

# Hong Leong Islamic Income Management Fund

**Annual Report**

For The Financial Year Ended 31 October 2022

**2021/2022**

Audited



**Hong Leong Islamic Income Management Fund**

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# Manager’s Review and Report

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## I. FUND INFORMATION

**Fund Name**

Hong Leong Islamic Income Management Fund

**Fund Category**

Fixed Income (Islamic)

**Fund Type**

Income

**Investment Objective**

To provide investors with a low risk investment portfolio offering a stable and regular stream of income\* and stability in capital\*\* while adhering to Shariah requirements.

**Duration of the Fund and its termination date, where applicable**

Not Applicable

**Benchmark**

Malayan Banking Berhad 1-Month General Investment Account (GIA) Rate

**Distribution Policy**

The Fund aims to provide monthly cash distributions on a best effort basis. The rate of the cash distribution will be determined at every month end in order to bring the NAV of the Fund to the proposed range of RM0.5000 per unit. The distribution will be subject to availability of sufficient reserves for cash distribution.

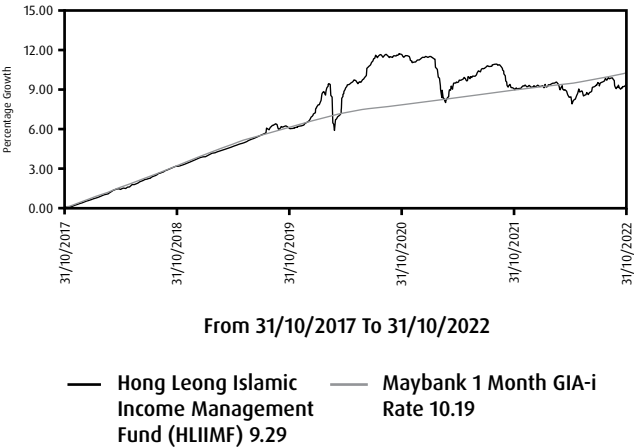
Notes:

\* Income may be distributed in the form of cash and/or Units.

\*\* Please take note that this Fund is not a capital guaranteed fund or a capital protected fund and the returns are not guaranteed.

II. FUND PERFORMANCE

**Chart 1: Performance of the Fund versus the benchmark covering the last five financial years**



Source: Lipper For Investment Management, In Malaysian Ringgit terms, ex-distribution, NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from HLIIMF reinvested.

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

**Performance Review**

This Annual Report covers the twelve-month financial year from 1 November 2021 to 30 October 2022.

The Fund posted a return of 0.22% (based on NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from the Fund reinvested) in the past twelve months while its benchmark the Maybank 1-Month GIA-I registered a return of 1.21%. During the financial year under review, the Fund has distributed 9 times of income distributions to its Unitholders. Unitholders should note that income distributions have the effect of reducing the Net Asset Value (NAV) of the Fund after distributions.

For a full description of the income distributions, cum-distributions and ex-distributions NAV per unit of the Fund, kindly refer to section entitled 'Performance Data' at page 52-55.

For the five financial years ended 31 October 2022, the Fund posted a return of 9.29% compared to the benchmark's return of 10.19% while distributing a total gross income of 6.80 sen per unit (net income of 6.80 sen per unit).

**Table 1: Performance of the Fund for the following periods as at 31 October 2022 (Source: Lipper For Investment Management)**

	31/07/22- 31/10/22	30/04/22- 31/10/22	31/10/21- 31/10/22	31/10/19- 31/10/22	31/10/17- 31/10/22	31/10/12- 31/10/22	26/04/07- 31/10/22
	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Launch
HLIIMF (%)	-0.12	0.85	0.22	3.08	9.29	26.45	47.41
Benchmark (%)	0.40	0.71	1.21	3.89	10.19	29.39	48.44

**Table 2: Return of the Fund based on NAV Per Unit-to-NAV Per Unit basis for the period 31 October 2021 to 31 October 2022 (Source: Lipper For Investment Management)**

	31-Oct-22	31-Oct-21	Return (%)
NAV Per Unit	RM0.4933	RM0.4988*	0.22#
Benchmark	1.70%	1.00%	1.21
<b>vs Benchmark (%)</b>	-	-	-0.99

\* Based on NAV Per Unit on 29 October 2021 as the above-mentioned reporting date falls on a weekend.

# Return is calculated after adjusting for income distributions during the financial year under review.

**Table 3: Financial Highlights**

The Net Asset Value attributable to Unitholders is represented by:

	31-Oct-22 (RM)	31-Oct-21 (RM)	Change (%)
Unitholders' Capital	5,354,483	6,820,131	(21.49)
Retained Earnings	2,042,534	2,131,914	(4.19)
<b>Net Asset Value</b>	<b>7,397,017</b>	8,952,045	(17.37)
<b>Units in Circulation</b>	<b>14,994,179</b>	17,949,228	(16.46)

**Table 4: The Highest and Lowest NAV Per Unit, Total Return of the Fund and the breakdown into Capital Growth and Income Distribution for the financial years**

	Financial Year 31/10/21- 31/10/22	Financial Year 31/10/20- 31/10/21	Financial Year 31/10/19- 31/10/20
Highest NAV Per Unit (RM)	0.5003	0.5247	0.5268
Lowest NAV Per Unit (RM)	0.4914	0.4987	0.5037
Capital Growth (%)	-1.10	-4.94	2.86
Income Distribution (%)	1.32	2.70	2.34
<b>Total Return (%)</b>	<b>0.22</b>	<b>-2.24</b>	<b>5.20</b>

Source: Lipper For Investment Management, In Malaysian Ringgit terms, ex-distribution, NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from HLIIMF reinvested.

**Table 5: Average Total Return of the Fund**

	31/10/21- 31/10/22 1 Year	31/10/19- 31/10/22 3 Years	31/10/17- 31/10/22 5 Years
Average Total Return (%)	0.22	1.03	1.86

Source: Lipper For Investment Management, In Malaysian Ringgit terms, ex-distribution, NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from HLIIMF reinvested.

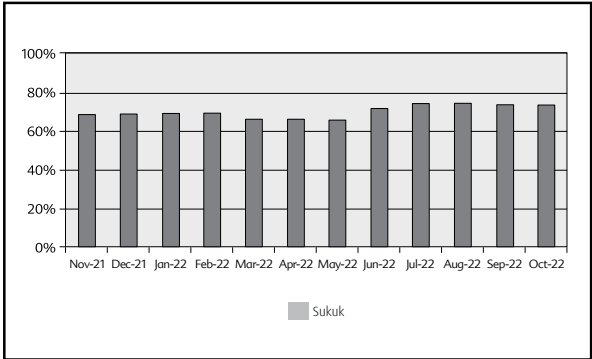
**Table 6: Annual Total Return of the Fund**

Financial Year	31/10/21- 31/10/22	31/10/20- 31/10/21	31/10/19- 31/10/20	331/10/18- 31/10/19	31/10/17- 31/10/18
Annual Total Return (%)	0.22	-2.24	5.20	2.81	3.14

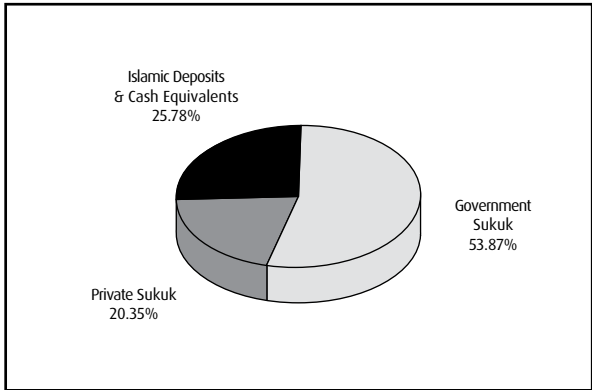
Source: Lipper For Investment Management, In Malaysian Ringgit terms, ex-distribution, NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from HLIMF reinvested.

**III. INVESTMENT PORTFOLIO**

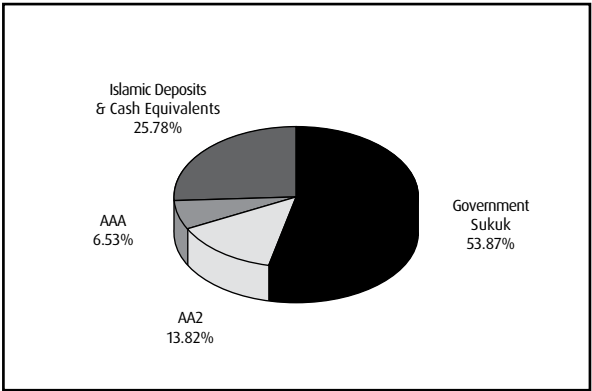
**Chart 2: Asset Allocation - November 2021 to October 2022**



**Chart 3: Sector Allocation as at 31 October 2022**



**Chart 4: Portfolio Composition by Ratings as at 31 October 2022**



**Strategies employed by the Fund during the period under review**

During the financial year under review, we maintained our defensive strategy to reduce duration in the Fund in order to manage fund volatility in a rising borrowing cost environment.

**An explanation on the differences in portfolio composition**

The Fund increased its government sukuk from 46% to 54% as rising yields in the first half of 2022 presented opportunity for the Fund to enhance current portfolio yields.

**Operational Review of the Fund**

For the financial year under review, there were no significant changes in the state of affairs of the Fund or circumstances that would materially affect the interest of Unitholders up to the date of this Manager’s report.



## IV. MARKET REVIEW

The first half of 2022 saw continued volatility in markets amid inflation fears, tighter monetary policy and surging crude oil prices following Russia's invasion of Ukraine. The US Federal Reserve (Fed) hiked borrowing costs in the March, May and June Federal Open Market Committee meetings to fight soaring inflation. During the review period, following the high and persistent inflationary pressures and strong labour market, the Fed raised the borrowing cost target range three times as the central bank began its policy normalization. The decision to raise borrowing costs more than 50 basis points (bps) marked the most aggressive increase made in a single meeting since May 2000. Over the last two decades, the Fed has opted to raise borrowing costs only in increments of 25bps with the latest move underscoring the severity that inflation poses at the moment. Meanwhile, Fed Chairman Jerome Powell said that borrowing costs would continue to rise until the central bank sees a 'compelling evidence' that inflation is slowing.

Locally, sukuk yields spiked in the first half of 2022 as the Bank Negara Malaysia (BNM) tightened its monetary policy. On the data front, Malaysia's Consumer Price Index (CPI) for August 2022 grew by 4.7% year-on-year; mainly driven by price increases in food and non-alcoholic beverages. On a year-to-date basis, Malaysia's CPI reading is at 3.1% as of end-August; which remains within BNM's official forecast of 2.2-3.2%. Meanwhile, the Budget 2023 is remaining expansionary to reinforce the post-pandemic recovery, with challenging global economic conditions and impending elections moderating the pace of fiscal consolidation.

On the monetary end, BNM raised the borrowing cost four times in the period lifting it off from the record low of 1.75% to 2.75%, marking the first borrowing cost hike since January 2018. BNM highlighted that as Malaysia is on transition to endemic phase of COVID-19 while the domestic economy is on a firmer path, it is important for BNM to reduce the degree of monetary policy accommodation. BNM maintained its assessment that the current monetary policy stance is still accommodative and supportive of economic growth.

## **V. FUTURE PROSPECTS AND PROPOSED STRATEGIES**

On the local data front, Malaysia recorded the biggest ever trade surplus of RM31.7 billion in September (August: +RM17.0 billion) as exports continued to post strong double-digit growth of 30.1% year-on-year (August: +48.1%) while import growth more than halved to 33.0% (from +67.3% in August). The latest export reading came in +29.0% but below Bloomberg consensus +31.5%, largely underpinned by higher shipments of electrical & electronics and oil & gas products with strong global energy prices lending further support. We are also penciling another 25bps borrowing cost hike in January 2023 bringing the terminal borrowing cost to 3% in the first half of 2023.

We maintain our defensive strategy to reduce duration in the Fund in order to manage fund volatility in a rising borrowing cost environment.

## **VI. SOFT COMMISSIONS**

The Manager has received soft commissions from brokers/dealers in the form of goods and services such as research materials, data and quotation services incidental to investment management of the Fund and investment related publications. Such soft commissions received are utilised in the investment management of the Fund and are of demonstrable benefit to the Fund and Unitholders and there was no churning of trades.

## **VII. SECURITIES LENDING OR REPURCHASE TRANSACTIONS**

No securities lending or repurchase transactions have been carried out during the financial year under review.

# **VIII. CROSS TRADE TRANSACTIONS**

No cross trade transactions have been carried out during the financial year under review.

## STATEMENT BY THE MANAGER

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I, Hoo See Kheng, as the Director of Hong Leong Asset Management Bhd, do hereby state that, in the opinion of the Manager, the financial statements set out on pages 18 to 51 are drawn up in accordance with the provision of the Deeds and give a true and fair view of the financial position of the Fund as at 31 October 2022 and of its financial performance, changes in equity and cash flows for the financial year ended 31 October 2022 in accordance with the Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

For and on behalf of the Manager,

**Hong Leong Asset Management Bhd**

**(Company No.: 199401033034 (318717-M))**

**HOO SEE KHENG**

Chief Executive Officer/Executive Director

Kuala Lumpur

16 December 2022

## TRUSTEE'S REPORT

### TO THE UNIT HOLDERS OF HONG LEONG ISLAMIC INCOME MANAGEMENT FUND ("Fund")

We have acted as Trustee of the Fund for the financial year ended 31 October 2022 and we hereby confirm to the best of our knowledge, after having made all reasonable enquiries, **Hong Leong Asset Management Bhd** has operated and managed the Fund during the year covered by these financial statements in accordance with the following:

- (a) Limitations imposed on the investment powers of the management company under the deed, securities laws and the Guidelines on Unit Trust Funds;
- (b) Valuation and pricing is carried out in accordance with the deed; and
- (c) Any creation and cancellation of units are carried out in accordance with the deed and any regulatory requirement.

We are of the opinion that the distributions of income by the Fund are appropriate and reflect the investment objective of the Fund.

For and on behalf of

**CIMB Commerce Trustee Berhad**

**Datin Ezreen Eliza binti Zulkiplee**

Chief Executive Officer

Kuala Lumpur

16 December 2022

# **SHARIAH ADVISER'S REPORT**

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## **TO THE UNIT HOLDERS OF HONG LEONG ISLAMIC INCOME MANAGEMENT FUND ("FUND"),**

We hereby confirm:

1. To the best of our knowledge, after having made all reasonable enquiries, Hong Leong Asset Management Bhd has operated and managed the Fund for the period covered by these financial statements namely, the year ended 31 October 2022, in accordance with Shariah principles and requirements and complied with the applicable guidelines, rulings or decisions issued by the Securities Commission Malaysia pertaining to Shariah matters; and
2. The assets of the Fund comprise instruments that have been classified as Shariah compliant.

For and on behalf of the Shariah Adviser,

**BIMB SECURITIES SDN BHD**

**IR. DR. MUHAMAD FUAD ABDULLAH**

Designated Shariah Person

Kuala Lumpur

16 December 2022

# **INDEPENDENT AUDITORS' REPORT**

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## **TO THE UNIT HOLDERS OF HONG LEONG ISLAMIC INCOME MANAGEMENT FUND**

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Our Opinion

In our opinion, the financial statements of Hong Leong Islamic Income Management Fund ("the Fund") give a true and fair view of the financial position of the Fund as at 31 October 2022 and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

#### What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 October 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 18 to 51.

#### Basis for opinion

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

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

### Independence and other ethical responsibilities

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

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

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

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

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

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

### Responsibilities of the Manager for the financial statements

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



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

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

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

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

- (a) Identify and assess the risks of material misstatement of the financial statements of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- (d) Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## OTHER MATTERS

This report is made solely to the unit holders of the Fund, as a body, and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT  
LLP0014401-LCA & AF 1146  
Chartered Accountants

Kuala Lumpur  
16 December 2022

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2022

	Note	2022 RM	2021 RM
<b>INVESTMENT INCOME/(LOSS)</b>			
Profit income from financial assets measured at fair value through profit or loss ("FVTPL")		160,739	220,908
Profit income from financial assets measured at amortised cost	4	44,139	43,157
Net loss on financial assets at fair value through profit or loss ("FVTPL")	10	(121,019)	(393,175)
		83,859	(129,110)
<b>EXPENDITURE</b>			
Management fee	5	(24,013)	(44,262)
Trustee's fee	6	(18,000)	(18,000)
Auditors' remuneration		(5,750)	(5,750)
Tax agent's fee		(2,600)	(2,950)
Other expenses		(18,373)	(21,175)
		(68,736)	(92,137)
<b>PROFIT/(LOSS) BEFORE TAXATION</b>		15,123	(221,247)
Taxation	7	-	-
<b>PROFIT/(LOSS) AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR</b>		15,123	(221,247)
Profit/(Loss) after taxation is made up as follows:			
Realised amount		136,142	101,284
Unrealised amount		(121,019)	(322,531)
		15,123	(221,247)
Distributions for the financial year:			
Net distributions	8	104,503	277,686
Net distributions per unit (sen)	8	0.6600	1.4300
Gross distributions per unit (sen)	8	0.6600	1.4300

The accompanying notes to the financial statements form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 31 OCTOBER 2022

	Note	2022 RM	2021 RM
<b>ASSETS</b>			
Cash and cash equivalents	9	1,932,500	3,309,980
Prepayment		356	25
Financial assets at fair value through profit or loss ("FVTPL")	10	5,489,750	5,664,627
<b>TOTAL ASSETS</b>		<b>7,422,606</b>	<b>8,974,632</b>
<b>LIABILITIES</b>			
Amount due to the Manager			
-management fee		1,883	2,630
-expenses		-	56
Amount due to the Trustee		12,099	11,050
Other payables and accruals		11,607	8,851
<b>TOTAL LIABILITIES</b>		<b>25,589</b>	<b>22,587</b>
<b>NET ASSET VALUE OF THE FUND</b>		<b>7,397,017</b>	<b>8,952,045</b>
<b>EQUITY</b>			
Unit holders' capital		5,354,483	6,820,131
Retained earnings		2,042,534	2,131,914
<b>NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS</b>		<b>7,397,017</b>	<b>8,952,045</b>
<b>UNITS IN CIRCULATION (UNITS)</b>	12	<b>14,994,179</b>	<b>17,949,228</b>
<b>NET ASSET VALUE PER UNIT (RM)</b>		<b>0.4933</b>	<b>0.4987</b>

The accompanying notes to the financial statements form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

### FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2022

	Note	Unit holders' capital RM	Retained earnings RM	Total RM
Balance as at 1 November 2021		6,820,131	2,131,914	8,952,045
Movement in net asset value:				
Creation of units from applications		240,018	-	240,018
Creation of units from distributions		104,503	-	104,503
Cancellation of units		(1,810,169)	-	(1,810,169)
Total comprehensive income for the financial year		-	15,123	15,123
Distributions for the financial year	8	-	(104,503)	(104,503)
Balance as at 31 October 2022		5,354,483	2,042,534	7,397,017
Balance as at 1 November 2020		6,459,526	2,630,847	9,090,373
Movement in net asset value:				
Creation of units from applications		3,102,000	-	3,102,000
Creation of units from distributions		277,686	-	277,686
Cancellation of units		(3,019,081)	-	(3,019,081)
Total comprehensive loss for the financial year		-	(221,247)	(221,247)
Distributions for the financial year	8	-	(277,686)	(277,686)
Balance as at 31 October 2021		6,820,131	2,131,914	8,952,045

The accompanying notes to the financial statements form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

### FOR THE FINANCIAL YEAR ENDED 31 OCTOBER 2022

	Note	2022 RM	2021 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from sales of financial assets at FVTPL		-	2,670,029
Purchase of financial assets at FVTPL		-	(4,836,859)
Profit income received from financial asset measured at FVTPL and amortised cost		258,736	336,975
Management fee paid		(24,760)	(45,484)
Trustee's fee paid		(16,951)	(17,845)
Payment for other fees and expenses		(24,354)	(29,518)
Net cash generated from/(used in) from operating activities		192,671	(1,922,702)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from creation of units		240,018	3,102,000
Payments for cancellation of units		(1,810,169)	(3,019,081)
Net cash (used in)/generated from financing activities		(1,570,151)	82,919
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(1,377,480)	(1,839,783)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR</b>		3,309,980	5,149,763
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	9	1,932,500	3,309,980

The accompanying notes to the financial statements form an integral part of these financial statements.

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

Hong Leong Islamic Income Management Fund (“the Fund”) was constituted pursuant to the execution of a Deed dated 16 March 2007 and Supplemental Deeds dated 11 April 2007, 30 April 2010, 9 May 2013, 25 March 2015 and 4 August 2017 (“the Deeds”) between the Manager, Hong Leong Asset Management Bhd and the Trustee, CIMB Commerce Trustee Berhad for the unit holders of the Fund.

The primary objective of the Fund is to provide investors with a low risk investment portfolio offering a stable and regular stream of income and stability in capital while adhering to Shariah requirements.

The Fund intends to invest mainly in Islamic money market instruments and short-to-medium term sukuk. Islamic money market instruments include Islamic deposits, and other short-term Islamic money market instruments such as Islamic negotiable instruments and Islamic repurchase agreements with licensed financial institutions. The Fund commenced operations on 26 April 2007 and will continue its operations until terminated as provided under Part 12 of the Deed.

The Manager of the Fund is Hong Leong Asset Management Bhd, a company incorporated in Malaysia. The principal activity of the Manager is the management of unit trust funds and private investment mandates. Its holding company is Hong Leong Capital Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

Hong Leong Islamic Asset Management Sdn Bhd (HLISAM) is the external fund manager appointed for Hong Leong Islamic Income Management Fund. The effective date for the appointment is at 17 April 2020. HLISAM is a wholly own subsidiary of the Manager, in November 2019, HLISAM was issued with an Islamic fund management license by the Securities Commission Malaysia to undertake the regulated activity of Islamic fund management.

The financial statements were authorised for issue by the Manager on 16 December 2022.



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

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements:

### **(a) Basis of preparation**

The financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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 revenue and expenses during the reported financial year. It also requires the Manager to exercise their judgment in the process of applying the Fund’s accounting policies. The Manager believes that the underlying assumptions are appropriate and the Fund’s financial statements therefore present the financial position results fairly. Although these estimates and judgment are based on the Manager’s best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(j).

- (i) Amendments to published standard and interpretations that are relevant and effective 1 November 2021.

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 November 2021 that have a material effect on the financial statements of the Fund.

- (ii) New standards, amendment and interpretations effective after 1 November 2021 and have not been early adopted.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 November 2021, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

## **(b) Financial assets and financial liabilities**

### Classification

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

- those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss), 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 flows 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<sup>1</sup> as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities<sup>2</sup> are solely principal and profit, 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 as financial asset measured at amortised cost as this financial asset is held to collect contractual cash flows consisting of the amount outstanding.

The Fund classifies amounts due to the Manager, amount due to the Trustee and other payables and accruals as financial liabilities measured at amortised cost.

#### 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. Shariah-compliant investments are initially recognised at fair value.

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.

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

<sup>1</sup> For the purposes of the investments made by the Fund, equity securities refer to Shariah-compliant equity securities.

<sup>2</sup> For the purposes of the investments made by the Fund, debt securities refer to sukuk.

Financial liabilities are derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Unrealised gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the statement of comprehensive income within net gain or loss on financial assets at fair value through profit or loss in the year which they arise.

Unquoted sukuk are revalued on a daily basis based on fair value prices quoted by a bond pricing agency (“BPA”) registered with the Securities Commission Malaysia as per the Securities Commission Malaysia’s Guidelines on Unit Trust Funds. Where such quotation are not available or where the Manager is of the view that the price quoted by the BPA for a specific unquoted sukuk 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 non-BPA price;
- (ii) obtains necessary internal approvals to use the non-BPA price; and
- (iii) keeps an audit trail of all decisions and basis for adopting the market yield.

Islamic deposits with licensed financial institutions are stated at cost plus accrued profit calculated on the effective profit rate method over the period from the date of placement to the date of maturity of the respective Islamic deposits, which is a close estimate of their fair value due to the short term nature of the Islamic deposits. Financial assets at amortised cost and other financial liabilities are subsequently carried at amortised cost using the effective profit rate method.

### Impairment

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 closed 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 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.

### 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 unavailability of obligor's sources of income or assets to generate sufficient future cash flows to pay 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. There are no write-offs/recoveries during the financial year.

### **(c) Functional and presentation 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 functional and presentation currency.

### **(d) Income recognition**

Profit income from cash at bank, Islamic deposits with licensed financial institutions and unquoted sukuk are recognised on the effective profit rate method on an accrual basis.

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

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

### **(e) Cash and cash equivalents**

For the purpose of statement of cash flows, cash and cash equivalents comprise cash at banks and Islamic deposits held in highly liquid Shariah-compliant investments that are readily convertible to known amounts of cash with an original maturity of three months or lesser which are subject to an insignificant risk of changes in value.

#### **(f) Amount due from/to brokers/dealers**

Amount due from/to brokers/dealers represents receivables/payables for Shariah-compliant investments sold/purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively.

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective profit rate method, less provision for impairment for amount due from brokers/dealers. A provision for impairment of amount due from a broker/dealer is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker/dealer. Significant financial difficulties of the broker/dealer, probability that the broker/dealer will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers/dealers is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, profit income is recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the impairment loss.

#### **(g) Taxation**

Current tax expense is determined according to Malaysian tax laws at the prevailing tax rate based on the taxable profit earned during the financial year.

#### **(h) Distributions**

A distribution to the Fund's unit holders is accounted for as a deduction from realised reserve. A proposed distribution is recognised as a liability in the financial year in which it is approved by the Board of Directors of the Manager.

## **(i) Unit holders' capital**

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

- the units entitle the unit 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 obligations to deliver cash or another financial asset other than the obligation on the Fund to repurchase the units; and
- the total expected cash flows from the units over its life are based substantially on the profit or loss and change in the net asset value of the Fund.

The outstanding units are carried at the redemption amount that is payable at the date of the statement of financial position if unit holder exercises the right to put the unit back to the Fund.

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

## **(j) Critical accounting estimates and judgments in applying accounting policies**

The Fund's makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Funds' results and financial position are tested for sensitivity to changes in the underlying parameters.



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

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

However, the Manager is of the opinion that there are no accounting policies which require significant judgment to be exercised.

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

The Fund is exposed to a variety of risks which include market risk (inclusive of price risk and interest rate risk), credit risk, liquidity risk, capital risk and Shariah status reclassification risk.

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

The following table analyses the financial assets and financial liabilities of the Fund in the statement of financial position as at the reporting date:

	Financial assets at FVTPL RM	Financial assets/ liabilities at amortised cost RM	Total RM
<b>2022</b>			
<u>Financial assets</u>			
Cash and cash equivalents (Note 9)	-	1,932,500	1,932,500
Financial assets at FVTPL (Note 10)	5,489,750	-	5,489,750
	<u>5,489,750</u>	<u>1,932,500</u>	<u>7,422,250</u>
<u>Financial liabilities</u>			
Amount due to the Manager			
-management fee	-	1,883	1,883
Amount due to the Trustee	-	12,099	12,099
Other payables and accruals	-	11,607	11,607
	<u>-</u>	<u>25,589</u>	<u>25,589</u>
<b>2021</b>			
<u>Financial assets</u>			
Cash and cash equivalents (Note 9)	-	3,309,980	3,309,980
Financial assets at FVTPL (Note 10)	5,664,627	-	5,664,627
	<u>5,664,627</u>	<u>3,309,980</u>	<u>8,974,607</u>
<u>Financial liabilities</u>			
Amount due to the Manager			
-management fee	-	2,630	2,630
-expenses	-	56	56
Amount due to the Trustee	-	11,050	11,050
Other payables and accruals	-	8,851	8,851
	<u>-</u>	<u>22,587</u>	<u>22,587</u>

All liabilities are financial liabilities which are carried at amortised cost.

## (a) Market risk

### (i) Price risk

Price risk arises mainly from the uncertainty about future prices of Shariah-compliant investments. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Manager manages the risk of unfavourable changes in prices by continuous monitoring of the performance and risk profile of the Shariah-compliant investment portfolio.

The price risk is managed through diversification and selection of Shariah-compliant securities and other financial instruments within specified limits according to the Deeds.

The Fund's overall exposure to price risk is as follows:

	<b>2022</b>	<b>2021</b>
	<b>RM</b>	<b>RM</b>
Financial assets at FVTPL:		
- Unquoted sukuk*	5,489,750	5,664,627

\* Includes profit receivables of RM33,180 (2021: RM33,537)

The table below summarises the sensitivity of the Fund's net asset value and (loss)/profit after taxation to movements in prices of unquoted sukuk at the end of each reporting year. The analysis is based on the assumptions that the price of the unquoted sukuk fluctuated by 5% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the unquoted sukuk having regard to the historical volatility of the prices.

<b>% Change in price of financial assets at FVTPL</b>	<b>Market value RM</b>	<b>Impact on (loss)/profit after taxation/ net asset value RM</b>
<b>2022</b>		
-5%	5,183,741	(272,829)
0%	5,456,570	-
5%	5,729,399	272,829
<b>2021</b>		
-5%	5,349,535	(281,555)
0%	5,631,090	-
5%	5,912,645	281,555

## **(ii) Interest rate risk**

In general, when interest rates rise, valuation for sukuk 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. However, investors should be aware that should the Fund hold a sukuk till maturity, such price fluctuations would dissipate as it approaches maturity, and thus the growth of the net asset value shall not be affected at maturity. In order to mitigate interest rates exposure of the Fund, the Manager will manage the duration of the portfolio via shorter or longer tenured assets depending on the view of the future interest rate trend of the Manager, which is based on its continuous fundamental research and analysis.

This risk is crucial since unquoted sukuk portfolio management depends on forecasting interest rate movements. Valuation of unquoted sukuk move inversely to interest rate movements, therefore as interest rates rise, the valuation of unquoted sukuk decrease and vice versa. Furthermore, unquoted sukuk with longer maturity and lower profit rates are more susceptible to interest rate movements.

Investors should note that unquoted sukuk are subject to interest rate fluctuations. Such Shariah-compliant investments may be subject to unanticipated rise in interest rates which may impair the ability of the issuers to make payments of profit income and principal, especially if the issuers are highly leveraged. An increase in interest rates may therefore increase the potential for default by an issuer.

The above interest rate is a general economic indicator that will have an impact on the management of the Fund regardless whether it is an Islamic unit trust fund or otherwise. It does not in any way suggest that the Fund will invest in conventional financial instruments. All the investments carried out for the Fund are in accordance with Shariah requirements.

The table below summarises the sensitivity of the Fund's net asset value and (loss)/profit after taxation to movements in prices of unquoted sukuk held by the Fund at the end of the reporting year as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate changed by 1% (100 basis points) with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the interest rate, having regard to the historical volatility of the interest rate.

<b>% Change in interest rate</b>	<b>2022 RM</b>	<b>2021 RM</b>
+1%	(198,471)	(250,121)
-1%	193,129	251,244

The Fund's exposure to interest rate risk associated with Islamic deposits with licensed financial institutions is not material as the Islamic deposits with licensed financial institutions are placed on a short term basis.

## **(b) Credit risk**

Credit risk refers to the risk that an issuer or counterparty will default on its contractual obligation resulting in financial loss to the Fund.

Investment in unquoted sukuk may involve a certain degree of credit/default risk with regards to the issuers. Generally, credit risk or default risk is the risk of loss due to the issuer's non-payment or untimely payment of the investment amount as well as the returns on investment. This will cause a decline in value of the defaulted unquoted sukuk and subsequently depress the net asset value of the Fund. Usually credit risk is more apparent for an investment with a longer tenure, i.e. the longer the duration, the higher the credit risk. Credit risk can be managed by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of its issuer. In addition, the Manager imposes a minimum rating requirement as rated by either local and/or foreign rating agencies and manages the duration of the investment in accordance with the objective of the Fund.

The credit risk arising from placements of Islamic deposits with licensed financial institutions is managed by ensuring that the Fund will only place Islamic deposits in reputable licensed financial institutions.

The settlement terms of the proceeds from the creation of units receivable from the Manager are governed by the Securities Commission Malaysia's Guidelines on Unit Trust Funds.

The credit/default risk is minimal as all transactions in unquoted investments are settled/paid upon delivery using approved brokers/dealers.

The following table sets out the credit risk concentration of the Fund at the end of each reporting year:

	Cash and cash equivalents RM	Unquoted sukuk RM	Total RM
<b>2022</b>			
- AAA	1,932,500	482,784	2,415,284
- AA2	-	1,021,864	1,021,864
- NR#	-	3,985,102	3,985,102
<b>Total</b>	<u>1,932,500</u>	<u>5,489,750</u>	<u>7,422,250</u>
<b>2021</b>			
- AAA	3,309,980	507,895	3,817,875
- AA3	-	1,043,630	1,043,630
- NR#	-	4,113,102	4,113,102
<b>Total</b>	<u>3,309,980</u>	<u>5,664,627</u>	<u>8,974,607</u>

# The unquoted sukuk are not rated as the unquoted sukuk are issued by the Government of Malaysia.

All financial assets of the Fund are neither past due nor impaired.

### (c) Liquidity risk

Liquidity risk is the risk that Shariah-compliant investments cannot be readily sold at or near its actual value without taking a significant discount. This will result in lower net asset value of the Fund.

The Manager manages this risk by maintaining sufficient level of Islamic liquid assets to meet anticipated payments and cancellations of the units by unit holders. Islamic liquid asset comprises cash at bank, Islamic deposits with licensed financial institutions and other Shariah-compliant instruments.

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

	Less than 1 month RM	1 month to 1 year RM	Total RM
<b>2022</b>			
<u>Financial liabilities</u>			
Amount due to the Manager			
-management fee	1,883	-	1,883
Amount due to the Trustee	12,099	-	12,099
Other payables and accruals	-	11,607	11,607
Contractual cash out flows	13,982	11,607	25,589
<b>2021</b>			
<u>Financial liabilities</u>			
Amount due to the Manager			
-management fee	2,630	-	2,630
-expenses	56	-	56
Amount due to the Trustee	11,050	-	11,050
Other payables and accruals	-	8,851	8,851
Contractual cash out flows	13,736	8,851	22,587

#### **(d) Capital risk**

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



#### **(e) Shariah status reclassification risk**

This risk refers to the risk of a possibility that the currently held sukuk or Islamic money market instruments or Islamic deposits invested by the Fund may be declared as Shariah non-compliant by the relevant authority or the Shariah Adviser. If this occurs, the Manager will take the necessary steps to dispose of or withdraw such fixed income instruments or money market instruments or deposits.

#### **(f) Fair value estimation**

Financial instruments comprise financial assets and financial liabilities. Fair value is 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. The information presented herein represents the estimates of fair values as at the date of the statement of financial position.

The Fund's financial assets and financial liabilities are measured on an ongoing basis at either fair value or at amortised cost based on the respective classification.

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

For instruments for which there is no active market, the Fund may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted Shariah-compliant equity and sukuk instruments for which market were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counter party risk.

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

(i) Fair value hierarchy

The table below analyses financial instruments carried at fair value. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active market for identical assets or liabilities (Level 1);
- 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 2); and
- Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that requires significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

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

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

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
<b>2022</b>				
<u>Financial assets at FVTPL:</u>				
- Unquoted sukuk	-	5,489,750	-	5,489,750
<b>2021</b>				
<u>Financial assets at FVTPL:</u>				
- Unquoted sukuk	-	5,664,627	-	5,664,627

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include unquoted sukuk. 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(b).

- (ii) The carrying values of financial assets (other than financial assets at FVTPL) and financial liabilities are a reasonable approximation of their fair values due to their short term nature.

#### 4. PROFIT INCOME FROM FINANCIAL ASSETS MEASURED AT AMORTISED COST

	2022 RM	2021 RM
Profit income from:		
- Islamic deposits with licensed financial institutions	44,093	43,144
- Cash at bank	46	13
	44,139	43,157

5. MANAGEMENT FEE

In accordance with Division 13.1 of the Deed, the Manager is entitled to a management fee of up to 2.00% per annum calculated daily based on the net asset value of the Fund.

For the financial year ended 31 October 2022, the management fee is recognised at a rate of 0.30% (01.11.2020 to 31.08.2021: 0.50% and 01.09.2021 to 31.10.2021: 0.30%) per annum.

There is no further liability to the Manager in respect of management fee other than the amount recognised above.

6. TRUSTEE’S FEE

In accordance with Division 13.2 of the Deed, the Trustee is entitled to a fee not exceeding 0.20% subject to a minimum of RM18,000 per annum calculated daily based on the net asset value of the Fund.

For the financial year ended 31 October 2022, the Trustee’s fee is recognised at a rate of 0.08% (2021: 0.08%) per annum. The Fund recognised the Trustee’s fee at RM18,000 based on terms agreed with the Trustee for the financial year ended 31 October 2022 and 31 October 2021.

There is no further liability to the Trustee in respect of Trustee’s fee other than the amount recognised above.

7. TAXATION

	2022 RM	2021 RM
Tax charge for the financial year:		
Current taxation	-	-

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

	<b>2022 RM</b>	<b>2021 RM</b>
Profit/(loss) before taxation	15,123	(221,247)
Taxation at Malaysian statutory rate of 24% (2021: 24%)	3,629	(53,099)
Tax effects of:		
(Shariah-compliant investment income not subject to tax)/Shariah-compliant investment loss disallowed from tax	(20,126)	30,986
Expenses not deductible for tax purposes	7,068	7,648
Restriction on tax deductible expenses for unit trust fund	9,429	14,465
Taxation	-	-

## 8. DISTRIBUTIONS

	<b>2022 RM</b>	<b>2021 RM</b>
Prior financial years' realised income	104,503	277,686
Net distributions amount	104,503	277,686
Net distributions per unit (sen)	0.6600	1.4300
Gross distributions per unit (sen)	0.6600	1.4300

### Date of Declaration

#### Distribution on 25 November

Gross/net distribution per unit (sen)	-	0.0800
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#### Distribution on 24 December

Gross/net distribution per unit (sen)	-	0.0800
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#### Distribution on 25 January

Gross/net distribution per unit (sen)	-	0.0800
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**Distribution on 25 February**

Gross/net distribution per unit (sen)	0.0600	0.0800
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**Distribution on 25 March**

Gross/net distribution per unit (sen)	0.0720	0.0800
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**Distribution on 25/23 April**

Gross/net distribution per unit (sen)	0.0780	0.0500
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**Distribution on 25 May**

Gross/net distribution per unit (sen)	0.0790	0.0500
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**Distribution on 27/25 June**

Gross/net distribution per unit (sen)	0.0900	0.0500
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**Distribution on 25/23 July**

Gross/net distribution per unit (sen)	0.0800	0.2200
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**Distribution on 25 August**

Gross/net distribution per unit (sen)	0.0640	0.2200
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**Distribution on 26/24 September**

Gross/net distribution per unit (sen)	0.0910	0.2200
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**Distribution on 25 October**

Gross/net distribution per unit (sen)	0.0460	0.2200
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Net distributions above are sourced from prior financial years' realised income. Gross distributions are derived using total income less total expenses.

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

The above distributions have been proposed before taking into account the unrealised loss of RM121,019 (2021: RM322,531) which is carried forward to the next financial year.

## 9. CASH AND CASH EQUIVALENTS

	2022 RM	2021 RM
Islamic deposits with licensed financial institutions	1,863,125	3,240,440
Cash at bank	69,375	69,540
	<u>1,932,500</u>	<u>3,309,980</u>

The weighted average effective rate of return per annum are as follows:

	2022 %	2021 %
Islamic deposits with licensed financial institutions	<u>2.45</u>	<u>1.65</u>

Islamic deposits with licensed financial institutions have an average remaining maturity of 1 day (2021: 1 day).

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	2022 RM	2021 RM
<u>Financial assets at FVTPL:</u>		
Unquoted sukuk	<u>5,489,750</u>	<u>5,664,627</u>
<u>Net loss on financial assets at FVTPL:</u>		
Realised loss on disposals	-	(70,644)
Changes in unrealised fair values	(121,019)	(322,531)
	<u>(121,019)</u>	<u>(393,175)</u>



Financial assets at FVTPL as at 31 October 2022 are as detailed below:

	Nominal value RM	Aggregate cost RM	Fair value RM	Percentage of net asset value %
<b>UNQUOTED SUKUK</b>				
<u>Sukuk</u>				
4.40% Infracap Resources Sdn Bhd (AAA) 15/04/2031 - Murabahah Tranche 1 S6	500,000	500,904	482,784	6.53
4.32% RHB Islamic Bank Berhad (AA2) 21/05/2024   21/05/2029 - Series 3	1,000,000	1,019,174	1,021,864	13.82
	1,500,000	1,520,078	1,504,648	20.35
<u>Government Investment Issues</u>				
3.726% Government of Malaysia 31/03/2026	4,000,000	4,204,871	3,985,102	53.87
<b>TOTAL UNQUOTED SUKUK</b>	<b><u>5,500,000</u></b>	<b><u>5,724,949</u></b>	<b><u>5,489,750</u></b>	<b><u>74.22</u></b>
<b>UNREALISED LOSS ON FINANCIAL ASSETS AT FVTPL</b>		<b><u>(235,199)</u></b>		
<b>TOTAL FAIR VALUE OF FINANCIAL ASSETS AT FVTPL</b>		<b><u>5,489,750</u></b>		

Financial assets at FVTPL as at 31 October 2021 are as detailed below:

	Nominal value RM	Aggregate cost RM	Fair value RM	Percentage of net asset value %
<b>UNQUOTED SUKUK</b>				
<u>Sukuk</u>				
4.40% Infracap Resources Sdn Bhd (AAA) 15/04/2031 - Murabahah Tranche 1 S6	500,000	501,034	507,895	5.67
4.32% RHB Islamic Bank Berhad (AA2) 21/05/2024   21/05/2029 - Series 3	1,000,000	1,019,410	1,043,630	11.66
	1,500,000	1,520,444	1,551,525	17.33
<u>Government Investment Issues</u>				
3.726% Government of Malaysia 31/03/2026	4,000,000	4,258,363	4,113,102	45.95
<b>TOTAL UNQUOTED SUKUK</b>	<b>5,500,000</b>	<b>5,778,807</b>	<b>5,664,627</b>	<b>63.28</b>
<b>UNREALISED LOSS ON FINANCIAL ASSETS AT FVTPL</b>		<b>(114,180)</b>		
<b>TOTAL FAIR VALUE OF FINANCIAL ASSETS AT FVTPL</b>		<b>5,664,627</b>		

Note: Certain unquoted sukuk may have call date and it's presented as "call date | maturity date".

## 11. SHARIAH INFORMATION OF THE FUND

The Shariah Adviser confirmed that the investment portfolio of the Fund is Shariah-compliant, which comprises:

- (i) Sukuk as per the list of sukuk available at Bond Info Hub and Fully Automated System for Issuing/Tendering of Bank Negara Malaysia; and
- (ii) Liquid assets in local market, which are placed in Shariah-compliant investments and/or instruments.

## 12. UNITS IN CIRCULATION

	2022 No. of units	2021 No. of units
At the beginning of the financial year	17,949,228	17,324,951
Add: Creation of units during the financial year		
- Arising from applications	481,098	6,051,651
- Arising from distributions	211,137	544,182
Less: Cancellation of units during the financial year	(3,647,284)	(5,971,556)
At the end of the financial year	14,994,179	17,949,228

## 13. TOTAL EXPENSE RATIO ("TER")

	2022 %	2021 %
TER	0.86	0.96

Total expense ratio includes management fee, Trustee's fee, auditors' remuneration, tax agent's fee and other expenses for the financial year divided by the Fund's average net asset value calculated on a daily basis and is calculated as follows:

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

Where;

- A = Management fee
- B = Trustee's fee
- C = Auditors' remuneration
- D = Tax agent's fee
- E = Other expenses
- F = Average net asset value of the Fund calculated on a daily basis

The average net asset value of the Fund for the financial year calculated on a daily basis is RM8,000,164 (2021: RM9,564,863).

#### 14. PORTFOLIO TURNOVER RATIO ("PTR")

	2022 Times	2021 Times
PTR	-	0.39

PTR is derived from the following calculation:

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

Where:

total acquisitions for the financial year = NIL (2021: RM4,783,630)  
total disposals for the financial year = NIL (2021: RM2,718,500)

#### 15. UNITS HELD BY THE MANAGER AND RELATED PARTIES TRANSACTIONS AND BALANCES

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

<u>Related parties</u>	<u>Relationships</u>
Hong Leong Asset Management Bhd	The Manager
Hong Leong Islamic Asset Management Sdn Bhd	Subsidiary of the Manager
Hong Leong Capital Berhad	Holding company of the Manager
Hong Leong Financial Group Berhad ("HLFG")	Ultimate holding company of the Manager
Subsidiaries and associates of HLFG as disclosed in its financial statements	Subsidiaries and associate companies of the ultimate holding company of the Manager

No units were held by the Manager and parties related to the Manager as at 31 October 2022 and 31 October 2021.

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other related party transactions and balances. The Manager is of the opinion that all transactions with the related companies have been entered into at agreed terms between the related parties.

	2022 RM	2021 RM
<u>Related party balances</u>		
Cash at bank		
- Hong Leong Islamic Bank Berhad	69,375	69,540
<u>Related party transactions</u>		
Profit income from Islamic deposits with licensed financial institutions:		
- Hong Leong Islamic Bank Berhad	17,281	5,556
Profit income from cash at bank:		
- Hong Leong Islamic Bank Berhad	45	13
	17,326	5,569
Purchase of unquoted sukuk:		
- Hong Leong Islamic Bank Berhad	-	500,050
Disposal of unquoted sukuk:		
- Hong Leong Islamic Bank Berhad	-	2,136,310

## 16. TRANSACTIONS WITH BROKERS/DEALERS

Detail of transactions with brokers/dealers are as follows:

	Values of trade RM	Percentage of total trade %
<b>2021</b>		
Hong Leong Islamic Bank Berhad*	2,636,360	35.17
Maybank Islamic Bank Berhad	2,169,980	28.95
CIMB Islamic Bank Berhad	2,166,828	28.90
RHB Investment Bank Berhad	523,317	6.98
	7,496,485	100.00

\* Transactions with brokers/dealers related to the Manager.

There is no transaction with brokers/dealers for the financial year ended 31 October 2022.

The Manager is of the opinion that all transactions with the related companies have been entered into at agreed terms between the related parties.

# Performance Data

A. (i) Portfolio Compositions:

	Private Sukuk	
	Government Sukuk	
	Islamic Deposits & Cash Equivalents	
(ii)	Total Net Asset Value	(ex-distribution)
(iii)	Net Asset Value Per Unit	(ex-distribution)
	Units in Circulation	(ex-distribution)
(iv)	Highest/Lowest NAV Per Unit	Highest NAV Per Unit
	(ex-distribution)	Lowest NAV Per Unit
(v)	Total Return of the Fund*	
	- Capital Growth	
	- Income Distribution	
(vi)	The distribution (gross) is made out of:-	
	- The Fund's Capital	
	- The Fund's Income	
	- Total Distribution Amount	
	- The Fund's Capital (% of Total Distribution Amount)	
	- The Fund's Income (% of Total Distribution Amount)	
(vii)	Distribution Per Unit	Additional Units
		Distribution (Gross)
		Distribution (Net)
		Distribution Date
		Cum-Distribution NAV/Unit
		EX-Distribution NAV/Unit
		Additional Units
		Distribution (Gross)
		Distribution (Net)
		Distribution Date
		Cum-Distribution NAV/Unit
		EX-Distribution NAV/Unit
		Additional Units
		Distribution (Gross)
		Distribution (Net)
		Distribution Date
		Cum-Distribution NAV/Unit
		EX-Distribution NAV/Unit
		Additional Units
		Distribution (Gross)
		Distribution (Net)
		Distribution Date
		Cum-Distribution NAV/Unit
		EX-Distribution NAV/Unit
		Additional Units
		Distribution (Gross)
		Distribution (Net)
		Distribution Date
		Cum-Distribution NAV/Unit
		EX-Distribution NAV/Unit

Financial Year 31/10/21- 31/10/22 %	Financial Year 31/10/20- 31/10/21 %	Financial Year 31/10/19- 31/10/20 %
20.35	17.33	43.61
53.87	45.95	-
25.78	36.72	56.39
<b>RM7,397,017</b>	<b>RM8,952,045</b>	<b>RM9,090,373</b>
<b>RM0.4933</b> <b>14,994,179</b>	<b>RM0.4988</b> <b>17,949,228</b>	<b>RM0.5247</b> <b>17,324,951</b>
<b>RM0.5003</b> <b>RM0.4914</b>	<b>RM0.5247</b> <b>RM0.4987</b>	<b>RM0.5268</b> <b>RM0.5037</b>
<b>0.22%</b> <b>-1.10%</b> <b>1.32%</b>	<b>-2.24%</b> <b>-4.94%</b> <b>2.70%</b>	<b>5.20%</b> <b>2.86%</b> <b>2.34%</b>
<b>0.5500 sen/unit</b> <b>0.1100 sen/unit</b> <b>0.6600 sen/unit</b> <b>83%</b> <b>17%</b>	<b>1.4300 sen/unit</b> <b>0.0000 sen/unit</b> <b>1.4300 sen/unit</b> <b>100%</b> <b>0%</b>	<b>0.0000 sen/unit</b> <b>1.1600 sen/unit</b> <b>1.1600 sen/unit</b> <b>0%</b> <b>100%</b>
- <b>0.0600 sen/unit</b> <b>0.0600 sen/unit</b> <b>25/02/2022</b> <b>RM0.4999</b> <b>RM0.4993</b>	- <b>0.0800 sen/unit</b> <b>0.0800 sen/unit</b> <b>25/11/2020</b> <b>RM0.5237</b> <b>RM0.5229</b>	- <b>0.1500 sen/unit</b> <b>0.1500 sen/unit</b> <b>25/11/2019</b> <b>RM0.5106</b> <b>RM0.5091</b>
- <b>0.07200 sen/unit</b> <b>0.07200 sen/unit</b> <b>25/03/2022</b> <b>RM0.4990</b> <b>RM0.4983</b>	- <b>0.0800 sen/unit</b> <b>0.0800 sen/unit</b> <b>24/12/2020</b> <b>RM0.5222</b> <b>RM0.5214</b>	- <b>0.1500 sen/unit</b> <b>0.1500 sen/unit</b> <b>24/12/2019</b> <b>RM0.5106</b> <b>RM0.5091</b>
- <b>0.0780 sen/unit</b> <b>0.0780 sen/unit</b> <b>25/04/2022</b> <b>RM0.4951</b> <b>RM0.4944</b>	- <b>0.0800 sen/unit</b> <b>0.0800 sen/unit</b> <b>25/01/2021</b> <b>RM0.5224</b> <b>RM0.5216</b>	- <b>0.1500 sen/unit</b> <b>0.1500 sen/unit</b> <b>24/01/2020</b> <b>RM0.5145</b> <b>RM0.5130</b>
- <b>0.0790 sen/unit</b> <b>0.0790 sen/unit</b> <b>25/05/2022</b> <b>RM0.4949</b> <b>RM0.4941</b>	- <b>0.0800 sen/unit</b> <b>0.0800 sen/unit</b> <b>25/02/2021</b> <b>RM0.5164</b> <b>RM0.5156</b>	- <b>0.1100 sen/unit</b> <b>0.1100 sen/unit</b> <b>25/02/2020</b> <b>RM0.5189</b> <b>RM0.5178</b>
- <b>0.0900 sen/unit</b> <b>0.0900 sen/unit</b> <b>27/06/2022</b> <b>RM0.4937</b> <b>RM0.4928</b>	- <b>0.0800 sen/unit</b> <b>0.0800 sen/unit</b> <b>25/03/2021</b> <b>RM0.5058</b> <b>RM0.5050</b>	- <b>0.1100 sen/unit</b> <b>0.1100 sen/unit</b> <b>25/03/2020</b> <b>RM0.5041</b> <b>RM0.5030</b>
- <b>0.0800 sen/unit</b> <b>0.0800 sen/unit</b> <b>25/07/2022</b> <b>RM0.4960</b> <b>RM0.4952</b>	- <b>0.0500 sen/unit</b> <b>0.0500 sen/unit</b> <b>23/04/2021</b> <b>RM0.5106</b> <b>RM0.5101</b>	- <b>0.1100 sen/unit</b> <b>0.1100 sen/unit</b> <b>24/04/2020</b> <b>RM0.5166</b> <b>RM0.5155</b>
- <b>0.0640 sen/unit</b> <b>0.0640 sen/unit</b> <b>25/08/2022</b> <b>RM0.4973</b> <b>RM0.4967</b>	- <b>0.0500 sen/unit</b> <b>0.0500 sen/unit</b> <b>25/05/2021</b> <b>RM0.5120</b> <b>RM0.5115</b>	- <b>0.0600 sen/unit</b> <b>0.0600 sen/unit</b> <b>22/05/2020</b> <b>RM0.5188</b> <b>RM0.5182</b>
- <b>0.0910 sen/unit</b> <b>0.0910 sen/unit</b> <b>26/09/2022</b> <b>RM0.4938</b> <b>RM0.4929</b>	- <b>0.0500 sen/unit</b> <b>0.0500 sen/unit</b> <b>25/06/2021</b> <b>RM0.5121</b> <b>RM0.5116</b>	- <b>0.0600 sen/unit</b> <b>0.0600 sen/unit</b> <b>25/06/2020</b> <b>RM0.5190</b> <b>RM0.5184</b>

# Performance Data

Additional Units
Distribution (Gross)
Distribution (Net)
Distribution Date
Cum-Distribution NAV/Unit
EX-Distribution NAV/Unit
Additional Units
Distribution (Gross)
Distribution (Net)
Distribution Date
Cum-Distribution NAV/Unit
EX-Distribution NAV/Unit
Additional Units
Distribution (Gross)
Distribution (Net)
Distribution Date
Cum-Distribution NAV/Unit
EX-Distribution NAV/Unit
Additional Units
Distribution (Gross)
Distribution (Net)
Distribution Date
Cum-Distribution NAV/Unit
EX-Distribution NAV/Unit

- (viii) Total Expense Ratio (TER)
- (ix) Portfolio Turnover Ratio (PTR) (times)

**B. Average Total Return, NAV Per Unit-to-NAV Per Unit basis (as at 31/10/2022)\***

- (i) One Year
- (ii) Three Years
- (iii) Five Years

\* Source: Lipper For Investment Management  
(Returns are calculated after adjusting for distributions and/or additional units, if any)

# The PTR decreased by 0.39 times (100.00%) to NIL for the financial year ended 31 October 2022 versus 0.39 times for the financial year ended 31 October 2021 mainly due to **lower level of rebalancing activities undertaken by the Fund.**



Financial Year 31/10/21- 31/10/22 %	Financial Year 31/10/20- 31/10/21 %	Financial Year 31/10/19- 31/10/20 %
-	-	-
0.0460 sen/unit	0.2200 sen/unit	0.0600 sen/unit
0.0460 sen/unit	0.2200 sen/unit	0.0600 sen/unit
25/10/2022	23/07/2021	24/07/2020
RM0.4934	RM0.5144	RM0.5249
RM0.4929	RM0.5122	RM0.5243
-	-	-
-	0.2200 sen/unit	0.0600 sen/unit
-	0.2200 sen/unit	0.0600 sen/unit
-	25/08/2021	25/08/2020
-	RM0.5136	RM0.5268
-	RM0.5114	RM0.5262
-	-	-
-	0.2200 sen/unit	0.0600 sen/unit
-	0.2200 sen/unit	0.0600 sen/unit
-	24/09/2021	25/09/2020
-	RM0.5093	RM0.5255
-	RM0.5071	RM0.5249
-	-	-
-	0.2200 sen/unit	0.0800 sen/unit
-	0.2200 sen/unit	0.0800 sen/unit
-	25/10/2021	23/10/2020
-	RM0.5013	RM0.5258
-	RM0.4991	RM0.5250
0.86%	0.96%	1.01%
-#	0.39	0.31
0.22%		
1.03%		
1.86%		

# Corporate Information

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## Manager

Hong Leong Asset Management Bhd [199401033034 (318717-M)]

## Registered Office

Level 30, Menara Hong Leong  
No. 6, Jalan Damansara  
Bukit Damansara  
50490 Kuala Lumpur

## Business Office

Level 18, Block B, Plaza Zurich  
No. 12, Jalan Gelenggang  
Bukit Damansara  
50490 Kuala Lumpur

## Board of Directors

Ms. Lee Jim Leng  
Mr. Hoo See Kheng  
Dato' Abdul Majit Bin Ahmad Khan  
Tunku Dato' Mahmood Fawzy Bin Tunku Muhiyiddin

## Executive Director / Chief Executive Officer

Mr. Hoo See Kheng

## External Fund Manager

Hong Leong Islamic Asset Management Sdn Bhd [198501008000 (140445-U)]

## Trustee

CIMB Commerce Trustee Berhad

## Shariah Adviser

BIMB Securities Sdn Bhd

## Auditor

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146)

## Agents

Hong Leong Bank Berhad  
Standard Chartered Bank Malaysia Berhad  
United Overseas Bank (Malaysia) Berhad  
Affin Bank Berhad  
OCBC Bank (Malaysia) Berhad  
Malayan Banking Berhad  
Areca Capital Sdn Bhd  
Registered Independent Tied Agents with FiMM

# Corporate Directory

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## **Head Office**

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