

# EASTSPRING INVESTMENTS TARGET INCOME FUND 5

## ANNUAL REPORT

FOR THE FINANCIAL PERIOD FROM 22 FEBRUARY 2016  
(LAUNCH DATE) TO 31 DECEMBER 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 December 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

# TABLE OF CONTENTS

Fund Information	1
Key Performance Data	3
Manager's Report	5
Market Review	8
Rebates and Soft Commissions	8
Trustee's Report to the Unit Holders of Eastspring Investments Target Income Fund 5	10
Independent Auditors' Report to the Unit Holders of Eastspring Investments Target Income Fund 5	11
Statement of Comprehensive Income	15
Statement of Financial Position	16
Statement of Changes in Equity	17
Statement of Cash Flows	18
Summary of Significant Accounting Policies	19
Notes to the Financial Statements	29
Corporate Directory	55

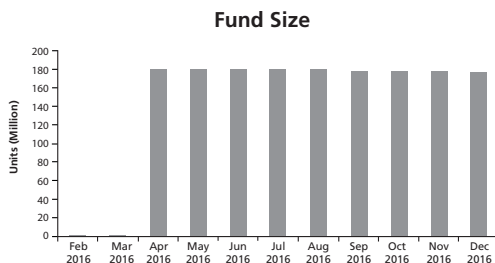
## FUND INFORMATION

<b>Name of Fund</b>	Eastspring Investments Target* Income Fund 5 (the “Fund”)  * The Fund aims (i.e. <b>Target</b> ) to distribute income on an annual basis from the coupon payments received from the bonds investments.
<b>Fund Category/ Type</b>	Bond (close-ended)/income
<b>Fund Objective</b>	The Fund endeavours to provide regular income** during the tenure of the Fund.  ** Income declared will be paid out either by way of E-payment according to Unit Holders’ instructions in the account opening form or by cheque.
<b>Termination Date</b>	7 April 2021
<b>Duration of the Fund</b>	Five (5) years close-ended bond.
<b>Performance Benchmark</b>	5-year Maybank fixed deposit rate as at Commencement Date.  <i>Please note that investors may obtain information on the benchmark from the Manager upon request.</i>  <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>
<b>Fund Income Distribution Policy</b>	Distribution of income, if any, will be on annual basis, after deduction of taxation and expenses.

## FUND INFORMATION (CONTINUED)

### Breakdown of Unit Holdings by Size

As at 31 December 2016, the size of Eastspring Investments Target Income Fund 5 stood at 177.267 million units.



### Breakdown of Unit Holdings

Unit Holdings	No. of Unit Holders	%	No of Units* ('000)	%
5,000 units and below	56	23.63	193	0.11
5,001 to 10,000 units	51	21.52	487	0.27
10,001 to 50,000 units	91	38.40	2,498	1.41
50,001 to 500,000 units	34	14.34	3,884	2.19
500,001 units and above	5	2.11	170,204	96.02
<b>Total</b>	<b>237</b>	<b>100.00</b>	<b>177,266</b>	<b>100.00</b>

\* excludes units held by the Manager.

## KEY PERFORMANCE DATA

FOR THE FINANCIAL PERIOD ENDED

Category	Since commencement 7.4.2016 to 31.12.2016 (%)
Unquoted fixed income securities	96.81
Derivatives	(11.72)
Cash and other assets	14.91
<b>Total</b>	<b>100.00</b>
Net Asset Value (NAV) (RM'000)	187,090
Units In Circulation (Units '000)	177,267
Net Asset Value Per Unit (RM)	1.0554
Highest Net Asset Value Per Unit (RM)	1.0790
Lowest Net Asset Value Per Unit (RM)	1.0000
Total Return (%)	
Capital Growth	5.52
Income Distribution	-
Total Return (%)	5.52
Gross Distribution Per Unit (RM)	-
Net Distribution Per Unit (RM)	-
Management Expense Ratio (MER) (%)	0.26
Portfolio Turnover Ratio (PTR) (times)	0.82

## KEY PERFORMANCE DATA (CONTINUED)

	Since commencement 7.4.2016 to 31.12.2016 (%)
Average total return	4.45
Year ended	Since commencement 7.4.2016 to 31.12.2016 (%)
Annual total return	5.52

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

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

$$\begin{aligned} \text{Percentage growth} &= \frac{\text{NAV}_t}{\text{NAV}_0} - 1 \\ \text{NAV}_t &= \text{NAV at the end of the period} \\ \text{NAV}_0 &= \text{NAV at the beginning of the period} \\ \text{Performance annualised} &= (1 + \text{Percentage Growth})^{1/n} - 1 \\ n &= \text{Number of years} \end{aligned}$$

**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

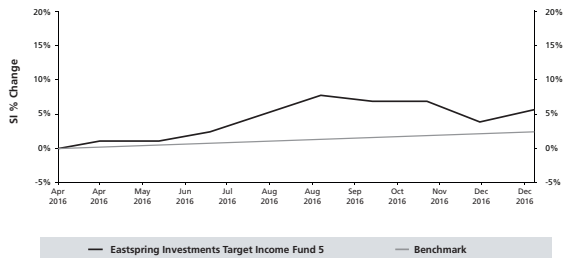
## Fund Performance

Since inception, the Fund registered a return of 5.52%, outperforming the benchmark return of 2.54% by 2.98%.

The Fund's investments in United States Dollar ("USD")-denominated Asian credits, as well as selective Emerging Market sovereign bonds, were broadly positive to the Fund's returns. While higher United States ("US") interest rates weighed on bond performance, income accrual and a tightening in credit spreads helped offset the negative impact in general.

The fund achieved its objective to provide regular income during the tenure of the Fund.

Eastspring Investments Target Income Fund 5  
- Since Inception (SI) Return Vs Benchmark



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

**Benchmark:** 5-year Maybank fixed deposit rate as at Commencement Date.

**Fund performance is sourced from Lipper for Investment Management, 31 December 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 period ended 31 December 2016:

<b>Income Return</b>	<b>Capital Return*</b>	<b>Total Return</b>	<b>Total Return of Benchmark</b>
<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
0.00	5.52	5.52	2.54

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

**Distribution/ Unit Split**

No distribution or unit split were declared for the financial period ended 31 December 2016.

**Investment Strategy During Period Under Review**

As this is a close-ended bond fund, the Fund will be managed primarily with a semi-active management strategy. The 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 Fund will be obligated to pay the face value provided there is no occurrence of credit default by the issuer.

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

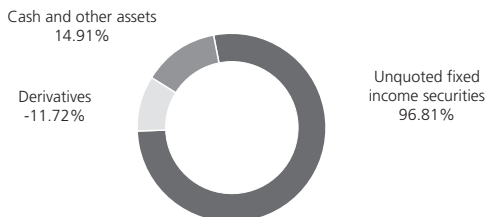
- Increased default risk and/or from uptrend interest rate concerns;
- Hedging transactions in the event that the sale of the security at risk is not possible; and
- Reinvesting proceeds from maturing securities.

## MANAGER'S REPORT (CONTINUED)

## Asset Allocation

Asset Allocation	31-Dec 2016	Changes
	(%)	(%)
Unquoted fixed income securities	96.81	96.81
Derivatives	(11.72)	(11.72)
Cash and other assets	14.91	14.91

## Asset Allocation as at 31 December 2016



During the period under review, as the fund employs hedging, the negative adjustment in derivative position was due to the mark to market effect of weaker Ringgit Malaysia.

## 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.

## Cross-Trade Transaction

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.

## MARKET REVIEW

Since the Fund's inception, global financial markets underwent a relatively volatile and eventful period. Credit markets started the period on a positive note as risk sentiment improved on the back of strengthening oil prices and signs of stabilisation in the Chinese economy. In June, Britain's decision to exit the European Union ("EU") also fuelled investor demand for yield amid expectation that global interest rates would stay low for longer. This drove a further rally in credit markets, including in emerging market and Asian credits. However, market sentiment subsequently underwent a dramatic shift, as the surprised outcome of the United States ("US") elections led to expectation of expansionary fiscal measures and, hence, stronger growth and inflationary impulse in the US. As a result, US interest rates spiked following the elections, dragging performance of emerging market and Asian credit markets down. The negative price impact was, however, mitigated by generally resilient investor demand which supported a tightening in credit spreads. It also helped the emerging market and Asian credit market to retain their positive returns over the period under review.

## REBATES AND SOFT COMMISSIONS

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

# EASTSPRING INVESTMENTS TARGET INCOME FUND 5

## FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD FROM 22 FEBRUARY 2016  
(LAUNCH DATE) TO 31 DECEMBER 2016

## TRUSTEE'S REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS TARGET INCOME FUND 5

We have acted as Trustee for Eastspring Investments Target Income Fund 5 (the "Fund") for financial period beginning 22 February 2016 (Launch Date) to 31 December 2016. To the best of our knowledge, for the period 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: 17 February 2017

# INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS TARGET INCOME FUND 5

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the financial statements of Eastspring Investments Target Income Fund 5 ("the Fund") give a true and fair view of the financial position of the Fund as at 31 December 2016, and of its financial performance and its cash flows for the financial period then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

### What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 15 to 54.

### Basis for opinion

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

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

### Independence and other ethical responsibilities

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

### Information other than the financial statements and auditors' report thereon

The Manager of the Fund are responsible for the other information. The other information comprises:

- Manager's Report;

(but does not include the financial statements of the Fund and our auditors' report thereon).

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

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

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

### Responsibilities of the Manager for the financial statements

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

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

### Auditors' responsibilities for the audit of the financial statements

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

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

- a. Identify and assess the risks of material misstatement of the financial statements of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- d. Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.



- e. Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## OTHER MATTERS

This report is made solely to the unit holder 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

### **WONG HUI CHERN**

(No. 3252/05/18 (J))

Chartered Accountant

Kuala Lumpur

Date: 17 February 2017

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL PERIOD FROM 22 FEBRUARY 2016  
(LAUNCH DATE) TO 31 DECEMBER 2016

	Note	Financial period from 22.2.2016 (launch date) to 31.12.2016
		RM
<b>INVESTMENT INCOME</b>		
Interest income from deposits		
with licensed financial institutions		784,918
Interest income from unquoted fixed income securities		7,027,731
Exit fee income		112,506
Net gain on financial assets at fair value through profit or loss	6	23,415,897
Net loss on forward currency contracts		(21,917,979)
Net foreign currency exchange gain		1,036,209
		<u>10,459,282</u>
<b>EXPENSES</b>		
Management fee	3	(275,587)
Trustee fee	4	(82,676)
Audit fee		(12,000)
Tax agent fee		(4,900)
Other expenses		(41,830)
GST charges		(21,547)
		<u>(438,540)</u>
<b>PROFIT BEFORE TAXATION</b>		10,020,742
<b>TAXATION</b>	5	<u>(26,713)</u>
<b>PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME</b>		<u>9,994,029</u>
Profit after taxation is made up of the following:		
Realised amount		14,200,166
Unrealised amount		(4,206,137)
		<u>9,994,029</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 DECEMBER 2016

	Note	2016
		RM
<b>ASSETS</b>		
Cash and cash equivalents	7	28,515,914
Financial assets at fair value through profit or loss	6	181,090,390
Other receivables		15,336
<b>TOTAL ASSETS</b>		<u>209,621,640</u>
<b>LIABILITIES</b>		
Forward foreign currency contracts at fair value through profit or loss	8	21,917,979
Amount due to Manager		511,194
Accrued management fee		31,691
Amount due to Trustee		9,507
GST charges payable		2,472
Other payables and accruals		31,900
Tax payable		26,713
<b>TOTAL LIABILITIES</b>		<u>22,531,456</u>
<b>NET ASSET VALUE OF THE FUND</b>		<u>187,090,184</u>
<b>EQUITY</b>		
Unit holders' capital		177,096,155
Retained earnings		<u>9,994,029</u>
<b>NET ASSET ATTRIBUTABLE TO UNIT HOLDERS</b>		<u>187,090,184</u>
<b>NUMBER OF UNITS IN CIRCULATION</b>	9	<u>177,266,889</u>
<b>NET ASSET VALUE PER UNIT (RM)</b>		<u>1.0554</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 PERIOD FROM 22 FEBRUARY 2016  
(LAUNCH DATE) TO 31 DECEMBER 2016

	Unit holders' capital	Retained earnings	Total
	RM	RM	RM
Balance as at 22 February 2016 (launch date)	-	-	-
Movement in unit holders' contribution:			
Creation of units from applications	205,086,644	-	205,086,644
Cancellation of units	(27,990,489)	-	(27,990,489)
Total comprehensive income for the financial period	-	9,994,029	9,994,029
Balance as at 31 December 2016	<u>177,096,155</u>	<u>9,994,029</u>	<u>187,090,184</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 PERIOD FROM 22 FEBRUARY 2016  
 (LAUNCH DATE) TO 31 DECEMBER 2016

	Financial period from 22.2.2016 (launch date) to 31.12.2016
Note	RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Proceeds from sale of investments	61,356,157
Payments for purchase of investments	(216,020,647)
Interest income received from deposits with licensed financial institutions	784,918
Interest income received from unquoted fixed income securities	4,017,728
Exit income fee received	97,170
Management fee paid	(243,896)
Trustee fee paid	(73,169)
Payment for other fees and expenses	(45,905)
Net foreign exchange gain	1,036,209
Net cash used in operating activities	<u>(149,091,435)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from units created	205,086,644
Payments for cancellation of units	<u>(27,479,295)</u>
Net cash generated from financing activities	<u>177,607,349</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	28,515,914
<b>CASH AND CASH EQUIVALENT AT THE LAUNCH DATE</b>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	7 <u>28,515,914</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 PERIOD FROM 22 FEBRUARY 2016  
(LAUNCH DATE) TO 31 DECEMBER 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 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 period. 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 K to the financial statements.

The Fund has applied the following amendments for the first time for the financial year beginning 1 January 2016:

- Amendments to MFRS 101 'Presentation of financial statements' – Disclosure initiative
- Amendments to MFRS 10, 12 & 128 "Investment entities – Applying the consolidation exception"
- Annual improvements to MFRSs 2012 – 2014 Cycle

There were no significant impact to other accounting policies of the Fund as a result of the abovementioned.

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 January 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 January 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 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 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.

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.

A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers;
- Identify the separate performance obligations;
- Determine the transactions price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.



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 period.

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 and derivatives 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 other receivables 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, 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.

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 on a 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 rate 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 ("NAV") per unit at the time of creation or cancellation. The Fund's NAV 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 Manager that undertakes strategic decisions for the Fund.

## **J. 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. 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 to the financial statements.

## **K. 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.

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.

Unquoted fixed income securities denominated in foreign currencies are revalued on a 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 PERIOD FROM 22 FEBRUARY 2016

(LAUNCH DATE) TO 31 DECEMBER 2016

## 1. INFORMATION ON THE FUND

Eastspring Investments Target Income Fund 5 (the "Fund") was constituted pursuant to the execution of a Deed dated 3 November 2014 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 22 February 2016 and will continue its operations until terminated 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 subject to the Securities Commission's ("SC") Guidelines, the 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 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/ (liabilities) at fair value through profit or loss	Total
		RM	RM	RM
<u>2016</u>				
Unquoted fixed income securities	6	-	181,090,390	181,090,390
Forward foreign currency contracts	8	-	(21,917,979)	(21,917,979)
Other receivables		15,336	-	15,336
Cash and cash equivalents	7	28,515,914	-	28,515,914
		<u>28,531,250</u>	<u>159,172,411</u>	<u>187,703,661</u>

All liabilities, except for forward foreign currency contracts 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 December which are exposed to price risk:

	<b>2016</b>
	<b>RM</b>
Unquoted fixed income securities designated at fair value through profit or loss*	<u>181,090,390</u>

\* Includes interest receivable of RM2,687,302.

The following table summarises the sensitivity of the Fund's net asset value and profit after tax to movements in prices of unquoted fixed income securities and derivatives at the end of the reporting 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.

<b>% Change in price of financial assets at fair value through profit or loss</b>	<b>Market value</b>	<b>Increase/(decrease) in profit after tax and net asset value</b>
	<b>RM</b>	<b>RM</b>
<u>2016</u>		
+5%	187,323,242	8,920,154
-5%	<u>169,482,934</u>	<u>(8,920,154)</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 and money market instruments 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 NAV to movements in prices of unquoted fixed income securities and money market instruments held by the Fund at the end of the reporting period as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate changed by 1% 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.

<b>% Change in interest rate of unquoted fixed income securities</b>	<b>Impact on profit after tax/change in net asset value</b>
	<b>RM</b>
<u>2016</u>	
+1%	(354,449)
-1%	375,075
	<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 ("RM"), the net asset value of the Fund expressed in RM may be affected favourably or unfavourably by exchange control regulations or changes in the exchange rates between RM 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:

	<b>Financial assets at fair value through profit or loss</b>	<b>Forward foreign currency contracts</b>	<b>Cash and cash equivalents</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<u>2016</u>				
SGD	16,358,630	(596,173)	505,127	16,267,584
USD	164,731,760	(21,231,806)	20,929,812	164,429,766
	<u>181,090,390</u>	<u>(21,827,979)</u>	<u>21,434,939</u>	<u>180,697,350</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 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.

	<b>Change foreign exchange rate</b>	<b>Impact on profit after tax</b>	<b>Impact on net asset value</b>
	<b>%</b>	<b>RM</b>	<b>RM</b>
<u>2016</u>			
SGD	5	813,379	813,379
USD	5	8,221,488	8,221,488

## **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 bank balances, 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.

	<b>Less than 1 month</b>	<b>Between 1 month to 1 year</b>	<b>More than 1 year</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<b>2016</b>				
Forward foreign currency contracts at fair value through profit or loss	-	521,582	21,396,397	21,917,979
Amount due to Manager	511,194	-	-	511,194
Accrued management fee	31,691	-	-	31,691
Amount due to Trustee	9,507	-	-	9,507
GST charges payable	-	2,472	-	2,472
Other payables and accruals	-	31,900	-	31,900
Contractual cash outflows	<u>552,392</u>	<u>555,954</u>	<u>21,396,397</u>	<u>22,504,743</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 and entering into forward currency contracts with reputable counterparties.



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

	Cash and cash equivalents	Financial assets/ (liabilities) at fair value through profit or loss	Other receivables	Total
	RM	RM	RM	RM
<u>2016</u>				
Finance				
- AAA	6,503,562	-	-	6,503,562
- AA1	22,012,352	-	-	22,012,352
Unquoted fixed income securities				
- A-	-	3,104,447	-	3,104,447
- B	-	3,702,034	-	3,702,034
- B-	-	14,224,157	-	14,224,157
- B+	-	5,860,299	-	5,860,299
- Baa3	-	4,533,456	-	4,533,456
- BB	-	4,324,989	-	4,324,989
- BB-	-	20,142,917	-	20,142,917
- BB+	-	7,206,118	-	7,206,118
- BBB	-	51,279,972	-	51,279,972
- BBB-	-	24,933,214	-	24,933,214
- BBB+	-	18,891,887	-	18,891,887
- NR	-	22,886,900	-	22,886,900
Forward foreign currency contracts				
- AAA	-	(21,737,758)	-	(21,737,758)
- AA1	-	(180,221)	-	(180,221)
Other				
- NR	-	-	15,336	15,336
	<u>28,515,914</u>	<u>159,172,411</u>	<u>15,336</u>	<u>187,703,661</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 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 or liability 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/(liabilities) at fair value through profit or loss at inception:				
Unquoted fixed income securities	- 181,090,390		- 181,090,390	
Forward foreign currency contracts	- (21,917,979)		- (21,917,979)	

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 forward foreign currency contracts. As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. The Fund's policies on valuation of these financial assets are stated in Note F to the financial statements.

- ii. The carrying value of cash and cash equivalents, other receivables and all liabilities, except for forward foreign currency contracts 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 0.20% per annum of the net asset value of the Fund accrued and calculated on a daily basis.

For the financial period ended 31 December 2016, the Management fee is recognised at a rate of 0.20% 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 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 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, excluding foreign custodian fees and charges.

For the financial period ended 31 December 2016, the Trustee fee is recognised at a rate of 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.

## 5. TAXATION

	<b>Financial period from 22.2.2016 (launch date) to 31.12.2016</b>
	<b>RM</b>
Tax charged for the financial period:	
Current taxation – local	<u>26,713</u>

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

	<b>Financial period from 22.2.2016 (launch date) to 31.12.2016</b>
	<b>RM</b>
Profit before taxation	<u>10,020,742</u>
Tax at Malaysian statutory rate of 24%	2,404,978
Tax effects of:	
Investment income exempt from tax	(2,483,226)
Expenses not deductible for tax purposes	36,229
Restriction on tax deductible expenses for Unit Trust Funds	<u>68,732</u>
Taxation	<u>26,713</u>

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

	<b>2016</b>
	<b>RM</b>
Designated at fair value through profit or loss at inception:	
Unquoted fixed income securities	<u>181,090,390</u>
Net gain on financial assets at fair value through profit or loss:	
Realised gain on disposals	5,704,056
Change in unrealised fair value gain	<u>17,711,841</u>
	<u>23,415,897</u>

Unquoted fixed income securities

Name of counter	Quantity	Carrying cost	Fair value	Percentage of net asset value of the Fund
			as at 31.12.2016	
	Units	RM	RM	%
<u>Bond</u>				
6.95% Alam Synergy Pte. Ltd. 27.03.2017 (B)	800,000	3,346,426	3,702,034	1.98
5.125% Genting Singapore Plc 12.09.2017 (BBB)	3,000,000	8,972,387	9,423,958	5.04
7.35% Vibrant Group Limited 11.10.2017 (NR)	750,000	2,163,449	2,074,489	1.11
5.875% Reliance Industries Limited 05.02.2018 (BBB+)	1,000,000	4,011,436	4,518,476	2.42
6.25% Pratama Agung Pte. Ltd. 24.02.2018 (BB-)	3,000,000	12,551,683	14,170,553	7.57
7.00% Ezion Holdings Limited 19.11.2018 (NR)	750,000	1,972,509	1,712,856	0.92

## Unquoted fixed income securities (continued)

Name of counter	Quantity	Carrying cost	Fair value as at	Percentage of net asset value of the Fund
			31.12.2016	
	Units	RM	RM	%
<u>Bond</u> (continued)				
5.25% TBG Global Pte. Ltd. 10.02.2019 (BB-)	600,000	2,346,058	2,735,937	1.46
4.875% PTT Exploration And Production Public Company Limited 18.06.2019 (BBB-)	1,500,000	5,793,097	6,839,493	3.66
5.15% National Savings Bank 10.09.2019 (B+)	1,000,000	3,777,618	4,490,192	2.40
7.50% SMC Global Power Holdings Corp. 07.11.2019 (NR)	2,000,000	8,190,966	9,462,295	5.06
5.625% HSBC Holdings Plc 17.01.2020 (BBB)	2,500,000	9,859,889	11,398,220	6.09
5.50% The Bank Of East Asia Limited 31.12.2020 (BB)	1,000,000	3,799,454	4,324,989	2.31
5.75% Eskom Holdings SOC Limited 26.01.2021 (BB+)	500,000	1,949,685	2,294,958	1.23
6.75% SMC Global Power Holdings Corp. 26.02.2021 (NR)	1,000,000	4,475,460	4,690,507	2.51
6.875% Republica Argentina 22.04.2021 (B-)	2,000,000	8,208,931	9,670,170	5.17



Unquoted fixed income securities (continued)

Name of counter	Quantity	Carrying cost	Fair value	Percentage of net asset value of the Fund
			as at 31.12.2016	
	Units	RM	RM	%
<u>Bond (continued)</u>				
5.75% Ausnet Services Holdings Pty Ltd 17.09.2021 (BBB)	4,000,000	18,414,703	19,279,782	10.31
7.00% Lippo Malls Indonesia Retail Trust 27.09.2021 (NR)	1,000,000	3,098,046	3,147,327	1.68
5.75% NWD Fin BVI 05.10.2021 (NR)	400,000	1,673,440	1,799,426	0.96
3.905% Malayan Banking Berhad 29.10.2021 (BBB)	2,500,000	9,827,899	11,178,012	5.97
3.875% Shinhan Bank 07.12.2021 (BBB+)	200,000	890,779	900,706	0.48
7.50% Standard Chartered Plc 02.04.2022 (BB-)	700,000	2,905,181	3,236,427	1.73
7.25% Wanda Properties International Co. Limited 29.01.2024 (BB+)	1,000,000	4,874,801	4,911,160	2.63
6.375% HSBC Holdings Plc 17.09.2024 (Baa3)	1,000,000	3,736,317	4,533,456	2.42
4.05% Standard Chartered Plc 12.04.2026 (BBB+)	3,000,000	11,792,095	13,472,705	7.20
4.50% Sunshine Life Insurance Corporation Limited 20.04.2026 (A-)	700,000	2,730,636	3,104,447	1.66

## Unquoted fixed income securities (continued)

Name of counter	Quantity	Carrying cost	Fair value	Percentage of net asset value of the Fund
			as at 31.12.2016	
	Units	RM	RM	%
<u>Bond (continued)</u>				
4.50% Lend Lease (US) Capital Inc. 26.05.2026 (BBB-)	3,800,000	15,407,366	16,811,471	8.99
6.825% The Democratic Socialist Republic Of Sri Lanka 18.07.2026 (B+)	300,000	1,229,574	1,370,107	0.73
3.375% Export-Import Bank Of India 05.08.2026 (BBB-)	300,000	1,238,241	1,282,250	0.69
6.625% Republica Argentina 06.07.2028 (B-)	1,000,000	4,140,423	4,553,987	2.43
	<u>41,300,000</u>	<u>163,378,549</u>	<u>181,090,390</u>	<u>96.81</u>

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

17,711,841

**FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**181,090,390

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:

	<b>2016</b>
	<b>%</b>
Unquoted fixed income securities	<u>5.32</u>

## 7. CASH AND CASH EQUIVALENTS

	<b>2016</b>
	<b>RM</b>
Bank balances	22,012,352
Deposit with a licensed financial institution	<u>6,503,562</u>
	<u>28,515,914</u>

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

	<b>2016</b>
	<b>RM</b>
MYR	7,080,975
SGD	505,127
USD	<u>20,929,812</u>
	<u>28,515,914</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:

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

The deposit has an average maturity of 7 days.

## **8. FORWARD FOREIGN CURRENCY CONTRACTS**

As at the date of statement of financial position, there are 26 forward foreign currency contracts outstanding. The notional principal amount of the outstanding forward currency contracts amounted to RM21,917,979 (payable). The forward foreign currency contracts entered into during the financial period were for hedging against the currency exposure arising from the investment in the foreign unquoted fixed income securities denominated in SGD and USD. As the Fund has not adopted hedge accounting during the financial period, the change in the fair value of the forward currency contract is recognised immediately in the statement of comprehensive income.

## **9. UNITS IN CIRCULATION**

	<b>2016</b>
	<b>No. of units</b>
At the beginning of the launch date	-
Creation of units from applications during the financial period	205,086,644
Cancellation of units during the financial period	<u>(27,819,755)</u>
At the end of the financial period	<u>177,266,889</u>

## 10. TRANSACTIONS WITH BROKERS/DEALERS

Details of transactions with the top 10 brokers/dealers for the financial period from 22 February 2016 (launch date) to 31 December 2016 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>				
Oversea-Chinese Banking Corporation Limited	92,984,366	33.52	-	-
JP Morgan Securities Ltd	30,142,737	10.87	-	-
Merrill Lynch Int Ltd	26,973,502	9.72	-	-
Barclays Plc	22,813,277	8.22	-	-
Deutsche Bank AG London	20,490,928	7.39	-	-
Australia and New Zealand Banking Group Limited	16,411,200	5.92	-	-
HSBC Singapore	11,143,222	4.02	-	-
Deutsche Bank AG Singapore	9,752,500	3.51	-	-
Jefferies International London Ltd	8,038,306	2.90	-	-
Nomura International Plc	7,666,144	2.76	-	-
Others	30,960,622	11.17	-	-
	<u>277,376,804</u>	<u>100.00</u>	-	-

Details of transactions, primarily cash placements with financial institutions for the financial period from 22 February 2016 (launch date) to 31 December 2016 are as follows:

Financial institutions	Value of placements	Percentage of total placements
	RM	%
CIMB Bank Berhad	541,950,000	42.82
RHB Bank Berhad	243,420,000	19.23
Malayan Banking Berhad	201,270,000	15.90
Public Bank Berhad	149,360,000	11.80
Hong Leong Bank Berhad	100,810,000	7.97
United Overseas Bank (Malaysia) Berhad	24,770,000	1.96
Alliance Bank Malaysia Berhad	4,010,000	0.32
	<u>1,265,590,000</u>	<u>100.00</u>

All brokers/dealers highlighted above are not related to the Manager.

## 11. 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	
	No. of units	RM
Eastspring Investments Berhad	<u>1,000</u>	<u>1,055</u>

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 SC Guidelines on Unit Trust Funds. Other than above, there were no units held by the Directors or Parties related to the Manager.

## 12. MANAGEMENT EXPENSE RATIO ("MER")

	Financial period from 22.2.2016 (launch date) to 31.12.2016
	%
MER	<u>0.26</u>

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 period calculated on a daily basis is RM170,097,416.

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

	<b>Financial period from 22.2.2016 (launch date) to 31.12.2016</b>
PTR (times)	<u>0.82</u>

PTR is derived from the following calculation:

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

where:

total acquisitions for the financial period = RM216,020,647

total disposals for the financial period = RM61,356,157

### 14. 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 period.



## **15. COMPARATIVES**

There are no comparative figures as this is the first set of financial statements prepared since the launch of the Fund.

## **16. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue by the Manager on 17 February 2017.

# CORPORATE DIRECTORY

## **THE MANAGER**

NAME

EASTSPRING INVESTMENTS BERHAD

COMPANY NO.

531241-U

REGISTERED OFFICE

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

Jalan Raja Laut

50350 Kuala Lumpur

BUSINESS OFFICE

Level 12, Menara Prudential

No. 10, Jalan Sultan Ismail

50250 Kuala Lumpur

TELEPHONE NO.

603-2052 3388

FAX NO.

603-2070 6129

EMAIL

cs.my@eastspring.com

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**

NAME

DEUTSCHE BANK (MALAYSIA) BERHAD

COMPANY NO.

312552-W

REGISTERED OFFICE

Level 18, Menara IMC  
No. 8, Jalan Sultan Ismail  
50250 Kuala Lumpur

BUSINESS OFFICE

Level 18-20, Menara IMC  
No. 8, Jalan Sultan Ismail  
50250 Kuala Lumpur

TELEPHONE NO.

603-2053 6788

FAX NO.

603-2031 8710

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

NAME

KARVY COMPUTERSHARE  
(MALAYSIA) SDN BHD

COMPANY NO.

1178655-U

REGISTERED OFFICE

16th Floor, Wisma Sime Darby  
Jalan Raja Laut  
50350 Kuala Lumpur

BUSINESS OFFICE

Suite 16.1, Level 16, Menara IMC  
No. 8, Jalan Sultan Ismail  
50250 Kuala Lumpur

TELEPHONE NO.

603-2022 4900

FAX NO.

603-2022 4099

**COMPANY SECRETARY OF  
THE MANAGER**

NAME

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

ADDRESS

RDL Corporate Services Sdn Bhd  
16<sup>th</sup> Floor, Wisma Sime Darby  
Jalan Raja Laut  
50350 Kuala Lumpur

TELEPHONE NO.

603-2694 9999

**TRUSTEE**

NAME

DEUTSCHE TRUSTEES MALAYSIA BERHAD

COMPANY NO.

763590-H

REGISTERED OFFICE &  
BUSINESS OFFICE

Level 20, Menara IMC  
No. 8, Jalan Sultan Ismail  
50250 Kuala Lumpur

TELEPHONE NO.

603-2053 7522

FAX NO.

603-2053 7526

**TRUSTEE'S DELEGATE - CUSTODIAN**

NAME

DEUTSCHE BANK (MALAYSIA) BERHAD

COMPANY NO.

312552-W

REGISTERED OFFICE

Level 18, Menara IMC  
No. 8, Jalan Sultan Ismail  
50250 Kuala Lumpur

BUSINESS OFFICE

Level 18-20, Menara IMC  
No. 8, Jalan Sultan Ismail  
50250 Kuala Lumpur

TELEPHONE NO.

603-2053 6788

FAX NO.

603-2031 8710

**TAXATION ADVISER OF**

**THE FUND**

NAME

PRICEWATERHOUSECOOPERS  
TAXATION SERVICES SDN BHD

ADDRESS

Level 10, 1 Sentral  
Jalan Rakyat  
Kuala Lumpur Sentral  
PO Box 10192  
50706 Kuala Lumpur

TELEPHONE NO.

603-2173 1188

**AUDITORS OF THE MANAGER**

NAME

KPMG

ADDRESS

Level 10, KPMG Tower  
No. 8, First Avenue  
Bandar Utama  
47800 Petaling Jaya  
Selangor

TELEPHONE NO.

603-7721 3388

**AUDITORS AND REPORTING  
ACCOUNTANT OF THE FUND**

NAME

PRICEWATERHOUSECOOPERS

ADDRESS

Level 10, 1 Sentral  
Jalan Rakyat  
Kuala Lumpur Sentral  
PO Box 10192  
50706 Kuala Lumpur

TELEPHONE NO.

603-2173 1188

**PRINCIPAL BANKERS**

NAME

DEUTSCHE BANK (MALAYSIA) BERHAD

ADDRESS

Level 18, Menara IMC  
No. 8, Jalan Sultan Ismail  
50250 Kuala Lumpur

TELEPHONE NO.

603-2053 6788

NAME

MALAYAN BANKING BERHAD

ADDRESS

No. 100, Jalan Tun Perak  
50050 Kuala Lumpur

TELEPHONE NO.

603-2070 8833

NAME

STANDARD CHARTERED BANK  
MALAYSIA BERHAD

ADDRESS

Level 16, Menara Standard Chartered  
No. 30, Jalan Sultan Ismail  
50250 Kuala Lumpur

TELEPHONE NO.

603-2117 7777

NAME

HSBC BANK MALAYSIA BERHAD

ADDRESS

No. 2, Leboh Ampang  
50100 Kuala Lumpur

TELEPHONE NO.

603-2075 3000

**SOLICITORS**

NAME

MESSRS NAQIZ & PARTNERS

ADDRESS

No. 42A, Lorong Dungun  
Damansara Heights  
50490 Kuala Lumpur

TELEPHONE NO.

603-2081 7888

**FEDERATION OF INVESTMENT  
MANAGERS MALAYSIA (FiMM)**

ADDRESS

19-06-1, 6<sup>th</sup> Floor  
Wisma Tune  
No. 19, Lorong Dungun  
Damansara Heights  
50490 Kuala Lumpur

TELEPHONE NO.  
603-2093 2600

FAX NO.  
603-2093 2700

EMAIL  
info@fimm.com.my

WEBSITE  
www.fimm.com.my

**SALE & PURCHASE OF UNITS**

**Eastspring Investments Berhad**  
Level 12, Menara Prudential  
No. 10, Jalan Sultan Ismail  
50250 Kuala Lumpur

TELEPHONE NO.  
603-2332 1000

FAX NO.  
603-2052 3366

**BRANCHES**

**Petaling Jaya**

Eastspring Investments Berhad  
A-17-P1 & M  
Block A, Jaya One  
72A, Jalan Universiti  
46200 Petaling Jaya, Selangor

TELEPHONE NO.  
603-7948 1288

**Kota Kinabalu**

Eastspring Investments Berhad  
Suite E3, 9<sup>th</sup> Floor  
CPS Tower, Centre Point Sabah  
No. 1, Jalan Centre Point  
88000 Kota Kinabalu, Sabah

TELEPHONE NO.  
6088-238 613

**ENQUIRIES**

CLIENT SERVICES  
603-2332 1000

Eastspring Investments Berhad (531241-U)  
Level 12, Menara Prudential  
No. 10, Jalan Sultan Ismail, 50250 Kuala Lumpur  
T: (603) 2052 3388 F: (603) 2070 6129  
[eastspringinvestments.com.my](http://eastspringinvestments.com.my)

Client Services  
T: (603) 2332 1000 F: (603) 2052 3366  
[cs.my@eastspring.com](mailto:cs.my@eastspring.com)