30-9-2014 %</b>	<b>31-12-2013 %</b>	<b>30-9-2014 Day</b>	<b>31-12-2013 Days</b>
Short-term deposit with a licensed bank	<u>3.55</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:

<b>Fund Size</b>	<b>% p.a.</b>
<b>From 1 July 2008 onwards</b>	
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

	<b>1-7-2014 to 30-9-2014 RM</b>	<b>1-7-2013 to 30-9-2013 RM</b>
Net gain/(loss) on financial assets at FVTPL comprised:		
– Net realised (loss)/gain on sale of investments	(361,115)	52,758
– Net unrealised gain/(loss) on changes in fair values of investments	4,048,113	(5,485,076)
	<u>3,686,998</u>	<u>(5,432,318)</u>

## 10. TOTAL EQUITY

Total equity is represented by:

	<b>Note</b>	<b>30-9-2014 RM</b>	<b>31-12-2013 RM</b>
Unitholders' capital	(a)	680,206,741	680,157,976
Retained earnings			
– Realised income	(b)	24,145,686	22,878,849
– Unrealised losses	(c)	(8,010,447)	(18,695,838)
		<u>696,341,980</u>	<u>684,340,987</u>



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

	<b>1-7-2014 to 30-9-2014</b>		<b>1-1-2013 to 31-12-2013</b>	
	<b>Number of units</b>	<b>RM</b>	<b>Number of units</b>	<b>RM</b>
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**

	<b>1-7-2014 to 30-9-2014 RM</b>	<b>1-7-2013 to 31-12-2013 RM</b>
At beginning of the period/year	31,435,083	17,222,287
Total comprehensive income for the period/year	9,707,152	1,983,968
Net unrealised (gain)/loss attributable to investments held transferred to unrealised reserve [Note 10(c)]	(4,048,113)	22,160,952
Distributions out of realised reserve	(12,948,436)	(18,488,358)
Net (decrease)/increase in realised reserve for the period/year	<u>(7,289,397)</u>	<u>5,656,562</u>
At end of the period/year	<u>24,145,686</u>	<u>22,878,849</u>

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

	<b>1-7-2014 to 30-9-2014 RM</b>	<b>1-1-2013 to 31-12-2013 RM</b>
At beginning of the period/year	(12,058,560)	3,465,114
Net unrealised gain/(loss) attributable to investments held transferred from realised reserve [Note 10(b)]	<u>4,048,113</u>	<u>(22,160,952)</u>
At end of the period/year	<u>(8,010,447)</u>	<u>(18,695,838)</u>

## 11. UNITS HELD BY RELATED PARTIES

	1-7-2014 to 30-9-2014		1-1-2013 to 31-12-2013	
	Number of units	RM	Number of units	RM
Parties related to the Manager *	<u>15,419,830</u>	<u>16,422,119</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 September 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:

	1-7-2014 to 30-9-2014 RM	1-7-2013 to 30-9-2013 RM
Net income before tax	<u>9,707,152</u>	<u>504,112</u>
Taxation at Malaysian statutory rate of 25%	2,426,800	126,000
Tax effects of:		
Income not subject to tax	(2,598,900)	(1,581,300)
Loss not deductible for tax purposes	90,300	1,371,300
Restriction on tax deductible expenses for unit trust fund	39,700	40,500
Non-permitted expenses for tax purposes	37,700	39,000
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 4 July 2014 was from the following sources:

	<b>1-7-2014 to 30-9-2014 RM</b>	<b>1-7-2013 to 30-9-2013 RM</b>
Undistributed net income brought forward	10,789,265	-
Interest income	2,847,713	-
Net realised loss on sale of investments	<u>(361,115)</u>	<u>-</u>
	13,275,863	-
Less: Expenses	<u>(327,427)</u>	<u>-</u>
Total amount of distribution	<u>12,948,436</u>	<u>-</u>
Gross/net distribution per unit (sen)	<u>2.00</u>	<u>-</u>
Distribution made out of:		
– Realised gain	<u>12,948,436</u>	<u>-</u>
Comprising:		
Cash distribution	<u>12,948,436</u>	<u>-</u>

Included in the distribution for the financial period ended 30 September 2014 was an amount of RM10,789,265 distributed from previous financial years' realised income.

The above distribution has been proposed before taking into account realised loss of RM361,115 for the financial year and net unrealised loss brought forward of RM12,058,560 which are carried forward to the next financial year.

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

The Fund's MER is as follows:

	<b>1-7-2014 to 30-9-2014 % p.a.</b>	<b>1-7-2013 to 30-9-2013 % p.a.</b>
Manager's fee	0.10	0.10
Trustee's fee	0.07	0.07
Licence fee	0.01	0.01
Trust administrative expenses	<u>0.01</u>	<u>0.01</u>
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, which 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 0.23 times (2013: 0.01 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 September 2014 are as follows:

Financial institutions	Transaction value	
	RM	%
Public Bank Berhad	945,769,800	64.34
Hong Leong Bank Berhad	203,600,700	13.85
RHB Investment Bank Berhad	121,217,868	8.25
HSBC Bank Malaysia Berhad	112,827,214	7.68
Citibank Berhad	46,297,700	3.15
Bank Islam Malaysia Berhad	30,038,589	2.04
Hong Leong Investment Bank berhad	10,092,244	0.69
Total	<u>1,469,844,115</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.

	<b>Financial assets at FVTPL RM</b>	<b>Loans and receivables at amortised cost RM</b>	<b>Financial liabilities at amortised cost RM</b>	<b>Total RM</b>
<b>30 September 2014</b>				
<b>Assets</b>				
Investments	681,670,395	-	-	681,670,395
Deposit with financial institution	-	15,002,559	-	15,002,559
Cash at banks	-	1,514	-	1,514
Total financial assets	<u>681,670,395</u>	<u>15,004,073</u>	<u>-</u>	<u>696,674,468</u>
<b>Liabilities</b>				
Amount due to Manager	-	-	60,906	60,906
Amount due to Trustee	-	-	42,635	42,635
<b>30 September 2014</b>				
<b>Liabilities</b>				
Amount due to index provider	-	-	87,969	87,969
Sundry payables and accrued expenses	-	-	140,978	140,978
Total financial liabilities	<u>-</u>	<u>-</u>	<u>332,488</u>	<u>332,488</u>
<b>31 December 2013</b>				
<b>Assets</b>				
Investments	689,099,440	-	-	689,099,440
Deposit with financial institution	-	6,879,279	-	6,879,279
Cash at banks	-	1,498	-	1,498
Total financial assets	<u>689,099,440</u>	<u>6,880,777</u>	<u>-</u>	<u>695,980,217</u>

(Forward)

	<b>Financial assets at FVTPL RM</b>	<b>Loans and receivables at amortised cost RM</b>	<b>Financial liabilities at amortised cost RM</b>	<b>Total RM</b>
<b>31 December 2013</b>				
<b>Liabilities</b>				
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
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>11,639,230</b>	<b>11,639,230</b>

	<b>Income, expense, gains and losses</b>	
	<b>1-7-2014 to 30-9-2014 RM</b>	<b>1-7-2013 to 30-9-2013 RM</b>
Net gain/(loss) from financial assets at FVTPL	3,686,998	(5,432,318)
Income, of which derived from:		
– Interest income from financial assets at FVTPL	6,195,903	6,129,516
– Interest income from loans and receivables	151,678	143,064

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

The Fund's financial assets at FVTPL are carried at fair value.

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:

	<b>Level 1 RM</b>	<b>Level 2 RM</b>	<b>Level 3 RM</b>	<b>Total RM</b>
<b>30 September 2014</b>				
Financial assets at FVTPL	-	681,670,395	-	681,670,395
<b>31 December 2013</b>				
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
- 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 include 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 investments 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.

	<b>Value-at-Risk (%)</b>	
	<b>Interest rate risk</b>	<b>Total VaR</b>
<b>2014</b>	0.25	0.25
Average Daily	0.24	0.24
Highest	0.25	0.25
Lowest	0.24	0.24
<b>2013</b>	0.42	0.42
Average Daily	0.44	0.44
Highest	0.45	0.45
Lowest	0.42	0.42

Based on Gaussian VaR, using historical weekly data for the past 180 weeks, the Fund's portfolio had a daily 1% Value-at-Risk (VaR) of approximately 0.25% (2013: 0.42%). This implies that not more than 1 out of 100 trading days would record a daily loss exceeding 0.25% (2013: 0.42%) 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 September 2014 and 30 September 2013:

<b>Credit rating</b>	<b>RM</b>	<b>As a % of debt securities</b>	<b>As a % of net asset value</b>
<b>2014</b>			
AAA	10,081,674	1.48	1.45
NR	671,588,721	98.52	96.44
	<u>681,670,395</u>	<u>100.00</u>	<u>97.89</u>
<b>2013</b>			
AAA	5,160,031	0.77	0.74
NR	668,670,486	99.23	95.73
	<u>673,830,517</u>	<u>100.00</u>	<u>96.47</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 September 2014 and 30 September 2013:

<b>Credit rating</b>	<b>RM</b>	<b>As a % of deposit</b>	<b>As a % of net asset value</b>
<b>2014</b>			
P1/MARC-1	<u>15,002,559</u>	<u>100.00</u>	<u>2.15</u>
<b>2013</b>			
P1/MARC-1	<u>24,972,173</u>	<u>100.00</u>	<u>3.58</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 September 2014 and 30 September 2013:

<b>Sector</b>	<b>RM</b>	<b>As a % of debt securities</b>	<b>As a % of net asset value</b>
<b>2014</b>			
Financial Services	10,081,674	1.48	1.45
Sovereign	622,430,872	91.31	89.38
State government	49,157,849	7.21	7.06
	<u>681,670,395</u>	<u>100.00</u>	<u>97.89</u>
<b>2013</b>			
Sovereign	668,670,485	99.23	95.73
Transportation	5,160,032	0.77	0.74
	<u>673,830,517</u>	<u>100.00</u>	<u>96.47</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:  $\$ = \text{Nominal}$
  - 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:

	<b>Contractual cash flows (undiscounted)</b>					
	<b>0 – 1 year RM</b>	<b>1 – 2 years RM</b>	<b>2 – 3 years RM</b>	<b>3 – 4 years RM</b>	<b>4 – 5 years RM</b>	<b>More than &gt; 5 years RM</b>
<b>2014</b>						
<b>Financial assets</b>						
Investments	27,614,429	129,579,513	125,464,902	67,032,552	36,214,852	471,743,105
Deposit with financial institution	15,002,559	-	-	-	-	-
Other assets	1,514	-	-	-	-	-
<b>Total assets</b>	<b>42,618,502</b>	<b>129,579,513</b>	<b>125,464,902</b>	<b>67,032,552</b>	<b>36,214,852</b>	<b>471,743,105</b>
<b>Financial liabilities</b>						
Other liabilities	332,488	-	-	-	-	-
<b>2013</b>						
<b>Financial assets</b>						
Investments	36,150,155	122,655,251	176,965,673	65,234,002	33,721,302	401,975,406
Deposit with financial institution	24,972,173	-	-	-	-	-
Cash at banks	1,480	-	-	-	-	-
<b>Total assets</b>	<b>61,123,808</b>	<b>122,655,251</b>	<b>176,965,673</b>	<b>65,234,002</b>	<b>33,721,302</b>	<b>401,975,406</b>
<b>Financial liabilities</b>						
Other liabilities	325,263	-	-	-	-	-

**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 September 2014 and 30 September 2013.