



A member of Prudential plc (UK) 

ANNUAL REPORT

EASTSPRING INVESTMENTS TARGET INCOME FUND 3

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016



Dear Valued Investor,

Greetings from Eastspring Investments Berhad!

First and foremost, we would like to take this opportunity to thank you for choosing to invest with Eastspring Investments Berhad.

We are pleased to enclose a copy of the Annual/Interim/Quarterly Fund Reports of Eastspring Investments Berhad's fund(s) for the reporting period ended 31 March 2016.

You may also download these reports from our website at www.eastspringinvestments.com.my

Should you require any assistance, please do not hesitate to contact our Client Services at 03-2332 1000.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Raymond Tang', written in a cursive style.

Raymond Tang Chee Kin

Non-Independent, Executive Director and Chief Executive Officer

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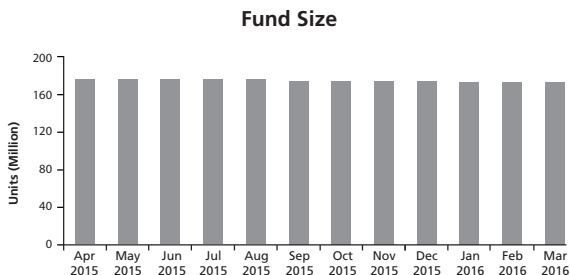
FUND INFORMATION

| | |
|--|---|
| Name of Fund | <p>Eastspring Investments Target* Income Fund 3 (“the Fund”)</p> <p>* The Fund aims (i.e. Target) to distribute income on a semi-annual basis from the coupon payments received from the bonds investments.</p> |
| Fund Category/ Type | <p>Bond (close-ended)/income</p> |
| Fund Objective | <p>The Fund endeavours to provide regular income* during the tenure of the Fund.</p> <p>* Income distribution proceeds will be paid out by way of cheque.</p> |
| Termination Date | <p>3 June 2017</p> |
| Duration of the Fund | <p>Three (3) years close-ended bond.</p> |
| Performance Benchmark | <p>3-year Maybank fixed deposit rate as at Commencement Date.</p> <p>Please note that investors may obtain information on the benchmark from the Manager upon request.</p> <p><i>As the Fund will invest in local and foreign markets across various bonds of different ratings, the risk profile of the Fund is not the same as the risk profile of the performance benchmark.</i></p> |
| Fund Income Distribution Policy | <p>The Fund’s income distribution is non-guaranteed and subject to the availability of income. Distribution of income, if any, after deduction of taxation and expenses will be declared semi-annually.</p> |

FUND INFORMATION (CONTINUED)

Breakdown of Unit Holdings by Size

As at 31 March 2016, the size of Eastspring Investments Target Income Fund 3 stood at 173.094 million units.



Breakdown of Unit Holdings

| Unit Holdings | No. of Unit Holders | % | No of Units* ('000) | % |
|-------------------------|---------------------|---------------|---------------------|---------------|
| 5,000 units and below | 45 | 17.79 | 149 | 0.09 |
| 5,001 to 10,000 units | 40 | 15.81 | 386 | 0.22 |
| 10,001 to 50,000 units | 115 | 45.45 | 3,387 | 1.96 |
| 50,001 to 500,000 units | 42 | 16.60 | 5,968 | 3.45 |
| 500,001 units and above | 11 | 4.35 | 163,203 | 94.28 |
| Total | 253 | 100.00 | 173,093 | 100.00 |

* excludes units held by the Manager.

KEY PERFORMANCE DATA

FOR THE FINANCIAL YEAR ENDED

| Category | 31.3.2016 | Since commencement 16.4.2014 to 31.3.2015 |
|---|---------------|---|
| | (%) | (%) |
| Unquoted fixed income securities | 113.40 | 110.40 |
| Derivatives | (16.29) | (11.55) |
| Cash and other assets | 2.89 | 1.15 |
| Total | 100.00 | 100.00 |
| Net Asset Value (NAV) (RM'000) | 177,902 | 177,027 |
| Units In Circulation (Units '000) | 173,094 | 175,596 |
| Net Asset Value Per Unit (RM) | 1.0278 | 1.0081 |
| Highest Net Asset Value Per Unit (RM) [#] | 1.0278 | 1.0087 |
| Lowest Net Asset Value Per Unit (RM) [#] | 0.9951 | 0.9772 |
| Total Return (%) | | |
| Capital Growth | 1.93 | 0.83 |
| Income Distribution | 4.67 | 2.32 |
| Total Return (%) | 6.69 | 3.17 |
| Gross Distribution Per Unit (RM) | 0.0464 | 0.0232 |
| Net Distribution Per Unit (RM) | 0.0464 | 0.0232 |
| Management Expense Ratio (MER) (%) [*] | 0.10 | 0.09 |
| Portfolio Turnover Ratio (PTR) (times) [^] | 0.42 | 0.90 |

[#] Figures shown as ex-distribution.

^{*} There were no significant changes to the MER during the period under review.

[^] PTR has been reduced due to lower transactions compared to the previous year when the Fund was ramping up its investments.

KEY PERFORMANCE DATA (CONTINUED)

| | 1 year 1.4.2015 to 31.3.2016 | Since commencement 16.4.2014 to 31.3.2016 |
|----------------------|------------------------------------|--|
| | (%) | (%) |
| Average total return | 6.69 | 5.38 |

| Year ended | 1 year 1.4.2015 to 31.3.2016 | Since commencement 16.4.2014 to 31.3.2015 |
|---------------------|------------------------------------|--|
| | (%) | (%) |
| Annual total return | 6.69 | 3.17 |

Source: Lipper for Investment Management, as at 31 March 2016.

Bases of calculation and assumptions made in calculating returns:

$$\text{Percentage growth} = \frac{\text{NAV}_t}{\text{NAV}_0} - 1$$

NAV_t = NAV at the end of the period

NAV_0 = NAV at the beginning of the period

$$\text{Performance annualised} = (1 + \text{Percentage Growth})^{1/n} - 1$$

n = Number of years

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

MANAGER'S REPORT

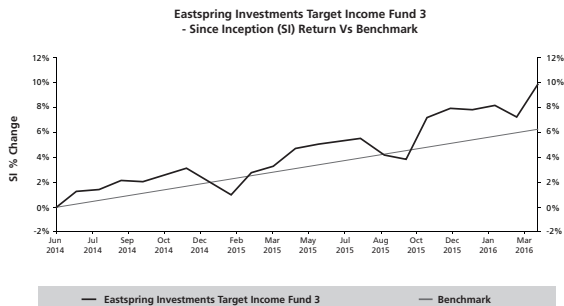
Fund Performance

Since inception, the Fund registered a return of 10.07%, outperforming the benchmark return of 6.29% by 3.78%.

For the period under review, the Fund registered a positive return of 6.69%, outperforming the benchmark return of 3.40% by 3.29%.

The Target Fund benefited from its investments in the Asian credit market which generated an overall positive return over the period under review. The positive return was largely supported by coupon income of the underlying bond investments and positive credit selection.

The Fund met its investment objective of providing regular income during the period under review.



The performance is calculated on NAV-to-NAV basis with gross income or dividend reinvested.

Benchmark: 3-year Maybank fixed deposit rate as at Commencement Date

Fund performance is sourced from Lipper for Investment Management, 31 March 2016 and the benchmark is obtainable from Eastspring Investments Berhad upon request.

Past performance of the Fund is not necessarily indicative of its future performance.

MANAGER'S REPORT (CONTINUED)

Analysis of Fund Performance

For the financial year ended 31 March 2016:

| Income Return | Capital Return* | Total Return | Total Return of Benchmark |
|---------------|-----------------|--------------|---------------------------|
| (%) | (%) | (%) | (%) |
| 4.67 | 1.93 | 6.69 | 3.40 |

* Capital return components (NAV per unit to NAV per unit)

1. Unquoted fixed income securities
2. Derivatives
3. Cash and other assets

Distribution/
Unit Split

| Ex-date | 23-Jun-15 | 22-Dec-15 |
|-----------------------|-----------|-----------|
| Distribution Per Unit | (RM) | (RM) |
| Gross | 0.0232 | 0.0232 |
| Net | 0.0232 | 0.0232 |

Impact on NAV arising from distribution for the financial year ended 31 March 2016.

| Ex-date | 23-Jun-15 | 22-Dec-15 |
|-------------------------------------|---------------|---------------|
| | (RM per Unit) | (RM per Unit) |
| Net Asset Value before distribution | 1.0301 | 1.0281 |
| Less: distribution | (0.0232) | (0.0232) |
| Net Asset Value after distribution | 1.0069 | 1.0049 |

No unit split were declared for the financial year ended 31 March 2016.

MANAGER'S REPORT (CONTINUED)

Investment Strategy During Period Under Review

As this is a close-ended bond fund, the Target Fund will be managed primarily with a semi-active management strategy. The Target Fund's bond investments will be typically held to maturity. At the maturity of these debt securities, issuers of the debt securities held by the Target Fund will be obligated to pay the face value provided there is no occurrence of credit default by the issuer.

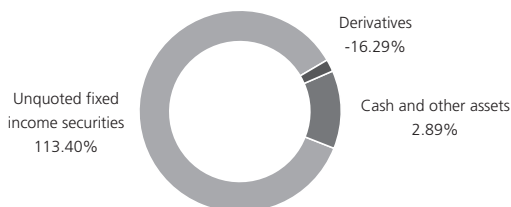
Nevertheless, the Target Fund Manager continues to monitor the Target Fund's investments and may trade and rebalance its investments under the following scenarios:

- Increased default risk and/or from uptrend interest rate concerns;
- Hedging transactions in the event that the sale of the security at risk is not possible; and
- Reinvesting proceeds from maturing securities.

Asset Allocation

| Asset Allocation | 31-Mar 2016 (%) | 31-Mar 2015 (%) | Changes (%) |
|----------------------------------|-----------------|-----------------|-------------|
| Unquoted fixed income securities | 113.40 | 110.40 | 3.00 |
| Derivatives | (16.29) | (11.55) | (4.74) |
| Cash and other assets | 2.89 | 1.15 | 1.74 |

Asset Allocation as at 31 March 2016



There were no significant changes in asset allocation of the Fund for the period under review.

MANAGER'S REPORT (CONTINUED)

**State of Affairs of
the Fund**

There have been neither significant change to the state of affairs of the Fund nor any circumstances that materially affect any interests of the unit holders during the period under review.

MARKET REVIEW

Over the past year, global markets were beset by heightened volatility - uncertainty over the timing of the US rate hike, sustained weakness in oil prices and growth concerns in the Emerging Markets, including China, all weighing on investor sentiment. The jittery market backdrop supported flight-to-quality flows into US Treasuries, while performance of global credit markets was dampened by a widening of credit spreads. Nevertheless, Asian USD-denominated bond market remained largely resilient, posting a moderate positive return over the year as lower US interest rates and coupon income helped to offset the moderate widening in spreads. Additionally, performance of the Asian USD bond markets was bolstered by a rebound in sentiment towards the end of 1Q2016. Despite a shaky start to 2016, dovish monetary policy bias in the major economies, as well as firmer oil prices and economic data in China, boosted investor sentiment.

REBATES AND SOFT COMMISSIONS

During the period under review, the Manager and its delegates (if any) did not receive any soft commissions from stockbrokers.

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EASTSPRING INVESTMENTS TARGET INCOME FUND 3

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

TRUSTEE'S REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS TARGET INCOME FUND 3

We have acted as Trustee for Eastspring Investments Target Income Fund 3 (the "Fund") for financial year ended 31 March 2016. To the best of our knowledge, for the year under review, Eastspring Investments Berhad (the "Manager") has operated and managed the Fund in accordance with the following:

- a. limitations imposed on the investment powers of the Manager and Trustee under the Deed, the Securities Commission's Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- b. the valuation/pricing for the Fund has been carried out in accordance with the Deed of the Fund and applicable regulatory requirements; and
- c. creation and cancellation of units for the Fund have been carried out in accordance with the Deed of the Fund and applicable regulatory requirements.

We are of the view that the distributions made during this financial year ended 31 March 2016 by the Manager are not inconsistent with the objectives of the Fund.

For Deutsche Trustees Malaysia Berhad

Wong Mun Loong

Manager, Trustee Operations

Soon Lai Ching

Manager, Trustee Operations

Kuala Lumpur

Date: 13 May 2016

INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS TARGET INCOME FUND 3

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Eastspring Investments Target Income Fund 3 (the "Fund") on pages 15 to 60, which comprise the statement of financial position as at 31 March 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Fund for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes on 1 to 17 to the financial statements.

Manager's Responsibility for the Financial Statements

The Manager of the Fund is responsible for the preparation of financial statements so as to 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 are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation of financial statements that give a true and fair view 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 Manager's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as of 31 March 2016 and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS

(No. AF: 1146)

Chartered Accountants

Kuala Lumpur

Date: 13 May 2016

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

| | Note | 2016 | Financial period from 16.4.2014 (launch date) to 31.3.2015 |
|--|------|-------------------|--|
| | | RM | RM |
| INVESTMENT INCOME | | | |
| Interest income from deposits with licensed financial institutions | | 72,940 | 387,462 |
| Interest income from unquoted fixed income securities | | 10,614,509 | 7,644,013 |
| Interest expense from swap contracts | | (428,770) | - |
| Exit fee income | | 76,320 | 93,625 |
| Net gain on financial assets at fair value through profit or loss | 6 | 9,983,593 | 15,506,458 |
| Net loss on forward currency contracts | | (5,850,368) | (11,571,292) |
| Net loss on swap contracts | | (2,689,047) | (6,907,857) |
| Net foreign currency exchange (loss)/gain | | (60,207) | 596,150 |
| | | <u>11,718,970</u> | <u>5,748,559</u> |
| EXPENSES | | | |
| Trustee fee | 3 | (106,190) | (89,276) |
| Audit fee | | (12,000) | (12,000) |
| Tax agent fee | | (3,400) | (7,800) |
| Other expenses | | (48,694) | (39,206) |
| GST charges | | (6,752) | - |
| | | <u>(177,036)</u> | <u>(148,282)</u> |
| PROFIT BEFORE TAXATION | | 11,541,934 | 5,600,277 |
| TAXATION | 5 | <u>(17,886)</u> | <u>(24,322)</u> |
| PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME | | <u>11,524,048</u> | <u>5,575,955</u> |
| Profit after taxation is made up of the following: | | | |
| Realised amount | | 18,069,819 | 5,249,692 |
| Unrealised amount | | (6,545,771) | 326,263 |
| | | <u>11,524,048</u> | <u>5,575,955</u> |

The accompanying summary of significant accounting policies and notes to the financial statements form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

| | Note | 2016 | 2015 |
|--|------|--------------------|--------------------|
| | | RM | RM |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Financial assets at fair value through profit or loss | 6 | 201,749,552 | 195,460,315 |
| Cash and cash equivalents | 7 | 5,909,960 | 4,297,822 |
| Amount due from brokers | | 2,955,859 | - |
| Tax recoverable | | 6,814 | - |
| Redemption receivable | | 880 | - |
| TOTAL ASSETS | | <u>210,623,065</u> | <u>199,758,137</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Forward foreign currency contracts | 8 | 17,421,660 | 11,571,292 |
| Swap contracts | 9 | 11,559,820 | 8,870,773 |
| Amount due to Manager | | 29,319 | - |
| Amount due to brokers | | 3,670,957 | 2,209,800 |
| Amount due to Trustee | | 8,939 | 9,019 |
| Other payables and accruals | | 30,023 | 46,200 |
| Provision for taxation | | - | 24,322 |
| GST charges payable | | 536 | - |
| TOTAL LIABILITIES | | <u>32,721,254</u> | <u>22,731,406</u> |
| NET ASSET VALUE OF THE FUND | | <u>177,901,811</u> | <u>177,026,731</u> |
| EQUITY | | | |
| Unit holders' capital | | 173,032,250 | 175,570,578 |
| Retained earnings | | 4,869,561 | 1,456,153 |
| NET ASSET ATTRIBUTABLE TO UNIT HOLDERS | | <u>177,901,811</u> | <u>177,026,731</u> |
| NUMBER OF UNITS IN CIRCULATION | 10 | <u>173,094,483</u> | <u>175,595,801</u> |
| NET ASSET VALUE PER UNIT (EX-DISTRIBUTION) (RM) | | <u>1.0278</u> | <u>1.0081</u> |

The accompanying summary of significant accounting policies and notes to the financial statements form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

| | Note | Unit holders' capital | Retained earnings | Total |
|---|------|-----------------------|-------------------|--------------------|
| | | RM | RM | RM |
| Balance as at 1 April 2015 | | 175,570,578 | 1,456,153 | 177,026,731 |
| Movement in unit holders' contribution: | | | | |
| Creation of units from applications | | - | - | - |
| Cancellation of units | | (2,538,328) | - | (2,538,328) |
| Total comprehensive income for the financial year | | - | 11,524,048 | 11,524,048 |
| Distributions (Gross: 4.64 sen/Net: 4.64 sen) | 4 | - | (8,110,640) | (8,110,640) |
| Balance as at 31 March 2016 | | <u>173,032,250</u> | <u>4,869,561</u> | <u>177,901,811</u> |
| Balance as at 16 April 2014 (launch date) | | - | - | - |
| Movement in unit holders' contribution: | | | | |
| Creation of units from applications | | 180,762,180 | - | 180,762,180 |
| Cancellation of units | | (5,191,602) | - | (5,191,602) |
| Total comprehensive income for the financial period | | - | 5,575,955 | 5,575,955 |
| Distribution (Gross: 2.32 sen/ Net: 2.32 sen) | 4 | - | (4,119,802) | (4,119,802) |
| Balance as at 31 March 2015 | | <u>175,570,578</u> | <u>1,456,153</u> | <u>177,026,731</u> |

The accompanying summary of significant accounting policies and notes to the financial statements form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

| | Note | 2016 | Financial period from 16.4.2014 (launch date) to 31.3.2015 |
|--|------|---------------------|--|
| | | RM | RM |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Proceeds from sale of investments | | 73,266,055 | 114,848,284 |
| Payments for purchase of investments | | (72,098,663) | (288,023,738) |
| Interest income received from deposits with licensed financial institutions | | 72,940 | 387,462 |
| Interest income received from unquoted fixed income securities | | 11,218,001 | 5,038,325 |
| Exit income fee received | | 75,440 | 93,625 |
| Trustee fee paid | | (106,270) | (80,257) |
| Payment for other fees and expenses | | (86,487) | (12,805) |
| Net foreign exchange (loss)/gain | | (60,207) | 596,150 |
| Tax paid | | (49,022) | - |
| Net cash generated from/(used in) operating activities | | <u>12,231,787</u> | <u>(167,152,954)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from units created | | - | 180,762,180 |
| Payments for cancellation of units | | (2,509,009) | (5,191,602) |
| Distribution paid | | <u>(8,110,640)</u> | <u>(4,119,802)</u> |
| Net cash (used in)/generated from financing activities | | <u>(10,619,649)</u> | <u>171,450,776</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| | | 1,612,138 | 4,297,822 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR/ LAUNCH DATE | | | |
| | | <u>4,297,822</u> | <u>-</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR/PERIOD | | | |
| | 7 | <u>5,909,960</u> | <u>4,297,822</u> |

The accompanying summary of significant accounting policies and notes to the financial statements form an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

The following accounting policies have been used in dealing with items which are considered material in relation to the financial statements.

A. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivatives instruments) at fair value through profit or loss, except as disclosed in this 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 the MFRS 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 revenues and expenses during the reported financial year. It also requires the Manager to exercise their 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.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note M.

- a. Standards, amendments to published standards and interpretations that are effective.

The following amendment has been adopted by the Fund for the first time for the financial year beginning on or after 1 April 2015.

- Annual Improvements to MFRSs 2010 – 2012 Cycle
- Annual Improvements to MFRSs 2011 – 2013 Cycle

The adoption of these amendments did not have any impact on the current or any prior year and are not likely to affect future periods.

- b. The new standards, amendments to published standards and interpretations to existing standards that are applicable to the Fund but not yet effective and have not been early adopted are as follows:
- i. Financial year beginning on/after 1 April 2018
- MFRS 15 “Revenue from contracts with customers” (effective from 1 January 2018) replaces MFRS 118 “Revenue” and MFRS 111 “Construction contracts” and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Fund will apply this standard when effective. This standard is not expected to have a significant impact on the Fund’s financial statements.

- MFRS 9 “Financial Instruments” (effective from 1 January 2018) will replace MFRS 139 “Financial Instruments: Recognition and Measurement”.

MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income (“OCI”). The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

For liabilities, the standard retains most of the MFRS 139 requirements.

These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

MFRS 9 introduces an expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The Fund will apply this standard when effective. This standard is not expected to have a significant impact on the Fund's financial statements.

B. INCOME RECOGNITION

Interest income from short term deposits is recognised on the accrual basis using the effective interest method.

Interest income from unquoted fixed income securities including amortisation of premium and accretion of discount are recognised using the effective interest method.

Realised gain or loss on disposal of unquoted fixed income securities is accounted for as the difference between the net disposal proceeds and the carrying amount of the investments, determined on cost adjusted for accretion of discount or amortisation of premium.

Exit fee income is a redemption fee charged to unit holders on cancellation of units before the maturity date and is recognised upon cancellation of units.

C. TAXATION

Current tax expense is determined according to the Malaysian tax laws at the current rate based upon the taxable income earned during the financial year.

Tax on interest income from foreign unquoted fixed income securities is based on the tax regime of the respective countries that the Fund invests in.

D. PRESENTATION AND FUNCTIONAL CURRENCY

Items included in the financial statements of the Fund are measured using the currency as 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.

E. FOREIGN CURRENCY TRANSLATION

Foreign currency transactions in the Fund are translated into the functional currency using the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

F. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

i. Classification

The Fund designates its investment in unquoted fixed income securities as financial assets at fair value through profit or loss at inception.

Financial assets are designated at fair value through profit or loss when they are managed and their performance evaluated on a fair value basis.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been included in current assets. The Fund’s loans and receivables comprise cash and cash equivalents, amount due from brokers and redemption receivable which is all due within 12 months.

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

The Fund’s financial liabilities include amount due to Manager, amount due to brokers, amount due to Trustee, other payables and accruals and GST charges payable.

ii. 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. Investments are initially recognised at fair value.

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

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument.

Financial liability is derecognised when the obligation under the liability is extinguished. Gain and losses are recognised in the statement of comprehensive income when the liabilities are derecognised, and through the amortisation process.

Unrealised gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” are presented in the statement of comprehensive income within “net gain/(loss) on financial assets at fair value through profit and loss” in the period in which they arise. Any unrealised gains however are not distributable.

Foreign exchange gains and losses on the derivative financial instrument are recognised in statement of comprehensive income when settled or at date of the statement of financial position at which time they are included in the measurement of the derivative financial instrument.

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

Unquoted fixed income securities are carried at cost and adjusted for any amortisation of premium or accretion of discount from acquisition date to maturity date. The carrying cost is revalued to reflect its fair value on a daily basis using the net present value method based on fair value prices quoted by a bond pricing agency (“BPA”) registered with the Securities Commission as per the Securities Commission’s 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 fixed income securities differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager:

- records its basis for using a non-BPA price;
- obtains necessary internal approvals to use the non-BPA price; and
- keeps an audit trail of all decisions and basis for adopting the market yield.

Unquoted fixed income securities denominated in foreign currencies are revalued at daily basis by reference to the price obtained from at least three financial institutions. However, if such quotations are not available or should the gaps of the quotations provided by the financial institutions differ by more than 20 basis points, the valuation shall be determined by reference to the value of such debt securities quoted by Reuters.

Loans and receivables and other financial liabilities are subsequently carried at amortised cost using the effective interest method.

iii. Impairment for assets carried at amortised costs

For assets carried at amortised cost, the Fund assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in statement of comprehensive income. If "loans and receivables" have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

As a practical expedient, the Fund may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in statement of comprehensive income.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

G. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise bank balances and deposit with a licensed financial institution that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

H. UNIT HOLDERS' CAPITAL

The unit holders' contributions to the Fund meet the criteria 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 assets value;
- the units are the most subordinated class and class features are identical;
- there is no contractual obligations 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 profit or loss of the Fund.

The outstanding units are carried at the redemption amount that is payable at each financial year if unit holder exercises the right to put the unit 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 unit holders with the total number of outstanding units.

I. DISTRIBUTIONS

A distribution to the Fund's unit holders is accounted for as a deduction from realised reserves. A proposed distribution is recognised as a liability in the financial period in which it is approved.

J. SEGMENTAL INFORMATION

Operating segments are reported in a manner consistent with the internal reporting used by chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Investment Committee of the Fund Manager that undertakes strategic decisions for the Fund.

K. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The Fund's derivative financial instruments comprise forward currency contracts and swap contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being

hedged. Derivatives that do not qualify for hedge accounting are classified as held-for-trading and accounted for in accordance with the accounting policy set out in Note F.

L. AMOUNT DUE FROM/(TO) BROKERS

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively.

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment for amounts due from brokers. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

M. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are

anticipated to have material impact to the Funds' results and financial position are tested for sensitivity to changes in the underlying parameters.

Estimates and judgments are continually evaluated by the Manager and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

i. Estimate of fair value of unquoted fixed income securities

The Fund uses significant judgment in determining whether an investment is impaired. The Fund evaluates, among other factors, the duration and extent to which the fair value of the investment is less than cost, and the financial health and near-term business outlook for the investee, including factors such as industry and sector performance, macroeconomic factors and speculation.

In undertaking any of the Fund's investment, the Manager will ensure that all assets of the Fund under management will be valued appropriately, that is at fair value and in compliance with the Securities Commission valuation guidelines.

Unquoted fixed income securities are valued using fair value prices quoted by a bond pricing agency (BPA). Where the Manager is of the view that the price quoted by BPA for a specific bond differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager records its basis for using a non-BPA price, obtains necessary internal approvals to use the non-BPA price, and keeps an audit trail of all decisions and basis for adopting the use of non-BPA price. This is allowed for under the Securities Commission's Guidelines on Unit Trust Funds.

Unquoted fixed income securities denominated in foreign currencies are revalued at daily basis by reference to the price obtained from at least three financial institutions. However, if such quotations are not available or should the gaps of the quotations provided by the financial institutions differ by more than 20 basis points, the valuation shall be determined by reference to the value of such debt securities quoted by Reuters.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

1. INFORMATION ON THE FUND

Eastspring Investments Target Income Fund 3 (the "Fund") was constituted pursuant to the execution of a Deed dated 16 December 2013 followed by a Supplemental Deed dated 2 January 2015 (collectively referred to as the "Deed") entered into between Eastspring Investments Berhad (the "Manager") and Deutsche Trustees Malaysia Berhad (the "Trustee").

The Fund was launched on 16 April 2014 and will continue its operations until terminated by the Trustee or the Manager as provided under Part 12 of the Deed.

The Fund seeks to achieve its objective by investing in local and/or foreign debt securities. The Fund will invest a minimum of 70% of its NAV in local and/or foreign debt securities. Not more than 40% of the Fund's NAV may be invested either in non-rated debt securities and/or debt securities rated below investment grade rating by RAM, MARC, Standard & Poor's, Moody's, Fitch or other rating agencies (i.e. lower than BBB3 rating by RAM or below investment grade rating by other rating agencies) while the remainder will be invested in investment grade bonds. Additionally, up to 30% of the Fund's NAV may be invested in money market instruments. All investments will be subjected to the SC Guidelines on Unit Trust Funds, the Deed and the objective of the Fund.

The main objective of the Fund is to provide regular income during the tenure of the Fund.

The Manager is a company incorporated in Malaysia and is related to Prudential Plc., a public listed company in the United Kingdom. The principal activity of the Manager is the establishment and management of unit trust funds and asset management.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund is exposed to market risk (inclusive of price risk, interest rate risk and foreign exchange/currency risk), country risk, fund management risk, liquidity risk, non-compliance risk, capital risk and credit/default 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 Deed.

Financial instruments of the Fund are as follows:

| | Note | Loans and receivables | Financial assets at fair value through profit or loss | Total |
|----------------------------------|------|--------------------------|---|--------------------|
| | | RM | RM | RM |
| <u>2016</u> | | | | |
| Unquoted fixed income securities | 6 | - | 201,749,552 | 201,749,552 |
| Cash and cash equivalents | 7 | 5,909,960 | - | 5,909,960 |
| Amount due from brokers | | 2,955,859 | - | 2,955,859 |
| Redemption receivable | | 880 | - | 880 |
| | | <u>8,866,699</u> | <u>201,749,552</u> | <u>210,616,251</u> |
| <u>2015</u> | | | | |
| Unquoted fixed income securities | 6 | - | 195,460,315 | 195,460,315 |
| Cash and cash equivalents | 7 | 4,297,822 | - | 4,297,822 |
| | | <u>4,297,822</u> | <u>195,460,315</u> | <u>199,758,137</u> |

All current liabilities are financial liabilities which are carried at amortised cost.

Market risk

i. Price risk

This risk refers to changes and developments in regulations, politics and the economy of the country. The very nature of a Unit Trust Fund, however, helps mitigate this risk because a Fund would generally hold a well-diversified portfolio of securities from different market sectors so that the collapse of any one security or any one market sector would not impact too greatly on the value of the Fund.

The table below shows assets of the Fund as at 31 March which are exposed to price risk:

| | 2016 | 2015 |
|--|---------------------|--------------------|
| | RM | RM |
| Unquoted fixed income securities designated at fair value through profit or loss | <u>201,749,552</u> | <u>195,460,315</u> |
| <u>Derivatives</u> | | |
| Forward foreign currency contracts | (17,421,660) | (11,571,292) |
| Swap contracts | <u>(11,559,820)</u> | <u>(8,870,773)</u> |

The following table summarises the sensitivity of the Fund's profit after tax and net asset value to movements in prices of unquoted fixed income securities and derivatives at the end of the reporting year/period. The analysis is based on the assumptions that the market price of the unquoted fixed income securities and derivatives increased by 5% and decreased by 5% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the unquoted fixed income securities and derivatives, having regard to the historical volatility of the prices.

| % Change in price of financial assets at fair value through profit or loss | Market value | Increase/(decrease) in profit after tax and net asset value |
|---|---------------------|--|
| | RM | RM |
| <u>2016</u> | | |
| +5% | 181,406,476 | 8,638,404 |
| -5% | <u>164,129,668</u> | <u>(8,638,404)</u> |
| <u>2015</u> | | |
| +5% | 183,769,163 | 8,750,913 |
| -5% | <u>166,267,338</u> | <u>(8,750,913)</u> |

ii. Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

In general, when interest rates rise, unquoted fixed income securities prices will tend to fall and vice versa. Therefore, the NAV of the Fund may also tend to fall when interest rates rise or are expected to rise. However, investors should be aware that should the Fund holds an unquoted fixed income securities till maturity, such price fluctuations would dissipate as it approaches maturity, and thus the growth of the NAV shall not be affected at maturity. In order to mitigate interest 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 interest rate trend of the Manager, which is based on its continuous fundamental research and analysis.

Investors should note that the movement in prices of unquoted fixed income securities, money market instruments and swap contracts are benchmarked against interest rates. As such, the investments are exposed to the movement of the interest rates.

Such investments may be subject to unanticipated rise in interest rates which may impair the ability of the issuers to make payments of interest income and principal, especially if the issuers are highly leveraged. An increase in interest rates may therefore increase the potential for default by an issuer.

The Fund's investments in deposit with a licensed financial institution are short term in nature. Therefore, exposure to interest rate fluctuations is minimal.

The table below summarises the sensitivity of the Fund's profit after tax and net asset value to movements in prices of unquoted fixed income securities, money market instruments and swap contracts held by the Fund at the end of the reporting year/period as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate changed by 5% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the interest rate, having regard to the historical volatility of the interest rate.

| % Change in interest rate of unquoted fixed income securities and derivatives | Impact on profit after tax/change in net asset value |
|--|---|
| | RM |
| <u>2016</u> | |
| +5% | (987,825) |
| -5% | 999,127 |
| | <hr/> |
| <u>2015</u> | |
| +5% | (1,232,313) |
| -5% | 1,244,257 |
| | <hr/> |

iii. Foreign exchange/currency risk

As the Fund may invest its assets in unquoted fixed income securities denominated in a wide range of currencies other than Ringgit Malaysia, the net asset value of the Fund expressed in Ringgit Malaysia may be affected favourably or unfavourably by exchange control regulations or changes in the exchange rates between Ringgit Malaysia and such other currencies. The risk is minimised through investing in a wide range of foreign currencies denominated assets and thus, diversifying the risk of single currency exposure.

In the normal course of investment, the Fund Manager will usually not hedge foreign currency exposure. The Fund Manager may however depending on prevailing market circumstances at particular point in time, choose to use forward or swap contracts for hedging and risk reduction purposes.

The following table sets out the foreign exchange/currency risk concentrations and counterparties of the Fund:

| | Financial assets at fair value through profit or loss | Amount due from brokers | Cash and cash equivalents | Total |
|-------------|--|--------------------------------|----------------------------------|--------------------|
| | RM | RM | RM | RM |
| <u>2016</u> | | | | |
| SGD | 64,695,750 | 2,955,859 | 3,058,249 | 70,709,858 |
| USD | 126,712,926 | - | 2,034,088 | 128,747,014 |
| | <u>191,408,676</u> | <u>2,955,859</u> | <u>5,092,337</u> | <u>199,456,872</u> |
| <u>2015</u> | | | | |
| SGD | 59,629,060 | - | 1,445,047 | 61,074,107 |
| USD | 120,204,341 | - | 1,643,652 | 121,847,993 |
| | <u>179,833,401</u> | <u>-</u> | <u>3,088,699</u> | <u>182,922,100</u> |

The table below summarises the sensitivity of the Fund's financial assets to changes in foreign exchange movements at the end of the reporting year/period. The analysis is based on the assumption that the foreign exchange rate changes by 5% with all variables remain constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rate having regard to historical volatility of this rate.

Disclosures below are shown in absolute terms, changes and impacts could be positive or negative.

| | Change in foreign exchange rate | Impact on profit after tax | Impact on net asset value |
|-------------|--|-----------------------------------|----------------------------------|
| | % | RM | RM |
| <u>2016</u> | | | |
| SGD | 5 | 3,535,493 | 3,535,493 |
| USD | 5 | 6,437,351 | 6,437,351 |
| <u>2015</u> | | | |
| SGD | 5 | 3,053,705 | 3,053,705 |
| USD | 5 | 6,092,400 | 6,092,400 |

Country risk

A Unit Trust Fund that invests in foreign countries may experience more rapid and extreme changes in value than a unit trust fund that invests exclusively in Malaysia. Nationalisation, expropriation or confiscatory, taxation, currency blockage, political changes or diplomatic developments could adversely affect a unit trust fund's investments in a foreign country. In the event of nationalisation, expropriation or other confiscation, a unit trust fund could lose its entire investment in foreign countries. Adverse conditions in a certain region can adversely affect securities of other countries whose economies appear to be unrelated. Careful consideration shall be given to risk factors such as liquidity, political and economic environment before any investments are made in a foreign country.

Fund management risk

There is the risk that the management company may not adhere to the investment mandate of the respective Fund. With close monitoring by the investment committee, back office system being incorporated with limits and controls, and regular reporting to the senior management team, the management company is able to manage such risk. The Trustee has an oversight function over management of the Fund by the management company to safeguard the interests of unit holders.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations. Generally, all investments are subject to a certain degree of liquidity risk depending on the nature of the investment instruments, market, sector and other factors. For the purpose of the Fund, the Fund Manager will attempt to balance the entire portfolio by investing in a mix of assets with satisfactory trading volume and those that occasionally could encounter poor liquidity. This is expected to reduce the risks for the entire portfolio without limiting the Fund's growth potentials.

The Fund maintains sufficient level of liquid assets, after consultation with the Trustee, to meet anticipated payments and cancellations of units by unit holders. Liquid assets comprise cash, deposit with a licensed financial institution and other instruments which are capable of being converted into cash within 7 days.

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining period as at 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 | Between 1 month to 1 year | More than 1 year | Total |
|--------------------------------|------------------------------|--|-----------------------------|-------------------|
| | RM | RM | RM | RM |
| 2016 | | | | |
| Forward currency contracts | - | 296,529 | 17,125,131 | 17,421,660 |
| Swap contracts | - | 3,727,870 | 7,831,950 | 11,559,820 |
| Amount due to Manager | 29,319 | - | - | 29,319 |
| Amount due to brokers | 3,670,957 | - | - | 3,670,957 |
| Amount due to Trustee | 8,939 | - | - | 8,939 |
| Other payables and accruals | - | 30,023 | - | 30,023 |
| GST charges payable | 536 | - | - | 536 |
| Contractual cash outflows | <u>3,709,751</u> | <u>4,054,422</u> | <u>24,957,081</u> | <u>32,721,254</u> |
| 2015 | | | | |
| Forward currency contracts | - | - | 11,571,292 | 11,571,292 |
| Swap contracts | - | - | 8,870,773 | 8,870,773 |
| Amount due to brokers | 2,209,800 | - | - | 2,209,800 |
| Amount due to Trustee | 9,019 | - | - | 9,019 |
| Other payables and accruals | - | 46,200 | - | 46,200 |
| Contractual cash outflows | <u>2,218,819</u> | <u>46,200</u> | <u>20,442,065</u> | <u>22,707,084</u> |

Non-compliance risk

Non-compliance risk arises when the Manager and others associated with the Fund do not comply to the rules set out in the Fund's constitution or the law that governs the Fund or applicable internal control procedures, or act fraudulently or dishonestly.

The non-compliance may expose the Fund to higher risks which may result in a fall in the value of the Fund which in turn may affect its investment goals. However, the risk

can be mitigated by the internal controls and compliance monitoring undertaken by the Manager.

Capital risk

The capital of the Fund is represented by equity consisting of unit holders' capital and retained earnings. 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 unit holders. 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 unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

Credit/default risk

Credit risk refers to the ability of an issuer or a counter party to make timely payments of interest, principals and proceeds from realisation of investments. In the case of the Fund, both the Manager and the External Fund Manager regularly review the ratings assigned to the Issuer so that the necessary steps can be taken if the ratings fall below those prescribed by the Securities Commission.

The credit risk arising from placements of deposits in licensed financial institutions is managed by ensuring that the Fund will only place deposits in reputable licensed financial institutions.

The Fund seeks to mitigate credit/default risk by investing in high quality fixed income securities.

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

| | Financial assets at fair value through profit or loss | Cash and cash equivalents | Amount due from brokers | Redemption receivable | Total |
|----------------------------------|---|---------------------------|-------------------------|-----------------------|--------------------|
| | RM | RM | RM | RM | RM |
| <u>2016</u> | | | | | |
| Finance | | | | | |
| - AA1 | - | 5,909,960 | - | - | 5,909,960 |
| Unquoted fixed income securities | | | | | |
| - A- | 9,979,291 | - | - | - | 9,979,291 |
| - A2 | 6,124,911 | - | - | - | 6,124,911 |
| - A3 | 790,371 | - | - | - | 790,371 |
| - AA- | 10,340,877 | - | - | - | 10,340,877 |
| - B+ | 14,978,542 | - | - | - | 14,978,542 |
| - BA2 | 7,991,490 | - | - | - | 7,991,490 |
| - BAA3 | 7,080,231 | - | - | - | 7,080,231 |
| - BB | 7,032,632 | - | - | - | 7,032,632 |
| - BB- | 17,062,784 | - | - | - | 17,062,784 |
| - BB+ | 14,298,233 | - | - | - | 14,298,233 |
| - BBB | 38,642,382 | - | - | - | 38,642,382 |
| - BBB- | 39,217,461 | - | - | - | 39,217,461 |
| - BBB+ | 4,191,790 | - | - | - | 4,191,790 |
| - NR | 24,018,557 | - | - | - | 24,018,557 |
| Other | | | | | |
| - NR | - | - | 2,955,859 | 880 | 2,956,739 |
| | <u>201,749,552</u> | <u>5,909,960</u> | <u>2,955,859</u> | <u>880</u> | <u>210,616,251</u> |

| | Financial assets at fair value through profit or loss | Cash and cash equivalents | Total |
|----------------------------------|--|------------------------------|--------------------|
| | RM | RM | RM |
| <u>2015</u> | | | |
| Finance | | | |
| - AA1 | - | 4,297,822 | 4,297,822 |
| Unquoted fixed income securities | | | |
| - A2 | 5,945,616 | - | 5,945,616 |
| - BAA2 | 9,468,932 | - | 9,468,932 |
| - BAA3 | 84,568,861 | - | 84,568,861 |
| - BA1 | 2,221,200 | - | 2,221,200 |
| - BA2 | 11,647,973 | - | 11,647,973 |
| - BA3 | 14,982,670 | - | 14,982,670 |
| - B1 | 18,554,914 | - | 18,554,914 |
| - NR | 48,070,149 | - | 48,070,149 |
| | <u>195,460,315</u> | <u>4,297,822</u> | <u>199,758,137</u> |

None of these assets are past due or impaired.

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 active market (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year/period end date. The Fund utilises the last traded market price for financial assets where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Fund Manager will determine the point within the bid-ask spread that is representative of the fair value.

An active market is a market in which transactions for the asset 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 period 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 arm's length 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.

Fair value hierarchy

- i. The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:
 - 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 level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund's financial assets (by class) measured at fair value:

| | Level 1 | Level 2 | Level 3 | Total |
|---|----------------|---------|----------------|-------|
| | RM | RM | RM | RM |
| <u>2016</u> | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Unquoted fixed income securities | - 201,749,552 | | - 201,749,552 | |
| Forward foreign currency contracts | - (17,421,660) | | - (17,421,660) | |
| Swap contracts | - (11,559,820) | | - (11,559,820) | |
| <u>2015</u> | | | | |
| Financial assets at fair value through profit or loss at inception: | | | | |
| Unquoted fixed income securities | - 195,460,315 | | - 195,460,315 | |
| Forward foreign currency contracts | - (11,571,292) | | - (11,571,292) | |
| Swap contracts | - (8,870,773) | | - (8,870,773) | |

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, these include unquoted fixed income securities and derivatives. 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 F to the financial statements.

- ii. The carrying value of cash and cash equivalents, amount due from brokers, redemption receivable and all current liabilities are a reasonable approximation of their fair values due to their short term nature.

3. TRUSTEE FEE

In accordance with the Deed, the Trustee is entitled to an annual fee, inclusive of local custodian fee, at a rate not exceeding 0.06% per annum of the net asset value of the Fund, subject to a minimum fee of RM15,000 per annum.

For the financial year ended 31 March 2016, the Trustee fee is recognised at a rate of 0.06% (2015: 0.06%) per annum on the net asset value of the Fund, excluding foreign custodian charges, calculated on daily basis.

There will be no further liability to the Trustee in respect of the trustee fee other than the amounts recognised above.

4. DISTRIBUTIONS

| | 2016 | 2015 |
|---|------------------|------------------|
| | RM | RM |
| Distributions to unit holders are from the following sources: | | |
| Exit fee income (net of tax) | 42,995 | 15,247 |
| Interest income | 7,001,249 | 2,914,430 |
| Net realised gain on sale of investments | 1,629,074 | 1,431,169 |
| Amortisation of premium | (409,295) | (188,073) |
| | <u>8,264,023</u> | <u>4,172,773</u> |
| Gross realised income | | |
| Less: Expenses | (153,383) | (52,971) |
| Less: Taxation | - | - |
| | <u>8,110,640</u> | <u>4,119,802</u> |

During the financial year/period, distributions were made as follows:

| | Gross/net distribution | |
|-------------------------|------------------------|---------------|
| | 2016/2015 | 2015/2014 |
| | RM/unit | RM/unit |
| 23 June | 0.0232 | - |
| 22 December/19 December | 0.0232 | 0.0232 |
| | <u>0.0464</u> | <u>0.0232</u> |

Gross distribution is derived using total income less total expenses. The distribution is made from current period's realised income.

Gross distribution per unit is derived from gross realised income less expenses divided by the number of units in circulation, while net distribution per unit is derived from gross realised income less expenses and taxation divided by the number of units in circulation.

5. TAXATION

| | 2016 | Financial period from 16.4.2014 (launch date) to 31.3.2015 |
|--|--------|---|
| | RM | RM |
| Tax charged for the financial year/period: | | |
| Current taxation - local | 17,886 | 24,322 |

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

| | 2016 | Financial period from 16.4.2014 (launch date) to 31.3.2015 |
|--|-------------|---|
| | RM | RM |
| Profit before taxation | 11,541,934 | 5,600,277 |
| Tax at Malaysian statutory rate of 24% (2015: 25%) | 2,770,064 | 1,400,069 |
| Tax effects of: | | |
| Investment income exempt from tax | (2,794,379) | (1,412,142) |
| Expenses not deductible for tax purposes | 39,609 | 30,320 |
| Restriction on tax deductible expenses for unit trust funds | 2,592 | 6,075 |
| Taxation | 17,886 | 24,322 |

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2016 | 2015 |
|--|------------------|-------------------|
| | RM | RM |
| Designated at fair value through profit or loss: | | |
| Unquoted fixed income securities | 201,749,552 | 195,460,315 |
| Net gain on financial assets at fair value through profit or loss: | | |
| Realised gain on disposals | 8,011,619 | 224,203 |
| Change in unrealised fair value gain | 1,971,974 | 15,282,255 |
| | <u>9,983,593</u> | <u>15,506,458</u> |

Unquoted fixed income securities

| Name of counter | Quantity | Carrying cost | Fair value | Percentage |
|---|-----------|---------------|-----------------|--------------------------------|
| | | | as at 31.3.2016 | of net asset value of the Fund |
| | Units | RM | RM | % |
| <u>Bond</u> | | | | |
| 7.00% Theta Capital Pte Ltd 16.05.2016 (BB-) | 1,000,000 | 3,433,434 | 4,017,000 | 2.26 |
| 7.20% Yancoal International Trading Co Ltd 22.05.2016 (Ba2) | 2,000,000 | 6,874,521 | 7,991,490 | 4.49 |
| 6.409% Standard Chartered Plc 30.01.2017 (BB+) | 1,000,000 | 4,374,145 | 3,766,853 | 2.12 |
| 6.253% Dah Sing Bank Limited 17.02.2017 (BB+) | 600,000 | 2,592,942 | 2,417,788 | 1.36 |
| 9.875% Agile Property Holdings Limited 20.03.2017 (B+) | 2,000,000 | 6,578,452 | 8,155,815 | 4.58 |
| 6.00% Wing Hang Bank Limited 20.04.2017 (A-2) | 1,500,000 | 5,058,728 | 6,124,911 | 3.44 |

Unquoted fixed income securities (continued)

| Name of counter | Quantity | Carrying cost | Fair value as at 31.3.2016 | Percentage of net asset value of the Fund |
|---|------------|---------------|----------------------------|---|
| | Units | RM | RM | % |
| <u>Bond (continued)</u> | | | | |
| 6.25% Chalco Hong Kong Investment Company Limited 29.04.2017 (NR) | 2,000,000 | 6,934,914 | 8,113,083 | 4.56 |
| 6.375% The Bank of East Asia Limited 04.05.2017 (A-) | 1,000,000 | 3,418,003 | 4,150,112 | 2.33 |
| 6.20% Yanlord Land Group Limited 08.05.2017 (B+) | 2,000,000 | 5,339,897 | 6,023,904 | 3.39 |
| 8.00% Vietnam Joint Stock Commercial Bank 17.05.2017 (BB-) | 1,700,000 | 5,840,387 | 7,026,592 | 3.95 |
| 6.50% Central China Real Estate Limited 26.05.2017 (BB-) | 2,000,000 | 5,273,941 | 6,019,192 | 3.38 |
| 6.00% Sports Toto Malaysia Sdn Bhd 30.06.2017 (AA-) | 10,000,000 | 10,338,522 | 10,340,877 | 5.81 |
| 5.125% Genting Singapore Plc 12.09.2017 (BBB) | 11,500,000 | 31,064,163 | 32,824,753 | 18.45 |
| 4.25% The Bank of East Asia Limited 13.09.2017 (A-) | 2,000,000 | 5,239,323 | 5,829,179 | 3.28 |
| 2.875% BOC Aviation Pte Ltd 10.10.2017 (BBB+) | 1,050,000 | 3,423,719 | 4,191,790 | 2.36 |
| 7.35% Vibrant Group Limited 11.10.2017 (NR) | 4,000,000 | 10,681,530 | 11,062,327 | 6.22 |

Unquoted fixed income securities (continued)

| Name of counter | Quantity | Carrying cost | Fair value as at 31.3.2016 | Percentage of net asset value of the Fund |
|---|-----------|---------------|----------------------------|---|
| | Units | RM | RM | % |
| <u>Bond</u> (continued) | | | | |
| 4.70% Franshion Investment Limited 26.10.2017 (BBB-) | 500,000 | 1,862,510 | 2,036,085 | 1.14 |
| 6.25% Future Land Development Holdings Limited 12.11.2017 (B+) | 200,000 | 874,394 | 798,823 | 0.45 |
| 3.10% Yuexiu Real Estate Investment Trust 14.05.2018 (BBB) | 1,000,000 | 3,232,622 | 3,940,393 | 2.21 |
| 4.50% Poly Real Estate Finance Limited 06.08.2018 (BBB-) | 2,000,000 | 7,553,085 | 8,105,253 | 4.56 |
| 5.375% Franshion Brilliant Limited 17.10.2018 (BBB-) | 1,000,000 | 3,348,171 | 4,170,996 | 2.34 |
| 4.875% Wanda Properties Overseas Limited 21.11.2018 (BB+) | 2,000,000 | 7,608,058 | 8,113,592 | 4.56 |
| 5.125% China Overseas Grand Oceans Finance II (Cayman) Ltd 23.01.2019 (BBB-) | 1,500,000 | 5,143,408 | 6,118,342 | 3.44 |
| 5.25% Poly Real Estate Group Company Limited 25.04.2019 (BBB-) | 1,200,000 | 4,057,436 | 5,034,557 | 2.83 |
| 4.875% PTT Exploration and Production Public Company Limited 18.06.2019 (BBB-) | 1,000,000 | 3,611,150 | 3,856,897 | 2.17 |

Unquoted fixed income securities (continued)

| Name of counter | Quantity | Carrying cost | Fair value as at 31.3.2016 | Percentage of net asset value of the Fund |
|---|-----------|---------------|----------------------------|---|
| | Units | RM | RM | % |
| <u>Bond</u> (continued) | | | | |
| 4.375% Greenland Global Investment Ltd 03.07.2019 (BBB-) | 2,300,000 | 7,728,877 | 9,171,506 | 5.16 |
| 4.25% Turkiye Cumhuriyeti Ziraat Bankasi Anonim Sirketi 03.07.2019 (Baa3) | 500,000 | 1,621,983 | 1,988,889 | 1.12 |
| 7.50% SMC Global Power Holdings Corporation 07.11.2019 (NR) | 1,000,000 | 3,428,795 | 4,095,000 | 2.30 |
| 5.625% HSBC Holdings Plc 17.01.2020 (BBB) | 300,000 | 1,250,781 | 1,138,048 | 0.64 |
| 6.50% Standard Chartered Plc 02.04.2020 (BB) | 2,000,000 | 8,040,713 | 7,032,632 | 3.95 |
| 3.50% CCCI Treasure Limited 21.04.2020 (A-3) | 200,000 | 752,733 | 790,371 | 0.44 |
| 4.98% Keppel Reits 02.11.2020 (NR) | 250,000 | 776,077 | 748,147 | 0.42 |
| 4.75% ABN Amro Bank N.V. 01.04.2021 (BBB-) | 250,000 | 733,457 | 723,825 | 0.41 |
| 4.00% Ascott Reit Mtn Pte Ltd 22.03.2024 (Baa3) | 500,000 | 1,502,828 | 1,464,423 | 0.82 |
| 6.375% HSBC Holdings Plc 17.09.2024 (Baa3) | 1,000,000 | 4,172,086 | 3,626,919 | 2.04 |

Unquoted fixed income securities (continued)

| Name of counter | Quantity | Carrying cost | Fair value as at 31.3.2016 | Percentage of net asset value of the Fund |
|--|-------------------|--------------------|----------------------------|---|
| | Units | RM | RM | % |
| <u>Bond (continued)</u> | | | | |
| 6.375% HSBC Holdings Plc 30.03.2025 (BBB) | 200,000 | 729,538 | 739,188 | 0.42 |
| | <u>64,250,000</u> | <u>184,495,323</u> | <u>201,749,552</u> | <u>113.40</u> |

**ACCUMULATED
UNREALISED GAIN ON
FINANCIAL ASSETS AT
FAIR VALUE THROUGH
PROFIT OR LOSS**

17,254,229

**FAIR VALUE OF
FINANCIAL ASSETS AT
FAIR VALUE THROUGH
PROFIT OR LOSS**

201,749,552

Unquoted fixed income securities (continued)

| Name of counter | Quantity | Carrying cost | Fair value as at 31.3.2015 | Percentage of net asset value of the Fund |
|---|-----------|---------------|----------------------------|---|
| | Units | RM | RM | % |
| <u>Bond</u> | | | | |
| 7.00% Theta Capital Pte Ltd 16.05.2016 (Baa3) | 1,000,000 | 3,454,280 | 3,941,149 | 2.23 |
| 7.20% Yancoal International Trading Co Ltd 22.05.2016 (Ba2) | 3,000,000 | 10,738,064 | 11,647,973 | 6.58 |
| 4.80% Sports Toto Malaysia Sdn Bhd 11.10.2016 (NR) | 5,000,000 | 5,146,297 | 5,149,281 | 2.91 |
| 9.875% Agile Property Holdings Limited 20.03.2017 (B1) | 2,000,000 | 6,719,972 | 7,425,378 | 4.19 |
| 13.25% KWG Property Holding Limited 22.03.2017 (B1) | 500,000 | 1,751,415 | 1,982,074 | 1.12 |
| 6.00% Wing Hang Bank Limited 20.04.2017 (A2) | 1,500,000 | 5,227,074 | 5,945,616 | 3.36 |
| 6.25% Aluminium Corporation of China Ltd 29.04.2017 (NR) | 3,000,000 | 10,480,906 | 11,648,960 | 6.58 |
| 6.375% The Bank of East Asia Limited 04.05.2017 (Baa3) | 1,000,000 | 3,511,177 | 4,054,324 | 2.29 |
| 6.20% Yanlord Land Group Limited 08.05.2017 (Ba3) | 2,000,000 | 4,919,702 | 5,530,048 | 3.12 |
| 8.00% Vietnam Joint Stock Commercial Bank 17.05.2017 (B1) | 1,700,000 | 5,988,861 | 6,795,914 | 3.84 |

Unquoted fixed income securities (continued)

| Name of counter | Quantity | Carrying cost | Fair value as at 31.3.2015 | Percentage of net asset value of the Fund |
|---|------------|---------------|----------------------------|---|
| | Units | RM | RM | % |
| <u>Bond</u> (continued) | | | | |
| 6.50% Central China Real Estate Limited 26.05.2017 (Baa3) | 2,000,000 | 5,270,514 | 5,511,473 | 3.11 |
| 5.55% Far East Horizon Limited 23.06.2017 (NR) | 300,000 | 977,793 | 1,140,990 | 0.64 |
| 6.00% Sports Toto Malaysia Sdn Bhd 30.06.2017 (NR) | 10,000,000 | 10,479,312 | 10,477,633 | 5.92 |
| 6.50% West Cement Company Limited 11.09.2017 (B1) | 400,000 | 1,286,710 | 1,461,240 | 0.83 |
| 5.125% Genting Singapore Plc 12.09.2017 (Baa3) | 12,000,000 | 30,845,045 | 32,038,801 | 18.10 |
| 4.25% The Bank of East Asia Limited 13.09.2017 (Baa3) | 2,000,000 | 5,302,367 | 5,568,411 | 3.15 |
| 7.50% PT Kawasan Industri Jababeka TBK 24.09.2017 (NR) | 200,000 | 667,889 | 741,902 | 0.42 |
| 2.875% BOC Aviation Pte Ltd 10.10.2017 (NR) | 1,050,000 | 3,419,686 | 3,979,171 | 2.25 |
| 7.35% Vibrant Group Limited 11.10.2017 (NR) | 4,000,000 | 10,620,750 | 10,306,977 | 5.82 |
| 4.70% Franshion Investment Limited 26.10.2017 (Baa3) | 500,000 | 1,880,168 | 1,944,912 | 1.10 |

Unquoted fixed income securities (continued)

| Name of counter | Quantity | Carrying cost | Fair value as at 31.3.2015 | Percentage of net asset value of the Fund |
|--|-----------|---------------|----------------------------|---|
| | Units | RM | RM | % |
| <u>Bond</u> (continued) | | | | |
| 7.25% Yingde Gases Investment Limited 28.02.2018 (B1) | 300,000 | 956,136 | 890,308 | 0.50 |
| 3.10% Yuexiu Real Estate Investment Trust 14.05.2018 (Baa2) | 1,000,000 | 3,210,808 | 3,707,580 | 2.09 |
| 4.50% Poly Real Estate Finance Limited 06.08.2018 (Baa3) | 2,000,000 | 6,519,069 | 7,646,592 | 4.32 |
| 5.375% Frashion Brilliant Limited 17.10.2018 (Baa3) | 1,000,000 | 3,358,920 | 3,983,301 | 2.25 |
| 7.00% Ezion Holdings Limited 19.11.2018 (NR) | 250,000 | 663,732 | 673,350 | 0.38 |
| 4.875% Wanda Properties Overseas Limited 21.11.2018 (Baa3) | 2,000,000 | 6,634,795 | 7,638,515 | 4.31 |
| 5.125% China Overseas Grand Oceans Finance II (Cayman) Ltd 23.01.2019 (Baa2) | 1,500,000 | 5,171,113 | 5,761,352 | 3.25 |
| 5.25% Poly Real Estate Group Company Limited 25.04.2019 (Baa3) | 1,200,000 | 4,073,472 | 4,799,924 | 2.71 |
| 4.875% PTT Exploration and Production Public Company Limited 8.06.2019 (Baa3) | 1,000,000 | 3,562,134 | 3,767,703 | 2.13 |

Unquoted fixed income securities (continued)

| Name of counter | Quantity | Carrying cost | Fair value | Percentage of net asset value of the Fund |
|--|-------------------|--------------------|--------------------|---|
| | | | as at 31.3.2015 | |
| | Units | RM | RM | % |
| <u>Bond</u> (continued) | | | | |
| 4.375% Greenland Global Investment Ltd 03.07.2019 (Baa3) | 2,300,000 | 7,717,446 | 8,666,789 | 4.90 |
| 4.25% Ziraat Bank 03.07.2019 (Baa3) | 1,000,000 | 3,239,952 | 3,700,548 | 2.09 |
| 7.50% SMC Global Power Holdings Corp 07.11.2019 (NR) | 1,000,000 | 3,443,170 | 3,951,885 | 2.23 |
| 6.50% Standard Chartered Plc 02.04.2020 (Ba1) | 600,000 | 2,209,800 | 2,221,200 | 1.25 |
| 6.38% HSBC Holdings Plc 30.03.2025 (Baa3) | 200,000 | 729,531 | 759,041 | 0.43 |
| | <u>68,500,000</u> | <u>180,178,060</u> | <u>195,460,315</u> | <u>110.40</u> |

**ACCUMULATED
UNREALISED GAIN ON
FINANCIAL ASSETS AT
FAIR VALUE THROUGH
PROFIT OR LOSS**

15,282,255

**FAIR VALUE OF
FINANCIAL ASSETS AT
FAIR VALUE THROUGH
PROFIT OR LOSS**

195,460,315

The effective weighted average rate of return of unquoted fixed income securities per annum as at the date of the statement of financial position is as follows:

| | 2016 | 2015 |
|----------------------------------|-------------|-------------|
| | % | % |
| Unquoted fixed income securities | 5.65 | 5.29 |

7. CASH AND CASH EQUIVALENTS

| | 2016 | 2015 |
|---|------------------|------------------|
| | RM | RM |
| Bank balances | 5,909,960 | 3,597,438 |
| Deposit with a licensed financial institution | - | 700,384 |
| | <u>5,909,960</u> | <u>4,297,822</u> |

The currency exposure profile of cash and cash equivalents is as follows:

| | 2016 | 2015 |
|-----|------------------|------------------|
| | RM | RM |
| MYR | 817,623 | 1,209,123 |
| SGD | 3,058,249 | 1,445,047 |
| USD | 2,034,088 | 1,643,652 |
| | <u>5,909,960</u> | <u>4,297,822</u> |

The effective weighted average interest rate of short term deposit with a licensed financial institution per annum as at the date of the statement of financial position is as follows:

| | 2016 | 2015 |
|---|-------------|-------------|
| | % | % |
| Deposit with a licensed financial institution | - | 4.00 |

During the financial year ended 31 March 2016, the deposit has an average maturity of Nil (2015: 3 days).

8. FORWARD CURRENCY CONTRACTS

As at the date of statement of financial position, there are 23 (2015: 23) forward currency contracts outstanding. The notional principal amount of the outstanding forward currency contracts amounted to RM17,421,660 payable (2015:RM11,571,292 payable). The forward currency contracts entered into during the financial year/period were for hedging against the currency exposure arising from the investment in the foreign unquoted fixed income securities denominated in SGD and US Dollar. As the Fund has not adopted hedge accounting during the financial year/period, the change in the fair value of the forward currency contract is recognised immediately in the statement of comprehensive income.

9. SWAP CONTRACTS

As the date of statement of financial position, there are 12 (2015: 12) swap contracts outstanding. The notional principal amount of the outstanding swap contracts amounted to RM11,559,820 payable (2015: RM8,870,773 payable). The swap contracts entered into during the financial year/period were for hedging against the currency exposure arising from the investment in the foreign unquoted fixed income securities denominated in SGD and US Dollar. As the Fund has not adopted hedge accounting during the financial year/period, the change in the fair value of the swap contract is recognised immediately in the statement of comprehensive income.

10. UNITS IN CIRCULATION

| | 2016 | 2015 |
|--|--------------------|--------------------|
| | No. of units | No. of units |
| At the beginning of the financial year/launch date | 175,595,801 | - |
| Creation of units from applications during the financial year/period | - | 180,759,252 |
| Cancellation of units during the financial year/period | <u>(2,501,318)</u> | <u>(5,163,451)</u> |
| At the end of the financial year/period | <u>173,094,483</u> | <u>175,595,801</u> |

11. TRANSACTIONS WITH DEALERS

Details of transactions with the top 10 dealers are as follows:

| Name of dealers | Value of trades | Percentage of total trades | Brokerage fees | Percentage of total brokerage fees |
|---|--------------------|----------------------------|----------------|------------------------------------|
| | RM | % | RM | % |
| <u>2016</u> | | | | |
| Oversea-Chinese Banking Corporation Limited Group | 102,225,591 | 68.25 | - | - |
| Citigroup Global Markets Limited | 7,771,699 | 5.19 | - | - |
| CIMB Group Limited | 6,555,858 | 4.38 | - | - |
| Standard Chartered Bank Ltd | 6,266,924 | 4.18 | - | - |
| UBS Securities | 6,047,091 | 4.04 | - | - |
| DBS Securities | 4,481,880 | 2.99 | - | - |
| Goldman Sachs Group | 3,612,569 | 2.41 | - | - |
| BNP Paribas Group | 3,455,736 | 2.31 | - | - |
| Mitsubishi UFJ Trust International Limited | 2,125,628 | 1.42 | - | - |
| Royal Bank of Canada | 2,108,415 | 1.41 | - | - |
| Others | 5,119,945 | 3.42 | - | - |
| | 149,771,336 | 100.00 | - | - |

| Name of dealers | Value of trades | Percentage of total trades | Brokerage fees | Percentage of total brokerage fees |
|---------------------------------|--------------------|----------------------------|----------------|------------------------------------|
| | RM | % | RM | % |
| <u>2015</u> | | | | |
| CIMB Group Ltd | 66,656,124 | 22.73 | - | - |
| HSBC Ltd | 38,229,148 | 13.04 | - | - |
| Merrill Lynch International Ltd | 27,123,644 | 9.25 | - | - |
| Morgan Stanley & Co Int Ltd | 16,027,225 | 5.47 | - | - |
| Kenanga Investment Bank Berhad | 15,493,000 | 5.28 | - | - |
| Nomura Securities Int Ltd | 14,450,626 | 4.93 | - | - |
| DBS Securities | 13,117,223 | 4.47 | - | - |
| UBS Securities | 9,977,973 | 3.40 | - | - |
| JP Morgan Securities Ltd | 9,005,873 | 3.07 | - | - |
| Standard Chartered Bank Ltd | 8,057,191 | 2.75 | - | - |
| Others | 75,076,400 | 25.61 | - | - |
| | <u>293,214,427</u> | <u>100.00</u> | - | - |

All dealers highlighted above are not related to the Manager.

12. UNITS HELD BY THE MANAGER

The related party of and its relationship with the Fund are as follows:

| Related party | Relationship | | | | |
|-------------------------------|--------------|--------------|-------|--------------|----|
| Eastspring Investments Berhad | The Manager | | | | |
| | | 2016 | | 2015 | |
| | | No. of units | RM | No. of units | RM |
| Eastspring Investments Berhad | 1,000 | 1,028 | 1,000 | 1,008 | |

The above units were transacted at the prevailing market price.

The units are held legally by the Manager and are within the prescribed limit allowed by Securities Commission's Guidelines on Unit Trust Funds. Other than the above, there were no units held by the Directors or parties related to the Manager.

13. MANAGEMENT EXPENSE RATIO ("MER")

| | 2016 | 2015 |
|-----|-------------|-------------|
| | % | % |
| MER | 0.10 | 0.09 |

MER is derived from the following calculation:

$$\text{MER} = \frac{(A + B + C + D)}{E} \times 100$$

A = Trustee fee

B = Audit fee

C = Tax agent fee

D = Other expenses (including GST charges)

E = Average net asset value of the Fund calculated on a daily basis

The average net asset value of the Fund for the financial year/period calculated on a daily basis is RM176,895,101 (2015: 162,999,601).

14. PORTFOLIO TURNOVER RATIO ("PTR")

| | 2016 | 2015 |
|-------------|-------------|-------------|
| PTR (times) | 0.42 | 0.90 |

PTR is derived from the following calculation:

$$\frac{(\text{Total acquisitions for the financial year/period} + \text{total disposals for the financial year/period}) \div 2}{\text{Average net asset value of the Fund for the financial year/period calculated on a daily basis}}$$

where:

total acquisitions for the financial year/period = RM73,559,820 (2015: RM235,536,188)

total disposals for the financial year/period = RM76,211,515 (2015: RM57,678,239)

15. SEGMENTAL INFORMATION

The internal reporting provided to the chief operating decision-maker for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of MFRS and IFRS. The CEO, who is the chief operating decision-maker, is responsible for the performance of the Fund and considers the business to have a single operating segment located in Malaysia. Asset allocation decisions are based on a single, integrated investment strategy and the Fund's performance is evaluated on an overall basis.

The reportable operating segment derives its income by seeking investments to achieve targeted returns consummate with an acceptable level of risk within the portfolio. These returns consist of interest income and gains on the appreciation in the value of investments, and is derived from Ringgit-denominated unquoted fixed income securities traded in Malaysia and unquoted fixed income securities in foreign markets where the regulatory authority is a member of the International Organisation of Securities Commission ("IOSCO").

There were no changes in the reportable operating segments during the financial year.

16. COMPARATIVE

The financial statements for 31 March 2015 covers the financial period from 16 April 2014 (date of launch) to 31 March 2015. The comparative figures are not comparable as the current financial year is for the twelve (12) months period from 1 April 2015 to 31 March 2016.

17. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 13 May 2016.

CORPORATE DIRECTORY

THE MANAGER

NAME

EASTSPRING INVESTMENTS BERHAD

COMPANY NO.

531241-U

REGISTERED OFFICE

16th Floor, Wisma Sime Darby

Jalan Raja Laut

50350 Kuala Lumpur

HEAD OFFICE

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No. 10, Jalan Sultan Ismail

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WEBSITE

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BOARD OF DIRECTORS OF THE MANAGER

Julian Christopher Vivian Pull

(Chairman, Non-independent,

non-executive director)

Jackie Chew Pei Pei (Jackie Zhou PeiPei)

(Non-independent, non-executive director)

Khoo Chuan Keat

(Independent, non-executive director)

Iskander Bin Ismail Mohamed Ali

(Independent, non-executive director)

Raymond Tang Chee Kin

(Non-independent, executive director)

INVESTMENT COMMITTEE OF THE FUND

Raymond Tang Chee Kin

(Non-Independent member)

Ho Yik

(Independent member)

Robert Yap Yen Choon

(Independent member)

Abdul Khalil Bin Abdul Hamid

(Independent member)

Dato' Saiful Bahri Bin Zainuddin

(Independent member)

AUDIT AND COMPLIANCE

COMMITTEE OF THE MANAGER

Khoo Chuan Keat

(Independent)

Iskander Bin Ismail Mohamed Ali

(Independent)

Niall Dermot Grady

(Non-independent)

MANAGER'S DELEGATE - FUND VALUER

NAME

DEUTSCHE BANK (MALAYSIA) BERHAD

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50250 Kuala Lumpur

HEAD OFFICE

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FAX NO.

603-2031 8710

**MANAGER'S DELEGATE -
REGISTRAR AND TRANSFER AGENT**

NAME

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**COMPANY SECRETARY OF
THE MANAGER**

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VIJEY A/L R. MOHANA KRISHNAN

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TRUSTEE'S DELEGATE - CUSTODIAN

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**TAXATION ADVISER OF
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NAME

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