

Affin Hwang

18M Enhanced Income Fund 2

Annual Report
28 February 2021

Out**think**. Out**perform**.



AFFIN HWANG
CAPITAL

MANAGER
Affin Hwang Asset Management Berhad
199701014290 (429786-T)

TRUSTEE
TMF Trustees Malaysia Berhad (610812-W)

AFFIN HWANG 18M ENHANCED INCOME FUND 2

Annual Report and Audited Financial Statements

For The Financial Period From 20 January 2020 (Date of Launch) To 28 February 2021

Contents	Page
FUND INFORMATION	III
FUND PERFORMANCE DATA.....	IV
MANAGER'S REPORT	V
TRUSTEE'S REPORT	IX
FINANCIAL STATEMENTS	
DIRECTORY OF SALES OFFICE	

FUND INFORMATION

Fund Name	Affin Hwang 18M Enhanced Income Fund 2
Fund Type	Income
Fund Category	Fixed Income (Wholesale)
Investment Objective	The Fund aims to provide income whilst maintaining capital preservation
Duration of the Fund	Eighteen (18) months close-ended Fund
Termination Date	24 August 2021
Benchmark	12-Month Malayan Banking Berhad Fixed Deposit Rate as at Investment Date
Distribution Policy	Subject to the availability of income, the Fund will provide distribution on the Maturity Date

BREAKDOWN OF UNITHOLDERS BY SIZE AS AT 28 FEBRUARY 2021

Size of holdings (units)	No. of unitholders	No. of units held * ('000)
5,000 and below	0	0
5,001 to 10,000	68	670
10,001 to 50,000	189	5,909
50,001 to 500,000	149	26,829
500,001 and above	47	81,378
Total	453	114,786

* Note: Excluding Manager's stock

FUND PERFORMANCE DATA

Category	As at 28 Feb 2021 (%)
Portfolio composition	
Unquoted derivatives – option	4.03
Cash & cash equivalent	95.97
Total	100.00
Total NAV (RM'million)	119.826
NAV per Unit (RM)	1.0421
Unit in Circulation (million)	114.988
Highest NAV	1.0531
Lowest NAV	0.9695
Return of the Fund (%) ⁱⁱⁱ	4.21
- Capital Growth (%) ⁱ	4.21
- Income Distribution (%) ⁱⁱ	Nil
Gross Distribution per Unit (sen)	Nil
Net Distribution per Unit (sen)	Nil
Management Expense Ratio (%)	0.04
Portfolio Turnover Ratio (times)	0.02

Basis of calculation and assumption made in calculating the returns:-

The performance figures are a comparison of the growth/decline in NAV for the stipulated period taking into account all the distribution payable (if any) during the stipulated period.

An illustration of the above would be as follow:-

Capital return	= NAV per Unit end / NAV per Unit begin – 1
Income return	= Income distribution per Unit / NAV per Unit ex-date
Total return	= (1+Capital return) x (1+Income return) – 1

MANAGER'S REPORT

Income Distribution / Unit Split

No income distribution or unit split were declared for the financial year ended 28 February 2021.

Performance Review

For the period 22 February 2020 to 28 February 2021, the Fund registered a return of 4.21%. The Net Asset Value (NAV) per unit of the Fund as at 28 February 2021 was RM1.0421 while the initial NAV per unit was RM1.0000. The Benchmark for the period registered a return of 2.10%. The Fund outperformed the Benchmark by 2.11%. The Manager will strive to achieve the fund's investment objective of providing income whilst maintaining capital preservation.

Fund Performance

Table 1: Performance of the Fund

	Since Commencement (22/2/20 - 28/2/21)
Fund	4.21%
Benchmark	2.10%
Outperformance	2.11%

Source of Benchmark: Bloomberg

Table 2: Average Total Return

	Since Commencement (22/2/20 - 28/2/21)
Fund	4.12%
Benchmark	2.06%
Outperformance	2.06%

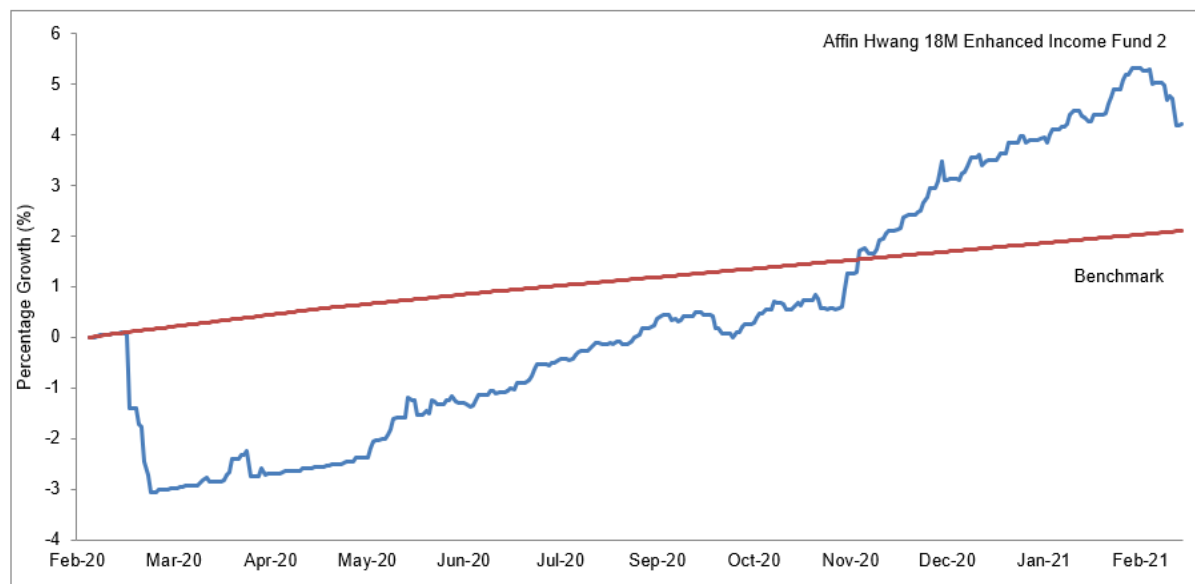
Source of Benchmark: Bloomberg

Table 3: Annual Total Return

	FYE 2021 (22/2/20 - 28/2/21)
Fund	4.21%
Benchmark	2.10%
Outperformance	2.11%

Source of Benchmark: Bloomberg

Figure 1: Movement of the Fund versus the Benchmark since commencement.



"This information is prepared by Affin Hwang Asset Management Berhad (AFFINHWANGAM) for information purposes only. Past earnings or 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. Source of Benchmark is from Bloomberg."

Benchmark: 12-MonthMalayan Banking Berhad Fixed Deposit Rate

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

Asset Allocation

As at 28 February 2021, the asset allocation of the Fund stood at 94.61% of the Fund's NAV in fixed income securities while the remaining was held in cash and cash equivalent.

Strategies Employed

Over the period under review, the Manager maintained a focus on high conviction credit names across both domestic and regional space. To date, the Fund's bond holdings have continued to meet their respective financial obligations in respect of their outstanding debt.

Market Review

Global equities started 2021 on a strong note as policy easing, and global vaccine rollouts went underway. At the start of January, US markets saw strong optimism. The storming of the US Capitol in early January had little effect over the broader market. The market showed strong attention to the Biden administration's US\$ 1.9 trillion COVID-19 relief proposal in mid-January. However, a black swan event at the end of the month saw retail investors selectively targeting underperforming stocks (e.g. GME and AMC) that resulted in a short squeeze and pushing their share prices to new highs.

US equity markets ended the month of February with modest gains though sentiment was tested as surging bond yields and inflation fears took precedence. Whilst equities and bonds tend to move in opposite directions, the reality is that equity outperformance in the past year has largely come from growth-centric stocks and "stay at home" trades, which are now facing short-term squeezes on their profit margins from rising rates. Another factor is the shift from growth to value, with value stocks performing better over the month. The Fed lightly addressed some of these concerns but mainly assured that current easy monetary policy will remain, with primary focus on the labor market.

The S&P500 closed 2.76% higher in the month, whilst Asian markets came in marginally lower, with the MSCI Asia ex Japan index gaining 1.25%. It was also a time for earnings announcements. 58.0% of companies in

the MSCI Asia ex Japan index reporting their results in the month. Of these, 48.0% saw earnings beat and 12.0% missing estimates. In the US, 79.0% of the companies in the S&P500 saw earnings beat.

President Biden held his first official call with President Xi Jinping. While Biden may have brought up controversial topics such as economic competition and human rights issues, the call should merely be viewed as a formality rather than tangible progress between China and the US and both sides continue to tread on thin ice. The US House of Representatives also passed a US\$1.9 trillion coronavirus relief package.

Commodities saw strong returns in the January, buoyed by vaccination programs and normalization of the economy. The commodity market saw four consecutive weeks of increased market inflow, particularly across crude oil, grain & oilseed, and livestock markets. This rally continued in February, as copper saw its largest monthly gain in over four years and oil prices hitting new one-year highs. The S&P GSCI posted a return on 10.67% in the month.

Following from 2020's political overhang, Malaysia's Yang di-Pertuan Agong issued a Proclamation of Emergency, resulting in the implementation of MCO 2.0 as daily Covid-19 cases rose to four digits. Restrictions on movement were less stringent than the initial MCO from 2020, though inconsistent communication surrounding the restrictions resulted in some public confusion.

The PN government unveiled its fifth economic stimulus package, PERMAI, worth RM 15 billion. Market impact was neutral following the announcement, as the package was viewed largely as a safety net aimed at cushioning the downside impact of MCO 2.0's implementation, especially to more vulnerable sectors.

Malaysia's Consumer Price Index (CPI) came in at 122.5 in February 2021, a marginal increase of 0.1% from January 2021. Despite this, trade numbers have been gradually increasing as global trade picks up. December 2020 saw Malaysia's exports rise 10.8% y-o-y and imports rebounding for the first time in 9 months by 1.6% y-o-y. This positive momentum continued in January 2021, with exports expanding by 6.6% y-o-y to RM 89.6 billion. Imports saw the same trend, increasing by 1.3% y-o-y.

In February, the local equity market's performance was muted relative to regional peers, gaining by 0.82% in the month. It was also results season in the local market, with the tech sector largely reporting earnings beat on the back of robust demand. AmBank announced a settlement cost of RM2.83 billion for its role and involvement in the 1MDB scandal that took place prior. This accounts for up to 30.0% of its market capitalisation. Petronas announced its first annual loss of RM 21 billion in 2020, its weak earnings dragged by weak product prices and margins, in line with last year's decline in crude oil prices.

The Malaysian bond market saw an unwinding of "rate cut" bets at the end of January following BNM's announcement to keep interest rates unchanged at 1.75% highlighting that recovery of the local economy was underway. The shorter-end of the MGS curve saw yields rise whilst longer-tenured papers remained resilient. Market is of the expectation that central bank will cut rates in BNM's next meeting in March, but our in-house view views that the likelihood of a cut is minimal.

Yields trended higher in tandem with US treasury movement in the month of February. The 10-year MGS closed at 3.08%. The corporate space also saw yields edge higher, particularly in the longer-dated names of the IG credit space. The primary market was greeted by the auction of a new 7-year GII of RM 3.5 billion. The trend here follows from January's auction of the 10-year MGS, with strong bidding interest as the 7-year GII posted a bid-to-cover ratio of 2.2x, supported by onshore interbank players. The yield closed at 2.8%.

Investment Outlook

Global markets have rallied sharply from their lowest, supported by fiscal and monetary stimulus. The economy is still recovering, albeit at a slow pace, as consumers' confidence return following the low death rates despite the rise in infections. With most markets recovering the year's losses by December coincided with the release of Phase III clinical trial data for the vaccines, there is certainly light at the end of the tunnel for global markets.

Recovery plays will be the most obvious theme for the year improving macroeconomic conditions and the inevitable rollout of vaccines has everyone looking to the future and letting go of 2020's miseries. General market consensus suggests global GDP is down 5% in 2020, with an expected rebound of 5.4% in 2021 with the reopening of economies and growth returns. We have already started to see the rotation from growth to value take place in the start of 2021.

January 2021's US employment report was less than stellar as nonfarm payrolls increased only by half of the market's initial consensus, which is worse when compared to the fact that it had already been revised down by 159,000 two months prior. The US labor market has some ways to go for recovery as Covid-19 cases continue to rise. Valuations in the American market are coming across as stretched as the S&P 500 surpasses far beyond its historical P/E average of 15x -17x. There has been some correction in the recent few weeks and we may see this correction extend for a further couple more months.

Earnings momentum will continue in 2021 with earnings growth projected to rise by 38.0% in Asia ex-Japan (ex-Financials) according to estimates by some sell-side analysts. Key sectors leading the recovery include the energy, consumer discretionary and industrials. Though, this is tempered by moderately higher valuations which has crept up above historical averages. Liquidity conditions remain positive and with earnings visibility from Asian companies that are riding along a China-led economic recovery, Asia continues to be an ocean of growth potential as the region continues to grow.

Following President Biden's call to China, we still expect little improvement between China and the US's already contentious relationship. We see at least a few months of reprieve for the global economy as the two leading nations focus on economic recovery. It will not be long before they step back into the boxing ring to tackle the long list of conflicting issues they face, ranging from trade issues, social rights and environmental impacts.

Economic recovery continues to be delayed by Covid-19 as cases surge throughout the country/ From a bottom-up perspective, the domestic focus will be on the recovery beneficiaries and exporters in the technology and EMS segment which have strong earnings visibility in the near term as well increasing demand. Political risk has been delayed with the declaration of state of emergency until August 2021.

Fund flows continue to pour in, following 2020's trend which began in the month of March. In the US, long-term mutual funds and exchange-traded funds picked up US\$95 billion in new assets. ESG funds have also been gathering plenty of interest and we will expect this investor shift to ESG-focused funds to be more commonplace across the industry. The Biden administration's foray into building stronger climate change initiatives also signals a shift for the investment industry as this will generate more opportunities across asset classes. The wider implications of this on the economy will take time to materialise, but will continue to be observed.

State of Affairs of the Fund

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

Soft Commissions received from Brokers

As per the requirements of the Securities Commission's Guidelines on Unit Trust Funds and Guidelines on Compliance Function for Fund Management Companies, soft commissions received from brokers/dealers may be retained by the management company only if the –

- (i) goods and services provided are of demonstrable benefit to Unit holders of the Fund; and
- (ii) goods and services are in the form of research and advisory services that assists in the decision making process.

During the financial period under review, the management company had received on behalf of the Fund, soft commissions in the form of research materials, data and quotation services, investment-related publications, market data feed and industry benchmarking agencies which are of demonstrable benefit to Unitholders of the Fund.

Cross Trade

Cross trade transactions have been carried out during the reported period and the Investment Committee of the Fund has reviewed that such transaction are in the best interest of the Fund, transacted in the normal course of business at agreed terms and on a fair value basis.

TRUSTEE'S REPORT TO THE UNITHOLDERS OF AFFIN HWANG 18M ENHANCED INCOME FUND 2

We have acted as Trustee of Affin Hwang 18M Enhanced Income Fund 2 for financial period from 20 January 2020 (Date of Launch) to 28 February 2021. To the best of our knowledge, **Affin Hwang Asset Management Berhad**, the Manager, has managed the Fund in accordance with the limitations imposed on the investment powers of the management company and the trustee under the Deed, other provisions of the Deed, the Capital Markets and Services Act 2007, the Securities Commission's Guidelines on Unlisted Capital Market Product under the Lodge and Launch Framework and other applicable laws during the period then ended.

We have also ensured the following:

- (a) the procedures and processes employed by **Affin Hwang Asset Management Berhad** to value and/or price the units of the Fund are adequate and that such valuation/pricing is carried out in accordance with the Deed of the Fund and other regulatory requirements; and
- (b) the creation and cancellation of units have been carried out in accordance with the Deed and relevant regulatory requirements.

For TMF Trustees Malaysia Berhad
(Company No.: 610812-W)

NORHAYATI BINTI AZIT
DIRECTOR – FUND SERVICES

Kuala Lumpur
15 April 2021

AFFIN HWANG 18M ENHANCED INCOME FUND 2

FINANCIAL STATEMENTS

**FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020
(DATE OF LAUNCH) TO 28 FEBRUARY 2021**

AFFIN HWANG 18M ENHANCED INCOME FUND 2

FINANCIAL STATEMENTS

**FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020
(DATE OF LAUNCH) TO 28 FEBRUARY 2021**

CONTENTS	PAGE (S)
STATEMENT OF COMPREHENSIVE INCOME	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF CHANGES IN EQUITY	3
STATEMENT OF CASH FLOWS	4
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	5 - 11
NOTES TO THE FINANCIAL STATEMENTS	12 - 26
STATEMENT BY THE MANAGER	27
INDEPENDENT AUDITORS' REPORT	28 - 31

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021

	<u>Note</u>	Financial period from 20.1.2020 (date of launch) to <u>28.2.2021</u> RM
INVESTMENT INCOME		
Interest income from financial assets at amortised cost		3,789,737
Net gain on foreign currency exchange		441
Net gain on financial asset at fair value through profit or loss	9	1,099,772
		<u>4,889,950</u>
EXPENSES		
Trustee fee	5	(23,768)
Fund accounting fee	6	(11,000)
Auditors' remuneration		(10,000)
Tax agent's fee		(4,000)
Other expenses		(2,698)
		<u>(51,466)</u>
NET PROFIT BEFORE TAXATION		4,838,484
Taxation	7	-
NET PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		<u><u>4,838,484</u></u>
Net profit after taxation is made up of the following:		
Realised amount		3,786,757
Unrealised amount		1,051,727
		<u><u>4,838,484</u></u>

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2021

	<u>Note</u>	As at <u>28.2.2021</u> RM
ASSETS		
Cash and cash equivalents		59,009
Deposits with licensed financial institutions	8	114,960,415
Financial asset at fair value through profit or loss	9	4,824,791
TOTAL ASSETS		<u>119,844,215</u>
LIABILITIES		
Amount due to Trustee		1,851
Auditors' remuneration		10,000
Tax agent's fee		4,000
Other payables and accruals		1,880
TOTAL LIABILITIES		<u>17,731</u>
NET ASSET VALUE OF THE FUND		<u>119,826,484</u>
EQUITY		
Unitholders' capital		114,988,000
Retained earnings		4,838,484
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>119,826,484</u>
NUMBER OF UNITS IN CIRCULATION	10	<u>114,988,000</u>
NET ASSET VALUE PER UNIT (RM)		<u>1.0421</u>

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021

	Unitholders' <u>capital</u> RM	Retained <u>earnings</u> RM	<u>Total</u> RM
Balance as at 20 January 2020 (date of launch)	-	-	-
Total comprehensive income for the financial period	-	4,838,484	4,838,484
Movement in unitholders' capital:			
Creation of units arising from applications	114,988,000	-	114,988,000
Balance as at 28 February 2021	<u>114,988,000</u>	<u>4,838,484</u>	<u>119,826,484</u>

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021

Financial
period from
20.1.2020
(date of
launch) to
28.2.2021
RM

CASH FLOWS FROM OPERATING ACTIVITIES

Proceeds from maturity of deposits with licensed financial institutions	224,920,388
Placements of deposits with licensed financial institutions	(336,120,388)
Purchase of investments	(3,725,019)
Interest received	29,322
Trustee fee paid	(21,917)
Fund accounting fee paid	(11,000)
Payment for other fees and expenses	(818)
Net realised gain on foreign exchange	48,486
Net cash used in operating activities	(114,880,946)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from creation of units	114,988,000
Net cash generated from financing activities	114,988,000

NET INCREASE IN CASH AND CASH EQUIVALENTS 107,054

EFFECTS OF FOREIGN CURRENCY EXCHANGE (48,045)

**CASH AND CASH EQUIVALENTS AT THE
DATE OF LAUNCH** -

**CASH AND CASH EQUIVALENTS AT THE
END OF THE FINANCIAL PERIOD** 59,009

Cash and cash equivalents as at 28 February 2021 comprise of bank balances.

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021

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

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention, except as disclosed in the summary of significant accounting policies and comply with Malaysian Financial Reporting Standards, International Financial Reporting Standards ("MFRS").

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

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

The Fund commenced operations on 24 February 2020 and will continue its operations until terminated by the Trustee as provided under Clause 11.1 of the Deed or on maturity date of the Fund which falls on the eighteenth month of the investment date of the Fund. As the maturity date of the Fund falls within a period of 12 months from the end of the current reporting period, the going concern assumption can no longer be used for the preparation of the financial statements. The financial statement have therefore been prepared using a liquidation basis of accounting.

(a) Standards, amendments to published standards and interpretations that are effective

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101 and MFRS 108 'Definition of Material'

The adoption of the above standards, amendments to standards or interpretations did not have a material effect on the financial statements of the Fund.

(b) Standards and amendments that have been issued but not yet effective

- Amendments to MFRS 3 'Reference to Conceptual Framework' (effective 1 January 2022) replace the reference to Framework for Preparation and Presentation of Financial Statements with 2018 Conceptual Framework.
- Annual Improvements to MFRSs 2018 – 2020 Cycle (effective for annual periods beginning on or after 1 January 2022).
- Amendments to MFRS 137 'onerous contracts—cost of fulfilling a contract' (effective 1 January 2022) clarify that direct costs of fulfilling a contract include both the incremental cost of fulfilling the contract as well as an allocation of other costs directly related to fulfilling contracts.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(b) Standards and amendments that have been issued but not yet effective (continued)

- Amendments to MFRS 101 'Classification of liabilities as current or non-current (effective 1 January 2023) clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.

A liability is classified as current if a condition is breached at or before the reporting date and a waiver is obtained after the reporting date.

The adoption of the above standards, amendments to standards or interpretations is not expected to have a material effect on the financial statements of the Fund.

B INCOME RECOGNITION

Interest income

Interest income from short term deposits with licensed financial institutions is recognised based on effective interest rate method on an accrual basis.

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

C TAXATION

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

D 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.

E FOREIGN CURRENCY TRANSLATION

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Classification

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

- those to be measured at fair value 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. Consequently, all investments and derivatives not designated as hedging instruments are measured at fair value through profit or loss.

The Fund classifies cash and cash equivalents and deposits with licensed financial institutions 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 Trustee, auditors' remuneration, tax agent's fee and other payables and accruals as financial liabilities measured at amortised cost.

(ii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value.

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 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.

Financial assets at amortised cost and other financial liabilities are subsequently carried at amortised cost using the effective interest method.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(iii) 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 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

The Fund defines a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria:

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

Qualitative criteria:

The debtor meets unlikeliness to pay criteria, which indicates the debtor is in significant financial difficulty. The Fund considers the following instances:

- the debtor is in breach of financial covenants
- concessions have been made by the lender relating to the debtor's financial difficulty
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- the debtor is insolvent

Financial instruments that are credit-impaired are assessed on individual basis.

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 bad debt recoveries. There are no write-offs/recoveries during the financial period.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

G CASH AND CASH EQUIVALENTS

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

H UNITHOLDERS' CAPITAL

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

- the units entitle the holder to a proportionate share of the Fund's net 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; and
- the total expected cash flows from the units over its life are based substantially on the profit or loss of the Fund.

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

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

I DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as financial assets/liabilities at fair value through profit or loss.

When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When options are closed, the difference between the premium and the amount paid, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognised as a gain or loss and is presented in the statement of comprehensive income within 'net gain/(loss) on financial asset at fair value through profit and loss' in the financial period which they arise.

The Fund's investment in unquoted derivative – option is valued on a daily basis using valuation techniques by Societe Generale (the "Option Seller"). Refer to Note 3 for further explanation.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

J CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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's ("SC") Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

Fair value of unquoted derivative – option

The Fund invests in unquoted derivative – option that is not quoted in active markets. Fair value of such instrument are determined by using valuation techniques set out in Note 3 of the financial statements.

Models use observable data, to the extent practicable. However, unobservable input such as implied volatility and net cost of borrowing are based on assumptions that require management to make estimates. Changes in assumptions about this factor could affect the reported fair value of the unquoted derivative – option. The sensitivity to unobservable inputs is based on management's expectation of reasonable possible shift in these inputs, taking into consideration historical data and estimations of future market movements.

For the unquoted derivative – option, an increase in the implied volatility and the net cost of borrowing would lead to an increase in estimated value. The Manager is of the opinion that it is reasonably possible, based on existing knowledge, that there could be substantial shift in the unobservable inputs in Note 3 to the financial statements within the next financial period which will result in material changes to the fair value of the unquoted derivative – option.

K REALISED AND UNREALISED PORTIONS OF PROFIT OR LOSS AFTER TAX

The analysis of realised and unrealised profit or loss after tax as presented on the statement of comprehensive income is prepared in accordance with SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

1 INFORMATION ON THE FUND

The Wholesale Fund was constituted under the name Affin Hwang 18M Enhanced Income Fund 2 (the “Fund”) pursuant to the execution of a Deed dated 7 January 2020 (the “Deed”) entered into between Affin Hwang Asset Management Berhad (the “Manager”) and TMF Trustees Malaysia Berhad (the “Trustee”).

The Fund commenced operations on 24 February 2020 and will continue its operations until terminated by the Trustee as provided under Clause 11.1 of the Deed or on maturity date of the Fund which falls on the eighteenth month of the investment date of the Fund. As the maturity date of the Fund falls within a period of 12 months from the end of the current reporting period, the going concern assumption can no longer be used for the preparation of the financial statements. The financial statement have therefore been prepared using a liquidation basis of accounting.

The Fund may invest in any of the following investments:

- (a) Money market instruments;
- (b) Deposits;
- (c) Options;
- (d) Structured warrants; and
- (e) Any other form of investments permitted by the SC from time to time which is in line with the objective of the Fund.

All investments will be subjected to the SC’s Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework, the Deed and the objective of the Fund.

The main objective of the Fund is to provide income whilst maintaining capital preservation.

The Manager is a company incorporated in Malaysia. The principal activities of the Manager are establishment and management of unit trust funds, exchange-traded funds and private retirement schemes as well as providing fund management services to private clients.

The Manager does not intend to impose any management fee on the Fund for the current and future financial periods.

The financial statements were authorised for issue by the Manager on 15 April 2021.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments are as follows:

	<u>Note</u>	At amortised cost RM	At fair value through profit or loss RM	<u>Total</u> RM
<u>As at 28.2.2021</u>				
<u>Financial assets</u>				
Cash and cash equivalents		59,009	-	59,009
Deposits with licensed financial institutions	8	114,960,415	-	114,960,415
Unquoted derivative – option	9	-	4,824,791	4,824,791
Total		<u>115,019,424</u>	<u>4,824,791</u>	<u>119,844,215</u>
<u>Financial liabilities</u>				
Amount due to Trustee		1,851	-	1,851
Auditors' remuneration		10,000	-	10,000
Tax agent's fee		4,000	-	4,000
Other payables and accruals		1,880	-	1,880
Total		<u>17,731</u>	<u>-</u>	<u>17,731</u>

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

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

Market risk

(a) Price risk

Price risk arises mainly from the uncertainty about future prices of 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 investment portfolio.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(b) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flows.

The Fund's exposure to the interest rate risk is mainly confined to deposits with licensed financial institutions. The Manager overcomes this exposure by placing deposits with licensed financial institutions with fixed rates of interest and maturity.

(c) Currency risk

Currency risk is associated with investments denominated in foreign currencies. When the foreign currencies fluctuate in an unfavourable movements against Ringgit Malaysia, the investments will face currency losses in addition to the capital gain/(loss). The Manager will evaluate the likely directions of the foreign currency versus Ringgit Malaysia based on considerations of economic fundamentals such as interest rate differentials, balance of payments position, debt levels and technical chart considerations.

The following table sets out the foreign currency risk concentrations and counterparties of the Fund:

	Unquoted derivative – <u>option</u> RM	Cash and cash <u>equivalents</u> RM	<u>Total</u> RM
<u>As at 28.2.2021</u>			
<u>Financial assets</u>			
United States Dollar	4,824,791	1	4,824,792

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk (continued)

(c) Currency risk (continued)

The table below summarises the sensitivity of the Fund's profit after tax and net asset value to changes in foreign exchange movements. The analysis is based on the assumption that the foreign exchange rate changes based on the United States Dollar historical volatility, with all other variables remain constant. This represents management's best estimate of a reasonable possible shift in the foreign exchange rate, having regard to historical volatility of this rate. Any increase/(decrease) in foreign exchange rate will result in a corresponding (decrease)/increase in the net assets attributable to unitholders by the United States Dollar historical volatility. Disclosures below are shown in absolute terms, changes and impacts could be positive or negative.

	Change in price %	Impact on profit after tax/NAV RM
<u>As at 28.2.2021</u>		
United States Dollar	+/- 7.41	+/- 357,383

Credit risk

Credit risk refers to the ability of an issuer or counterparty to make timely payments of interest, principals and proceeds from realisation of investment. The Manager manages the credit risk by undertaking credit evaluation to minimise such risk.

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

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

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

	Cash and cash equivalents RM	Deposits with licensed financial institutions RM	Unquoted derivative – option RM	Total RM
<u>As at 28.2.2021</u>				
Financial services				
- AAA	59,009	-	-	59,009
- AA2	-	83,923,648	-	83,923,648
- AA3	-	31,036,767	-	31,036,767
- A1	-	-	4,824,791	4,824,791
	<u>59,009</u>	<u>114,960,415</u>	<u>4,824,791</u>	<u>119,844,215</u>

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations. The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellation of units by unitholders. Liquid assets comprise cash, deposits with licensed financial institutions and other instruments, which are capable of being converted into cash within 7 days.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

The amounts in the table below are the contractual undiscounted cash flows.

	Within one month RM	Between one month to one year RM	Total RM
<u>As at 28.2.2021</u>			
Amount due to Trustee	1,851	-	1,851
Auditors' remuneration	-	10,000	10,000
Tax agent's fee	-	4,000	4,000
Other payables and accruals	-	1,880	1,880
	<u>1,851</u>	<u>15,880</u>	<u>17,731</u>

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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.

3 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 fair value of financial assets traded in active market (such as trading securities) is based on quoted market prices at the close of trading on the period end date.

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

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques.

(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)
- 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 require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

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:

	<u>Level 1</u> RM	<u>Level 2</u> RM	<u>Level 3</u> RM	<u>Total</u> RM
<u>As at 28.2.2021</u>				
Financial asset at fair value through profit or loss				
- unquoted derivative				
- option	-	-	4,824,791	4,824,791

Level 3 instrument

The Fund invests in an option issued by the Option Seller and is valued on a daily basis. These investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. As observable prices are not available for these securities, the Fund has used valuation techniques to derive the fair value.

The valuation of the option will correspond to the valuation of a European call option with the following parameters:

- 1) Time to Maturity: The yearly fraction from valuation date to expiry
- 2) Spot: Latest net asset value of the underlying Fund
- 3) Strike: Net asset value of the fund as of strike date
- 4) Volatility: The implied volatility from valuation date to expiry
- 5) Rates: The swap rate of the fund currency at expiry

The valuation is computed on Societe Generale risk model according to formula inspired from Black and Scholes.

Parameters 1 to 3 as well as 5 are observable on the market through Bloomberg or the Asset Manager website. However parameter 4 is non observable. The level of implied volatility represent the risk appetite of Societe Generale to offer volatility of the mutual fund share class given the fund strategy and the current conditions.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

Level 3 instrument (continued)

In determining the valuation, the Option Seller utilises risk management models based on probability testing. The model utilises market observable input factors such as interest rate levels and remaining time to maturity; and combine them with the Option Seller's own unobservable inputs such as Implied Volatility and Net Cost of Borrowing. These market observable quantitative inputs and in-house assumptions are then typically put through a random process and simulated multiple times to create a sufficiently large sample size whereby the Option Seller is able to arrive at a meaningful average level which is used as the mark to market valuation for the option.

The descriptions of unobservable inputs in the option valuation are:

- Implied Volatility: this is derived by the Option Seller from a number of parameters including but not limited to the Option Seller's assumptions, using proxies from correlated assets and derivation from observable inputs like realised volatility of the PIMCO GIS Income Fund ("the underlying fund") and volatility quotes in the broker market.
- Net Cost of Borrowing: the net cost of borrowing for the Option Seller is expressed as a spread over USD Libor rates. The valuation of the option is impacted by the cost of borrowing associated with the option seller having to buy units of the underlying PIMCO GIS Income Fund net of rebates given by the mutual fund manager.

The sensitivity of fair value valuations for fund linked option to unobservable inputs are not static and can vary substantially depending on the Option Seller's assumptions.

The following table presents the movements in Level 3 instruments for the financial period from 20 January 2020 (date of launch) to 28 February 2021:

	Financial period from 20.1.2020 (date of launch) to <u>28.2.2021</u> RM
Opening balance	-
Purchase	3,725,019
Net change in fair value on financial asset at fair value through profit or loss	1,099,772
	<u>4,824,791</u>

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

Level 3 instrument (continued)

In the specific case of the Fund's investment, the fair value of the investment will rise respectively when:

- Implied volatility increases;
- Net cost of borrowing increases;

and vice versa, the fair value of the investment will fall if each of the above factors move in the opposite direction.

(ii) The carrying values of cash and cash equivalents, deposits with licensed financial institutions and all current liabilities are reasonable approximation of the fair values due to their short term nature.

4 MANAGEMENT FEE

The Manager does not intend to impose any management fee on the Fund for the current and future financial periods.

5 TRUSTEE FEE

In accordance with the Deed, the Trustee is entitled to an annual fee at a rate not exceeding 0.10% per annum on the NAV of the Fund, exclusive of foreign custodian fees.

For the financial period from 20 January 2020 (date of launch) to 28 February 2021, the Trustee fee is recognised at a rate of 0.02% per annum on the NAV of the Fund, exclusive of foreign custodian fees and charges, calculated on a daily basis as stated in the Fund's Information Memorandum.

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

6 FUND ACCOUNTING FEE

The fund valuation and accounting fee for the Fund is RM12,000 per annum.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

7 TAXATION

	Financial period from 20.1.2020 (date of launch) to <u>28.2.2021</u> RM
Current taxation	-

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

	Financial period from 20.1.2020 (date of launch) to <u>28.2.2021</u> RM
Net profit before taxation	4,838,484
Tax at Malaysian statutory rate of 24%	1,161,236
Tax effects of:	
Investment income not brought to tax	(1,173,588)
Expenses not deductible for tax purposes	9,472
Restriction on tax deductible expenses for Wholesale Funds	2,880
Tax expense	-

8 DEPOSITS WITH LICENSED FINANCIAL INSTITUTIONS

	As at <u>28.2.2021</u> RM
Deposits with licensed financial institutions*#	114,960,415

*Includes interest receivable of RM3,760,415.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

8 DEPOSITS WITH LICENSED FINANCIAL INSTITUTIONS (CONTINUED)

The weighted average interest rate for deposits with licensed financial institutions that was effective as at balance sheet date was as follows:

	As at 28.2.2021 RM
Deposits with licensed financial institutions	3.34%

Deposits with licensed financial institutions have an average maturity of 177 days.

Included in deposits with licensed financial institutions are deposit with Affin Hwang Investment Bank Berhad which are related to the Manager amounting to RM30,000,000. The Manager is of the opinion that all transactions with the related companies have been entered into in the normal course of business at agreed terms between the related parties.

9 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The Fund invests in an unquoted derivative – option. An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. The notional amount of the Fund's exposure to the unquoted derivative – option as at 28 February 2021 is RM112,204,447. The Fund's investment in unquoted derivative – option is set out below:

	As at 28.2.2021 RM
Financial asset at fair value through profit or loss:	
- unquoted derivative – option	4,824,791
	Financial period from 20.1.2020 (date of launch) to 28.2.2021 RM
Net gain on financial asset at fair value through profit or loss:	
- unrealised gain on changes in fair value	1,099,772

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

9 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Unquoted derivative – option

(i) Unquoted derivative – option as at 28 February 2021 are as follows:

	Number of warrants RM	Adjusted cost RM	Fair value RM	Percentage of NAV %
18M USD Warrant Call on PIMCO GIS Income Fund	10,000	3,725,019	4,824,791	4.03
Total unquoted derivative – option	10,000	3,725,019	4,824,791	4.03
Accumulated unrealised gain on unquoted derivative – option		1,099,772		
Total unquoted derivative – option		4,824,791		

The unquoted derivative – option will expire on 17 August 2021.

10 NUMBER OF UNITS IN CIRCULATION

	As at 28.2.2021 No. of units
At the date of launch	-
Creation of units arising from applications	114,988,000
At the end of the financial period	114,988,000

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

11 TRANSACTIONS WITH DEALER

Details of transactions with the top dealer for the financial period from 20 January 2020 (date of launch) to 28 February 2021 are as follows:

<u>Name of dealer</u>	Value of trade RM	Percentage of total trade %
Societe Generale	3,725,019	100.00

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

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

<u>Related parties</u>	<u>Relationship</u>
Affin Hwang Asset Management Berhad	The Manager
Affin Hwang Investment Bank Berhad	Holding company of the Manager
Lembaga Tabung Angkatan Tentera ("LTAT")	Ultimate holding corporate body of the Manager
Affin Bank Berhad ("ABB")	Penultimate holding company of the Manager
Subsidiaries and associated companies of ABB as disclosed in its financial statements	Subsidiary and associated companies of the penultimate holding company of the Manager as disclosed in its financial statements

The number of units held by the Manager as at the end of the financial period as follows:

	As at 28.2.2021	
<u>The Manager:</u>	No. of units	RM
Affin Hwang Asset Management Berhad (The units are held legally for booking purposes)	200,554	208,997

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

13 MANAGEMENT EXPENSE RATIO ("MER")

Financial
period from
20.1.2020
(date of
launch) to
28.2.2021
%

MER 0.04

MER is derived from the following calculation:

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

A	=	Trustee fee
B	=	Fund accounting fee
C	=	Auditors' remuneration
D	=	Tax agent's fee
E	=	Other expenses
F	=	Average NAV of Fund calculated on a daily basis

The average NAV of the Fund for the financial period calculated on a daily basis is RM106,842,670.

14 PORTFOLIO TURNOVER RATIO ("PTR")

Financial
period from
20.1.2020
(date of
launch) to
28.2.2021

PTR (times) 0.02

PTR is derived from the following calculation:

$$\frac{(\text{Total acquisition for the financial period} + \text{total disposal for the financial period}) \div 2}{\text{Average NAV of the Fund for the financial period calculated on a daily basis}}$$

where: total acquisition for the financial period = RM3,725,019
total disposal for the financial period = RM Nil

AFFIN HWANG 18M ENHANCED INCOME FUND 2

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 20 JANUARY 2020 (DATE OF LAUNCH) TO 28 FEBRUARY 2021 (CONTINUED)

15 COMPARATIVES

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

16 SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD

The worsening macro-economic outlook as a result of Covid-19, both domestically and globally, may result in the deterioration of the Fund's Net Asset Value/unit in future periods.

The Manager is monitoring the situation closely and will be actively managing the portfolio to achieve the Fund's objective.

AFFIN HWANG 18M ENHANCED INCOME FUND 2

STATEMENT BY THE MANAGER

I, Dato' Teng Chee Wai, for and on behalf of the board of directors of the Manager, **Affin Hwang Asset Management Berhad**, do hereby state that in the opinion of the Manager, the financial statements set out on pages 1 to 26 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 28 February 2021 and of its financial performance, changes in equity and cash flows for the financial period from 20 January 2020 (date of launch) to 28 February 2021 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards.

For and on behalf of the Manager,
AFFIN HWANG ASSET MANAGEMENT BERHAD

DATO' TENG CHEE WAI
EXECUTIVE DIRECTOR/MANAGING DIRECTOR

Kuala Lumpur
15 April 2021

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG 18M ENHANCED INCOME FUND 2

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Affin Hwang 18M Enhanced Income Fund 2 ("the Fund") give a true and fair view of the financial position of the Fund as at 28 February 2021, and of its financial performance and its cash flows for the financial period from 20 January 2020 (date of launch) to 28 February 2021 in accordance with Malaysian Financial Reporting Standards, 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 28 February 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 1 to 26.

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.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note A, Basis of Preparation of the financial statements, which refers to the Fund's maturity subsequent to the balance sheet date, in accordance with the Deed. These financial statements have therefore been prepared using a liquidation basis of accounting. Our opinion is not modified in respect of this matter.

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.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG 18M ENHANCED INCOME FUND 2 (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

The Manager of the Fund is responsible for the preparation of the financial statements of the Fund that give a true and fair view in accordance with Malaysian Financial Reporting Standards, 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 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.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
AFFIN HWANG 18M ENHANCED INCOME FUND 2 (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
AFFIN HWANG 18M ENHANCED INCOME FUND 2 (CONTINUED)

OTHER MATTERS

This report is made solely to the unitholders of the Fund and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
15 April 2021

DIRECTORY OF SALES OFFICE

HEAD OFFICE

Affin Hwang Asset Management Berhad
Ground Floor
Menara Boustead
69, Jalan Raja Chulan
50200 Kuala Lumpur

Tel : 03 – 2116 6000
Fax : 03 – 2116 6100
Toll free no : 1-800-88-7080
Email: customercare@affinhwangam.com

PENANG

Affin Hwang Asset Management Berhad
No. 10-C-24 Precinct 10
Jalan Tanjung Tokong
10470 Penang

Tel : 04 – 899 8022
Fax : 04 – 899 1916

PERAK

Affin Hwang Asset Management Berhad
1, Persiaran Greentown 6
Greentown Business Centre
30450 Ipoh Perak

Tel : 05 – 241 0668
Fax : 05 – 255 9696

MELAKA

Affin Hwang Asset Management Berhad
Ground Floor, No. 584, Jalan Merdeka
Taman Melaka Raya
75000 Melaka

Tel : 06 – 281 2890 / 3269
Fax : 06 – 281 2937

JOHOR

Affin Hwang Asset Management Berhad
Unit 22-05, Level 22
Menara Landmark
No. 12, Jalan Ngee Heng
80000 Johor Bahru
Johor Darul Takzim

Tel : 07 – 227 8999
Fax : 07 – 223 8998

SABAH

Affin Hwang Asset Management Berhad
Lot No. B-2-09, 2nd Floor
Block B, Warisan Square
Jalan Tun Fuad Stephens
88000 Kota Kinabalu
Sabah

Tel : 088 – 252 881
Fax : 088 – 288 803

DIRECTORY OF SALES OFFICE (CONTINUED)

SARAWAK

Affin Hwang Asset Management Berhad
Ground Floor, No. 69
Block 10, Jalan Laksamana Cheng Ho
93200 Kuching
Sarawak

Tel : 082 – 233 320
Fax : 082 – 233 663

Affin Hwang Asset Management Berhad
1st Floor, Lot 1291
Jalan Melayu, MCLD
98000 Miri
Sarawak

Tel : 085 – 418 403
Fax : 085 – 418 372

www.affinhwangam.com

Affin Hwang Asset Management Berhad
199701014290 (429786-T)