

**ABF Malaysia Bond Index Fund**

**Quarterly Report**

**31 March 2017**

## **TRUST DIRECTORY**

### **Manager**

AmFunds Management Berhad  
9<sup>th</sup> & 10<sup>th</sup> Floor, Bangunan AmBank Group  
55 Jalan Raja Chulan  
50200 Kuala Lumpur

### **Board of Directors**

Raja Maimunah Raja Abdul Aziz  
Mustafa Mohd Nor  
Tai Terk Lin  
Datin Maznah Mahbob  
Sum Leng Kuang

### **Investment Committee**

Sum Leng Kuang  
Tai Terk Lin  
Mustafa Mohd Nor  
Zainal Abidin Mohd Kassim  
Datin Maznah Mahbob

### **Trustee**

HSBC (Malaysia) Trustee Berhad

### **Auditors and Reporting Accountants**

Ernst & Young

### **Taxation Adviser**

Deloitte Tax Services Sdn Bhd

## **CORPORATE DIRECTORY**

### **AmFunds Management 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> & 10<sup>th</sup> Floor, Bangunan AmBank Group  
55, Jalan Raja Chulan, 50200 Kuala Lumpur  
Tel:03-2036 2888 Fax: 03-2031 5210

### **Secretary**

Chen Bee Ling (MAICSA 7046517)

Tan Lai Hong (MAICSA 7057707)

Symphony House, Pusat Dagangan Dana 1,  
Jalan PJU 1A/46, 47300 Petaling Jaya,  
Selangor Darul Ehsan.

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

Business/Registered Office/Head Office

Fund Services, Bangunan HSBC, 13<sup>th</sup> Floor, South Tower  
No.2, Leboh Ampang, 50100 Kuala Lumpur  
Tel: 03-2075 7800 Fax: 03-2026 1273

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## MANAGER'S REPORT

Dear Unitholders,

We are pleased to present you the Manager's report and the unaudited quarterly accounts of ABF Malaysia Bond Index Fund ("Fund") for the financial period from 1 January 2017 to 31 March 2017.

### 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><i>Note : Any material change to the Fund's investment objective will require the unitholders' approval by way of special resolution.</i></p>				
<b>Index Component</b>	Details of the index component as at 31 March 2016 are as follows:				
	<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
	VK110024	GovCo Holdings Bhd	4.070	23 February 2018	1,500,000,000
	MI130002	Malaysia Government Bond	3.260	01 March 2018	8,786,560,000
	UN080007	Export-Import Bank of Korea	4.500	12 March 2018	500,000,000
	GG150005	Malaysia Government Investment Issue	3.508	15 May 2018	7,500,000,000
	VK110197	Pengurusan Air SPV Berhad	4.040	15 June 2018	1,500,000,000
	GL110001	Malaysia Government Investment Issue	3.872	30 August 2018	8,500,000,000
	MK110005	Malaysia Government Bond	3.580	28 September 2018	11,440,000,000
	UG150088	Cagamas Berhad	4.200	22 October 2018	1,500,000,000
	GN080031	Malaysia Government Investment Issue	4.295	31 October 2018	7,500,000,000
	(Forward)				

<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
UI130109 GJ130055	Cagamas Berhad Malaysia Government Investment Issue	3.900	16 November 2018	800,000,000
UG160018 VI140030	Cagamas Berhad Pengurusan Air SPV Berhad	3.399 4.100	30 November 2018 04 February 2019	4,000,000,000 1,120,000,000
VI140036	Prasarana Malaysia Bhd	4.160	07 February 2019	1,000,000,000
MH150005	Malaysia Government Bond	4.080	12 March 2019	1,500,000,000
GJ130070	Malaysia Government Investment Issue	3.759	15 March 2019	7,177,897,000
MS04003H	Malaysia Government Bond	3.558	30 April 2019	10,000,000,000
GO090001	Malaysia Government Investment Issue	5.734	30 July 2019	7,315,545,000
GL120021	Malaysia Government Investment Issue	3.910	13 August 2019	6,000,000,000
UG160121 MJ140004	Cagamas Berhad Malaysia Government Bond	3.704 3.750	30 September 2019 18 October 2019	8,000,000,000 580,000,000
MO090002	Malaysia Government Bond	3.654	31 October 2019	11,800,000,000
ML120006	Malaysia Government Bond	4.378	29 November 2019	17,119,000,000
VI150052	Danga Capital Bhd	3.492	31 March 2020	11,000,000,000
GH160004	Malaysia Government Investment Issue	4.100	09 April 2020	2,000,000,000
		3.226	15 April 2020	3,500,000,000
(Forward)				

<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
GO090061	Malaysia Government Investment Issue	4.492	30 April 2020	3,500,000,000
GL120098	Malaysia Government Investment Issue	3.576	15 May 2020	11,000,000,000
GN100021	Malaysia Government Investment Issue	4.284	15 June 2020	5,500,000,000
MK130006	Malaysia Government Bond	3.889	31 July 2020	7,973,060,000
GJ150002	Malaysia Government Investment Issue	3.799	27 August 2020	10,000,000,000
VI150192	Pengurusan Air SPV Berhad	4.280	28 September 2020	700,000,000
MJ150003	Malaysia Government Bond	3.659	15 October 2020	11,742,134,000
VJ140355	Pengurusan Air SPV Berhad	4.100	05 November 2020	500,000,000
GN100060	Malaysia Government Investment Issue	3.998	30 November 2020	3,000,000,000
VN110023	GovCo Holdings Bhd	4.450	23 February 2021	1,500,000,000
GL130069	Malaysia Government Investment Issue	3.716	23 March 2021	9,500,000,000
GN110025	Malaysia Government Investment Issue	4.170	30 April 2021	12,500,000,000
MO110001	Malaysia Government Bond	4.160	15 July 2021	13,500,000,000
GJ160002	Malaysia Government Investment Issue	3.743	26 August 2021	7,000,000,000
VK140222	Bank Pembangunan Malaysia Berhad	4.190	10 September 2021	700,000,000
(Forward)				

<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
VI160277	Lembaga Pembiayaan Perumahan Sektor Awam	3.600	21 September 2021	600,000,000
ML140003	Malaysia Government Bond	4.048	30 September 2021	11,700,000,000
MJ160004	Malaysia Government Bond	3.620	30 November 2021	7,000,000,000
VN120202	Perbadanan Tabung Pendidikan Tinggi Nasional	3.850	15 June 2022	2,500,000,000
GL150001	Malaysia Government Investment Issue	4.194	15 July 2022	10,000,000,000
MO120001	Malaysia Government Bond	3.418	15 August 2022	10,500,000,000
ML150002	Malaysia Government Bond	3.795	30 September 2022	11,000,000,000
VK150210	Rantau Abang Capital Bhd	4.570	19 October 2022	1,500,000,000
GO120037	Malaysia Government Investment Issue	3.699	15 November 2022	8,500,000,000
VN120393	Turus Pesawat Sdn Bhd	3.740	18 November 2022	500,000,000
VN130068	Turus Pesawat Sdn Bhd	3.770	03 February 2023	500,000,000
MN130003	Malaysia Government Bond	3.480	15 March 2023	11,420,000,000
GL160001	Malaysia Government Investment Issue	4.390	07 July 2023	10,500,000,000
DS081080	Khazanah Nasional Berhad	0.000	14 August 2023	2,000,000,000
ML160001	Malaysia Government Bond	3.800	17 August 2023	10,000,000,000
VK160278	Lembaga Pembiayaan Perumahan Sektor Awam	3.830	21 September 2023	700,000,000
VN130259	Cagamas Berhad	4.300	27 October 2023	645,000,000
GO130033	Malaysia Government Investment Issue	3.493	31 October 2023	4,000,000,000
VN140090	Perbadanan Tabung Pendidikan Tinggi Nasional	4.670	28 March 2024	1,800,000,000
(Forward)				



<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
GO130071	Malaysia Government Investment Issue	4.444	22 May 2024	12,500,000,000
MO140001	Malaysia Government Bond	4.181	15 July 2024	11,020,000,000
VN140223	Bank Pembangunan Malaysia Berhad	4.380	12 September 2024	500,000,000
VP120394	Turus Pesawat Sdn Bhd	3.930	19 November 2024	500,000,000
VN150103	Jambatan Kedua Sdn Bhd	4.300	28 May 2025	1,300,000,000
MY050003	Malaysia Government Bond	4.837	15 July 2025	3,000,000,000
MO150001	Malaysia Government Bond	3.955	15 September 2025	13,672,200,000
VN150193	Pengurusan Air SPV Berhad	4.630	26 September 2025	860,000,000
GO150004	Malaysia Government Investment Issue	3.990	15 October 2025	10,500,000,000
VN160022	Danga Capital Bhd	4.600	23 February 2026	1,500,000,000
MS110003	Malaysia Government Bond	4.392	15 April 2026	10,574,330,000
VN160231	Perbadanan Tabung Pendidikan Tinggi Nasional	4.200	27 July 2026	1,000,000,000
VN160235	Jambatan Kedua Sdn Bhd	4.200	28 July 2026	1,000,000,000
VS110260	Prasarana Malaysia Bhd	4.350	04 August 2026	1,200,000,000
MX060002	Malaysia Government Bond	4.709	15 September 2026	3,110,000,000
VN160279	Lembaga Pembiayaan Perumahan Sektor Awam	4.050	21 September 2026	700,000,000
GO160003	Malaysia Government Investment Issue	4.070	30 September 2026	10,500,000,000
VN160330	Bank Pembangunan Malaysia Berhad	4.500	04 November 2026	850,000,000
MO160003	Malaysia Government Bond	3.900	30 November 2026	9,000,000,000
MS120002	Malaysia Government Bond	3.892	15 March 2027	5,500,000,000
MX070003	Malaysia Government Bond	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>
GS120059	Malaysia Government Investment Issue	3.899	15 June 2027	5,000,000,000
VS120395	Turus Pesawat Sdn Bhd	4.120	19 November 2027	750,000,000
MS130005	Malaysia Government Bond	3.733	15 June 2028	5,000,000,000
GT130001	Malaysia Government Investment Issue	3.871	08 August 2028	3,000,000,000
MX080003	Malaysia Government Bond	5.248	15 September 2028	5,040,000,000
GS130072	Malaysia Government Investment Issue	4.943	06 December 2028	5,000,000,000
VS140224	Bank Pembangunan Malaysia Berhad	4.750	12 September 2029	900,000,000
VX090825	Prasarana Malaysia Bhd	5.070	28 September 2029	1,500,000,000
VS150002	Danga Capital Berhad	4.880	29 January 2030	1,500,000,000
VS150043	Prasarana Malaysia Bhd	4.640	22 March 2030	1,100,000,000
MX100003	Malaysia Government Bond	4.498	15 April 2030	12,770,000,000
VS150104	Jambatan Kedua Sdn Bhd	4.520	28 May 2030	700,000,000
GT150003	Malaysia Government Investment Issue	4.245	30 September 2030	7,000,000,000
VS160151	GovCo Holdings Bhd	4.730	06 June 2031	550,000,000
MX110004	Malaysia Government Bond	4.232	30 June 2031	8,750,000,000
VS160232	Perbadanan Tabung Pendidikan Tinggi Nasional	4.500	25 July 2031	500,000,000
MX120004	Malaysia Government Bond	4.127	15 April 2032	5,500,000,000
VX120396	Turus Pesawat Sdn Bhd	4.360	19 November 2032	1,650,000,000
MX130004	Malaysia Government Bond	3.844	15 April 2033	4,500,000,000
GX130068	Malaysia Government Investment Issue	4.582	30 August 2033	4,000,000,000
(Forward)				

	<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
	VX140225	Bank Pembangunan Malaysia Berhad	4.850	12 September 2034	900,000,000
	MY150004	Malaysia Government Bond	4.254	31 May 2035	7,161,000,000
	GX150006	Malaysia Government Investment Issue	4.786	31 October 2035	7,000,000,000
	VX160280	Lembaga Pembiayaan Perumahan Sektor Awam	4.620	19 September 2036	900,000,000
	VZ160031	Prasarana Malaysia Bhd	5.070	26 February 2041	755,000,000
	VZ160130	DanaInfra Nasional Berhad	4.850	03 May 2041	1,000,000,000
	VZ160237	Jambatan Kedua Sdn Bhd	4.860	26 July 2041	900,000,000
	VZ160233	Perbadanan Tabung Pendidikan Tinggi Nasional	4.850	26 July 2041	1,500,000,000
	VZ160322	DanaInfra Nasional Berhad	4.780	18 October 2041	1,000,000,000
	MZ130007	Malaysia Government Bond	4.935	30 September 2043	6,500,000,000
	VZ150046	DanaInfra Nasional Berhad	5.050	06 April 2045	1,000,000,000
	MZ160002	Malaysia Government Bond	4.736	15 March 2046	5,000,000,000
	VZ160131	DanaInfra Nasional Berhad	5.020	03 May 2046	1,000,000,000
	VZ160281	Lembaga Pembiayaan Perumahan Sektor Awam	4.900	21 September 2046	800,000,000
	VZ160323	DanaInfra Nasional Berhad	4.950	19 October 2046	1,000,000,000
	<i>(Source: Markit Indices Limited)</i>				
<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.				
<b>Performance Benchmark</b>	iBoxx® ABF Malaysia Bond Index				
<b>Income Distribution Policy</b>	Income distribution (if any) will be paid semi-annually.				

<b>Breakdown of Unit Holdings by Size</b>	For the financial period under review, the size of the Fund stood at 1,320,421,800 units.				
	Size of holding	As at 31 March 2017		As at 31 December 2016	
		No of units held	Number of unitholders	No of units held	Number of unitholders
	Less than 100	300	7	300	7
	100 – 1,000	10,000	23	9,900	22
	1,001 -10,000	53,400	11	54,700	13
	10,001 – 100,000	127,000	5	109,600	4
	100,001 to less than 5% of issue units	55,023,230	5	55,039,430	5
5% and above of issue units	1,265,207,870	1	1,265,207,870	1	

### Fund Performance Data

<b>Portfolio Composition</b>	Details of portfolio composition of the Fund for the financial period as at 31 March 2017 and three financial years as at 31 December are as follows:				
		As at 31-3-2017 %	FY 2016 %	FY 2015 %	FY 2014 %
	Corporate bonds	-	-	0.76	1.48
	Malaysian Government Securities	95.05	95.16	90.57	78.21
	Quasi-Government bonds	4.34	4.41	6.46	20.77
	Cash and others	0.61	0.43	2.21	(0.46)
	<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
	<i>Note:</i>				
	<i>The abovementioned percentages are calculated based on total net asset value.</i>				
	<b>Performance Details</b>	Performance details of the Fund for the financial period ended 31 March 2017 and three financial years ended 31 December are as follows:			
		3 months ended 31-3-2017	FY 2016	FY 2015	FY 2014
Net asset value (RM)		1,462,413,616*	1,442,324,912*	1,341,876,193	685,894,438
Units in circulation		1,320,421,800*	1,320,421,800*	1,265,421,800	660,421,800
Net asset value per unit (RM)		1.1075*	1.0923*	1.0604	1.0386
(Forward)					

	<b>3 months ended 31-3-2017</b>	<b>FY 2016</b>	<b>FY 2015</b>	<b>FY 2014</b>
Highest net asset value per unit (RM)	1.1111*	1.1224*	1.0655	1.0841
Lowest net asset value per unit (RM)	1.0921*	1.0599*	1.0323	1.0355
Closing quoted price (RM/unit)	1.1100*	1.1100*	1.0520	1.0350
Highest quoted price (RM/unit)	1.1150*	1.1240*	1.0680	1.0840
Lowest quoted price (RM/unit)	1.1100*	1.0520*	1.0300	1.0350
Benchmark performance (%)	1.55	3.46	4.12	3.79
Total return (%) <sup>(1)</sup>	1.39	3.01	3.74	3.98
- Capital growth (%)	1.39	3.01	2.12	-1.70
- Income distribution (%)	-	-	1.62	5.68
Gross distribution (sen per unit)	-	-	1.68	6.00
Net distribution (sen per unit)	-	-	1.68	6.00
Distribution yield (%) <sup>(2)</sup>	-	-	1.60	5.80
Management expense ratio (%) <sup>(3)</sup>	0.17	0.18	0.16	0.18
Portfolio turnover ratio (times) <sup>(4)</sup>	0.04	0.47	0.74	0.66

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

*Note:*

- (1) Total return is the actual/annualised return of the Fund for the respective financial period/years computed based on the net asset value per unit and net of all fees.
- (2) Distribution yield is calculated based on the total distribution for the respective financial years divided by the closing quoted price.
- (3) Management expense ratio ("MER") is calculated based on the total fees and expenses incurred by the Fund divided by the average fund size calculated on a daily basis. The MER decreased by 0.01% as compared to 0.18% per annum for

the financial year ended 31 December 2016 mainly due to decrease in expenses.  
 (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 0.43 times (91.5%) as compared to 0.47 times for the financial year ended 31 December 2016 mainly due to decrease in investing activities.

**Average Total Return (as at 31 March 2017)**

	<b>ABFMY1<sup>(a)</sup></b> %	<b>iBoxx Index<sup>(b)</sup></b> %
One year	2.09	2.45
Three years	3.77	3.99
Five years	3.13	3.43
Ten years	3.40	3.73

**Annual Total Return**

<b>Financial Years Ended (31 December)</b>	<b>ABFMY1<sup>(a)</sup></b> %	<b>iBoxx Index<sup>(b)</sup></b> %
2016	3.01	3.46
2015	3.74	4.12
2014	3.98	3.79
2013	0.36	0.85
2012	3.80	4.18

(a) Source: Novagni Analytics and Advisory Sdn Bhd.

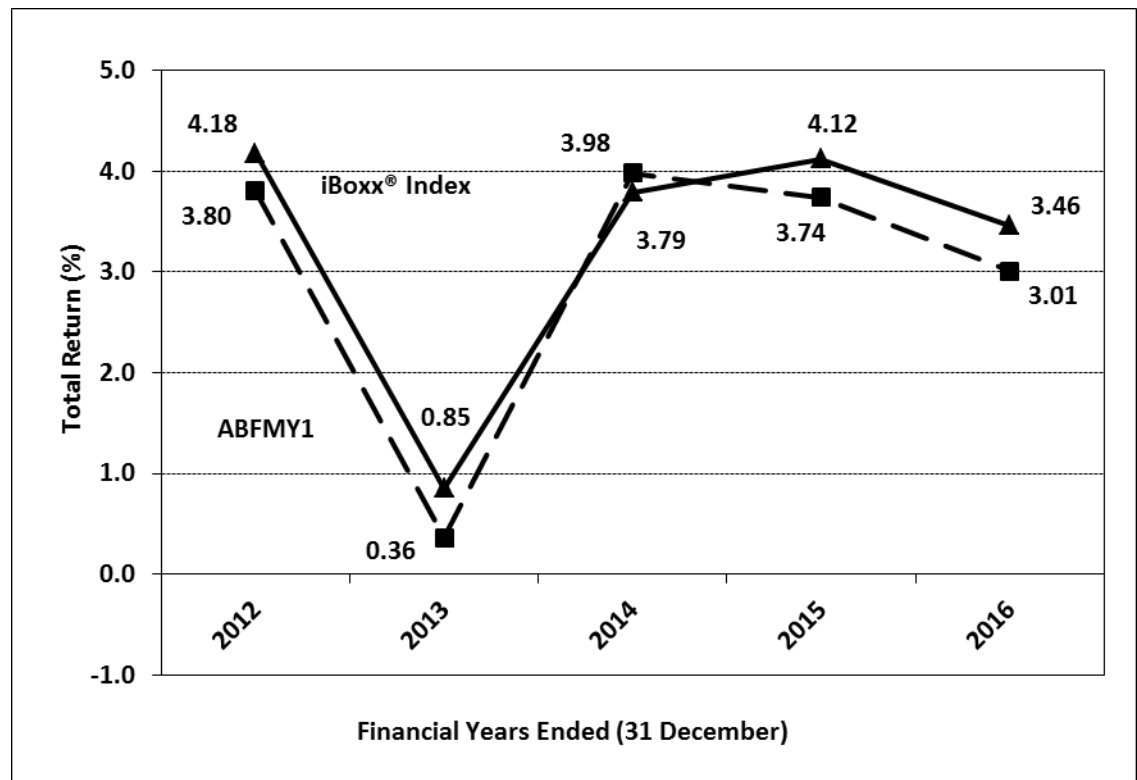
(b) iBoxx ABF Malaysia Index (“iBoxx Index”) (Obtainable from [www.aminvest.com](http://www.aminvest.com))

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.**

<b>Fund Performance</b>	<p>For the financial period under review, the Fund registered a return of 1.39% which was entirely capital growth in nature.</p> <p>Thus, the Fund’s return of 1.39% has underperformed the benchmark’s return of 1.55% by 0.16%.</p> <p>As compared with the financial year ended 31 December 2016, the net asset value (“NAV”) per unit of the Fund increased by 1.39% from RM1.0923 to RM1.1075, while units in circulations remain unchanged at 1,320,421,800.</p> <p>The closing price quoted at Bursa Malaysia of the Fund remains unchanged at RM1.1100.</p> <p>(Forward)</p>
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The line chart below shows the comparison between the annual performance of ABFMY1 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 31-3-2017 %	As at 31-12-2016 %	Changes %
Malaysian Government Securities	95.05	95.16	-0.11
Quasi-Government bonds	4.34	4.41	-0.07
Cash and others	0.61	0.43	0.18
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

For the financial period under review, the fund invested 99.39% in fixed income securities while the balance of 0.61% was held in cash.

**Distribution/unit splits**

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

<b>State of Affairs of the Fund</b>	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.
<b>Rebates and Soft Commission</b>	<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>
<b>Market Review</b>	<p>After increasing by USD 0.2b and USD 0.5b in October and November respectively, Malaysia's foreign reserves fell by USD3.7b to USD 94.6b in December. This was the lowest reserve level the start of the year and the decline was spurred by considerable foreign outflows. The current level of reserves is sufficient to cover 1.2 times of short-term external debt and 8.3 months of retained imports. In comparison Malaysia's foreign reserves stood at USD 95.3bn at end-December 2015. On the trade front exports &amp; imports rebounded 11.2% year-on-year (YoY). Bank Negara Malaysia ("BNM") left the policy rate unchanged at 3.00% in its latest meeting, with a more upbeat statement on the external sector and higher inflation expectation for 2017. The general expectation is that BNM will leave the rate unchanged in 2017, against the backdrop of expected Fed rate hike(s) during the year. Industrial Production Index for Nov 2016 jumped 6.2% YoY (expectation 5.5% YoY, Oct 4.2% YoY) led by Manufacturing 6.5% (4.2%), Electricity 9.7% (6.9% YoY) and mining also showed improvement at 4.7% (3.5% YoY).</p> <p>Malaysia's 4Q16 GDP growth was printed at 4.5% vs consensus of 4.4%, in line with Bank Negara Malaysia's (BNM) forecasts of 4.0-4.5%. The growth came on the back of moderate rebound in exports/imports and resilient domestic demand in the 4th quarter. 2016 budget deficits met the 3.1% of Gross Domestic Product (GDP) target allaying concerns on the sovereign's ratings. Further, despite the persistent weakness in the MYR, Malaysia external reserves remained resilient; it stood unchanged from end-January at US\$95b in mid-February. The January Consumer Price Index (CPI) print came in much higher than expected today at 3.2%, vs consensus estimate of 2.7%. The upside surprise was driven by 2 factors: 1) domestic fuel price increases, and 2) food prices due to bad weather and also lagged impact of cooking oil subsidy removals. Regardless of the tick in the CPI print, the BNM is likely to maintain the Overnight Policy Rate (OPR) rate at 3.0% in 2017 as the BNM is reckoned to tolerate the cost-push inflationary pressure without having to tighten its monetary policy. Meanwhile, MYR currency weakness would constraint BNM from further easing.</p> <p>During the month of March, Bank Negara Malaysia ("BNM") released the 2016 Annual Report where the central bank projected Malaysia's GDP to grow at 4.3% - 4.8% for 2017. The higher growth projection is based on a rebound in exports as well as resilient domestic demand. Inflation, however, is expected to spike upwards to 3% - 4% (2016: 2.1%) due mainly to cost-driven factors i.e. pass-through impact from an elevated retail oil prices. In the same report, BNM also projects Malaysia's current account surplus to remain positive at RM17.4b (2016: RM25.2b). Malaysia's Consumer Price Index ("CPI") accelerated to 4.5% in February (January: 3.2%) driven</p>



	<p>primarily by higher food prices (4.3%) and transportation (17.9%) which combined, contributed 3.6% to overall CPI gain. Although the CPI came in significantly higher than market expectations of 3.9%, it was expected as the current average petrol price has surged 39% YoY. Amidst the continued outflow from the Bond market, BNM reported that Malaysia’s foreign reserves held steady at USD95b as at end February. The current level of reserves is equivalent to 8.5 months of retained imports and 1.1 times of short-term external debt.</p> <p>Meanwhile, as at end 2016, the top five Foreign Direct Investments (“FDI”) contributor was Singapore (RM115b), Japan (RM70b), China &amp; HK (RM53b), Netherlands (RM48b) and United States (RM36b). In 2016, out of the RM207.9b approved investments, the Services sector command 68% while the Manufacturing sector command a lower share of 28%. The bulk of investments in the Manufacturing sector came from Petroleum Products, E&amp;E Products, Basic Metal Products and Transport Equipment while the usual Real Estate, Financial Services, Utilities and Distributive Trade dominate the Services Sector. Finally, the banking sector’s loan growth for February slipped slightly to 5.3% YoY from 5.6% YoY in the previous month. The moderation in February’s loan growth was caused by a slower Household loan growth of +5.1% whilst business loan was unchanged at 5.4%.</p>
<p><b>Market Outlook</b></p>	<p>The US Federal Open Market Committee (“FOMC”) March rate hike was fully expected by most investors but more importantly, the dovish guidance that accompanied the FOMC statement was welcomed by all, especially Emerging Markets investors. With the FOMC decision out of the way, investors’ attention is now tuned to how President Trump and his team will maneuver all the election promises made last November starting with its China policy.</p> <p>Meanwhile, the rise in inflation outlook globally as well as in Malaysia is very much in focus. Bank Negara Malaysia (“BNM”) has guided for 2017 headline inflation Consumer Price Index (“CPI”) to fall within 3.0% - 4.0% in its latest Annual Report. We note that the forecast is significantly higher than the 2.1% recorded for the whole of 2016. What is more pertinent however is whether the recent surge in Malaysia’s CPI (Feb: 4.5%) portends a potential change in BNM’s monetary policy given the current negative real rate environment.</p> <p>We do not think so, at least not in the next six months. The reason for the surge in the CPI can be attributed to the lower base in prior year as well as the multiple price hikes in petrol pump prices via RON95, RON97 and Diesel. In other words, Malaysia’s headline inflation is largely cost-push and not demand-driven. In fact, core inflation remains below 3.0% (Feb: 2.5%) and BNM has acknowledged as much in its recent MPC statement stating that “the cost-driven inflation is not expected to have a significant impact on the broader price trends given the stable domestic demand conditions. Core inflation is expected to increase modestly.”</p> <p>Given the above and based on BNM’s actions in the past, we opine that the current higher inflation pressures are unlikely to trigger an Overnight Policy Rate (“OPR”) hike, given lingering growth risks, and the absence of strong demand conditions leading to second-round effects on domestic inflation.</p> <p>After four consecutive months of outflows totaling RM36b, foreign holdings of Malaysian govvnies has reduced to 28.7% as at end February from the peak of 34.7% in 2016. The reductions were mainly in short-term papers which BNM attributed to the</p>

unwinding of Non-Deliverable Forward (“NDF”) positions. At current levels, BNM believes that foreign holdings are expected to settle at a lower but more stable level in the future and hence Ringgit’s performance should also stabilize.

We have also noticed that the primary auction market continued to be well supported by local institutions despite two chunky maturities of RM8.75b and RM10b in February and March respectively. Given that a large contingent of short-term foreign investors has most likely exited the MGS market, there will likely be less volatility moving forward.

In the near future, what may prompt a change in direction of the Malaysian govies will be the prospects of a faster rate hike pace by the FOMC or a major trade war as a result of Trump’s policies which are absent right now. We take the view that the Ringgit and by implication the MGS market will be range bound in the next few months in the absence of any catalyst to drive the market.

Kuala Lumpur, Malaysia  
AmFunds Management Berhad

8 May 2017

## ADDITIONAL INFORMATION

The Board of Directors, of which more than one-third are independent members, exercise ultimate control over the operations of the Manager. For the financial period ended 31 March 2017 (1 January 2017 to 31 March 2017), 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>	: Raja Maimunah binti Raja Abdul Aziz
<b>Age</b>	: 49 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: i) Bachelor of Laws, the University of East London ii) Honorary Doctorate of Law, United Kingdom
<b>Executive/ Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: i) (Jan 1992 – May 1993) KPMG Peat Marwick Consultants [Junior Consultant, Recovery & Corporate Finance]  ii) (June 1993 – Jul 1998) CIMB Investment Bank Berhad [Senior Manager, Corporate Finance/ DCM]  iii) (Aug 1998 – Aug 1999) Pengurusan Danaharta Nasional Berhad [Manager, Corporate Finance]  iv) (Sep 1999 – Jun 2003) CIMB Investment Bank Berhad [Associate Director, Investment Banking]  v) (Jan 2004 – Dec 2004) RHB Investment Bank Berhad (formerly known as RHB Sakura Merchant Bank Berhad) [Senior VP & Head, Investment Banking Group]  vi) (Jan 2005 – Dec 2006) Bank Alkhair B.S.C (c) (formerly known as Unicorn Investment Bank) [Senior Director]  vii) (Jan 2007 – Dec 2008) Kuwait Finance House (Malaysia) Berhad [Chief Corporate Officer & Head of International Business Corporate and Investment Banking]  viii) (June 2009 – June 2011) Bursa Malaysia Berhad

	[Global Head, Islamic Markets]
	ix) (Oct 2011 – Feb 2017) Hong Leong Islamic Bank Berhad [Managing Director/ Chief Executive Officer]
	x) (Feb 2017 – Present) AmInvestment Bank Berhad [Chief Executive Officer]
<b>Occupation</b>	: Chief Executive Officer, AmInvestment Bank Berhad
<b>Date of appointment</b>	: 7 March 2017
<b>Directorship of other public companies</b>	: Not applicable
<b>Number of Board meeting attended for the financial period ended 31 March 2017</b>	: Not applicable
<b>Member of any other Board Committee</b>	: Audit Committee of Directors
<b>Date of appointment to the Investment Committee</b>	: 7 March 2017
<b>Number of Investment Committee meeting attended for the financial year period 31 March 2017</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 5 years (if any)</b>	: None
<b>Name</b>	: Dato' Mustafa bin Mohd Nor
<b>Age</b>	: 66 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: i) Master of Arts (Economic Policy), Boston University, USA  ii) Bachelor of Economics (Analytical), University of Malaya, Malaysia
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	: i) (1975-1988) Ministry of Finance [Last position held – Head of Macroeconomic Section, Economic and International Division]  ii) (1988-1990)

	Development & Commercial Bank Berhad. [Manager, Treasury Department]
	iii) March 1990-August 1992) Arab Malaysian Securities Sdn Bhd [Chief Economist]
	iv) (September 1992-December 2001) AmSecurities Sdn Bhd [Executive Director/Chief Economist]
	v) (January 2002-December 2005) AmSecurities Sdn Bhd [Managing Director]
	vi) (January 2006-May 2009) (Retirement) AmInvestment Bank Berhad Group [Economic Advisor]
	vii) (September 2009-August 2012) (Contract) Permodalan Nasional Berhad [Senior Vice President/Head, Research Division]
<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 ended 31 March 2017</b>	: One (1)
<b>Member of any other Board Committee</b>	: i) Audit Committee of Directors ii) Investment Committee
<b>Date of appointment to the Investment Committee</b>	: 3 March 2014
<b>Number of Investment Committee meeting attended for the financial period ended 31 March 2017</b>	: Two (2)
<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 5 years (if any)</b>	: None
<b>Name</b>	: Tai Terk Lin
<b>Age</b>	: 57 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: i) Master of Business Administration (School of Management), Cranfield Institute of Technology, United Kingdom. ii) Bachelor of Science with Education, Mathematics &

	<p>Physics, University of Malaya, Malaysia.</p> <p>iii) Certified Financial Planner Board of Standard, Inc, USA Certified Financial Planner</p> <p>iv) Financial Industry Certified Professional, FICP, Institute of Banking &amp; Finance (IBF), Singapore</p>
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	<p>i) (October 2009 – September 2012) (Oct 2012 with ICB Indonesia) AGICB Banking Group [Group Chief Executive Officer of ICB Financial Group Holdings]</p> <p>ii) (January 2009 – August 2009) Platinum Capital Management (Asia) Pte Ltd, Singapore [Executive Director/Head of Business Development Asia]</p> <p>iii) (January 2007 – November 2008) DBS Bank, Singapore [Senior Vice President/Head – Malaysia Coverage Private Banking]</p> <p>iv) (March 2002 – December 2006) AmInvestment Bank Berhad [Director/Head, Private Banking]</p> <p>v) (April 1995 – December 2001) HLB Unit Trust Management Bhd [Chief Executive Officer]</p> <p>vi) (April 1994 – March 1995) Hong Leong Bank Berhad (Ex-Hong Leong Finance) [Chief Project Manager/Credit Manager]</p> <p>vii) (January 1994 – April 1994) United Merchant Finance Berhad [Special Assistant to Executive Chairman]</p> <p>viii) (June 1992 – December 1993) Hong Leong Management Company Sdn Bhd [Senior Analyst (Executive Chairman’s Office)]</p> <p>ix) (January 1991 – June 1992) Corporate Care Division, PricewaterhouseCoopers [Consulting Manager]</p>
<b>Occupation</b>	: Director
<b>Date of appointment</b>	: 15 December 2014
<b>Directorship of other public</b>	: Nil

<b>companies</b>	
<b>Number of Board meeting attended for the financial period ended 31 March 2017</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>	: 15 December 2014
<b>Number of Investment Committee meeting attended for the financial period ended 31 March 2017</b>	: Two (2)
<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 5 years (if any)</b>	: None

<b>Name</b>	: Sum Leng Kuang
<b>Age</b>	: 63 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: i) Bachelor of Commerce (Finance), University of Canterbury, New Zealand  ii) Certified Financial Planner, Financial Planning Association of Malaysia
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	: i) (May 1982- September 2001) Overseas Assurance (M) Berhad Deputy Head, Investment  ii) (September 2001-December 2011) Great Eastern Life Assurance (M) Berhad [Last position as Senior Vice President & Head Fixed Income Investment]  iii) (January 2012-April 2013) Great Eastern Life Assurance (M) Berhad [Senior Vice President & Advisor, Fixed Income Investment]  iv) (May 2013-July 2014) Hong Leong Asset Management Berhad [Chief Investment Officer of Fixed Income & Acting Chief Executive Officer]

	v) (May 2015-Present) Credit Guarantee Corporation Malaysia Berhad [Advisor, Investment (Contract)]
<b>Occupation</b>	: Advisor, Investment Credit Guarantee Corporation Malaysia Berhad
<b>Date of appointment</b>	: 18 January 2016
<b>Directorship of other public companies</b>	: Pacific & Orient Insurance Co. Berhad
<b>Number of Board meeting attended for the financial period ended 31 March 2017</b>	: One (1)
<b>Member of any other Board Committee</b>	: Investment Committee and Audit Committee of Directors
<b>Date of appointment to the Investment Committee</b>	: 18 January 2016
<b>Number of Investment Committee meetings attended for the financial period ended 31 March 2017</b>	: Two (2)
<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 5 years (if any)</b>	: None

<b>Name</b>	: Datin Maznah binti Mahbob
<b>Age</b>	: 58 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: i) Degree, The Institute of Chartered Secretaries and Administrators, United Kingdom ii) Capital Markets Services Representative's Licence holder, Malaysia
<b>Executive/Non-Executive Director</b>	: 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 AmFunds Management Berhad for 3 years.
<b>Occupation</b>	: Chief Executive Officer/Executive Director of AmFunds Management Berhad
<b>Date of appointment</b>	: 29 December 2005
<b>Directorship of other public companies</b>	: None
<b>Number of Board meeting</b>	: One (1)



<b>attended for the financial period ended 31 March 2017</b>	
<b>Member of any other Board Committee</b>	: Investment Committee
<b>Date of appointment to the Investment Committee</b>	: 17 August 2015
<b>Number of Investment Committee meeting attended for the financial period ended 31 March 2017</b>	: Two (2)
<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 5 years (if any)</b>	: None

#### Investment Committee

The Investment Committee, of which more than 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 ended 31 March 2017 (1 January 2017 to 31 March 2017), there were two (2) Investment Committee meeting held by the Manager.

- Madam Sum Leng Kuang (profile as mentioned above)
- Y. Bhg. Dato' Mustafa bin Mohd Nor (profile as mentioned above)
- Mr Tai Terk Lin (profile as mentioned above)
- Zainal Abidin Bin Mohd Kassim (profile as mentioned below)
- Y. Bhg. Datin Maznah binti Mahbob (profile as mentioned above)

<b>Name</b>	: Zainal Abidin Bin Mohd Kassim
<b>Age</b>	: 62 years old
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: i) Bachelor of Science, (First Class Honours), in Actuarial Science (1978), City University London. ii) Fellow of the Actuarial Society of Malaysia. iii) Fellow of the Society of Actuaries of Singapore. iv) Associate of the Society of Actuaries, USA.
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	: i) Consulting Actuary and Senior Partner, Actuarial Partners Consulting, Malaysia (1982 – Present) ii) Actuarial Assistant, Prudential Assurance Plc, London (1978 -1982)
<b>Occupation</b>	: Consulting Actuary, Actuarial Partners Consulting Sdn Bhd
<b>Directorship of other public companies</b>	: None

<b>Member of any other Board Committee</b>	: None
<b>Date of appointment to the Investment Committee</b>	: 30 November 2016
<b>Number of Investment Committee meeting attended for the financial period ended 31 March 2017</b>	: One (1)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 5 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.

#### Manager

Previously, AmInvestment Management Sdn Bhd (“AIM”) was appointed to implement the Fund’s investment strategy on behalf of the Manager to achieve the objectives of the Fund. However, following the consolidation of business of AmFunds Management Berhad (formerly known as AmInvestment Services Berhad) (“AFM”) AIM into on 1 December 2014, AFM had acquired/assumed the obligations, undertaking, commitments and contingencies of AIM. Effective 1 December 2014, AFM is a licensed fund manager approved by Securities Commission Malaysia to manage the Fund.

#### 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 ended 31 March 2017 (1 January 2017 to 31 March 2017), there were two (2) Investment Committee meetings held by the Manager.

## Unitholders

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

<b>NAME</b>	<b>Number of Unit Held</b>	<b>Unit Held (%)</b>
HSBC BANK MALAYSIA BERHAD	1,265,247,870	0.95821
AMINVESTMENT BANK BERHAD	52,199,930	0.03953
DEUTSCHE BANK (MALAYSIA) BERHAD	2,300,000	0.00174
CITIBANK BERHAD	540,000	0.00041
CIMB INVESTMENT BANK BERHAD	64,600	0.00005
HONG LEONG INVESTMENT BANK BERHAD	30,000	0.00002
PUBLIC INVESTMENT BANK BERHAD	15,100	0.00001
ALLIANCE INVESTMENT BANK BERHAD	10,000	0.00001
MAYBANK INVESTMENT BANK BERHAD	7,600	0.00001
INTER-PACIFIC SECURITIES SDN BHD	4,000	0.00000
KENANGA INVESTMENT BANK BERHAD	1,599	0.00000
AFFIN HWANG INVESTMENT BANK BERHAD	402	0.00000
RHB INVESTMENT BANK BERHAD	304	0.00000
JUPITER SECURITIES SDN BHD	295	0.00000
KAF-SEAGROATT & CAMPBELL SECURITIES SDN BHD	100	0.00000

**ABF Malaysia Bond Index Fund****STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2017**

	<b>Note</b>	<b>31-3-2017 (unaudited) RM</b>	<b>31-12-2016 (audited) RM</b>
<b>ASSETS</b>			
Investments	4	1,453,563,387	1,436,208,939
Deposits with financial institutions	5	9,210,045	6,402,202
Cash at banks		1,420	1,427
<b>TOTAL ASSETS</b>		<b>1,462,774,852</b>	<b>1,442,612,568</b>
<b>LIABILITIES</b>			
Amount due to Manager	6	140,171	115,557
Amount due to Trustee	7	62,050	57,779
Amount due to index provider	8	47,476	10,328
Sundry payables and accrued expenses		111,539	103,992
<b>TOTAL LIABILITIES</b>		<b>361,236</b>	<b>287,656</b>
<b>EQUITY</b>			
Unitholders' capital	11(a)	1,396,802,853	1,396,802,853
Retained earnings	11(b)(c)	65,610,763	45,522,059
<b>TOTAL EQUITY</b>	11	<b>1,462,413,616</b>	<b>1,442,324,912</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,462,774,852</b>	<b>1,442,612,568</b>
<b>UNITS IN CIRCULATION</b>	11(a)	<b>1,320,421,800</b>	<b>1,320,421,800</b>
<b>NET ASSET VALUE PER UNIT – EX DISTRIBUTION</b>		<b>110.75 sen</b>	<b>109.23 sen</b>

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

**ABF Malaysia Bond Index Fund**

**STATEMENT OF COMPREHENSIVE INCOME (Unaudited)  
FOR THE FINANCIAL PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017**

	Note	1-1-2017 to 31-3-2017 RM	1-1-2016 to 31-3-2016 RM
<b>INVESTMENT INCOME</b>			
Interest income		14,123,353	12,937,496
Net gain from investments:			
– Financial assets at fair value through profit or loss (“FVTPL”)	9	<u>6,586,327</u>	<u>18,635,417</u>
Gross Income		<u>20,709,680</u>	<u>31,572,913</u>
<b>EXPENDITURE</b>			
Manager’s fee	6	(363,161)	(338,068)
Trustee’s fee	7	(181,581)	(169,034)
Licence fee	8	(37,149)	(19,367)
Auditors’ remuneration		(2,675)	(1,914)
Tax agent’s fee		(1,075)	(1,243)
Other expenses	10	<u>(35,335)</u>	<u>(251,667)</u>
Total Expenditure		<u>(620,976)</u>	<u>(781,293)</u>
NET INCOME BEFORE TAX		20,088,704	30,791,620
LESS: INCOME TAX	13	<u>-</u>	<u>-</u>
NET INCOME AFTER TAX		20,088,704	30,791,620
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		<u><u>20,088,704</u></u>	<u><u>30,791,620</u></u>
Total comprehensive income comprises the following:			
Realised income		13,299,232	10,470,149
Unrealised gain		<u>6,789,472</u>	<u>20,321,471</u>
		<u><u>20,088,704</u></u>	<u><u>30,791,620</u></u>

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

**ABF Malaysia Bond Index Fund****STATEMENT OF CHANGES IN EQUITY (Unaudited)  
FOR THE FINANCIAL PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017**

	<b>Unitholders' capital RM</b>	<b>Retained earnings RM</b>	<b>Total equity RM</b>
At 1 January 2016	1,325,924,353	15,951,840	1,341,876,193
Total comprehensive income for the financial period	-	30,791,620	30,791,620
Balance at 31 March 2016	<u>1,325,924,353</u>	<u>46,743,460</u>	<u>1,372,667,813</u>
At 1 January 2017	1,396,802,853	45,522,059	1,442,324,912
Total comprehensive income for the financial period	-	20,088,704	20,088,704
Balance at 31 March 2017	<u>1,396,802,853</u>	<u>65,610,763</u>	<u>1,462,413,616</u>

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

**ABF Malaysia Bond Index Fund****STATEMENT OF CASH FLOWS (Unaudited)  
FOR THE FINANCIAL PERIOD FROM 1 JANUARY 2017 TO 31 MARCH 2017**

	<b>1-1-2017 to 31-3-2017 RM</b>	<b>1-1-2016 to 31-3-2016 RM</b>
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	58,132,000	98,678,000
Interest received	14,317,232	13,188,982
Manager's fee paid	(338,547)	(314,955)
Trustee's fee paid	(177,310)	(157,478)
Licence fee paid	-	(68,398)
Payments for other expenses	(31,539)	(260,999)
Purchase of investments	<u>(69,094,000)</u>	<u>(126,663,500)</u>
Net cash generated from/(used in) operating and investing activities	<u>2,807,836</u>	<u>(15,598,348)</u>
<b>CASH FLOW FROM FINANCING ACTIVITY</b>		
Proceeds from creation of units	<u>-</u>	<u>451,110</u>
Net cash generated from financing activity	<u>-</u>	<u>451,110</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,807,836	(15,147,238)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD	<u>6,403,629</u>	<u>29,529,061</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	<u><u>9,211,465</u></u>	<u><u>14,381,823</u></u>
Cash and cash equivalents comprise:		
Deposits with financial institutions	9,210,045	14,380,440
Cash at banks	<u>1,420</u>	<u>1,383</u>
	<u><u>9,211,465</u></u>	<u><u>14,381,823</u></u>

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

## ABF Malaysia Bond Index Fund

### NOTES TO THE FINANCIAL STATEMENTS

#### 1. GENERAL INFORMATION

ABF Malaysia Bond Index Fund (“the Fund”) was established pursuant to a Deed dated 12 July 2005 as amended by Deeds Supplemental thereto (“the Deed”), between AmFunds Management 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, which are relevant to the Fund, 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>
MFRS 9: Financial Instruments	1 January 2018
MFRS 15: Revenue From Contracts With Customers	1 January 2018

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 reflects International Accounting Standards Board's ("IASB") work on the replacement of MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139"). MFRS 9 will be effective for financial year beginning on or after 1 January 2018. The Fund is in the process of quantifying the impact of the first adoption of MFRS 9.

### 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. 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").

## **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 premium and accretion of discount, if any, calculated over the period from the date of acquisition to the date of maturity of the respective securities as approved by the Manager and the Trustee. Unrealised gain or loss recognised in profit or loss is not distributable in nature.

On disposal of investments, the net realised gain or loss on disposal is measured as the difference between the net disposal proceeds and the carrying amount of the investments. The net realised gain or loss is recognised in 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 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>31-3-2017</b>	<b>31-12-2016</b>
	<b>RM</b>	<b>RM</b>
<b>Financial assets at FVTPL</b>		
At nominal value:		
Quasi-Government Bonds	60,000,000	60,000,000
Malaysian Government Securities	844,500,000	794,500,000
Government Investment Issues	<u>542,500,000</u>	<u>580,500,000</u>
	<u>1,447,000,000</u>	<u>1,435,000,000</u>
At fair value:		
Quasi-Government Bonds	63,541,727	63,634,057
Malaysian Government Securities	844,925,198	792,009,698
Government Investment Issues	<u>545,096,462</u>	<u>580,565,184</u>
	<u>1,453,563,387</u>	<u>1,436,208,939</u>

Details of investments as at 31 March 2017 are as follows:

<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>Quasi-Government Bonds</b>						
12.03.2019	Prasarana Malaysia Berhad	NR	5,000,000	5,010,219	5,030,117	0.34
04.08.2026	Prasarana Malaysia Berhad	NR	10,000,000	10,051,515	10,221,506	0.69
27.05.2039	1Malaysia Development Berhad	NR	35,000,000	38,446,355	39,236,857	2.63
26.02.2041	Prasarana Malaysia Berhad	NR	10,000,000	10,033,638	10,412,831	0.68
			<b>60,000,000</b>	<b>63,541,727</b>	<b>64,901,311</b>	<b>4.34</b>
<b>Malaysian Government Securities</b>						
01.03.2018	Government of Malaysia	NR	30,000,000	30,052,986	30,001,588	2.05
28.09.2018	Government of Malaysia	NR	10,000,000	10,021,691	10,020,991	0.69
15.03.2019	Government of Malaysia	NR	60,000,000	60,360,990	60,660,899	4.13
30.07.2019	Government of Malaysia	NR	10,000,000	10,560,223	10,541,629	0.72
31.10.2019	Government of Malaysia	NR	50,000,000	50,740,138	50,719,538	3.47
29.11.2019	Government of Malaysia	NR	40,000,000	41,297,821	41,664,041	2.82
31.03.2020	Government of Malaysia	NR	40,000,000	39,731,416	40,263,325	2.72
31.07.2020	Government of Malaysia	NR	10,000,000	10,106,459	10,170,562	0.69
15.10.2020	Government of Malaysia	NR	65,000,000	65,837,050	66,199,947	4.50
30.09.2021	Government of Malaysia	NR	30,000,000	30,241,218	30,230,167	2.07
30.11.2021	Government of Malaysia	NR	70,000,000	70,077,208	72,019,601	4.79
30.09.2022	Government of Malaysia	NR	52,500,000	52,013,519	52,054,645	3.56
17.08.2023	Government of Malaysia	NR	48,000,000	47,544,183	47,770,855	3.25

(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>						
15.07.2024	Government of Malaysia	NR	70,000,000	70,601,845	70,909,606	4.83
15.09.2025	Government of Malaysia	NR	18,500,000	18,179,895	18,117,913	1.24
15.04.2026	Government of Malaysia	NR	25,000,000	25,783,019	26,522,367	1.76
30.11.2026	Government of Malaysia	NR	30,000,000	29,774,443	31,151,991	2.04
15.03.2027	Government of Malaysia	NR	10,000,000	9,611,979	10,152,876	0.66
15.06.2028	Government of Malaysia	NR	45,000,000	42,633,602	42,884,921	2.92
15.04.2030	Government of Malaysia	NR	47,500,000	48,458,550	49,053,544	3.31
30.06.2031	Government of Malaysia	NR	23,000,000	22,548,015	22,986,274	1.54
15.04.2033	Government of Malaysia	NR	10,000,000	9,359,115	10,037,012	0.64
31.05.2035	Government of Malaysia	NR	20,000,000	19,285,758	19,776,447	1.32
30.09.2043	Government of Malaysia	NR	20,000,000	20,181,697	20,484,210	1.38
15.03.2046	Government of Malaysia	NR	10,000,000	9,922,378	10,464,839	0.68
			<b>844,500,000</b>	<b>844,925,198</b>	<b>854,859,788</b>	<b>57.78</b>
<b>Government Investment Issues</b>						
15.05.2018	Government of Malaysia	NR	44,000,000	44,575,790	44,774,941	3.05
30.08.2018	Government of Malaysia	NR	20,000,000	20,168,307	20,164,464	1.38
30.04.2019	Government of Malaysia	NR	30,000,000	30,343,790	30,337,557	2.07
13.08.2019	Government of Malaysia	NR	10,000,000	10,091,186	10,138,636	0.69
15.04.2020	Government of Malaysia	NR	35,000,000	34,994,903	35,317,168	2.39
30.04.2020	Government of Malaysia	NR	10,000,000	10,391,412	10,533,787	0.71
15.05.2020	Government of Malaysia	NR	20,000,000	20,138,470	20,314,500	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>						
27.08.2020	Government of Malaysia	NR	50,000,000	50,118,659	49,942,765	3.43
23.03.2021	Government of Malaysia	NR	30,000,000	29,833,464	29,661,220	2.04
30.04.2021	Government of Malaysia	NR	10,000,000	10,243,594	10,406,382	0.70
26.08.2021	Government of Malaysia	NR	16,000,000	15,896,088	16,201,570	1.09
15.07.2022	Government of Malaysia	NR	30,000,000	30,478,653	30,227,626	2.08
07.07.2023	Government of Malaysia	NR	20,000,000	20,489,535	20,554,314	1.40
31.10.2023	Government of Malaysia	NR	10,000,000	9,780,567	9,759,195	0.67
22.05.2024	Government of Malaysia	NR	20,000,000	20,679,582	20,600,053	1.41
15.08.2024	Government of Malaysia	NR	10,000,000	10,005,483	10,040,155	0.68
15.10.2025	Government of Malaysia	NR	52,500,000	52,723,933	52,217,236	3.61
30.09.2026	Government of Malaysia	NR	25,000,000	24,699,780	25,456,868	1.69
15.06.2027	Government of Malaysia	NR	20,000,000	19,561,227	20,441,140	1.34
26.07.2027	Government of Malaysia	NR	10,000,000	10,161,756	10,175,677	0.69
06.12.2028	Government of Malaysia	NR	10,000,000	10,597,824	10,460,015	0.72
30.09.2030	Government of Malaysia	NR	30,000,000	28,890,780	30,776,049	1.98
30.08.2033	Government of Malaysia	NR	10,000,000	9,882,361	9,881,018	0.68
31.10.2035	Government of Malaysia	NR	20,000,000	20,349,318	21,100,897	1.39
			<u>542,500,000</u>	<u>545,096,462</u>	<u>549,483,233</u>	<u>37.27</u>
<b>Total financial assets at FVTPL</b>			<u>1,447,000,000</u>	<u>1,453,563,387</u>	<u>1,469,244,332</u>	<u>99.39</u>
<b>Shortfall of fair value over cost</b>				<u>(15,680,945)</u>		

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

	Effective yield*	
	31-3-2017	31-12-2016
	%	%
Quasi-Government Bonds	4.92	4.87
Malaysian Government Securities	4.01	3.89
Government Investment Issues	4.02	3.96

\* As provided by Markit Indices Limited.

Analyses of the remaining maturity of unquoted investments as at 31 March 2017 and 31 December 2016 are as follows:

	Less than 1 year RM	1 year to 5 years RM	More than 5 years RM
<b>2017</b>			
At nominal value:			
Quasi-Government Bonds	-	5,000,000	55,000,000
Malaysian Government Securities	30,000,000	385,000,000	429,500,000
Government Investment Issues	-	275,000,000	267,500,000
<b>2016</b>			
At nominal value:			
Quasi-Government Bonds	-	5,000,000	55,000,000
Malaysian Government Securities	-	415,000,000	379,500,000
Government Investment Issues	-	320,000,000	260,500,000

## 5. DEPOSITS WITH FINANCIAL INSTITUTIONS

	31-3-2017 RM	31-12-2016 RM
At nominal value:		
Short-term deposits with licensed banks	9,209,200	6,401,500
At carrying value:		
Short-term deposits with licensed banks	9,210,045	6,402,202

Details of deposit with financial institution as at 31 March 2017 are as follows:

Maturity date	Bank	Nominal value RM	Carrying value RM	Purchase cost RM	Carrying value as a percentage of net asset value %
<b>Short-term deposit with a licensed bank</b>					
03.04.2017	Malayan Banking Berhad	9,209,200	9,210,045	9,209,200	0.63



The weighted average effective interest rate and average remaining maturity of short-term deposits are as follows:

	Weighted average effective interest rate		Remaining maturity	
	31-3-2017 %	31-12-2016 %	31-3-2017 Days	31-12-2016 Days
Short-term deposits with licensed banks	3.35	4.00	3	3

#### 6. AMOUNT DUE TO MANAGER

Manager's fee is at a rate of 0.10% (2016: 0.10%) per annum on the net asset value of the Fund, calculated on a daily basis.

The normal credit period in the previous financial year and current financial period for creation of units is three business days.

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

#### 7. AMOUNT DUE TO TRUSTEE

Trustee's fee is at a rate of 0.05% (2016: 0.05%) per annum on the net asset value of the Fund, calculated on a daily basis.

The normal credit period in the previous financial year and current financial 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 FROM INVESTMENTS

	<b>1-1-2017 to 31-3-2017 RM</b>	<b>1-1-2016 to 31-3-2016 RM</b>
Net gain on financial assets at FVTPL comprised:		
– Net realised loss on sale of investments	(203,145)	(1,686,054)
– Net unrealised gain on changes in fair values of investments	6,789,472	20,321,471
	<u>6,586,327</u>	<u>18,635,417</u>

## 10. OTHER EXPENSES

Included in other expenses is Goods and Services Tax incurred by the Fund during the financial period amounting to RM35,143 (2016: RM11,492).

## 11. TOTAL EQUITY

Total equity is represented by:

	<b>Note</b>	<b>31-3-2017 RM</b>	<b>31-12-2016 RM</b>
Unitholders' capital	(a)	1,396,802,853	1,396,802,853
Retained earnings			
– Realised income	(b)	81,291,708	67,992,476
– Unrealised loss	(c)	<u>(15,680,945)</u>	<u>(22,470,417)</u>
		<u>1,462,413,616</u>	<u>1,442,324,912</u>

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

	<b>31-3-2017</b>		<b>31-12-2016</b>	
	<b>Number of units</b>	<b>RM</b>	<b>Number of units</b>	<b>RM</b>
At beginning of the financial period/year	1,320,421,800	1,396,802,853	1,265,421,800	1,325,924,353
Creation during the financial period/year	-	-	605,000,000	662,590,500
Cancellation during the financial period/year	-	-	<u>(550,000,000)</u>	<u>(591,712,000)</u>
At end of the financial period/year	<u>1,320,421,800</u>	<u>1,396,802,853</u>	<u>1,320,421,800</u>	<u>1,396,802,853</u>

**(b) REALISED – DISTRIBUTABLE**

	<b>31-3-2017</b>	<b>31-12-2016</b>
	<b>RM</b>	<b>RM</b>
At beginning of the financial period/year	67,992,476	24,591,425
Total comprehensive income for the financial period/year	20,088,704	29,570,219
Net unrealised (gain)/loss attributable to investments held transferred to unrealised reserve [Note 11(c)]	(6,789,472)	13,830,832
Net increase in realised reserve for the financial period/year	13,299,232	43,401,051
At end of the financial period/year	81,291,708	67,992,476

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

	<b>31-3-2017</b>	<b>31-12-2016</b>
	<b>RM</b>	<b>RM</b>
At beginning of the financial period/year	(22,470,417)	(8,639,585)
Net unrealised gain/(loss) attributable to investments held transferred from realised reserve [Note 11(b)]	6,789,472	(13,830,832)
At end of the financial period/year	(15,680,945)	(22,470,417)

**12. UNITS HELD BY RELATED PARTIES**

The related parties of and their relationship with the Fund are as follows:

<b><u>Related parties</u></b>	<b><u>Relationship</u></b>
AmFunds Management Berhad	The Manager
AmInvestment Bank Berhad	Holdings company of the Manager
AMMB Holdings Berhad	Ultimate holding company of the Manager
Subsidiaries and associates of AMMB	Subsidiaries and associate companies of the ultimate holding company of the Manager

	<b>31-3-2017</b>		<b>31-12-2016</b>	
	<b>Number of units</b>	<b>RM</b>	<b>Number of units</b>	<b>RM</b>
AmInvestment Bank Berhad*	52,199,930	57,941,922	52,212,530	57,955,908

\* The parties related are the legal and beneficial owners of the units. The Manager did not hold any units in the Fund as at 31 March 2017 and 31 December 2016.

### 13. 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, local 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 is as follows:

	<b>1-1-2017 to 31-3-2017 RM</b>	<b>1-1-2016 to 31-3-2016 RM</b>
Net income before tax	20,088,704	30,791,620
Taxation at Malaysian statutory rate of 24%	4,821,289	7,390,000
Tax effects of:		
Income not subject to tax	(5,019,078)	(7,982,200)
Loss not deductible for tax purposes	48,755	404,700
Restriction on tax deductible expenses for Exchange Traded Funds	79,037	73,500
Non-permitted expenses for tax purposes	61,215	105,800
Permitted expenses not used and not available for future financial periods	8,782	8,200
Tax expense for the financial period	-	-

### 14. DISTRIBUTION

No distribution was declared by the Fund for the financial periods ended 31 March 2017 and 31 March 2016.

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

The Fund’s MER is as follows:

	<b>1-1-2017 to 31-3-2017 % p.a.</b>	<b>1-1-2016 to 31-3-2016 % p.a.</b>
Manager’s fee	0.10	0.10
Trustee’s fee	0.05	0.05
Licence fee	0.01	0.01
Fund’s other expenses	0.01	0.07
Total MER	0.17	0.23

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.

## 16. 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 0.04 times (2016: 0.08 times).

## 17. 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.

## 18. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

Details of transactions with financial institutions for the financial period ended 31 March 2017 are as follows:

<b>Financial institutions</b>	<b>Transaction value</b>	
	<b>RM</b>	<b>%</b>
Malayan Banking Berhad	314,406,600	70.95
Citibank Berhad	78,200,687	17.65
AmBank (M) Berhad *	30,345,237	6.85
Standard Chartered Bank Malaysia Berhad	20,157,104	4.55
Total	<u>443,109,628</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.

## 19. 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>31 March 2017</b>				
<b>Assets</b>				
Investments	1,453,563,387	-	-	1,453,563,387
Deposits with financial institutions	-	9,210,045	-	9,210,045
Cash at banks	-	1,420	-	1,420
<b>Total financial assets</b>	<b>1,453,563,387</b>	<b>9,211,465</b>	<b>-</b>	<b>1,462,774,852</b>
<b>Liabilities</b>				
Amount due to Manager	-	-	140,171	140,171
Amount due to Trustee	-	-	62,050	62,050
Amount due to index provider	-	-	47,476	47,476
Sundry payables and accrued expenses	-	-	111,539	111,539
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>361,236</b>	<b>361,236</b>
<b>31 December 2016</b>				
<b>Assets</b>				
Investments	1,436,208,939	-	-	1,436,208,939
Deposits with financial institutions	-	6,402,202	-	6,402,202
Cash at banks	-	1,427	-	1,427
<b>Total financial assets</b>	<b>1,436,208,939</b>	<b>6,403,629</b>	<b>-</b>	<b>1,442,612,568</b>
<b>Liabilities</b>				
Amount due to Manager	-	115,557	-	115,557
Amount due to Trustee	-	-	57,779	57,779
Amount due to index provider	-	-	10,328	10,328
Sundry payables and accrued expenses	-	-	103,992	103,992
<b>Total financial liabilities</b>	<b>-</b>	<b>115,557</b>	<b>172,099</b>	<b>287,656</b>
<b>Income, expense, gains and losses</b>				
<b>1-1-2017      1-1-2016</b>				
<b>31-3-2017      31-3-2016</b>				
<b>RM                  RM</b>				
Net gain from financial assets at FVTPL			6,586,327	18,635,417
Income, of which derived from:				
– Interest income from financial assets at FVTPL			14,082,272	12,833,083
– Interest income from loans and receivables			41,081	104,413

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

The Fund's financial assets and liabilities 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</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>31 March 2017</b>				
Financial assets at FVTPL	-	1,453,563,387	-	1,453,563,387
<b>31 December 2016</b>				
Financial assets at FVTPL	-	1,436,208,939	-	1,436,208,939

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

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

- Deposits with financial institutions
- Cash at banks
- Amount due to Manager
- Amount due to Trustee
- Amount due to index provider
- Sundry payables and accrued expenses

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

**20. 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, in general, is the risk that the value of a portfolio would decrease due to changes in market risk factors such as equity prices, interest rates (yield curve), foreign exchange rates and commodity prices.

#### (i) Interest rate risk

Interest rate risk will affect the value of the Fund's investments, given the interest rate movements, which are influenced by regional and local economic developments as well as political developments.

Domestic interest rates on deposits and placements with licensed financial institutions are determined based on prevailing market rates.

The result below summarised the interest rates sensitivity of the Fund's NAV, or theoretical value (applicable to money market deposit) due to the parallel movement assumption of the yield curve by +100bps and -100bps respectively:

Parallel shift in yield curve by:	Sensitivity of the Fund's NAV, or theoretical value	
	2017 RM	2016 RM
+100 bps	(77,149,504)	(71,396,008)
-100 bps	<u>85,096,743</u>	<u>78,228,687</u>

### Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to 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 and financial institutions defaulting on its repayment obligations which in turn would affect the net asset value of the Fund.

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

The following table analyses the Fund's portfolio of debt securities by rating category as at 31 March 2017 and 31 March 2016:

Credit rating	RM	As a % of debt securities	As a % of net asset value
<b>2017</b>			
NR*	<u>1,453,563,387</u>	<u>100.00</u>	<u>99.39</u>
<b>2016</b>			
NR*	<u>1,358,592,175</u>	<u>100.00</u>	<u>98.97</u>

\* Non-rated



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 deposits by rating category as at 31 March 2017 and 31 March 2016:

<b>Credit rating</b>	<b>RM</b>	<b>As a % of deposits</b>	<b>As a % of net asset value</b>
<b>2017</b>			
P1/MARC-1	9,210,045	100.00	0.63
<b>2016</b>			
P1/MARC-1	14,380,440	100.00	1.05

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

(ii) **Credit risk concentration**

Concentration of risk is monitored and managed based on sectorial distribution. The table below analyses the Fund's portfolio of debt securities by sectorial distribution as at 31 March 2017 and 31 March 2016:

<b>Sector</b>	<b>RM</b>	<b>As a % of debt securities</b>	<b>As a % of net asset value</b>
<b>2017</b>			
Public finance	1,428,468,015	98.27	97.68
Transportation	25,095,372	1.73	1.71
	1,453,563,387	100.00	99.39
<b>2016</b>			
Public finance	1,353,545,655	99.63	98.60
Transportation	5,047,060	0.37	0.37
	1,358,592,715	100.00	98.97

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 cancellations of units by unitholders. Liquid assets comprise of 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 coupon-bearing bonds, the coupons could be paid on annual, bi-annual or quarterly basis.

Cash received from bonds are calculated as follows:

\$ = cash received

R = coupon rate p.a.

F = coupon frequency

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

- (ii) For money market instruments and deposits

The nominal amount and interest will be paid at maturity date. Cash received are calculated as follows:

\$ = cash received

R = interest rate p.a.

F = time to maturity (days)

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

The following table presents the undiscounted contractual cash flows from different asset and liability 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
<b>2017</b>						
<b>Financial assets</b>						
Investments	84,386,754	194,495,350	234,129,378	262,401,629	161,503,778	970,396,028
Deposits with financial institutions	9,211,736	-	-	-	-	-
Cash at banks	1,420	-	-	-	-	-
<b>Total assets</b>	<b>93,599,910</b>	<b>194,495,350</b>	<b>234,129,378</b>	<b>262,401,629</b>	<b>161,503,778</b>	<b>970,396,028</b>
<b>Financial liabilities</b>						
Other liabilities	361,236	-	-	-	-	-

(Forward)

	<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 5 years RM</b>
<b>2016</b>						
<b>Financial assets</b>						
Investments	72,309,600	166,035,925	188,930,600	201,459,300	303,607,525	793,441,150
Deposits with financial institutions	14,380,440	-	-	-	-	-
Cash at banks	1,383	-	-	-	-	-
<b>Total assets</b>	<b>86,691,423</b>	<b>166,035,925</b>	<b>188,930,600</b>	<b>201,459,300</b>	<b>303,607,525</b>	<b>793,441,150</b>
<b>Financial liabilities</b>						
Other liabilities	306,725	-	-	-	-	-

### **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.

## 21. CAPITAL MANAGEMENT

The primary objective of the Fund's capital management is to ensure that it maximises unitholders' value by expanding its fund size to benefit from economies of scale and achieving growth in net asset value from the performance of its investments.

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

No changes were made in the objective, policies or processes during the financial periods ended 31 March 2017 and 31 March 2016.

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For more details on the list of IUTAs, please contact the Manager.

*For enquiries about this or any of the other Funds offered by AmFunds Management Berhad  
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Friday (8.45 a.m. to 5.00 p.m.)*