

# EASTSPRING INVESTMENTS TARGET INCOME FUND 6

## ANNUAL REPORT

FOR THE FINANCIAL PERIOD FROM 28 MARCH 2017  
(LAUNCH DATE) TO 31 MAY 2018



**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 Reports of Eastspring Investments Berhad's fund(s) for the reporting period ended 31 May 2018.**

You may also download these reports from our website at [www.eastspringinvestments.com.my](http://www.eastspringinvestments.com.my)

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

Yours sincerely,

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

**Raymond Tang Chee Kin**

Non-Independent, Executive Director and Chief Executive Officer

# TABLE OF CONTENTS

|  |    |
|--|----|
| Fund Information   | 1  |
| Key Performance Data   | 3  |
| Manager's Report   | 5  |
| Market Review  | 8  |
| Rebates and Soft Commissions   | 8  |
| Statement by the Manager   | 10 |
| Trustee's Report to the Unit Holders of<br>Eastspring Investments Target Income Fund 6             | 11 |
| Independent Auditors' Report to the Unit Holders of<br>Eastspring Investments Target Income Fund 6 | 12 |
| Statement of Comprehensive Income  | 16 |
| Statement of Financial Position  | 17 |
| Statement of Changes in Equity   | 18 |
| Statement of Cash Flows  | 19 |
| Summary of Significant Accounting Policies   | 20 |
| Notes to the Financial Statements  | 30 |
| Corporate Directory  | 56 |

## FUND INFORMATION

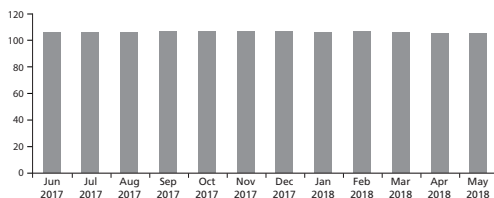
|  |  |
|--|--|
| <b>Name of Fund</b>                    | Eastspring Investments Target Income Fund 6 (the "Fund")   |
| <b>Fund Category/<br/>Type</b>         | Bond (close-ended)/income  |
| <b>Fund Objective</b>                  | <p>The Fund endeavours to provide regular income** during the tenure of the Fund.</p> <p>** Income declared will be paid out either by way of E-payment according to Unit Holders' instructions in the account opening form or by cheque.</p>  |
| <b>Termination Date</b>                | 12 May 2022  |
| <b>Duration of the Fund</b>            | Five (5) years close-ended bond.   |
| <b>Performance Benchmark</b>           | <p>5-year Maybank fixed deposit rate as at the Commencement Date.</p> <p>Please note that investors may obtain information on the benchmark from the Manager upon request.</p> <p>As the Fund will invest in local and foreign markets across various bonds of different ratings, the risk profile of the Fund is not the same as the risk profile of the performance benchmark.</p> |
| <b>Fund Income Distribution Policy</b> | Distribution of income, if any, will be on annual basis, after deduction of taxation and expenses.   |

## FUND INFORMATION (CONTINUED)

### Breakdown of Unit Holdings by Size

As at 31 May 2018, the size of Eastspring Investments Target Income Fund 6 stood at 107.278 million units.

#### Fund Size



#### Breakdown of Unit Holdings

| Unit Holdings           | No. of Unit Holders | %             | No of Units* ('000) | %             |
|-------------------------|---------------------|---------------|---------------------|---------------|
| 5,000 units and below   | 118                 | 15.57         | 405                 | 0.38          |
| 5,001 to 10,000 units   | 123                 | 16.23         | 1,141               | 1.07          |
| 10,001 to 50,000 units  | 293                 | 38.65         | 9,120               | 8.50          |
| 50,001 to 500,000 units | 209                 | 27.57         | 33,583              | 31.30         |
| 500,001 units and above | 15                  | 1.98          | 63,028              | 58.75         |
| <b>Total</b>            | <b>758</b>          | <b>100.00</b> | <b>107,277</b>      | <b>100.00</b> |

\* excludes units held by the Manager.

## KEY PERFORMANCE DATA

FOR THE FINANCIAL PERIOD ENDED

| Category                               | Since<br>commencement<br>12.5.2017 to<br>31.5.2018<br>(%) |
|--|---|
| Unquoted fixed income securities       | 89.04   |
| Derivatives                            | 10.06   |
| Cash and other assets                  | 0.90  |
| <b>Total</b>                           | <b>100.00</b>   |
| Net Asset Value (NAV) (RM'000)         | 109,821   |
| Units In Circulation (Units '000)      | 107,278   |
| Net Asset Value Per Unit (RM)          | 1.0237  |
| Highest Net Asset Value Per Unit (RM)  | 1.0673  |
| Lowest Net Asset Value Per Unit (RM)   | 0.9997  |
| Total Return (%)                       |   |
| - Capital Growth                       | 2.37  |
| - Income Distribution                  | -   |
| Total Return (%)                       | 2.37  |
| Gross Distribution Per Unit (RM)       | -   |
| Net Distribution Per Unit (RM)         | -   |
| Management Expense Ratio (MER) (%)     | 0.39  |
| Portfolio Turnover Ratio (PTR) (times) | 0.96  |

## KEY PERFORMANCE DATA (CONTINUED)

|                      | Since<br>commencement<br>12.5.2017 to<br>31.5.2018 |
|----------------------|--|
|                      | (%)  |
| Average total return | 2.25   |

| Year ended          | Since<br>commencement<br>12.5.2017 to<br>31.5.2018 |
|---------------------|--|
|                     | (%)  |
| Annual total return | 2.37   |

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

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

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

$\text{NAV}_t$  = 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

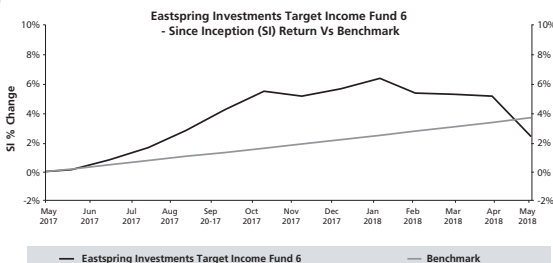
### Fund Performance

Since inception, the Fund registered a return of 2.37%, underperforming the benchmark return of 3.67% by -1.30%.

For the period under review, the Fund registered a positive return of 2.24%, underperforming the benchmark return of 3.47% by -1.23%.

The period under review was a difficult one for Asian USD bonds, with the segment hurt by a combination of higher US Treasury yields and wider credit spreads. Over the period, the Fund's focus on selected Asian corporate bonds still had a positive contribution to overall returns, with returns driven primarily by coupon accrual, but partially offset by broad-based credit spread widening in the sector, alongside a rise in US interest rates as the US Federal Reserve hiked rates three times. The impact of rising interest rates was mitigated by the Fund's shorter-duration positioning, while the moderate exposure to higher-yielding bonds boosted overall coupon carry, adding positively to overall returns.

The fund met its objective to provide regular income during the period under review.



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

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

**Fund performance is sourced from Lipper for Investment Management, 31 May 2018 and the benchmark is obtainable from Eastspring Investments Berhad upon request.**

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



## MANAGER'S REPORT (CONTINUED)

**Analysis of Fund Performance**


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For the financial period ended 31 May 2018:

| <b>Income Return</b> | <b>Capital Return*</b> | <b>Total Return</b> | <b>Total Return of Benchmark</b> |
|----------------------|------------------------|---------------------|----------------------------------|
| <b>(%)</b>           | <b>(%)</b>             | <b>(%)</b>          | <b>(%)</b>                       |
| 0.00                 | 2.37                   | 2.37                | 3.67                             |

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

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**Distribution/ Unit Split**

No distribution or unit split were declared for the financial period ended 31 May 2018.

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**Investment Strategy During The Period Under Review**

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

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

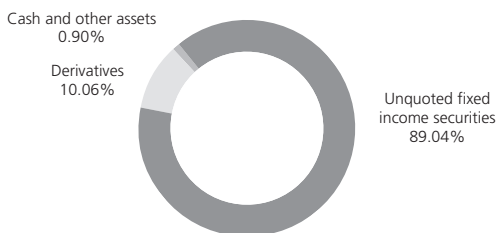
- Increased default risk and/or from uptrend interest rate concerns;
  - Hedging transactions in the event that the sale of the security at risk is not possible; and
  - Reinvesting proceeds from maturing securities
-

## MANAGER'S REPORT (CONTINUED)

## Asset Allocation

| Asset Allocation                 | 31-May | Changes |
|----------------------------------|--------|---------|
|                                  | 2018   |         |
|                                  | (%)    | (%)     |
| Unquoted fixed income securities | 89.04  | (89.04) |
| Derivatives                      | 10.06  | (10.06) |
| Cash and other assets            | 0.90   | (0.90)  |

## Asset Allocation as at 31 May 2018



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

## State of Affairs of the Fund

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

## Cross-Trade Transaction

During the period 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 Fund. The investment committee for the Fund has reviewed that such trades for the period from January to March 2018 were transacted on an arm's length and fair value basis and in the best interest of the Fund.

## MARKET REVIEW

Over the period under review, Asian USD bond markets were hurt by a combination of rising US Treasury yields and wider credit spreads. The US Federal Reserve continued with monetary policy normalisation, hiking rates three times over the period. In response, the US Treasury (“UST”) curve flattened, as 2-year US Treasury yields rose 115 bps while the 10-year UST yield rose by a more moderate 66 bps – the rise in yields was a negative for bond returns over the period.

Over the 12 months to end-May 2018, Asian USD bonds, as represented by the JPMorgan Asia Credit Index posted a tepid 0.04% return, while high yield Asian bonds (as represented by the JPMorgan Asia Credit Non-Investment Grade Index) posted a similar 0.04% return. Returns were fairly volatile over the review period, with a positive performance in the initial 6 months (to end-November 2017) giving way to a loss in the subsequent half-year period. Initial strength was driven by a tightening of Asian credit spreads going into 2018 on the positive economic growth outlook. However, credit spreads subsequently widened by a significant margin in May 2018 on rising investor risk aversion on a confluence of factors, including rising geopolitical tensions, weak market technicals, and concerns over China onshore credit risk, punctuated by an unexpected credit event for a China offshore corporate issuer in late-May. Spreads for Asian non-investment grade corporates and non-investment grade quasi-sovereigns widened by 42 bps and 85 bps in the month of May alone, which had a negative impact on the performance of higher-yielding Asian bonds.

## REBATES AND SOFT COMMISSIONS

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

# EASTSPRING INVESTMENTS TARGET INCOME FUND 6

## FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD FROM 28 MARCH 2017  
(LAUNCH DATE) TO 31 MAY 2018

## STATEMENT BY THE MANAGER

We, Tang Chee Kin and Khoo Chuan Keat, being two of the Directors of Eastspring Investments Berhad, do hereby state that, in the opinion of the Manager, the accompanying financial statements set out on pages 16 to 55 are drawn up in accordance with the provisions of the Deed and give a true and fair view of the financial position of the Fund as at 31 May 2018 and of its financial performance, changes in equity and cash flows for the financial period from 28 March 2017 (launch date) to 31 May 2018 in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

For and on behalf of the Manager,  
**EASTSPRING INVESTMENTS BERHAD**

**TANG CHEE KIN**  
Executive Director/Chief Executive Officer

**KHOO CHUAN KEAT**  
Director

Kuala Lumpur  
Date: 16 July 2018

## TRUSTEE'S REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS TARGET INCOME FUND 6

We have acted as Trustee for Eastspring Investments Target Income Fund 6 (the "Fund") for financial period from 28 March 2017 (launch date) to 31 May 2018. To the best of our knowledge, for the financial period under review, Eastspring Investments Berhad (the "Manager") has operated and managed the Fund in accordance with the following:

- a. limitations imposed on the investment powers of the Manager 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.

For Deutsche Trustees Malaysia Berhad

**Soon Lai Ching**

Senior Manager, Trustee Operations

**Richard Lim Hock Seng**

Chief Executive Officer

Kuala Lumpur

Date: 16 July 2018

# INDEPENDENT AUDITORS' REPORT TO THE UNIT HOLDERS OF EASTSPRING INVESTMENTS TARGET INCOME FUND 6

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Our opinion

In our opinion, the financial statements of Eastspring Investments Target Income Fund 6 ("the Fund") give a true and fair view of the financial position of the Fund as at 31 May 2018, and of its financial performance and its cash flows for the financial period from 28 March 2017 (launch date) to 31 May 2018 in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

### What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 May 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 28 March 2017 (launch date) to 31 May 2018, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 16 to 55.

### 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 holder of the Fund and for no other purpose. We do not assume responsibility to any other person for the content of this report.

## **PRICEWATERHOUSECOOPERS PLT**

LLP0014401-LCA & AF 1146  
Chartered Accountants

Kuala Lumpur  
Date: 16 July 2018

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL PERIOD FROM 28 MARCH 2017

(LAUNCH DATE) TO 31 MAY 2018

|  | Note | Financial period from<br>28.3.2017 (launch date)<br>to 31.5.2018 |
|--|------|--|
|  |      | RM   |
| <b>INVESTMENT INCOME</b>   |      |  |
| Interest income from deposits with licensed financial institutions |      | 471,588  |
| Interest income from unquoted fixed income securities              |      | 5,366,935  |
| Exit fee income  |      | 31,660   |
| Net loss on financial assets at fair value through profit or loss  | 6    | (13,686,926)   |
| Net gain on forward foreign currency contracts                     |      | 11,050,532   |
| Net foreign currency exchange loss                                 |      | (234,652)  |
|  |      | <u>2,999,137</u>   |
| <b>EXPENSES</b>  |      |  |
| Management fee   | 3    | (236,273)  |
| Trustee fee  | 4    | (70,882)   |
| Audit fee  |      | (12,000)   |
| Tax agent fee  |      | (4,901)  |
| Other expenses   |      | (68,122)   |
| GST charges  |      | (19,130)   |
|  |      | <u>(411,308)</u>   |
| <b>PROFIT BEFORE TAXATION</b>                                      |      | 2,587,829  |
| <b>TAXATION</b>  | 5    | (6,047)  |
| <b>PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME</b>        |      | <u>2,581,782</u>   |
| Profit after taxation is made up of the following:                 |      |  |
| Realised amount  |      | 2,554,062  |
| Unrealised amount  |      | 27,720   |
|  |      | <u>2,581,782</u>   |

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

# STATEMENT OF FINANCIAL POSITION

## AS AT 31 MAY 2018

|   | Note | 2018               |
|---|------|--------------------|
|   |      | RM                 |
| <b>ASSETS</b>   |      |                    |
| Cash and cash equivalents                             | 7    | 1,077,670          |
| Financial assets at fair value through profit or loss | 6    | 97,777,165         |
| Tax recoverable                                       |      | 11,553             |
| Forward foreign currency contracts                    | 8    | 11,050,532         |
| Other receivable                                      |      | 746                |
| <b>TOTAL ASSETS</b>                                   |      | <u>109,917,666</u> |
| <b>LIABILITIES</b>                                    |      |                    |
| Amount due to Manager                                 |      | 24,872             |
| Accrued management fee                                |      | 18,844             |
| Amount due to Trustee                                 |      | 5,653              |
| GST charges payable                                   |      | 1,470              |
| Other payables and accruals                           |      | 45,717             |
| <b>TOTAL LIABILITIES</b>                              |      | <u>96,556</u>      |
| <b>NET ASSET VALUE OF THE FUND</b>                    |      | <u>109,821,110</u> |
| <b>EQUITY</b>   |      |                    |
| Unit holders' capital                                 |      | 107,239,328        |
| Retained earnings                                     |      | 2,581,782          |
| <b>NET ASSET ATTRIBUTABLE TO UNIT HOLDERS</b>         |      | <u>109,821,110</u> |
| <b>NUMBER OF UNITS IN CIRCULATION</b>                 | 9    | <u>107,278,441</u> |
| <b>NET ASSET VALUE PER UNIT (RM)</b>                  |      | <u>1.0237</u>      |

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

## STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL PERIOD FROM 28 MARCH 2017  
(LAUNCH DATE) TO 31 MAY 2018

|  | Unit holders'<br>capital | Retained<br>earnings | Total              |
|--|--------------------------|----------------------|--------------------|
|  | RM                       | RM                   | RM                 |
| Balance as at 28 March 2017<br>(launch date)           | -                        | -                    | -                  |
| Movement in unit holders'<br>contribution:             |                          |                      |                    |
| Creation of units from<br>applications                 | 113,583,483              | -                    | 113,583,483        |
| Cancellation of units                                  | (6,344,155)              | -                    | (6,344,155)        |
| Total comprehensive income for<br>the financial period | -                        | 2,581,782            | 2,581,782          |
| Balance as at 31 May 2018                              | <u>107,239,328</u>       | <u>2,581,782</u>     | <u>109,821,110</u> |

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

# STATEMENT OF CASH FLOWS

FOR THE FINANCIAL PERIOD FROM 28 MARCH 2017  
(LAUNCH DATE) TO 31 MAY 2018

|  | Note | Financial period<br>from 28.3.2017<br>(launch date)<br>to 31.5.2018 |
|--|------|---|
|  |      | RM  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |      |   |
| Proceeds from sale of investments  |      | 45,000,294  |
| Payments for purchase of investments   |      | (155,263,332)   |
| Interest income received from deposits with<br>licensed financial institutions |      | 471,588   |
| Interest income received from unquoted fixed<br>income securities              |      | 4,165,136   |
| Exit fee income received   |      | 31,660  |
| Management fee paid  |      | (217,429)   |
| Trustee fee paid   |      | (65,229)  |
| Payment for other fees and expenses  |      | (56,966)  |
| Tax paid   |      | (17,600)  |
| Net foreign currency exchange loss   |      | (234,652)   |
| Net cash used in operating activities  |      | <u>(106,186,530)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                    |      |   |
| Proceeds from units created  |      | 113,583,483   |
| Payments for cancellation of units   |      | (6,319,283)   |
| Net cash generated from financing activities                                   |      | <u>107,264,200</u>  |
| <b>NET INCREASE IN CASH AND CASH<br/>EQUIVALENTS</b>                           |      | 1,077,670   |
| <b>CASH AND CASH EQUIVALENTS AT THE<br/>BEGINNING OF THE LAUNCH DATE</b>       |      | <u>-</u>  |
| <b>CASH AND CASH EQUIVALENTS AT<br/>THE END OF THE FINANCIAL PERIOD</b>        |      | 7 <u>1,077,670</u>  |

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 28 MARCH 2017 (LAUNCH DATE) TO 31 MAY 2018

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

### **A. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial liabilities (including derivatives instruments) at fair value through profit or loss, except as disclosed in this summary of significant accounting policies, and in accordance with Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

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

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

The Fund has applied the following amendments for the first time for the financial period beginning on 28 March 2017:

- Amendments to MFRS 107 “Statement of Cash Flows – Disclosure Initiative” introduce an additional disclosure on changes in liabilities arising from financing activities.

Other than the above, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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:

a. Financial year beginning on/after 1 June 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 changes are:

- For financial liabilities classified as FVTPL, the fair value changes due to own credit risk should be recognised directly to OCI. There is no subsequent recycling to profit or loss.
- When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in profit or loss.

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



The Fund has reviewed its financial assets and liabilities and has assessed the impacts from the adoption of the new standard on 1 January 2018 as below:

There will be no impact on the Fund's accounting for financial assets as the Fund's investments in unquoted fixed income securities and derivatives currently measured at fair value through profit or loss will continue to be measured on the same basis under MFRS 9.

There will be no impact on the Fund's accounting for financial liabilities as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Fund does not have any such liabilities.

The new impairment model requires the recognition of impairment provisions based on ECL rather than only incurred credit losses as is the case under MFRS 139. It applies to financial assets classified at amortised cost. Based on the assessments undertaken to date, the Fund does not expect any loss allowance to be recognised upon adoption of MFRS 9.

## **B. INCOME RECOGNITION**

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

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

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

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

## **C. TAXATION**

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

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

## **D. PRESENTATION AND FUNCTIONAL CURRENCY**

Items included in the financial statements of the Fund are measured using the currency as the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia (“RM”), which is the Fund’s presentation and functional currency.

## **E. FOREIGN CURRENCY TRANSLATION**

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

## **F. FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

### **i. Classification**

The Fund designates its investment in unquoted fixed income securities as financial assets at fair value through profit or loss at inception and derivatives as financial assets or financial liabilities held-for-trading, unless they are designated hedges (Note J).

Financial assets designated at fair value through profit or loss at inception are not classified as held-for-trading, but are managed, and their performance evaluated on a fair value basis.

Financial assets or financial liabilities are classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term.

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 other receivable and cash and cash equivalents.

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

The Fund's financial liabilities include amount due to Manager, accrued management fee, amount due to Trustee, GST charges payable and other payables and accruals.

## ii. Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income.

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

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

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

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

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

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

Unquoted fixed income securities are carried at cost and adjusted for any amortisation of premium or accretion of discount from acquisition date to maturity date. The carrying cost is revalued to reflect its fair value on a daily basis using the net present value method based on fair value prices quoted by a bond pricing agency ('BPA') registered with the Securities Commission as per the Securities Commission's Guidelines on Unit Trust Funds. Where such quotations are not available or where the Manager is of the view that the price quoted by the BPA for a specific unquoted fixed income securities differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager:

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

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

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

iii. Impairment for assets carried at amortised costs

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

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

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

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

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

## **G. CASH AND CASH EQUIVALENTS**

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

## H. UNIT HOLDERS' CAPITAL

The unit holders' contributions to the Fund meet the criteria to be classified as equity instruments under MFRS 132 "Financial Instruments: Presentation". Those criteria include:

- the units entitle the holder to a proportionate share of the Fund's net assets value;
- the units are the most subordinated class and class features are identical;
- there is no contractual obligations to deliver cash or another financial asset other than the obligation on the Fund to repurchase; and
- the total expected cash flows from the units over its life are based substantially on the profit or loss of the Fund.

The outstanding units are carried at the redemption amount that is payable at each financial year if unit holder exercises the right to put the unit back to the Fund.

Units are created and cancelled at prices based on the Fund's net asset value ("NAV") per unit at the time of creation or cancellation. The Fund's NAV per unit is calculated by dividing the net assets attributable to unit holders with the total number of outstanding units.

## I. SEGMENTAL INFORMATION

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

## J. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the date of statements of financial position with the resulting value discounted back to present value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held-for-trading and accounted for in accordance with the accounting policy set out in Note F to the financial statements.

## **K. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS 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 Fund's results and financial position are tested for sensitivity to changes in the underlying parameters.

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

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

The Fund uses significant judgement 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 Securities Commission Guidelines on Unit Trust Funds.

However, the Manager is of the opinion that in applying the accounting policies, no significant judgment was required.

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

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



# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD FROM 28 MARCH 2017

(LAUNCH DATE) TO 31 MAY 2018

## 1. INFORMATION ON THE FUND

Eastspring Investments Target Income Fund 6 (the “Fund”) was constituted pursuant to the execution of a Deed dated 30 May 2016 (the “Deed”) entered into between Eastspring Investments Berhad (the “Manager”) and Deutsche Trustees Malaysia Berhad (the “Trustee”).

The Fund was launched on 28 March 2017 and will continue its operations until terminated by the Trustee or the Manager as provided under Part 12 of the Deed.

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

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

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

## 2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Financial instruments of the Fund are as follows:

|                                    | Note | Loans and<br>receivables | Financial<br>assets at<br>fair value<br>through<br>profit or loss | Total              |
|------------------------------------|------|--------------------------|---|--------------------|
|                                    |      | RM                       | RM  | RM                 |
| <u>2018</u>                        |      |                          |   |                    |
| Cash and cash equivalents          | 7    | 1,077,670                | -   | 1,077,670          |
| Tax recoverable                    |      | 11,553                   | -   | 11,553             |
| Other receivable                   |      | 746                      | -   | 746                |
| Unquoted fixed income securities   | 6    | -                        | 97,777,165  | 97,777,165         |
| Forward foreign currency contracts | 8    | -                        | 11,050,532  | 11,050,532         |
|                                    |      | <u>1,089,969</u>         | <u>108,827,697</u>  | <u>109,917,666</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 31 May which are exposed to price risk:

|  | <b>2018</b>       |
|--|-------------------|
|  | <b>RM</b>         |
| Unquoted fixed income securities designated at fair value through profit or loss * | <u>97,777,165</u> |

\* Includes interest receivable of RM1,137,119.

#### Derivatives

|  |                   |
|--|-------------------|
| Forward foreign currency contracts<br>Financial asset at fair value through profit or loss | <u>11,050,532</u> |
|--|-------------------|

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

|   | <b>2018</b>         |   |
|---|---------------------|---|
| <b>% Change in price of financial assets at fair value through profit or loss</b> | <b>Market value</b> | <b>Increase/ (Decrease) in profit after tax and NAV</b> |
|   | <b>RM</b>           | <b>RM</b>   |
| +5%   | 113,075,107         | 5,384,529   |
| -5%   | 102,306,049         | <u>(5,384,529)</u>                                      |

ii. Interest rate risk

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

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

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

Investors should note that the movement in prices of unquoted fixed income securities and money market instruments are subject to interest rate fluctuations.

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

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

The table below summarises the sensitivity of the Fund's profit after tax and

NAV to movements in prices of unquoted fixed income securities and money market instruments held by the Fund at the end of the reporting period as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate changed by 1% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the interest rate, having regard to the historical volatility of the interest rate.

| <b>2018</b>  |   |
|--|---|
| <b>% Change in interest rate of unquoted fixed income securities</b> | <b>Impact on profit after tax/change in NAV</b> |
| <b>RM</b>  |   |
| +1%  | (251,102)                                       |
| -1%  | 252,185   |
|  | <hr/>   |

iii. Foreign exchange/currency risk

As the Fund may invest its assets in unquoted fixed income securities denominated in a wide range of currencies other than Ringgit Malaysia, the NAV 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 Manager will usually not hedge foreign currency exposure. The Manager may however depending on prevailing market circumstances at particular point in time, choose to use forward or swap contracts for hedging and risk reduction purposes.

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

|             | Financial assets at fair value through profit or loss | Cash and cash equivalents | Forward foreign currency contracts | Total              |
|-------------|---|---------------------------|------------------------------------|--------------------|
|             | RM  | RM                        | RM                                 | RM                 |
| <u>2018</u> |   |                           |                                    |                    |
| SGD         | 21,043,438  | 30,102                    | 1,166,490                          | 22,240,030         |
| USD         | 76,733,727  | 951,272                   | 9,884,042                          | 87,569,041         |
|             | <u>97,777,165</u>                                     | <u>981,374</u>            | <u>11,050,532</u>                  | <u>109,809,071</u> |

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

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

|             | Change in foreign exchange rate | Impact on profit after tax | Impact on NAV |
|-------------|---------------------------------|----------------------------|---------------|
|             | %                               | RM                         | RM            |
| <u>2018</u> |                                 |                            |               |
| SGD         | 5                               | 1,112,002                  | 1,112,002     |
| USD         | 5                               | 4,378,452                  | 4,378,452     |

### **Country risk**

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

### **Fund management risk**

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

### **Liquidity risk**

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

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

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining period as at the statement of financial position date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

|                             | <b>Less than<br/>1 month</b> | <b>Between<br/>1 month to<br/>1 year</b> | <b>Total</b> |
|-----------------------------|------------------------------|--|--------------|
|                             | <b>RM</b>                    | <b>RM</b>                                | <b>RM</b>    |
| <b>2018</b>                 |                              |  |              |
| Amount due to Manager       | 24,872                       | -  | 24,872       |
| Accrued management fee      | 18,844                       | -  | 18,844       |
| Amount due to Trustee       | 5,653                        | -  | 5,653        |
| GST charges payable         | 1,470                        | -  | 1,470        |
| Other payables and accruals | -                            | 45,717                                   | 45,717       |
| Contractual cash outflows   | 50,839                       | 45,717                                   | 96,556       |

### **Non-compliance risk**

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

The non-compliance may expose the Fund to higher risks which may result in a fall in the value of the Fund which in turn may affect its investment goals. However, the risk can be mitigated by the internal controls and compliance monitoring undertaken by the Manager.

### **Capital risk**

The capital of the Fund is represented by equity consisting of unit holders' capital of RM107,239,328 and retained earnings of RM2,581,782. The amount of equity can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unit holders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.



### **Credit/default risk**

Credit risk refers to the ability of an issuer or a counter party to make timely payments of interest, principals and proceeds from realisation of investments. In the case of the Fund, both the Manager and the External Fund Manager regularly review the ratings assigned to the Issuer so that the necessary steps can be taken if the ratings fall below those prescribed by the 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 Fund seeks to mitigate credit/default risk by investing in high quality fixed income securities and entering into forward currency contracts with reputable counterparties.

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

|  | Cash<br>and cash<br>equivalents | Financial<br>assets at<br>fair value<br>through<br>profit or loss | Other<br>receivable | Total              |
|--|---------------------------------|---|---------------------|--------------------|
|  | RM                              | RM  | RM                  | RM                 |
| <b>2018</b>                              |                                 |   |                     |                    |
| Finance                                  |                                 |   |                     |                    |
| - AA1                                    | 1,077,670                       | -   | -                   | 1,077,670          |
| Unquoted<br>fixed income<br>securities   |                                 |   |                     |                    |
| - B                                      | -                               | 1,474,671   | -                   | 1,474,671          |
| - B-                                     | -                               | 7,337,057   | -                   | 7,337,057          |
| - B+                                     | -                               | 4,535,753   | -                   | 4,535,753          |
| - Ba3                                    | -                               | 1,935,728   | -                   | 1,935,728          |
| - Baa1                                   | -                               | 7,961,967   | -                   | 7,961,967          |
| - Baa3                                   | -                               | 19,016,532  | -                   | 19,016,532         |
| - BB                                     | -                               | 3,426,521   | -                   | 3,426,521          |
| - BB-                                    | -                               | 2,214,572   | -                   | 2,214,572          |
| - BB+                                    | -                               | 12,444,255  | -                   | 12,444,255         |
| - BBB                                    | -                               | 19,586,708  | -                   | 19,586,708         |
| - BBB-                                   | -                               | 2,248,731   | -                   | 2,248,731          |
| - NR                                     | -                               | 15,594,670  | -                   | 15,594,670         |
| Forward foreign<br>currency<br>contracts |                                 |   |                     |                    |
| - AAA                                    | -                               | 11,050,532  | -                   | 11,050,532         |
| Other                                    |                                 |   |                     |                    |
| - NR                                     | -                               | -   | 746                 | 746                |
|  | <u>1,077,670</u>                | <u>108,827,697</u>  | <u>746</u>          | <u>109,906,113</u> |

None of these assets are past due or impaired.

## **Fair value estimation**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

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

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each period end date. Valuation techniques used for non-standardised financial instruments such as options, currency swaps and other over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

## Fair value hierarchy

- i. The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:
- Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities.
  - Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
  - Level 3: Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

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

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

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

|   | Level 1 | Level 2    | Level 3 | Total      |
|---|---------|------------|---------|------------|
|   | RM      | RM         | RM      | RM         |
| <b>2018</b>   |         |            |         |            |
| Financial assets at fair value through profit or loss at inception: |         |            |         |            |
| Unquoted fixed income securities                                    | -       | 97,777,165 | -       | 97,777,165 |
| Forward foreign currency contracts                                  | -       | 11,050,532 | -       | 11,050,532 |

Financial instruments that trade in markets that are considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include unquoted fixed income securities and derivatives. As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. The Fund's policies on valuation of these financial assets are stated in Note F to the financial statements.

- ii. The carrying value of other receivable, 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 0.20% per annum of the net asset value of the Fund accrued and calculated on a daily basis.

For the financial period ended 31 May 2018, the Management fee is recognised at a rate of 0.20% per annum on the net asset value of the Fund, excluding foreign custodian charges, calculated on daily basis.

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

### **4. TRUSTEE FEE**

In accordance with the Deed, the Trustee is entitled to an annual fee at a rate not exceeding 0.06% per annum of the net asset value of the Fund, subject to a minimum fee of RM15,000 per annum (excluding foreign custodian fees and charges).

For the financial period ended 31 May 2018, the Trustee fee is recognised at a rate of 0.06% per annum on the net asset value of the Fund, excluding foreign custodian charges, calculated on daily basis.

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

**5. TAXATION**

|                                       | <b>Financial<br/>period from<br/>28.3.2017<br/>(launch date)<br/>to 31.5.2018</b> |
|---------------------------------------|---|
|                                       | <b>RM</b>   |
| Tax charged for the financial period: |   |
| Current taxation                      | <u>6,047</u>  |

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

|  | <b>Financial<br/>period from<br/>28.3.2017<br/>(launch date)<br/>to 31.5.2018</b> |
|--|---|
|  | <b>RM</b>   |
| Profit before taxation   | <u>2,587,829</u>  |
| Tax at Malaysian statutory rate of 24%                         | 621,079   |
| Tax effects of:  |   |
| Investment income exempt from tax                              | (713,458)   |
| Expenses not deductible for tax purposes                       | 39,128  |
| Restriction on tax deductible expenses<br>for Unit Trust Funds | <u>59,298</u>   |
| Taxation   | <u>6,047</u>  |

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

|  | <b>2018</b>         |
|--|---------------------|
|  | <b>RM</b>           |
| Designated at fair value through profit or loss at inception:      |                     |
| Unquoted fixed income securities                                   | <u>97,777,165</u>   |
| Net loss on financial assets at fair value through profit or loss: |                     |
| Realised loss on disposals   | (2,664,114)         |
| Change in unrealised fair value loss                               | <u>(11,022,812)</u> |
|  | <u>(13,686,926)</u> |



## Unquoted fixed income securities

| Name of counter  | Nominal value | Aggregate cost | Fair value as at 31.5.2018 | Percentage of net asset value of the Fund |
|--|---------------|----------------|----------------------------|---|
|  | RM            | RM             | RM                         | %   |
| <b>Bond</b>  |               |                |                            |   |
| 6.875% Agile Group Holdings Ltd 07.03.2023 (Ba3)                                     | 200,000       | 783,788        | 756,649                    | 0.69                                      |
| 9.75% Anton Oilfield Services Group 05.12.2020 (B-)                                  | 200,000       | 850,367        | 875,293                    | 0.80                                      |
| 5.95% APL Realty Holdings Pte. Ltd. 02.06.2024 (B+)                                  | 300,000       | 1,324,827      | 1,043,682                  | 0.95                                      |
| 5.20% Ara Asset Management Limited 19.07.2022 (NR)                                   | 1,750,000     | 5,542,601      | 5,169,827                  | 4.71                                      |
| 8.75% China Evergrande Group 28.06.2025 (B-)   | 1,000,000     | 4,433,432      | 3,807,692                  | 3.47                                      |
| 7.50% China Evangrande Group 28.06.2023 (B-)   | 700,000       | 3,088,609      | 2,654,072                  | 2.42                                      |
| 4.05% Dianjian Haixing Limited 21.10.2019 (Baa1)                                     | 2,000,000     | 7,863,351      | 7,961,967                  | 7.25                                      |
| 3.375% Hong Kong Red Star Macalline Universal Home Furnishings Ltd 21.09.2022 (BBB-) | 300,000       | 1,258,270      | 1,123,756                  | 1.02                                      |
| 6.00% HSBC Holdings Plc 22.05.2027 (BBB)   | 1,800,000     | 7,786,741      | 6,859,226                  | 6.25                                      |
| 4.70% HSBC Holdings Plc 08.06.2022 (BBB)   | 3,500,000     | 11,072,309     | 10,708,095                 | 9.75                                      |
| 6.25% HSBC Holdings Plc 23.03.2023 (BBB)   | 500,000       | 1,980,981      | 2,019,387                  | 1.84                                      |
| 5.875% Indika Energy Capital III Pte. Ltd 09.11.2024 (B+)                            | 200,000       | 842,954        | 748,731                    | 0.68                                      |

## Unquoted fixed income securities (continued)

| Name of counter   | Nominal value | Aggregate cost | Fair value as at 31.5.2018 | Percentage of net asset value of the Fund |
|---|---------------|----------------|----------------------------|---|
|   | RM            | RM             | RM                         | %   |
| <b>Bond</b>   |               |                |                            |   |
| 8.25% Jiayuan International Group Limited 14.11.2018 (NR)       | 300,000       | 1,261,376      | 1,193,301                  | 1.09                                      |
| 8.125% Jiayuan International Group Limited 17.01.2019 (NR)      | 400,000       | 1,635,313      | 1,638,948                  | 1.49                                      |
| 7.00% Lippo Malls Indonesia Retail Trust 27.09.2021 (NR)        | 1,000,000     | 3,222,842      | 2,950,944                  | 2.69                                      |
| 6.125% Logan Property Holdings Company Limited 16.04.2021 (BB-) | 750,000       | 2,231,835      | 2,214,572                  | 2.02                                      |
| 7.00% Maoye International Holdings Limited 23.10.2018 (NR)      | 700,000       | 2,825,583      | 2,808,114                  | 2.56                                      |
| 5.625% Minejesa Capital B.V. 10.08.2037 (BBB-)                  | 300,000       | 1,305,298      | 1,124,975                  | 1.02                                      |
| 6.95% Modernland Overseas Pte. Ltd. 13.04.2024 (B)              | 400,000       | 1,738,479      | 1,474,671                  | 1.34                                      |
| 5.50% Nan Fung Treasury (II) Limited 29.05.2020 (Baa3)          | 4,500,000     | 19,319,470     | 15,445,082                 | 14.06                                     |
| 5.00% New Metro Global Ltd 08.08.2022 (BB)                      | 200,000       | 868,184        | 727,126                    | 0.66                                      |
| 5.75% NWD Finance (BVI) Ltd 05.10.2021 (NR)                     | 300,000       | 1,304,849      | 1,068,373                  | 0.97                                      |
| 5.875% Royal Capital B.V. 05.05.2022 (NR)                       | 200,000       | 800,376        | 765,163                    | 0.70                                      |
| 7.75% SSMS Plantation Holdings Pte Ltd 23.01.2023 (B+)          | 300,000       | 1,213,605      | 1,162,140                  | 1.06                                      |

## Unquoted fixed income securities (continued)

| Name of counter  | Nominal value | Aggregate cost | Fair value as at 31.5.2018 | Percentage of net asset value of the Fund |
|--|---------------|----------------|----------------------------|---|
|  | RM            | RM             | RM                         | %   |
| <b>Bond</b>  |               |                |                            |   |
| 5.625% The Bank Of East Asia Limited 18.05.2022 (BB)                 | 700,000       | 3,046,456      | 2,699,395                  | 2.46                                      |
| 6.75% The Democratic Socialist Republic Of Sri Lanka 18.04.2028 (B+) | 200,000       | 781,415        | 791,075                    | 0.72                                      |
| 5.75% The Democratic Socialist Republic Of Sri Lanka 18.04.2023 (B+) | 200,000       | 780,464        | 790,125                    | 0.72                                      |
| 5.125% Turkiye Cumhuriyeti Ziraat Bankasi 29.09.2023 (BB+)           | 500,000       | 2,104,179      | 1,795,224                  | 1.63                                      |
| 6.125% Turkiye Garanti Bankasi AS 24.05.2022 (BB+)                   | 500,000       | 2,110,683      | 1,822,344                  | 1.66                                      |
| 5.00% Westpac Banking Corporation 21.09.2027 (BB+)                   | 2,500,000     | 10,610,811     | 8,826,687                  | 8.04                                      |
| 5.25% Wisdom Glory Group Ltd 19.07.2020 (Ba3)                        | 300,000       | 1,310,573      | 1,179,079                  | 1.07                                      |

## Unquoted fixed income securities (continued)

| Name of counter | Nominal value | Aggregate cost | Fair value as at 31.5.2018 | Percentage of net asset value of the Fund |
|-----------------|---------------|----------------|----------------------------|---|
|                 | RM            | RM             | RM                         | %   |

**Bond**

4.75% Yuexiu Reit MTN  
Company Limited  
27.04.2021 (Baa3)

|                   |                    |                   |              |
|-------------------|--------------------|-------------------|--------------|
| 900,000           | 3,499,956          | 3,571,450         | 3.25         |
| <u>27,600,000</u> | <u>108,799,977</u> | <u>97,777,165</u> | <u>89.04</u> |

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

(11,022,812)

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

97,777,165

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

|                                  | 2018        |
|----------------------------------|-------------|
|                                  | %           |
| Unquoted fixed income securities | <u>7.25</u> |

## 7. CASH AND CASH EQUIVALENTS

|               | <b>2018</b>      |
|---------------|------------------|
|               | <b>RM</b>        |
| Bank balances | <u>1,077,670</u> |

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

|       | <b>2018</b>      |
|-------|------------------|
|       | <b>RM</b>        |
| - MYR | 96,296           |
| - SGD | 30,102           |
| - USD | 951,272          |
|       | <u>1,077,670</u> |

## 8. FORWARD FOREIGN CURRENCY CONTRACTS

As at the date of statement of financial position, there are 17 forward foreign currency contracts outstanding. The notional principal amount of the outstanding forward foreign currency contracts amounted to RM11,050,532 (financial asset). The forward foreign currency contracts entered into during the financial period were for hedging against the currency exposure arising from the investment in the foreign unquoted fixed income securities denominated in SGD and USD. As the Fund has not adopted hedge accounting during the financial period, the change in the fair value of the forward currency contract is recognised immediately in the statement of comprehensive income.

## 9. UNITS IN CIRCULATION

|   | <b>2018</b>         |
|---|---------------------|
|   | <b>No. of units</b> |
| At the launch date  | -                   |
| Creation of units from applications during the financial period | 113,580,925         |
| Cancellation of units during the financial period               | <u>(6,302,484)</u>  |
| At the end of the financial period                              | <u>107,278,441</u>  |

## 10. TRANSACTIONS WITH BROKERS/DEALERS

Details of transactions with the top 10 brokers/dealers for the financial period from 28 March 2017 (launch date) to 31 May 2018 are as follows:

| Name of<br>brokers/dealers                                       | Value<br>of trades | Percentage<br>of total<br>trades | Brokerage<br>fees | Percentage<br>of total<br>brokerage<br>fees |
|--|--------------------|----------------------------------|-------------------|---|
|  | RM                 | %                                | RM                | %   |
| <u>2018</u>  |                    |                                  |                   |   |
| HSBC Singapore<br>Oversea-Chinese Banking<br>Corporation Limited | 59,554,047         | 29.74                            | -                 | -   |
| DBS Bank Limited   | 18,270,005         | 9.12                             | -                 | -   |
| Citibank N.A.  | 16,117,685         | 8.05                             | -                 | -   |
| UBS AG London  | 12,371,908         | 6.18                             | -                 | -   |
| BNP Paribas London<br>Branch                                     | 11,789,147         | 5.89                             | -                 | -   |
| Barclay PLC  | 11,013,463         | 5.50                             | -                 | -   |
| Credit Suisse First Boston<br>Corp                               | 10,719,937         | 5.35                             | -                 | -   |
| Merrill Lynch Int Ltd<br>(London)                                | 8,980,323          | 4.48                             | -                 | -   |
| Standard Chartered Bank<br>Limited                               | 8,209,900          | 4.10                             | -                 | -   |
| Others   | 7,864,083          | 3.93                             | -                 | -   |
|  | 35,373,875         | 17.66                            | -                 | -   |
|  | <u>200,264,373</u> | <u>100.00</u>                    | -                 | -   |

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

## 11. UNITS HELD BY THE MANAGER

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

| <b>Related party</b>          | <b>Relationship</b> |
|-------------------------------|---------------------|
| Eastspring Investments Berhad | The Manager         |

|                               | <b>2018</b>         |           |
|-------------------------------|---------------------|-----------|
|                               | <b>No. of units</b> | <b>RM</b> |
| Eastspring Investments Berhad | 1,000               | 1,024     |

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.

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

|     | Financial<br>period from<br>28.3.2017<br>(launch date)<br>to 31.5.2018 |
|-----|--|
|     | %  |
| MER | <u>0.39</u>  |

MER is derived from the following calculation:

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

A = Management fee

B = Trustee fee

C = Audit fee

D = Tax agent fee

E = Other expenses (inclusive of GST charges)

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

The average net asset value of the Fund for the financial period calculated on a daily basis is RM104,646,067.



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

|             | <b>Financial<br/>period from<br/>28.3.2017<br/>(launch date)<br/>to 31.5.2018</b> |
|-------------|---|
| PTR (times) | <u>0.96</u>   |

PTR is derived from the following calculation:

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

where:

total acquisitions for the financial period = RM155,263,333

total disposals for the financial period = RM45,001,040

**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 chief operating decision-maker is responsible for the performance of the Fund and considers the business to have a single operating segment located in Malaysia. Asset allocation decisions are based on a single, integrated investment strategy and the Fund’s performance is evaluated on an overall basis.

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

## **15. COMPARATIVES**

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

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

The financial statements have been approved for issue by the Manager on 16 July 2018.

## CORPORATE DIRECTORY

### **THE MANAGER**

NAME

EASTSPRING INVESTMENTS BERHAD

COMPANY NO.

531241-U

REGISTERED OFFICE

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

Jalan Raja Laut

50350 Kuala Lumpur

BUSINESS OFFICE

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603-2070 6129

EMAIL

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WEBSITE

www.eastspringinvestments.com.my

### **TRUSTEE**

NAME

DEUTSCHE TRUSTEES MALAYSIA BERHAD

COMPANY NO.

763590-H

REGISTERED OFFICE & BUSINESS OFFICE

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FAX NO.

603-2053 7526

### **SALE & PURCHASE OF UNITS**

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FAX NO.

603-2052 3366

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**Petaling Jaya**

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**ENQUIRIES**

CLIENT SERVICES

603-2332 1000

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