



NOMURA

Nomura Ringgit Bond Fund 1

Annual Report and Audited Financial Statements For The
Financial Period from 01 July 2019 to 31 December 2019

MANAGER: NOMURA ASSET MANAGEMENT MALAYSIA SDN BHD
Business Registration No.: 200601028939 (748695-A)

TRUSTEE: CIMB COMMERCE TRUSTEE BERHAD
Business Registration No.: 199401027349 (313031-A)

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ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

MANAGER'S REPORT

Fund Type, Category, Objective and Distribution Policy

The Nomura Ringgit Bond Fund 1 (the "Fund") is a wholesale fixed income fund which seeks to optimize returns to its investors by mainly investing in fixed income securities denominated in Ringgit Malaysia.

The Fund will distribute income on a quarterly basis, subject to availability of income.

Benchmark

The benchmark used by the Manager in measuring the performance of the Fund is the Malayan Banking Berhad 12 months Fixed Deposit Account rate.

Performance as at 31 December 2019

For the period under review from 1 July 2019 to 31 December 2019, the Fund has registered a 2.83% return. Compared to the Benchmark return of 1.54%, the Fund has outperformed the Benchmark by 1.29%. The last published Net Asset Value ("NAV") per unit of the Fund as at 31 December 2019 was RM 1.0237 as compared to the NAV per unit as at 1 July 2019 of RM1.0000. On the total NAV basis, the Fund's NAV stood at RM 149.25million as at 31 December 2019.

Performance as at 31 December 2019

	1 Month 30/11/2019 to 31/12/2019	3 Months 30/09/2019 to 31/12/2019	Since Commencement 01/07/2019 to 31/12/2019
Fund	0.46%	0.96%	2.83%
Benchmark	0.26%	0.77%	1.54%
Outperformance/ (Underperformance)	0.20%	0.19%	1.29%

Source of Fund and Benchmark Returns: Novagni Analytics and Advisory Sdn. Bhd.

Volatility as at 31 December 2019

	3-Year
Fund	N/A

Source: Novagni Analytics and Advisory Sdn. Bhd.

This information is prepared by Nomura Asset Management Malaysia Sdn Bhd ("NAMM") for information purposes only. Past earnings of the Fund's distribution record is not a guarantee or reflection of the Fund's future earnings/future distributions. Investors are advised that unit prices, distributions payable and investment returns may go down as well as up.

Strategies Employed (1 July 2019 to 31 December 2019)

The fund was invested in deposits as well as corporate bonds and Sukuk during the period.

Summary of Asset Allocation

	<u>31 December</u> <u>2019</u>
Government Investment Issue	7.22%
Corporate Bonds	88.49%
Cash and other net current assets / liabilities	4.29%
Total	100.0%

Review of Market (1 July 2019 to 31 December 2019)

Malaysian Government Securities (“MGS”) yields collapsed in tandem with global yield movements. This was on the back of the synchronized rate reductions by major Central Banks. Notably, Federal Reserve implemented a “mid-cycle” easing monetary policy by cutting its Fed Funds Rate three times to bring it to 1.75%. Meanwhile, Bank Negara Malaysia (“BNM”) performed a pre-emptive rate cut in May-19, reducing the Overnight Policy Rate (“OPR”) to 3.00%. Nevertheless, risk sentiment turned positive towards the end of the year following easing of trade tensions as the US and China had reached a “Phase 1” trade deal.

Corporate bonds and Sukuk performed strongly amid dry primary issuance pipeline in 1H19. Infrastructure issuances plunged sharply due to cost-cutting and delays in rail projects. That said, credit spreads were largely tightened across the curve. On the other hand, the toll road sector underperformed given the regulatory uncertainties clouding the sector and 5 rating downgrades which occurred within the sector during the year.

TRANSACTIONS WITH FINANCIAL INSTITUTIONS AND BROKERS/DEALERS

Cross Trades (1 July 2019 to 31 December 2019)

During the financial period under review, one (1) cross trade was conducted between:-

- (i) the Fund and a private mandate managed by the Manager; and
- (ii) the Fund and another Fund managed by Nomura Islamic Asset Management Sdn Bhd (“NIAM”).

	<u>Value of trades</u> <u>(RM)</u>
Private mandate managed by the Manager	2,193,690.41
Fund managed by NIAM	3,290,535.62

All transactions were executed through RHB Investment Bank Berhad on an arm's length and fair value basis. The amount above represents the net settlement amount, including the transaction costs.

SOFT COMMISSIONS RECEIVED FROM BROKERS

Soft commissions received from brokers/dealers are retained by the Manager only if the goods and services provided are of demonstrable benefit to unit holders of the Fund.

During the financial period under review, the Manager did not receive any soft commission.

BREAKDOWN OF UNITHOLDERS BY SIZE

Size of holdings (units)	No. of unitholders	No. of units held*
Less than 500,000	1	391,256
500,000 - to 1,000,000	0	-
1,000,001 to 5,000,000	0	-
5,000,001 to 10,000,000	0	-
10,000,001 to 15,000,000	0	-
15,000,001 to 20,000,000	0	-
20,000,001 and above	1	145,404,985
Total	2	145,796,241

* Note : Excluding Manager's Stock

INCOME DISTRIBUTION

The Nomura Ringgit Bond Fund 1 distributed a gross total of RM 0.0046 per unit to investors of the Fund over the period under review.

The Net Asset Value per Unit prior and subsequent to the distributions were as follows:

Cum-Distribution Date	Cum-Distribution (RM)	Ex-Distribution Date	Ex-Distribution (RM)	Distribution per Unit (RM)
20-Dec-19	1.0264	23-Dec-2019	1.0223	0.0046

FUND PERFORMANCE DATA

As at 31 December 2019

Total NAV (RM)	149,250,958.09
NAV per Unit (RM)	1.0237
Unit in Circulation	145,796,241.06
Highest NAV (For the period of 1 Jul 2019-31 Dec 2019, RM)	1.0264
Lowest NAV (For the period of 1 Jul 2019-31 Dec 2019, RM)	1.0000

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

NOMURA RINGGIT BOND FUND 1

FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019

NOMURA RINGGIT BOND FUND 1

FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019

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**TRUSTEE'S REPORT
TO THE UNIT HOLDERS OF NOMURA RINGGIT BOND FUND 1**

We, **CIMB Commerce Trustee Berhad** being the trustee for **Nomura Ringgit Bond Fund 1** ("the Fund"), are of the opinion that **Nomura Asset Management Malaysia Sdn Bhd** ("the Manager"), acting in the capacity as the Manager of the Fund, has fulfilled its duties in the following manner for the financial year ended 31 December 2019.

- a) The Fund has been managed in accordance with the limitations imposed on the investment powers of the Manager under the Deed, the Securities Commission Malaysia's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, the Capital Markets and Services Act 2007 (as amended from time to time) and other applicable laws;
- b) Valuation and pricing for the Fund has been carried out in accordance with the Deed and relevant regulatory requirements;
- c) Creation and cancellation of units have been carried out in accordance with the Deed and relevant regulatory requirements; and
- d) The distribution of income by the Fund is appropriate and reflects the investment objective of the Fund.

For and on behalf of
CIMB Commerce Trustee Berhad

Lee Kooi Yoke
Chief Executive Officer

Kuala Lumpur, Malaysia
26 February 2020

NOMURA RINGGIT BOND FUND 1

STATEMENT BY THE MANAGER

We, Nor Rejina Abdul Rahim and Hiroyuki Nishikawa, being two of the Directors of Nomura Asset Management Sdn Bhd (the “Manager”), do hereby state that, in the opinion of the Manager, the accompanying financial statements set out on pages 7 to 36 are drawn up in accordance with the provisions of the Deed and give a true and fair view of the financial position of the Fund as at 31 December 2019 and of its financial performance, changes in net assets attributable to unitholder and cash flows for the financial period from 01 July 2019 to 31 December 2019 in accordance with the Malaysian Financial Reporting Standards, and International Financial Reporting Standards.

For and on behalf of the Manager,
NOMURA ASSET MANAGEMENT MALAYSIA SDN BHD

NOR REJINA ABDUL RAHIM
Managing Director

HIROYUKI NISHIKAWA
Director

Kuala Lumpur

26 February 2020

Independent auditors' report to the unitholders of Nomura Ringgit Bond Fund 1

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nomura Ringgit Bond Fund1 (the "Fund"), which comprise the statement of financial position as at 31 December 2019 of the Fund, and statement of comprehensive income, statement of changes in net asset value and statement of cash flows of the Fund from 1 July 2019 to 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 7 to 36.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and of its financial performance and cash flows for the period then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

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 audit 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 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 ("the Manager") is responsible for the other information. The other information comprises the information included in the annual report of the Fund, 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.

Independent auditors' report to the unitholders of Nomura Ringgit Bond Fund 1 (cont'd)

Information other than the financial statements and auditors' report thereon (cont'd)

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 and Trustee for the financial statements

The Manager is responsible for the preparation of 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 determines 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 cease operations, or have no realistic alternative but to do so.

The Trustee is responsible for overseeing the Fund's financial reporting process. The Trustee is also responsible for ensuring that the Manager maintains proper accounting and other records as are necessary to enable true and fair presentation of these financial statements.

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.

Independent auditors' report to the unitholders of Nomura Ringgit Bond Fund 1 (cont'd)

Auditors' responsibilities for the audit of the financial statements (cont'd)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on

Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- 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.
- Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements of the Fund 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.

**Independent auditors' report to the unitholders of
Nomura Ringgit Bond Fund 1 (cont'd)**

Other matters

This report is made solely to the Unit Holders of the Fund, as a body, in accordance with the Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework issued by the Securities Commission Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Lee Pei Yin
No. 03189/05/2021 J
Chartered Accountant

Kuala Lumpur, Malaysia
26 February 2020

NOMURA RINGGIT BOND FUND 1

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019

	<u>Note</u>	<u>01.07.2019</u> <u>to</u> <u>31.12.2019</u> RM
INVESTMENT INCOME		
Interest income from financial assets		2,420,644
Interest income from deposits with licensed financial institutions		293,316
Net gain on financial assets at fair value through profit or loss ("FVTPL")	5	1,319,820
		4,033,780
EXPENSES		
Manager's fee	2	(141,825)
Trustee's fee	3	(21,274)
Audit fee		(12,000)
Tax agent's fee		(5,512)
Other expenses		(830)
		(181,441)
PROFIT BEFORE TAXATION		3,852,339
TAXATION	4	-
PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		3,852,339
Profit after taxation is made up of the following:		
Realised income		2,532,519
Unrealised income		1,319,820
		3,852,339
Distributions for the financial period:		
Net distributions	9	667,659
Gross/net distributions per unit	9	0.0046

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

NOMURA RINGGIT BOND FUND 1

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	<u>Note</u>	<u>31.12.2019</u> RM
ASSETS		
Financial assets at fair value through profit or loss ("FVTPL")	5	142,849,588
Cash at bank	6	242,507
Deposit with licensed financial institution	7	6,203,000
Interest receivable	7	3,161
TOTAL ASSETS		149,298,256
LIABILITIES		
Amount due to Manager	2	25,275
Amount due to Trustee	3	3,791
Other payables and accruals		18,232
TOTAL LIABILITIES		47,298
NET ASSET VALUE ("NAV") OF THE FUND		149,250,958
EQUITY		
Unitholders' capital	8 (a)	146,066,278
Retained earnings	8 (b) & (c)	3,184,680
NET ASSET ATTRIBUTABLE TO UNITHOLDERS		149,250,958
UNITS IN CIRCULATION	8 (a)	145,796,241
NAV PER UNIT (RM) (EX-DISTRIBUTION)		1.0237

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

NOMURA RINGGIT BOND FUND 1

STATEMENT OF CHANGES IN NET ASSET VALUE FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019

	Unitholders' capital <u>Note 8 (a)</u> RM	Retained earnings <u>Note 8 (b) & (c)</u> RM	<u>Total</u> RM
Balance as at 1 July 2019	-	-	-
Total comprehensive income for the financial year	-	3,852,339	3,852,339
Creation of units	145,409,896	-	145,409,896
Reinvestment of distributions	667,659	-	667,659
Cancellation of units	(11,277)	-	(11,277)
Distributions (Note 9)	-	(667,659)	(667,659)
Balance as at 31 December 2019	<u>146,066,278</u>	<u>3,184,680</u>	<u>149,250,958</u>

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

NOMURA RINGGIT BOND FUND 1

STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019

	01.07.2019 to 31.12.2019 RM
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from sale of financial assets	19,000,000
Purchase of financial assets	(159,152,199)
Interest income from financial assets	1,043,075
Interest income from deposit with licensed financial institution	290,155
Manager's fee paid	(116,550)
Trustee's fee paid	(17,483)
Payment for other fees and expenses	(110)
Net cash used in operating activities and investing activities	(138,953,112)
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash proceeds from units created	145,409,896
Cash paid for units cancelled	(11,277)
Net cash generated from financing activities	145,398,619
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,445,507
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL PERIOD	-
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	6,445,507
Cash and cash equivalents comprises of:	
Cash at bank (Note 6)	242,507
Deposit with licensed financial institution (Note 7)	6,203,000
	6,445,507

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

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019

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

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of NOMURA RINGGIT BOND FUND 1 ("the Fund") have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at FVTPL, in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

The preparation of financial statements in conformity with the MFRS and IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported financial year. It also requires the Manager to exercise their 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.

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

The financial statements are presented in Ringgit Malaysia ("RM").

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

B STANDARDS AND AMENDMENTS ISSUED BUT NOT EFFECTIVE

The following are standards, amendments to standards and interpretations issued by the MASB, but not yet effective, up to the date of issuance of the Fund's financial statements. The Fund intends to adopt the relevant standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in MFRS Standards 1 January 2020	1 January 2020
(1) Amendments to MFRS 2 Share-Based Payment (2) Amendment to MFRS 3 Business Combinations (3) Amendments to MFRS 6 Exploration for and Evaluation of Mineral Resources (4) Amendment to MFRS 14 Regulatory Deferral Accounts (5) Amendments to MFRS 101 Presentation of Financial Statements (6) Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors (7) Amendments to MFRS 134 Interim Financial Reporting (8) Amendment to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets (9) Amendment to MFRS 138 Intangible Assets (10) Amendment to IC Interpretation 12 Service Concession Arrangements (11) Amendment to IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments (12) Amendment to IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine (13) Amendment to IC Interpretation 22 Foreign Currency Transactions and Advance Consideration (14) Amendments to IC Interpretation 132 Intangible Assets - Web Site Costs	1 January 2020
Definition of a Business (Amendments to MFRS 3 Business Combinations)	1 January 2020
Definition of Material (Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2020
Interest Rate Benchmark Reform (Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement and MFRS 7 Financial Instruments: Disclosures)	1 January 2020
MFRS 17 - Insurance Contracts	1 January 2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)	To be announced

The Fund expects that the adoption of the above standards will not have any material impact on the financial statements in the period of initial application.

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

C INCOME RECOGNITION

Income is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. Income is measured at the fair value of consideration received or receivable.

Interest income from government and corporate bond and deposit with licensed financial institutions 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.

Realised gain and loss on sale of government and corporate bond is measured by the difference between the net disposal proceeds and the carrying amounts of the investments (adjusted for accretion of discount or amortisation of premium).

D TAXATION

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

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

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

E FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Classification

The Fund designates its investments in government and corporate bond as financial assets at FVTPL on initial recognition.

Financial assets are designated as FVTPL when they are managed and their performance evaluated on a fair value basis.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and have been included in assets. The Fund's receivables comprise of interest receivables.

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

The Fund classifies amount due to Manager, amount due to Trustee and other payables and accruals as financial liabilities.

From 1 January 2019, the Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income 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 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 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 amount interest receivables and cash and cash equivalents as financial assets at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

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

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

E FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Fund commits to purchase or sell the asset. Investments are initially recognized at fair value. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value.

Financial liabilities, within the scope of MFRS 9 from 1 January 2019, 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 de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

Financial liabilities 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 FVTPL' category are presented in the statement of comprehensive income in the financial period from 01 July 2019 to 31 December 2019 in which they arise.

Government and corporate bond denominated in Ringgit Malaysia are revalued on a daily basis based on fair value prices quoted by Bond Pricing Agency Malaysia Sdn Bhd ("BPAM") registered with the Securities Commission of Malaysia ("SC") as per the SC Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework. Where such quotations are not available or where the Manager is of the view that the price quoted by the BPAM for a specific government and corporate bond differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager:

- (a) Records its basis for using a non-BPAM price;
- (b) Obtains necessary internal approvals to use the non-BPAM price; and
- (c) Keeps an audit trail of all decisions and basis for adopting the market price.

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

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

E FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(iii) Impairment

From 1 January 2019 onwards, the Fund measures credit risk and expected credit losses ("ECL") 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 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 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. There are no write-offs/recoveries during the financial year.

(iv) Fair value estimation

The fair value of financial assets and liabilities traded in an active market (such as publicly traded derivatives and securities) are based on quoted market prices at the close of trading on the year end date.

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 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 year end date. Valuation techniques used for non-standardised financial instruments such as options, currency swaps and other over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

(iv) Fair value estimation (CONTINUED)

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 government and corporate bond, 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

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

- (i) The carrying value is a reasonable estimate of fair value for cash and cash equivalent.
- (ii) Ringgit-denominated government and corporate bond are valued using indicative prices quoted by BPAM plus accrued interest, which includes the accretion of discount and amortisation of premium. Adjusted cost of investments relates to the purchase cost plus accrued interest, adjusted for amortisation of premium and accretion of discount, if any, calculated over the period from the date of acquisition to the date of maturity of the respective securities as approved by the Manager and the Trustee. The difference between adjusted cost and fair value is treated as unrealised gain or loss and is recognised in profit or loss. Unrealised gains or losses recognised in profit or loss are not distributable in nature. Where the Manager is of the view that the price quoted by BPAM for a specific government and corporate bond differs from the market price by more than 20 basis points, the Manager may use market price, provided that the Manager records its basis for using a non-BPAM price, and obtains necessary internal approvals to use the non-BPAM price.

Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

F CASH AND CASH EQUIVALENTS

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

G UNITHOLDERS' CAPITAL

The unitholders' contributions to the Fund meet the definition of puttable instruments classified as equity instruments under the revised MFRS 132 'Financial Instruments: Presentation'.

- The units entitle the unitholders to a pro-rata share of the net asset of the Fund.
- The units are subordinated and have identical features.
- There is no contractual obligation to deliver cash or another financial asset other than the obligation on the Fund to repurchase the units.
- The total expected cash flows from the units in the Fund over the life of the units are based on the change in the net asset of the Fund.

H CREATION AND CANCELLATION OF UNITS

The Fund issues cancellable units, which are cancelled at the unitholder's option and are classified as equity. Cancellable units can be returned to the Fund at any time for cash equal to a proportionate share of the Fund's NAV. The outstanding units are carried at the redemption amount that is payable at the statement of financial position date if the unitholder exercises the right to put the unit back to the Fund.

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

I DISTRIBUTIONS

Distributions are at the discretion of the Fund. A distribution to the Fund's unitholders is accounted for as a deduction from realised reserves. A proposed distribution is recognised as a liability in the year in which it is approved.

NOMURA RINGGIT BOND FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

J SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

No major judgements have been made by the Manager in applying the Fund's accounting policies. There are no key assumptions concerning the future and other key sources of estimation uncertainty at reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019

1 INFORMATION ON THE FUND

NOMURA RINGGIT BOND FUND 1 (the “Fund”) was constituted pursuant to the execution of a Master Deed (the “Deed”) dated 25 June 2019 between Nomura Asset Management Malaysia Sdn Bhd (the “Manager”) and CIMB Commerce Trustee Berhad (the “Trustee”).

The Fund was launched on 01 July 2019 and will continue its operations until being terminated by the Manager or the Trustee as provided under Clause 25 of the Deed.

The Fund shall invest primarily in fixed income securities with sound and quality credit fundamentals. The Fund would largely maintain a buy and hold strategy for its core holdings.

For liquidity purpose, the Fund may also invest in fixed income instruments which are relatively liquid in nature including deposit placements with banks and debt securities issued by the Malaysian Government and denominated in Ringgit Malaysia.

The permitted investments will be rebalanced during appropriate times such as when there is a change in the credit fundamentals to ensure stable capital growth and consistent income stream to investors. During any unfavourable credit event, the Manager shall exercise its discretion to act based on the best interest of the Fund. The Manager could continue to hold the affected security should the Manager believes it to be more beneficial to the Fund.

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

2 MANAGER'S FEE

In accordance with the Deed, the Manager is entitled to a management fee at a rate not exceeding 0.20% per annum of the NAV of the Fund calculated and accrued daily before deducting Manager's fee for the particular day.

3 TRUSTEE FEE

In accordance with the Deed, the Trustee is entitled to an annual fee at a rate not exceeding 0.03% per annum of the NAV of the Fund calculated and accrued daily before deducting Trustee's fee for the particular day, subject to a minimum fee of RM9,000 per annum .

4 TAXATION

Income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable income for the financial period. Dividend income derived from sources outside Malaysia are exempted from Malaysian income tax. However, such income may be subject to tax in the country from which it is derived.

The taxation charge for the financial period is on the taxable income earned by the Fund after deducting tax allowable expense. In accordance with Schedule 6 of the Income Tax Act 1967, interest income and dividend income earned by the Fund is exempted from Malaysian tax.

The reconciliation of income tax expense applicable to net income before tax at the statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	<u>01.07.2019</u> to <u>31.12.2019</u> RM
Profit before taxation	3,852,339
Tax at Malaysian statutory rate of 24%	924,561
Investment income not subject to tax	(968,107)
Expenses not deductible for tax purposes	6,455
Restriction on tax deductible expenses for wholesale funds	37,091
Tax expense for the financial period	-

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

5 FINANCIAL ASSETS AT FVTPL

	<u>31.12.2019</u> RM
Financial assets at FVTPL:	
- Government and corporate bond	<u>142,849,588</u>
Net gain on financial assets at FVTPL comprised:	
- Net unrealised gain on financial assets at FVTPL	<u>1,319,820</u>
	<u>1,319,820</u>

Nominal value	Name of Counter	Rating	Adjusted Cost	Fair value as at 31.12.2019	Percentage of NAV 31.12.2019
RM			RM	RM	%
5,000,000	Al Dzahab Assets Berhad 6.000% 15/09/2026	AAA	5,490,364	5,491,423	3.68%
5,000,000	AZRB Capital Sdn Berhad 5.000% 24/12/2026	AA- IS	5,004,110	5,004,060	3.35%
5,000,000	Bakun Hydro Power Generation Sdn Berhad 4.430% 11/08/2026	AAA	5,270,172	5,313,366	3.56%
5,000,000	BGSM Management Sdn Berhad 5.600% 27/12/2023	AA3	5,258,358	5,331,884	3.57%
5,000,000	Celcom Networks Sdn Berhad 5.200% 27/08/2027	AA+ IS	5,420,749	5,547,241	3.72%
5,000,000	CIMB Bank Berhad 4.600% 17/05/2024	AAA	5,174,169	5,226,576	3.50%
5,000,000	DiGi Telecommunications Sdn Berhad 3.600% 20/09/2029	AAA	5,050,795	4,983,194	3.34%
5,000,000	Edra Energy Sdn Berhad 5.910% 05/01/2027	AA3	5,478,128	5,669,776	3.80%
5,000,000	Edra Solar Sdn Berhad 4.500% 11/10/2029	AA2	5,050,548	5,089,198	3.41%
4,000,000	Gamuda Berhad 4.785% 16/03/2023	AA3	4,128,703	4,177,185	2.80%
5,000,000	GENM Capital Berhad 4.780% 31/03/2022	AAA (S)	5,155,496	5,182,196	3.47%

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

5 FINANCIAL ASSETS AT FVTPL (CONTINUED)

Nominal value	Name of Counter	Rating	Adjusted Cost	Fair value as at 31.12.2019	Percentage of NAV 31.12.2019
RM			RM	RM	%
10,000,000	Government of Malaysia 4.130% 09/07/2029	NR(LT)	10,658,649	10,772,522	7.22%
2,000,000	Jimah East Power Sdn Berhad 5.450% 04/12/2025	AA- IS	2,138,450	2,161,682	1.45%
3,000,000	Kesas Sdn Berhad 4.650% 08/10/2021	AA2	3,072,061	3,092,832	2.07%
6,000,000	Krung Thai Bank Public Company Limited 5.100% 04/07/2025	AA2	6,174,269	6,185,049	4.14%
4,000,000	Manjung Island Energy Berhad 4.430% 25/11/2025	AAA	4,155,213	4,185,683	2.81%
4,000,000	MMC Corporation Berhad 5.800% 12/11/2025	AA- IS	4,206,392	4,259,261	2.85%
3,000,000	Perbadanan Kemajuan Negeri Selangor 4.742% 17/01/2022	AA3	3,100,379	3,125,455	2.10%
6,000,000	Press Metal Aluminium Holdings Berhad 4.100% 17/10/2024	AA3	6,051,222	6,051,702	4.05%
2,500,000	RHB Bank Berhad 4.820% 27/09/2027	AA3	2,572,192	2,598,893	1.74%
5,000,000	Sarawak Energy Berhad 4.750% 18/08/2025	AAA	5,295,317	5,375,992	3.60%
5,000,000	Southern Power Generation Sdn Berhad 5.020% 29/10/2027	AA- IS	5,371,793	5,404,586	3.62%
5,000,000	Tanjung Bin Energy Issuer Berhad 5.650% 15/09/2026	AA3	5,526,425	5,606,091	3.76%
5,000,000	UEM Sunrise Berhad 5.150% 31/10/2025	AA- IS	5,378,502	5,388,790	3.61%
5,700,000	WCT Holdings Berhad 5.170% 23/10/2023	AA- IS	5,779,156	5,902,550	3.95%
5,000,000	YTL Corporation Berhad 4.630% 11/11/2026	AA1	5,173,782	5,204,246	3.49%
5,000,000	YTL Power International Berhad 5.050% 03/05/2027	AA1	5,283,292	5,338,823	3.58%
5,000,000	Zamarad Assets Berhad 5.100% 26/01/2028	AA2	5,111,082	5,179,332	3.47%

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

5 FINANCIAL ASSETS AT FVTPL (CONTINUED)

Nominal value	Name of Counter	Rating	Adjusted Cost	Fair value as at 31.12.2019	Percentage of NAV 31.12.2019
RM			RM	RM	%
TOTAL GOVERNMENT AND CORPORATE BOND			141,529,768	142,849,588	95.71%
UNREALISED GAIN ON CHANGES IN FAIR VALUE			1,319,820		
TOTAL FINANCIAL ASSETS AT FVTPL			142,849,588		

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

6 CASH AT BANK

31.12.2019
RM

Cash balances in a licensed bank **242,507**

7 DEPOSIT WITH LICENSED FINANCIAL INSTITUTION

31.12.2019
RM

Deposit with licensed financial institution ^ **6,206,161**

^ Includes interest receivables of RM3,161

Weighted average effective interest rates per annum and of deposits with licensed financial institutions are as follows:

31.12.2019
%

Deposit with licensed financial institution **3.10**

Deposits with licensed financial institution have an average maturity of 2 days.

8 EQUITY

	Note	<u>31.12.2019</u> RM
Unitholders' capital	(a)	146,066,278
Accumulated realised income	(b)	1,864,860
Accumulated unrealised income	(c)	1,319,820
		149,250,958

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

8 EQUITY (CONTINUED)

a) UNITHOLDERS' CAPITAL

	Units	RM
As at beginning of the financial period	-	-
Creation of units during the financial period:		
- Sale	145,154,210	145,409,896
- Distribution reinvested	653,031	667,659
Cancellation of units	(11,000)	(11,277)
As at end of the financial period	<u>145,796,241</u>	<u>146,066,278</u>

b) Accumulated realised income

	<u>01.07.2019</u> to <u>31.12.2019</u> RM
As at beginning of the financial period	-
Net realised income for the financial period	2,532,519
Distributions out of retained earnings	(667,659)
As at end of the financial period	<u>1,864,860</u>

c) Accumulated unrealised income

	<u>01.07.2019</u> to <u>31.12.2019</u> RM
As at beginning of the financial period	-
Net unrealised income for the financial period	1,319,820
As at end of the financial period	<u>1,319,820</u>

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

9 DISTRIBUTIONS

01.07.2019
to
31.12.2019
RM

Distributions to unitholders declared on 20 December 2019 are from the following sources:

Interest income	849,100
	<hr/>
Less: Expenses	849,100 (181,441)
	<hr/>
Distributions for the financial period	667,659
	<hr/> <hr/>

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

10 TRANSACTIONS WITH FINANCIAL INSTITUTIONS

Details of transactions with the financial institutions for the financial period form 01 July 2019 to 31 December 2019 are as follows:

	<u>Value of trade</u> RM	<u>Percentage of total trade</u> %
<u>31.12.2019</u>		
Public Bank Berhad	372,239,000	66.55
RHB Investment Bank Bhd	117,343,699	20.98
CIMB Bank Bhd	33,000,000	5.90
Malayan Banking Bhd	16,220,500	2.90
Affin Hwang Investment Bank Bhd	5,339,500	0.95
CIMB Islamic Bank Bhd	5,248,500	0.94
Hong Leong Investment Bank Bhd	5,000,000	0.89
Standard Chartered Bank Bhd	5,000,000	0.89
	<u>559,391,199</u>	<u>100.00</u>

All financial institutions above are not related to the Manager.

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

11 MANAGEMENT EXPENSE RATIO ("MER")

The MER of the Fund is the ratio of the sum of fees and expenses incurred by the Fund to the average NAV of the Fund calculated on a daily basis. The fees and expenses include Manager's fee, Trustee's fee, auditor's fee, tax agent's fee and other administrative expenses. For the financial period from 01 July 2019 to 31 December 2019, the MER of the Fund stood at 0.13%.

12 PORTFOLIO TURNOVER RATIO ("PTR")

The PTR of the Fund is the ratio of average acquisitions and disposals of the Fund for the financial period to the average NAV of the Fund calculated on a daily basis. For the financial period from 01 July 2019 to 31 December 2019, the PTR of the Fund stood at 0.64 times.

13 UNITS HELD BY THE MANAGER AND PARTIES RELATED TO THE MANAGER

There were no unit held by the Manager and parties related to the Manager.

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The following table analyses the financial assets and financial liabilities of the Fund in the statement of financial position as at the reporting date by the classes of financial instrument to which they are assigned, and therefore by the measurement basis:

	Note	Financial assets at FVTPL RM	Financial asset/liabilities at amortised cost RM	Total RM
31.12.2019				
Assets				
Financial assets at FVTPL	5	142,849,588	-	142,849,588
Cash at bank	6	-	242,507	242,507
Deposits with licensed financial institution	7	-	6,203,000	6,203,000
Interest receivable		-	3,161	3,161
Total financial assets		142,849,588	6,448,668	149,298,256
Liabilities				
Amount due to Manager		-	25,275	25,275
Amount due to Trustee		-	3,791	3,791
Other payables and accruals		-	18,232	18,232
Total financial liabilities		-	47,298	47,298

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

a) Introduction

The Fund is exposed to a variety of risks which include market risk (inclusive of price risk and interest rate risk), liquidity risk, credit/default risk, capital risk, regulatory risk, management risk and non-compliance risk.

Financial risk management is carried out through internal control processes adopted by the Manager and adherence to the investment restrictions as stipulated in the Deed, SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework and Capital Markets & Services Act, 2007.

b) Price risk

Price risk is the risk that the fair value of an investment of the Fund will fluctuate because of changes in market prices (other than those arising from interest rate risk).

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

	<u>31.12.2019</u> RM
Financial assets at FVTPL*	<u>142,849,588</u>

* Includes interest receivable of RM **1,738,574**

The table below summarises the sensitivity of the Fund's NAV and profit after tax to movements in prices of investments. The analysis is based on the assumptions that the price of the investments fluctuates by 5% with all other variables held constant.

	<u>Change in price of investments</u> %	<u>Market value</u> RM	Impact on profit after tax/ <u>NAV</u> RM
<u>31.12.2019</u>			
Financial assets at FVTPL	+ 5	148,166,565	7,055,551
	- 5	134,055,463	(7,055,551)

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

c) Interest rate risk

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

This risk is crucial since government and corporate bond portfolio management depends on forecasting interest rate movements. Government and corporate bond with longer maturity and lower interest rates are more susceptible to interest rate movements.

Investors should note that government and corporate bond is subject to interest rate fluctuations. Such investments may be subject to unanticipated rise in interest rates which may impair the ability of the issuers to make payments of interest 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 table below summarises the sensitivity of the Fund's NAV and profit after tax to movements in prices of government and corporate bond held by the Fund as a result of movement in interest rates. The analysis is based on the assumptions that the interest rates increased and decreased by 1% with all other variables held constant.

		Change in interest rate	Impact on profit after tax/NAV
	%	%	RM
<u>31.12.2019</u>			
Financial assets at FVTPL		+1	(279,983)
		-1	280,742

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

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

d) Liquidity risk

The Fund maintains sufficient level of liquid assets, after consultation with the Trustee, to meet anticipated payments and cancellation of units by unitholders. Liquid assets comprise cash, deposits with licensed financial institutions, and government and corporate bond which are capable of being converted into cash within 7 days. The Fund aims to reduce its liquidity risk by maintaining a prudent level of liquid assets.

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

	<u>Less than 1 month</u> RM	<u>Between 1 month to 1 year</u> RM	<u>Total</u> RM
<u>31.12.2019</u>			
Amount due to Manager	25,275	-	25,275
Amount due to Trustee	3,791	-	3,791
Other payables and accruals	-	18,232	18,232
	<u>29,066</u>	<u>18,232</u>	<u>47,298</u>

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

e) Credit/default risk

Credit risk refers to the ability of an issuer or a counterparty to make timely payments of interest or principals payment on the maturity date. This may lead to a default in the payment of principal and interest and ultimately a reduction in the value of the Fund. In the case of the Fund, the Manager will endeavor to minimise the risk by selecting only issues with prescribed and acceptable credit ratings.

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

For government and corporate bond, the Manager regularly reviews the rating assigned by the issuer so that necessary steps can be taken if the rating falls below those described by the Deed and SC's Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework.

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

<u>31.12.2019</u>	<u>Financial assets</u> <u>at FVTPL</u> RM	<u>Cash & cash</u> <u>equivalents*</u> RM	<u>Interest</u> <u>receivables</u> RM	<u>Total</u> RM
CONSTRUCTION AND ENGINEERING				
- AA3	4,177,185	-	-	4,177,185
- AA- IS	15,165,870	-	-	15,165,870
DIVERSIFIED HOLDINGS				
- AA3	6,051,702	-	-	6,051,702
- AA1	5,204,247	-	-	5,204,247
FINANCIAL SERVICES				
- AAA	10,717,999	6,445,507	3,161	17,166,667
- AA3	2,598,893	-	-	2,598,893
- AA2	11,364,381	-	-	11,364,381
INFRASTRUCTURES AND UTILITIES				
- AAA	19,858,236	-	-	19,858,236
- AA3	16,607,751	-	-	16,607,751
- AA2	8,182,030	-	-	8,182,030
- AA1	5,338,823	-	-	5,338,823
- AA+ IS	5,547,241	-	-	5,547,241
- AA- IS	7,566,267	-	-	7,566,267
PROPERTY AND REAL ESTATE				
- AA3	3,125,455	-	-	3,125,455
- AA- IS	5,388,790	-	-	5,388,790

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

e) Credit/default risk (CONTINUED)

The following table sets out the credit risk quality and concentration of the Fund (continued):

<u>31.12.2019 (continued)</u>	<u>Financial assets at FVTPL RM</u>	<u>Cash & cash equivalents* RM</u>	<u>Interest receivables RM</u>	<u>Total RM</u>
PUBLIC FINANCE				
- NR(LT)	10,772,522	-	-	10,772,522
TRADING & SERVICES				
- AAA (S)	5,182,196	-	-	5,182,196
	142,849,588	6,445,507	3,161	149,298,256

* Inclusive of cash at bank and deposit with licensed financial institution.

f) Capital risk

The capital of the Fund is represented by equity consisting of unitholders' 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 unitholders. 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 unitholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

g) Regulatory risk

Any changes in national policies and regulations may have effects on the capital market and the NAV of the Fund.

h) Management risk

Poor management of the Fund may cause considerable losses to the Fund that in turn may affect the NAV of the Fund.

i) Non-compliance risk

This is the risk of the Manager, the Trustee or the Fund not complying with internal policies, the Deed of the Fund, securities law or guidelines issued by the regulators. Non-compliance risk may adversely affect the investments of the Fund when the Fund is forced to rectify the non-compliance.

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

14 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

j) Fair value hierarchy

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

- Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs).

The following table analyses within the fair value hierarchy the Fund's financial assets (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
<u>At 31 December 2019</u>				
Financial assets at FVTPL:				
- Government and corporate bond	-	142,849,588	-	142,849,588

The carrying value of the Fund's deposit with licensed financial institution approximates their fair value due to their short-term nature.

NOMURA RINGGIT BOND FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 01 JULY 2019 TO 31 DECEMBER 2019 (CONTINUED)

15 COMPARATIVE

There are no comparative figures presented as this is the Fund's first set of audited financial statements since the Fund was launched on 1 July 2019.

16 CAPITAL MANAGEMENT

The capital of the Fund can vary depending on the demand for redemptions and subscriptions to the Fund.

The Fund's objectives for managing capital are:

- (a) To invest in investments meeting the description, risk exposure and expected returns indicated in its Information Memorandum;
- (b) To achieve consistent returns while safeguarding capital by using various investment strategies;
- (c) To maintain sufficient liquidity to meet the expenses of the Fund, and to meet redemption requests as they arise; and
- (d) To maintain sufficient fund size to ensure that the operations of the Fund are cost-efficient.

17 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue by the Manager on 26 February 2020.