



A member of Prudential plc (UK) 

# EASTSPRING INVESTMENTS ASIA SELECT INCOME FUND

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017



**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 June 2017.**

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

**Name of Fund**

Eastspring Investments Asia Select Income Fund (the "Fund")

**Fund Category/  
Type**

Balanced/growth and income

**Fund Objective**

The Fund seeks to provide a stable income\* stream and an opportunity for capital appreciation by investing primarily in a portfolio of Malaysian investment grade fixed income securities and a collective investment scheme, primarily the Eastspring Investments - Dragon Peacock Fund, which invests in equities and equity-related securities of corporations which are incorporated in, or listed in, or operating principally from, or carrying on significant business in, or derive substantial revenue from, or whose subsidiaries, related or associated corporations derive substantial revenue from the People's Republic of China (PRC) and India.

**Note:** The Fund's focus is on income.

**ANY MATERIAL CHANGES TO THE FUND'S OBJECTIVE  
WOULD REQUIRE UNIT HOLDERS' APPROVAL.**

\* Income distributed to a Unit Holder will be reinvested into additional Units unless Unit Holder opts for the distribution to be paid out.

## FUND INFORMATION (CONTINUED)

### Performance Benchmark

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The performance benchmark of the Fund is 20% MSCI China Index + 20% MSCI India Index + 60% Quant Shop MGS Medium Index.

The composite benchmark index is a reflection of the Fund's average asset allocation over the long-term of 40% of the Fund's NAV in collective investment schemes and the remaining of the Fund's NAV in fixed income securities and Deposits or liquid assets.

**Source:**

MSCI China Index ([www.msci.com](http://www.msci.com))

MSCI India Index ([www.msci.com](http://www.msci.com))

Quant Shop MGS Medium Index ([www.quantshop.com](http://www.quantshop.com))

The performance of the Fund against the benchmark is published in the Manager's monthly factsheet and is available from the Manager's website at [www.eastspringinvestments.com.my](http://www.eastspringinvestments.com.my).

**Note:** The risk profile of the Fund is different from the risk profile of the performance benchmark.

### Fund Income Distribution Policy

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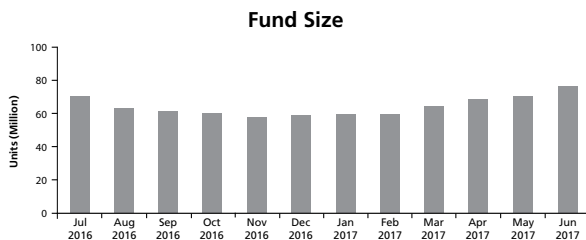
At least once a year, subject to the availability of income

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## FUND INFORMATION (CONTINUED)

### Breakdown of Unit Holdings by Size

As at 30 June 2017, the size of Eastspring Investments Asia Select Income Fund stood at 74.420 million units.



### Breakdown of Unit Holdings

Unit Holdings	No. of Unit Holders	%	No. of Units* ('000)	%
5,000 units and below	231	14.86	646	0.87
5,001 to 10,000 units	246	15.84	1,814	2.44
10,001 to 50,000 units	879	56.56	19,319	25.96
50,001 to 500,000 units	186	11.97	19,066	25.62
500,001 units and above	12	0.77	33,573	45.11
<b>Total</b>	<b>1,554</b>	<b>100.00</b>	<b>74,418</b>	<b>100.00</b>

\* excludes units held by the Manager.

## KEY PERFORMANCE DATA FOR THE FINANCIAL YEAR ENDED

Category	30.6.2017	30.6.2016	30.6.2015
	(%)	(%)	(%)
Collective investment scheme-Foreign	37.17	39.43	37.73
Unquoted fixed income securities	47.54	56.87	55.69
	84.71	96.30	93.42
Cash and other assets	15.29	3.70	6.58
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
Net Asset Value (NAV) (RM'000)	55,001	46,457	59,464
Units In Circulation (Units '000)	74,420	69,757	89,032
Net Asset Value Per Unit (RM)	0.7391	0.6660	0.6679
Highest Net Asset Value Per Unit (RM) <sup>#</sup>	0.7398	0.6846	0.6688
Lowest Net Asset Value Per Unit (RM) <sup>#</sup>	0.7379	0.6247	0.6649
Total Return (%)			
- Capital Growth	10.98	(0.28)	9.83
- Income Distribution	4.66	-	4.64
Total Return (%)	16.15	(0.28)	14.92
Gross Distribution Per Unit (RM)	0.0344	-	0.0310
Net Distribution Per Unit (RM)	0.0344	-	0.0310
Management Expense Ratio (MER) (%) <sup>*</sup>	1.70	1.71	1.66
Portfolio Turnover Ratio (PTR) (times) <sup>^</sup>	0.19	0.17	0.42

<sup>#</sup> Figure shown as ex-distribution.

<sup>\*</sup> There were no significant changes to the MER during the period under review.

<sup>^</sup> There were no significant changes to the PTR during the period under review.

## KEY PERFORMANCE DATA (CONTINUED)

	1 year 1.7.2016 to 30.6.2017	3 years 1.7.2014 to 30.6.2017	5 years 1.7.2012 to 30.6.2017
	(%)	(%)	(%)
Average total return	16.15	9.99	8.72

Year ended	1.7.2016 to 30.6.2017	1.7.2015 to 30.6.2016	1.7.2014 to 30.6.2015	1.7.2013 to 30.6.2014	1.7.2012 to 30.6.2013
	(%)	(%)	(%)	(%)	(%)
Annual total return	16.15	(0.28)	14.92	8.79	4.94

The unit prices of the Fund may go down as well as up and the past performance figures shown are not indicative of future performance.

**Source:** The above total return of the Fund was sourced from Lipper for Investment Management.

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

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

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

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

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

Adjusted for unit split and distribution paid out for the period

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

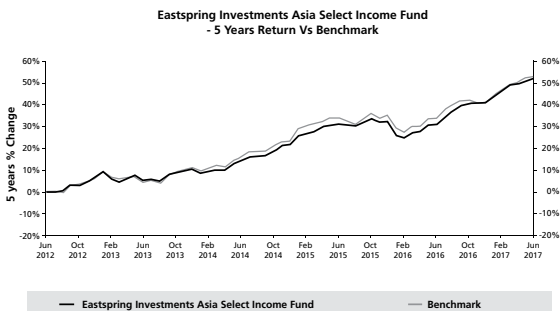
## Fund Performance

Over the 5-year period, the Fund recorded a return of 51.96% underperforming the benchmark return of 52.83% by -0.87%.

During the period under review, the Fund registered a return of 16.15%, outperforming the benchmark return of 14.37% by 1.78%.

The holdings in selected corporate bonds contributed to the outperformance of the Fund. Furthermore, investments in collective investment scheme outperformed its benchmark which boosted the fund performance during the period under review.

The Fund met its objective to provide a stable income stream and an opportunity for capital appreciation.



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

**Benchmark:** 20% MSCI China Index + 20% MSCI India Index + 60% Quant Shop MGS Medium Index

**Source:** Lipper for Investment Management, [www.msci.com](http://www.msci.com) and [www.quantshop.com](http://www.quantshop.com) as at 30 June 2017.

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

## MANAGER'S REPORT (CONTINUED)

## Analysis of Fund Performance

For the financial year ended 30 June 2017:

Income Return	Capital Return*	Total Return	Total Return of Benchmark
(%)	(%)	(%)	(%)
4.66	10.98	16.15	14.37

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

Distribution/  
Unit Split

Ex-date	23-Jun-17
Distribution Per Unit	(RM)
Gross	0.0344
Net	0.0344

Impact on NAV arising from distribution for the financial year ended 30 June 2017.

Ex-Date	23-Jun-17
	(RM per Unit)
Net Asset Value before distribution	0.7723
Less: distribution	(0.0344)
Net Asset Value after distribution	0.7379

No unit split were declared for the financial year ended 30 June 2017.

## MANAGER'S REPORT (CONTINUED)

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### **Investment Strategy During The Period Under Review**

#### **Bond Strategy**

The Fund participated in selected quality bond issuances for yield pick-up, and traded on market volatility, subject to liquidity constraints.

#### **Equity Strategy (Eastspring Investments Dragon Peacock Fund)**

During the year under review, stock selection in both China and India was a key contributor. Specifically the stock selection and overweight in consumer discretionary in China boosted relative performance the most. Stock picks in financials in India also helped. The overweight and stock picks in the energy sector in India hurt relative performance.

Geely Automobile and Rural Electrification Corporation Limited ("REC") were among the key stock contributors to performance in the period under review. The Fund was overweight in both stocks.

Geely's stock price has seen a steady rise in the second half of 2016, buoyed by solid sales of its new car models both in China and outside which has exceeded the company's sales forecast. The Chinese firm reported a 126% increase in net profit in 2016, marking the largest annual profit growth in eight years. The company's robust earnings were driven by engineering and product design enhancements, and purchase tax subsidies cuts that would take effect from 2017.

REC is a state-owned Indian company that finances electrification projects in rural areas. Its stock price took a recovery path from July, following a downtrend in the previous months. REC will offer renewable energy loans as part of the government's push to help the sector meet its funding requirements. The company benefits from lower wholesale interest rates as it provides loan assistance to various state and central power and utility projects. In addition, the Indian government's continued thrust on infrastructure and electrification in this year's budget has also kept the positive sentiment afloat for the company's share price.

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## MANAGER'S REPORT (CONTINUED)

### Investment Strategy During The Period Under Review (continued)

Underweight to Alibaba Group Holdings and overweight to Dr Reddy's Laboratories were the main detractors.

E-commerce giant Alibaba Group Holding's share price performed well partly on strong earnings that beat analysts' estimates. The company also raised its revenue guidance for fiscal 2017 and now expects a 53% increase, compared to their previous outlook of a 48% increase. Our underweight in this stock hurt relative performance.

Dr. Reddy's Laboratories, an Indian multinational pharmaceutical company, dragged performance. The company's share price was affected after it was hit with 3 observations from the US FDA relating to violation of good manufacturing practices at one of its plants. The US market accounted for nearly half of Dr. Reddy's total revenue in the year ended March 2016.

### Asset Allocation

Asset Allocation	30-Jun 2017 (%)	30-Jun 2016 (%)	Changes (%)
Collective investment scheme-Foreign	37.17	39.43	(2.26)
Unquoted fixed income securities	47.54	56.87	(9.33)
Cash and other assets	15.29	3.70	11.59

#### Asset Allocation as at 30 June 2017



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

## MANAGER'S REPORT (CONTINUED)

### State of Affairs of the Fund

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

However, in the Eastspring Investments Second Supplementary Master Prospectus dated 15 March 2017, item 3(e) under the permitted investments & investment restrictions and limits of the target fund as set out in (a) below has been removed, while the information in relation to the income reinvestment policy has been revised as set out in (b) below:

#### **a. Permitted Investments & Investment Restrictions and Limits of Eastspring Investments – Dragon Peacock Fund (“Target Fund”)**

##### **Deleted:**

3. (e) There is no duplication of management or subscription or redemption fees between those at the level of the Target Fund having invested in the target sub-fund, and this target sub-fund.

#### **b. Income Reinvestment Policy**

Income distributed to a Unit Holder will automatically be reinvested into additional Units in the Fund at the Net Asset Value (“NAV”) per Unit at the end of the Business Day of the income distribution date at no cost if the Unit Holder did not elect the mode of distribution in the master account opening form or provide any written instruction to the Manager.

Should a Unit Holder elect the mode of distribution in the master account opening form or provide any written instruction to the Manager, the income distribution proceeds will either be paid by cheque or credited into the bank account located in Malaysia via telegraphic or online transfer at the cost and expense of the Unit Holder.

The Manager reserves the right to reinvest income distribution without providing any reason if the instruction in the master account opening form or written instruction is incomplete.

## MANAGER'S REPORT (CONTINUED)

### State of Affairs of the Fund (continued)

While in the Eastspring Investments Master Prospectus dated 15 July 2017, a new paragraph has been added into the investment strategy of the Fund as set out in (c) below, and the information in relation to the asset allocation, temporary defensive positions, security risk, currency risk, minimum holdings of units, 3<sup>rd</sup> paragraph of the Target Fund management company (Eastspring Investments)'s background and transfer agency fee of the Target Fund have been revised as set out in (d) to (j) below:

#### c. Investment Strategy

The Manager may, however, depending on prevailing market circumstances at a particular point in time, choose to use forward or option contracts for hedging and risk reduction purposes.

#### d. Asset Allocation

Asset Class	% of the Fund's NAV
Eastspring Investments – Dragon Peacock Fund	Minimum of 30% to Maximum of 40%
Fixed income securities	Minimum of 40%
Deposits or liquid assets	Minimum of 1%

#### e. Temporary Defensive Positions

The Manager may adopt temporary defensive positions. Please refer to page 70 of the Master Prospectus dated 15 July 2017.

## MANAGER'S REPORT (CONTINUED)

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### State of Affairs of the Fund (continued)

#### f. Security Risk

Adverse price movements of a particular security or Shariah-compliant security invested by the Fund may adversely affect the Fund's NAV. The Manager strives to mitigate the impact of a particular security or Shariah-compliant security risk through portfolio diversification.

Meanwhile investing in equity-related securities or Shariah-compliant equity-related securities such as rights and warrants or Shariah-compliant warrants, where price movement is dependent on the price movement of the underlying of the equity-related securities or Shariah-compliant equity-related securities, the risk is generally higher than their equities or Shariah-compliant equities as these equity-related securities or Shariah-compliant equity-related securities are leveraged form of investment. The price of equity-related securities or Shariah-compliant equity-related securities generally fluctuates more than the equities or Shariah-compliant equities and consequently may affect the volatility of the Fund's NAV. To mitigate this risk, the Manager will conduct rigorous fundamental analysis of the equities and equity-related securities or Shariah-compliant equities and equity-related securities.

Warrants or Shariah-compliant warrants are financial instruments that give the buyer the right but not the obligation to purchase or sell equities or Shariah-compliant equities at a pre-determined price before the expiry date. Such investments may experience time decay, and the erosion of value accelerates as the instrument advances to its expiry date.

## MANAGER'S REPORT (CONTINUED)

### State of Affairs of the Fund (continued)

#### **g. Currency Risk**

##### Applicable only to Eastspring Asia Select Income

As the investments of the Fund may be denominated in currencies other than the base currency, any fluctuation in the exchange rate between the base currency and the currencies in which the investments are denominated may have an impact on the value of these investments. Investors should be aware that if the currencies in which the investments are denominated depreciate against the base currency, this will have an adverse effect on the NAV of the Fund in the base currency and vice versa. Investors should note that any gains or losses arising from the fluctuation in the exchange rate may further increase or decrease the returns of the investment.

The impact of the exchange rate movement between the base currency of the Fund and the currency of the underlying investments may result in a depreciation of the value of the investments as expressed in the base currency of the Fund.

In the normal course of investment, the Fund does not engage any currency hedging strategy in mitigating the currency risk. The Manager may, however, depending on prevailing market circumstances at a particular point in time, choose to use forward or option contracts for hedging and risk reduction purposes.



## MANAGER'S REPORT (CONTINUED)

### State of Affairs of the Fund (continued)

#### **h. Minimum Holdings of Units**

There is no limit on the frequency of redemption. In the case of a partial redemption, instructions will be carried out only if the minimum holding of Units (being 1,000 Units\* or such other number of Units as the Manager may determine from time to time) remains in the Fund after the redemption. If the Units in a Unit Holder's account are less than the minimum holding of Units for the Fund after a redemption application is made, all Units that the Unit Holders holds in the Fund will be redeemed automatically. The same applies for partial switching out.

\* should we increase the minimum holdings of Units in future, Unit Holder will be informed via post mail at least 14 days prior to the implementation been made effective.

#### **i. Target Fund Management Company (Eastspring Investments)'s Background – 3<sup>rd</sup> paragraph**

The company is an umbrella fund, and as such offers investors the opportunity to invest in one or more sub-funds (each "sub-fund" and collectively the "sub-funds"). Each sub-fund has its own specific investment objective and an ancillary basis, liquid assets\*. Each sub-fund is treated as a separate entity.

\* ancillary basis, liquid assets refers to liquid assets that may not in themselves constitute an investment objective of the sub-fund.

## MANAGER'S REPORT (CONTINUED)

### State of Affairs of the Fund (continued)

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#### j. Transfer Agency Fee of the Target Fund

##### Other fees charged by the Target Fund

##### **Eastspring Investments – Dragon Peacock Fund**

Transfer agency fee: Up to 0.02% per annum.

### 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.

## MARKET REVIEW

### Bond

During the period under review, Bank Negara Malaysia (“BNM”) reduced the Overnight Policy Rate (“OPR”) by 25 basis points (“bps”) to 3.00% from 3.25% during its Monetary Policy Committee (“MPC”) meeting on 13 July 2016. BNM’s move to reduce the OPR was seen as a pre-emptive move by the central bank as BNM expects growth momentum in the major economies to moderate in the second half of 2016 coupled with increasing downside risks in light of possible repercussions from the European Union referendum in the United Kingdom. Following the rate cut in July’16 BNM kept the OPR at 3.00% in the subsequent Monetary Policy Committee meetings for 2016 and in the first half of 2017. BNM anticipates that the domestic economy is expected to remain robust and to grow between 4.3%-4.8% for 2017. In the recent Monetary Policy Committee meeting in May’17, Bank Negara believe that the current level of the OPR provides a degree of monetary accommodativeness which will ensure that the domestic economy continues on a steady growth path amid stable core inflation, supported by sustained financial intermediation in the economy. Bank Negara also acknowledged that there are improvements in the global economy and highlighted evidence of a recovery in global trade.

Headline inflation moderated to 3.9% year-on-year (“YoY”) in May’17 from 4.4% YoY registered in April’17 while core inflation rose to 2.6% in May from 2.5% in the previous month. The moderation in headline inflation was led mainly by pump price-related contraction in transport prices (May: +13.1% YoY, Apr: +16.7% YoY) but was slightly offset the increase in food & non-alcoholic beverages prices (May: +4.4% YoY, April: +4.1% YoY).

In October’16, the Malaysian Prime Minister unveiled 2017 national budget with the theme “Accelerating Growth, Ensuring Fiscal Prudence, Enhancing Well-being of the Rakyat”. Overall, fiscal consolidation remains on track as the Government plan to achieve a budget deficit at RM40.3 billion or 3.0% of GDP in 2017. The Government expect revenue in 2016 to ease lower to RM212.6 billion (2015: RM219.1 billion) mainly due to lower collection of petroleum related revenue following lower crude oil prices. However, this impact is expected to be cushioned by improved Government Service Tax (“GST”) collection. Furthermore, the Government expects revenue collection to improve by 3% in 2017 on the back of larger tax revenue from corporate income tax collection. Separately, the Federal Government expects the Malaysian economy to gain some traction to grow between 4.0-5.0% in 2017 as the Government expects that growth will remain private sector-driven, supported by quicker expansions in private consumption and private investment with added support from public spending and continued recovery in exports.

## MARKET REVIEW (CONTINUED)

The surprise win by the Republican presidential nominee Donald Trump in the recent United States Presidential Election in November'16 spurred a broad flight to safety around the globe. Investors were left unsettled over the future of the American and global economy based on the economic policies that were advocated by Trump throughout his presidential campaign. Trump's future policies indicate higher fiscal spending and tax cuts which may lead to more debt supply higher bond yields. Separately, the market-implied chance of a United States Federal Reserve ("Fed") increased after Trump's triumph as investors expects the US Federal Reserve to continue its monetary tightening path in 2017 onwards.

Subsequently, the US Federal Reserve ("Fed") raised its key interest rates by 25bps to between 0.50%-0.75% in December'16. The Fed's move to raise interest rate was widely expected by the market as the Fed has been signalling for a rate hike for nearly a year ago since the Fed last raised interest rate in December'15 from a record low near zero set during the 2008 financial crisis. The Fed continued to raise its key interest rates by 25bps to between 0.75%-1.00% in March'17 and another 25bps to between 1.00-1.25% in June'17. The FOMC's recent action signalled that the Fed believes that the U.S economy will continue to improve steadily coupled with a strengthening job market. The Fed policymakers also maintained their outlook for one more rate hike this year according to the "dot plot" of rate projections.

For the period under review, the 3-year, 5-year, 10-year and 15-year sovereign bond yields changed by +20bps, +26bps, +19bps and +40bps to 3.39%, 3.62%, 3.91% and 4.45% respectively. Sovereign bond yields fell across all tenors at the end of the third quarter of 2016, after Bank Negara Malaysia ("BNM") unexpectedly cut the OPR by 0.25% to 3.00% in July's Monetary Policy Committee meeting. However, sovereign yields spiked higher in November'16 after the Republican presidential nominee Donald Trump won the recent US Presidential Election. Investors were left unsettled over the future of the American and global economy based on the economic policies that were advocated by Trump throughout his presidential campaign. Furthermore, yields we traded higher in the first quarter of 2017 on the expectation of higher Fed rate hike and selling pressure from investors amid rising global yields.

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.

## MARKET REVIEW (CONTINUED)

On the supply front, total new Malaysian Ringgit (MYR) Corporate Bond issuances as at end June 2017 stood around RM45billion of which approximately 33% was conventional and 67% was Islamic. Major primary issuances were from the government guaranteed, corporates and banking sectors. Major issuances include RM7.1billion from Danainfra, RM2.6billion from Genting Capital Berhad, RM3.0billion from GovCo Holdings Berhad, RM2.5billion from YTL Power International, RM2.2billion from PTPN, RM1.1billion from Bank Pembangunan Berhad and RM1billion from Rantau Abang Capital Berhad.

### Equity

Over the review period, MSCI China Index (total return, gross, USD) rose 32.3% while the MSCI India Index (total return, gross, USD) returned 17.5%. After a challenging 2016, both Chinese and Indian equities charged into 2017, buoyed by a return to risk assets momentum that was evident across the globe.

A Brexit overhang, profit taking, fears of a US Fed rate hike and a sharp bond market crash resulted in losses for Chinese stocks in the last quarter of 2016. But improving economic data, alleviated fears of capital outflows from tighter capital controls, and Beijing's efforts to stabilise the RMB gave Chinese equities a fillip. Rising PMI also reinforced signs of the manufacturing sector's recovery. Subsequently a surge in industrial profits, efforts by the country's regulators to rein in financial risk and the announcement of a new Xiongan economic zone also supported demand for stocks in relevant industries. Sentiment was also buoyed by MSCI's decision to include China A-shares in the MSCI Emerging Markets Index and MSCI AC World Index via a two-step inclusion process in May and August 2018.

Better-than-expected 4QFY16 corporate earnings and positive policy developments underpinned Indian equities at the start of the second half of 2016 but a surprise demonetisation in the last quarter of 2016 triggered volatility. At the same time markets reacted negatively to US President-elect Donald Trump's electoral victory over trade war fears. The biggest worry on the domestic front was the likely hit on corporate earnings from demonetisation. Coming into 2017, a resilient recovery from November's demonetisation, the BJP's electoral victories, passage made on the Goods and Services Tax bill, and a credible Union Budget for FY2017-2018 lent support to the markets. Sentiment has continued to be supported by resilient corporate earnings and continued progress in reform agenda. However ahead of 1st July GST implementation, the market became concerned over the impact of the tax on second- and third-quarter results. The Reserve Bank of India kept its rates on hold while lowering its projections for inflation after recent data showed consumer prices rising more slowly.

## REBATES AND SOFT COMMISSIONS

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

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# EASTSPRING INVESTMENTS ASIA SELECT INCOME FUND

## FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017



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

We have acted as Trustee for Eastspring Investments Asia Select Income Fund (the "Fund") for financial year ended 30 June 2017. To the best of our knowledge, for the financial 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 under the Deed(s), the Securities Commission's Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- b. valuation and pricing for the Fund has been carried out in accordance with the Deed(s) 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(s) of the Fund and applicable regulatory requirements.

We are of the view that the distribution made during this financial year ended 30 June 2017 by the Manager is not inconsistent with the objectives of the Fund.

For Deutsche Trustees Malaysia Berhad

**Soon Lai Ching**

Senior Manager, Trustee Operations

**Richard Lim Hock Seng**

Chief Executive Officer

Kuala Lumpur

Date: 21 August 2017

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the financial statements of Eastspring Investments Asia Select Income Fund ("the Fund") give a true and fair view of the financial position of the Fund as at 30 June 2017, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

### What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 27 to 68.

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

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

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

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

### Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of the financial statements of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Manager is also responsible for such internal control as the Manager 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 is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either 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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

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

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

## OTHER MATTERS

This report is made solely to the 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: 21 August 2017

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		RM	RM
<b>INVESTMENT INCOME</b>			
Interest from deposits with licensed financial institutions		103,125	51,240
Other income		75	-
Interest from unquoted fixed income securities		1,241,469	1,552,549
Net gain/(loss) on financial assets at fair value through profit or loss	7	6,333,774	(901,810)
Net foreign currency exchange gain/(loss)		10,544	(330)
		<u>7,688,987</u>	<u>701,649</u>
<b>EXPENSES</b>			
Management fee	3	(694,435)	(776,113)
Trustee fee	4	(32,407)	(36,219)
Audit fee		(6,800)	(7,048)
Tax agent fee		(3,400)	(3,400)
GST charges		(44,477)	(48,786)
Other expenses		(4,061)	(11,654)
		<u>(785,580)</u>	<u>(883,220)</u>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		6,903,407	(181,571)
<b>TAXATION</b>	5	-	-
<b>PROFIT/(LOSS) AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME/ (LOSS)</b>		<u>6,903,407</u>	<u>(181,571)</u>
Profit/(loss) after taxation is made up of the following:			
Realised amount		4,039,351	2,097,779
Unrealised amount		2,864,056	(2,279,350)
		<u>6,903,407</u>	<u>(181,571)</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 JUNE 2017

	Note	2017	2016
		RM	RM
<b>ASSETS</b>			
Cash and cash equivalents	8	8,439,699	2,020,898
Amount due from Manager		234,642	29,862
Financial assets at fair value through profit or loss	7	46,591,147	44,738,195
<b>TOTAL ASSETS</b>		<u>55,265,488</u>	<u>46,788,955</u>
<b>LIABILITIES</b>			
Amount due to Manager		154,521	242,242
Accrued management fee		66,975	57,673
Amount due to Trustee		3,127	2,691
Distribution payable		17,263	-
GST charges payable		4,206	3,622
Other payables and accruals		17,925	25,469
<b>TOTAL LIABILITIES</b>		<u>264,017</u>	<u>331,697</u>
<b>NET ASSET VALUE OF THE FUND</b>		<u>55,001,471</u>	<u>46,457,258</u>
<b>EQUITY</b>			
Unit holders' capital		34,725,599	30,645,054
Retained earnings		20,275,872	15,812,204
<b>NET ASSET ATTRIBUTABLE TO UNIT HOLDERS</b>		<u>55,001,471</u>	<u>46,457,258</u>
<b>NUMBER OF UNITS IN CIRCULATION</b>	9	<u>74,419,625</u>	<u>69,757,261</u>
<b>NET ASSET VALUE PER UNIT (EX-DISTRIBUTION) (RM)</b>		<u>0.7391</u>	<u>0.6660</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 JUNE 2017

	Note	Unit holders' capital RM	Retained earnings RM	Total RM
Balance as at 1 July 2016		30,645,054	15,812,204	46,457,258
Movement in unit holders' contribution:				
Creation of units from applications		22,013,596	-	22,013,596
Creation of units from distribution		2,422,477	-	2,422,477
Cancellation of units		(20,355,528)	-	(20,355,528)
Distribution (Gross: 3.44 sen/Net: 3.44 sen)	6	-	(2,439,739)	(2,439,739)
Total comprehensive income for the financial year		-	6,903,407	6,903,407
Balance as at 30 June 2017		<u>34,725,599</u>	<u>20,275,872</u>	<u>55,001,471</u>
Balance as at 1 July 2015		43,470,537	15,993,775	59,464,312
Movement in unit holders' contribution:				
Creation of units from applications		2,092,597	-	2,092,597
Cancellation of units		(14,918,080)	-	(14,918,080)
Total comprehensive loss for the financial year		-	(181,571)	(181,571)
Balance as at 30 June 2016		<u>30,645,054</u>	<u>15,812,204</u>	<u>46,457,258</u>

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



## STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Note	2017	2016
		RM	RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from sale of investments		10,969,017	13,677,025
Purchase of investments		(6,617,708)	(3,905,670)
Other income		75	-
Interest received		1,474,108	1,744,831
Management fee paid		(685,133)	(839,785)
Trustee fee paid		(31,971)	(39,190)
Payment for other fees and expenses		(65,698)	(27,899)
Net foreign exchange gain		10,544	-
Net cash generated from operating activities		<u>5,053,234</u>	<u>10,609,312</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash proceeds from units created		21,808,816	2,584,292
Payments for cancellation of units		(20,443,249)	(15,193,558)
Distribution paid		-	(20,505)
Net cash generated from/(used in) financing activities		<u>1,365,567</u>	<u>(12,629,771)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		6,418,801	(2,020,459)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR</b>		<u>2,020,898</u>	<u>4,041,357</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	8	<u>8,439,699</u>	<u>2,020,898</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 JUNE 2017

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

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

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

- Amendments to MFRS 101 “Presentation of financial statements” – Disclosure initiative
- Annual improvements to MFRSs 2012 – 2014 Cycle

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

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 July 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 July 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.

- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration" (effective from 1 January 2018) applies when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. MFRS 121 requires an entity to use the exchange rate at the 'date of the transaction' to record foreign currency transactions.

IC Interpretation 22 provides guidance how to determine 'the date of transaction' when a single payment/receipt is made, as well as for situations where multiple payments/receipts are made.

The date of transaction is the date when the payment or receipt of advance consideration gives rise to the non-monetary asset or non-monetary liability when the entity is no longer exposed to foreign exchange risk.

If there are multiple payments or receipts in advance, the entity should determine the date of the transaction for each payment or receipt.

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.

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.

Realised gain or loss on sales of investments are accounted for as the difference between the net disposal proceeds and the carrying amount of investments, which is determined on a weighted average cost basis for collective investment scheme.

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.

### **C. DISTRIBUTION**

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

### **D. 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 of the respective country that the Fund invest in.

### **E. 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.

### **F. 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.

## **G. FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

### **i. Classification**

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Fund's loans and receivables comprise amount due from Manager and cash and cash equivalents 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, distribution payable, other payables and accruals and GST charges payable.

### **ii. Recognition and measurement**

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value, and transaction costs are expensed in 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 liability is derecognised when the obligation under the liability is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Unrealised gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss', including the effect of currency translation 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.

Collective investment scheme 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 selling in such selling price).

Unquoted fixed income securities are revalued on a daily basis based on fair value prices quoted by a bond pricing agency ("BPA") registered with the Securities Commission as per the Securities Commission Guidelines on Unit Trust Funds. Refer to Note L for further explanation.

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.

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 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.

## H. CASH AND CASH EQUIVALENTS

For the purpose of the cash flow statement, 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.

## **I. 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.

## **J. SEGMENTAL INFORMATION**

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

## **K. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities. 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 information presented herein represents the estimates of fair values as on the statement of financial position date.

## **L. 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 the Trustee and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **i. Estimate of fair value of unquoted fixed income securities**

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

### 1. INFORMATION ON THE FUND

Eastspring Investments Asia Select Income Fund (the "Fund") was constituted pursuant to the execution of a Deed dated 27 October 2005, Master Supplemental Deed dated 12 July 2007, 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 the Second Supplemental Master Deed dated 28 January 2011, Third Supplemental Master Deed dated 9 March 2011, Fourth Supplemental Master Deed dated 20 January 2012, Fifth Supplemental Master Deed dated 26 March 2014, Sixth Supplemental Master Deed dated 2 January 2015, Seventh Supplemental Master Deed dated 11 July 2016 and an Eighth Supplemental Master Deed dated 25 January 2017 (collectively referred to as the "Deed").

The Fund commenced operations on 18 November 2005 and will continue its operations until terminated by the Manager or the Trustee as provided under Part 12 of the Deed.

The Fund invests in a portfolio of Malaysian investment grade fixed income securities; and a collective investment scheme namely the Eastspring Investments - Dragon Peacock Fund (the "target fund"), incorporated in Luxembourg.

All investments will be subject to the Securities Commission's ("SC") Guidelines on Unit Trust Funds, 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 objective of the Fund is to provide a stable income stream and an opportunity for capital appreciation by investing primarily in a portfolio of Malaysian investment grade fixed income securities and a collective investment scheme primarily the Eastspring Investments – Dragon Peacock Fund, which invests in equities and equity-related securities of corporations which are incorporated in, or listed in, or operating principally from, or carrying on significant business in, or derive substantial revenue from, or whose subsidiaries, related or associated corporations, derive substantial revenue from the People's Republic of China (PRC) and India.

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, management and distribution of unit trust funds.

## 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), liquidity risk, credit/default risk, stock/issuer risk, fund management risk, non-compliance risk and capital risk.

Financial risk management is carried out through internal control processes adopted by the Manager and adherence to the investment restrictions as stipulated in the Deed.

Financial instruments of the Fund are as follows:

	Note	Loans and receivables	Financial assets at fair value through profit or loss	Total
		RM	RM	RM
<u>2017</u>				
Collective investment scheme	7	-	20,445,589	20,445,589
Unquoted fixed income securities	7	-	26,145,558	26,145,558
Amount due from Manager		234,642	-	234,642
Cash and cash equivalents	8	8,439,699	-	8,439,699
		<u>8,674,341</u>	<u>46,591,147</u>	<u>55,265,488</u>

	Note	Loans and receivables	Financial assets at fair value through profit or loss	Total
		RM	RM	RM
<u>2016</u>				
Collective investment scheme	7	-	18,316,565	18,316,565
Unquoted fixed income securities	7	-	26,421,630	26,421,630
Amount due from Manager		29,862	-	29,862
Cash and cash equivalents	8	2,020,898	-	2,020,898
		<u>2,050,760</u>	<u>44,738,195</u>	<u>46,788,955</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 June which are exposed to price risk:

	<b>2017</b>	<b>2016</b>
	<b>RM</b>	<b>RM</b>
Financial assets at fair value through profit or loss:		
Collective investment scheme	20,445,589	18,316,565
Unquoted fixed income securities*	26,145,558	26,421,630
	<u>46,591,147</u>	<u>44,738,195</u>

\* Includes interest receivables of RM346,658 (2016: RM349,616)

The following table summarises the sensitivity of the Fund's net asset value and profit/(loss) after tax to movements in prices of collective investment scheme 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 scheme and unquoted fixed income securities 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 collective investment scheme and unquoted fixed income securities, 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 on profit/(loss) after tax/net asset value</b>
	<b>RM</b>	<b>RM</b>
<u>2017</u>		
+5%	48,556,713	2,312,224
-5%	43,932,265	(2,312,224)
		<u>                    </u>
<u>2016</u>		
+5%	46,608,008	2,219,429
-5%	42,169,150	(2,219,429)
		<u>                    </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 net asset value ("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 deposits with licensed financial institutions are short term in nature. Therefore, exposure to interest rate fluctuations is minimal.



The table below summarises the sensitivity of the Fund's profit/(loss) 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 1% (2016: 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>2017</b>	<b>2016</b>
<b>% Change in interest rate of unquoted fixed income securities</b>	<b>Impact on profit after tax/ net asset value</b>	<b>Impact on loss after tax/ net asset value</b>
	<b>RM</b>	<b>RM</b>
+1% (2016: +1%)	(28,798)	(39,818)
-1% (2016: -1%)	28,851	39,899

### iii. Foreign exchange/currency risk

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

In the normal course of investment, the Fund Manager will usually not hedge foreign currency exposure. The Fund Manager may however depending on prevailing market circumstances at particular point in time, choose to use forward or option 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>Total</b>
	<b>RM</b>	<b>RM</b>
<u>2017</u>		
USD	20,445,589	20,445,589
<u>2016</u>		
USD	18,316,565	18,316,565

The table below summarises the sensitivity of the Fund's financial assets to changes in foreign exchange movements at the end of the reporting year. The analysis is based on the assumption that the foreign exchange rate changes by 5% with all variables remain constants. 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 in foreign exchange rate</b>	<b>Impact on profit/(loss) after tax</b>	<b>Impact on net asset value</b>
	<b>%</b>	<b>RM</b>	<b>RM</b>
<u>2017</u>			
USD	5	1,022,279	1,022,279
<u>2016</u>			
USD	5	915,828	915,828

## 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 balance and deposits with licensed financial institutions 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>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
<u>2017</u>			
Amount due to Manager	154,521	-	154,521
Accrued management fee	66,975	-	66,975
Amount due to Trustee	3,127	-	3,127
Distribution payable	17,263	-	17,263
Other payables and accruals	-	17,925	17,925
GST charges payable	4,206	-	4,206
Contractual cash outflows	246,092	17,925	264,017

	<b>Less than 1 month</b>	<b>Between 1 month to 1 year</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>
<u>2016</u>			
Amount due to Manager	242,242	-	242,242
Accrued management fee	57,673	-	57,673
Amount due to Trustee	2,691	-	2,691
Other payables and accruals	-	25,469	25,469
GST charges payable	3,622	-	3,622
Contractual cash outflows	<u>306,228</u>	<u>25,469</u>	<u>331,697</u>

### **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 SC.

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 SC'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:

	<b>Financial assets at fair value through profit or loss</b>	<b>Cash and cash equivalents</b>	<b>Amount due from Manager</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>RM</b>
<u>2017</u>				
Finance				
- AAA	-	8,380,872	-	8,380,872
- AA1	-	58,827	-	58,827
Unquoted fixed income securities				
- AAA	3,570,847	-	-	3,570,847
- AA2	9,042,021	-	-	9,042,021
- AA3	11,460,250	-	-	11,460,250
- AA-is	527,433	-	-	527,433
- A1	1,545,007	-	-	1,545,007
Other				
- NR	-	-	234,642	234,642
	<u>26,145,558</u>	<u>8,439,699</u>	<u>234,642</u>	<u>34,819,899</u>
<u>2016</u>				
Finance				
- AAA	-	1,970,183	-	1,970,183
- AA1	-	50,715	-	50,715
Unquoted fixed income securities				
- AAA	4,817,425	-	-	4,817,425
- AA2	9,030,329	-	-	9,030,329
- AA3	12,573,876	-	-	12,573,876
Other				
- NR	-	-	29,862	29,862
	<u>26,421,630</u>	<u>2,020,898</u>	<u>29,862</u>	<u>28,472,390</u>

None of these assets are past due or impaired.

**Stock/issuer risk**

This risk refers to the individual risk of the respective companies issuing the securities. Specific risk includes but is not limited to changes in consumer tastes and demand, legal suits, competitive operating environments, changing industry conditions and management omissions and errors. However, this risk is minimised through investing in a wide range of companies in different sectors and thus function independently from one another.

**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 interest of unit holders.

**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.

## **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 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>2017</u>				
Financial assets at fair value through profit or loss:				
Collective investment scheme	20,445,589	-	-	20,445,589
Unquoted fixed income securities	-	26,145,558	-	26,145,558
	<u>20,445,589</u>	<u>26,145,558</u>	<u>-</u>	<u>46,591,147</u>

2016

Financial assets at fair value through profit or loss:				
Collective investment scheme	18,316,565	-	-	18,316,565
Unquoted fixed income securities	-	26,421,630	-	26,421,630
	<u>18,316,565</u>	<u>26,421,630</u>	<u>-</u>	<u>44,738,195</u>

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 scheme, i.e unit trust funds who 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 G 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. This 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 G to the financial statements.

- ii. The carrying value of amount due from Manager, cash and cash equivalents 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 2.00% per annum of the net asset value of the Fund accrued and calculated on daily basis.

For the financial year ended 30 June 2017, the management fee is recognised at a rate of 1.50% (2016: 1.50%) per annum of the net asset value of the Fund, 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 0.20% per annum of the net asset value of the Fund, subject to a minimum fee of RM18,000 per annum and a maximum fee of RM350,000 per annum (excluding foreign custodian fees and charges).

For the financial year ended 30 June 2017, the Trustee's fee is recognised at a rate of 0.07% (2016: 0.07%) per annum of the net asset value of the Fund, 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>2017</b>	<b>2016</b>
	<b>RM</b>	<b>RM</b>
Tax charged for the financial year:		
Current taxation - local	-	-

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

	<b>2017</b>	<b>2016</b>
	<b>RM</b>	<b>RM</b>
Profit/(loss) before taxation	6,903,407	(181,571)
Tax at Malaysian statutory rate of 24% (2016: 24%)	1,656,818	(43,577)
Tax effects of:		
Investment income exempt from tax	(1,845,357)	(168,396)
Expenses not deductible for tax purposes	20,243	23,995
Restriction on tax deductible expenses for Unit Trust Funds	168,296	187,978
Taxation	-	-

## 6. DISTRIBUTION

	2017	2016
	RM	RM
Distribution to unit holders is from the following sources:		
Interest income	1,343,545	-
Net realised gain on sale of investments	1,852,598	-
Other income	75	-
Prior financial year's realised income	1,424	-
	<hr/>	
Gross realised income	3,197,642	-
Less: Expenses	(757,903)	-
	<hr/>	
	2,439,739	-
	<hr/>	
Gross distribution per unit (RM)	0.0344	-
	<hr/>	
Net distribution per unit (RM)	0.0344	-
	<hr/>	
Ex-date	23 June 2017	-
	<hr/>	

Gross distribution is derived using total income less total expenses. The distribution is made from current and prior years' realised income.

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

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

	2017	2016
	RM	RM
Designated at fair value through profit or loss:		
Collective investment scheme (Note 7(i))	20,445,589	18,316,565
Unquoted fixed income securities (Note 7 (ii))	26,145,558	26,421,630
	<u>46,591,147</u>	<u>44,738,195</u>
Net gain/(loss) on financial assets at fair value through profit or loss:		
Realised gain on disposals	3,469,718	1,377,540
Change in unrealised fair value gain/(loss)	2,864,056	(2,279,350)
	<u>6,333,774</u>	<u>(901,810)</u>

 i. Collective investment scheme

Name of counter	Quantity	Aggregate cost	Fair value	Percentage
			as at 30.6.2017	of net asset value of the Fund
	Units	RM	RM	%

Unit Trust Fund

Eastspring Investments				
- Dragon Peacock Fund	<u>127,851</u>	10,474,232	<u>20,445,589</u>	37.17

**ACCUMULATED  
UNREALISED GAIN ON  
FINANCIAL ASSETS AT  
FAIR VALUE THROUGH  
PROFIT OR LOSS**
9,971,357
**FAIR VALUE OF  
FINANCIAL ASSETS AT  
FAIR VALUE THROUGH  
PROFIT OR LOSS**
20,445,589

Name of counter	Quantity	Aggregate cost	Fair value	Percentage
			as at 30.6.2016	of net asset value of the Fund
	Units	RM	RM	%
<u>Unit Trust Fund</u>				
Eastspring Investments - Dragon Peacock Fund	160,973	10,874,763	18,316,565	39.43
<b>ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			7,441,802	
<b>FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			18,316,565	

The Fund primarily invests in the Eastspring Investments-Dragon Peacock Fund, which is one of the sub-funds of the Eastspring Investments Funds (the "SICAV", an abbreviation Société d' Investissement à Capital Variable) domiciled in Luxembourg. The SICAV is an open-ended investment company registered on the official list of collective investment undertakings pursuant to Part I of the Luxembourg law of 30 March 1988 on collective investment undertakings. The investment manager of the Target fund is Eastspring Investments (Singapore) Limited. Eastspring Investments (Singapore) Limited is a wholly owned subsidiary of Prudential Plc.

The investment objective of Eastspring Investments-Dragon Peacock Fund is to maximise long-term total return by investing primarily in equity and equity-related securities of corporations which are incorporated in, or listed in, or operating principally from, or carrying on significant business in, or derive substantial revenue from, or whose subsidiaries, related or associated corporations derive substantial revenue from the People's Republic of China ("PRC") and the Republic of India.

ii. Unquoted fixed income securities

Name of counter	Quantity	Carrying cost	Fair	Percentage of net asset value of the Fund
			value as at 30.6.2017	
	Units	RM	RM	%
5.45% Affin Bank Berhad 5.2.2027 (A1)	500,000	510,751	518,701	0.94
5.20% AmBank (M) Berhad 29.12.2023 (AA3)	1,300,000	1,304,020	1,312,886	2.39
5.20% AMMB Holdings Berhad 15.3.2027 (A1)	1,000,000	1,015,386	1,026,306	1.87
5.25% Bumitama Agri Ltd 18.3.2019 (AA3)	500,000	510,394	513,393	0.93
4.50% Hong Leong Assurance Berhad 7.2.2025 (AA3)	2,000,000	2,019,082	2,021,987	3.68
4.50% Hong Leong Bank Berhad 21.6.2024 (AA2)	3,500,000	3,491,711	3,497,549	6.36
9.05% Jimah Energy Ventures Sdn Bhd 12.11.2020 (AA3)	2,500,000	2,854,457	2,885,603	5.25
9.30% Jimah Energy Ventures Sdn Bhd 12.11.2021 (AA3)	100,000	120,086	119,899	0.22
5.10% Krung Thai Bank Public Company Limited 4.7.2025 (AA2)	3,000,000	3,073,775	3,126,905	5.68
5.24% Lebuhraya Duke Fasa 3 Sdn Bhd 23.8.2027 (AA- IS)	500,000	533,636	527,433	0.96
8.20% Mukah Power Generation Sdn Bhd 27.12.2019 (AA2)	1,300,000	1,386,074	1,412,796	2.57

ii. Unquoted fixed income securities (continued)

Name of counter	Quantity	Carrying cost	Fair	Percentage of net asset value of the Fund
			value as at 30.6.2017	
	Units	RM	RM	%
4.99% RHB Bank Berhad 8.7.2024 (AA3)	2,000,000	2,049,060	2,061,202	3.75
4.75% RHB Bank Berhad 8.5.2025 (AA3)	2,000,000	2,014,055	2,015,095	3.66
6.00% Special Port Vehicle Berhad 28.7.2017 (AAA)	3,500,000	3,587,161	3,570,847	6.49
5.40% Tanjung Bin Energy Issuer Berhad 15.3.2024 (AA3)	500,000	509,572	530,185	0.96
4.83% UMW Holdings Berhad 22.6.2022 (AA2)	1,000,000	1,002,604	1,004,771	1.83
<b>TOTAL UNQUOTED FIXED INCOME SECURITIES</b>	<u>25,200,000</u>	<u>25,981,824</u>	<u>26,145,558</u>	<u>47.54</u>
<b>ACCUMULATED UNREALISED GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<u>163,734</u>		
<b>FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<u>26,145,558</u>		



ii. Unquoted fixed income securities (continued)

Name of counter	Quantity	Carrying cost	Fair	Percentage of net asset value of the Fund
			value as at 30.6.2016	
	Units	RM	RM	%
5.20% AmBank (M) Berhad 31.12.2018 (AA3)	1,400,000	1,406,638	1,409,873	3.03
5.60% BGSM Management Sdn Berhad 27.12.2023 (AA3)	1,000,000	1,020,089	1,042,880	2.24
5.25% Bumitama Agri Ltd 18.3.2019 (AA3)	400,000	408,244	413,693	0.89
4.50% Hong Leong Assurance Berhad 7.2.2020 (AA3)	2,000,000	2,012,849	2,013,994	4.34
4.50% Hong Leong Bank Berhad 24.6.2019 (AA2)	4,500,000	4,481,468	4,495,483	9.68
9.05% Jimah Energy Ventures Sdn Berhad 12.11.2020 (AA3)	2,600,000	3,058,436	3,083,252	6.64
5.10% Krung Thai Bank Public Company Limited 6.7.2020 (AA2)	3,000,000	3,074,195	3,082,595	6.63
8.20% Mukah Power Generation Sdn Berhad 27.12.2019 (AA2)	1,300,000	1,417,399	1,452,251	3.13
4.75% RHB Bank Berhad 8.5.2020 (AA3)	2,000,000	2,013,795	2,016,395	4.34
4.99% RHB Bank Berhad 8.7.2019 (AA3)	2,000,000	2,050,423	2,065,049	4.44

ii. Unquoted fixed income securities (continued)

Name of counter	Quantity	Carrying cost	Fair	Percentage of net asset value of the Fund
			value as at 30.6.2016	
	Units	RM	RM	%
6.00% Special Port Vehicle Berhad 28.7.2017 (AAA)	5,000,000	5,139,084	4,817,425	10.37
5.40% Tanjung Bin Energy Issuer Berhad 15.3.2024 (AA3)	500,000	509,777	528,740	1.14
<b>TOTAL UNQUOTED FIXED INCOME SECURITIES</b>	<u>25,700,000</u>	26,592,397	<u>26,421,630</u>	<u>56.87</u>
<b>ACCUMULATED UNREALISED LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		<u>(170,767)</u>		
<b>FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>			<u>26,421,630</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:

	2017	2016
	RM	RM
Unquoted fixed income securities	<u>4.67</u>	<u>5.18</u>

**8. CASH AND CASH EQUIVALENTS**

	<b>2017</b>	<b>2016</b>
	<b>RM</b>	<b>RM</b>
Bank balance with a licensed bank	58,827	50,715
Deposit with a licensed financial institution	8,380,872	1,970,183
	<u>8,439,699</u>	<u>2,020,898</u>

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

	<b>2017</b>	<b>2016</b>
	<b>%</b>	<b>%</b>
Deposit with a licensed financial institution	<u>3.80</u>	<u>3.40</u>

The deposit has an average maturity of 3 days (2016: 1 day).

**9. UNITS IN CIRCULATION**

	<b>2017</b>	<b>2016</b>
	<b>No. of units</b>	<b>No. of units</b>
At the beginning of the financial year	69,757,261	89,032,280
Creation of units during the financial year:		
Arising from applications	29,458,633	3,152,915
Arising from distribution	3,282,933	-
Cancellation of units during the financial year	(28,079,202)	(22,427,934)
At the end of the financial year	<u>74,419,625</u>	<u>69,757,261</u>

## 10. TRANSACTIONS WITH BROKERS/DEALERS

Details of transactions with the brokers and dealers for the financial year ended 30 June are as follows:

Name of brokers/dealers	Value of trades	Percentage of total trades
	RM	%
<u>2017</u>		
Eastspring Investments (Singapore) Limited <sup>#</sup>	10,663,622	60.63
RHB Investment Bank Berhad	3,671,713	20.88
AmBank (M) Berhad	1,026,050	5.83
Malayan Banking Berhad	1,001,300	5.69
AmInvestment Bank Berhad	1,000,000	5.69
Alliance Bank Malaysia Berhad	224,040	1.28
	<u>17,586,725</u>	<u>100.00</u>
<u>2016</u>		
CIMB Bank Berhad	379,130,000	96.30
AmBank (M) Berhad	4,518,900	1.15
Eastspring Investments (Singapore) Limited <sup>#</sup>	3,006,625	0.76
RHB Investment Bank Berhad	3,004,560	0.76
Hong Leong Bank Berhad	2,552,490	0.65
Hong Leong Investment Bank Berhad	1,007,100	0.26
KAF Investment Bank Berhad	493,050	0.12
	<u>393,712,725</u>	<u>100.00</u>

<sup>#</sup> Included in transactions by the Fund are trades conducted with Eastspring Investments (Singapore) Limited, a related party of the Manager amounting to RM10,663,622 (2016: RM3,006,625). 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.

There are no brokerage fees charged by the brokers/dealers.

## 11. 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-Dragon Peacock Fund: - Class D	Collective investment scheme managed by Eastspring Investments (Singapore) Limited

	2017		2016	
	No. of Units	RM	No. of Units	RM
Eastspring Investments Berhad	1,187	877	1,134	755

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'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

	2017	2016
	RM	RM
Purchase of units in collective investment scheme managed by Eastspring Investments (Singapore) Limited	3,366,318	-
Sale of units in collective investment scheme managed by Eastspring Investments (Singapore) Limited	7,297,304	3,006,625

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

	<b>2017</b>	<b>2016</b>
	%	%
MER	1.70	1.71

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 RM46,293,529 (2016: RM51,738,516).

**13. PORTFOLIO TURNOVER RATIO ("PTR")**

	<b>2017</b>	<b>2016</b>
PTR (times)	0.19	0.17

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 =RM6,617,708 (2016: RM3,905,670)

total disposals for the financial year =RM10,969,017 (2016: RM13,677,355)

**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 segments derive their income by seeking investments to achieve targeted returns with an acceptable level of risk within each portfolio. These returns consist of interest and gains on the appreciation in the value of investments.

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

**15. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue by the Manager on 21 August 2017.

# CORPORATE DIRECTORY

## **THE MANAGER**

NAME

EASTSPRING INVESTMENTS BERHAD

COMPANY NO.

531241-U

REGISTERED OFFICE

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Jalan Raja Laut

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BUSINESS OFFICE

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50250 Kuala Lumpur

TELEPHONE NO.

603-2052 3388

FAX NO.

603-2070 6129

EMAIL

cs.my@eastspring.com

WEBSITE

www.eastspringinvestments.com.my

## **TRUSTEE**

NAME

DEUTSCHE TRUSTEES MALAYSIA BERHAD

COMPANY NO.

763590-H

REGISTERED OFFICE &

BUSINESS OFFICE

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603-2053 7526

## **SALE & PURCHASE OF UNITS**

**Eastspring Investments Berhad**

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FAX NO.

603-2052 3366



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**ENQUIRIES**

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