

RHB ISLAMIC BOND FUND

ANNUAL REPORT 2020

For the financial year ended 30 September 2020

GENERAL INFORMATION ABOUT THE FUND

Fund Category and Type

Fund Name	-	RHB Islamic Bond Fund
Fund Category	-	Bond fund (Shariah-compliant)
Fund Type	-	Income fund

Investment Objective, Policy and Strategy

Objective of the Fund

To provide regular income to investors through investments in Islamic debt securities and bonds which are acceptable investment under the principles of Shariah.

Strategy

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

Minimum of 60% - Investments in Islamic debt securities and bonds
and up to 95% of (collectively referred to as “sukuk”)
Net Asset Value

Minimum of 5% of - Investments in liquid assets acceptable under Shariah
Net Asset Value principle

Although the Fund is actively managed, how active or the frequency of its trading strategy will very much depend on market opportunities. The Fund will invest in sukuk. Investments must carry a minimum long term credit rating of BBB and above or a minimum short term rating of P3 as assigned by RAM Rating Services Berhad (“RAM”) or its equivalent. To contain credit risk, the Manager will ensure that the diversification of credit rating (and duration standing) in the sukuk portfolio mitigate the overall risk position of the portfolio.

The Manager may also take temporary defensive measures that may be inconsistent with the Fund’s principal strategy in attempting to respond to adverse market conditions, economics, political or any other conditions which the Manager deem detrimental to the Fund. The defensive measures that the Manager may undertake are in no way to be deviated from the mandates or breaching any laws and regulations. The Fund’s strategies in yield enhancement for the portfolio will also be balanced with other investment needs of the Fund, such as liquidity and risk management. On liquidity management, the Fund will maintain sufficient amount of portfolio in liquid sukuk to accommodate redemption.

As for risk management, the portfolio duration is kept at optimal level where yield enhancement can be optimised on risk adjusted basis, and at the same time, balanced with the need for containing portfolio's volatility.

Hence, during the temporary defensive period, the Manager may choose to increase the asset allocation by allocating more investment into risk free investments which are Islamic money market instruments and Islamic deposit in adverse market condition.

Performance Benchmark

Maybank Islamic Berhad's 12 months Islamic Fixed Deposit-i ("IFD-i").

Permitted Investments

The Fund may invest or participate in sukuk traded on eligible markets and/or which are listed on Bursa Malaysia; Shariah-compliant warrants that carry the right in respect of a security traded in or under the rules of an eligible market; Shariah-compliant unlisted securities including securities not listed or quoted on a stock exchange but have been approved by the relevant regulatory authority for such listing or quotation and are offered directly to the Fund by the issuer; Shariah-compliant financial derivatives; Islamic collective investment schemes and Islamic structured products; Government Investment Issues (GII), Islamic accepted bills, Bank Negara Malaysia negotiable notes, cagamas mudharabah bonds and any other Malaysian government approved/guaranteed Islamic issues; sukuk generally in the form of corporate sukuk or Islamic commercial papers issued by private companies or public listed corporations that are traded in eligible markets; liquid assets (including money market instruments and deposits with any financial institutions); and any other investments permitted by the Securities Commission Malaysia from time to time.

Distribution Policy

Income (if any) will be distributed during the financial year.

MANAGER'S REPORT

MARKET REVIEW

During the year under review, a somewhat bearish sentiment had played out in this seasonally weak fourth quarter of the year with both Malaysia's sovereign papers ie; Malaysian Government Securities ("MGS") and Government Investment Issue ("GII") curve bear-steepened during the quarter alongside the sell-off in United States Treasury ("UST"). Selling pressures were seen as market tracked the global yields movements while the yield curve also steepened adjusting to the expectation of increase in supplies of corporate debts. Given the already strong year-to-date ("YTD") rally in Ringgit bonds, some investors prefer to lock in the profits in the absence of major catalyst to push the curve lower. The MGS and GII curve were sold off 15 basis points ("bps") to 30 bps higher at one point but yields have since retraced partially lower as some were probably attracted to buy on the cheapened levels. Towards the year end, yields from the belly to the longer tenor of the curve lifted positively as buying interest resurfaced despite quiet trading days while Malaysian Ringgit ("MYR") closed the year stronger at around 4.09. The yields remain supported as investors repositioned themselves ahead of year end with anticipation of seasonally strong first quarter for domestic bond market ahead.

The year of 2020 started with geopolitical tension arising after United States of America ("USA") assassinated top Iranian commander. Iran has retaliated back with an attack that hit bases of housing American troops in Iraq with ballistic missiles which rattled the market for safe haven demand during the first week of the year. After a temporary calm on that front, local market further driven by a surprised pre-emptive 25 bps cut in Overnight Policy Rate ("OPR") by Bank Negara Malaysia ("BNM") on their first Monetary Policy Meeting ("MPC") of the year. Support in the fixed income space further extended as market's confidence has been somewhat shaky by the spreading of coronavirus which spilling fast into neighboring countries and as far as in the USA and Europe. With lower Gross Domestic Product ("GDP") print of 4.30% for year 2019, at a lower range of BNM forecast of 4.30%-4.80%, Governor Nor Shamsiah was quoted to have indicated that there is ample room to adjust OPR as low inflation shall provide policy space for the action. The growth disappointment alongside dovish remark by the Governor has reaffirmed market's view of another 25bps cut and justified safe haven bid that lending further supports to local government bonds. Yields seen collapsing by 20bps to 30bps during the month of February 2020.

Nevertheless, the local yields were sold-off from the middle of March 2020 onward following the plunge in oil prices, weaker Ringgit and a broad-based selling in regional rates. The plunged in oil prices as a result of price war and supply pressure has influenced investors to re-adjust their positioning on local assets due to concern on higher revision in fiscal deficit amid thin market liquidity. Risk sentiments remains fragile, with United States Dollar ("USD")

MYR pair rising to 4.44 level before it stabilized towards month-end and settled at around 4.34 level. Despite the efforts by central banks easing and government packages around the globe, markets think it wasn't enough to contain the impact from Covid-19 outbreak. As such, risk off sentiments continued to persist and saw global investors dumping assets, especially in the emerging market space and repatriate funds.

Second quarter of year 2020 ("2Q2020") started with extended rally after the sell-off in March 2020 appeared to diminish with attractive adjustment in term of yields have further ignite buying demand into local government bonds market. Both MGS/MGII have normalized back and in fact trading at tighter yield levels thanks to concerted global central bank easing and prospects of further OPR cuts by BNM. In May 2020, BNM again has cut the OPR by another 50 bps to 2.00%, a level last seen during the year 2008 - year 2009 global financial crisis. The central bank has noted that with this latest cut, the OPR has been reduced by a total of 100 bps since the start of the year. However, further announcement on recovery stimulus package by Government in June 2020 to support domestic economy has resulting in upward trajectory in yields due to the supply concern arising from higher fiscal deficit. Following recent gains in tightening of bond yields, investors seen realizing gains on top of supply concern resulting in upward movement in bond yields during the end of second quarter.

Nonetheless, prospect of another rate cut by BNM has somehow supported the yield and market players have seen to be divided on their positioning ahead of the decision. After the meeting in July 2020 which saw BNM cut interest rate by another 25 bps local government bond yields were continuously being bought as curve flattening theme took place on dovish statement released from the meeting. Nevertheless, the bullish run in Ringgit bonds came to a halt in mid-August 2020 at the back of selling flows and profit taking activities amid the adjustments of rates outlook by investors. In September 2020, local bond market cruised the month with nervous moment as yields seen higher with three of the auctions held during the month ended-up with weak bid-to-cover ("BTC") ratio of circa 1.5 times and lower. Bond market sentiment has been weak since the no OPR cut decision by BNM on 10 September 2020. Looking ahead, curve steepening pressure might prevail on supply dynamics point of view following additional MYR10 billion fiscal stimulus from Bantuan Prihatin Nasional 2.0. With that, economists seen revising the budget deficit forecast slightly up to circa -6.70% for year 2020 and -6.00% for year 2021 from -6.50% and -5.90% respectively previously. Nonetheless, we remain opportunistic as the correction in yields will attracts good entry level as policy remain far from tightening cycle.

All in all, the overall curve of 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGS were bull-steepened during the period and closed at 2.00% (End September 2019: 3.11%), 2.24% (3.22%), 2.42% (3.33%), 2.65% (3.36%), 3.04% (3.54%), 3.37% (3.57%) and 3.84% (3.89%) respectively.

ECONOMIC OUTLOOK

On the local economic front, Malaysia's Consumer Prices Index ("CPI") report for August 2020 was still in deflationary mode at a lower rate of -1.40%, following a reading of -1.30% in July 2020. CPI dropped for the sixth consecutive month in August 2020 since March 2020's 0.20% decline. The decrease in the overall index was attributed to declines in transport (-9.90%), housing, water, electricity, gas and other fuels (-3.00%), clothing and footwear (-0.60%), and furnishing and household equipment (-0.10%) which overall contributed about 45.70% of overall weight in CPI basket. For now, headline CPI forecasted to be staying in negative territory for the rest of the year and only rising through for the first half of year 2021 on base effects. Currently the average YTD Brent oil price is still hovering about USD46/barrel which is above the Government's assumption for average oil price at around USD35/barrel, indicated during the release of the previous stimulus package. To recap, BNM's inflation rate forecast remains at -1.50% to 0.50% for year 2020 and see the inflation could pick-up to 1.00% to 3.00% in year 2021.

On the other note, Malaysia reported a narrower trade surplus of MYR13.2 billion in August 2020 as exports unexpectedly fell 2.90% year-over-year ("YoY") against +4.90% consensus and +3.10% in July 2020, contrary to expectations for an increase, as shipments to key markets tumbled and demand for manufacturing, agriculture and mining goods dropped. Imports fell for the sixth straight month, at -6.50% though smaller than -8.70% in August 2020. The drop in exports number for the period was mainly contributed by worse off performance in Liquefied Natural Gas ("LNG") exports (-49.10%), manufactured goods of metals (-30.80%) and petroleum products (-15.90%). We expect Malaysia's exports to continue to struggle for the rest of the year given slowdown in overall global growth though seem to pick-up recently by the improvement in key indicator numbers.

REVIEW OF FUND PERFORMANCE DURING THE FINANCIAL YEAR

For the financial year under review, the Fund has registered a gain of 4.76%* in net asset value terms and outperformed its benchmark, Maybank 12 Months Islamic FD-I Rate which recorded a gain of 2.53%*. The Fund has achieved its investment objective by providing regular income through dividend distribution to investors from investments in Islamic debt securities under the principles of Shariah.

** Source: Lipper Investment Management ("Lipper IM"), 13 October 2020*

MARKET OUTLOOK AND STRATEGY GOING FORWARD

Domestically in Malaysian fixed income, at the recent BNM MPC on 10th September 2020, BNM kept its OPR unchanged at a record low of 1.75%, ending its streak of four straight easing decisions as the reopening of economy shows sign of recovery. Nevertheless, BNM in a statement noted that the pace of recovery will be uneven across sectors where economic activity in some industries remaining below pre-pandemic levels on top of slower improvement in the labour market. The central bank's statement suggested that the door remains open for easing in the future if necessary. As of now, BNM believe that previous cuts were enough to support domestic growth and could wait to gauge on incoming risks to the growth outlook. Overall, BNM policymakers were angled towards a balanced stance in its latest MPC statement as it remained wary of the Covid-19 fallout though acknowledging recent signs of improvements on the growth side. To recap, BNM's real GDP forecast for year 2020 is revised to -3.50% to -5.50% from -2.00% to 0.50% previously set in April 2020. For year 2021, BNM expects the economy to bounce back with real GDP growth of between 5.50% to 8.00%. In term of inflation trajectory, BNM forecasted it to be muted this year with average headline inflation to be negative on account of substantially lower global oil prices. On official forecast, BNM has guided that inflation to be around -1.50% to +0.50% in year 2020. That said, given the lower inflation trajectory amid a weaker growth backdrop, we opine that even easing cycle might enter its tail end, it is still far for BNM as well as other central bankers to embark on tightening cycle thus will leave the interest rate low for longer at this juncture.

We are still maintaining our expectation that the local government space to stay supported on widening yield differential versus the UST. We opine that investing in MYR bonds is attractive from a real yield perspective given the benign outlook on growth and moderate inflation prospects globally. With subdued inflation which will likely be in negative territory in year 2020, we view it will further boost the attractiveness of MYR bond market, thus keeping real yields attractive. On top of that, with the US Federal Reserve ("Fed") pledging for interest rates to remain unchanged at current level at least until year 2022, we see the increase of attractiveness towards emerging market yields which are still decent compared to developed nation. Therefore, the prospect of lower global interest rates for longer also may increase the appeal for yield hunting strategies which may potentially see foreign inflows. Nevertheless, we will continue to monitor the market situation given cautious investors' sentiment due to higher supply going forward in both government securities and corporate space as well as heightened policy and political uncertainty domestically. We remain constructive on the local bond market as the current macro backdrop continues to provide support for fixed income investments. With these views, we remain positioned to capture opportunities to actively trade in the government securities space as volatility is expected to present value from a risk-reward perspective especially on recent yields' correction which deemed healthy and more attractive compared to couple of months before. In the corporate space, we will remain selectively invested for

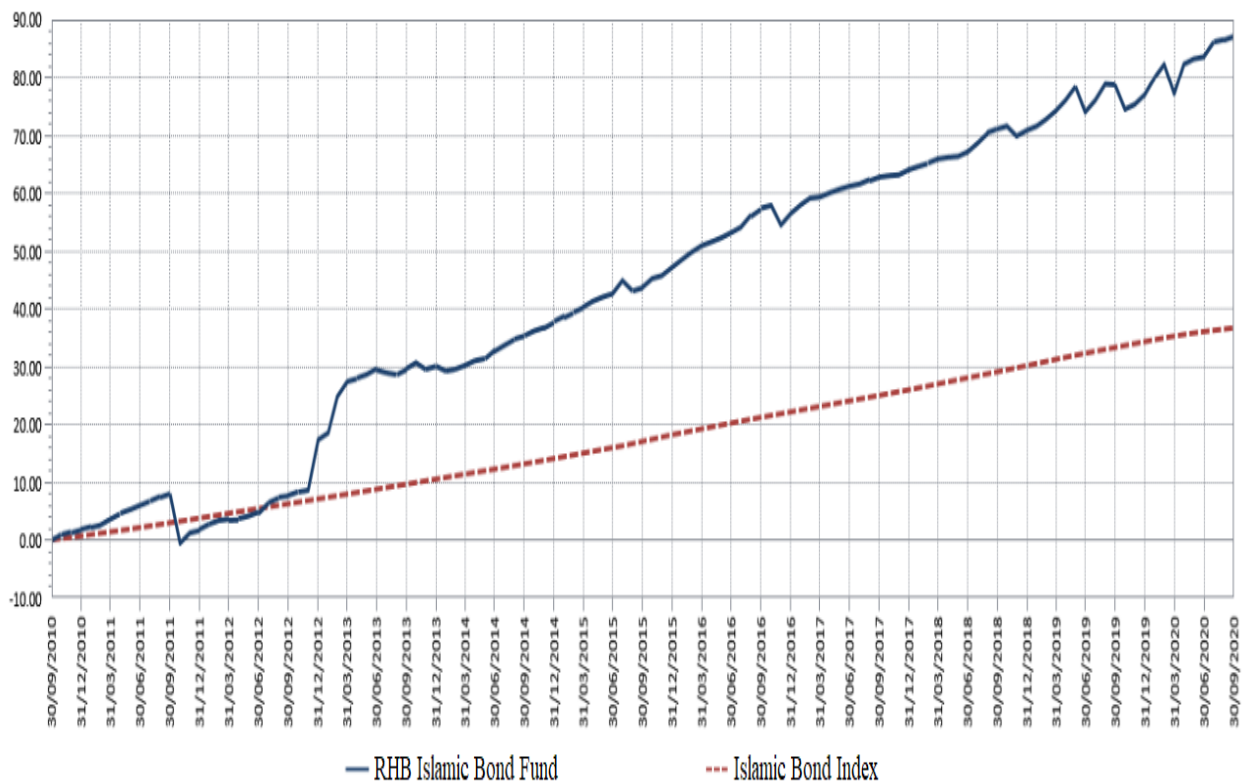
portfolio yield preservation, amidst historical low yield environment. While cognizant of higher supply of bond issuances ahead, we are holding on towards our higher yielding bonds for income accrual of the portfolio going forward. In summary, we will maintain our active management strategy where we will be deploying cash into undervalued government bonds and selective credits where we are comfortable with; focusing those that has higher secondary trading prospects and relatively liquid potentials to enable the portfolio to remain flexible as we navigate challenging market times.

PERFORMANCE DATA

	Annual Total Returns				
	Financial Year Ended 30 September				
	2020 %	2019 %	2018 %	2017 %	2016 %
RHB Islamic Bond Fund					
- Capital Return	0.28	(1.11)	(0.21)	(1.41)	5.39
- Income Return	4.47	5.68	5.17	5.01	3.95
- Total Return	4.76	4.51	4.95	3.53	9.55
Islamic Bond Index**	2.53	3.26	3.29	3.16	3.55

	Average Annual Return			
	1 Year 30.09.2019- 30.09.2020 %	3 Years 30.09.2017- 30.09.2020 %	5 Years 30.09.2015- 30.09.2020 %	10 Years 30.09.2010- 30.09.2020 %
RHB Islamic Bond Fund	4.74	4.73	5.43	6.46
Islamic Bond Index**	2.52	3.01	3.14	3.17

Performance of RHB Islamic Bond Fund
For the period from 30 September 2010 to 30 September 2020
Cumulative Return Over the Period (%)



Source: Lipper IM, 13 October 2020

* The Maybank Islamic Berhad's 12 Months Islamic FD-i Rate is only available in Lipper database after 1 January 2016.

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.

** Effective 1 January 2016, the Fund's composite benchmark (Islamic Bond Index) was changed from Maybank Islamic Berhad's 12 Months General Investment Account Rate to Maybank Islamic Berhad's 12 months Islamic Fixed Deposit-I ("IFD-i"). The Fund's composite benchmark performance has been adjusted to reflect the new benchmark.

A combination of benchmark/composite benchmark has been used for the performance computation as follows:

From 25 November 2002 - 31 December 2015	Maybank Islamic Berhad's 12 Months General Investment Account Rate
1 January 2016 onwards	Maybank Islamic Berhad's 12 months IFD-i

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 wherever applicable.

Fund Size	As At 30 September		
	2020	2019	2018
Net Asset Value (RM million)*	237.78	270.37	285.03
Units In Circulation (million)	176.79	201.58	210.11
Net Asset Value Per Unit (RM)*	1.3450	1.3413	1.3566

Historical Data	Financial Year Ended 30 September		
	2020	2019	2018
Unit Prices			
NAV - Highest (RM) *	1.4038	1.4212	1.4245
- Lowest (RM) *	1.3075	1.3371	1.3551
Distribution and Unit Split			
Gross Distribution Per Unit (sen)	6.0000	7.6000	7.0000
Net Distribution Per Unit (sen)	6.0000	7.6000	7.0000
Distribution Date	25.09.2020	26.09.2019	26.09.2018
NAV before distribution (cum)	1.4030	1.4116	1.4245
NAV after distribution (ex)	1.3430	1.3371	1.3551
Unit Split	-	-	-
Others			
Management Expense Ratio (MER) (%) #	0.92	0.89	0.99
Portfolio Turnover Ratio (PTR) (times) ##	0.44	0.70	0.77

* *The figures quoted are ex-distribution*

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

The PTR for the financial year was lower compared with previous financial year due to lesser investment activities during the financial year under review.

DISTRIBUTION

For the financial year under review, the Fund has declared a total net distribution of 6.0000 sen per unit, which is equivalent to a net yield of 4.42% based on the average net asset value for the financial year.

PORTFOLIO STRUCTURE

The asset allocations of the Fund as at reporting date were as follows:

	As at 30 September		
	2020	2019	2018
	%	%	%
Sectors			
Unquoted sukuk	95.82	101.84	99.75
Liquid assets and other net current assets	4.18	(1.84)*	0.25
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

The portfolio asset allocation has been relatively well-invested during the financial year under review, which reflected the Fund Manager's tactical strategy in line with the market outlook, as well as managing liquidity risk.

** The excess over 100% of net asset value is mainly attributable to distribution payable, which has not been paid as at the reporting date.*

BREAKDOWN OF UNIT HOLDINGS BY SIZE

Size of Holdings	Account Holders		No. Of Units Held*	
	No.	%	('000)	%
5,000 and below	417	34.72	910	0.51
5,001 to 10,000	200	16.65	1,470	0.83
10,001 to 50,000	411	34.22	9,897	5.60
50,001 to 500,000	148	12.32	16,912	9.57
500,001 and above	25	2.09	147,558	83.49
Total	1,201	100.00	176,747	100.00

* Excluding Manager's stock

SOFT COMMISSION

Cross trade transactions carried out during the reported period have been reviewed by the Investment Committee of the Fund in the month of January 2020 to ensure that such transactions are in the best interests of the Fund, transacted on an arm's length*.

**Transactions at arm's length refer to transactions in the normal course of business at prevailing market price as at the date of cross trade.*

RHB ISLAMIC BOND FUND
STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020

	<u>Note</u>	<u>2020</u> RM	<u>2019</u> RM
ASSETS			
Investments	5	227,837,716	275,350,758
Islamic deposits with licensed financial institutions	6	-	12,796,017
Bank balances	6	20,816,450	52,714
Amount due from Manager		2,023,779	555,298
TOTAL ASSETS		<u>250,677,945</u>	<u>288,754,787</u>
LIABILITIES			
Amount due to Manager		178,672	648,210
Accrued management fee		2,163,309	2,366,336
Amount due to Trustee		21,047	23,750
Income distribution payable		10,524,830	15,325,445
Other payables and accruals		14,805	18,421
TOTAL LIABILITIES		<u>12,902,663</u>	<u>18,382,162</u>
NET ASSET VALUE		<u>237,775,282</u>	<u>270,372,625</u>
EQUITY			
Unitholders' capital		233,557,957	267,873,070
Retained earnings		4,217,325	2,499,555
		<u>237,775,282</u>	<u>270,372,625</u>
UNITS IN CIRCULATION			
(UNITS)	7	<u>176,786,827</u>	<u>201,580,587</u>
NET ASSET VALUE PER UNIT			
(EX-DISTRIBUTION)(RM)		<u>1.3450</u>	<u>1.3413</u>

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

RHB ISLAMIC BOND FUND
STATEMENT OF INCOME AND EXPENSES
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

	<u>Note</u>	<u>2020</u> RM	<u>2019</u> RM
INCOME			
Profit from Islamic deposits with licensed financial institutions		380,269	659,605
Profit from unquoted sukuk		14,066,304	14,893,384
Net gain on investments	5	1,480,750	448,413
Other income		-	209,634
		<u>15,927,323</u>	<u>16,211,036</u>
EXPENSES			
Write-off of investment		(1,220,223)	-
Management fee	8	(2,179,458)	(2,366,336)
Trustee's fee	9	(268,506)	(301,804)
Audit fee		(9,275)	(9,275)
Tax agent's fee – current year		(3,800)	(3,800)
Tax agent's fee – prior year		(600)	(3,200)
Other expenses		(2,861)	(3,179)
		<u>(3,684,723)</u>	<u>(2,687,594)</u>
Net income before taxation		12,242,600	13,523,442
Taxation	10	-	-
Net income after taxation		<u>12,242,600</u>	<u>13,523,442</u>
Net income after taxation is made up of the following:			
Realised amount		14,962,950	15,577,728
Unrealised amount		(2,720,350)	(2,054,286)
		<u>12,242,600</u>	<u>13,523,442</u>

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

RHB ISLAMIC BOND FUND
STATEMENT OF CHANGES IN NET ASSET VALUE
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

	Unitholders' capital RM	Retained earnings RM	Total net asset value RM
Balance as at 1 October 2018	280,731,239	4,301,558	285,032,797
Movement in net asset value:			
Net income after taxation	-	13,523,442	13,523,442
Creation of units arising from distribution	12,182,108	-	12,182,108
Creation of units arising from applications	41,362,795	-	41,362,795
Cancellation of units	(66,403,072)	-	(66,403,072)
Distribution (Note 11)	-	(15,325,445)	(15,325,445)
Balance as at 30 September 2019	<u>267,873,070</u>	<u>2,499,555</u>	<u>270,372,625</u>
Balance as at 1 October 2019	267,873,070	2,499,555	270,372,625
Movement in net asset value:			
Net income after taxation	-	12,242,600	12,242,600
Creation of units arising from distribution	12,920,923	-	12,920,923
Creation of units arising from applications	55,126,994	-	55,126,994
Cancellation of units	(102,363,030)	-	(102,363,030)
Distribution (Note 11)	-	(10,524,830)	(10,524,830)
Balance as at 30 September 2020	<u>233,557,957</u>	<u>4,217,325</u>	<u>237,775,282</u>

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

RHB ISLAMIC BOND FUND
STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

	<u>Note</u>	<u>2020</u> <u>RM</u>	<u>2019</u> <u>RM</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from redemption of investments		10,850,000	-
Proceeds from sales of investments		132,256,829	216,873,459
Purchase of investments		(95,834,199)	(207,433,320)
Profit received from Islamic deposits with licensed financial institutions		380,269	659,605
Profit received from unquoted sukuk		14,567,243	14,888,982
Other income		-	209,634
Management fee paid		(2,382,485)	(2,575,859)
Trustee's fee paid		(271,209)	(302,366)
Payment for other fees and expenses		(20,152)	(22,438)
Net cash generated from operating activities		<u>59,546,296</u>	<u>22,297,697</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash proceeds from units created		53,658,513	41,792,676
Cash paid for units cancelled		(102,832,568)	(65,754,862)
Payment for income distributions		(2,404,522)	(2,487,136)
Net cash used in financing activities		<u>(51,578,577)</u>	<u>(26,449,322)</u>
Net increase/(decrease) in cash and cash equivalents		7,967,719	(4,151,625)
Cash and cash equivalents at the beginning of the financial year		<u>12,848,731</u>	<u>17,000,356</u>
Cash and cash equivalents at the end of the financial year	6	<u><u>20,816,450</u></u>	<u><u>12,848,731</u></u>

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

RHB ISLAMIC BOND FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

1 THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

The RHB Islamic Bond Fund (hereinafter referred to as “the Fund”) was constituted pursuant to the execution of a Master deed (Shariah funds) dated 12 June 2008 as amended via its first supplemental master deed (Shariah funds) dated 19 June 2009, second supplemental master deed (Shariah funds) dated 18 November 2009, third supplemental master deed (Shariah funds) dated 23 November 2009, fourth supplemental master deed (Shariah funds) dated 13 April 2012, fifth supplemental master deed (Shariah funds) dated 28 May 2012, seventh supplemental master deed (Shariah funds) dated 30 April 2013, eighth supplemental master deed (Shariah funds) dated 24 September 2013, ninth supplemental master deed (Shariah funds) dated 2 March 2015 and tenth supplemental master deed (Shariah funds) dated 20 May 2015 (collectively referred to as “the Deeds”) between RHB Asset Management Sdn Bhd (“the Manager”) and CIMB Islamic Trustee Berhad (“the Trustee”).

The Fund was launched on 25 August 2000 and will continue its operations until terminated according to the conditions provided in the Deeds.

The principal activity of the Fund is to invest in ‘Permitted Investments’ as defined in the Master Deeds, which includes sukuk, all types of Islamic collective investment schemes, Islamic money market instruments and any other form of investments as may be approved by the relevant authorities from time to time and acceptable under the Shariah principles.

The Fund’s activities shall be conducted strictly in accordance with the requirement of the Shariah principles and shall be monitored by the Shariah Adviser of the Fund.

All investments will be subject to the Securities Commission’s (“SC”) Malaysia Guidelines on Unit Trust Funds, SC requirements, the Deeds, 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 regular income to investors through investments in Islamic fixed income instruments and sukuk which are acceptable investments under the principles of Shariah.

1 THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES (CONTINUED)

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 and private retirement schemes and provision of investment advisory services.

These financial statements were authorised for issue by the Manager on 26 November 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 judgment in the process of applying the Fund’s accounting policies. Although these estimates and judgment 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 October 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.

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 period beginning on 1 October 2019: (continued)

- 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.

The adoption of interpretation to the existing standard and amendments to published standard did not have any impact on the current period 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 October 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.

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 period beginning on/after 1 October 2020 (continued)

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

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.

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 October 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 profit, 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 and amount due from Manager as financial assets measured 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 recognized 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets (continued)

Recognition and measurement (continued)

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains or loss 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 within net gain or losses on investments in the period in which they arise.

Profit income from unquoted sukuk at fair value through profit or loss is recognised in the statement of income and expenses.

Unquoted sukuk denominated in Ringgit Malaysia are revalued on a daily basis based on fair value prices quoted by a bond pricing agency ("BPA") registered with the SC Malaysia Guidelines on Unit Trust Funds.

Where such quotations are not available or where the Manager is of the view that the price quoted by the BPA for a specific unquoted sukuk differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager:

- (i) Records its basis for using a non-BPA price;
- (ii) Obtains necessary internal approvals to use the non-BPA price; and
- (iii) Keeps an audit trail of all decisions and basis for adopting the market price.

Islamic deposits with licensed financial institutions are stated at cost plus accrued profit calculated on the effective profit method over the period from the date of placement to the date of maturity of the respective deposits, 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 profit method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets (continued)

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 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.

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 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 write-off of the investment during the financial year. The details of the write-off of the investment had disclosed in Note 5 to the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 amount due to Manager, accrued management fee, amount due to Trustee, income distribution payable, and other payables and accruals are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective profit 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.

2.4 Unitholders' capital

The unitholders' contribution to the Fund meet the criteria of the definition of puttable instruments to be classified as equity instruments under MFRS 132 "Financial Instruments: Presentation". Those 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 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 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.

2.6 Income recognition

Profit from Islamic deposits with licensed financial institutions and unquoted sukuk are recognised on an accrual basis using the effective profit method.

Profit income is calculated by applying the effective profit 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 profit rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance).

Realised gain and loss on sale of unquoted sukuk is measured by the difference between the net disposal proceeds and the carrying amounts of the investments (adjusted for accretion of discount or amortisation of premium).

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

2.7 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.

2.8 Cash and cash equivalents

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

2.9 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.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund is exposed to a variety of risks, which include price risk, profit rate risk, credit risk, liquidity risk, Shariah specific 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.

Price risk

Price risk is the risk that the fair value of an investment of the Fund will fluctuate because of changes in market prices (other than those arising from profit rate risk).

The Fund is exposed to price risk arising from profit rate risk in relation to its investments of RM227,837,716 (2019: RM275,350,758) in unquoted sukuk. The Fund's exposure to price risk arising from profit rate risk and the related sensitivity analysis are disclosed in "Profit rate risk" below.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Profit rate risk

In general, when profit rates rise, unquoted sukuk prices will tend to fall and vice versa. Therefore, the net asset value of the Fund may also tend to fall when profit rates rise or are expected to rise. However, investors should be aware that should the Fund hold an unquoted sukuk till maturity, such price fluctuations would dissipate as it approaches maturity, and thus the growth of the net asset value shall not be affected at maturity. In order to mitigate profit rates exposure of the Fund, the Manager will manage the duration of the portfolio via shorter or longer tenured assets depending on the view of the future profit rate trend of the Manager, which is based on its continuous fundamental research and analysis.

This risk is crucial since unquoted sukuk portfolio management depends on forecasting profit rate movements. Unquoted sukuk with longer maturity and lower yield coupon rates are more susceptible to profit rate movements.

The table below summarises the sensitivity of the Fund's profit or loss and net asset value to movements in prices of unquoted sukuk held by the Fund as a result of movement in profit rate. The analysis is based on the assumptions that the profit rate fluctuates by +/- 1% with all other variables held constant.

	Impact on profit or loss and net asset value	
	<u>2020</u> RM	<u>2019</u> RM
<u>% Change in profit rate</u>		
+ 1%	(779,836)	(914,444)
- 1%	784,276	919,773
	<u><u> </u></u>	<u><u> </u></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. Credit risk arising from unquoted sukuk can be managed by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of its issuer. In addition, the Manager imposes a minimum rating requirement as rated by either local and/or foreign rating agencies and manages the duration of the investment in accordance with the objective of the Fund. 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. 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 Fund.

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

	<u>Investments</u> RM	<u>Cash and cash equivalents</u> RM	<u>Other financial assets*</u> RM	<u>Total</u> RM
<u>2020</u>				
Financial institutions:				
AAA	10,744,267	-	-	10,744,267
AA1	3,099,682	-	-	3,099,682
AA3	32,790,769	-	-	32,790,769
AA2	-	20,816,450	-	20,816,450
AA-	20,998,400	-	-	20,998,400
A+	22,509,848	-	-	22,509,848
A	74,768,195	-	-	74,768,195
A1	16,915,287	-	-	16,915,287
A3	-	-	-	-
BB1	20,796,644	-	-	20,796,644
Non-rated	25,214,624	-	-	25,214,624
Others	-	-	2,023,779	2,023,779
	<u>227,837,716</u>	<u>20,816,450</u>	<u>2,023,779</u>	<u>250,677,945</u>

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

	<u>Investments</u>	<u>Cash and cash equivalents</u>	<u>Other financial assets*</u>	<u>Total</u>
	RM	RM	RM	RM
<u>2019</u>				
Financial institutions:				
AAA	8,459,698	-	-	8,459,698
AA1	10,528,323	-	-	10,528,323
AA2	-	12,848,282	-	12,848,282
AA3	35,121,820	-	-	35,121,820
AA+	2,123,734	-	-	2,123,734
AA-	80,879,859	-	-	80,879,859
A+IS	17,804,871	-	-	17,804,871
A	35,458,527	-	-	35,458,527
A1	22,757,279	-	-	22,757,279
A2	-	449	-	449
A3	23,495,924	-	-	23,495,924
BB1	19,093,411	-	-	19,093,411
Non-rated	19,627,312	-	-	19,627,312
Others	-	-	555,298	555,298
	<u>275,350,758</u>	<u>12,848,731</u>	<u>555,298</u>	<u>288,754,787</u>

* Comprise amount due from Manager.

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. Unit trust funds with principal investment strategies that involve securities or securities with substantial market and/or credit risk tend to have the greater exposure to liquidity risk. 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.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining period 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 1 month RM	Between 1 month to 1 year RM
<u>2020</u>		
Amount due to Manager	178,672	-
Accrued management fee	2,163,309	-
Amount due to Trustee	21,047	-
Income distribution payable	10,524,830	-
Other payables and accruals	-	14,805
	<hr/> 12,887,858 <hr/>	<hr/> 14,805 <hr/>
<u>2019</u>		
Amount due to Manager	648,210	-
Accrued management fee	2,366,336	-
Amount due to Trustee	23,750	-
Income distribution payable	15,325,445	-
Other payables and accruals	-	18,421
	<hr/> 18,363,741 <hr/>	<hr/> 18,421 <hr/>

Shariah specific risk

The risk that the investments do not conform to the principle of Shariah may result in those investments being not Shariah-compliant. Should the situation arise, necessary steps shall be taken to dispose of such investments in accordance with the rules of divestment of non Shariah-compliant investments. If this occurs, the Fund could suffer losses from the disposal and thus, adversely affecting the value of the Fund.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital risk

The capital of the Fund is represented by equity consisting of unitholders' capital of RM233,557,957 (2019: RM267,873,070) and retained earnings of RM4,217,325 (2019: RM2,499,555). 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 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 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.

4 FAIR VALUE ESTIMATION (CONTINUED)

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

- (i) For bank balances and Islamic deposits 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:

- 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 (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:				
- Unquoted sukuk	-	227,837,716	-	227,837,716
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>2019</u>				
Investments:				
- Unquoted sukuk	-	275,350,758	-	275,350,758
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4 FAIR VALUE ESTIMATION (CONTINUED)

Financial instruments that trade in markets that are 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. Level 2 instruments include unquoted sukuk. 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.

5 INVESTMENTS

	<u>2020</u> RM	<u>2019</u> RM
Investments:		
- Unquoted sukuk	<u>227,837,716</u>	<u>275,350,758</u>
	<u>2020</u> RM	<u>2019</u> RM
Net gain on investments comprised:		
- Net realised gain on sale of investments	4,854,394	3,118,578
- Net unrealised loss on changes in fair value	<u>(3,373,644)</u>	<u>(2,670,165)</u>
	<u>1,480,750</u>	<u>448,413</u>

5 INVESTMENTS (CONTINUED)

Investments as at 30 September 2020 are as follows:

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value RM</u>	<u>Cost RM</u>	<u>Fair Value RM</u>	<u>% of Net Asset Value RM</u>
UNQUOTED SUKUK					
6.00% Al Dzahab Assets Bhd IMTN 15/09/2026 (Class B Tranche 5)	AAA	7,000,000	7,039,144	7,803,920	3.28
6.00% Alpha Circle Sdn Bhd 31/05/2023	A	20,200,000	20,865,238	21,277,706	8.95
5.45% Alpha Circle Sdn Bhd IMTN 23/02/2022	AA-	899,000	917,122	940,586	0.40
5.30% Alpha Circle Sdn Bhd IMTN 20/11/2020	AA-	628,000	640,311	641,950	0.27
5.30% Alpha Circle Sdn Bhd IMTN 23/02/2021	AA-	1,757,000	1,795,292	1,804,883	0.76
5.45% Alpha Circle Sdn Bhd IMTN 19/11/2021	AA-	2,702,000	2,764,937	2,814,937	1.18
5.60% Alpha Circle Sdn Bhd IMTN 18/11/2022	AA-	540,000	551,185	573,190	0.24
5.70% Alpha Circle Sdn Bhd IMTN 18/11/2022	AA-	10,000,000	10,212,384	10,640,184	4.48
5.60% BGSM Management Sdn Bhd 27/12/2023	AA3	1,700,000	1,741,296	1,873,664	0.78
2.50% MEX I Capital Bhd (f.k.a Bright Focus Bhd) IMTN 24/01/2030	BB1**	31,500,000	25,393,302	15,699,160	6.60
2.50% MEX I Capital Bhd (f.k.a Bright Focus Bhd) IMTN 22/01/2031	BB1**	7,000,000	5,167,470	3,229,702	1.36
5.20% MEX I Capital Bhd (f.k.a Bright Focus Bhd) IMTN 24/01/2024	BB1**	2,100,000	2,065,895	1,867,782	0.79
5.100% DRB-HICOM Bhd IMTN 12/12/2029	A+	7,500,000	7,616,322	7,743,522	3.26
5.70% Edra Energy Sdn Bhd IMTN 05/07/2023 - Tranche No 4	AA3	1,500,000	1,535,263	1,624,014	0.68
5.82% Edra Energy Sdn Bhd IMTN 04/07/2025 - Tranche No 8	AA3	2,000,000	2,072,892	2,251,844	0.95

5 INVESTMENTS (CONTINUED)

Investments as at 30 September 2020 are as follows: (continued)

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value RM</u>	<u>Cost RM</u>	<u>Fair Value RM</u>	<u>% of Net Asset Value RM</u>
UNQUOTED SUKUK (CONTINUED)					
5.94% Edra Energy Sdn Bhd IMTN 05/07/2027 - Tranche No 12	AA3	3,000,000	3,130,594	3,498,775	1.47
6.35% Edra Energy Sdn Bhd IMTN 05/07/2033 - Tranche No 24	AA3	2,200,000	2,287,723	2,757,699	1.16
6.43% Edra Energy Sdn Bhd IMTN 05/07/2034 - Tranche No 26	AA3	7,300,000	7,640,408	9,247,294	3.89
6.51% Edra Energy Sdn Bhd IMTN 05/07/2035 - Tranche No 28	AA3	3,500,000	3,681,860	4,473,514	1.88
6.59% Edra Energy Sdn Bhd IMTN 04/07/2036 - Tranche No 30	AA3	5,000,000	5,257,861	6,439,491	2.71
4.467% GII Murabahah 2/2019 15/09/2039	Non- Rated	6,000,000	6,720,183	6,749,846	2.84
4.245% GII Murabahah 3/2015 30/09/2030	Non- Rated	2,000,000	2,241,275	2,358,359	0.99
4.755% GII Murabahah 5/2017 04/08/2037	Non- Rated	7,500,000	8,910,789	8,726,207	3.67
4.638% GII Murabahah 5/2019 15/11/2049	Non- Rated	2,000,000	2,302,197	2,235,325	0.94
4.724% GII Murabahah 6/2017 15/06/2033	Non- Rated	1,500,000	1,703,322	1,773,359	0.75
4.119% GII Murabahah 6/2019 30/11/2034	Non- Rated	3,000,000	3,392,474	3,371,528	1.42
5.70% MEX II Sdn Bhd IMTN 29/04/2027 - Issue No. 7	A	10,000,000	10,726,709	10,078,355	4.24
5.80% MEX II Sdn Bhd IMTN 28/04/2028 - Issue No. 8	A	15,000,000	16,214,452	15,035,102	6.32
6.00% MEX II Sdn Bhd IMTN 29/04/2030 - Issue No. 10	A	7,000,000	7,574,765	6,944,347	2.92

5 INVESTMENTS (CONTINUED)

Investments as at 30 September 2020 are as follows: (continued)

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value RM</u>	<u>Cost RM</u>	<u>Fair Value RM</u>	<u>% of Net Asset Value RM</u>
UNQUOTED SUKUK (CONTINUED)					
6.20% MEX II Sdn Bhd IMTN 29/04/2032 - Issue No. 12	A	11,500,000	12,680,609	11,296,896	4.75
5.32% Quantum Solar Park (Semenanjung) Sdn Bhd Green SRI Sukuk 04/10/2024 - T12	A+	5,000,000	5,187,537	5,355,620	2.25
5.68% Quantum Solar Park (Semenanjung) Sdn Bhd Green SRI Sukuk 06/04/2029 –T21	A+	5,000,000	5,172,329	5,491,999	2.31
6.16% Quantum Solar Park (Semenanjung) Sdn Bhd Green SRI Sukuk 06/04/2035 - T33	A+	3,500,000	3,658,839	3,918,707	1.65
5.45% Southern Power Generation Sdn Bhd IMTN 31/10/2033	AA-	2,950,000	3,027,216	3,582,670	1.51
6.20% Tanjung Bin Energy Issuer Berhad 16/03/2032	AA3	500,000	514,049	624,474	0.26
4.98% Tenaga Nasional Bhd IMTN 27/08/2038	AAA	2,500,000	2,644,872	2,940,347	1.24
5.75% TRIpIc Medical Sdn Bhd Senior Sukuk Murabahah 23/10/2034 – Tranche 13	AA1	2,500,000	2,691,778	3,099,682	1.30
6.35% UMW Holdings Perpetual Sukuk Musharakah - Tranche 1	A1	14,500,000	15,193,511	16,915,287	7.11
5.800% WCT Holdings Bhd IMTN 27/09/2119 Series 1 Tranche 1	A	3,000,000	3,001,907	3,043,997	1.28

5 INVESTMENTS (CONTINUED)

Investments as at 30 September 2020 are as follows: (continued)

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value RM</u>	<u>Cost RM</u>	<u>Fair Value RM</u>	<u>% of Net Asset Value RM</u>
UNQUOTED SUKUK (CONTINUED)					
6.00% WCT Holdings Bhd IMTN 27/09/2119 Series 1 Tranche 2	A	7,000,000	7,003,452	7,091,792	2.98
TOTAL UNQUOTED SUKUK			232,938,764	227,837,716	95.82

Investments as at 30 September 2019 are as follows:

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value RM</u>	<u>Cost RM</u>	<u>Fair Value RM</u>	<u>% of Net Asset Value RM</u>
UNQUOTED SUKUK					
5.70% Alpha Circle Sdn Bhd IMTN 18/11/2022	AA-	10,000,000	10,207,699	10,528,199	3.89
5.65% Affin Islamic Bank Berhad 18/10/2117	A3	5,000,000	5,184,471	5,344,178	1.98
6.00% Al Dzahab Assets Bhd (Class B Tranche 5) IMTN 15/09/2026	AA1	7,000,000	7,041,013	7,574,640	2.80
5.30% Alpha Circle Sdn Bhd 19/11/2020	AA-	1,300,000	1,324,337	1,338,795	0.50
5.30% Alpha Circle Sdn Bhd 23/02/2021	AA-	3,550,000	3,580,950	3,613,769	1.34
6.00% Alpha Circle Sdn Bhd 31/05/2023	A	20,200,000	20,932,853	21,268,439	7.87
5.80% Bank Muamalat Malaysia Bhd IMTN 15/06/2026	A3	17,500,000	17,838,744	18,151,746	6.71
5.60% BGSM Management Sdn Bhd 27/12/2023	AA3	1,700,000	1,745,918	1,839,477	0.68

5 INVESTMENTS (CONTINUED)

Investments as at 30 September 2019 are as follows: (continued)

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value</u> RM	<u>Cost</u> RM	<u>Fair Value</u> RM	<u>% of Net Asset Value</u> RM
UNQUOTED SUKUK (CONTINUED)					
2.50% Bright Focus Bhd IMTN 24/01/2030	BB1**	31,500,000	24,882,346	14,355,370	5.31
2.50% Bright Focus Bhd IMTN 22/01/2031	BB1**	7,000,000	5,040,097	2,954,952	1.09
5.20% Bright Focus Bhd IMTN 24/01/2024	BB1**	2,100,000	2,051,413	1,783,089	0.66
5.70% Edra Energy Sdn Bhd IMTN Tranche No.4 05/07/2023	AA3	1,500,000	1,540,437	1,599,904	0.59
5.82% Edra Energy Sdn Bhd IMTN Tranche No.8 04/07/2025	AA3	2,000,000	2,081,030	2,186,764	0.81
5.94% Edra Energy Sdn Bhd IMTN Tranche No.12 05/07/2027	AA3	3,000,000	3,141,669	3,362,103	1.24
6.35% Edra Energy Sdn Bhd IMTN (Tranche 24) 05/07/2033	AA3	4,200,000	4,399,139	5,051,212	1.87
6.43% Edra Energy Sdn Bhd IMTN (Tranche 26) 05/07/2034	AA3	7,300,000	7,651,820	8,873,387	3.28
6.51% Edra Energy Sdn Bhd IMTN (Tranche 28) 05/07/2035	AA3	3,500,000	3,687,692	4,299,909	1.59
6.59% Edra Energy Sdn Bhd IMTN (Tranche 30) 04/07/2036	AA3	5,000,000	5,264,401	6,159,891	2.28
4.119% GII Murabahah 6/2019 30/11/2034	Non-rated	2,500,000	2,533,800	2,674,232	0.99
4.755% GII Murabahah 5/2017 04/08/2037	Non-rated	15,000,000	16,366,412	16,953,080	6.27
6.20% Jimah East Power Sdn Bhd IMTN 04/12/2031	AA-	2,000,000	2,259,075	2,402,327	0.89
4.85% Kimanis Power Sdn Bhd 06/08/2021	AA-	1,000,000	1,020,871	1,028,425	0.38

5 INVESTMENTS (CONTINUED)

Investments as at 30 September 2019 are as follows: (continued)

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value RM</u>	<u>Cost RM</u>	<u>Fair Value RM</u>	<u>% of Net Asset Value RM</u>
UNQUOTED SUKUK (CONTINUED)					
0.00% KT Kira Sertifikalari Varlik Kiralama A.S. IMTN 15/07/2020	A1	2,000,000	2,026,859	2,039,687	0.75
4.80% Lafarge Cement Sdn Bhd IMTN 13/01/2020	A1	4,000,000	4,043,602	4,047,470	1.50
5.70% MEX II Sdn Bhd IMTN 29/04/2027 – Issue No.7	AA-	10,000,000	10,788,153	11,135,955	4.12
5.80% MEX II Sdn Bhd IMTN 28/04/2028 – Issue No.8	AA-	15,000,000	16,304,841	16,883,252	6.24
6.00% MEX II Sdn Bhd IMTN 29/04/2030 – Issue No.10	AA-	6,300,000	6,914,571	7,251,360	2.68
6.20% MEX II Sdn Bhd IMTN 29/04/2032 – Issue No.12	AA-	11,500,000	12,734,644	13,511,221	5.00
5.50% Bank Muamalat Malaysia Bhd IMTN 25/11/2021	A	4,000,000	4,090,809	4,183,678	1.55
5.32% Quantum Solar Park (Semenanjung) Sdn Bhd Green SRI Sukuk 04/10/2024 – Tranche 12	A+	5,000,000	5,198,833	5,242,513	1.94
5.68% Quantum Solar Park (Semenanjung) Sdn Bhd Green SRI Sukuk 06/04/2029 – Tranche 21	A+	5,000,000	5,173,806	5,238,842	1.94
6.12% Quantum Solar Park (Semenanjung) Sdn Bhd Green SRI Sukuk 06/10/2034 – Tranche 32	A+	3,500,000	3,658,257	3,660,370	1.35

5 INVESTMENTS (CONTINUED)

Investments as at 30 September 2019 are as follows: (continued)

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value</u> <u>RM</u>	<u>Cost</u> <u>RM</u>	<u>Fair Value</u> <u>RM</u>	<u>% of Net Asset Value</u> <u>RM</u>
UNQUOTED SUKUK (CONTINUED)					
6.16% Quantum Solar Park (Semenanjung) Sdn Bhd Green SRI Sukuk 06/04/2035 – Tranche 33	A+	3,500,000	3,659,924	3,663,146	1.36
5.45% Southern Power Generation Sdn Bhd IMTN 31/10/2033	AA-	2,950,000	3,027,705	3,388,560	1.25
5.61% Southern Power Generation Sdn Bhd IMTN 31/10/2035	AA-	2,000,000	2,083,594	2,310,439	0.86
5.85% Tanjung Bin Energy Issuer Berhad 15/09/2028	AA3	1,000,000	1,067,991	1,145,594	0.42
6.20% Tanjung Bin Energy Issuer Berhad 16/03/2032	AA3	500,000	514,730	603,579	0.22
4.98% Tenaga Nasional Bhd IMTN 27/08/2038	AAA	7,000,000	7,267,263	7,907,217	2.92
5.75% TRIpIc Medical Sdn Bhd Senior Sukuk Murabahah 23/10/2034 - Tranche 13	AA1	2,500,000	2,697,848	2,953,683	1.09
4.725% TNB Northern Energy Berhad 29/11/2034	AAA	500,000	462,285	552,481	0.20
7.20% Tracoma Holdings Bhd (Series 1B 2014) 28/01/2014	D*	1,461,231	1,220,223	-	-
6.35% UMW Holdings Berhad Perpetual Sukuk Musharakah - Tranche 1	A1	14,500,000	15,191,770	16,670,122	6.17
5.55% WCT Holdings Bhd IMTN 21/02/2025	AA-	3,000,000	3,024,501	3,162,330	1.17

5 INVESTMENTS (CONTINUED)

Investments as at 30 September 2019 are as follows: (continued)

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value RM</u>	<u>Cost RM</u>	<u>Fair Value RM</u>	<u>% of Net Asset value RM</u>
UNQUOTED SUKUK (CONTINUED)					
5.65% WCT Holdings Bhd IMTN 20/04/2026	AA-	4,000,000	4,100,307	4,325,227	1.60
5.80% WCT Holdings Bhd IMTN (Series 1 Tranche 1) 27/09/2119	A	3,000,000	3,001,907	3,001,877	1.11
6.00% WCT Holdings Bhd IMTN (Series 1 Tranche 2) 27/09/2119	A	7,000,000	7,004,603	7,004,533	2.59
4.58% Westports Malaysia Sdn Bhd 23/10/2024	AA+	1,000,000	1,021,142	1,057,867	0.39
4.68% Westports Malaysia Sdn Bhd 23/10/2025	AA+	1,000,000	1,021,807	1,065,867	0.40
TOTAL UNQUOTED SUKUK			277,078,162	275,350,758	101.84

* Tracoma Holdings Bhd (“Tracoma”) RM100 million Islamic Bai' Bithaman Ajil Debt Securities (“BaIDS”)

On 12 April 2011, Tracoma was granted an extension of the Restraining Order (“RO”) for another 6 months from 9 December 2010. This means that Tracoma has protection from any legal action up to the expiry of the RO i.e. 8 June 2011. Tracoma is expected to refine the restructuring scheme which was rejected by the BaIDS holders.

On 19 April 2011, Tracoma appointed KAF Investment Bank Bhd as the company’s Principal Advisor for the proposed restructuring scheme.

On 9 May 2011, Tracoma was again granted an extension of the RO for a period of six (6) months effective from 9 June 2011 until 8 December 2011 to restrain further proceedings against Tracoma Group.

5 INVESTMENTS (CONTINUED)

* Tracoma Holdings Bhd (“Tracoma”) RM100 million Islamic Bai' Bithaman Ajil Debt Securities (“BaIDS”) (continued)

On 10 October 2011, an Event of Default (EOD) was declared and the BaIDS subsequently fair valued at zero value for the financial year ended 30 September 2011 of the Fund.

On 30 December 2011, BDO Consulting Sdn Bhd (“BDO”) was appointed as Receiver and Manager (“R&M”) to undertake an asset disposal exercise for the recovery of Tracoma’s RM100 million BaIDS. Most of Tracoma’s assets have been successfully disposed and the proceeds were distributed to the BaIDS holders in 5 distributions since December 2012. The total distribution amount of RM73 million translated to a 73% recovery rate.

As of the financial year ended 30 September 2019, R&M continued to conclude the assets disposal exercise but expected recovery is likely to be negligible. The BaIDS continued to be fair valued at zero value for the financial year ended 30 September 2019 of the Fund and has been written off as at 30 September 2020.

** MEX I Capital Bhd (“MEX I Capital” or formerly known as Bright Focus Bhd) RM1.35 billion Sukuk Musharakah

On 16 November 2018, RAM had downgraded the rating of MEX I Capital’s RM1.35 billion Sukuk Musharakah from AA2 to A1 on the premise of the unexpected deterioration in its cash reserves and its debt-servicing indicators following a RM73 million unauthorised advance from its subsidiary, Maju Expressway Sdn Bhd (“MESB”) to its ultimate shareholder, Maju Holdings Sdn Bhd (“Maju Holdings”) in June 2018.

On 3 June 2019, RAM further downgraded the rating of MEX I Capital from A1 to BB1 premised on the severe impairment in its debt-servicing metrics following further advances by MESB to Maju Holdings, in addition to a deterioration in MESB’s projected annual cash flows. Concurrently, the rating was put on negative Rating Watch following the legal action pursued by the trustee (on behalf of the sukukholders) to recover the RM97.7 million of advances made to Maju Holdings.

On 14 August 2019, a final injunction was granted by the Court restraining MESB from making any further advances to Maju Holdings or any other party throughout the remaining tenure of the Sukuk. The longest Sukuk tranche matures on 23 January 2031.

5 INVESTMENTS (CONTINUED)

**** MEX I Capital Bhd (“MEX I Capital” or formerly known as Bright Focus Bhd) RM1.35 billion Sukuk Musharakah (continued)**

On 24 June 2020, the Judge dismissed the civil suit earlier launched by the Trustee to recover the unauthorized intercompany advances to Maju Holdings with costs of RM10,000 and found that the Trustee has no proprietary interest in the intercompany advances from MESB to Maju Holdings hence, no grounds to compel Maju Holdings to repay MESB. The Judge had agreed with the Defendants’ contention that the Trustee does not have legal right to the intercompany advances of RM97.7 million but only a contractual right to authorize or not authorize the lending of the said sum via the Letter of Undertaking dated 22 August 2013 between MESB and Bright Focus at the time¹. In taking decision on the matter, the Judge also stated that the RM97.7 million was not advanced from any of the Sukuk Musharakah Designated Accounts but were actually monies belonging to MESB².

The proposed restructuring of the Sukuk to improve the rating is currently ongoing. Targeted completion was earlier postponed to mid-October 2020 but has since been further delayed as Sukukholders complete a review to finalise the New Sukuk repayment profile and yields as well as the indicative principal terms and conditions. The proposed restructuring will require Sukukholders’ approval at an Extraordinary General Meeting.

Notwithstanding, MEX I Capital is anticipated to generate sufficient cash flow to meet the Sukuk’s next immediate obligations comprising a principal repayment of RM70 million and profit payment of RM27.9 million due on 22 January 2021. As at 30 September 2020, approximately 83% of the Sukuk obligations due in January 2021 has been secured in the Issuer Finance Service Reserve Account. Average daily traffic at the Expressway is gradually recovering from the earlier Movement Control Order (“MCO”) that had resulted in a material loss of toll revenue during the 12-week period of enforcement up to 9 June 2020.

¹ The Letter of Undertaking was assigned to the Trustee via an Assignment of Undertaking dated 22 August 2013.

² The unauthorized transfers of monies to Maju Holdings were made from the MESB Operations Account.

6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	<u>2020</u> RM	<u>2019</u> RM
Islamic deposits with licensed financial institutions*	-	12,796,017
Bank balances	20,816,450	52,714
	<u>20,816,450</u>	<u>12,848,731</u>

* The Islamic deposits with licensed financial institutions as at 30 September 2019 are transacted with RHB Islamic Bank Berhad, a related company of the Manager. The total placements transacted with RHB Islamic Bank Berhad amounted RM2,215,942,000 for the financial year ended 30 September 2019.

7 UNITS IN CIRCULATION

	<u>2020</u> Units	<u>2019</u> Units
At the beginning of the financial year	201,580,587	210,107,623
Creation of units during the financial year:		
Arising from distribution	9,625,240	8,969,964
Arising from applications	40,650,000	30,253,000
Cancellation of units during the financial year	(75,069,000)	(47,750,000)
At the end of the financial year	<u>176,786,827</u>	<u>201,580,587</u>

8 MANAGEMENT FEE

In accordance with the Prospectus, the management fee provided in the financial statements is based on a profit sharing scheme between the Manager and the Fund at a ratio of 15:85 (2019: 15:85) respectively based on the net investment income for the financial year.

9 TRUSTEE'S FEE

In accordance with the Prospectus, the Trustee's fee provided in the financial statements is 0.10% (2019: 0.10%) per annum based on the net asset value of the Fund, calculated on a daily basis for the financial year, subject to a minimum fee of RM35,000 per annum.

10 TAXATION

(a) Tax charge for the financial year

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

(b) Numerical reconciliation of income tax expense

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

	<u>2020</u> RM	<u>2019</u> RM
Net income before taxation	12,242,600	13,523,442
Tax calculated at statutory income tax rate of 24%	2,938,224	3,245,626
Tax effects of:		
- Income not subject to tax	(3,529,704)	(3,890,649)
- Expenses not deductible for tax purposes	66,184	74,876
- Restriction on tax deductible expenses for unit trust funds	525,296	570,147
Tax expense	-	-

11 DISTRIBUTION

Distribution to unitholders is derived from the following sources:

	<u>2020</u> RM	<u>2019</u> RM
Prior financial years' realised income	4,167,895	3,183,147
Profit from unquoted sukuk	8,471,670	13,966,803
Profit from Islamic deposits with licensed financial institutions	349,765	653,455
Other income	-	209,634
	<hr/>	<hr/>
	12,989,330	18,013,039
Less: Expenses	(2,464,500)	(2,687,594)
	<hr/>	<hr/>
Net distribution amount	<u>10,524,830</u>	<u>15,325,445</u>

The net distribution consists of the following payout:

Distribution during the financial year

	<u>Sen per unit</u> <u>Gross/Net</u>	<u>Sen per unit</u> <u>Gross/Net</u>
25 September 2020 / 26 September 2019	6.0000	7.6000
	<hr/>	<hr/>

Included in the above distribution was an amount of RM4,167,895 (2019: RM3,183,147) made from prior financial year's realised income.

There are unrealised losses of RM2,720,350 (2019: RM 2,054,286) arising from the financial year.

12 MANAGEMENT EXPENSE RATIO (“MER”)

	<u>2020</u> %	<u>2019</u> %
MER	0.92	0.89

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.

13 PORTFOLIO TURNOVER RATIO (‘PTR’)

	<u>2020</u>	<u>2019</u>
PTR (times)	0.44	0.70

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.

14 UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER

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

	<u>2020</u>		<u>2019</u>	
	Units	RM	Units	RM
The Manager	39,722	53,426	16,160	21,675
RHB Capital Nominees (Tempatan) Sdn Bhd	32,711,652	43,997,172	26,131,467	35,050,137
RHB Nominees (Tempatan) Sdn Bhd	1,786,780	2,403,218	-	-

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 nominees structure.

14 UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER (CONTINUED)

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.

15 TRANSACTIONS BY THE FUND

Details of transactions by the Fund for the financial year ended 30 September 2020 are as follows:

<u>Financial institutions</u>	<u>Value of trades</u> <u>RM</u>	<u>Percentage of total trades</u> <u>%</u>	<u>Brokerage fees</u> <u>RM</u>	<u>Percentage of total brokerage fees</u> <u>%</u>
AmIslamic Bank Bhd	72,902,275	31.96	-	-
Affin Hwang Investment Bank Bhd	47,792,449	20.95	-	-
RHB Investment Bank Bhd*	24,274,350	10.64	-	-
CITI Bank Berhad	23,628,000	10.36	-	-
CIMB Islamic Bank Bhd	14,364,500	6.30	-	-
CIMB Bank Bhd	11,605,850	5.09	-	-
JP Morgan Chase Bank Bhd	9,814,620	4.30	-	-
Hong Leong Bank Bhd	5,945,550	2.61	-	-
Malayan Banking Bhd	5,885,950	2.58	-	-
Hong Leong Investment Bank Bhd	5,000,000	2.19	-	-
Others	6,868,300	3.02	-	-
	<u>228,081,844</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

15 TRANSACTIONS BY THE FUND (CONTINUED)

Details of transactions by the Fund for the financial year ended 30 September 2019 are as follows:

<u>Financial institutions</u>	<u>Value of trades</u>	<u>Percentage of total trades</u>	<u>Brokerage fees</u>	<u>Percentage of total brokerage fees</u>
	RM	%	RM	%
CIMB Bank Bhd	78,989,615	18.61	-	-
AmBank Islamic Bhd	70,638,500	16.65	-	-
Hong Leong Bank Bhd	62,177,920	14.65	-	-
CIMB Islamic Bank Bhd	61,835,625	14.57	-	-
RHB Investment Bank Bhd*	34,286,310	8.08	-	-
Affin Hwang Investment Bank Bhd	29,455,875	6.94	-	-
AmBank (Malaysia) Bhd	26,762,800	6.31	-	-
J.P. Morgan Chase Bank Bhd	26,646,400	6.28	-	-
Malayan Banking Bhd	17,835,325	4.20	-	-
Alliance Bank Berhad	13,023,500	3.07	-	-
Others	2,731,860	5.36	-	-
	<u>424,383,730</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

* Included in transactions by the Fund are trades with the holding company of the Manager, RHB Investment Bank Bhd. 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.

16 FINANCIAL INSTRUMENTS BY CATEGORIES

	<u>2020</u> <u>RM</u>	<u>2019</u> <u>RM</u>
Financial assets		
Financial assets at fair value through profit or loss (“FVTPL”)		
• Unquoted sukuk	<u>227,837,716</u>	<u>275,350,758</u>
Financial assets at amortised cost		
• Islamic deposits with licensed financial institutions	-	12,796,017
• Bank balances	20,816,450	52,714
• Amount due from manager	<u>2,023,779</u>	<u>555,298</u>
	<u>22,840,229</u>	<u>13,404,029</u>
Financial liabilities		
Financial liabilities at amortised cost		
• Amount due to Manager	178,672	648,210
• Accrued management fee	2,163,309	2,366,336
• Amount due to Trustee	21,047	23,750
• Income distribution payable	10,524,830	15,325,445
• Other payables and accruals	<u>14,805</u>	<u>18,421</u>
	<u>12,902,663</u>	<u>18,382,162</u>

17 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 ISLAMIC BOND FUND

We, Dato' Darawati Hussain and Chin Yoong Kheong, 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 of 30 September 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

Chin Yoong Kheong
Director

26 November 2020

TRUSTEE'S REPORT TO THE UNITHOLDERS OF RHB ISLAMIC BOND FUND

We, CIMB Islamic Trustee Berhad, being the Trustee for RHB Islamic Bond Fund (“the Fund”), are of the opinion that RHB Asset Management Sdn Bhd (“the Manager”), acting in the capacity as the Manager of the Fund, has fulfilled its duties in the following manner for the financial year ended 30 September 2020.

- a) The Fund has been managed in accordance with the limitations imposed on the investment powers of the Manager under the Deeds, the Securities Commission Malaysia’s Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 (as amended from time to time) and other applicable laws;
- b) Valuation and pricing for the Fund has been carried out in accordance with the Deeds and relevant regulatory requirements;
- c) Creation and cancellation of units have been carried out in accordance with the Deeds and relevant regulatory requirements; and
- d) The distribution of income by the Fund is appropriate and reflects the investment objective of the Fund.

For and on behalf of
CIMB Islamic Trustee Berhad

Lee Kooi Yoke
Chief Executive Officer

Kuala Lumpur
26 November 2020

REPORT OF THE SHARIAH ADVISER RHB ISLAMIC BOND FUND

We have acted as the Shariah Adviser of RHB Islamic Bond Fund (“the Fund”). Our responsibility is to ensure that the procedures and processes employed by RHB Asset Management Sdn Bhd (“the Manager”) and that the provisions of the Deeds are in accordance with Shariah principles.

In our opinion, the Manager has managed and administered the Fund in accordance with Shariah principles and complied with the applicable guidelines, rulings and decisions issued by the Securities Commission Malaysia pertaining to Shariah matters for the financial year ended 30 September 2020.

In addition, we also confirm that the investment portfolio of the Fund comprises instruments which have been classified as Shariah-compliant by the Shariah Advisory Council of the Securities Commission Malaysia (“SACSC”), and where applicable the Shariah Advisory Council of Bank Negara Malaysia. As for the instruments other than above-mentioned, we further confirm that the status of such instruments have been determined in accordance with the ruling issued by the Shariah Adviser.

I, Assoc. Prof Dr. Kamaruzaman Bin Noordin hereby confirm that all members of the Shariah Committee have been consulted and made aware of all the Shariah issues in relation to this report.

For and on behalf of Shariah Committee of RHB Islamic Bank Berhad
(Company No: 200501003283)

Assoc. Prof Dr. Kamaruzaman Bin Noordin
Member
Shariah Committee of RHB Islamic Bank Berhad

Kuala Lumpur
26 November 2020

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF RHB ISLAMIC BOND FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of RHB Islamic Bond Fund (“the Fund”) give a true and fair view of the financial position of the Fund as at 30 September 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 30 September 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 50.

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 ISLAMIC BOND 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 ISLAMIC BOND 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 ISLAMIC BOND 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
26 November 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*)

YBhg Dato' Darawati Hussain (*Independent Non-Executive Director*)

YBhg Datuk Seri Dr Govindan A/L Kunchambo (*Independent Non-Executive Director*) (*Appointed with effect from 15 October 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)

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Penang Office	3 rd Floor, 44 Lebuhr Pantai 10300 Penang, Georgetown Tel: 04-264 5639 Fax: 04-264 5640
Prai Office	No 38, First Floor Jalan Todak 2 Seberang Jaya 13700 Perai, Penang Tel: 04-386 6670 Fax: 04-386 6528

TRUSTEE	CIMB Islamic 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 Islamic Bank Bhd RHB Investment Bank Bhd AmInvestment Bank Bhd Areca Capital Sdn Bhd CIMB Bank Berhad CIMB Investment Bank Bhd CIMB Islamic Bank Berhad Genexus Advisory Sdn Bhd HSBC Amanah Malaysia Bhd HSBC Bank Malaysia Bhd iFast Capital Sdn Bhd OCBC Al-Amin Bank Bhd OCBC Bank (Malaysia) Bhd Phillip Mutual Bhd Standard Chartered Bank Malaysia Bhd Standard Financial Adviser Sdn Bhd United Overseas Bank (Malaysia) Bhd UOB Kay Hian Securities (M) Sdn Bhd

RHB ♦ Asset Management

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