

RHB ASIAN INCOME FUND

ANNUAL REPORT 2020

For the financial year ended 31 July 2020

GENERAL INFORMATION ABOUT THE FUND

Name, Category and Type

Fund Name	-	RHB Asian Income Fund
Fund Category	-	Feeder Fund
Fund type	-	Income Fund

Investment Objective, Policy and Strategy

Objective of the Fund

The Fund aims to provide income[^] and capital growth over the medium to long term* by investing in one target fund, i.e. the Schroder Asian Income.

Note: [^] The income is in the form of units.

*“medium to long term” in this context refers to a period of between 3-10 years.

Strategy

The Fund will invest principally in one of the sub-funds of the Schroder International Opportunities Portfolio, that is, the Schroder Asian Income (“Schroder AI”) denominated in Singapore Dollars and managed by Schroder Investment Management (Singapore) Ltd. (“Schroder Singapore”). The Schroder AI is an open-ended collective investment scheme domiciled in Singapore and was launched on 21 October 2011. Schroder Singapore is regulated by the Monetary Authority of Singapore and Schroder AI is authorised under Section 286 of the Securities and Futures Act (Chapter 289), Singapore. The investment objective of Schroder AI is to provide income and capital growth over the medium to longer term (i.e. between 3-10 years) by investing primarily in Asian equities (including real estate investment trusts) and Asian fixed income securities.

The asset allocation of the Fund will be as follows:-

At least 95% of - Investments in the units of Schroder AI.
Net Asset Value

2% - 5% of - Investments in liquid assets including money market
Net Asset Value instruments and deposits with financial institutions.

Performance Benchmark

The performance of the Fund is benchmarked against the 50% MSCI AC Asia Pacific ex Japan Net (RM) and 50% JP Morgan Asia Credit Index (SGD Hedged) (RM).

Permitted Investments

This Fund may invest in one collective investment scheme i.e. Schroder AI, trade in financial derivatives, money market instruments and deposits with any financial institutions, liquid assets, and any other investment permitted by the Securities Commission Malaysia from time to time.

In undertaking the Fund's investments, the Fund must not invest in a fund-of-funds, a feeder fund, or any sub-fund of an umbrella scheme which is a fund-of-funds or a feeder fund.

Distribution Policy

The Fund will declare distributions, if any, to unit holders depending on the level of income generated at each relevant period. Distributions, if any, after deduction of taxation and expenses (i.e. net distributions) are generally declared quarterly.

MANAGER'S REPORT

MARKET REVIEW

Geopolitical risks, in particular escalating United States (“US”)-China trade tensions, dominated news headlines over the course of year 2019 but faded over Q4 with equity markets around the world rallying on “Phase One” US-China trade deal announcement. As we enter into year 2020, the spread of Covid-19 had a profound impact on global markets as measures to mitigate the spread of the virus (such as lockdowns) affected economic activity. In addition, the breakdown of negotiations between Russia and Saudi Arabia to support oil prices in early-March 2020 also exacerbated investors’ nervousness. Equities fell sharply, while bond markets were highly volatile as investors prioritized liquidity. However, Asian equities rebounded in April as fresh stimulus from major central banks and signs of stabilisation in new Covid-19 cases in the US and Europe improved sentiment. Over the review period, the MSCI AC Asia Pacific ex Japan index delivered a return of +9.70% in Singapore Dollar (“SGD”) terms.

In Fixed Income, government bond yields initially dipped as trade tensions mounted in third quarter of year 2019 (“3Q2019”), before recovering as the tensions eased in fourth quarter of year 2019 (“4Q2019”). When Covid-19 hit in first quarter of year 2020 (“1Q2020”), the flight to safety pushed yields to historical lows. The 10-year US treasury yield dropped from 1.91% (at end-December 2019) to 0.63% (at end-March 2020), and at one point fell below 0.50%. However, Emerging Market (“EM”) and corporate bonds sold off sharply, particularly within High Yields. As conditions stabilized in second quarter of year 2020 (“2Q2020”), corporate bonds outpaced government bonds, with High Yield outperforming. Over the 1-year period, the US 10-year Treasury yield was down 149bps to 0.53% over the period while Asian United States Dollar (“USD”) credit recorded positive gains at +6.50% in SGD terms.

ECONOMIC REVIEW AND OUTLOOK

The target fund manager sees global Gross Domestic Product (“GDP”) falling 5.40% this year, a downgrade from their previous forecast of -2.90% which is mainly driven by cuts to growth in the US and China. The target fund manager expects the recovery to be gradual, with a profile that looks more like a U-shape as households and firms remain cautious. In year 2021, global growth should improve to 5.30% as fiscal and monetary policy remain loose and on the medical front a vaccine is successfully developed by mid-year. The risk to the target fund manager central view is that the coronavirus lingers and the return of the infection leads to a second wave of lockdowns such that there is a double-dip of global activity.

The global recession caused by the coronavirus is likely to keep monetary policy ultra loose for an extended period. The target fund manager expects all four major central banks to keep interest rates unchanged through their forecast period, with each also expected to increase quantitative easing (“QE”) purchases. On the inflation side, lower oil prices, the weaker outlook for global growth and a more persistent output gap lead the target fund manager to downgrade their global inflation forecast to 1.50% in year 2020 and 1.80% in year 2021.

REVIEW ON TARGET FUND PERFORMANCE AND STRATEGY

The Schroder Asian Income Fund returned -5.70%, net of fees (or -4.30% gross of fees) over the period, led mainly by losses in March as concerns on growth due to Covid-19 and the price war between Saudi Arabia and Russia saw markets selling off sharply. The target fund manager exposure within Equities detracted from target portfolio performance while their bonds exposure contributed positively on an absolute basis.

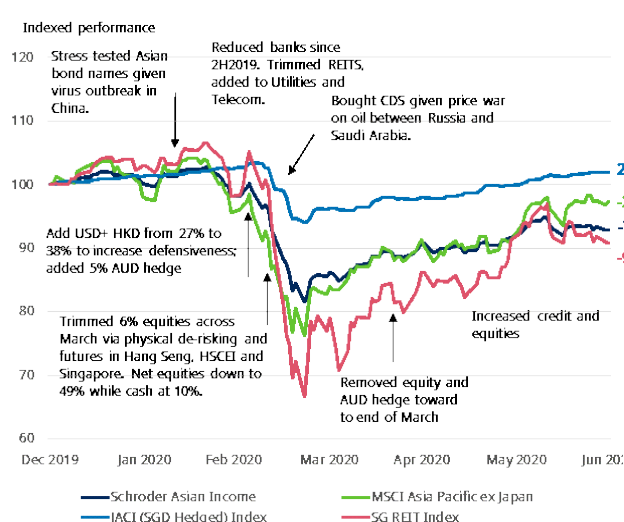
Within Equities, the target fund manager’s overweight in Singapore Real Estate Investment Trusts (“REITs”) was the main detractor, especially those with retail exposures which suffered more heavily from the lockdown restrictions in the city. In addition, some of the names were also under technical selling pressure as investors deleveraged their portfolios and rushed to cash. However, Singapore retails REITs have started to recover from their previous lows as the government begins a phased exit from the current lockdown. An underweight in IT and Consumer Discretionary sectors which do not pay or pay low dividend hurt relative performance as these sectors saw a strong rally over the period. On a positive note, the target fund manager continues to benefit from semi-conductor exposures (via Taiwan) while their added exposures to Material also added value.

Within Fixed Income, the target fund manager’s exposure to Hong Kong contributed most, led by the real estate sector. The target fund manager continues to remain positive on credit. Specifically, the US Federal Reserve has announced programs that would allow the central bank to purchase both investment grade and recently downgraded high yield (aka “fallen angels”) corporate debt. This large-scale stimulus has resulted in strong tightening of spreads in US credit, but the target fund manager has yet to see the same degree of tightening in Asia. With stronger fundamentals and more attractive valuations, the target fund manager believes that the large amount of liquidity in developed markets could result in spill-over support into Asian and EM credit.

During the volatile period, the target portfolio has been active in managing its risks in the target portfolio. The target fund manager implemented equity hedges since end-February through selling -2.00% index futures on Hong Kong and Singapore, to reduce overall equity risk. Elsewhere for credit, the target fund manager added credit default swap (“CDS”) hedges across Indonesia, Brazil and Columbia (-3.00%). The target fund manager also trimmed their exposure to EM. Together with the currency hedges on Australian Dollar (“AUD”) and raising USD in early February, the overall risk level of the target fund was further reduced as overall cash level increased to almost 10.00%. The equity hedges were removed end-March and the target fund manager added to Asian credit on attractive valuations after spreads widened while liquidity support from central banks should benefit the market. While the target portfolio was hurt along with broader markets, active risk management helped cushion the target portfolio from further downside (see chart below for details).

Schroder Asian Income

1H 2020 performance and portfolio activities during the period



Timeline:

- **Jan/Feb-20:** Stress-tested Asian bonds and trimmed more vulnerable names with weaker interest coverage and refinancing ability, e.g. retail names, in early February. We continue to do so.
- **Feb/Mar-20:**
 - Added credit default swap protection across Australia, Indonesia, Philippines, Qatar in February.
 - Within equities, reduced exposure to banks, REITS, oil companies, and added to Utilities and Telecoms in February.
 - Added currency hedges and cut equities over February and March
- **Mar/Apr-20:** Announcement of Fed's unlimited QE, plus various other fiscal and monetary packages globally, saw a rebound during the last week of March, and stabilization / recovery thereafter.
- **May-20:** Implemented -2% hedges on Hong Kong equities over the month on increased geopolitical tensions, but subsequently removed them as the market held up better than expected.
- **Jun -20:**
 - Initiated position in a leading Korean tech name, given improving conditions for tech demand.
 - Added two material names in Australia with attractive yield. Companies will benefit from large scale fiscal stimulus globally.
 - Within currencies, reduced USD exposure as global recovery from Covid-19 may see more broadening of risk taking on currencies going forward.

Source: Schroders, as at 30 June 2020. Performance data shows SGD share class returns. Past performance is not an indication of future performance. Dividends reinvested in SGD, bid to bid returns.

As at 31 July 2020, the target portfolio held 54.00% equities, 36.00% fixed income, 6.00% global allocation and the remaining 4.00% in cash. The target fund manager added 2.00% in Financial Times Stock Exchange (“FTSE”) A50 futures in July 2020 to increase their tactical allocation to onshore China equities, which should allow the target Fund to improve its exposures and participation into the broader market rally. Within equities, the target fund manager continued to increase their holdings in technology, including a Taiwan semiconductor and Korea electronics company during the month. The target fund manager also added to materials, and introduced a new position in an Australia mining producer as they expect the massive central bank and Chinese government stimulus to continue to boost the sector while supply disruptions in Brazil should also support iron ore prices. Elsewhere, the target fund manager added to selective telecoms, such as their Hong Kong broadband provider which has benefitted from the increased demand for 5G and internet usage. The

above-mentioned additions were funded from the reduction in the financial sector and retail REITs across different markets amid the ongoing headwinds of falling interest rates and challenging economic conditions.

In fixed income, the target fund manager participated in several new issuances, including a Chinese online insurer which boasts a leading position in the industry and high barriers to entry. The company also recently expanded its health insurance coverage, which could attract more customers. Another addition is in the Philippines financial sector which offers some diversification to the target portfolio. Within the China real estate sector, the target fund manager added to selective attractive issues and switched out of those that are more prone to idiosyncratic risks such as refinancing concerns and rating downgrades. However, overall, the target fund manager remains constructive on the broad sector given the positive structural factors, including a stable policy environment, credit easing cycle and market consolidation and development of city clusters. The target fund manager preference remains in short-dated papers and quality names which offer attractive yields.

REVIEW OF THE FUND PERFORMANCE DURING THE YEAR

During the period under review, the Fund has generated a negative of 4.91%* as compared with the benchmark recorded a return of 8.15%*. The Fund has met its objective of providing income and capital growth over the medium to long term (3-10 years) by investing in one target fund.

*Source: Lipper Investment Management (“IM”), 17 August 2020

MARKET OUTLOOK AND STRATEGY GOING FORWARD

With major regions gradually easing lockdown restrictions and re-opening their economies, sentiment has turned more positive as global markets ended 2Q2020 on a strong note despite concerns surrounding rising infections in the US. At the same time, markets remain sensitive to geopolitical headlines and resurgent US-China tensions.

From an asset allocation standpoint, the target fund manager will continue to gradually shift back into equities to further improve the growth and income capture for the target portfolio. The target fund manager convictions in corporate credit remains on the back of the benign liquidity backdrop. However, the target fund manager remains cognizant of increasing default risks which points to a more cautious approach to credit investing as falling government bond yields means that investors are being pushed further out the risk curve to search for income. As such, security selection and a diversified approach now becomes even more important for accessing the credit risk premium.

On equities, the technology sector has been a clear winner during the pandemic-induced recession. But with much of the good news already priced into markets, valuations of these virtual names that have rallied strongly are much less attractive now, although the target fund manager must also recognize that momentum can persist in the near-term and they could remain expensive for quite some time. The target fund manager continues to stress the importance of selectivity. Not every stock which has rallied hard presents risks, as some are backed by actual improvements in structural growth, but there are also some which rose largely due to investors' optimism and lack fundamental support. Picking the former and avoiding the latter is increasingly important in the current market environment. While traditional income sectors have underperformed in recent months, the target fund manager expects to see upward re-rating when economies normalize. In particular, the target fund manager believes income remains an important theme and relevant investment strategy over the long-term, especially in the current environment of extremely low / negative interest rates.

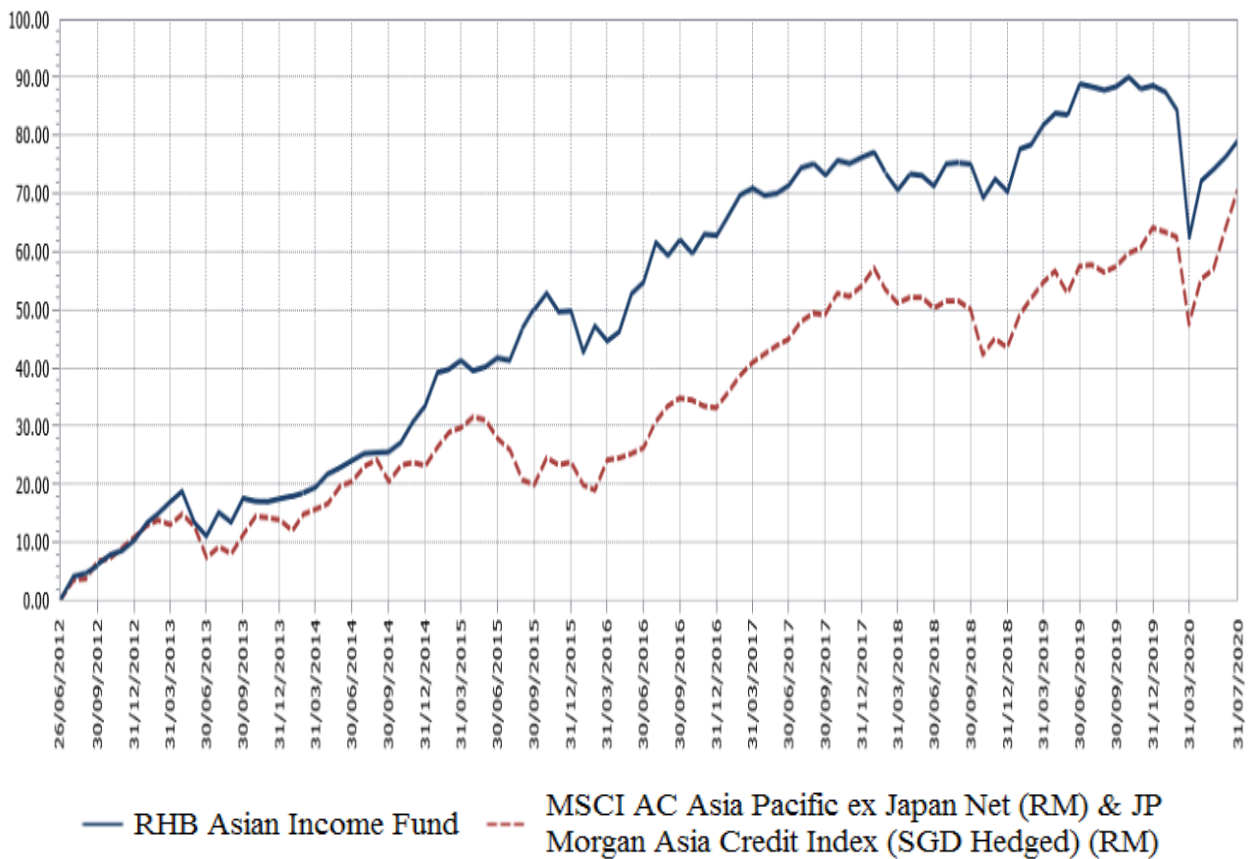
On fixed income, previous valuation opportunities in some neglected areas of the markets, such as Australia and the Middle East, have largely disappeared. The target fund manager is likely to move back to the mainstream areas, and expect further opportunities in new issuances. The target fund manager will continue to take part in selective attractive deals. Some local currency bond markets also present opportunities, as central banks in Asia are expected to remain extremely accommodative in their monetary policies.

PERFORMANCE DATA

	Annual Total Returns				
	Financial Year Ended 31 July				
	2020 %	2019 %	2018 %	2017 %	2016 %
RHB Asian Income Fund					
- Capital Return	(10.03)	1.74	(4.76)	3.91	9.50
- Income Return	5.69	5.81	5.39	3.84	4.43
- Total Return	(4.91)	7.65	0.37	7.90	14.35
MSCI AC Asia Pacific ex Japan Net (RM) & JP Morgan Asia Credit Index (SGD Hedged) (RM)	8.15	4.11	2.35	13.26	3.72

	Average Annual Returns			
	1 Year 31.07.2019 – 31.07.2020 %	3 Year 31.07.2017 – 31.07.2020 %	5 Year 31.07.2015 – 31.07.2020 %	Since Launch 26.06.2012** – 31.07.2020 %
RHB Asian Income Fund	(4.90)	0.90	4.86	7.46
MSCI AC Asia Pacific ex Japan Net (RM) & JP Morgan Asia Credit Index (SGD Hedged) (RM)	8.13	4.84	6.24	6.82

**Performance of RHB Asian Income Fund
for the period from 26 June 2012** to 31 July 2020
Cumulative Return Over The Period (%)**



**** Being the last day of the Initial Offer Period**

Source: Lipper IM, 17 August 2020

The abovementioned performance figures are indicative returns based on daily Net Asset Value of a unit (as per Lipper Database) since inception.

The calculation of the above returns is based on computation methods of Lipper.

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

The abovementioned performance computations have been adjusted to reflect distribution payments and unit splits whenever applicable.

Fund Size	As at 31 July		
	2020	2019	2018
Net Asset Value (RM million)*	3,820.03	3,486.10	3,309.21
Units In Circulation (million)*	6,491.44	5,329.21	5,147.16
Net Asset Value Per Unit (RM)*	0.5885	0.6541	0.6429

Fund Size	Year Ended 31 July		
	2020	2019	2018
Unit Prices			
NAV - Highest (RM)*	0.6612	0.6706	0.6836
- Lowest (RM)*	0.5246	0.6104	0.6346
Unit Split	-	-	-
Others			
Management Expense Ratio (MER) (%) #	0.64	0.68	0.74
Portfolio Turnover Ratio (PTR) (times) ##	0.14	0.11	0.07

* The figures quoted are ex-distribution

The MER for the financial year was lower compared with previous financial year due to higher average net asset value for the financial year under review.

The PTR for the financial year was higher compared with previous financial year due to increase in transactional activities for the financial year under review.

Distribution Date	Financial Year Ended 31 July			
	Gross Distribution Per Unit (sen)	Net Distribution Per Unit (sen)	NAV before distribution (cum)	NAV after distribution (ex)
<u>2020</u>				
29.10.2019	1.0000	1.0000	0.6608	0.6504
23.01.2020	0.8000	0.8000	0.6515	0.6427
24.04.2020	0.8000	0.8000	0.5702	0.5604
24.07.2020	0.8000	0.8000	0.5999	0.5886
Total	3.4000	3.4000		
<u>2019</u>				
25.10.2018	1.0000	1.0000	0.6247	0.6123
29.01.2019	1.0000	1.0000	0.6385	0.6291
25.04.2019	0.8000	0.8000	0.6533	0.6449
25.07.2019	0.8000	0.8000	0.6643	0.6568
Total	3.6000	3.6000		
<u>2018</u>				
26.10.2017	0.4500	0.4500	0.6794	0.6763
29.01.2018	1.0000	1.0000	0.6825	0.6723
20.04.2018	1.0000	1.0000	0.6543	0.6406
26.07.2018	1.0000	1.0000	0.6473	0.6397
Total	3.4500	3.4500		
<u>2017</u>				
26.10.2016	0.6500	0.6500	0.6406	0.6343
24.01.2017	0.6600	0.6600	0.6581	0.6521
25.04.2017	0.5024	0.5024	0.6726	0.6664
20.07.2017	0.6700	0.6700	0.6774	0.6719
Total	2.4824	2.4824		

DISTRIBUTION

For the financial year under review, the Fund has declared a total net distributions of 3.4000 sen per unit, which is equivalent to a net yield of 5.49% based on the average net asset value for the financial year.

PORTFOLIO STRUCTURE

The asset allocation of the Fund as at reporting date was as follows:

	As at 31 July		
	2020 %	2019 %	2018 %
Sectors			
Foreign collective investment scheme	97.70	95.69	97.02
Liquid assets and other net current assets	2.30	4.31	2.98
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

The asset allocation has been structured to meet the Fund's intended objective.

BREAKDOWN OF UNIT HOLDINGS BY SIZE

Size of Holdings	Account Holders		No. Of Units Held*	
	No.	%	('000)	%
5,000 and below	756	16.71	2,133	0.03
5,001 to 10,000	738	16.31	5,490	0.09
10,001 to 50,000	1,929	42.64	46,826	0.72
50,001 to 500,000	1,035	22.88	125,246	1.93
500,001 and above	66	1.46	6,311,508	97.23
Total	4,524	100.00	6,491,203	100.00

* Excluding Manager's stock

SOFT COMMISSION

The Fund Manager may only receive soft commission in the form of research and advisory services that assist in the decision-making process relating to the Fund's investments.

During the financial year under review, the soft commission received from the brokers had been retained by the Manager as the goods and services provided are of demonstrable benefit to the unitholders.

RHB ASIAN INCOME FUND
STATEMENT OF FINANCIAL POSITION
AS AT 31 JULY 2020

	<u>Note</u>	<u>2020</u> <u>RM</u>	<u>2019</u> <u>RM</u>
ASSETS			
Investments	5	3,732,075,386	3,335,883,234
Deposits with licensed financial institutions	6	109,554,327	137,828,093
Bank balances	6	126,036	88,976
Amount due from Manager		-	37,408,865
Forward foreign currency contracts	7	-	21,442,254
Other receivables		3,857,588	4,037,698
TOTAL ASSETS		<u>3,845,613,337</u>	<u>3,536,689,120</u>
LIABILITIES			
Forward foreign currency contracts	7	11,726,871	-
Amount due to fund manager of collective investment scheme		-	45,222,000
Amount due to Manager		7,775,621	-
Accrued management fee		5,873,392	5,178,099
Amount due to Trustee		195,789	172,612
Other payables and accruals		10,200	16,457
TOTAL LIABILITIES		<u>25,581,873</u>	<u>50,589,168</u>
NET ASSET VALUE		<u>3,820,031,464</u>	<u>3,486,099,952</u>
UNITHOLDERS' FUNDS			
Unitholders' capital		4,048,960,528	3,281,916,589
(Accumulated losses)/retained earnings		(228,929,064)	204,183,363
		<u>3,820,031,464</u>	<u>3,486,099,952</u>
UNITS IN CIRCULATION (UNITS)	8	<u>6,491,441,492</u>	<u>5,329,206,263</u>
NET ASSET VALUE PER UNIT (EX-DISTRIBUTION) (RM)		<u>0.5885</u>	<u>0.6541</u>

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

RHB ASIAN INCOME FUND
STATEMENT OF INCOME AND EXPENSES
FOR THE FINANCIAL YEAR ENDED 31 JULY 2020

	<u>Note</u>	<u>2020</u> RM	<u>2019</u> RM
(LOSS)/INCOME			
Dividend income		174,749,432	153,155,813
Interest income from deposits with licensed financial institutions		2,935,705	3,025,184
Net (loss)/gain on investments	5	(349,626,171)	80,599,205
Net (loss)/gain on forward foreign currency contracts	7	(23,479,480)	8,384,278
Net foreign currency exchange (loss)/gain		<u>(181,870)</u>	<u>451,912</u>
		<u>(195,602,384)</u>	<u>245,616,392</u>
EXPENSES			
Management fee	9	(22,206,631)	(19,265,464)
Trustee's fee	10	(2,309,236)	(1,865,994)
Audit fee		(7,700)	(7,700)
Tax agent's fee		(3,300)	(2,900)
Other expenses		<u>(42,438)</u>	<u>(52,449)</u>
		<u>(24,569,305)</u>	<u>(21,194,507)</u>
Net (loss)/income before taxation		(220,171,689)	224,421,885
Taxation	11	<u>-</u>	<u>-</u>
Net (loss)/income after taxation		<u>(220,171,689)</u>	<u>224,421,885</u>
Net (loss)/income after taxation is made up of the following:			
Realised amount		134,090,350	103,055,591
Unrealised amount		<u>(354,262,039)</u>	<u>121,366,294</u>
		<u>(220,171,689)</u>	<u>224,421,885</u>

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

RHB ASIAN INCOME FUND
STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FINANCIAL YEAR ENDED 31 JULY 2020

	Unitholders' capital RM	Retained earnings/ (accumulated losses) RM	Total net asset value RM
Balance as at 1 August 2018	3,154,571,177	154,636,127	3,309,207,304
Movement in net asset value:			
Net income after taxation	-	224,421,885	224,421,885
Creation of units arising from applications	399,069,897	-	399,159,897
Creation of units arising from distributions	174,874,649	-	174,784,649
Cancellation of units	(446,599,134)	-	(446,599,134)
Distributions (Note 12)	-	(174,874,649)	(174,874,649)
Balance as at 31 July 2019	<u>3,281,916,589</u>	<u>204,183,363</u>	<u>3,486,099,952</u>
Balance as at 1 August 2019	3,281,916,589	204,183,363	3,486,099,952
Movement in net asset value:			
Net loss after taxation	-	(220,171,689)	(220,171,689)
Creation of units arising from applications	821,353,604	-	821,353,604
Creation of units arising from distributions	212,940,738	-	212,940,738
Cancellation of units	(267,250,403)	-	(267,250,403)
Distributions (Note 12)	-	(212,940,738)	(212,940,738)
Balance as at 31 July 2020	<u>4,048,960,528</u>	<u>(228,929,064)</u>	<u>3,820,031,464</u>

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

RHB ASIAN INCOME FUND
STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2020

	<u>Note</u>	<u>2020</u> RM	<u>2019</u> RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of investments		170,361,077	301,274,357
Purchase of investments		(960,701,632)	(300,246,150)
Interest received from deposits with licensed financial institutions		2,935,705	3,025,184
Dividend received		175,134,007	153,371,887
Management fee paid		(21,486,425)	(18,483,027)
Trustee fee paid		(2,286,059)	(1,862,008)
Payment for other fees and expenses		(59,695)	(99,308)
Net realised gain/(loss) on forward foreign currency contracts		9,689,645	(25,113,650)
Net cash (used in)/generated from operating activities		(626,413,377)	111,867,285
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		858,762,469	361,802,406
Cash paid for units cancelled		(259,474,782)	(455,852,767)
Net cash generated from/(used) in financing activities		599,287,687	(94,050,361)
Net (decrease)/increase in cash and cash equivalents		(27,125,690)	17,816,924
Effects of foreign exchange differences		(1,111,016)	(153,152)
Cash and cash equivalents at the beginning of the financial year		137,917,069	120,253,297
Cash and cash equivalents at the end of the financial year	6	109,680,363	137,917,069

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

**RHB ASIAN INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 JULY 2020**

1. THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

The RHB Asian Income Fund (hereinafter referred to as “the Fund”) was constituted pursuant to the execution of a Deed dated 5 January 2012 as modified via its First Supplemental Deed dated 4 September 2013, Second Supplemental Deed dated 26 February 2015 and Third Supplemental Deed dated 3 August 2015 (hereinafter referred to as “the Deeds”) between RHB Asset Management Sdn Bhd (“the Manager”) and HSBC (Malaysia) Trustee Berhad (“the Trustee”).

The Fund was launched on 5 June 2012 and will continue its operations until terminated according to the conditions provided in the Deed. The principal activity of the Fund is to invest in Permitted Investments as set out in the Deed.

The Fund is a feeder fund that will invest principally in one of the sub-funds of the Schroder International Opportunities Portfolio, that is, the Schroder Asian Income (“Schroder AI”) denominated in Singapore dollars and managed by Schroder Investment Management (Singapore) Ltd. (“Schroder Singapore”). The Schroder AI is an open ended collective investment scheme domiciled in Singapore and was launched on 31 August 2011.

All investments will be subject to the Securities Commission’s (“SC”) Malaysia Guidelines on Unit Trust Funds, SC requirements, the Deed, except where exemptions or variations have been approved by the SC, internal policies and procedures and objective of the Fund.

The main objective of the Fund is to provide income and capital growth over the medium to long term by investing in one target fund, i.e. the Schorder Asian Income.

The Manager, a company incorporated in Malaysia, is a wholly-owned subsidiary of RHB Investment Bank Berhad, effective 6 January 2003. Its principal activities include rendering of investment management services, management of unit trust funds, private retirement schemes and provision of investment advisory services.

These financial statements were authorised for issue by the Manager on 25 September 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, except those as disclosed in the summary of significant accounting policies, and in accordance with Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

The preparation of financial statements in conformity with MFRS and IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the financial year. It also requires the Manager to exercise its judgement in the process of applying the Fund’s accounting policies. Although these estimates and judgement are based on the Manager’s best knowledge of current events and actions, actual results may differ.

(a) The Fund has applied the following interpretation to existing standard and amendments to published standard for the first time for the financial year beginning on 1 August 2019:

- IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’ provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty.

- Annual Improvements to MFRSs 2015 – 2017 Cycle: Amendments to MFRS 112 ‘Income Taxes’ clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in statement of income and expenses when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation of the financial statements (continued)

- (a) The Fund has applied the following interpretation to existing standard and amendments to published standard for the first time for the financial year beginning on 1 August 2019: (continued)

The adoption of interpretation to the existing standard and amendments to published standard did not have any impact on the current year or any prior period and is not likely to affect future periods.

- (b) Amendments and interpretations which are relevant to the Fund but not yet effective and have not been early adopted are as follows:

- (i) Financial year beginning on/after 1 August 2020

- The Conceptual Framework for Financial Reporting (“Framework”) (effective 1 January 2020)

The Framework was revised with the primary purpose to assist the International Accounting Standards Board (“IASB”) to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an IFRS.

Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation of the financial statements (continued)

(b) Amendments and interpretations which are relevant to the Fund but not yet effective and have not been early adopted are as follows: (continued):

(i) Financial year beginning on/after 1 August 2020 (continued)

- The Conceptual Framework for Financial Reporting (“Framework”) (effective 1 January 2020) (continued)

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 August 2020.

- Amendments to MFRS 101 and MFRS 108 ‘Definition of Material’ (effective 1 January 2020) clarify the definition of materiality and use a consistent definition throughout MFRSs and the Conceptual Framework for Financial Reporting.

The revised Framework and adoption of the amendments to published standards are not expected to give rise to any material impact on the financial statements of the Fund.

2.2 Financial assets

Classification

The Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss (“FVTPL”), and
- those to be measured at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets (continued)

Classification (continued)

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

The Fund classifies cash and cash equivalents, amount due from manager and other receivables at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the asset. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in statement of income and expenses in the period in which they arise.

Distribution income from financial assets at fair value through profit or loss is recognised in the statement of income and expenses within dividend income when the Fund's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets (continued)

Recognition and measurement (continued)

Collective investment scheme is valued based on the last published net asset value per unit or share of such collective investment scheme or, if unavailable, on the average of the last published buying price and the last published selling price of such unit or share (excluding any sales charge included in such selling price).

Derivative investments are forward foreign currency contracts. Financial derivative position will be “marked to market” at the close of each valuation day. Foreign exchange gains and losses on the derivative financial instruments are recognised in the statement of income and expenses when settled or at the date of the statement of financial position at which they are included in the measurement of the derivative financial instrument.

Deposits with licensed financial institutions are stated at cost plus accrued interest calculated on the effective interest method over the period from the date of placement to the date of the statement of financial position, which is a reasonable estimate of fair value due to the short-term nature of the deposits.

Financial assets at amortised cost are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss. Management considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on the 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

Significant increase in credit risk

A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due or a counterparty credit rating which has fallen below BBB/Baa.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets (continued)

Definition of default and credit-impaired financial assets

Any contractual payment which is more than 90 days past due is considered credit impaired.

Write-off

The Fund writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on the unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Fund may write off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains. There are no write-offs/recoveries during the financial year.

2.3 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 9, 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 which include accrued management fee, amount due to fund manager of collective investment scheme, amount due to Manager, amount due to Trustee and other payables and accruals are recognised initially at fair value plus directly attributable transaction cost 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 statement of income and expenses when the liabilities are derecognised, and through the amortisation process.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Unitholders' capital

The unitholders' contributions to the Fund meet the criteria of the definition of puttable instruments to be classified as equity instruments under MFRS 132 "Financial Instruments: Presentation". These criteria include:

- the units entitle the holder to a proportionate share of the Fund's net asset value;
- the units are the most subordinated class and class features are identical;
- there is no contractual obligation to deliver cash or another financial asset other than the obligation on the Fund to repurchase; and
- the total expected cash flows from the units over its life are based substantially on the statement of income and expenses of the Fund.

The outstanding units are carried at the redemption amount that is payable at each financial year if the unitholders exercise the right to put the units back to the Fund.

Units are created and cancelled at prices based on the Fund's net asset value per unit at the time of creation or cancellation. The Fund's net asset value per unit is calculated by dividing the net assets attributable to unitholders with the total number of outstanding units.

2.5 Income recognition

Distribution income from collective investment scheme is recognised when the Fund's right to receive payment is established. Distribution of income is received from financial assets measured at FVTPL.

Interest income from deposits with licensed financial institutions are recognised on an accrual basis using the effective interest method.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance).

Realised gain or loss on sale of collective investment scheme is arrived at after accounting for cost of investments, determined on the weighted average cost method.

Net income or loss is the total of income less expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Taxation

Current tax expense is determined according to Malaysian tax laws and includes all taxes based upon the taxable income earned during the financial year.

Tax on dividend income from foreign investments is based on the tax regime of the respective countries that the Fund invests in.

2.7 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise bank balance and deposits with licensed financial institutions which are subject to an insignificant risk of changes in value.

2.8 Distribution

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 by the Trustee.

2.9 Amount due from/to fund manager of collective investment scheme

Amounts due from/to fund manager of collective investment scheme represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the date of the statement of financial position respectively. The amount due from fund manager of collective investment scheme balance is held for collection.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from fund manager of collective investment scheme at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the fund manager of the collective investment scheme, probability that the fund manager of the collective investment scheme will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Presentation and functional currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia (“RM”), which is the Fund’s presentation and functional currency.

Due to mixed factors in determining the functional currency of the Fund, the Manager has used its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions and have determined the functional currency to be in RM primarily due to the following factors:

- Part of the Fund’s cash is denominated in RM for the purpose of making settlement of the creation and cancellation.
- The Fund’s units are denominated in RM.
- The Fund’s significant expenses are denominated in RM

2.11 Foreign currency translation

Foreign currency transactions in the Fund are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the reporting date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in statement of income and expenses.

2.12 Derivative financial instruments

The Fund’s derivative financial instruments comprise forward foreign currency contracts. Derivative financial instruments are initially recognised at fair value on the date derivative contracts are entered into and are subsequently re-measured at their fair value.

The fair value of forward foreign currency contracts is determined using forward exchange rates at the date of the statement of financial position, with the resulting value discounted back to present value.

The method of recognising the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and the nature of the item being hedged. Derivative financial instruments that do not qualify for hedge accounting are classified as FVTPL and accounted for as above.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund is exposed to a variety of risks, which include market risk, price risk, interest rate risk, currency risk, credit risk, liquidity risk and capital risk.

Financial risk management is carried out through internal control processes adopted by the Manager and adherence to the investment restrictions as stipulated in the SC Malaysia Guidelines on Unit Trust Funds.

Market risk

Market risk is a risk that arises when the prices of investments in the market place are affected by circumstances such as general market or economic events. These circumstances, which may be a local or global event, can affect a local market where the Target Fund is invested in or global markets and subsequently, the value of the Target Fund's investments.

Price risk

Price risk is the risk that the fair value of the investments of the Fund will fluctuate because of changes in market prices.

The Fund is exposed to collective investment scheme price risk for its investments of RM3,732,075,386 (2019: RM3,335,883,234).

The sensitivity analysis is based on the assumption that the price of the collective investment scheme fluctuate by +/- 5% with all other variables held constant, the impact on the statement of income and expenses and net asset value of the Fund is +/- RM186,603,769 (2019: RM166,794,162).

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

Interest rate risk is the risk that the value of the Fund's investments and its return will fluctuate because of changes in market interest rates. The Fund's exposure to the interest rate risk is mainly from short term placements with financial institutions. The Manager overcomes the exposure by way of maintaining deposits on short term basis. Therefore, exposure to interest rate fluctuations is minimal.

Currency risk

The Fund invests in the Target Fund which is denominated in Singapore Dollar ("SGD"). Fluctuations in foreign exchange rate between SGD and Ringgit Malaysia will affect the value of the Fund's foreign investments when converted to local currency and subsequently the value of unitholders' investment. As such, the performance of the Fund will also be affected by the movements in the exchange rate between SGD and Ringgit Malaysia.

The analysis is based on the assumption that the foreign exchange rate fluctuates by +/- 5%, with all other variables remain constants, the impact on statement of income and expenses and net asset value is + RM73,143,503 /(-) RM75,503,403 (2019: + RM78,848,041/(-) RM79,078,869).

The following table sets out the currency risk concentration of the Fund:

	<u>Investments</u> MYR	<u>Cash and cash equivalents</u> MYR	<u>Receivables</u> MYR	<u>Forward foreign currency contracts</u> MYR	<u>Total</u> MYR
<u>2020</u>					
SGD	<u>3,732,075,386</u>	<u>75,888</u>	<u>3,857,588</u>	<u>(11,276,871)</u>	<u>3,724,281,991</u>
<u>2019</u>					
SGD	<u>3,335,883,234</u>	<u>38,617</u>	<u>2,781,698</u>	<u>21,442,254</u>	<u>3,360,145,803</u>

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

Credit risk refers to the possibility that the issuer of a particular investment will not be able to make timely or full payments of principal or income due on that investment. The risk arising from cash and cash equivalents is managed by ensuring that the Fund will only maintain cash balances and place deposits with reputable licensed financial institutions. Credit risk arising from amount due from fund manager of collective investment scheme, the settlement terms are governed by the relevant rules and regulations as prescribed by the relevant regulatory authority in its home jurisdiction. The settlement terms of the proceeds from the creation of units receivable from the Manager are governed by the SC Malaysia Guidelines on Unit Trust Funds.

The following table sets out the credit risk concentrations of the Fund:

	Forward foreign currency contracts RM	Cash and cash equivalents RM	Other financial assets* RM	Total RM
<u>2020</u>				
Financial institutions:				
AAA	-	109,680,363	-	109,680,363
Others	-	-	3,857,588	3,857,588
	<u>-</u>	<u>109,680,363</u>	<u>3,857,588</u>	<u>113,537,951</u>
<u>2019</u>				
Financial institutions:				
AAA	13,592,424	137,917,069	-	151,509,493
AA3	1,377,315	-	-	1,377,315
AA2	6,472,515	-	-	6,472,515
Others	-	-	41,446,563	41,446,563
	<u>21,442,254</u>	<u>137,917,069</u>	<u>41,446,563</u>	<u>200,805,886</u>

* Comprise amount due from Manager and other receivables.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations.

Liquidity risk exists when particular investments are difficult to sell, possibly preventing a unit trust fund from selling such illiquid securities at an advantageous time or price. As part of its risk management, the Manager will attempt to manage the liquidity of the Fund through asset allocation and diversification strategies within the portfolio. The Manager will also conduct constant fundamental research and analysis to forecast future liquidity of its investments.

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining year from the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than <u>1 month</u> RM	Between 1 month to <u>1 year</u> RM
<u>2020</u>		
Amount due to Manager	7,775,621	-
Accrued management fee	5,873,392	-
Amount due to Trustee	195,789	-
Forward foreign currency contracts	851,499	12,104,301
Other payables and accruals	-	10,200
	<u>14,696,301</u>	<u>12,114,501</u>
<u>2019</u>		
Amount due to fund manager of collective investment scheme	45,200,000	-
Accrued management fee	5,178,099	-
Amount due to Trustee	172,612	-
Other payables and accruals	-	16,457
	<u>50,572,711</u>	<u>16,457</u>

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital risk

The capital of the Fund is represented by equity consisting of unitholders' capital of RM4,048,960,528 (2019: RM3,281,916,589) and accumulated losses RM228,929,064 (2019: retained earnings RM204,183,363). The amount of equity can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unitholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

4. FAIR VALUE ESTIMATION

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

The fair value of financial assets and liabilities traded in an active market (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the financial year end date.

An active market is a market in which transactions for the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each financial year end date. Valuation techniques used for non-standardised financial instruments such as options, currency swaps and other over-the-counter derivatives, include the use of comparable recent transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

The fair values are based on the following methodologies and assumptions:

- (i) For bank balance and deposit with licensed financial institutions with maturities less than 1 year, the carrying value is a reasonable estimate of fair value.
- (ii) The carrying value of receivables and payables are assumed to approximate their fair values due to their short term nature.

Fair value hierarchy

The Fund adopted MFRS 13 “Fair Value Measurement” in respect of disclosures about the degree of reliability of fair value measurement. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

4. FAIR VALUE ESTIMATION (CONTINUED)

Fair value hierarchy (continued)

- Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs)

The following table analyses within the fair value hierarchy the Fund's financial assets and financial liabilities at fair value through profit or loss (by class) measured at fair value:

	<u>Level 1</u> RM	<u>Level 2</u> RM	<u>Level 3</u> RM	<u>Total</u> RM
<u>2020</u>				
Investments :				
- Collective investment scheme - foreign	3,732,075,386	-	-	3,732,075,386
Derivative financial instruments:				
- Forward foreign currency contracts	- (11,726,871)		- (11,726,871)	
	<u>3,732,075,386</u>	<u>(11,726,871)</u>	<u>-</u>	<u>3,720,348,515</u>
<u>2019</u>				
Investments :				
- Collective investment scheme - foreign	3,335,883,234	-	-	3,335,883,234
Derivative financial instruments:				
- Forward foreign currency contracts	- 21,442,254		- 21,442,254	
	<u>3,335,883,234</u>	<u>21,442,254</u>	<u>-</u>	<u>3,357,325,488</u>

Investments in collective investment scheme i.e. unit trust fund whose values is based on quoted market prices in active markets are classified within Level 1. The Fund does not adjust the quoted prices for these instruments. The Fund's policies and valuation of these financial assets are stated in Note 2.2.

4. FAIR VALUE ESTIMATION (CONTINUED)

Financial instruments that are traded in markets which are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. This includes forward foreign currency contracts. As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. The Fund's policies on valuation of these financial assets are stated in Note 2.2 and Note 2.12

5. INVESTMENTS

	<u>2020</u> RM	<u>2019</u> RM
Investments:		
- Collective investment schemes – foreign	3,732,075,386	3,335,883,234
	<u>2020</u> RM	<u>2019</u> RM
Net (loss)/gain on investments comprised:		
- Net realised loss on sale of investments	(29,644,272)	(8,678,314)
- Net unrealised (loss)/gain on changes in fair value	(319,981,899)	89,277,519
	<u>(349,626,171)</u>	<u>80,599,205</u>

Investments as at 31 July 2020 are as follows:

<u>Name of Counter</u>	<u>Quantity</u>	<u>Cost</u> RM	<u>Fair Value</u> RM	<u>% of Net</u> <u>Asset Value</u> %
COLLECTIVE INVESTMENT SCHEME - FOREIGN				
<u>SINGAPORE</u>				
Schroder Asian Income				
Fund – X Class	1,178,252,037	4,004,833,531	3,732,075,386	97.70

5. INVESTMENTS (CONTINUED)

Investments as at 31 July 2019 are as follows:

<u>Name of Counter</u>	<u>Quantity</u>	<u>Cost</u> RM	<u>Fair Value</u> RM	<u>% of Net</u> <u>Asset Value</u> %
COLLECTIVE INVESTMENT SCHEME - FOREIGN				
<u>SINGAPORE</u>				
Schroder Asian Income Fund – X Class	966,377,584	3,288,659,480	3,335,883,234	95.69

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	<u>2020</u> RM	<u>2019</u> RM
Deposits with licensed financial institutions	109,554,327	137,828,093
Bank balances	126,036	88,976
	<u>109,680,363</u>	<u>137,917,069</u>

7. FORWARD FOREIGN CURRENCY CONTRACTS

As at 31 July 2020, there were sixty three (2019: thirty eight) forward foreign currency contracts outstanding. The notional principal amount of the outstanding forward foreign currency contracts amounting of RM2,246,120,500 (2019: RM1,788,133,000) were entered into for hedging against the currency exposure arising from the investments in the collective investment schemes denominated in SGD.

As the Fund has not adopted hedge accounting, the changes in the fair value of the forward foreign currency contract is recognised immediately in the statement of income and expenses.

7. FORWARD FOREIGN CURRENCY CONTRACTS (CONTINUED)

Net (loss)/gain on forward foreign currency contracts is as follows:

	<u>2020</u> RM	<u>2019</u> RM
- Net realised gain/(loss) on forward currency contracts	9,689,645	(23,857,650)
- Net unrealised (loss)/gain on forward currency contracts	(33,169,125)	32,241,928
	<u>(23,479,480)</u>	<u>8,384,278</u>

In addition to the related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party balances.

	<u>2020</u> RM	<u>2019</u> RM
Forward foreign currency contract:		
- RHB Bank Berhad	<u>(3,565,447)</u>	<u>5,120,118</u>

8. UNITS IN CIRCULATION

	<u>2020</u> Units	<u>2019</u> Units
At the beginning of the financial year	5,329,206,263	5,147,160,867
Creation of units arising from applications during the financial year	1,279,395,000	609,006,000
Creation of units arising from distributions during the financial year	349,188,229	275,785,396
Cancellation of units during the financial year	(466,348,000)	(702,746,000)
At the end of the financial year	<u>6,491,441,492</u>	<u>5,329,206,263</u>

9. MANAGEMENT FEE

In accordance with the Prospectus, the Management fee is computed on a daily basis at 1.80% (2019: 1.80%) per annum on the net asset value of the Fund before deducting the Manager's and Trustee's fee for that particular day. As this Fund invests in units of Schroder Singapore, any management fee charged to Schroder Singapore is fully refunded to this Fund. Accordingly, there is no double charging of management fee.

10. TRUSTEE'S FEE

In accordance with the Prospectus, the Trustee's fee provided in the financial statements is 0.06% (2019: 0.06%) per annum based on the net asset value of the Fund, calculated on a daily basis for the financial year.

11. TAXATION

(a) Tax charge for the financial year

	<u>2020</u> <u>RM</u>	<u>2019</u> <u>RM</u>
Current taxation	<u>-</u>	<u>-</u>

(b) Numerical reconciliation of income tax expense

The numerical reconciliation between the net (loss)/income before taxation multiplied by the Malaysian statutory income tax rate and the tax expense of the Fund is as follows:

	<u>2020</u> <u>RM</u>	<u>2019</u> <u>RM</u>
Net (loss)/income before taxation	<u>(220,171,689)</u>	<u>224,421,885</u>
Tax calculated at a statutory income tax rate of 24%	(52,841,205)	53,861,252
Tax effects of:		
- Loss not deductible for tax purpose/ (investment income not subject to tax)	46,944,572	(58,947,934)
- Expenses not deductible for tax purposes	557,273	449,319
- Restriction on tax deductible expenses for unit trust funds	<u>5,339,360</u>	<u>4,637,363</u>
Tax expense	<u>-</u>	<u>-</u>

12. DISTRIBUTIONS

Distributions to unitholders are derived from the following sources:

	<u>2020</u> RM	<u>2019</u> RM
Dividend income	177,749,432	153,155,812
Prior financial year's realised income	62,104,789	42,913,344
Less: Expenses	(23,913,483)	(21,194,507)
Net distribution amount	<u>212,940,738</u>	<u>174,874,649</u>
	Sen per unit	Sen per unit
<u>Distributions during the financial year</u>	<u>Gross/Net</u>	<u>Gross/Net</u>
29 October 2019 / 25 October 2018	1.0000	1.0000
23 January 2020 / 29 January 2019	0.8000	1.0000
24 April 2020 / 25 April 2019	0.8000	0.8000
24 July 2020 / 25 July 2019	0.8000	0.8000
	<u>3.4000</u>	<u>3.6000</u>

Included in the above distribution is an amount of RM62,104,789 (2019: RM42,913,344) derived from the prior financial year's realised income.

There are unrealised losses of RM354,262,039 for the financial year ended 31 July 2020.

13. MANAGEMENT EXPENSE RATIO ("MER")

	<u>2020</u> %	<u>2019</u> %
MER	<u>0.64</u>	<u>0.68</u>

The MER ratio is calculated based on total expenses of the Fund to the average net asset value of the Fund calculated on a daily basis.

14. PORTFOLIO TURNOVER RATIO (“PTR”)

	<u>2020</u>	<u>2019</u>
PTR (times)	0.14	0.11

The PTR ratio is calculated based on average of acquisition and disposals of the Fund for the financial year to the average net asset value of the Fund calculated on a daily basis.

15. UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER

The number of units held by the Manager and related parties are is as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Units</u>	<u>RM</u>	<u>Units</u>	<u>RM</u>
The Manager	238,089	140,115	1,023,733	669,624
RHB Capital Nominees (Tempatan) Sdn Bhd	337,942,076	198,878,912	195,709,520	128,013,597
RHB Nominees (Tempatan) Sdn Bhd	2,300,314	1,353,735	-	-

The units are held beneficially by the Manager for booking purposes. The Manager is of the opinion that all transactions with the related parties have been entered into in the normal course of business at agreed terms between the related parties.

The units held by RHB Capital Nominees (Tempatan) Sdn Bhd, a wholly owned subsidiary of ultimate holding company of the Manager, and RHB Nominees (Tempatan) Sdn Bhd, a wholly owned subsidiary of holding company of the Manager, are under the nominees structure.

Other than the above, there were no units held by Directors or parties related to the Manager.

The holding company and the ultimate holding company of the Manager is RHB Investment Bank Berhad and RHB Bank Berhad respectively. The Manager treats RHB Bank Berhad group of companies including RHB Investment Bank Berhad and its subsidiaries as related parties.

16. TRANSACTIONS BY THE FUND

Details of transactions by the Fund with the fund manager of the collective investment scheme for the financial year ended 31 July 2020 are as follows:

<u>Fund Manager</u>	<u>Value of trades</u> RM	<u>Percentage of total trades</u> %	<u>Brokerage fees</u> RM	<u>Percentage of total brokerage fees</u> %
Schroder Investment Management (Singapore) Ltd	1,085,444,920	100.00	-	-

Details of transactions by the Fund with the fund manager of the collective investment scheme for the financial year ended 31 July 2019 are as follows:

<u>Fund Manager</u>	<u>Value of trades</u> RM	<u>Percentage of total trades</u> %	<u>Brokerage fees</u> RM	<u>Percentage of total brokerage fees</u> %
Schroder Investment Management (Singapore) Ltd	646,086,137	100.00	-	-

17. FINANCIAL INSTRUMENTS BY CATEGORIES

	<u>2020</u> RM	<u>2019</u> RM
Financial assets		
Financial assets at fair value through profit or loss ('FVTPL')		
• Collective Investment Scheme	3,732,075,386	3,335,883,234
• Forward foreign currency contracts	-	21,442,254
	<u>3,732,075,386</u>	<u>3,357,325,488</u>
Financial assets at amortised cost		
• Deposits with licensed financial institutions	109,554,327	137,828,093
• Bank balances	126,036	88,976
• Amount due from Manager	-	37,408,865
• Other receivables	3,857,588	4,037,698
	<u>113,537,951</u>	<u>179,363,632</u>
Financial liabilities		
Financial liabilities at fair value through profit or loss ('FVTPL')		
Forward foreign currency contracts	11,726,871	-
Financial liabilities at amortised cost		
• Amount due to fund manager of collective investment scheme	-	45,222,000
• Amount due to Manager	7,775,621	-
• Accrued Management fee	5,873,392	5,178,099
• Amount due to Trustee	195,789	172,612
• Other payables and accruals	10,200	16,457
	<u>25,581,873</u>	<u>50,589,168</u>

18. SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

The worsening of the macro-economic outlook as a result of Covid-19, both domestically and globally, has impacted the Fund's performance during the financial year.

The Manager is monitoring the situation closely and will be managing the portfolio to achieve the Fund's objective.

**STATEMENT BY MANAGER
RHB ASIAN INCOME FUND**

We, Dato' Darawati Hussain and Ong Yin Suen, two of the Directors of RHB Asset Management Sdn Bhd, do hereby state that in the opinion of the Directors of the Manager, the accompanying statement of financial position, statement of income and expenses, statement of changes in net asset value, statement of cash flows and the accompanying notes, are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Fund as at 31 July 2020 and of its financial performance and cash flows for the financial year then ended and comply with the provisions of the Deeds.

On behalf of the Manager

Dato' Darawati Hussain
Director

Ong Yin Suen
Director

25 September 2020

TRUSTEE'S REPORT TO THE UNITHOLDERS OF RHB ASIAN INCOME FUND

We have acted as Trustee of RHB Asian Income Fund (“the Fund”) for the financial year ended 31 July 2020. To the best of our knowledge, RHB Asset Management Sdn Bhd (“the Management Company”), has operated and managed the Fund in accordance with the following:

- a) limitations imposed on the investment powers of the Management Company and the Trustee under the Deeds, the Securities Commission’s Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- b) valuation/pricing is carried out in accordance with the Deeds and any regulatory requirements; and
- c) creation and cancellation of units are carried out in accordance with the Deeds and any regulatory requirements.

During the financial year, a total distribution of 3.4000 sen per unit has been distributed to the unitholders of the Fund. We are of the view that the distributions are not inconsistent with the objectives of the Fund.

For HSBC (Malaysia) Trustee Berhad

Tan Bee Nie
Manager, Investment Compliance Monitoring

Kuala Lumpur
25 September 2020

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF RHB ASIAN INCOME FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of RHB Asian Income Fund (“the Fund”) give a true and fair view of the financial position of the Fund as at 31 July 2020 and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 July 2020, and the statement of income and expenses, statement of changes in net asset value and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 13 to 41.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF RHB ASIAN INCOME FUND (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Manager of the Fund is responsible for the other information. The other information comprises Manager's Report, but does not include the financial statements of the Fund and our auditors' report thereon.

Our opinion on the financial statements of the Fund does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of the financial statements of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager determines is necessary to enable the preparation of financial statements of the Fund that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Fund, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to terminate the Fund, or has no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF RHB ASIAN INCOME FUND (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF RHB ASIAN INCOME FUND (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

- (d) Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER MATTERS

This report is made solely to the unitholders of the Fund and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
(LLP0014401-LCA & AF 1146)
Chartered Accountants

Kuala Lumpur
25 September 2020

CORPORATE INFORMATION

MANAGER

RHB Asset Management Sdn Bhd

REGISTERED OFFICE

Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur

PRINCIPAL AND BUSINESS OFFICE

Level 8, Tower Two & Three, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur

Email address: rhbam@rhbgroup.com

Tel: 03-9205 8000

Fax: 03-9205 8100

Website: www.rhbgroup.com

BOARD OF DIRECTORS

Mr Yap Chee Meng (*Independent Non-Executive Chairman*)

Mr Chin Yoong Kheong (*Senior Independent Non-Executive Director*)

Dr. Ngo Get Ping (*Independent Non-Executive Director*)

Ms Ong Yin Suen (*Managing Director/Chief Executive Officer*)

YBhg Dato' Darawati Hussain (*Independent Non-Executive Director*)
(*Appointed with effect from 28 May 2020*)

Puan Sharifatu Laila Syed Ali (*Independent Non-Executive Director*)
(*Resigned with effect from 29 May 2020*)

INVESTMENT COMMITTEE MEMBERS

Mr Yap Chee Meng (*Independent Chairman*)

YBhg Dato' Darawati Hussain

Puan Sharifatu Laila Syed Ali

CHIEF EXECUTIVE OFFICER

Ms Ong Yin Suen

SECRETARY

Encik Azman Shah Md Yaman (LS No. 0006901)

BRANCH OFFICE

Kuala Lumpur Office	B-9-6, Megan Avenue 1 No. 189, Jalan Tun Razak 50400 Kuala Lumpur Tel: 03-2171 2755/ 03-2166 7011 Fax: 03-2770 0022
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Batu Pahat Office	53, 53-A and 53-B Jalan Sultanah 83000 Batu Pahat, Johor Tel: 07-438 0271/ 07-438 0988 Fax: 07-438 0277
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Johor Bahru Office	No 34 Jalan Kebun Teh 1 Pusat Perdagangan Kebun Teh 80250 Johor Bahru, Johor Tel: 07-221 0129 Fax: 07-221 0291 2nd Floor, 21 & 23 Jalan Molek 1/30, Taman Molek 81100 Johor Bahru, Johor Tel: 07-358 3587 Fax: 07-3583581
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Kuching Office	Lot 133, Section 20, Sublot 2 & 3, 1st Floor, Jalan Tun Ahmad Zaidi Adruce, 93200 Kuching, Sarawak Tel: 082-550 838 Fax: 082-550 508

Kuching Office	Yung Kong Abell, Units 1-10, 2 nd Floor Lot 365, Section 50 Jalan Abell, 93100 Kuching, Sarawak Tel: 082-245 611 Fax: 082-230 326
Kota Bharu Office	Ground Floor, No 3486-G, Jalan Sultan Ibrahim, 15050 Kota Bharu, Kelantan Tel: 09-740 6891 Fax: 09-740 6890
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Melaka Office	581B, Taman Melaka Raya 75000 Melaka Tel: 06-284 4211/ 06-281 4110 Fax: 06-292 2212
Miri Office	Lot 1268 & 1269, Second Floor Centre Point Commercial Centre Jalan Melayu 98000 Miri, Sarawak
Penang Office	3rd Floor, 44 Lebuh Pantai, 10300 Georgetown, Penang Tel: 04-264 5639 Fax: 04-264 5640
Prai Office	First Floor, No. 1797-1-04, Kompleks Auto World, Jalan Perusahaan, Juru Interchange, 13600 Perai, Penang. Tel: 04-506 2116/ 04-506 0216 Fax: 04-505 9996

TRUSTEE	HSBC (Malaysia) Trustee Berhad
BANKER	RHB Bank Berhad
AUDITORS	PricewaterhouseCoopers PLT
TAX ADVISER	PricewaterhouseCoopers Taxation Services Sdn Bhd
DISTRIBUTORS	RHB Asset Management Sdn Bhd RHB Bank Bhd RHB Investment Bank Bhd Affin Bank Bhd Alliance Bank Malaysia Bhd AmBank (M) Bhd AmInvestment Bank Bhd Areca Capital Sdn bhd CIMB Bank Bhd Citibank Berhad Genexus Advisory Sdn Bhd Hong Leong Bank Bhd HSBC Bank (M) Bhd iFast Capital Sdn Bhd Kenanga Investment Bank Bhd Maybank Bhd OCBC Bank (Malaysia) Bhd Phillip Mutual Bhd Standard Chartered Bank Malaysia Bhd United Overseas Bank (Malaysia) Bhd UOB Kay Hian

RHB ♦ Asset Management

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