

**RHB INCOME FUND 2**

**SEMI-ANNUAL REPORT 2023**

For the financial period ended 30 September 2023

## GENERAL INFORMATION ABOUT THE FUND

### Name, Category and Type

Fund Name - RHB Income Fund 2

Fund Category - Bond Fund

Fund Type - Income

### Investment Objective, Policy and Strategy

#### Objective of the Fund

This Fund aims to provide investors with higher than average income<sup>^</sup> returns compared to fixed deposits over a medium to long term\* period through investments in a portfolio of predominantly quality fixed income securities with minimum risk to capital invested.

Note: \* “medium to long term” in this context refers to a period of between 3-7 years.

<sup>^</sup> The income is in the form of units.

#### Strategy

This Fund seeks to achieve its investment objective by investing substantially all of its assets in fixed income securities (comprising amongst others of convertible debt securities, redeemable debt securities, bonds/securities that are issued and/or guaranteed by the government or quasi-government agencies, corporate bonds carrying at least BBB ratings by any Domestic Rating Agencies or its equivalent rating by a reputable rating establishment and fixed income collective investments schemes), money market instruments, cash and deposits with any financial institutions. At least 60% of Net Asset Value will be invested in bonds. Although the Fund is actively managed, how active or the frequency of its trading strategy will very much depend on market opportunities.

For investments in foreign markets, the Manager in managing the principal risks such as country risk and currency risk will always take into consideration its evaluation of the historical developments and its prior experience in such markets. Such practice will be managed through active management and constant review of the economic and political developments of the countries invested. Investments will ultimately be made based on risk-reward.

The risk management strategies and techniques employed by the Manager include diversification of the Fund’s investments in terms of its exposure to various industries, sectors and asset classes and/or type of investments (i.e. fixed income securities and money market instruments). Financial derivatives may also be used for hedging purposes where appropriate. Generally, the assets of the Fund will be invested over a

medium to long term period with disposal of the investments when necessary to control risk as well as to optimise capital gains. The Fund also complies with the permitted investments and restrictions imposed by the Securities Commission. Adherence to these permitted investments and restrictions also helps the Manager to risk-manage the Fund’s portfolio in terms of diversification. Moreover, the Manager in making its investment decisions shall at all times comply with the investment restrictions of the Fund and requirements as set out in the Deed.

## Performance Benchmark

Effective from 28 April 2023, the performance of the Fund is benchmarked against RHB Bank Berhad’s 12-month fixed deposit rate.

Prior to 28 April 2023, the performance of the Fund is benchmarked against the 12-month Fixed Deposit Rate as published by Malayan Banking Berhad (“Maybank”).

## Permitted Investments

This Fund may invest in fixed income securities traded on the Bursa Malaysia or any other market considered as an eligible market, collective investment schemes, financial derivatives, structured products, liquid assets (including money market instruments and deposits with any financial institutions), and any other investments permitted by the Securities Commission Malaysia from time to time.

## Distribution Policy

Consistent with the Fund’s objective to provide investors with higher than average income returns compared to fixed deposits, the Fund will distribute a substantial portion of its returns to unit holders. Distributions, if any, after deduction of taxation and expenses, are generally declared annually and will be reinvested.

## Notification of Changes

In addition to the changes mentioned in the letter dated 27 April 2023, below are the remaining changes: -

### General

The references to “interim report(s)”, “Shariah-compliant liquid assets” and “debenture” wherever they appear in the Prospectuses will be amended to “semi-annual report(s)”, “Islamic liquid assets” and “fixed income securities”.

The reference to “(structured deposit)” wherever they appear in the Prospectuses is hereby deleted in its entirety.

### “DEFINITIONS”

Domestic Agency/(ies)	Rating	Local credit assessment institutions that are recognised by the Securities Commission Malaysia.
Eligible Market		An exchange, government securities market or an over-the-counter market that is regulated by a regulatory authority of that jurisdiction; that is open to the public or to a substantial number of market participants; and on which financial instruments are regularly traded.
EPF-MIS		Employees Provident Fund – Members’ Investment Scheme.
FBM Second Board Index		Deleted
financial institution(s)		(a) If the institution is in Malaysia –

	(i) licensed bank or licensed investment bank as defined under the Financial Services Act 2013; or (ii) licensed Islamic bank as defined under the Islamic Financial Services Act 2013; or (b) If the institution is outside Malaysia, any institution that is licensed, registered, approved or authorised by the relevant banking regulator to provide financial services.
Global Agency/(ies) Rating	Global credit assessment institutions that are recognised in line with the relevant laws.
Guidelines	Guidelines on Unit Trust Funds issued by the Securities Commission including all amendments and/or revision thereto issued by the Securities Commission and any other relevant guidelines issued by the Securities Commission.
IUTA(s)	Institutional Unit Trust Scheme Adviser(s).
KLIBOR	Deleted
US Person	A US Person as defined in Section 7701 (a) (30) of the Internal Revenue Code and includes an individual who is a citizen or resident of the United States of America.

#### **Chapter 1 – Fund Information, Section 1.6.6 – Collective Investment Schemes**

The Manager will only make such investments where the Manager expects those investments to complement the objective and enhance the performance of this Fund. In addition, the Manager will only make such investments if the collective investment scheme is authorised or recognised by the Securities Commission, or is registered/authorised/approved by the relevant regulatory authority in its home jurisdiction as the case may be and which operates within the general investment principles of the Guidelines. The Fund's investments in collective investment schemes (if any) shall always be subject to the restrictions stipulated in Section 1.6.12 (h), (i), (m) and (q).

#### **Chapter 1 – Fund Information, Section 1.6.7 – Financial Derivatives**

The Manager may participate in futures contracts and other financial derivatives, when appropriate. The category of financial derivatives to be participated in shall be interest rates futures contracts and bonds futures contracts or any other categories and/or types of futures contracts or financial derivatives that may be allowable by the relevant authorities from time to time. The Fund's participation in financial derivatives is to hedge the portfolio from any unexpected interest rate movement in the underlying fixed income market and also the portfolio's exposure to foreign currency as well as to hedge against any opportunity loss arising from its uninvested cash. The benefit of any upside of interest rate movement in the underlying fixed income market or currency movement is limited as the primary interest is to protect the value of the portfolio. When participating in such instruments, the Manager will monitor the financial derivatives' valuation and credit ratings of the financial institutions as counterparty to the financial derivatives, where applicable and take appropriate actions to mitigate any risk associated with such financial derivatives. This may extend to unwinding of the financial derivatives in the event where there is a need to terminate current position due to reversal in market movement, redemptions in Units or upon downgrade of the credit ratings of the financial institutions. Commitment approach is used to calculate the Fund's net market exposure. It is calculated as the sum of the (a) absolute value of the exposure of each individual financial derivative not involved in netting or hedging arrangements; (b) absolute value of the net exposure of each individual financial derivative after netting or hedging arrangements; and (c) the values of cash collateral received pursuant to the reduction of exposure to counterparties of OTC financial derivatives. The Fund's investment holding in financial derivatives (if any) shall always be subject to the restrictions stipulated in Section 1.6.12 (d), (n), (o) and (p).

#### **Chapter 1 – Fund Information, Section 1.6.8 – Structured Products**

The Manager may also invest in structured products where the Manager expects those investments to complement the objective and enhance the performance of the Fund.

#### **Chapter 1 – Fund Information, Section 1.6.9 – Foreign Debentures/Instruments, first paragraph**

The Manager may invest up to 30% of the Net Asset Value in fixed income securities of Eligible Markets.

#### **Chapter 1 – Fund Information, Section 1.6.12 – Permitted Investment and Restrictions**

This Fund may invest in fixed income securities traded on the Bursa Malaysia or any other market considered as an Eligible Market, collective investment schemes, financial derivatives, structured products, liquid assets (including money market instruments and deposits with any financial institutions) and any other investments permitted by the Securities Commission from time to time.

The acquisition of such permitted investments is subject to the following restrictions:

- a) The value of the Fund's investments in transferable securities and money market instruments issued by any single issuer must not exceed twenty (20) per cent of the Fund's Net Asset Value ("single issuer limit"), or any other limit as may be prescribed by the Securities Commission from time to time.
- b) The value of the Fund's investments in transferable securities and money market instruments issued by any group of companies must not exceed thirty (30) per cent of the Fund's Net Asset Value ("group limit"), or any other limit as may be prescribed by the Securities Commission from time to time.
- c) The aggregate value of the Fund's investments in, or exposure to, a single issuer through transferable securities, money market instruments, deposits, underlying assets of derivatives and counterparty exposure arising from the use of OTC derivatives must

not exceed twenty-five (25) per cent of the Fund's Net Asset Value ("single issuer aggregate limit"), or any other limit as may be prescribed by the Securities Commission from time to time.

- d) The single issuer limit in paragraph (a) may be increased to thirty (30) per cent of the Fund's Net Asset Value if the fixed income securities is rated by any Malaysian or global rating agency to have the highest long-term credit rating. Where the single issuer limit is increased to thirty (30) per cent of the Fund's Net Asset Value, the single issuer aggregate limit of twenty-five (25) per cent of the Fund's Net Asset Value in paragraph (c) may be raised to thirty (30) per cent of the Fund's Net Asset Value, or any other limit as may be prescribed by the Securities Commission from time to time.
- e) The single issuer limit in paragraph (a) may be raised to thirty-five (35) per cent of the Fund's Net Asset Value if the issuing entity is, or the issue is guaranteed by, either a foreign government, foreign government agency, foreign central bank or supranational, that has a minimum long term credit rating of investment grade (including gradation and subcategories) by an international rating agency. Where the single issuer limit is increased to thirty-five (35) per cent of the Fund's Net Asset Value, the single issuer aggregate limit in paragraph (c) may be raised, subject to the group limit in paragraph (b) not exceeding thirty-five (35) per cent of the Fund's Net Asset Value.
- f) The value of the Fund's placement in deposits with any single financial institution must not exceed twenty (20) per cent of the Fund's Net Asset Value, or any other limit as may be prescribed by the Securities Commission from time to time.
- g) The value of the Fund's investments in units or shares of a collective investment scheme must not exceed twenty (20) per cent of the Fund's Net Asset Value, provided that the collective investment scheme complies with paragraphs (p)(i), (ii) or (iii), excluding collective investment scheme that invests in real estate, or any other limit as may be prescribed by the Securities Commission from time to time.
- h) The value of the Fund's investments in units or shares of a collective investment scheme that invests in real estate pursuant to paragraph (p)(iii) must not exceed fifteen (15) per cent of the Fund's Net Asset Value, or any other limit as may be prescribed by the Securities Commission from time to time.
- i) The single financial institution limit in paragraph (f) does not apply to placements of deposits arising from:
  - (i) subscription monies received prior to the commencement of investment by the Fund;
  - (ii) liquidation of investments prior to the termination of the Fund, where the placement of deposits with various financial institutions would not be in the best interests of Unit Holders; or
  - (iii) monies held for the settlement of redemption or other payment obligations, where the placement of deposits with various financial institutions would not be in the best interest of Unit Holders.
- j) The Fund's investments in fixed income securities must not exceed twenty (20) per cent of the fixed income securities issued by a single issuer, or any other limit as may be prescribed by the Securities Commission from time to time. This limit may be disregarded at the time of acquisition if at that time of acquisition, the gross amount of fixed income securities in issue cannot be determined.
- k) The Fund's investments in money market instruments must not exceed ten (10) per cent of the instruments issued by any single issuer, or any other limit as may be prescribed by the Securities Commission from time to time. This limit does not apply to money market instruments that do not have a pre-determined issue size.
- l) The Fund's investments in collective investment scheme must not exceed twenty-five (25) per cent of the units or shares in the collective investment scheme, or any other limit as may be prescribed by the Securities Commission from time to time.
- m) The counterparty of an OTC financial derivatives must be a financial institution with a minimum long-term credit rating of investment grade (including gradation and subcategories). Subject to the aggregate limit as stipulated in Schedule B of the Guidelines, the maximum exposure of the Fund to the counterparty must not exceed ten (10) per cent of the Fund's Net Asset Value, or any other limit as may be prescribed by the Securities Commission from time to time based on the maximum potential loss that may be incurred by the Fund if the counterparty defaults and not on the basis of the notional value of the OTC financial derivatives. The total exposure to a single counterparty is calculated by summing the exposure arising from all OTC financial derivatives transactions entered into with the same counterparty.
- n) The Fund's exposure to the underlying assets (vide the financial derivatives) must not exceed the investment limits and restrictions applicable to such underlying assets as stipulated in Schedule B of the Guidelines, or any other limit as may be prescribed by the Securities Commission from time to time.
- o) The Fund's global exposure from its financial derivatives positions must not exceed the Fund's Net Asset Value at all times, or any other limit as may be prescribed by the Securities Commission from time to time.
- p) The Fund may invest in other collective investment scheme that fall within the following categories:
  - (i) a collective investment scheme authorised or recognised by the Securities Commission; or
  - (ii) a collective investment scheme that meets the following criteria:
    - the collective investment scheme is constituted and regulated in a jurisdiction where the laws and practices provide the level of investor protection that is at least equivalent to that offered in Malaysia;

- the rules on investments, borrowing and lending are substantially similar to the requirements in the Guidelines. This would exclude hedge funds;
  - the assets of the collective investment scheme are managed by an entity which is approved, authorised or licensed by a securities regulator to conduct fund management activities; and
  - the business of the collective investment scheme is reported in half-yearly and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period; or
- (iii) a collective investment scheme that meets the following criteria:
- the collective investment scheme invests in permissible investments under the Guidelines, physically-backed metal exchange traded funds that comply with the Guidelines, or real estate;
  - the collective investment scheme meets the criteria imposed on transferable securities as prescribed under the Guidelines;
  - the units or shares in the collective investment scheme are listed for quotation and traded on a stock exchange that is an Eligible Market; and
  - the collective investment scheme is not an inverse or leveraged product.

The limits and restrictions mentioned herein must be complied with at all times based on the most up-to-date value of the Fund's investments. The Manager must notify the Securities Commission within seven (7) Business Days of any breach of investment limits and restrictions with the steps taken to rectify and prevent such breach from recurring. However, any breach as a result of (a) appreciation or depreciation in value of the Fund's investments; (b) repurchase of Units or payment made from the Fund; (c) change in capital of a corporation in which the Fund has invested in; or (d) downgrade in or cessation of a credit rating, need not be reported to the Securities Commission but must be rectified as soon as practicable within three (3) months from the date of the breach unless otherwise specified in the Guidelines. The three (3) -month period may be extended if it is in the best interest of the Unit Holders and the Trustee's consent is obtained. Such extension must be subject to at least a monthly review by the Trustee. The limits and restrictions in this Section 1.6.12, however, do not apply to securities or instruments that are issued or guaranteed by the Malaysian government or Bank Negara Malaysia.

Note: If the Fund is eligible to be invested via the EPF-MIS and you transfer your moneys from your EPF account to invest in the Fund, the investments made by the Fund as well as your investment in the Fund from your EPF account will be subject to the EPF's requirements. Please refer to the website at <http://www.kwsp.gov.my> for updated information.

## Chapter 2 – Risk Factors, Section 2.1 – General Risks of Investing in Unit Trusts, item d) Loan/ Financing Risk

Investors should assess the inherent risk of investing with borrowed money or through financing facility which would include the following:

- i) the ability to service the loan repayments or financing instalments and the effect of increase in interest rates or profit rates on the loan repayments or financing instalments; and
- ii) (in a case where Units of the Fund are used as collateral to the loan or financing instalments) the ability to provide additional collateral should the Unit prices of the Fund fall beyond a certain level,

failing which, the investors' Units may be sold off to realise the proceeds towards settlement of the outstanding loan or financing instalments taken.

Islamic unit trust fund's investors are advised to seek Islamic financing to finance their acquisition.

[Please see Unit Trust Loan Financing Risk Disclosure Statement in the application form]

## Chapter 3 – Valuation of Assets

<b>Equity Trust*</b>	<b>SCOUT*</b>	<b>KidSave*</b>	<b>Tracker</b>
<b>Dana Islam*</b>	<b>Income Fund*</b>	<b>EOUT*</b>	<b>GIFT*</b>
<b>TGF</b>	<b>MDIV</b>	<b>CASH</b>	<b>Dana Hazeem*</b>

\*Funds with mandates investing in foreign markets

The Fund must be valued at least once every Business Day. However, certain foreign markets in which the Fund may invest in have different time zones from that of Malaysia.

Accordingly, for Funds investing solely in the local market, the valuation of the respective Funds for a Business Day will be conducted at the close of Bursa Malaysia for that Business Day. Thus, the daily price of the Fund for a particular Business Day will be published online on the Manager's website on the next day, with the exception of **CASH**, whose price shall be the Net Asset Value per Unit as at the valuation point of the Fund immediately preceding the Fund's relevant Business Day when the request for Units of the Fund is received by the Manager ("historical pricing"). [Please refer section 5.2 (Computation of Purchase of Units – **CASH**)].

For Funds which have investments in foreign markets, the valuation of the respective Funds for a Business Day will be conducted by 5.00 pm (or such other time as may be determined by the Manager from time to time) on the following day on which the Manager is open for business.

Accordingly, the price of the Fund for a particular Business Day will not be published online on the Manager's website on the next day but will instead be published the next following day (i.e. price will be two (2) days old). This will be specifically indicated on the Manager's website.

#### Illustration (for Funds investing in foreign markets)

When markets are closed for trading on 18 April 2023 (Tuesday), the valuation date will be the next day on which the Manager is open for business, i.e. 19 April 2023 (Wednesday). Thus, the publication date for the price as at 18 April 2023 (Tuesday) will be on 20 April 2023 (Thursday) on the Manager's website.

Investors may obtain the most current computed price by contacting the Manager directly or visiting the Manager's website, **www.rhbgroup.com** [please refer to section 5.5 (g) (Availability of Information on Investment)].

In undertaking any of the Fund's investments, the Manager will ensure that all the assets of the respective Funds will be valued at fair value and at all times in compliance with the relevant laws (including approved accounting standards).

Accordingly, where applicable:

- (i) Listed securities / Shariah-compliant securities
- (ii) Listed securities / Shariah-compliant securities will be valued daily based on the last done market price or such other basis as may be prescribed by the relevant laws from time to time including approved accounting standards.

However, if: -

- (a) a valuation based on the market price does not represent the fair value of the listed securities / Shariah-compliant securities, for example during abnormal market conditions; or
- (b) no market price is available, including in the event of a suspension in the quotation of the listed securities / Shariah-compliant securities for a period exceeding fourteen (14) days, or such shorter period as agreed by the Trustee,

then the listed securities / Shariah-compliant securities would be valued at fair value, as determined in good faith by the Manager based on the methods or bases approved by the Trustee after appropriate technical consultation.

- (iii) Unlisted fixed income securities / sukuk

Investments in unlisted fixed income securities / sukuk denominated in Ringgit Malaysia will be valued on a daily basis by reference to the prices quoted by a bond pricing agency (BPA) registered with the Securities Commission. However, where quotations are not available, such unlisted fixed income securities / sukuk will generally be valued on a weekly basis or as and when appropriate, by reference to the average indicative yield quoted by three independent and reputable financial institutions in OTC market at the close of trading. These institutions include investment banks and commercial banks dealing in fixed income securities / sukuk.

Investments in foreign unlisted fixed income securities / sukuk are valued daily using the Bloomberg Generic Price (BGN) provided by Bloomberg. Where BGN prices are not available on any Business Day, these fixed income securities / sukuk will be valued by reference to the average indicative yield quoted by three independent and reputable financial institutions.

In a case where the Manager is of the view that the price quoted by BPA or the BGN price for a specific unlisted fixed income security / sukuk differs from the market price (i.e., the Manager's view of the market yield) 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 or non BGN price, obtains necessary internal approvals to use the non BPA price or non BGN price and keeps an audit trail of all decisions and basis for adopting its own view of the market price.

However, when the Manager, after taking all reasonable efforts, is unable to obtain quotations from BPA or any BGN price or quotations from three independent and reputable financial institutions due to circumstances such as extreme market conditions, such unlisted fixed income securities / sukuk (denominated in Ringgit Malaysia and denominated in foreign currencies) will be valued according to an alternative method determined in good faith by the Manager, which has been verified by the auditor of the Fund and approved by the Trustee provided that the Manager records its basis for using the alternative method, obtains necessary internal approvals to use the alternative method and keeps an audit trail of all decisions and basis for adopting the alternative method. Any alternative method shall be consistently applied unless advised otherwise by the auditors of the Fund and the Trustee.

- (iv) Unlisted securities / Shariah-compliant unlisted securities

Investments in unlisted securities / Shariah-compliant unlisted securities will be valued at the cost price of each investment until the securities / Shariah-compliant securities of the investee companies are successfully listed on a recognised stock

exchange, upon which quoted prices will be available and valuation will be based on the last done market price or such other basis as may be prescribed by the relevant laws from time to time including approved accounting standards.

(v) Collective investment schemes / Islamic collective investment schemes

Collective investment schemes / Islamic collective investment schemes which are quoted on an approved exchange shall be valued in the same manner as listed securities as described above. When investing in unlisted collective investment schemes / Islamic collective investment schemes, the value shall be determined by reference to the last published repurchase price per unit for that unlisted collective investment scheme / Islamic collective investment schemes.

(vi) Financial derivatives / Islamic financial derivatives

Financial derivatives / Islamic financial derivatives positions will be ‘marked-to-market’ at the close of each trading day.

(vii) Deposits / Islamic deposits

Deposits / Islamic deposits placed with financial institutions will be valued each day by reference to the principal value of such investments and the interest / profits accrued thereon for the relevant period.

(viii) Money market instruments / Islamic money market instruments

Money market instruments / Islamic money market instruments that are held for collecting contractual cash flow purpose i.e. commercial papers / Islamic commercial papers and money market placements / Islamic money market placements which have a remaining term to maturity of not more than 90 days at the time of acquisition will be measured on an ongoing basis at amortised cost. The risk of using amortised cost is the mismatch between the fair value and book value of a money market instrument / an Islamic money market instrument. The Manager will monitor closely and consider prompt action to discontinue the use of amortised cost method and adopt the fair value as the valuation for money market instrument / Islamic money market instrument in the event the variance is above 3%.

Money market instruments / Islamic money market instruments other than the aforesaid will be valued on a daily basis by reference to the fair value prices quoted by a BPA registered with the Securities Commission.

(ix) Foreign exchange translation of foreign investments into Ringgit Malaysia for a particular Business Day is determined based on the bid rate quoted by Bloomberg or Reuters at 4.00 p.m. (United Kingdom time) or such other time as may be prescribed from time to time by the relevant laws.

(x) Any other investments / Shariah-compliant investments as may be held by the Fund will be valued based on fair value as determined in good faith by the Manager, on methods or bases which have been verified by the auditor of the Fund and approved by the Trustee.

**Chapter 4 – Fees, Charges and Expenses, Section 4.1(c) – Other Charges**

**(i) Switching of units**

<b>Equity Trust</b>	<b>SCOUT</b>	<b>KidSave</b>	<b>Tracker</b>
<b>Dana Islam</b>	<b>Income Fund</b>	<b>EOUT</b>	<b>GIFT</b>
<b>TGF</b>	<b>MDIV</b>	<b>Dana Hazeem</b>	

Units can only be switched to other unit trust funds under the management of the Manager that are of the same currency units and that allow switching. A switching fee<sup>1</sup> of RM25.00 will be imposed and deducted from the redemption amount of the Units to be switched for a switch between funds that impose a similar sales charge or a switch to a fund that impose a lower sales charge. Unit Holders switching to a fund that imposes a higher sales charge will pay the difference in sales charge which is deductible from the redemption amount of the Units to be switched.

The Manager however, reserves the right to vary this switching fee or to vary the terms of the switching facility. For switching into non-money market fund, units of the fund to be switched into shall be purchased at the net asset value per unit as at the next valuation point of the fund’s relevant business day after the form of request to switch is received by the Manager (“forward pricing”). For switching into money market fund, units shall be purchased at the net asset value per unit as at the next valuation point of the fund’s relevant business day after money is received by the switch in fund.

Illustration (based on **Equity Trust** and **KidSave**)

If a Unit Holder switches 5,000 Units in **Equity Trust** at the Repurchase Price of RM0.4277 and wishes to invest in **KidSave** at the Selling Price of RM0.5215 (where both Funds have the sales charge of 6.38%).

Proceeds from switch ( <b>Equity Trust</b> ) (5,000 Units x RM0.4277)	= RM	2,138.50
Less: Switching fee RM25.00	= RM	(25.00)
Net proceed from switch:	= RM	<u><u>2,113.50</u></u>

Proceeds from <b>Equity Trust</b> invested in <b>KidSave</b> :	RM2,113.50
	RM0.5215

= 4,052.73 units\*\*

\*\* Units computed are rounded to the nearest 2 decimal places.

**Switching from a Shariah-compliant fund to a conventional fund is discouraged especially for Muslim Unit Holders.**

**(ii) Transfer of units**

<b>Equity Trust</b>	<b>SCOUT</b>	<b>KidSave</b>	<b>Tracker</b>
<b>Dana Islam</b>	<b>Income Fund</b>	<b>EOUT</b>	<b>GIFT</b>
<b>TGF</b>	<b>MDIV</b>	<b>CASH</b>	<b>Dana Hazeem</b>

The Manager charges a transfer fee<sup>1</sup> of RM5.00 for each transfer.

(iii) Any bank charges imposed by the relevant financial institutions will be borne by the Unit Holders.

Note: <sup>1</sup>All fees and charges payable to the Manager and the Trustee are subject to any applicable taxes and/or duties and at such rate as may be imposed by the government from time to time

**Chapter 4 – Fees, Charges and Expenses, Section 4.4 – Policy on Rebates and Soft Commissions**

It is the Manager’s policy to credit all rebates to the account of the respective Funds.

However, goods and services (“soft commissions”) provided by any broker or dealer may be retained by the Manager or the External Investment Manager if:

- (a) the soft commissions bring direct benefit or advantage to the management of the Funds and may include research and advisory related services;
- (b) any dealing with broker or dealer is executed on terms which are the most favourable for the Funds; and
- (c) the availability of soft commissions is not the sole or primary purpose to perform or arrange transactions with such broker or dealer, and the Manager or External Investment Manager must not enter into unnecessary trades to achieve a sufficient volume of transactions to qualify for soft commissions.

**Chapter 4 – Fees, Charges and Expenses, Section 4.5 – Tax**

All fees and charges payable to the Manager and the Trustee are subject to any applicable taxes and/or duties and at such rate as may be imposed by the Malaysian government from time to time.

Based on the Finance Act 2021, income derived by the Fund from foreign sources and received in Malaysia from 1 January 2022 onwards will be subject to Malaysian income tax. A transitional tax rate of 3% is accorded on the gross amount of the foreign income received in Malaysia from 1 January 2022 to 30 June 2022. From 1 July 2022 onwards, the prevailing tax rate of 24% will apply to the chargeable income computed in respect of the foreign source income remitted into Malaysia by the Fund.

Where the same foreign income has been taxed in both Malaysia and the foreign country, a tax credit in the form of bilateral relief under a Double Tax Agreement (“DTA”) or unilateral relief under the domestic law (if there is no available DTA or a limited DTA which does not provide such relief) may be given in respect of such income, subject to conditions.

*There are fees and charges involved and investors are advised to consider them before investing in the Funds.*

**Chapter 5 – Transaction Information, Section 5.5(b) – Cooling-off Period**

<b>Equity Trust</b>	<b>SCOUT</b>	<b>KidSave</b>	<b>Tracker</b>
<b>Dana Islam</b>	<b>Income Fund</b>	<b>EOUT</b>	<b>GIFT</b>
<b>TGF</b>	<b>MDIV</b>	<b>CASH</b>	<b>Dana Hazeem</b>

The cooling-off right refers to the right of an individual investor to obtain a refund of his investment if he so requests within the cooling-off period. The cooling-off right is only given to an individual investor, other than those listed below, who is investing in any unit trust funds managed by the Manager for the first time:

- (i) a staff of the Manager; and/or
- (ii) a person registered with a body approved by the Securities Commission to deal in unit trust funds.

The refund to the investor pursuant to the exercise of his cooling-off right must be as follows:

- a) the Net Asset Value per Unit at the point of exercise of the cooling-off right (“market price”), if the Net Asset Value per Unit on the day the Units were purchased (“original price”) is higher than the market price; or

b) the original price, if the market price is higher than the original price.

If the market price is higher than the original price paid by the investor, the Manager may agree to pay the investor the excess amount, provided that such amount is not paid out of the Funds or the assets of the Funds.

The Manager must also refund the sales charge originally imposed on the day the Units were purchased.

The cooling-off period shall be within six (6) Business Days which shall be effective from the date of receipt of the application by the Manager. Where applicable, if you have invested via the EPF-MIS, the cooling-off period shall be subject to EPF's terms and conditions.

The cooling-off right allows investors the opportunity to reverse an investment decision which could have been unduly influenced by certain external elements or factors.

Withdrawal proceeds will only be paid to the investors once the Manager has received cleared funds for the original investment. For investors who paid by cheque, the refund will be made upon clearance of the cheque. The Manager shall refund the investor in cash within seven (7) Business Days of receiving the cooling-off notice. Where applicable, if you have invested via the EPF-MIS, the refund will be credited back into your EPF accounts.

#### **Chapter 5 – Transaction Information, Section 5.5(c) – Where Units can be Purchased or Redeemed**

<b>Equity Trust</b>	<b>SCOUT</b>	<b>KidSave</b>	<b>Tracker</b>
<b>Dana Islam</b>	<b>Income Fund</b>	<b>EOUT</b>	<b>GIFT</b>
<b>TGF</b>	<b>MDIV</b>	<b>Dana Hazeem</b>	

Units can be purchased or redeemed at the Manager's registered/principal office or any of its branches, or from any of its participating IUTAs and any other authorised distributors or any other channels as the Manager may decide from time to time. For further information, please call us at 03-9205 8000 at any time during our office hours: Mondays through Fridays from 9.00 a.m. – 5.00 p.m. Alternatively, investors may e-mail their enquiries to [rhbam@rhbgroup.com](mailto:rhbam@rhbgroup.com).

Please refer to our Directory of Outlets for Purchase and Sale of Units at the end of this master prospectus. Application forms, redemption forms and this master prospectus are also available from these distributors.

#### **Chapter 5 – Transaction Information, Section 5.5(d) – How to Switch between Funds**

<b>Equity Trust</b>	<b>SCOUT</b>	<b>KidSave</b>	<b>Tracker</b>
<b>Dana Islam</b>	<b>Income Fund</b>	<b>EOUT</b>	<b>GIFT</b>
<b>TGF</b>	<b>MDIV</b>	<b>Dana Hazeem</b>	

Unit Holders may switch to units of any unit trust fund under the management of the Manager that are of the same currency and that allows for switching by forwarding the completed form of request to switch to the Manager's registered/principal office or any of its branches, or to any of its participating IUTAs and any other authorised distributors before their respective cut-off times on any Business Day. The minimum amount for a switch into another fund is RM100.00 or such other amount as the Manager may from time to time decide. There is no restriction as to the number of switches a Unit Holder may perform or the frequency of switching. The minimum investment balance must be at least one hundred (100) Units or such other lower quantity as the Manager may from time to time decide after the switch. Following a switching transaction, if the quantity of Units held by a Unit Holder in the Fund falls below its minimum investment balance, the Manager can switch the entire investment and forward the proceeds to the fund that the Unit Holder intends to switch into. The Manager however, reserves the right to vary these terms.

#### **Chapter 5 – Transaction Information, Section 5.5(e) – How to Transfer Ownership of Units**

Unit Holders may transfer their holdings of Units to another investor by forwarding the completed form of transfer to the Manager's registered/principal office or any of its branches or to any of its participating IUTAs and any other authorised distributors before their respective cut-off times on any Business Day.

If the transferee is a new investor, the transferee must also forward the following:

- 1) completed application form; and
- 2) relevant supporting documents such as a photocopy of the transferee's identity card (for an individual applicant) or certified true copies of the certificate of incorporation or registration, memorandum and articles of association or constitution or by-laws, and relevant resolutions (for a corporate applicant).

However, the Manager may refuse to register any partial transfer of Units if the registration would result in the transferor or the transferee holding less than the minimum investment balance of one hundred (100) Units or such other lower quantity as the Manager may from time to time decide. The Manager may also refuse an entry of transfer during the fourteen (14) days preceding an income distribution date.

#### **Chapter 5 – Transaction Information, Section 5.5(f) – Unclaimed Monies**

All money payable to a Unit Holder may be paid by electronic payments or cheques. However, after the lapse of one (1) year from the date of the cheque or any moneys payable to Unit Holders which remain unclaimed for such period of time, the Manager shall

file and pay the unrepresented payments to the Registrar of Unclaimed Moneys in accordance with the requirements of the Unclaimed Moneys Act 1965. Thereafter, the Unit Holders are to claim such monies from the Registrar of Unclaimed Moneys.

#### **Chapter 5 – Transaction Information, Section 5.5(g) – Availability of Information on Investment**

After purchasing Units in any of the Funds, the value of the investment can be monitored easily as the Unit price of the respective Funds are published online daily on the Manager’s website, [www.rhbgroup.com](http://www.rhbgroup.com).

Unit Holders of the **Tracker** can also obtain the latest information and other important news on the FBM KLCI from any of the local newspapers or from the website, [www.bursamalaysia.com](http://www.bursamalaysia.com).

Unit Holders will receive an unaudited semi-annual report and an audited annual report of the Fund from the Manager within two (2) months after the end of the financial period/financial year end that the report covers. The Manager may also issue updates on the performance of the Fund either quarterly or semi-annually, or as and when appropriate.

Customers or investors may call us at 03-9205 8000 at any time during our office hours: Mondays through Fridays from 9.00 a.m. – 5.00 p.m. or e-mail their enquiries to [rhbam@rhbgroup.com](mailto:rhbam@rhbgroup.com).

Investors may also refer to FIMM for any queries and/or concerns regarding their investments in unit trust funds.

*Investors must not make payment in cash to any individual agent when purchasing Units of a Fund.*

*The Funds’ annual report is available upon request.*

#### **Chapter 5 – Transaction Information, Section 5.5(h) – Dealing Hours**

9:00 a.m. to 4:00 p.m. (Malaysia time) on any Business Day or such later time as the Manager may determine provided always that complete applications for the Fund are received before the next valuation point. The Manager may also vary the dealing hours as it may deem appropriate. Investors will be notified on the change of dealing hours via email or notification published on the Manager’s website.

#### **Chapter 6 – Salient Terms of the Deed, Section 6.1.2 - Rights of Unit Holders**

Unit Holders shall have the right in respect of the Funds in which they hold Units, amongst others, to the following:

- (a) to receive distributions of the Funds, to participate in any increase in the value of the Units and to enjoy such other rights and privileges as set out in the Deeds;
- (b) to call for Unit Holders’ meetings, and to vote for the removal of the Trustee or the Manager through a special resolution as provided for in the Deeds;
- (c) to exercise the cooling-off right, if applicable; and
- (d) to receive annual reports, semi-annual reports or any other reports of the Funds.

No Unit Holder shall be entitled to require the transfer to him of any assets of the Funds or be entitled to interfere with or question the exercise by the Trustee, or the Manager on the Trustee’s behalf, of the rights of the Trustee as the registered owner of such assets.

Note: If your investments are made through an IUTA which adopts the nominee system of ownership, you would not be deemed to be a Unit Holder under the Deeds and as a result, you may not exercise all the rights ordinarily conferred to a Unit Holder (e.g. the right to call for Unit Holders’ meetings and the right to vote at a Unit Holders’ meeting). Accordingly, the Manager will only recognise the IUTA as a Unit Holder and the IUTA shall be entitled to all the rights conferred to it under the Deeds.

#### **Chapter 6 – Salient Terms of the Deed, Section 6.2.3 - Maximum Annual Trustee Fee, first paragraph**

Fund	Maximum Allowable Rate
Equity Trust	0.10% per annum of the Net Asset Value
SCOUT	<ul style="list-style-type: none"> <li>• 0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges) in the case of local investments; or</li> <li>• 0.20% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges) in the case of local and foreign investments</li> </ul>
KidSave	<ul style="list-style-type: none"> <li>• 0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges) in the case of local investments; or</li> <li>• 0.20% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges) in the case of local and foreign investments</li> </ul>
Tracker	0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges)
Dana Islam	<ul style="list-style-type: none"> <li>• 0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges) in the case of local investments; or</li> <li>• 0.20% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges) in the case of local and foreign investments</li> </ul>
Income Fund	0.07% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges)

EOUT	0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges)
GIFT	0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges)
TGF	0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges)
MDIV	0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges)
CASH	0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges)
Dana Hazeem	0.15% per annum of the Net Asset Value (including local custodian fees and charges but excluding foreign custodian fees and charges)

#### **Chapter 7 – The Management and Administration of the Funds, Section 7.2 Board of Directors**

The board of directors of the Manager takes an active part in the affairs of the Manager and the unit trust funds under its management. The board of directors of the Manager meets at least once every three (3) months to receive recommendations and reports on investment activities from the committee undertaking the oversight function of the Funds, set policies and guidelines of the Manager and to review performance, financial and audit reports of the Manager. Additional meetings shall also be convened, should the need arise.

The list of board of directors are available on the Manager’s website, [www.rhbgroup.com](http://www.rhbgroup.com).

#### **Chapter 7 – The Management and Administration of the Funds, Section 7.4 The Investment Committee**

The paragraph of the “functions of the investment committee” under above section is hereby deleted.

#### **Chapter 7 – The Management and Administration of the Funds, Section 7.5 – The Investment Team**

##### **Income Fund CASH**

##### **The designated fund manager is Michael Chang Wai Sing.**

Michael Chang Wai Sing (“Mr. Chang”) is the CIO for fixed income in RHBAM and has more than 22 years of fund management experience, specializing in fixed income investments for insurers and asset management companies. Prior to joining RHBAM, he was with MCIS Insurance Bhd (formerly known as MCIS Zurich) for 8 years managing both life and general insurance portfolios. As the CIO of fixed income, Mr Chang’s primary role is to set the strategic direction for the fixed income investment team in Malaysia and RHBAM’s regional offices covering both portfolio managers and credit analysts.

His strong investment acumen is recognized by the market and has been awarded as the Most Astute Investor in Asian Local Currency Bonds by Asset Benchmark Research, Malaysia ranked no. 1 for four consecutive years in 2014 to 2017. He continued to maintain the Top 10 / Highly Commended ranking for the Most Astute Investors in 2018 and 2019. RHBAM also emerged and maintained its Top 3 ranking from 2017 to 2021 in the Top Fund House for Malaysia by the same research company. In 2022, RHBAM achieved Rank #4 for Top Fund House and also the RHBAM’s fixed income portfolio managers were also ranked yearly as highly commended for one of the most astute investors in local currency bonds.

Mr. Chang graduated with a bachelor of commerce degree from The University of Western Australia, with double majors in accounting and finance and a minor in business law. He is a Capital Markets Services Representative’s Licence holder for fund management and also a member of ACI-Malaysia – The Financial Markets Association (PPKM). Prior to gaining his PPKM membership, he is a distinction holder and award recipient of the Pasaran Kewangan Malaysia Certificate (PKMC). He is also a holder of the Capital Market and Financial and Financial Advisory Services to practice fund management in Singapore having successfully completed Module 3 - Rules & Regulations for Fund Management and Representative under the Securities and Futures Act (CAP 289) and/or Financial Advisers Act (CAP 110) licensed by the Monetary Authority of Singapore.

The designated fund manager is supported by our investment team comprising of a team of experienced fund managers who are responsible to actively manage the Funds in accordance with the investment objective of the Funds and the provision of the relevant Deeds. The investment team shall have discretionary authority over the investments of the Funds subject to the rules and guidelines issued by the relevant authorities.

#### **Chapter 7 – The Management and Administration of the Funds, Section 7.7 – Shariah Adviser, “Roles and Responsibilities of the Shariah Adviser” and “Members of RHB Islamic Bank’s Shariah Committee”**

##### **Roles and Responsibilities of the Shariah Adviser**

The Shariah Adviser is backed by the respective Shariah Committee of RHB Islamic Bank, which comprises eminent Shariah scholars from various jurisdictions. The Shariah Adviser also conducts monthly review of the Fund to ensure compliance with Shariah principle.

In line with the Securities Commission’s guidelines, the roles and responsibilities of the Shariah Adviser are:

- 1) To ensure that the Fund is managed and administered in accordance with Shariah principles.

- 2) To provide expertise and advice in all matters relating to Shariah principles, including the Fund's deed and prospectus, its structure and ensure that all aspects of the Fund are in accordance with Shariah requirement.
- 3) To consult Securities Commission where there is any ambiguity or uncertainty as to any Shariah matters.
- 4) To ensure that all applicable Shariah rulings, principles and concepts endorsed by the SACSC are complied with.
- 5) To act with due care, skill and diligence in carrying out its duties and responsibilities.
- 6) To review the report of compliance officer or any investment transaction reports provided by, or duly approved by, the Trustee to ensure that the Fund's management business and investments activities are Shariah-compliant.
- 7) To prepare a report to be included in the Fund's semi-annual and annual reports certifying whether the Fund have been managed and administered in accordance with Shariah principles for the respective periods concerned.
- 8) To apply ijhtihad (intellectual reasoning) to ensure all aspects relating to the Fund are in compliance with Shariah, in the absence of any rulings, principles and concepts endorsed by the Securities Commission.

#### **Members of RHB Islamic Bank's Shariah Committee**

The members of RHB Islamic Bank's Shariah committee are the designated persons responsible for the Shariah matters of the Fund. The list of members of RHB Islamic Bank's Shariah Committee are available on the Manager's website, [www.rhbgroup.com](http://www.rhbgroup.com).

#### **Chapter 7 – The Management and Administration of the Funds, Section 7.9 – Other Information**

Further information on the Manager, the External Investment Manager and the Shariah Adviser is provided on the Manager's website, [www.rhbgroup.com](http://www.rhbgroup.com).

#### **Chapter 8 – The Trustee of the Funds**

The Trustee is HSBC (Malaysia) Trustee Berhad, a company incorporated in Malaysia since 1937 and registered as a trust company under the Trust Companies Act 1949, with its registered address at Level 19, Menara IQ, Lingkaran TRX, 55188 Tun Razak Exchange, Kuala Lumpur, Malaysia.

#### **Chapter 8 – The Trustee of the Funds, Section 8.5 - Trustee's Delegate**

The Trustee has appointed The Hongkong And Shanghai Banking Corporation Limited as the custodian of both the local and foreign assets of the Fund. For quoted and unquoted local investments of the Fund, the assets are held through their nominee company, HSBC Nominees (Tempatan) Sdn Bhd and/or HSBC Bank Malaysia Berhad. The Hongkong And Shanghai Banking Corporation Limited is a wholly owned subsidiary of HSBC Holdings Plc, the holding company of the HSBC Group. The custodian's comprehensive custody and clearing services cover traditional settlement processing and safekeeping as well as corporate related services including cash and security reporting, income collection and corporate events processing. All investments are registered in the name of the Trustee or to the order of the Trustee. The custodian acts only in accordance with instructions from the Trustee.

The Trustee shall be responsible for the acts and omissions of its delegate as though they were its own acts and omissions. However, the Trustee is not liable for the acts, omissions or failure of third party depository including central securities depositories, or clearing and/or settlement systems and/or authorised depository institutions, where the law or regulations of the relevant jurisdiction requires the Trustee to deal or hold any asset of the Fund through such third parties.

Particulars of the Trustee's Delegate

For foreign asset:

The Hongkong And Shanghai Banking Corporation Limited  
6/F, Tower 1,  
HSBC Centre,  
1 Sham Mong Road, Hong Kong.  
Telephone No: (852)2288 1111

For local asset:

The Hongkong And Shanghai Banking Corporation Limited (As Custodian) and assets held through HSBC Nominees (Tempatan) Sdn Bhd (Registration No: 199301004117 (258854-D))  
Level 21, Menara IQ  
Lingkaran TRX  
55188 Tun Razak Exchange  
Kuala Lumpur, Malaysia  
Telephone No: (603)2075 3000 Fax No: (603)8894 2588

The Hongkong and Shanghai Banking Corporation Limited (As Custodian) and assets held through HSBC Bank Malaysia Berhad (Registration No.: 198401015221(127776-V))  
Level 21, Menara IQ  
Lingkaran TRX  
55188 Tun Razak Exchange  
Kuala Lumpur, Malaysia  
Telephone No: (603)2075 3000 Fax No: (603) 8894 2588

#### **Chapter 9 – Related-Party Transaction and Conflict of Interest, first paragraph**

The directors and officers of the Manager, and the person(s) or members of a committee undertaking the oversight function of the Funds should avoid any conflict of interest arising, and if any conflict arises, should ensure that the Funds are not disadvantaged by the transaction concerned. Any transaction carried out by or on behalf of the Funds should be executed on terms which are the best available for the Funds and which are no less favourable to the Funds than an arm's length transaction between independent parties. In the event the interest of any directors and employees of the Manager, and the person(s) or members of a committee undertaking the oversight function of the Funds is directly or indirectly involved, he or she would abstain from being involved with any decision making process of the said transaction.

#### **Chapter 9 – Related- Party Transaction and Conflict of Interest, HSBC (Malaysia) Trustee Berhad, first paragraph**

As the trustee for the Funds, there may be related party transaction involving or in connection with the Funds in the following events:-

- 1) where the Funds invest in instruments offered by the related party of the Trustee (e.g placement of monies, transferable securities, etc);
- 2) where the Funds are being distributed by the related party of the Trustee as IUTA;
- 3) where the assets of the Funds are being custodised by the related party of the Trustee both as sub-custodian and/or global custodian of the Funds (Trustee's delegate); and
- 4) where the Funds obtain financing as permitted under the Guidelines, from the related party of the Trustee.

#### **Chapter 10 – Tax Adviser's Letter on the Taxation of the Fund and Unit Holders**

The Tax adviser's letter has been updated.

#### **Chapter 14 – Consent**

The Trustee, Shariah Adviser, External Investment Manager and solicitors have given their consent for the inclusion of their names and statements in the form and context in which they appear in the Prospectuses and have not withdrawn such consent.

The tax adviser has given its consent for the inclusion of its name and tax adviser's letter in the form and context in which they appear in this Second Supplementary Master Prospectus and has not withdrawn such consent.

#### **Directory of Outlets for Purchase and Sale of Units**

For information on the participating distributors, please contact:

RHB Asset Management Sdn Bhd's Registered/Principal Office:  
(Kindly refer to the Corporate Directory for details.)

Or call us at 03-9205 8000 at any time during our office hours: Mondays through Fridays from 9.00 a.m. – 5.00 p.m. or e-mail your enquiries to [rhbam@rhbgroup.com](mailto:rhbam@rhbgroup.com).

## MANAGER'S REPORT

### MARKET REVIEW

During the financial period under review, the Standard and Poor (“S&P”) 500 rose +4.35% higher to 4,288.05, Brent crude rose 19.30% to United States Dollar (“USD”) 95.31 per barrel, spot Gold fell -6.13% to USD1,848.63/ troy ounce, while The Benchmark 10-year US Treasury Bond (“UST) yields rose 110 basis points (“bps”) from 3.47% at the start of the financial period to close higher at 4.57% at the end of the financial period under review. US treasury yields sold off higher and bear steeper post the September 2023 Federal Open Market Committee (“FOMC”), following the hawkish dot plots, receding recession risk and investors settling into the higher for longer theme as inflation remains persistent.

On US economics, US Consumer Price Index (“CPI”) was slightly higher than expectations at 3.70 % Year-on-Year (“YoY”) (+0.40% Month-on-Month (“MoM”)) for August 2023 from 3.20% YoY (+0.20% MoM) in July 2023. Core CPI rose at a subdued rate to 4.30% YoY (+0.30% MoM) in August 2023 (versus 4.70% YoY, 0.20% MoM prior). Gasoline was the single biggest contributor to the monthly gain in CPI, however shelter costs continued to stay elevated, contributing to the higher Core CPI number. The personal consumption expenditure (“PCE”) deflator, the Federal Reserve (“Fed”)’s preferred measure for inflation was also higher than last month at 3.50% YoY (+0.40% MoM) for August 2023, but Core PCE rose by the slowest monthly pace since year 2020 at 3.90% YoY (0.10% MoM) in August 2023, underscoring more improvement in inflation metrics.

The Institute of Supply Management (“ISM”) Purchasers Manufacturing Index for September 2023 rose 2.40bps to 49.00, much higher than expectations of 47.90 and higher than last month of 47.60. Although this reading registers the eleventh consecutive month in contractionary territory the trend is coming back toward expansion and could signify the worst is over for producers. The higher ISM was contributed by new orders which rose to a more than one year high and the prices paid index dropped 4.60 points to 43.80 due to declining commodity prices. Production growth may be sustained as companies make progress trimming inventories. A measure of customer stockpiles shrank at the fastest pace in three months, according to the ISM report. Factory inventories also contracted. Going forward the ongoing United Auto Workers strike against the 3 largest US Automakers - Ford Motor Company, General Motors, and Stellantis may risk slowing progress in the sector in the next reading.

The 20 September 2023 FOMC, saw the Fed holding the Fed Fund Target rates unchanged at 5.25% to 5.50%, however the updated dot plots continue to show a 25bps hike projected for year 2023 while the year 2024 and year 2025 median projection were revised 50bps higher from 4.625% to 5.125% and from 3.375% to 3.875% respectively, with year 2026 rates at 2.875%. Fed officials and markets are increasingly incorporating in their projections the reality that a more prolonged period of higher rates may be needed to cool the economy. Over the weekend of 30 September 2023, at the eleventh

hour, a compromise was reached with the republican's continuing resolution passed by Congress, managing to avert a government shutdown which had the risks of causing data delays and complicating the decision of a data-dependent Fed, although the measure would only fund the government until 17 November 2023.

At the end of September 2023 close, the benchmark 2-, 5-, 10-, 20- and 30-year UST were last traded at 5.04% (March-2023: 4.03% +101bps), 4.61% (3.57%; +104bps), 4.57% (3.47%; +110bps), 4.90% (3.79%; +111bps) and 4.70% (3.65%; +105bps) respectively.

In the financial period under review, Malaysian Ringgit (“MYR”) sold off weaker, from 4.4152 to 4.6953 against the USD. This was primarily due to the USD strength on the back of the Fed’s aggressive monetary tightening. Overall, MYR gave a -5.97% total spot return for the financial period under review, and was one of the worst performing currencies in Asia Emerging Market behind just Thailand Bhat and Japanese Yen, with spot returns of -6.08% and -11.05% respectively against the USD.

On local rates, the Malaysia Government Securities (“MGS”) market yield ended higher for the month of September 2023 and a tad bear flatter after the bullish sentiment in August 2023. The MGS curve overall was +14bps to +18bps over the course of the month. The MGS spread movements were slightly more pronounced at the front end, 3 years, 5 years and 7 years.

For the Government Investment Issue (“GII”) or the Islamic Sovereign Curve also saw yields climb higher over September 2023. The GII 3 years, 5, years, 7 years, 10 years, 15 years, 20 years and 30 years saw MoM yield higher by +11bps, +18bps,+09bps, +15bps, +12bps, +10bps and +13bps respectively. In tandem, the GII spread movements were more pronounced at pronounced at the front end of the yield curve as well, especially the 5 years yield curve of GII.

All in all, overall curve of the 3-, 5-, 7-, 10-, 15-, 20- and 30-year MGS bear-flattened during the financial period under review, led by an “unexpected” 25bps hike in Overnight Policy Rate (“OPR”) on May 2023 to 3.00% and closed:

Benchmark	MGS		
	31-March-2023	30-September-2023	Change (bps)
3-Year	3.38%	3.61%	+23bps
5-Year	3.51%	3.77%	+26bps
7-Year	3.74%	3.92%	+18bps
10-Year	3.91%	3.98%	+7bps
15-Year	4.14%	4.18%	+4bps
20-Year	4.21%	4.31%	+10bps
30-Year	4.38%	4.43%	+5bps

## **ECONOMIC REVIEW AND OUTLOOK**

In terms of monetary policy, Bank Negara Malaysia (“BNM”) hiked rates on its 3 May 2023 Monetary Policy Committee (“MPC”) meeting, after hiking 4 times by 25bps each to 2.75% in the months of May 2022, July 2022, September 2022 and November 2022 on higher domestic inflation and external factors, and capping off a cumulative 100bps of hikes for Financial Year 2022.

The 25bps to 3.00% at its third MPC on 3 May 2023, was seen as a surprise move by market consensus as only 3 out of 19 economists surveyed by Bloomberg anticipated this increase in the OPR. The rest had expected the central bank to stay pat for a third straight meeting. As a quick recap, BNM has collectively raised 5 times of 25bps each on the OPR since May 2022 from 1.75% to 3.00%. The decision to raise the OPR was to preemptively manage headline inflation and normalize interest rate to pre-pandemic levels to curb excessive future financial imbalances in the system. While the move in OPR was largely unexpected, the hike of 25bps by the US Fed to a range of 5.00% to 5.25% was largely expected which both has occurred on the same day i.e. 3 May 2023. At 5.25%, the US Fed Funds Rate is at its highest since August 2007, just before the US subprime mortgage crisis after years of loose monetary policies. In its statement, BNM highlighted that the global economy continues to be driven by resilient domestic demand supported by strong labour market conditions, and a stronger than expected rebound of China’s economy. Nevertheless, the global economy continues to be weighed down by elevated cost pressures and higher interest rates. BNM has raised a concern on headline inflation continued to moderate, but core inflation has persisted above historical averages.

BNM, in its penultimate meeting for the year held on 7 September 2023 maintained the benchmark OPR at 3.00%, citing continued expansion in the global economy supported by strong labour market conditions. However, the global growth was weighed down by elevated core inflation and higher interest rates in advanced economies in addition to the slower than expected growth in China. The OPR will remain accommodative as the Malaysian economy was affected by slower external demand and a decline in commodity production coupled with softened inflationary pressure at home. That said, BNM stated that risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, global commodity prices and financial market developments, as well as the degree of persistence in core inflation.

Malaysia’s CPI inflation rate remained stable at 2.00 % in August 2023 (July 2023 2.00%) on base effects. The country’s headline inflation rate was driven by a lower increase in Restaurants & Hotels and Food & Non-alcoholic beverages. Core inflation, which excludes volatile items and those with government-administered prices, fell to 2.50% in August 2023 from 2.80% in July 2023.

## MARKET OUTLOOK AND STRATEGY GOING FORWARD

The July 2023 International Monetary Fund (“IMF”) World Economic Outlook Update has updated their year 2023 global growth forecast by 0.20% to 3.00% in year 2023 and maintain the outlook to 3.00% in year 2024. Although revised higher, it is still considered weak by historical standards. The rise in central bank policy rates to fight inflation continues to weigh on economic activity. IMF’s projection on global headline inflation is for it to fall from 8.70% in year 2022 to 6.80% in year 2023 and 5.20% in year 2024. Underlying (core) inflation is projected to decline more gradually, and forecasts for inflation in year 2024 have been revised upward. Overall global growth outlook remains uncertain again amid slow China recovery, extreme weather related events and ongoing effects of Russia’s invasion of Ukraine. What remains to be seen is a sustained recovery, achieving an acceptable level of inflation while ensuring financial stability.

Global risk sentiment in the markets has been generally bearish as flows started to focus on safe haven bids for shelter. The broader strategy will be to remain nimble on continued volatility, and to position more defensively in higher quality credits due to a greater focus on income preservation while repositioning at the current higher yield levels with a bias to stay short duration, especially since the Fed is likely to continue their current tightening cycle at the moment, with the latest September 2023 Dot-plots projecting another 25bps more hike for year 2023 to 5.50% to 5.75% which may likely come in the November FOMC, meanwhile projections for year 2024 was also shifted up 50bps to 5.125% and year 2025 revised higher by 50bps to 3.875% from the June 2023 projections. The longer term target rate remained at 2.50%. Current market pricing is showing just above 32.00% chance of another 25bps hike in the November 2023 FOMC meeting.

Locally, BNM maintained the OPR at 3.00% in its September 2023 MPC meeting after last increasing it by 25bps in May 2023. At the current OPR level, the monetary policy stance is slightly accommodative and remains supportive of the economy. The MPC continues to see limited risks of future financial imbalances. The MPC remains vigilant to ongoing developments, and will continue to monitor incoming data to inform the assessment on the outlook of domestic inflation and growth. The pressure to increase further from here is probably lower because other regional central banks are likely to stay pat, if not cut, should global growth slowdown exacerbates. The current 3.00% OPR would also mean more room to ease with additional ammunition should the economy in Malaysia slow significantly. Looking forward to October 2023, all eyes will be on the upcoming Malaysian budget to be presented by the Prime Minister-cum-Finance Minister Anwar Ibrahim to the parliament on 13 October 2023, slightly earlier than the usual last Friday in the month of October 2023. Details of the subsidy rationalisation as well as incentives to bring in more investment to spur economic growth are the main focus.

We remain constructive of the bond market as we still see opportunities within the government and corporate credit securities market. We advocate on positioning the bond

portfolio to increase investments whenever exacerbated selling occurs, as yield levels are expected to come off on lower year 2023 growth expectations and when market stabilizes. The momentum for bonds to do well in year 2023 has increased because the scale of the interest rate hikes in year 2023 would be a lot less hawkish when compared to unprecedented interest rate increases in year 2022 globally. At this juncture, local yields still give a comfortable buffer against fixed deposits (“FD”) and we believe the increases in FD rates should taper off this year once the upside to OPR dissipates. The stance to monetary policy locally by BNM will continue to be determined by new data and its implications on the overall inflation and domestic growth outlook. We will continue to monitor closely market developments both globally and locally.

## **REVIEW OF FUND PERFORMANCE DURING THE FINANCIAL PERIOD**

For the financial period under review, the Fund registered a negative return of 21.12%\* against its benchmark return of 1.47%\*. The Fund thus underperformed its benchmark by 22.59% during the financial period under review. The Net Asset Value per unit of the Fund was RM1.1322 (31 March 2023: RM1.4353) as at 30 September 2023. The Fund will continue to work toward its investment objective to provide investors with higher than average income returns compared to fixed deposits over medium to long term period.

*\*Source: Lipper Investment Management (“Lipper IM”), 13 October 2023*

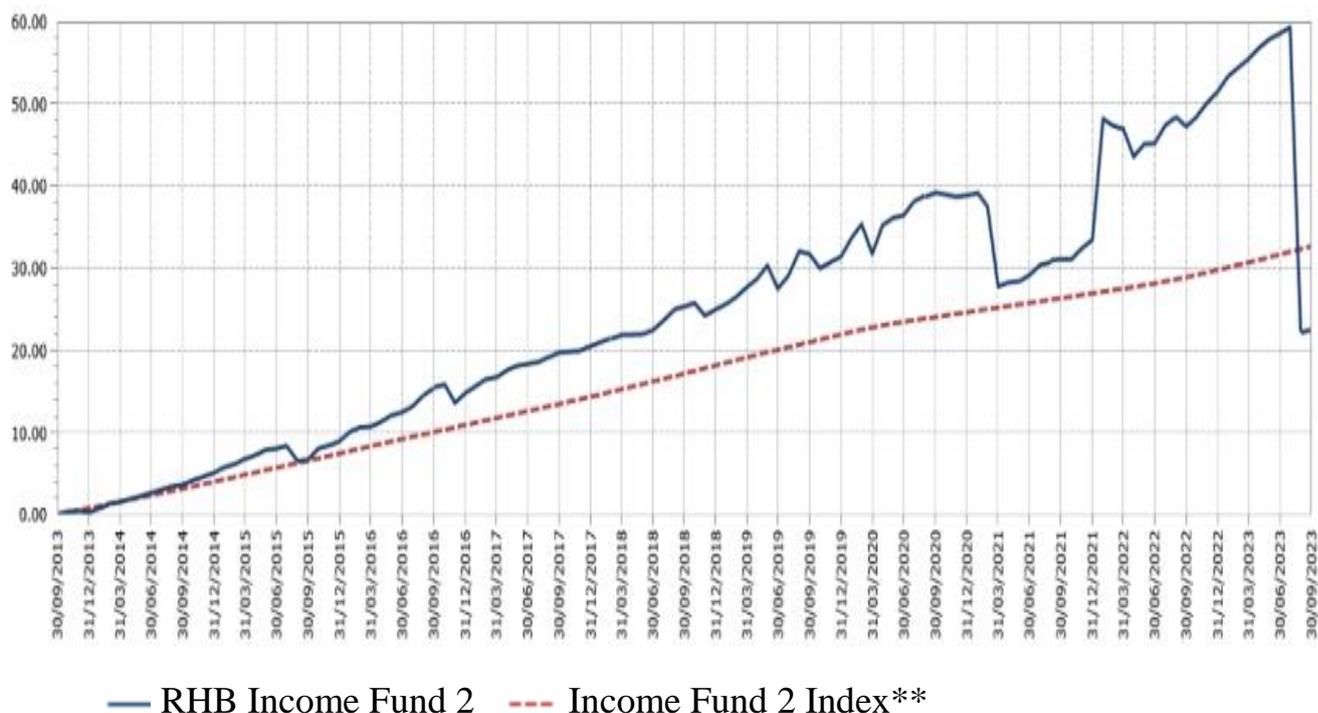
## PERFORMANCE DATA

	31.03.2023 - 30.09.2023 %	Annual Total Returns Financial Year Ended 31 March				
		2023 %	2022 %	2021 %	2020 %	2019 %
RHB Income Fund 2						
- Capital Return	(21.12)	5.76	9.15	(8.14)	(2.06)	(0.37)
- Income Return	-	-	5.29	5.65	5.37	5.15
- Total Return	(21.12)	5.76	14.92	(2.95)	3.20	4.76
Income Fund 2 Index**	1.47	2.49	1.85	1.97	3.07	3.35

	Average Annual Returns			
	1 Year 30.09.2022 - 30.09.2023 %	3 Years 30.09.2020 - 30.09.2023 %	5 Years 30.09.2018 - 30.09.2023 %	10 Years 30.09.2013 - 30.09.2023 %
RHB Income Fund 2	(16.70)	(4.17)	(0.44)	2.05
Income Fund 2 Index**	2.88	2.25	2.50	2.86

\*\* Effective 28 April 2023, the Fund's composite benchmark (Income Fund 2 Index) was changed from 12-month Fixed Deposit Rate as published by Malayan Banking Berhad ("Maybank") to RHB Bank Berhad's 12-month fixed deposit rate. The Fund's composite benchmark performance has been adjusted to reflect the new benchmark.

**Performance of RHB Income Fund 2  
for the period from 30 September 2013 to 30 September 2023  
Cumulative Return Over The Period (%)**



*Source: Lipper IM, 13 October 2023*

The abovementioned performance figures are indicative returns based on daily Net Asset Value of a unit (as per Lipper Database) since inception.

The calculation of the above returns is based on computation methods of Lipper.

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

The abovementioned performance computations have been adjusted to reflect distribution payments and unit splits wherever applicable.

A combination of benchmark/composite benchmark has been used for the performance computation as follows:

From 30 September 2013 to 27 April 2023	12-month Fixed Deposit Rate as published by Malayan Banking Berhad (“Maybank”)
28 April 2023 onwards	RHB Bank Berhad’s 12-month fixed deposit rate

<b>Fund Size</b>	<b>As at</b>	<b>As at 31 March</b>		
	<b>30.09.2023</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Net Asset Value (RM million)	12.70	18.45	23.61*	66.16*
Units In Circulation (million)	11.22	12.86	17.40	53.21
Net Asset Value Per Unit (RM)	1.1322	1.4353	1.3571*	1.2433*

<b>Historical Data</b>	<b>01.04.2023- 30.09.2023</b>	<b>Financial Year Ended 31 March</b>		
		<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Unit Prices</b>				
NAV - Highest (RM)	1.4726	1.4353	1.4414*	1.4449*
- Lowest (RM)	1.1262	1.3204	1.2062*	1.2407*
<b>Distribution and Unit Split</b>				
Gross Distribution Per Unit (sen)	-	-	7.2000	7.2000
Net Distribution Per Unit (sen)	-	-	7.2000	7.2000
Distribution date	-	-	23.03.2022	25.03.2021
NAV before distribution (cum)	-	-	1.4349	1.3467
NAV after distribution (ex)	-	-	1.3617	1.2748
Unit Split	-	-	-	-
<b>Others</b>				
Total Expense Ratio (TER) (%) #	0.56	1.12	1.08	1.08
Portfolio Turnover Ratio (PTR) (times) ##	0.01	0.15	0.55	0.54

\* The figures quoted are ex-distribution

# The TER for the financial period was consistent compared with the previous financial period.

## The PTR for the financial period was lower compared with the previous financial period due to lesser investment activities for the financial period under review.

## **DISTRIBUTION**

For the financial period under review, no distribution has been proposed by the Fund.

## **PORTFOLIO STRUCTURE**

The asset allocations of the Fund as at reporting date was as follows:

	<b>As at 30.09.2023</b>	<b>As at 31 March</b>		
	<b>%</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
		<b>%</b>	<b>%</b>	<b>%</b>
<b>Sectors</b>				
Unquoted fixed income securities	98.37	94.79	97.44	89.80
Liquid assets and other net current assets	1.63	5.21	2.56	10.20
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

The asset allocation of the Fund reflects the Manager stance to risk managed the portfolio in volatile markets.

## **SECURITIES FINANCING TRANSACTIONS**

The Fund has not undertaken any securities lending or repurchase transactions for the financial period under review.

## **CROSS TRADE**

The Fund has not carried out any cross trade transactions for the financial period under review.

## **SOFT COMMISSION**

There were no soft commissions received by the management company for the financial period under review.

**RHB INCOME FUND 2**  
**UNAUDITED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 SEPTEMBER 2023**

	<u>Note</u>	<u>30.09.2023</u> RM	<u>31.03.2023</u> RM
<b>ASSETS</b>			
Bank balances	5	51,144	49,114
Deposits with licensed financial institutions	5	423,487	938,035
Investments	6	12,492,648	17,492,267
Amount due from Manager		22,612	-
<b>TOTAL ASSETS</b>		<u>12,989,891</u>	<u>18,479,416</u>
<b>LIABILITIES</b>			
Amount due to Manager		271,419	-
Accrued management fee		10,796	15,734
Amount due to Trustee		648	944
Other payables and accruals		6,820	8,500
<b>TOTAL LIABILITIES</b>		<u>289,683</u>	<u>25,178</u>
<b>NET ASSET VALUE</b>		<u>12,700,208</u>	<u>18,454,238</u>
<b>EQUITY</b>			
Unit holders' capital		18,317,550	19,548,837
Accumulated losses		(5,617,342)	(1,094,599)
		<u>12,700,208</u>	<u>18,454,238</u>
<b>UNITS IN CIRCULATION (UNITS)</b>	7	<u>11,217,609</u>	<u>12,857,609</u>
<b>NET ASSET VALUE PER UNIT (RM)</b>		<u>1.1322</u>	<u>1.4353</u>

The accompanying notes are an integral part of the financial statements.

**RHB INCOME FUND 2**  
**UNAUDITED STATEMENT OF INCOME AND EXPENSES**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2023**

	<u>Note</u>	<u>01.04.2023- 30.09.2023</u> RM	<u>01.04.2022- 30.09.2022</u> RM
<b>(LOSS)/INCOME</b>			
Interest income from deposits with licensed financial institutions		29,476	16,628
Interest income from investments		369,924	415,022
Written-off interest income - Alpha Circle		(399,365)	-
Net realised gain/(loss) on disposal		15	(548,112)
Net unrealised (loss)/gain on changes in fair value		(4,420,087)	218,157
Net foreign currency exchange gain		93	147
		<u>(4,419,944)</u>	<u>101,842</u>
<b>EXPENSES</b>			
Management fee	8	(91,545)	(108,944)
Trustee's fee	9	(5,493)	(6,537)
Audit fee		(3,051)	(2,855)
Tax agent's fee		(1,270)	(1,274)
Other expenses		(1,440)	(1,851)
		<u>(102,799)</u>	<u>(121,461)</u>
Net loss before taxation		(4,522,743)	(19,619)
Taxation	10	-	-
Net loss after taxation		<u>(4,522,743)</u>	<u>(19,619)</u>
Net loss after taxation is made up as follow:			
Realised amount		(102,749)	(237,923)
Unrealised amount		(4,419,994)	218,304
		<u>(4,522,743)</u>	<u>(19,619)</u>

The accompanying notes are an integral part of the financial statements.

**RHB INCOME FUND 2**  
**UNAUDITED STATEMENT OF CHANGES IN NET ASSET VALUE**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2023**

	<b>Unit holders’ capital RM</b>	<b>Accumulated losses RM</b>	<b>Total net asset value RM</b>
Balance as at 1 April 2022	25,703,274	(2,088,992)	23,614,282
Movement in net asset value:			
Net loss after taxation	-	(19,619)	(19,619)
Creation of units arising from distribution	5,182,873	-	5,182,873
Cancellation of units	(9,314,368)	-	(9,314,368)
Balance as at 30 September 2022	<u>21,571,779</u>	<u>(2,108,611)</u>	<u>19,463,168</u>
Balance as at 1 April 2023	19,548,837	(1,094,599)	18,454,238
Movement in net asset value:			
Net loss after taxation	-	(4,522,743)	(4,522,743)
Creation of units arising from applications	3,388,040	-	3,388,040
Cancellation of units	(4,619,327)	-	(4,619,327)
Balance as at 30 September 2023	<u>18,317,550</u>	<u>(5,617,342)</u>	<u>12,700,208</u>

The accompanying notes are an integral part of the financial statements.

**RHB INCOME FUND 2**  
**UNAUDITED STATEMENT OF CASH FLOWS**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2023**

	<b><u>01.04.2023-</u></b> <b><u>30.09.2023</u></b> <b>RM</b>	<b><u>01.04.2022-</u></b> <b><u>30.09.2022</u></b> <b>RM</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceed from redemption of investments	245,699	213,100
Proceeds from sale of investments	-	5,493,189
Interest received from deposits with licensed financial institutions	29,476	16,628
Interest received from unquoted fixed income securities	304,407	358,624
Management fee paid	(96,483)	(113,164)
Trustee's fees paid	(5,789)	(6,790)
Payment for other fees and expenses	(7,441)	(7,451)
Net cash generated from operating activities	<u>469,869</u>	<u>5,954,136</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash proceeds from units created	3,365,428	5,169,287
Cash paid for units cancelled	(4,347,908)	(9,374,853)
Net cash used in financing activities	<u>(982,480)</u>	<u>(4,205,566)</u>
Net (decrease)/increase in cash and cash equivalents	(512,611)	1,748,570
Foreign currency translation differences	93	147
Cash and cash equivalents at the beginning of the financial period	<u>987,149</u>	<u>831,831</u>
Cash and cash equivalents at the end of the financial period	<u>474,631</u>	<u>2,580,548</u>

The accompanying notes are an integral part of the financial statements.

**RHB INCOME FUND 2**  
**NOTES TO THE UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL PERIOD ENDED 30 SEPTEMBER 2023**

**1. THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES**

The RHB Income Fund 2 (hereinafter referred to as “the Fund”) was constituted pursuant to the execution of a Deed dated 13 February 2003 as amended via its First Supplemental Deed dated 24 December 2007, Supplemental Master Deed dated 1 June 2009, Second Supplemental Master Deed dated 4 September 2013, Third Supplemental Master Deed dated 2 March 2015, Fourth Supplemental Master Deed dated 25 May 2015, Fifth Supplemental Master Deed dated 11 December 2018 and Sixth Supplemental Master Deed dated 2 February 2023 (collectively referred to as “the Deeds”) between RHB Asset Management Sdn Bhd (“the Manager”) and HSBC (Malaysia) Trustee Berhad (“the Trustee”).

The Fund was launched on 26 February 2003 and will continue its operations until terminated according to the conditions provided in the Deed. The principal activity of the Fund is to invest in Permitted Investments as set out in the Deeds.

The main objective of the Fund is to provide investors with higher than average income returns compared to fixed deposits over a medium to long term period through investments in a portfolio of predominantly quality fixed income securities with minimum risk to capital invested.

All investments will be subject to the Securities Commission Malaysia (“SC”)’s Guidelines on Unit Trust Funds, SC’s requirements, the Deeds, except where exemptions or variations have been approved by the SC, internal policies and procedures and objective of the Fund.

The Manager, a company incorporated in Malaysia is a wholly-owned subsidiary of RHB Investment Bank Berhad, effective 6 January 2003. Its principal activities include rendering of investment management services, private retirement schemes and management of unit trust funds and provision of investment advisory services.

These financial statements were authorised for issue by the Manager on 22 November 2023.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **2.1 Basis of preparation of the financial statements**

The financial statements have been prepared under the historical cost convention, as modified by revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, except those as disclosed in the 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 MFRS and IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the financial period. It also requires the Manager to exercise its judgement in the process of applying the Fund’s accounting policies. Although these estimates and judgement are based on the Manager’s best knowledge of current events and actions, actual results may differ. There were no areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements.

(a) Standards and amendments to existing standards effective 1 April 2023

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 April 2023 that have a material effect on the financial statements of the Fund.

(b) New standards, amendments and interpretations effective after 1 April 2023 and have not been early adopted

A number of new standards and amendments to standards and interpretations are effective for the financial year beginning after 1 April 2023. None of these is expected to have a significant effect on the financial statements of the Fund, except the following set out below:

- Amendments to MFRS 101 ‘Classification of liabilities as current or non-current’ clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity’s expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

The amendment is effective for the annual financial reporting period beginning on or after 1 April 2024.

The amendment shall be applied retrospectively.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.2 Financial assets**

#### Classification

The Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss (“FVTPL”), and;
- those to be measured at amortised cost.

The Fund classifies its investments based on both the Fund’s business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets’ performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund’s debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund’s business model’s objective. Consequently, all investments are measured at fair value through profit or loss.

The Fund classifies cash and cash equivalents and amount due from Manager as financial assets measured at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.2 Financial assets (continued)**

#### 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. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value.

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

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in statement of income and expenses within net gain or losses on investments in the period in which they arise.

Interest on debt securities at fair value through profit or loss is recognised in the statement of income and expenses.

Unquoted fixed income securities denominated in Ringgit Malaysia are revalued on a daily basis based on fair value prices quoted by a bond pricing agency ("BPA") registered with the SC as per the SC 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 security 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 price.

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 the statement of financial position, which is a reasonable estimate of fair value due to the short-term nature of the deposits.

Financial assets at amortised cost are subsequently carried at amortised cost using the effective interest method.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.2 Financial assets (continued)**

#### Impairment of financial assets

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward-looking information in determining any expected credit loss. Management considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on the 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

#### Significant increase in credit risk

A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due or a counterparty credit rating which has fallen below BBB/Baa.

#### Definition of default and credit-impaired financial assets

Any contractual payment which is more than 90 days past due is considered credit impaired.

#### Write-off

The Fund writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on the unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Fund may write off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.3 Financial liabilities**

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

Financial liabilities, within the scope of MFRS 9, 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.

The Fund's financial liabilities which include amount due to Manager, accrued management fee, amount due to Trustee and other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective profit method.

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

### **2.4 Unit holders' capital**

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

- the units entitle the holder to a proportionate share of the Fund's net asset value;
- the units are the most subordinated class and class features are identical;
- there is no contractual obligation 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 statement of income and expenses of the Fund.

The outstanding units are carried at the redemption amount that is payable at each financial period if the unit holders exercise the right to put the units 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.5 Income recognition**

Interest income from deposits with licensed financial institutions and unquoted fixed income securities are recognised on an accrual basis using the effective interest method.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance).

Realised gain or loss on sale of unquoted fixed income securities are measured by the difference between disposal proceeds and the carrying amount of investments (adjusted for accretion of discount or amortisation of premium).

Net income or loss is the total of income less expenses.

### **2.6 Taxation**

Current tax expense is determined according to Malaysian tax laws and includes all taxes based upon the taxable income earned during the financial period.

### **2.7 Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise bank balances and deposits with licensed financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash which are/is subject to an insignificant risk of changes in value.

### **2.8 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.8 Presentation and functional currency (continued)**

Due to mixed factors in determining the functional currency of the Fund, the Manager has used its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions and have determined the functional currency to be in RM primarily due to the following factors:

- Part of the Fund's cash is denominated in RM for the purpose of making settlement of the creation and cancellation.
- The Fund's units are denominated in RM.
- The Fund's significant expenses are denominated in RM.
- The Fund's investments are significantly denominated in RM.

### **2.9 Foreign currency translation**

Foreign currency transactions in the Fund are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates prevailing at the reporting date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in statement of income and expenses.

## **3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Fund is exposed to a variety of risks, which include price risk, interest rate risk, currency risk, credit risk, liquidity 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 SC Guidelines on Unit Trust Funds.

### Price risk

Price risk is the risk that the fair value of the investments of the Fund will fluctuate because of changes in market prices.

The Fund is exposed to price risk arising from interest rate risk in relation to its investments of RM12,492,648 (31.03.2023: RM17,492,267) in unquoted fixed income securities. The Fund's exposure to price risk arising from interest rate risk and the related sensitivity analysis are disclosed in "Interest rate risk" below.

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Interest rate risk

In general, when interest rates rise, unquoted fixed income securities prices will tend to fall and vice versa. Therefore, the net asset value of the Fund may also tend to fall when interest rates rise or are expected to rise. 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.

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.

The table below summarises the sensitivity of the Fund's profit or loss and net asset value as at reporting date to movements in price 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 fluctuates by +/- 1% with all variable held constant.

<u>% Change in interest rate</u>	<b>Impact on profit or loss and net asset value</b>	
	<u>30.09.2023</u> RM	<u>31.03.2023</u> RM
+1%	(42,218)	(46,915)
-1%	42,420	46,098

The Fund's exposure to interest rate risk arises from investment in money market instruments is expected to be minimal as the Fund's investments comprise mainly short term deposits with approved licensed financial institutions.

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Currency risk

Currency risk is associated with financial instruments that are quoted and/or priced in foreign currency denomination. Malaysian based investor should be aware that if the Ringgit Malaysia appreciates against the currencies in which the portfolio of the investment is denominated, this will have an adverse effect on the net asset value of the Fund and vice versa. Investors should note any gains or losses arising from the movement of foreign currencies against its home currency may therefore increase/decrease the capital gains of the financial instruments. Nevertheless, investors should realise that currency risk is considered as one of the major risks to financial instruments in foreign assets due to the volatile nature of the foreign exchange market.

The Fund did not have any significant financial liabilities denominated in foreign currencies as at the reporting date. The following table indicates the currencies to which the Fund had significant exposure at the reporting date on its financial assets. The analysis calculates the effect of a reasonably possible movement of each foreign currency rate against Ringgit Malaysia on equity and on income with all other variables held constant.

The analysis is based on the assumption that the foreign exchange rate fluctuates by +/- 5%, with all other variables remain constants, the impact on statement of income and expenses and net asset value is +/- RM72 (31.03.2023: +/-RM73).

The following table sets out the currency risk concentration of the Fund:

	<b>Cash and cash equivalents</b>	<b>Total</b>
	<b>RM</b>	<b>RM</b>
<b><u>30.09.2023</u></b>		
United States Dollar	1,447	1,447
<b><u>31.03.2023</u></b>		
United States Dollar	1,458	1,458

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Credit risk

Credit risk refers to the possibility that the issuer of a particular investment will not be able to make timely or full payments of principal or income due on that investment. For investments in fixed income securities, risk is minimised by spreading its maturity profile. The credit risk arising from cash and cash equivalents is managed by ensuring that the Fund will only maintain cash balances and 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 Guidelines on Unit Trust Funds.

The following table sets out the credit risk concentration of the Fund:

	<u>Investments</u> RM	<u>Cash and cash equivalents</u> RM	<u>Amount due from Manager</u> RM	<u>Total</u> RM
<b><u>30.09.2023</u></b>				
AAA	-	474,631	-	474,631
A2	12,492,648	-	-	12,492,648
Others	-	-	22,612	22,612
	<u>12,492,648</u>	<u>474,631</u>	<u>22,612</u>	<u>12,989,891</u>
<b><u>31.03.2023</u></b>				
AAA	-	987,149	-	987,149
A2	12,324,567	-	-	12,324,567
C IS	5,167,700	-	-	5,167,700
	<u>17,492,267</u>	<u>987,149</u>	<u>-</u>	<u>18,479,416</u>

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations.

Liquidity risk exists when particular investments are difficult to sell, possibly preventing a unit trust fund from selling such illiquid securities at an advantageous time or price. Unit trust funds with principal investment strategies that involve securities or securities with substantial market and/or credit risk tend to have the greater exposure to liquidity risk. As part of its risk management, the Manager will attempt to manage the liquidity of the Fund through asset allocation and diversification strategies within the portfolio. The Manager will also conduct constant fundamental research and analysis to forecast future liquidity of its investments.

The table below summarises the Fund's financial liabilities into relevant maturity groupings based on the remaining period from 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 <u>month</u> RM</b>	<b>Between 1 <u>month to 1 year</u> RM</b>
<b><u>30.09.2023</u></b>		
Amount due to Manager	271,419	-
Accrued management fee	10,796	-
Amount due to Trustee	648	-
Other payables and accruals	-	6,820
	<u>282,863</u>	<u>6,820</u>
<b><u>31.03.2023</u></b>		
Amount due to Manager	196,235	-
Accrued management fee	20,970	-
Amount due to Trustee	1,258	-
Other payables and accruals	-	8,100
	<u>218,463</u>	<u>8,100</u>

### **3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

#### Capital risk

The capital of the Fund is represented by equity consisting of unit holders' capital of RM18,317,550 (31.03.2023: RM19,548,837) and accumulated losses of RM5,617,342 (31.03.2022: RM1,094,599). 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.

### **4. 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 and liabilities traded in an active market (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the financial period end date.

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

The fair value of financial assets and liabilities 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 financial 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 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.

The fair values are based on the following methodologies and assumptions:

- (i) For bank balances and deposits with licensed financial institutions with maturities less than 1 year, the carrying value is a reasonable estimate of fair value.
- (ii) The carrying value of receivables and payables are assumed to approximate their fair values due to their short term nature.

#### 4. FAIR VALUE ESTIMATION (CONTINUED)

##### Fair value hierarchy

The Fund adopted MFRS 13 “Fair Value Measurement” in respect of disclosures about the degree of reliability of fair value measurement. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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 following table analyses within the fair value hierarchy the Fund’s financial assets at fair value through profit or loss (by class) measured at fair value:

	<u>Level 1</u> RM	<u>Level 2</u> RM	<u>Level 3</u> RM	<u>Total</u> RM
<b><u>30.09.2023</u></b>				
<b>Financial assets at FVTPL:</b>				
- Unquoted fixed income securities	-	12,492,648	-	12,492,648
<b><u>31.03.2023</u></b>				
<b>Financial assets at FVTPL:</b>				
- Unquoted fixed income securities	-	17,492,267	-	17,492,267

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 includes unquoted fixed income investments. 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 2.2.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	<u>30.09.2023</u>	<u>31.03.2023</u>
	RM	RM
Bank balances	51,144	49,114
Deposits with licensed financial institutions	423,487	938,035
	<u>474,631</u>	<u>987,149</u>

## 6. INVESTMENTS

	<u>30.09.2023</u>	<u>31.03.2023</u>
	RM	RM
Investments:		
Unquoted fixed income securities - local	<u>12,492,648</u>	<u>17,492,267</u>

Investments as at 30 September 2023 are as follows:

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Asset Value</u>
		RM	RM	RM	%

### UNQUOTED FIXED INCOME SECURITIES -LOCAL

#### MALAYSIA

5.60% Alpha Circle Sdn Bhd 18/11/2022	C*	223,300	223,300	-	-
5.60% Alpha Circle Sdn Bhd 18/11/2022	C*	350,000	350,000	-	-
6.00% Alpha Circle Sdn Bhd 31/05/2023	C*	4,000,000	4,088,000	-	-
2.60% MEX I Capital Berhad 22/01/2029	A2**	1,871,224	1,885,461	1,944,956	15.32
2.60% MEX I Capital Berhad 21/01/2030	A2**	4,486,884	4,520,887	4,663,501	36.72
2.60% MEX I Capital Berhad 21/01/2037	A2**	1,184,822	1,004,003	1,246,852	9.82
2.60% MEX I Capital Berhad 21/01/2038	A2**	3,115,385	2,636,389	3,291,258	25.91
2.60% MEX I Capital Berhad 21/01/2039	A2**	741,049	613,561	786,292	6.19

## 6. INVESTMENTS (CONTINUED)

Investments as at 30 September 2023 are as follows: (continued)

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value</u> RM	<u>Cost</u> RM	<u>Fair Value</u> RM	<u>% of Net Asset Value</u> %
<b>UNQUOTED FIXED INCOME SECURITIES</b>					
<b>–LOCAL (CONTINUED)</b>					
<b>MALAYSIA (CONTINUED)</b>					
2.60% MEX I Capital Berhad 23/01/2040	A2**	526,176	430,342	559,789	4.41
6.00% MEX II Sdn Bhd 29/04/2030	D***	1,200,000	1,175,853	-	-
6.20% MEX II Sdn Bhd 29/04/2032	D***	1,500,000	1,524,614	-	-
6.40% MEX II Sdn Bhd 28/04/2034	D***	3,000,000	3,060,592	-	-
<b>TOTAL INVESTMENTS</b>			<b>21,513,002</b>	<b>12,492,648</b>	<b>98.37</b>

Investments as at 31 March 2023 are as follows:

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value</u> RM	<u>Cost</u> RM	<u>Fair Value</u> RM	<u>% of Net Asset Value</u> %
<b>UNQUOTED FIXED INCOME SECURITIES</b>					
<b>–LOCAL</b>					
<b>MALAYSIA</b>					
5.60% Alpha Circle Sdn Bhd 18/11/2022^^	C*	319,000	319,439	312,777	1.69
5.60% Alpha Circle Sdn Bhd 18/11/2022^^	C*	500,000	500,687	490,245	2.66
6.00% Alpha Circle Sdn Bhd 31/05/2023	C*	4,000,000	4,450,294	4,364,678	23.65
5.00% MEX I Capital Berhad 21/01/2037	A2**	1,184,822	998,660	1,227,027	6.65
5.00% MEX I Capital Berhad 21/01/2038	A2**	3,115,385	2,623,418	3,236,452	17.54

## 6. INVESTMENTS (CONTINUED)

Investments as at 31 March 2023 are as follows (continued):

<u>Name of Instruments</u>	<u>Rating</u>	<u>Nominal Value</u> RM	<u>Cost</u> RM	<u>Fair Value</u> RM	<u>% of Net Asset Value</u> %
<b>UNQUOTED FIXED INCOME SECURITIES</b>					
<b>–LOCAL (CONTINUED)</b>					
<b>MALAYSIA (CONTINUED)</b>					
5.00% MEX I Capital Berhad 21/01/2039	A2**	741,049	610,508	772,374	4.19
5.00% MEX I Capital Berhad 23/01/2040	A2**	526,176	428,266	549,538	2.98
5.00% MEX I Capital Berhad 22/01/2029	A2**	1,871,224	1,883,613	1,928,898	10.45
5.00% MEX I Capital Berhad 21/01/2030	A2**	4,486,884	4,516,591	4,610,278	24.98
6.00% MEX II Sdn Bhd 29/04/2030	D***	1,200,000	1,175,853	-	-
6.20% MEX II Sdn Bhd 29/04/2032	D***	1,500,000	1,524,614	-	-
6.40% MEX II Sdn Bhd 28/04/2034	D***	3,000,000	3,060,592	-	-
<b>TOTAL INVESTMENTS</b>			<b>22,092,535</b>	<b>17,492,267</b>	<b>94.79</b>

<sup>^</sup> *Maturity date extended to 18/11/2022*

<sup>^ ^</sup> *Maturity date extended to 31/05/2023*

\*Alpha Circle Sdn Bhd ("ACSB") RM60 million Senior Sukuk Musharakah and RM55 million Junior Sukuk Musharakah

Alpha Circle Sdn Bhd ("ACSB") has, since 2016, undertaken various re-termining exercises for its Senior Sukuk due to its lumpy debt maturities, and volatile foreign worker permit or Pas Lawatan Kerja Sementara ("PLKS") volumes owing to changes in government policy relating to the recruitment of foreign workers. In recent years, ACSB's parent company and concessionaire, NERS Sdn Bhd ("NERS"), has been adversely affected by lower PLKS volumes due to closure of international borders and the restriction on intake of foreign workers amid the pandemic.

## 6. INVESTMENTS (CONTINUED)

### \*Alpha Circle Sdn Bhd ("ACSB") RM60 million Senior Sukuk Musharakah and RM55 million Junior Sukuk Musharakah (continued)

ACSB has continued to rely on Sukukholders' indulgence to defer shortfalls on the Senior Sukuk obligations with repayments on a piecemeal basis. On 18 January 2023, MARC downgraded ACSB's rating to C from B after noting that ACSB has continued to face payment delays that have led to a severe liquidity crunch. Repayments over the years have, nonetheless, reduced the Senior Sukuk outstanding amount by 92% or RM498 million, from RM540 million to RM42 million currently. The latest repayment of the Senior Sukuk made by ACSB amounted to RM10 million on 28 July 2023.

On 15 March 2023, a news article was published on the arrest of several individuals by Malaysian Anti-Corruption Commission ("MACC") over alleged misappropriation of funds involving a project facilitating the registration, recruitment and biometric security system for foreign workers in the country. Investigations relating to the charges mentioned in the article are still ongoing, although we are not privy to the progress of this investigation. However, Sukukholders were made to understand that there was a diversion of funds with respect to the April 2022 to November 2022 payments from JIM as instructed by the Directors of NERS without the Sukukholders' and Trustee's consent ("Misappropriated Funds").

To avoid a default and risk termination of the concession at the time, Sukukholders collectively agreed to pass resolutions to extend the maturity of the RM60 million Senior Sukuk principal due on 23 March 2023 until further notice from the Sukukholders or until 31 May 2023 (i.e. the concession expiry), whichever is earlier.

Sukukholders were informed by NERS that a lawsuit has been brought by S5 Systems Sdn Bhd ("S5", which operates and maintains the NERS system) against NERS for amounts owed for services provided. Following a hearing on 3 April 2023, NERS was placed under Judicial Management.

While the Judicial Manager ("JM") has attempted to make contact with Kementerian Dalam Negeri ("KDN") to negotiate for an extension of the concession, the JM has been unsuccessful in securing a meeting. The concession expired on 31 May 2023, although there was no official notification from KDN at that time. Sukukholders passed resolutions to extend the maturity of the Senior Sukuk to 31 December 2023 and the Junior Sukuk to 31 March 2024 given uncertainties surrounding the concession. On 8 August 2023, Sukukholders were notified that KDN has decided not to grant an extension of the concession via a letter dated 3 August 2023. Without the extension of the concession, there will be no future cash inflows from the concession.

Meanwhile, payments from Jabatan Imigresen Malaysia ("JIM") for billings for the month of December 2023 up to April 2023 are lower than expected, as the Government has made profit-sharing deductions to the payments ("Profit-Sharing Deductions"). Sukukholders are of the view that such payments were not justified and have requested for the JM to seek clarification from JIM on this. Payment from JIM for May 2023 billing remains outstanding ("May 2023 Payment").

## 6. INVESTMENTS (CONTINUED)

### \*Alpha Circle Sdn Bhd ("ACSB") RM60 million Senior Sukuk Musharakah and RM55 million Junior Sukuk Musharakah (continued)

In light of these developments, Sukukholders are working with the Trustee and the JM to explore avenues to recover outstanding amounts owed to Sukukholders, including the May 2023 Payment, Profit-Sharing Deductions and Misappropriated Funds. The JM will also attempt to appeal for an extension of the concession. The JM will be providing a Statement of Proposal to the creditors of NERS, including Sukukholders, for approval in November 2023. Overall timeline for recovery remains uncertain at this juncture, particularly if litigation is involved.

### \*\*MEX I Capital Berhad ("MEX I Capital") RM1.126 billion Sukuk Musharakah

The restructuring of the Sukuk Musharakah ("Existing Sukuk") involving its redemption via an exchange with a new Sukuk Musharakah of RM1.126 billion in nominal value ("New Sukuk"), was completed on 21 January 2022.

RAM Ratings has assigned a rating of A2 to the New Sukuk on 19 January 2022, with a stable outlook premised on the cash flow generation of the Expressway vis-à-vis Sukuk payment obligations and the more restrictive covenants in place to govern the transaction.

In approving the restructuring on 13 October 2021, Sukukholders had agreed that any prevailing claims against the Issuer, Maju Expressway Sdn Bhd ("MESB") and/or Maju Holdings Sdn Bhd ("Maju Holdings") shall be nullified once the Existing Sukuk is exchanged with the New Sukuk. Upon the completion of the restructuring, the Sukukholders via the Trustee have withdrawn the notice of appeal for the claims on 18 February 2022.

### \*\*\*MEX II Sdn Bhd ("MEX II") RM1.30 billion Sukuk Murabahah Programme

On 18 October 2019, MARC had downgraded the rating of MEX II Sdn Bhd's ("MEX II") RM1.3 billion Sukuk Murabahah Programme from AA- to A whilst maintaining the rating on a negative outlook premised on rising completion risk and increased uncertainty with regard to completion and associated tolling date of the 16.8-km Lebuhraya KLIA (MEX Extension) project. MARC further placed MEX II's ratings on MARCWatch Negative on 22 May 2020 due to the lack of construction progress at the Expressway.

On 30 October 2020, MEX II fulfilled its obligation on the Sukuk with a full and timely profit payment of circa RM39 million from monies previously ring-fenced for the sole benefit of Sukukholders in a reserve account.

On 18 November 2020, MARC downgraded MEX II's ratings to BBB from A and the rating remained on MARCWatch Negative following concerns on MEX II's timely ability to obtain additional financing to meet its debt obligations in April 2021 and complete a sukuk restructuring exercise.

## 6. INVESTMENTS (CONTINUED)

### \*\*\*MEX II Sdn Bhd (“MEX II”) RM1.30 billion Sukuk Murabahah Programme (continued)

On 9 February 2021, MARC further downgraded the rating to BB from BBB while maintaining the rating on MARCWatch Negative due to escalating risk that MEX II may not be able to obtain a liquidity line in time to meet Sukuk principal and profit payments of RM68.7 million due on 29 April 2021.

On 26 March 2021, MARC downgraded MEX II’s rating to C from BB while maintaining the rating on MARCWatch Negative due to mounting liquidity pressure and the risk of missing the upcoming Sukuk payments on 29 April 2021, further highlighting that MEX II’s viability rests on a successful Sukuk restructuring through which additional funding will be available to complete the Expressway.

On 26 April 2021, Sukukholders holding in aggregate not less than 75% of the nominal value of the Sukuk had consented to the deferment of Sukuk principal and profit amounting to RM68.7 million originally due on (i) 28 April 2021 (i.e., principal repayment of RM30 million and the profit payment in respect of this tranche only) and (ii) 30 April 2021 (i.e., profit payments in respect of the other tranches) for 4 months until 27 August 2021.

On 24 August 2021, Sukukholders voted to approve the deferment of Sukuk obligations falling due on 27 August 2021 and 29 October 2021 to 31 December 2021 to buy more time for the proposed restructuring. On 3 January 2022, the Trustee formally declared an Event of Default when MEX II failed to remit the deferred amount on due date of 31 December 2021 upon which the Dissolution Amount of RM1,378,113,337.59 became immediately due and payable to Sukukholders. Resolutions for the Trustee to declare an Event of Default and to subsequently appoint a receiver were passed by Sukukholders earlier. Sukukholders had also earlier formally rejected MEX II’s request to extend the deferment period beyond 31 December 2021 as well as rejected the company’s restructuring proposal.

On 5 January 2022, MEX II applied for a Judicial Management Order (“JM Application”), resulting in an automatic moratorium against enforcement and such other creditor action. The Court had earlier fixed a Hearing on 23 February 2022 for the JM Application as well as for the Trustee (acting for and behalf of the Sukukholders) to seek leave of Court to proceed with enforcement/appointment of a receiver during the automatic moratorium period.

The Court Hearing, however, was postponed several times due to adjournments sought by the legal representative of MEX II and allowed by the Court for the parties to file further documents, from originally 23 February 2022 to 28 February 2022 then to 4 March 2022 and subsequently continued on 8 March 2022. The Judge then decided to reserve his decision to 26 April 2022.

## 6. INVESTMENTS (CONTINUED)

### \*\*\*MEX II Sdn Bhd (“MEX II”) RM1.30 billion Sukuk Murabahah Programme (continued)

On 26 April 2022, the Court dismissed the Issuer’s application for JM order and further allowed the Trustee’s Leave Application. Pursuant to the favorable outcome, Ernst & Young (EY) was appointed as the Receiver and Manager (R&M) of the secured property via Extraordinary Resolutions in Writing on 29 April 2022.

On 29 April 2022, Notice of Appeals (Appeals) were filed by the Issuer against the High Court’s decision and pursuant to case management on 1 September 2022, the High Court has fixed the cases to be heard on 15 May 2023.

On 10 May 2022, the Issuer served Notices of Motion (NOM) to preserve its assets until full and final dispose of the Appeal. On 12 August 2022, the Court of Appeal ruled in favour of Sukukholders by dismissing the NOMs.

EY had resigned on 13 February 2023, and BDO Consulting Sdn Bhd (BDO) has been appointed to replace EY as the R&M with effect from 27 February 2023. BDO will work with Sukukholders as well as the relevant government authorities and parties to expedite the restructuring of the Sukuk.

On 15 May 2023, the Court of Appeal has ruled in favour of the Sukukholders whereby the appeal sought by MEX II has been unsuccessful. On 15 Jun 2023, MEX II filed Motions to Appeal to Federal Court. A hearing took place on 26 Sep 2023, where the Appeal by MEX II was dismissed, exhausting all legal options for MEX II. The R&M continues to work on a restructuring proposal for MEX II.

## 7. UNITS IN CIRCULATION

	<u>30.09.2023</u>	<u>31.03.2023</u>
	Units	Units
At the beginning of the financial period/year	12,857,609	17,400,328
Creation of units during the financial period/year		
Arising from applications	2,335,000	6,692,281
Cancellation of units during the financial period/year	(3,975,000)	(11,235,000)
At the end of the financial period/year	<u>11,217,609</u>	<u>12,857,609</u>

## 8. MANAGEMENT FEE

In accordance with the Master Prospectus, the management fee provided in the financial statements is 1.00% (01.04.2022 – 30.09.2022: 1.00%) per annum based on the net asset value of the Fund, calculated on a daily basis for the financial period.

## 9. TRUSTEE'S FEE

In accordance with the Master Prospectus, the Trustee's fee provided in the financial statements is 0.06% (01.04.2022 – 30.09.2022: 0.06%) per annum based on the net asset value of the Fund, calculated on a daily basis for the financial period. The minimum Trustee fee is waived as agreed by the Trustee and Manager.

## 10. TAXATION

### (a) Tax charge for the financial period

	<b>01.04.2023- 30.09.2023</b>	<b>01.04.2022- 30.09.2022</b>
	<b>RM</b>	<b>RM</b>
Current taxation	-	-

### (b) Numerical reconciliation of income tax expense

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

	<b>01.04.2023- 30.09.2023</b>	<b>01.04.2022- 30.09.2022</b>
	<b>RM</b>	<b>RM</b>
Net loss before taxation	(4,522,743)	(19,619)
Tax calculated at a statutory income tax rate of 24%	(1,085,458)	(4,709)
Tax effects of:		
- Loss not deductible for tax purposes/(Income not subject to tax)	1,060,786	(24,442)
- Expenses not deductible for tax purposes	1,937	2,319
- Restriction on tax deductible expenses	22,735	26,832
Tax expense	-	-

## 12. TOTAL EXPENSE RATIO (“TER”)

	<u>01.04.2023- 30.09.2023</u> %	<u>01.04.2022- 30.09.2022</u> %
TER	<u>0.56</u>	<u>0.56</u>

The TER ratio is calculated based on total expenses of the Fund to the average net asset value of the Fund calculated on a daily basis.

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

	<u>01.04.2023- 30.09.2023</u>	<u>01.04.2022- 30.09.2022</u>
PTR (times)	<u>0.01</u>	<u>0.14</u>

The PTR ratio is calculated based on average of acquisition and disposals of the Fund for the financial period to the average net asset value of the Fund calculated on a daily basis.

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

The number of units held by the Manager and related party are as follows:

	<u>30.09.2023</u>		<u>31.03.2023</u>	
	Units	RM	Units	RM
The Manager	5,177	5,861	2,255,835	3,237,800
RHB Capital Nominees (Tempatan) Sdn Bhd	<u>153,846</u>	<u>174,184</u>	<u>198,615</u>	<u>285,072</u>

The units are held beneficially by the Manager for booking purposes. The Manager is of the opinion that all transactions with the related parties have been entered into in the normal course of business at agreed terms between the related parties.

The units held by RHB Capital Nominees (Tempatan) Sdn Bhd, a wholly owned subsidiary of ultimate holding company of the Manager, is under nominees structure.

Other than the above, there were no units held by the Directors or parties related to the Manager.

#### 14. UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER (CONTINUED)

The holding company and the ultimate holding company of the Manager is RHB Investment Bank Berhad and RHB Bank Berhad respectively. The Manager treats RHB Bank Berhad group of companies including RHB Investment Bank Berhad and its subsidiaries as related parties.

#### 15. TRANSACTIONS BY THE FUND

There was no transactions by the Fund for the financial period ended 30 September 2023.

Details of transactions by the Fund for the financial year ended 31 March 2023 are as follows:

<b><u>Broker/Financial institutions</u></b>	<b><u>Value of trades</u> RM</b>	<b><u>Percentage of total trades</u> %</b>	<b><u>Brokerage fees</u> RM</b>	<b><u>Percentage of total brokerage fees</u> %</b>
RHB Investment Bank Berhad*	3,383,600	62.82	-	-
CIMB Bank Berhad	2,003,000	37.18	-	-
	<u>5,386,600</u>	<u>100.00</u>	<u>-</u>	<u>-</u>

\* Included in transactions by the Fund are trade conducted with RHB Investment Bank Berhad, the holding company of the Manager. The Manager is of the opinion that all transactions with the related company have been entered into in the normal course of business at agreed terms between the related parties.

## 16. FINANCIAL INSTRUMENTS BY CATEGORIES

	<u>30.09.2023</u> RM	<u>31.03.2023</u> RM
<b>Financial assets</b>		
Financial assets at FVTPL		
• Unquoted fixed income securities	12,492,648	17,492,267
Financial assets at amortised cost		
• Bank balances	51,144	49,114
• Deposits with licensed financial institutions	423,487	938,035
• Amount due from Manager	22,612	-
	<u>497,243</u>	<u>987,149</u>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost		
• Amount due to Manager	271,419	-
• Accrued management fee	10,796	15,734
• Amount due to Trustee	648	944
• Other payables and accruals	6,820	8,500
	<u>289,683</u>	<u>25,178</u>

**STATEMENT BY MANAGER  
RHB INCOME FUND 2**

We, Dato' Darawati Hussain and Syed Ahmad Taufik Albar, two of the Directors of RHB Asset Management Sdn Bhd, do hereby state that in the opinion of the Directors of the Manager, the accompanying unaudited statement of financial position, unaudited statement of income and expenses, unaudited statement of changes in net asset value, unaudited statement of cash flows and the accompanying notes, are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Fund as at 30 September 2023 and of its financial performance and cash flows for the financial period then ended and comply with the provisions of the Deeds.

On behalf of the Manager,

Dato' Darawati Hussain  
Director

Syed Ahmad Taufik Albar  
Director

22 November 2023

## TRUSTEE'S REPORT

To the unit holders of RHB Income Fund 2 (“Fund”),

We have acted as Trustee of the Fund for the financial period ended 30 September 2023 and we hereby confirm to the best of our knowledge, after having made all reasonable enquiries, RHB Asset Management Sdn Bhd has operated and managed the Fund during the period covered by these financial statements in accordance with the following:

1. Limitations imposed on the investment powers of the Management Company under the Deeds, securities laws and the Guidelines on Unit Trust Funds;
2. Valuation and pricing is carried out in accordance with the Deeds; and
3. Any creation and cancellation of units are carried out in accordance with the Deeds and any regulatory requirement.

Notwithstanding the above, the value of investment in the debenture of MEX I Capital Bhd amounting to 98.37% of the Fund’s NAV (as at 30 September 2023) and total value of investment in Maju Holdings Sdn Bhd (comprises of MEX II Sdn Bhd and MEX I Capital Bhd) amounting to 98.37% have inadvertently exceeded the investment spread limits as prescribed in paragraph (7) under Schedule B\* and paragraph (2) and (6) under Schedule B-Appendix II\*\* of SC Guidelines on Unit Trust Funds. The Management Company will continue to monitor the position until rectified.

For HSBC (Malaysia) Trustee Berhad

Yap Lay Guat  
Manager, Investment Compliance Monitoring

Kuala Lumpur  
22 November 2023

\* Paragraph (7) The aggregate value of a fund’s investments in, or exposure to, a single issuer through (a) transferable securities; (b) money market instruments; (c) deposits; (d) underlying assets of derivatives; and (e) counterparty exposure arising from the use of OTC derivatives, must not exceed 25% of the fund’s NAV.

\*\*Paragraph (2) The value of a fund’s investments in (a) transferable securities; and (b) money market instruments, issued by any single issuer must not exceed 20% of the fund’s NAV; Paragraph (6) The value of a fund’s investments in transferable securities and money market instruments issued by any group of companies must not exceed 30% of the fund’s NAV.

## CORPORATE INFORMATION

### MANAGER

RHB Asset Management Sdn Bhd

### REGISTERED OFFICE

Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur

### PRINCIPAL AND BUSINESS OFFICE

Level 8, Tower Two & Three, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur

Email address: rhbam@rhbgroup.com

Tel: 03 - 9205 8000

Fax: 03 - 9205 8100

Website: www.rhbgroup.com

### BOARD OF DIRECTORS

Mr Yap Chee Meng (*Independent Non-Executive Chairman*)

(*Resigned with effect from 22 May 2023*)

Mr Chin Yoong Kheong (*Independent Non-Executive Chairman*)

(*Redesignated with effect from 22 May 2023*)

YBhg Dato' Darawati Hussain (*Senior Independent Non-Executive Director*)

(*Redesignated with effect from 22 May 2023*)

Tuan Syed Ahmad Taufik Albar (*Non-Independent Non-Executive Director*)

Mohd Farid Bin Kamarudin (*Chief Executive Officer / Managing Director*)

(*Appointed with effect from 1 August 2023*)

Puan Hijah Arifakh Binti Othman (*Independent Non-Executive Director*)

(*Resigned with effect from 1 June 2023*)

Puan Sharizad Binti Juma'at (*Independent Non-Executive Director*)

(*Appointed with effect from 22 May 2023*)

### INVESTMENT COMMITTEE MEMBERS

Mr Yap Chee Meng (*Independent Chairman*)

(*Resigned with effect from 22 May 2023*)

YBhg Dato' Darawati Hussain (*Independent Chairperson*)

(*Redesignated with effect from 22 May 2023*)

Puan Hijah Arifakh Binti Othman

(*Resigned with effect from 1 June 2023*)

Mr Chin Yoong Kheong (*Appointed with effect from 22 May 2023*)

Puan Sharizad Binti Juma'at (*Appointed with effect from 22 May 2023*)

## **CORPORATE INFORMATION (CONTINUED)**

### **CHIEF EXECUTIVE OFFICER / MANAGING DIRECTOR**

Mohd Farid Bin Kamarudin (*Appointed with effect from 1 August 2023*)

### **SECRETARIES**

Encik Azman Shah Md Yaman (LS No. 0006901)

Cik Hasnita Sulaiman (MAICSA No. 7060582)

Filza Zainal Abidin (LS No. 0008413)

## **BRANCH OFFICE**

Shah Alam Office	B-3-1, 1st Floor Jalan Serai Wangi G16/G, Alam Avenue Persiaran Selangor, Section 16 40200 Shah Alam Tel: 03-5523 1909 Fax: 03-5524 3471
Sri Petaling Office	Level 1 & 2, No 53 Jalan Radin Tengah Bandar Baru Seri Petaling 57000 Kuala Lumpur Tel: 03-9054 2470 Fax: 03-9054 0934
Ipoh Office	No.7A, Persiaran Greentown 9 Pusat Perdagangan Greentown 30450 Ipoh, Perak Tel: 05-242 4311 Fax: 05-242 4312
Johor Bahru Office	No 34 Jalan Kebun Teh 1 Pusat Perdagangan Kebun Teh 80250 Johor Bahru, Johor Tel: 07-221 0129 Fax: 07-221 0291
	2nd Floor, 21 & 23 Jalan Molek 1/30, Taman Molek 81100 Johor Bahru, Johor Tel: 07-358 3587 Fax: 07-358 3581
Kuantan Office	1st Floor, Lot 10, Jalan Putra Square 1 Putra Square 25300 Kuantan, Pahang Tel: 09-517 3611/ 09-517 3612/ 09-531 6213 Fax: 09-517 3615
Kuching Office	Lot 133, Section 20, Sublot 2 & 3 1st Floor, Jalan Tun Ahmad Zaidi Adruce 93200 Kuching, Sarawak Tel: 082-550 838 Fax: 082-550 508
	Yung Kong Abell, Units 1-10 2nd Floor Lot 365 Section 50 Jalan Abell 93100 Kuching, Sarawak Tel: 082-245 611 Fax: 082-230 326

Kota Bharu Office	Ground Floor, No 3486-G Jalan Sultan Ibrahim 15050 Kota Bharu, Kelantan Tel: 09-740 6891 Fax: 09-740 6890
Kota Kinabalu Office	Lot No. C-02-04, 2nd Floor Block C, Warisan Square Jalan Tun Fuad Stephens 88000 Kota Kinabalu Sabah Tel: 088-528 686/ 088-528 692 Fax: 088-528 685
Melaka Office	581B, Taman Melaka Raya 75000 Melaka Tel: 06-284 4211/ 06-281 4110 Fax: 06-292 2212
Penang Office	3rd Floor, 44 Lebuhr Pantai 10300 Georgetown, Penang Tel: 04-264 5639 Fax: 04-264 5640
Prai Office	No 38, First Floor Jalan Todak 2 Seberang Jaya 13700 Perai, Penang Tel: 04-386 6670 Fax: 04-386 6528

<b>TRUSTEE</b>	HSBC (Malaysia) Trustee Berhad
<b>BANKER</b>	RHB Bank Berhad
<b>AUDITORS</b>	PricewaterhouseCoopers PLT
<b>TAX ADVISER</b>	PricewaterhouseCoopers Taxation Services Sdn Bhd
<b>DISTRIBUTORS</b>	RHB Asset Management Sdn Bhd RHB Bank Berhad RHB Investment Bank Berhad Affin Bank Berhad Alliance Bank Malaysia Berhad AmBank (M) Berhad AmInvestment Bank Berhad APEX Investment Services Berhad Areca Capital Sdn Bhd CIMB Private Banking CIMB Wealth Advisors Berhad Genexus Advisory Sdn Bhd Hong Leong Bank Berhad iFAST Capital Sdn Bhd Kenanga Investors Berhad Manulife Asset Management (Malaysia) Sdn Bhd OCBC Bank (Malaysia) Berhad Phillip Mutual Berhad Standard Chartered Bank Malaysia Berhad United Overseas Bank (Malaysia) Berhad UOB Kay Hian Securities (M) Sdn Bhd

**RHB** ♦ Asset Management

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