



A member of Prudential plc (UK) 

# EASTSPRING INVESTMENTS ENHANCED INCOME FUND

## ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 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 30 September 2016.**

You may also download these reports from our website at [www.eastspringinvestments.com.my](http://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 Chee Kin', written in a cursive style.

**Raymond Tang Chee Kin**

Non-Independent, Executive Director and Chief Executive Officer

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## FUND INFORMATION

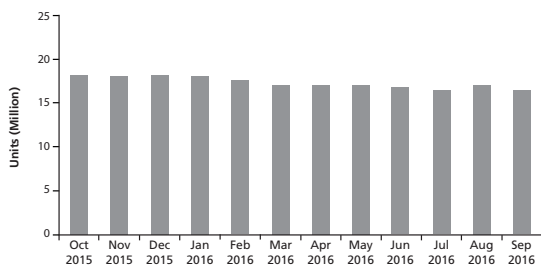
<b>Name of Fund</b>	Eastspring Investments Enhanced Income Fund (the "Fund")
<b>Fund Category/ Type</b>	Bond/growth and income
<b>Fund Objective</b>	<p>The Fund seeks to provide income* stream and an opportunity for capital appreciation by investing in a portfolio of Malaysian and foreign securities.</p> <p><b>Note:</b> The Fund's focus is on income.</p> <p>* Income distributed to a Unit Holder will be reinvested into additional Units unless Unit Holder opts for the distribution to be paid out.</p>
<b>Performance Benchmark</b>	<p>70% Quant Shop Malaysian Government Securities ("MGS") Medium Index + 30% Morgan Stanley Capital International All Country Asia Pacific ex Japan ("MSCI AC APxJ") Index</p> <p><b>Source:</b> <a href="http://www.msci.com">www.msci.com</a> and <a href="http://www.quantshop.com">www.quantshop.com</a></p> <p><b>Note:</b> The risk profile of the Fund is different from the risk profile of the performance benchmark.</p>
<b>Fund Income Distribution Policy</b>	At least twice a year, subject to the availability of income.

## FUND INFORMATION (CONTINUED)

### Breakdown of Unit Holdings by Size

As at 30 September 2016, the size of Eastspring Investments Enhanced Income Fund stood at 16.329 million units.

#### Fund Size



#### Breakdown of Unit Holdings

Unit Holdings	No. of Unit Holders	%	No of Units* ('000)	%
5,000 units and below	105	24.88	254	1.56
5,001 to 10,000 units	102	24.17	917	5.61
10,001 to 50,000 units	175	41.47	3,974	24.34
50,001 to 500,000 units	32	7.58	3,329	20.39
500,001 units and above	8	1.90	7,854	48.10
<b>Total</b>	<b>422</b>	<b>100.00</b>	<b>16,328</b>	<b>100.00</b>

\* excludes units held by the Manager.

## KEY PERFORMANCE DATA

FOR THE FINANCIAL YEAR ENDED

Category	30.9.2016	30.9.2015	30.9.2014
	(%)	(%)	(%)
Collective investment schemes	29.02	28.68	27.12
Unquoted fixed income securities	66.36	69.88	69.11
Cash and other assets	4.62	1.44	3.77
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Net Asset Value (NAV) (RM'000)	9,825	10,731	14,253
Units In Circulation (Units '000)	16,329	18,855	26,207
Net Asset Value Per Unit (RM)	0.6017	0.5691	0.5439
Highest Net Asset Value Per Unit (RM)	0.6028	0.5812	0.5516
Lowest Net Asset Value Per Unit (RM)	0.5553	0.5401	0.5186
Total Return (%)			
Capital Growth	5.73	4.63	4.68
Income Distribution	-	-	-
Total Return (%)	5.73	4.63	4.68
Gross Distribution Per Unit (RM)	-	-	-
Net Distribution Per Unit (RM)	-	-	-
Management Expense Ratio (MER) (%)*	0.95	1.49	1.87
Portfolio Turnover Ratio (PTR) (times)^	0.19	0.31	0.70

\* There were no significant changes to the MER during the period under review.

^ The PTR was lower during the period as the Fund found fewer attractive trading opportunities during the period.

## KEY PERFORMANCE DATA (CONTINUED)

	1 year 1.10.2015 to 30.9.2016	3 years 1.10.2013 to 30.9.2016	5 years 1.10.2011 to 30.9.2016
	(%)	(%)	(%)
Average total return	5.73	5.01	4.72

Year ended	1.10.2015 to 30.9.2016	1.10.2014 to 30.9.2015	1.10.2013 to 30.9.2014	1.10.2012 to 30.9.2013	1.10.2011 to 30.9.2012
	(%)	(%)	(%)	(%)	(%)
Annual total return	5.73	4.63	4.68	3.01	5.59

**Source:** Lipper for Investment Management, as at 30 September 2016.

### Bases of calculation and assumptions made in calculating returns:

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

$\text{NAV}_t$  = NAV at the end of the period

$\text{NAV}_0$  = NAV at the beginning of the period

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

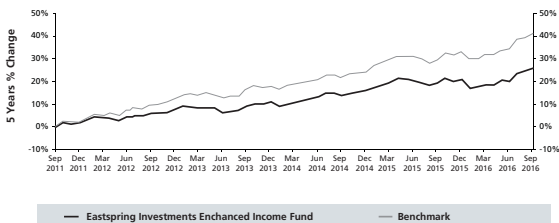
Over the 5-year period, the Fund recorded a return of 25.96%, underperforming the benchmark return of 41.23% by 15.27%.

During the period under review, the Fund registered a return of 5.73%, underperforming the benchmark return of 8.78% by 3.05%.

The Fund's performance was dampened by investments in the Collective Investment Scheme ("CIS") Eastspring Investments Asia Pacific Equity MY Fund, Eastspring Investments Dinasti Equity Fund and Eastspring Investments Asia Pacific ex-Japan Target Return Fund. During the period, all three CIS underperformed its benchmarks. The Fund's performance was supported by selected corporate bonds.

The Fund met its objective of providing capital appreciation but not the objective of providing an income stream.

**Eastspring Investments Enhanced Income Fund  
- 5 Years Return Vs Benchmark**





## MANAGER'S REPORT (CONTINUED)

### Fund Performance (continued)

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

**Benchmark:** 70% Quant Shop MGS Medium Index + 30% MSCI AC APxJ Index

**Source:** Lipper for Investment Management, www.msci.com and www.quantshop.com, as at 30 September 2016.

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

### Analysis of Fund Performance

For the financial year ended 30 September 2016:

Income Return	Capital Return*	Total Return	Total Return of Benchmark
(%)	(%)	(%)	(%)
0.00	5.73	5.73	8.78

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

### Distribution/ Unit Split

No distribution or unit split were declared for the financial year ended 30 September 2016.

### Investment Strategy During Period Under Review

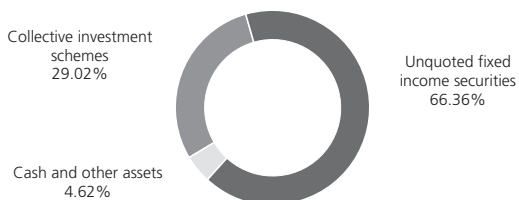
The Fund invested in quality bonds for yield pick-up and traded on market volatility.

## MANAGER'S REPORT (CONTINUED)

## Asset Allocation

Asset Allocation	30-Sep 2016	30-Sep 2015	Changes
	(%)	(%)	(%)
Collective investment schemes	29.02	28.68	0.34
Unquoted fixed income securities	66.36	69.88	(3.52)
Cash and other assets	4.62	1.44	3.18

## Asset Allocation as at 30 September 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

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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.

However, in the Eastspring Investments Supplementary Master Prospectus dated 13 May 2016, the information in relation to the 2<sup>nd</sup> paragraph of the investment strategy for the Fund has been revised as follows:

The Fund shall invest in fixed income securities with a minimum credit rating of BBB or P2 by RAM Rating Services Berhad ("RAM") or its equivalent rating by any other domestic rating agencies. Should the credit rating of the fixed income securities be downgraded by the rating agencies to below the minimum credit rating, Eastspring Investments Berhad ("the Manager") may dispose the affected fixed income securities in the market.

### Cross-Trade Transaction

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During the year under review, there were cross-trades executed through a dealer or a financial institution on an arm's length and fair value basis and in the best interest of the unit holders.

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## MARKET REVIEW

### Bond

Bank Negara Malaysia (“BNM”) maintained the Overnight Policy Rate (“OPR”) at 3.25% throughout 2015 stating that the monetary policy remains supportive of growth. BNM continued to maintain the OPR at 3.25% in the first half of 2016. However, on 13 July 2016, BNM cut its OPR for the first time since 2014 by 25 basis points (“bps”) to 3.00%. BNM’s move to ease monetary policy is seen as a pre-emptive move to spur the Malaysian economy from the slower global growth coupled with arising risks from British Exit (“BREXIT”) from the European Union. At the Monetary Policy Committee meeting on 7 September 2016, BNM left the OPR unchanged at 3.00% as the central bank maintained its view that the OPR is consistent with the accommodativeness and that the global economy continues to expand at a moderate pace. BNM anticipates that the domestic economy is expected to remain robust and grow between 4%-4.5% for 2016 but global uncertainties could weigh on Malaysia’s growth. BNM expects domestic demand to be the main driver of growth while private consumption is expected to be supported by stable wage and employment growth. BNM mentioned that the central bank would be data dependent before deciding its next course of action.

Headline inflation decline from 2.6% year-on-year (“y-o-y”) in September 2014 to 1.5% y-o-y in August 2016. The decrease was mainly driven by lower transport costs due to low energy prices and lower communication costs. BNM expects inflation to be at the lower end of the 2% to 3% range for 2016 and to remain relatively stable in 2017 given the environment of low global energy and commodity prices, and generally subdued global inflation.

For the period under review, the 3-year, 5-year, 10-year and 15-year sovereign bond yields fell by 85bps, 53bps, 59bps and 73bps to close at 2.84%, 3.24%, 3.55% and 3.91% respectively<sup>1</sup>. Malaysian Government Securities (“MGS”) yields moderated in the 4Q2015 before rallying in 1Q2016 on the Statutory Reserve Requirement (“SRR”) cut by BNM which was announced on 21 January 2016 followed by the Federal Open Market Committee (“FOMC”)’s dovish statement on 16 March 2016 which signalled a very gradual path of rate hikes in 2016. MGS yield continued to rally after BNM cut the OPR by 25bps in July coupled with strong buying interest from foreign and domestic investors due to heightened expectations of monetary easing by major global central banks.

Corporate bond yields generally moved in tandem with sovereign bond yields, albeit at a lag. Activities in the corporate bond market were supported by ample liquidity and a stable credit environment.

<sup>1</sup> Source: Bloomberg

On the supply front, total outstanding Malaysian Ringgit (“MYR”) issuances at the end of September 2016 stood at about MYR1,176 billion, of which approximately 43.8% was conventional and 56.2% was Islamic<sup>2</sup>. The proportion of corporate sukuk in the sukuk universe was higher at about 59.2% compared to the proportion of corporate bonds in the conventional bonds universe of about 27.2%. Major primary issuances were from the banking and infrastructure sectors as well as government guaranteed issuances. Major issuances included MYR5.5 billion from Sarawak Hydro, MYR4.5 billion from Danainfra, MYR3.6 billion from Lebuhraya DUKE Fasa 3 and MYR2.6 billion from Jambatan Kedua Sdn Berhad.

## Equity

Chinese and Indian equities rallied during the quarter. The Morgan Stanley Capital International (“MSCI”) China Index (Net) advanced 13.4% in USD terms over the quarter, on heightened risk appetites globally and improved macroeconomic and earnings data domestically. The MSCI India Index, meanwhile rose 5.9%, buoyed by positive policy developments but taking a knock in late September due to geopolitical tensions at the Kashmir border.

China’s State Council in August approved the Shenzhen-Hong Kong Stock Connect scheme that allows investors to buy stocks on each other’s bourses. Daily trading inflows for mainland investors are capped at RMB10.5 billion (USD1.6 billion), while those for Hong Kong investors to Shenzhen (and Shanghai) shares are limited to RMB13 billion.

India’s Upper House of Parliament passed the goods and services tax (“GST”) bill in early August, paving the way for much-awaited long-term tax reforms. Next steps include determining the GST tax rate.

## REBATES AND SOFT COMMISSIONS

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

<sup>2</sup> Source: Bond Pricing Agency Malaysia

# EASTSPRING INVESTMENTS ENHANCED INCOME FUND

## FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2016

## TRUSTEE'S REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS ENHANCED INCOME FUND

We have acted as Trustee for Eastspring Investments Enhanced Income Fund (the "Fund") for financial year ended 30 September 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.

For Deutsche Trustees Malaysia Berhad

**Soon Lai Ching**

Senior Manager, Trustee Operations

**Maresh Anchan**

Head, Trustee Operations

Kuala Lumpur

Date: 18 November 2016

# INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS ENHANCED INCOME FUND

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Eastspring Investments Enhanced Income Fund (the "Fund"), which comprise the statement of financial position as at 30 September 2016, the statement of comprehensive income, the 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 1 to 14 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 30 September 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: 18 November 2016

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2016

	Note	2016	2015
		RM	RM
<b>INVESTMENT INCOME</b>			
Interest from deposits with licensed financial Institutions		18,786	24,195
Interest from unquoted fixed income securities		322,595	401,719
Gross dividend income		58,245	-
Net gain on financial assets at fair value through profit or loss	6	241,234	386,411
Net foreign currency exchange loss		-	(2,647)
		<u>640,860</u>	<u>809,678</u>
<b>EXPENSES</b>			
Management fee	3	(56,524)	(153,580)
Trustee fee	4	(18,000)	(18,000)
Audit fee		(6,994)	(6,006)
Tax agent fee		(3,400)	(3,400)
Other expenses		(5,522)	(5,417)
GST charges		(4,846)	(4,716)
		<u>(95,286)</u>	<u>(191,119)</u>
<b>PROFIT BEFORE TAXATION</b>		545,574	618,559
<b>TAXATION</b>	5	<u>-</u>	<u>-</u>
<b>PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME</b>		<u>545,574</u>	<u>618,559</u>
Profit after taxation is made up of the following:			
Realised amount		347,960	850,022
Unrealised amount		197,614	(231,463)
		<u>545,574</u>	<u>618,559</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 30 SEPTEMBER 2016

	Note	2016	2015
		RM	RM
<b>ASSETS</b>			
Cash and cash equivalents	7	460,058	369,803
Financial assets at fair value through profit or loss	6	9,422,288	10,578,669
Amount due from Manager		3,158	2,571
<b>TOTAL ASSETS</b>		<u>9,885,504</u>	<u>10,951,043</u>
<b>LIABILITIES</b>			
Amount due to Manager		24,112	174,237
Accrued management fee		6,158	9,212
Amount due to Trustee		1,475	1,474
GST charges payable		458	682
Other payables and accruals		28,257	34,129
<b>TOTAL LIABILITIES</b>		<u>60,460</u>	<u>219,734</u>
<b>NET ASSET VALUE OF THE FUND</b>		<u>9,825,044</u>	<u>10,731,309</u>
<b>EQUITY</b>			
Unit holders' capital		9,188,629	10,640,468
Retained earnings		636,415	90,841
<b>NET ASSET ATTRIBUTABLE TO UNIT HOLDERS</b>		<u>9,825,044</u>	<u>10,731,309</u>
<b>NUMBER OF UNITS IN CIRCULATION</b>	8	<u>16,328,576</u>	<u>18,855,178</u>
<b>NET ASSET VALUE PER UNIT (RM)</b>		<u>0.6017</u>	<u>0.5691</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 30 SEPTEMBER 2016

	Unit holders' capital	Retained earnings	Total
	RM	RM	RM
Balance as at 1 October 2015	10,640,468	90,841	10,731,309
Movement in unit holders' contribution:			
Creation of units from applications	143,340	-	143,340
Cancellation of units	(1,595,179)	-	(1,595,179)
Total comprehensive income for the financial year	-	545,574	545,574
Balance as at 30 September 2016	9,188,629	636,415	9,825,044
Balance as at 1 October 2014	14,780,497	(527,718)	14,252,779
Movement in unit holders' contribution:			
Creation of units from applications	1,428,821	-	1,428,821
Cancellation of units	(5,568,850)	-	(5,568,850)
Total comprehensive income for the financial year	-	618,559	618,559
Balance as at 30 September 2015	10,640,468	90,841	10,731,309

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 30 SEPTEMBER 2016

	Note	2016	2015
		RM	RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from sale of investment		2,613,728	6,333,870
Purchase of investments		(1,262,307)	(2,817,254)
Dividend received		58,245	-
Interest received		387,575	432,776
Management fee paid		(59,578)	(160,193)
Trustee fee paid		(18,000)	(18,088)
Payment for other fees and expenses		(26,857)	(34,113)
Net foreign exchange loss		-	(2,647)
Net cash generated from operating activities		<u>1,692,806</u>	<u>3,734,351</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash proceeds from units created		142,753	1,429,602
Payments for cancellation of units		(1,745,304)	(5,859,139)
Net cash used in financing activities		<u>(1,602,551)</u>	<u>(4,429,537)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		90,255	(695,186)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR</b>			
		<u>369,803</u>	<u>1,064,989</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>			
	7	<u>460,058</u>	<u>369,803</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 30 SEPTEMBER 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 in accordance with the Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS"), under the historical cost convention as modified by financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with the 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 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 judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note J to the financial statements.

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 October 2017
  - Amendments to MFRS 107 "Statement of Cash Flows – Disclosure Initiative" (effective from 1 January 2017) introduce an additional disclosure on changes in liabilities arising from financing activities.

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

ii. Financial year beginning on/after 1 October 2018

- 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 loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss 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.

- 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.

## **B. INCOME RECOGNITION**

Interest income from short term deposits is recognised on an 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.

Dividend income is recognised on the ex-dividend date, when the right to receive the dividend has been established. Dividend income from the Underlying Fund is recognised on the ex-dividend date.

For collective investment schemes, realised gain or loss on sale of investments are accounted for as the difference between the net disposal proceeds and the carrying amount of investments, determined on a weighted average cost basis.

For unquoted fixed income securities, realised gain or loss on disposal of investments 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.

## **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 dividend income from foreign collective investment scheme is based on the tax regime on the respective country that the Fund invests in.



## **D. 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.

## **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 unquoted fixed income securities and collective investment schemes 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. The Fund’s loans and receivables comprise cash and cash equivalents and amount due from Manager which are 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, accrued management fee, amount due to Trustee, GST charges payable and other payables and accruals.

## 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 and transaction costs are expensed in the statement of comprehensive income.

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 liabilities are 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.

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. 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.

If a valuation based on the market price does not represent the fair value of the securities, for example during abnormal market conditions or when no market price is available, including in the event of a suspension in the quotation of the securities for a period exceeding 14 days, or such shorter period as agreed by the Trustee, then the securities are valued as determined in good faith by the Manager, based on the methods or bases approved by the Trustee after appropriate technical consultation.

Collective investment schemes are valued based on the last published net asset value per unit or share of such collective investment schemes or, if unavailable, on the average of the last published buying price and the last published selling price of such unit or share (excluding any sales charge included in such selling price), where the published NAV or price per unit falls within the bid-ask spread. In circumstances where the published NAV or price per unit is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of the fair value.

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

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' or a 'held-to-maturity investment' 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 balance 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. 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's Manager that undertakes strategic decisions for the Fund.

## **J. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of financial statements in conformity with the Malaysian Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on the Manager's best knowledge of current events and actions, actual results could differ from those estimates.

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2016

### 1. INFORMATION ON THE FUND

Eastspring Investments Enhanced Income Fund (the “Fund”) was constituted pursuant to the execution of a Deed dated 14 March 2007, followed by a Master Supplemental Deed dated 12 July 2007 and a Second Supplemental Master Deed dated 30 November 2009 between HSBC (Malaysia) Trustee Berhad (“HSBC Trustee”) and Eastspring Investments Berhad (the “Manager”). The Fund replaced HSBC Trustee with Deutsche Trustees Malaysia Berhad (the “Trustee”) effective 1 October 2010. A Supplemental Master Deed was entered into between the “Manager” and the “Trustee” on 30 July 2010 to effect the change of trustee from HSBC Trustee to the Trustee followed by a Second Supplemental Master Deed dated 28 January 2011, a Third Supplemental Master Deed dated 9 March 2011, a Fourth Supplemental Master Deed dated 20 January 2012, a Fifth Supplemental Master Deed dated 26 March 2014, a Sixth Supplemental Master Deed dated 2 January 2015 and a Seventh Supplemental Master Deed dated 11 July 2016 (collectively referred to as the “Deed”).

The Fund was launched on 28 May 2007 and will continue its operations until terminated by the Trustee or the Manager as provided under Clause 12 of the Deed.

The Fund invests in a portfolio comprising Malaysian fixed income securities and money market instruments as well as Malaysian and foreign equities and equity-related securities, and local collective investment schemes, Eastspring Investments Asia Pacific Equity MY Fund, Eastspring Investments Dinasti Equity Fund and Eastspring Investments Asia Pacific ex-Japan Target Return Fund.

All investments will be subject to the SC Guideline’s on Unit Trust Funds, SC requirements, the Deed, except where exemptions or variations have been approved by the SC, internal policies and procedures and the Fund’s objective.

The Fund seeks to provide an income stream and an opportunity for capital appreciation by investing in a portfolio of Malaysian and foreign securities.

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 and interest rate 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	Loan and receivables	Financial assets at fair value through profit or loss	Total
		RM	RM	RM
<u>2016</u>				
Collective investment schemes	6	-	2,851,468	2,851,468
Unquoted fixed income securities	6	-	6,570,820	6,570,820
Cash and cash equivalents	7	460,058	-	460,058
Amount due from Manager		3,158	-	3,158
		<u>463,216</u>	<u>9,422,288</u>	<u>9,885,504</u>
<u>2015</u>				
Collective investment schemes	6	-	3,078,317	3,078,317
Unquoted fixed income securities	6	-	7,500,352	7,500,352
Cash and cash equivalents	7	369,803	-	369,803
Amount due from Manager		2,571	-	2,571
		<u>372,374</u>	<u>10,578,669</u>	<u>10,951,043</u>

All 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 30 September which are exposed to price risk:

	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Collective investment schemes designated at fair value through profit or loss	<u>2,851,468</u>	<u>3,078,317</u>
Unquoted fixed income securities designated at fair value through profit or loss*	<u>6,570,820</u>	<u>7,500,352</u>

\* Includes interest receivable of RM51,527 (2015: RM81,015).

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

% Change in price of financial assets at fair value through profit or loss	Market value	Impact on profit after tax/ net asset value
	RM	RM
<u>2016</u>		
+5%	9,839,299	468,538
-5%	8,902,223	(468,538)
<u>2015</u>		
+5%	11,022,537	524,883
-5%	9,972,771	(524,883)

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 and money market instruments are benchmarked against interest rates. As such, the investments are exposed to the movement of the interest rates.

This risk is crucial since unquoted fixed income securities portfolio management depends on forecasting interest rate movements. Prices of unquoted fixed income securities move inversely to interest rate movements, therefore as interest rates rise, the prices of unquoted fixed income securities decrease and vice versa. Furthermore, unquoted fixed income securities with longer maturity and lower yield coupon rates are more susceptible to interest rate movements.

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 NAV to movements in prices of unquoted fixed income securities held by the Fund as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate changed by 5% (2015: 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.

	2016	2015
% Change in interest rate of unquoted fixed income securities	Impact on profit after tax/ net asset value	Impact on profit after tax/ net asset value
	RM	RM
+5% (2015:+5%)	(53,349)	(72,706)
-5% (2015:-5%)	53,975	73,712

**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	Total
	RM	RM	RM
<u>2016</u>			
Amount due to Manager	24,112	-	24,112
Accrued management fee	6,158	-	6,158
Amount due to Trustee	1,475	-	1,475
GST charges payable	458	-	458
Other payables and accruals	-	28,257	28,257
Contractual cash outflows	32,203	28,257	60,460
<u>2015</u>			
Amount due to Manager	174,237	-	174,237
Accrued management fee	9,212	-	9,212
Amount due to Trustee	1,474	-	1,474
GST charges payable	682	-	682
Other payables and accruals	-	34,129	34,129
Contractual cash outflows	185,605	34,129	219,734

### Non-compliance risk

Non-compliance risk arises when the Manager and others associated with the Fund are not compliant 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 settlement terms of the proceeds from the creation of units receivable from the Manager are governed by the Securities Commission's Guidelines on Unit Trust Funds.

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 Manager	Total
	RM	RM	RM	RM
<u>2016</u>				
Finance				
- AA1	-	20,021	-	20,021
- AAA	-	440,037	-	440,037
Unquoted fixed income securities				
- AAA	914,856	-	-	914,856
- AA1	607,055	-	-	607,055
- AA2	1,220,575	-	-	1,220,575
- AA3	3,828,334	-	-	3,828,334
Other				
- NR	-	-	3,158	3,158
	<u>6,570,820</u>	<u>460,058</u>	<u>3,158</u>	<u>7,034,036</u>
<u>2015</u>				
Finance				
- AA1	-	19,765	-	19,765
- AAA	-	350,038	-	350,038
Unquoted fixed income securities				
- AA1	1,111,979	-	-	1,111,979
- AA2	899,075	-	-	899,075
- AA3	4,266,461	-	-	4,266,461
- AA-is	1,222,837	-	-	1,222,837
Other				
- NR	-	-	2,571	2,571
	<u>7,500,352</u>	<u>369,803</u>	<u>2,571</u>	<u>7,872,726</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 trading securities) are based on quoted market prices at the close of trading on the year 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.

## 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 judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment 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:				
Collective investment schemes	2,851,468	-	-	2,851,468
Unquoted fixed income securities	-	6,570,820	-	6,570,820
<u>2015</u>				
Financial assets at fair value through profit or loss:				
Collective investment schemes	3,078,317	-	-	3,078,317
Unquoted fixed income securities	-	7,500,352	-	7,500,352

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active quoted securities. Investment in collective investment schemes, i.e unit trust funds whose values are based on published prices in active markets is also classified within Level 1. The Fund does not adjust the quoted prices for these instruments. The Fund's policies on valuation of these financial assets are stated in Note F to the financial statements.

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, which include unquoted fixed income securities. 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 Manager and all liabilities are a reasonable approximation of their fair values due to their short term nature.

### **3. MANAGEMENT FEE**

In accordance with the Deed, the Manager is entitled to a management fee at a rate not exceeding 2.50% per annum on the net asset value of the Fund accrued on a daily basis for the financial year (excluding foreign custodian fees and charges).

For the financial year ended 30 September 2016, the management fee is recognised at a rate of 1.25% (2015: 1.25%) per annum of the net asset value of the Fund, calculated on daily basis.

As the Fund invests in collective investment schemes, any management fees charged by Eastspring Investments Asia Pacific Equity MY Fund, Eastspring Investments Dinasti Equity Fund and Eastspring Investments Asia Pacific ex-Japan Target Return Fund will be fully refunded. The rebate of management fees amounting to RM47,506 (2015: RM33,466) is calculated on the net asset value of the Target Fund on a daily basis. In accordance with the SC Guidelines in Unit Trust Funds, there is no double charging of management fee to the Fund.

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

#### **4. TRUSTEE FEE**

In accordance with the Deed, the Trustee is entitled to an annual fee, excluding foreign custodian fees and charges, at a rate not exceeding 1.00% per annum on the net asset value of the Fund, subject to a minimum fee of RM18,000 per annum.

For the financial year ended 30 September 2016, the Trustee fee is recognised at a minimum fee of RM18,000 (2015: RM18,000) per annum instead of at a rate of 0.08% (2015: 0.08%) per annum on the net asset value of the Fund, excluding foreign custodian fees and 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.

## 5. TAXATION

	2016	2015
	RM	RM
Tax charged for the financial year:		
Current taxation – local	-	-

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

	2016	2015
	RM	RM
Profit before taxation	545,574	618,559
Tax at Malaysian statutory rate of 24% (2015: 25%)	130,938	154,640
Tax effects of:		
Investment income exempt from tax	(153,806)	(202,420)
Expenses not deductible for tax purposes	7,624	7,883
Restriction on tax deductible expenses for Unit Trust Funds	15,244	39,897
Taxation	-	-

**6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Designated at fair value through profit or loss:		
Collective investment schemes (Note 6 (i))	2,851,468	3,078,317
Unquoted fixed income securities (Note 6 (ii))	6,570,820	7,500,352
	<u>9,422,288</u>	<u>10,578,669</u>
Net gain on financial assets at fair value through profit or loss:		
Realised gain on disposals	43,620	617,874
Change in unrealised fair value gain/(loss)	197,614	(231,463)
	<u>241,234</u>	<u>386,411</u>

i. Collective Investment Schemes

	Quantity	Aggregate cost	Fair value as at 30.9.2016	Percentage of net asset value of the Fund
	Units	RM	RM	%
<u>Local</u>				
Eastspring Investments Asia Pacific Equity MY Fund	2,178,972	1,218,658	1,362,075	13.86
Eastspring Investments Dinasti Equity Fund	494,882	686,195	734,554	7.48
Eastspring Investments Asia Pacific ex-Japan Target Return Fund	1,453,011	780,536	754,839	7.68
<b>TOTAL COLLECTIVE INVESTMENT SCHEMES</b>	<u>4,126,865</u>	2,685,389	<u>2,851,468</u>	29.02
<b>ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			<u>166,079</u>	
<b>FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			<u>2,851,468</u>	

i. Collective Investment Schemes (continued)

	Quantity	Aggregate cost	Fair value as at 30.9.2015	Percentage of net asset value of the Fund
	Units	RM	RM	%
<u>Local</u>				
Eastspring Investments Asia Pacific Equity MY Fund	2,672,972	1,494,943	1,596,031	14.87
Eastspring Investments Dinasti Equity Fund	539,103	750,000	736,469	6.86
Eastspring Investments Asia Pacific ex-Japan Target Return Fund	1,394,311	750,000	745,817	6.95
<b>TOTAL COLLECTIVE INVESTMENT SCHEMES</b>	<u>4,606,386</u>	2,994,943	<u>3,078,317</u>	28.68
<b>ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			<u>83,374</u>	
<b>FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			<u>3,078,317</u>	

### Eastspring Investments Asia Pacific Equity MY Fund

Eastspring Investments Asia Pacific Equity MY Fund (the “Fund”) was constituted pursuant to the execution of a Deed dated 15 July 2005 as modified by a Supplemental Deed dated 27 July 2007 and a Second Supplemental Deed dated 30 November 2009 entered into between Eastspring Investments Berhad (the “Manager”) and Mayban Trustees Berhad (“Mayban Trustees”). The Fund replaced Mayban Trustees with Deutsche Trustees Malaysia Berhad (the “Trustee”) effective 1 October 2010. A Supplemental Master Deed was entered into between the Manager and the Trustee on 30 July 2010 to effect the change of trustee from Mayban Trustees to the Trustee followed by a Second Supplemental Master Deed dated 28 January 2011, a Third Supplemental Master Deed dated 9 March 2011, a Fourth Supplemental Master Deed dated 20 January 2012, a Fifth Supplemental Master Deed dated 26 March 2014 and a Sixth Supplemental Master Deed dated 2 January 2015 and Seventh Supplemental Master Deed dated 11 July 2016 (collectively referred to as the “Deeds”).

The Fund was launched on 21 July 2005 and will continue its operations until terminated by the Trustee or the Manager as provided under Part 12 of the Deed.

The main objective of the Fund is to seek to provide investors with medium to long term capital growth by investing in equities and equity - related securities of companies in the local and Asia Pacific ex-Japan region with good capital growth potential.

### Eastspring Investments Dinasti Equity Fund

Eastspring Investments Dinasti Equity Fund was constituted pursuant to the execution of a Deed dated 28 August 2009 (the “Deed”) entered into between Eastspring Investments Berhad (the “Manager”) and Deutsche Trustees Malaysia Berhad (the “Trustee”), followed by a Supplemental Deed dated 20 January 2012, a Second Supplemental Deed dated 26 March 2015 and a Third Supplemental Deed dated 2 January 2015 (collectively referred to as the “Deed”).

The Fund was launched on 26 October 2009 and will continue its operations until terminated by the Trustee or the Manager as provided under Part 12 of the Deed.

The Fund invests primarily in Shariah-compliant equities and equity-related securities of companies based in the Greater China region which potentially offer attractive



long-term value. These include Shariah-compliant securities of Greater China-based companies listed or to be listed on recognised exchanges of the People's Republic of China, Hong Kong and Taiwan as well as other recognised exchanges such as in Malaysia, Singapore and United States of America where the regulatory authority is a member of the IOSCO. 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 investors with long-term capital appreciation by investing in Shariah-compliant investments with exposure to the Greater China Region.

#### Eastspring Investments Asia Pacific ex-Japan Target Return Fund

Eastspring Investments Asia Pacific ex-Japan Target Return Fund (the "Fund") was constituted pursuant to the execution of a Deed dated 24 April 2014 as modified by a Supplemental Deed dated 21 July 2014 and the Second Supplemental Deed dated 2 January 2015 entered into between Eastspring Investments Berhad (the "Manager") and Deutsche Trustees Malaysia Berhad (the "Trustee") (collectively referred to as the "Deed").

The Fund was launched on 10 October 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 provide capital appreciation by investing in securities in the Asia Pacific ex-Japan region.

The Fund seeks to achieve its objective by investing in equities and equity-related securities, such as rights and warrants, which are listed on the Asia Pacific ex-Japan exchanges. The Fund's investments may also include liquid assets. The Fund will invest in markets where the regulatory authority is a member of IOSCO. The markets where the Fund will invest in include but not limited to Australia, Hong Kong, India, Indonesia, Malaysia, New Zealand, South Korea, Chinese Taipei, Vietnam, Singapore, Philippines and Thailand.

ii. Unquoted fixed income securities

Name of issuer	Quantity	Carrying cost	Fair value	Percentage
			as at 30.9.2016	of net asset value of the Fund
	Units	RM	RM	%
<u>BONDS</u>				
5.60% BGSM Management Sdn Berhad 27.12.2023 (AA3)	800,000	826,859	851,196	8.54
5.25% Bumitama Agri Ltd. 18.03.2019 (AA3)	900,000	901,553	921,560	9.36
5.10% Gulf Investment Corporation G.S.C 16.03.2021 (AAA)	900,000	905,170	914,856	9.30
4.50% Hong Leong Bank Berhad 21.06.2024 (AA2)	900,000	913,996	913,895	9.19
9.30% Jimah Energy Ventures Sdn Berhad 12.11.2021 (AA3)	400,000	490,116	501,325	4.96
5.10% Krung Thai Bank Public Company Limited 04.07.2025 (AA2)	300,000	303,670	306,680	3.09
4.80% Public Bank Berhad 25.09.2023 (AA1)	600,000	600,395	607,055	6.17
4.99% RHB Bank Berhad 08.07.2024 (AA3)	500,000	505,605	513,185	5.17
5.02% Tanjung Bin Energy Issuer Berhad 15.09.2020 (AA3)	500,000	503,533	512,825	5.21

ii. Unquoted fixed income securities (continued)

Name of issuer	Quantity	Carrying cost	Fair value as at 30.9.2016	Percentage of net asset value of the Fund
	Units	RM	RM	%
<u>BONDS</u> (continued)				
5.40% Tanjung Bin Energy Issuer Berhad 15.03.2024 (AA3)	500,000	502,737	528,243	5.37
<b>TOTAL UNQUOTED FIXED INCOME SECURITIES</b>	<u>6,300,000</u>	6,453,634	<u>6,570,820</u>	66.36
<b>ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<u>117,186</u>		
<b>FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<u>6,570,820</u>		

ii. Unquoted fixed income securities (continued)

Name of issuer	Quantity	Carrying cost	Fair value as at 30.9.2015	Percentage of net asset value of the Fund
	Units	RM	RM	%
<u>BONDS</u>				
5.60% BGSM Management Sdn Berhad 27.12.2023 (AA3)	800,000	828,432	829,945	7.73
5.25% Bumitama Agri Ltd 18.03.2019 (AA3)	900,000	901,683	917,181	8.55
4.77% CIMB Bank Berhad 16.10.2018 (AA1)	500,000	510,978	511,248	4.76
4.50% Hong Leong Bank Berhad 24.06.2019 (AA2)	900,000	915,106	899,075	8.38
9.30% Jimah Energy Ventures Sdn Bhd 12.11.2021 (AA3)	400,000	502,739	498,270	4.64
4.90% Malakoff Power Berhad 17.12.2018 (AA-is)	1,000,000	1,015,631	1,018,730	9.49
5.05% Malakoff Power Berhad 17.12.2019 (AA-is)	200,000	204,058	204,107	1.90
4.80% Public Bank Berhad 25.09.2018 (AA1)	600,000	600,473	600,731	5.60
4.99% RHB Bank Berhad 08.07.2019 (AA3)	1,000,000	1,011,620	1,019,531	9.50

ii. Unquoted fixed income securities (continued)

Name of issuer	Quantity	Carrying cost	Fair value	Percentage of net asset value of the Fund
			as at 30.9.2015	
	Units	RM	RM	%
<u>BONDS</u> (continued)				
5.02% Tanjung Bin Energy Issuer Berhad 15.09.2020 (AA3)	500,000	504,276	499,198	4.65
5.40% Tanjung Bin Energy Issuer Berhad 15.03.2024 (AA3)	500,000	503,079	502,336	4.68
<b>TOTAL UNQUOTED FIXED INCOME SECURITIES</b>	<u>7,300,000</u>	7,498,075	<u>7,500,352</u>	69.88
<b>ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<u>2,277</u>		
<b>FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			<u>7,500,352</u>	

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

	<b>2016</b>	<b>2015</b>
	%	%
Unquoted fixed income securities	4.56	5.01

## 7. CASH AND CASH EQUIVALENTS

	<b>2016</b>	<b>2015</b>
	RM	RM
Bank balance with a licensed bank	20,021	19,765
Deposit with a licensed financial institution	440,037	350,038
	<u>460,058</u>	<u>369,803</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 are as follows:

	<b>2016</b>	<b>2015</b>
	%	%
Deposit with a licensed financial institution	3.10	4.00

The deposit has an average maturity of 4 days (2015: 1 day).

## 8. UNITS IN CIRCULATION

	<b>2016</b>	<b>2015</b>
	<b>No. of Units</b>	<b>No. of Units</b>
At the beginning of the financial year	18,855,178	26,206,531
Creation of units arising from applications during the financial year	244,973	2,547,713
Cancellation of units during the financial year	<u>(2,771,575)</u>	<u>(9,899,066)</u>
At the end of the financial year	<u>16,328,576</u>	<u>18,855,178</u>

## 9. TRANSACTIONS WITH BROKERS/DEALERS

Details of transactions with the broker/dealer are as follows:

Name of brokers/ dealers	Value of trades	Percentage of total trades	Brokerage fees	Percentage of total brokerage fees
	RM	%	RM	%
<u>2016</u>				
Hong Leong Investment Bank Berhad	1,007,100	25.98	-	-
RHB Investment Bank Berhad	1,000,780	25.82	-	-
Ambank (M) Berhad	903,942	23.32	-	-
Hong Leong Bank Berhad	503,800	13.00	-	-
Eastspring Investments Berhad	156,440	4.04	-	-
Eastspring Investments (Singapore) Limited	303,974	7.84	-	-
	<u>3,876,036</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

Details of transactions, primarily cash placements with financial institutions for the financial year ended 30 September 2016 are as follows:

Financial institutions	Value of placements	Percentage of total placements
	RM	%
CIMB Bank Berhad	131,980,000	94.96
Malayan Banking Berhad	7,000,000	5.04
	<u>138,980,000</u>	<u>100.00</u>



Name of brokers/ dealers	Value of trades	Percentage of total trades	Brokerage fees	Percentage of total brokerage fees
	RM	%	RM	%
<u>2015</u>				
Eastspring Investments (Singapore) Limited#	2,439,868	31.48	-	-
Eastspring Investments Berhad#	1,988,545	25.65	-	-
RHB Investment Bank Berhad	1,503,170	19.39	-	-
AmBank (M) Berhad	1,018,320	13.14	-	-
Hong Leong Bank Berhad	501,250	6.47	-	-
Malayan Banking Berhad	201,300	2.60	-	-
KAF Investment Bank Berhad	98,670	1.27	-	-
	<u>7,751,123</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

Details of transactions, primarily cash placements with financial institutions for the financial year ended 30 September 2015 are as follows:

Financial institutions	Value of placements	Percentage of total placements
	RM	%
CIMB Bank Berhad	161,750,000	99.39
Public Bank Berhad	1,000,000	0.61
	<u>162,750,000</u>	<u>100.00</u>

# Included in transactions by the Fund are trades conducted with Eastspring Investments Berhad, the Manager and Eastspring Investments (Singapore) Limited, a related party of the Manager. The Manager is of the opinion that all transactions with the related company have been entered into in the normal course of business at agreed terms between the related parties.

## 10. UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER

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

Related parties	Relationship
Eastspring Investments Berhad	The Manager
Eastspring Investments (Singapore) Limited	Related company of the Manager
Eastspring Investments Asia Pacific Equity MY Fund	Collective investment scheme managed by Eastspring Investments Berhad
Eastspring Investments Dinasti Equity Fund	Collective investment scheme managed by Eastspring Investments Berhad
Eastspring Investments Asia Pacific ex-Japan Target Return Fund	Collective investment scheme managed by Eastspring Investments Berhad

	2016		2015	
	No. of units	RM	No. of units	RM
Eastspring Investments Berhad	1,000	602	1,000	569

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.

Significant related parties transactions

	<b>2016</b>	<b>2015</b>
	<b>RM</b>	<b>RM</b>
Purchase of units in collective investment schemes managed by Eastspring Investments Berhad	58,245	1,500,000
Sale of units in collective investment schemes managed by Eastspring Investments Berhad	98,195	488,545
Purchase of units in collective investment scheme managed by Eastspring Investments (Singapore) Limited	-	115,534
Sale of units in collective investment scheme managed by Eastspring Investments (Singapore) Limited	<u>303,974</u>	<u>2,324,334</u>

**11. MANAGEMENT EXPENSE RATIO ("MER")**

	<b>2016</b>	<b>2015</b>
	%	%
MER	0.95	1.49

MER is derived from the following calculation:

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

A = Management fee

B = Trustee fee

C = Audit fee

D = Tax agent fee

E = Other expenses (inclusive GST charges)

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

The average net asset value of the Fund for the financial year calculated on a daily basis is RM10,013,264 (2015: RM12,481,250).

## 12. PORTFOLIO TURNOVER RATIO (“PTR”)

	2016	2015
PTR (times)	0.19	0.31

PTR is derived from the following calculation:

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

where:

total acquisitions for the financial year = RM1,262,307 (2015: RM2,817,254)

total disposals for the financial year = RM2,613,729 (2015: RM4,933,870)

## 13. 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 segments derive their income by seeking investments to achieve targeted returns consummate with an acceptable level of risk within each portfolio. These returns consist of interest income and gains on the appreciation in the value of investments, and is derived from Malaysian fixed income securities and money market instruments as well as collective investment schemes that invest in the Asia Pacific markets.

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

## 14. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 18 November 2016.

# CORPORATE DIRECTORY

## **THE MANAGER**

NAME

EASTSPRING INVESTMENTS BERHAD

COMPANY NO.

531241-U

REGISTERED OFFICE

16<sup>th</sup> Floor, Wisma Sime Darby

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EMAIL

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WEBSITE

www.eastspringinvestments.com.my

## **BOARD OF DIRECTORS OF THE MANAGER**

Julian Christopher Vivian Pull

*(Chairman, Non-independent,  
non-executive director)*

Iskander Bin Ismail Mohamed Ali

*(Independent, non-executive director)*

Khoo Chuan Keat

*(Independent, non-executive director)*

Michele Mi Kyung Bang

*(Non-independent, non-executive director)*

Raymond Tang Chee Kin

*(Non-independent, executive director)*

## **INVESTMENT COMMITTEE OF THE FUND**

Ho Yik

*(Independent member)*

Robert Yap Yen Choon

*(Independent member)*

Abdul Khalil Bin Abdul Hamid

*(Independent member)*

Dato' Saiful Bahri Bin Zainuddin

*(Independent member)*

Raymond Tang Chee Kin

*(Non-Independent member)*

**AUDIT AND COMPLIANCE  
COMMITTEE OF THE MANAGER**

Iskander Bin Ismail Mohamed Ali  
(Independent)

Khoo Chuan Keat  
(Independent)

Niall Dermot Grady  
(Non-independent)

**MANAGER'S DELEGATE - FUND VALUER**

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DEUTSCHE BANK (MALAYSIA) BERHAD

COMPANY NO.

312552-W

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TELEPHONE NO.

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FAX NO.

603-2031 8710

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

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KARVY COMPUTERSHARE  
(MALAYSIA) SDN BHD

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1178655-U

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**COMPANY SECRETARY OF  
THE MANAGER**

NAME

VIJEY A/L R. MOHANA KRISHNAN  
(BCN/143)

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RDL Corporate Services Sdn Bhd  
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**TRUSTEE**

NAME

DEUTSCHE TRUSTEES MALAYSIA BERHAD

COMPANY NO.

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**TRUSTEE'S DELEGATE - CUSTODIAN**

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**TAXATION ADVISER OF**

**THE FUND**

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PRICEWATERHOUSECOOPERS  
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**AUDITORS OF THE MANAGER**

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**AUDITORS AND REPORTING  
ACCOUNTANT OF THE FUND**

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**PRINCIPAL BANKERS**

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**SOLICITORS**

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**SALE & PURCHASE OF UNITS**  
**Eastspring Investments Berhad**

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**BRANCHES**

**Petaling Jaya**

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**ENQUIRIES**

CLIENT SERVICES

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