

# Affin Hwang

## Absolute Return Fund III

Annual Report  
30 June 2020

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 ABSOLUTE RETURN FUND III

## Annual Report and Audited Financial Statements For the Financial Year Ended 30 June 2020

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## FUND INFORMATION

Fund Name	Affin Hwang Absolute Return Fund III
Fund Type	Growth
Fund Category	Mixed Asset (Wholesale)
Investment Objective	The Fund seeks to provide Unit Holders with long-term capital appreciation
Benchmark	8.0% per annum
Distribution Policy	The Fund is not expected to make distribution. However, incidental distribution may be declared whenever is appropriate.

## BREAKDOWN OF UNITHOLDERS BY SIZE AS AT 30 JUNE 2020

Size of holdings (units)	No. of unitholders	No. of units held * ('000)
5,000 and below	-	-
5,001 to 10,000	-	-
10,001 to 50,000	2	77
50,001 to 500,000	272	44,531
500,001 and above	56	95,545
<b>Total</b>	<b>330</b>	<b>140,153</b>

\* Note : Excluding Manager's stock

## FUND PERFORMANCE DATA

Category	As at 30 Jun 2020 (%)	As at 30 Jun 2019 (%)	As at 30 Jun 2018 (%)
Portfolio composition			
<b>Quoted equities – local</b>			
- Construction	-	-	0.63
- Consumer products & services	0.56	3.02	1.23
- Industrial	-	5.00	-
- Energy	7.65	7.78	-
- Properties	-	-	1.32
- Technology	10.39	6.35	-
- Trading / services	-	-	7.25
<b>Total quoted equities – local</b>	<b>18.60</b>	<b>22.15</b>	<b>10.43</b>
<b>Quoted equities – foreign</b>			
- Consumer services	17.54	12.82	9.61
- Financial services	19.28	31.21	16.59
- Industrial	-	7.40	9.13
- Oil & gas	-	-	2.31
- REITs	-	-	14.05
- Technology	28.76	25.13	5.32
<b>Total quoted equities – foreign</b>	<b>65.58</b>	<b>76.56</b>	<b>57.01</b>
<b>Unquoted fixed income securities – foreign</b>	<b>0.79</b>	<b>1.41</b>	<b>5.33</b>
<b>Collective investment scheme – local</b>	<b>-</b>	<b>-</b>	<b>0.00</b>
<b>Collective investment scheme – foreign</b>	<b>0.63</b>	<b>0.68</b>	<b>0.52</b>
<b>Exchange-traded fund – local</b>	<b>1.27</b>	<b>1.18</b>	<b>0.98</b>
<b>Exchange-traded fund – foreign</b>	<b>-</b>	<b>-</b>	<b>13.39</b>
<b>Cash &amp; cash equivalent</b>	<b>13.13</b>	<b>1.43</b>	<b>12.34</b>
<b>Total</b>	<b>100.00</b>	<b>103.41**</b>	<b>100.00</b>

\*\*Total assets holding more than 100% of Net Asset Value due to the timing of trade settlement.

## FUND PERFORMANCE DATA (CONTINUED)

Category	As at 30 Jun 2020 (%)	As at 30 Jun 2019 (%)	As at 30 Jun 2018 (%)
Total NAV (RM'million)	101.998	91.204	116.031
NAV per Unit (RM)	0.7277	0.7063	0.6449
Unit in Circulation (million)	140.156	129.125	179.935
Highest NAV	0.7621	0.7136	0.7057
Lowest NAV	0.6541	0.5883	0.6320
Return of the Fund (%) <sup>iii</sup>	3.03	9.52	-0.23
- Capital Growth (%) <sup>i</sup>	3.03	9.52	-0.23
- Income Distribution (%) <sup>ii</sup>	Nil	Nil	Nil
Gross Distribution per Unit (sen)	Nil	Nil	Nil
Net Distribution per Unit (sen)	Nil	Nil	Nil
Management Expense Ratio (%) <sup>1</sup>	1.15	1.41	1.24
Portfolio Turnover Ratio (times) <sup>2</sup>	1.20	1.10	1.33

### **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

<sup>1</sup>The MER was lower than previous year due to the lower expenses incurred by the Fund for the financial year.

<sup>2</sup> The PTR of the Fund was higher than previous year as the Manager had increased trading activities for the financial year.

## MANAGER'S REPORT

### Income Distribution / Unit Split

No income distribution or unit split were declared for the financial year ended 30 June 2020.

### Performance Review

For the period 1 July 2019 to 30 June 2020, the Fund has registered a 3.03% return as compared to the benchmark return of 8.02%. The Fund thus underperformed the benchmark by 4.99 percentage points. The Net Asset Value (NAV) per unit of the Fund as at 30 June 2020 was RM 0.7277 while the 30 June 2019 was RM0.7063.

Since commencement, the Fund has underperformed the benchmark by 7.92 percentage points with returns of 45.54% compared to the benchmark return of 53.46%. Note however that the benchmark is an absolute return benchmark of 8% per annum.

We believe that the Fund has met its objective in providing unit holders long-term capital appreciation.

Table 1: Performance of the Fund

	<b>1 Year</b> <b>(1/7/19 -</b> <b>30/6/20)</b>	<b>3 Years</b> <b>(1/7/17 -</b> <b>30/6/20)</b>	<b>5 Years</b> <b>(1/7/15 -</b> <b>30/6/20)</b>	<b>Since</b> <b>Commencement</b> <b>(9/12/14 - 30/6/20)</b>
<b>Fund</b>	<b>3.03%</b>	<b>12.58%</b>	<b>38.21%</b>	<b>45.54%</b>
<b>Benchmark</b>	<b>8.02%</b>	<b>26.00%</b>	<b>46.99%</b>	<b>53.46%</b>
<b>Outperformance /</b> <b>(Underperformance)</b>	<b>(4.99%)</b>	<b>(13.42%)</b>	<b>(8.78%)</b>	<b>(7.92%)</b>

Source of Benchmark: Bloomberg

Table 2: Average Total Return

	<b>1 Year</b> <b>(1/7/19 -</b> <b>30/6/20)</b>	<b>3 Years</b> <b>(1/7/17 -</b> <b>30/6/20)</b>	<b>5 Years</b> <b>(1/7/15 -</b> <b>30/6/20)</b>	<b>Since</b> <b>Commencement</b> <b>(9/12/14 - 30/6/20)</b>
<b>Fund</b>	<b>3.03%</b>	<b>4.02%</b>	<b>6.68%</b>	<b>6.98%</b>
<b>Benchmark</b>	<b>8.02%</b>	<b>8.00%</b>	<b>8.00%</b>	<b>8.00%</b>
<b>Outperformance /</b> <b>(Underperformance)</b>	<b>(4.99%)</b>	<b>(3.98%)</b>	<b>(1.32%)</b>	<b>(1.02%)</b>

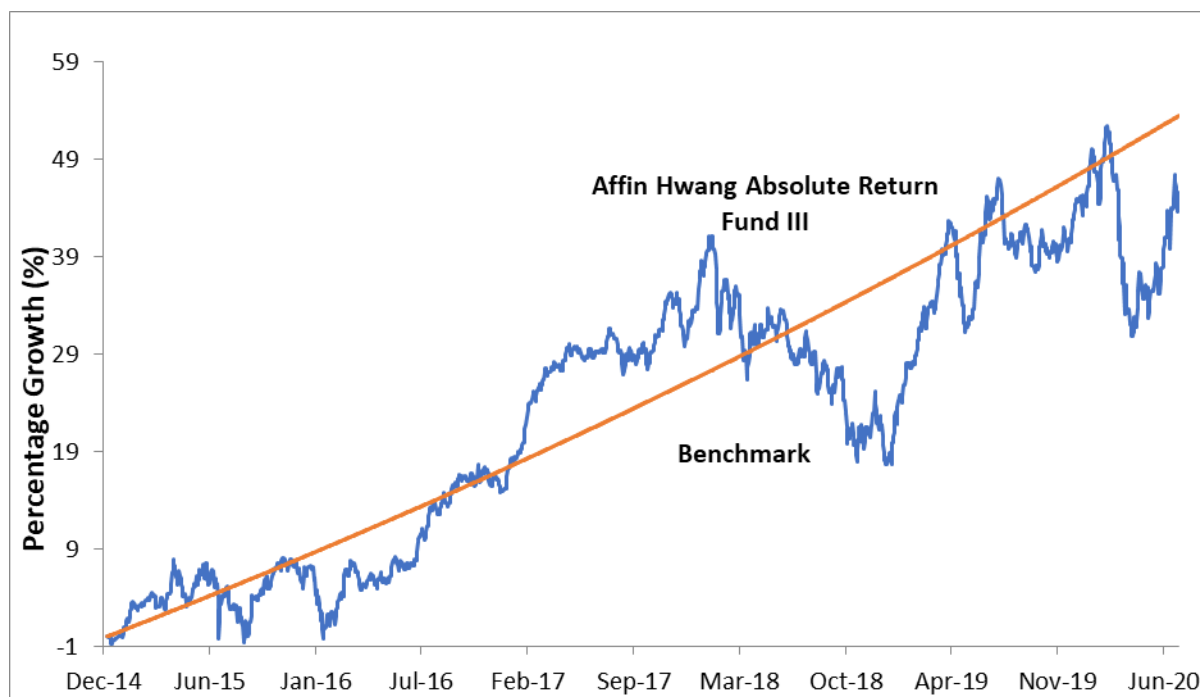
Source of Benchmark: Bloomberg

Table 3: Annual Total Return

	<b>FYE 2020</b> <b>(1/7/19 -</b> <b>30/6/20)</b>	<b>FYE 2019</b> <b>(1/7/18 -</b> <b>30/6/19)</b>	<b>FYE 2018</b> <b>(1/7/17 -</b> <b>30/6/18)</b>	<b>FYE 2017</b> <b>(1/7/16 -</b> <b>30/6/17)</b>	<b>FYE 2016</b> <b>(1/7/15 -</b> <b>30/6/16)</b>
<b>Fund</b>	<b>3.03%</b>	<b>9.52%</b>	<b>(0.23%)</b>	<b>20.24%</b>	<b>2.11%</b>
<b>Benchmark</b>	<b>8.02%</b>	<b>8.00%</b>	<b>8.00%</b>	<b>8.00%</b>	<b>8.02%</b>
<b>Outperformance /</b> <b>(Underperformance)</b>	<b>(4.99%)</b>	<b>1.52%</b>	<b>(8.23%)</b>	<b>12.24%</b>	<b>(5.91%)</b>

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: Absolute Return 8%

***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**

For a snapshot of the Fund's asset mix during the period under review, please refer to Fund Performance Data.

As at 30 June 2020, the asset allocation of the Fund stood at 84.18% in equities, 0.79% in fixed income securities, 0.63% in collective investment scheme, 1.27% in exchanged-traded fund and 13.14% in cash and cash equivalent.

During the period under review, the Fund's exposure in domestic equities were decreased to 18.60% while foreign equities exposure were also decreased to 65.58%. Sectors like industrial were stripped off from the portfolio while exposure towards technology sector was added by about 4 percentage points. Within the foreign equity space, the Manager had added allocations into consumer services and technology sector, while decreased exposure towards the financial services names and stripped off industrial from the portfolio.

### **Strategies Employed**

With the extreme volatility in markets, we raised our cash holdings and went into a defensive stance in our allocation. As the sell-down accelerated, we then slowly deployed back into the market with a focus on quality. We continue to keep close monitor on market development amidst the rare double whammy of global pandemic and oil price collapse.

### **Market Review**

Global markets got off to a rocky start in 2020 as benchmark gauges reeled from contagion fears as a result of the coronavirus outbreak. The Hong Kong Hang Seng index tumbled 6.7% in January, whilst the broader MSCI Asia ex-Japan index fell 4.5%. The World Health Organization declared a global health emergency as

soon as the coronavirus outbreak has claimed the lives of at least 300 people with rates of infection rapidly increasing.

The global equities trended even lower in February as risk assets continue to reel from the impact of the Covid-19 outbreak which sent chills to investors. The rapid spread of the infection outside of China with new cases springing in Italy, South Korea and Iran led to a rush towards safe haven assets with US Treasury yields dipping to record lows. The S&P 500 index tumbled 8.4%, whilst the index Dow Jones closed 10.1% lower in the month. The broader MSCI Asia ex-Japan index fell 2.9%.

Coming into March, the global markets faced a washout, as few asset classes were spared from the selloff due to the pandemic fears as infection rates continue to escalate rapidly. The MSCI Asia ex-Japan index closed 12.2% lower in the month and is down 18.6% YTD. In the US, the S&P 500 index closed 12.5% lower and is down by 20% YTD. The global death toll caused by the pandemic surpassed 50,000 as at end of March. In an attempt to stem the fallout from the coronavirus, major economies led by the US has introduced an unprecedented US\$2 trillion relief package to cushion its economy.

The relief package comes as the US also reports the most number of Covid-19 cases, making it the country with the largest outbreak in the world surpassing that of Italy and China. The number of confirmed Covid-19 cases in the US exceeded the grim 100,000 mark as testing is ramped-up in the country and the administration begins to acknowledge the severity of the outbreak and impose more drastic lockdown measures.

However, global equities staged a rebound in April as markets looked past recent softness in economic data and were instead buoyed by stimulus optimism as well as encouraging developments on the COVID-19 front. The rally was fuelled by a volley of stimulus measures rolled out by major central banks including an expansion package by the US Federal Reserve and the European Union (EU). The S&P 500 index advanced by 8.8% in the month; while positive effects were also felt in Asia in which the Hong Kong Hang Seng and the broader MSCI Asia ex-Japan index rose by 4.4% and 8.9% respectively.

The US unveiled its Main Street Lending Program which is designed to provide support and ensure credit flow into SMEs that were in “good financial standing”. Similarly, the EU proposed a European Stability Mechanism (“ESM”) which offers a credit line of up to 240 billion Euros to EU members.

On commodities, crude oil prices slid by about 35% YTD as at end of June, after oil prices rebounded by 9.7% in June following a move by Organization of the Petroleum Exporting Countries (“OPEC”) and its oil-producing allies to extend the group’s historic production cut for an additional month.

On the domestic front, the benchmark KLCI fell by 3% in February as the country plunged into political turmoil which ultimately culminated in the appointment of Tan Sri Muhyiddin Yassin as the eighth Prime Minister, from the Perikatan Nasional coalition (UMNO, PAS, Bersatu and a splinter faction of PKR). The appointment was announced by Istana Negara amidst shifting political allegiances and frantic horse-trading across the ruling and opposition coalitions.

In May, the benchmark KLCI rose 4.7% buoyed by positive sentiment and surge in momentum. Retail investors have piled into the local stock market as trading volumes reach new highs. Malaysia released its first quarterly GDP print. Malaysia’s economic growth slowed to 0.7% in the 1Q2020 which is its slowest pace of growth since 2009. Most sectors of the economy contracted except for private consumption which was likely supported by additional spending during the Chinese New Year festivities.

Moving into the 2Q2020, economic growth will likely come off even more sharply as the quarter captures the full impact of the movement control order (“MCO”) period where most businesses were temporarily shuttered. Against a challenging backdrop for the economy, the full year GDP growth forecast is expected to shrink between -5.0% and 0.7% in 2020.

Prime Minister Tan Sri Muhyiddin Yassin unveiled a RM250 billion economic stimulus package to soften the economic blow due to the impact of Covid-19 with businesses shuttered due to the movement control order (MCO). Called the Pakej Rangsangan Ekonomi Prihatin Rakyat or Prihatin, the package comprises RM128 billion to protect the welfare of the people, RM100 billion to protect the welfare of small and medium enterprises (“SMEs”) and RM2 billion to strengthen the country’s economy according to The Edge. This was on top of the RM20 billion stimulus that was earlier announced on 27 February.

Whilst RM250 billion seems like a massive amount on the surface, the actual fiscal spending outlay amounts to 10.0% or RM25billion. The rest of the relief package comes in the form of loan guarantees, moratorium in



loan repayments, EPF withdrawals, among others. In April, Prime Minister had announced an additional RM10billion package to help SMEs cope during the pandemic.

The budget deficit is expected to widen with the new stimulus package. The government will have to tap into the country's coffers including relying on dividend payments from GLCs like Petronas to help fund the package. However, this also comes on the back of depressed oil prices that may put additional fiscal constraints.

Recent placement exercises by Tenaga Nasional Bhd ("TNB") and Serba Dinamik Holdings Bhd point to strong appetite. Khazanah raised RM1 billion from TNB placement (3x oversubscribed) while Serba Dinamik raised RM456.7 million (1.5x oversubscribed). We could see more placement exercises in the market with ample liquidity on the side-lines as most funds are sitting on decent amounts of cash.

### **Investment Outlook**

Economic lockdowns have triggered a rapid and sharp decline in growth. It may take time for the global economy and corporates to recover back to pre-COVID-19 levels. Though, massive stimulus from central banks and governments will help alleviate economic pain.

Although the number of daily new cases may rise again as economies re-open, we are seeing a number of positive developments that may help prevent infection and mortality rates from rising back to its peak in March/April for many countries. The general public is much more careful now by wearing masks in public areas and maintaining hygiene as they adapt to a new normal. Thus, behavioural changes within society can help to stem the spread of infection.

The supply of masks and PPEs are also much higher today than a few months ago as manufacturers increase production to meet demand. Hospitals and medical facilities are also much more prepared after increasing ICU beds and ventilators. Governments have also ramped-up contact tracing capabilities that will help in the process of reopening economies. The research and development process to find a cure is also gathering pace with a number of vaccines already in Phase 3 trials. With a better medical arsenal to combat against the pandemic, expectations are that the second wave will not result in higher mortality rates unlike past pandemics.

Though we saw a rise in the number of new daily cases particularly in US, Hong Kong and Singapore, mortality rates remain under control with a better medical arsenal to combat against the pandemic. Medical front-liners and hospitals are more prepared now in treating patients diagnosed with the virus. There are also positive signs which show that re-purposed drugs such as Remdesivir and Dexamethasone are effective in treating COVID-19.

On currency movements, we've seen the US dollar weakening against a basket of Asian currencies. The greenback is seen losing its support as the US Federal Reserve continually expand its balance sheet and maintain its dovish tilt. A resurgence of COVID-19 cases in the US has also dampened prospects of a smooth economic recovery which has weighed down on currency gains.

Gold price which has a historical negative correlation to the US dollar has surged to new highs this year as investors flock to the safe haven asset.

### **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 ABSOLUTE RETURN FUND III**

We have acted as Trustee of Affin Hwang Absolute Return Fund III for the financial year ended 30 June 2020. 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 Deeds, other provisions of the Deeds, the Capital Markets and Services Act 2007, the Securities Commission's Guidelines on Unlisted Capital Market Product under the Lodge Framework and other applicable laws during the financial 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  
14 August 2020

**AFFIN HWANG ABSOLUTE RETURN FUND III**

**FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

# **AFFIN HWANG ABSOLUTE RETURN FUND III**

## **FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

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## AFFIN HWANG ABSOLUTE RETURN FUND III

### STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

	Note	2020 RM	2019 RM
<b>INVESTMENT INCOME</b>			
Dividend income		1,400,786	2,553,217
Interest income from financial assets at amortised cost		112,447	38,952
Interest income from financial assets at fair value through profit or loss		13,996	249,363
Net gain on foreign currency exchange		2,173,204	597,345
Net loss on forward foreign currency contract at fair value through profit or loss		(1,409,394)	(459,029)
Net loss on futures contract at fair value through profit or loss		(5,852,355)	-
Net gain on financial assets at fair value through profit or loss	9	8,044,045	6,848,949
		<u>4,482,729</u>	<u>9,828,797</u>
<b>EXPENSES</b>			
Management fee	4	(879,337)	(964,908)
Trustee fee	5	(48,959)	(54,195)
Fund accounting fee	7	(4,000)	-
Auditors' remuneration		(9,000)	(9,000)
Tax agent's fee		(3,500)	(6,287)
Transaction costs		(418,008)	(489,676)
Performance fee	6	-	(286,846)
Other expenses		(112,649)	(166,356)
		<u>(1,475,453)</u>	<u>(1,977,268)</u>
<b>NET PROFIT BEFORE TAXATION</b>		3,007,276	7,851,529
Taxation	8	-	-
<b>NET PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR</b>		<u>3,007,276</u>	<u>7,851,529</u>
Net profit after taxation is made up of the following:			
Realised amount		(511,719)	(4,926,987)
Unrealised amount		3,518,995	12,778,516
		<u>3,007,276</u>	<u>7,851,529</u>

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

## AFFIN HWANG ABSOLUTE RETURN FUND III

### STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	<u>Note</u>	<u>2020</u> RM	<u>2019</u> RM
<b>ASSETS</b>			
Cash and cash equivalents	10	13,480,635	1,304,983
Amount due from broker		-	2,127,959
Dividends receivable		22,517	181,995
Financial assets at fair value through profit or loss	9	88,615,292	93,014,029
Amount due from Manager - management fee rebate receivable		389	314
<b>TOTAL ASSETS</b>		<u>102,118,833</u>	<u>96,629,280</u>
<b>LIABILITIES</b>			
Amount due to Manager - management fee		81,388	76,899
- cancellation of units		10,128	5,030,105
Amount due to Trustee		4,476	4,229
Auditors' remuneration		9,000	9,000
Tax agent's fee		4,516	7,350
Performance fee		-	286,846
Other payables and accruals		11,226	10,972
<b>TOTAL LIABILITIES</b>		<u>120,734</u>	<u>5,425,401</u>
<b>NET ASSET VALUE OF THE FUND</b>		<u>101,998,099</u>	<u>91,203,879</u>
<b>EQUITY</b>			
Unitholders' capital		79,701,483	71,914,539
Retained earnings		22,296,616	19,289,340
<b>NET ASSETS ATTRIBUTABLE TO UNITHOLDERS</b>		<u>101,998,099</u>	<u>91,203,879</u>
<b>NUMBER OF UNITS IN CIRCULATION</b>	11	<u>140,156,000</u>	<u>129,125,000</u>
<b>NET ASSET VALUE PER UNIT (RM)</b>		<u>0.7277</u>	<u>0.7063</u>

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

## AFFIN HWANG ABSOLUTE RETURN FUND III

### STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

	Unitholders' <u>capital</u> RM	Retained <u>earnings</u> RM	<u>Total</u> RM
Balance as at 1 July 2019	71,914,539	19,289,340	91,203,879
Total comprehensive income for the financial year	-	3,007,276	3,007,276
Movement in unitholders' capital:			
Creation of units arising from applications	28,543,893	-	28,543,893
Cancellation of units	(20,756,949)	-	(20,756,948)
Balance as at 30 June 2020	<u>79,701,483</u>	<u>22,296,616</u>	<u>101,998,099</u>
Balance as at 1 July 2018	104,593,665	11,437,811	116,031,476
Total comprehensive income for the financial year	-	7,851,529	7,851,529
Movement in unitholders' capital:			
Creation of units arising from applications	3,100,159	-	3,100,159
Cancellation of units	(35,779,285)	-	(35,779,285)
Balance as at 30 June 2019	<u>71,914,539</u>	<u>19,289,340</u>	<u>91,203,879</u>

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



## AFFIN HWANG ABSOLUTE RETURN FUND III

### STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

	<u>Note</u>	<u>2020</u> RM	<u>2019</u> RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from sale of investments		114,953,826	114,905,203
Purchase of investments		(100,817,177)	(102,074,004)
Dividends received		1,560,264	2,468,741
Interest received		138,389	376,233
Management fee rebate		14,884	24,119
Management fee paid		(885,668)	(1,006,119)
Trustee fee paid		(48,712)	(55,335)
Fund accounting fee paid		(4,000)	-
Performance fee paid		(286,846)	(770)
Payment for other fees and expenses		(127,730)	(65,528)
Realised loss on forward foreign currency contracts		(1,409,394)	(459,029)
Realised loss on futures contracts		(5,852,355)	-
Net realised gain on foreign currency exchange		2,164,138	610,428
Net cash generated from operating activities		<u>9,399,619</u>	<u>14,723,939</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from creation of units		28,543,893	3,100,159
Payments for cancellation of units		(25,776,926)	(30,847,509)
Net cash generated from/(used in) financing activities		<u>2,766,967</u>	<u>(27,747,350)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		12,166,586	(13,023,411)
<b>EFFECTS OF FOREIGN CURRENCY EXCHANGE</b>		9,066	(13,082)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR</b>		<u>1,304,983</u>	<u>14,341,476</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	10	<u><u>13,480,635</u></u>	<u><u>1,304,983</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 ABSOLUTE RETURN FUND III**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

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 and 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 year. 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 K.

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

- IC Interpretation 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019)
- Annual Improvements to MFRSs 2015 – 2017 Cycle (effective 1 January 2019)

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 'Definition of a Business' (effective 1 January 2020) revise the definition of a business.
- Amendments to MFRS 101 'Classification of liabilities as current or non-current' (effective 1 January 2022) 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**

##### Dividend income

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of gross dividend income on the ex-dividend date, when the right to receive the dividend has been established.

## **AFFIN HWANG ABSOLUTE RETURN FUND III**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **B INCOME RECOGNITION (CONTINUED)**

##### Interest income

Interest income from short term deposit with a licensed financial institution is recognised based on effective interest rate method on an accruals 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).

##### Realised gains and losses on sale of investments

For quoted equities, collective investment schemes ("CIS") and exchange traded funds, realised gains and losses on sale of investments are accounted for as the difference between the net disposal proceeds and the carrying amount of investments, determined on a weighted average cost basis.

For unquoted fixed income securities, realised gains and losses on sale of investments are accounted for as the difference between the net disposal proceeds and the carrying amount of investments, determined on cost adjusted for accretion of discount or amortisation of premium on investments.

#### **C TRANSACTION COSTS**

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include the bid-ask spread, fees and commissions paid to agents, advisors, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as expenses.

#### **D 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 year.

Withholding taxes on investment income from foreign investment are based on tax regime of the respective countries that the Fund invests in. Such withholding taxes are not "income tax" in nature and are recognised, measured based on the requirements of MFRS 137. They are presented within other expenses line in the statement of comprehensive income.

#### **E 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.

## **AFFIN HWANG ABSOLUTE RETURN FUND III**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **F 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 statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

#### **G 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. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income.

The contractual cash flows of the Fund's debt securities are solely principal and interest ("SPPI"). 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 and derivatives not designated as hedging instruments are measured at fair value through profit or loss.

The Fund classifies cash and cash equivalents, amount due from brokers, amount due from Manager and dividends receivable 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, auditors' remuneration, tax agent's fee, performance 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. Transaction costs are expensed in the statement of comprehensive income.

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.

## **AFFIN HWANG ABSOLUTE RETURN FUND III**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **G FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)**

##### **(ii) Recognition and measurement (continued)**

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 de-recognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including the effects of foreign transactions are presented in the statement of comprehensive income within 'net gain/(loss) on financial assets at fair value through profit and loss' in the period which they arise.

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

If a valuation based on the market price does not represent the fair value of the securities, for example during abnormal market conditions or when no market price is available, including in the event of a suspension in the quotation of the securities for a period exceeding 14 days, or such shorter period as agreed by the Trustee, then the securities are valued as determined in good faith by the Manager, based on the methods or basis approved by the Trustee after appropriate technical consultation.

Unquoted fixed income securities including money market instrument denominated in Ringgit Malaysia are revalued on a daily basis based on fair value prices quoted by a bond pricing agency ("BPA") registered with the Securities Commission ("SC") as per the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework. Where such quotation are not available or where the Manager is of the view that the price quoted by the BPA for a specific unquoted fixed income securities differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager:

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

Unquoted fixed income securities denominated in foreign currencies are revalued at least twice a week by reference to the mid price quoted in Bloomberg. We use the Composite Bloomberg Bond Trader ("CBBT") which is a weighted average bid and ask of price contributions submitted by Bloomberg Dealers. However if such quotations are not available, the fair value shall be determined by reference to the bid and offer prices quoted by independent and reputable financial institutions.

Investments in collective investment scheme are valued at the last published net asset value ("NAV") per unit at the date of the statement of financial position.

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

## AFFIN HWANG ABSOLUTE RETURN FUND III

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### G 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 year.

## **AFFIN HWANG ABSOLUTE RETURN FUND III**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **H CASH AND CASH EQUIVALENTS**

For the purpose of statement of cash flows, cash and cash equivalents comprise cash and bank balances and deposit held in highly liquid investment that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### **J DERIVATIVE FINANCIAL INSTRUMENTS**

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

The Fund's derivative financial instruments comprise forward foreign currency contracts and futures. 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. Financial derivative positions will be "marked to market" at the close of each valuation day. Foreign exchange gains and losses on the derivative financial instrument are recognised in profit or loss when settled or at the date of the statement of financial position at which time they are included in the measurement of the derivative financial instrument. Derivative instruments that have a negative fair value are presented as liabilities as fair value through profit or loss.

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

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities.

The fair value of the Fund's futures is obtained from the relevant stock exchanges where the futures are listed on the financial year end date.

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.

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

The outstanding units are carried at the redemption amount that is payable at each financial year if 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 ABSOLUTE RETURN FUND III**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **J AMOUNT DUE FROM/(TO) BROKERS**

Amounts due from and to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively. The due from brokers balance is held for collection. Refer to Note G for accounting policy on recognition and measurement.

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

Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required.

#### **K 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 of 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.

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

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

#### **L 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 ABSOLUTE RETURN FUND III**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020**

#### **1 INFORMATION ON THE FUND**

The Wholesale Fund was constituted under the name Affin Hwang Absolute Return Fund III (the "Fund") pursuant to the execution of a Deed dated 7 November 2014, First Supplemental Deed dated 3 August 2016, and Second Supplemental Deed dated 14 June 2017 ("the Deeds") entered into between Affin Hwang Asset Management Berhad (the "Manager") and TMF Trustees Malaysia Berhad (the "Trustee").

The Fund commenced operations on 25 November 2014 and will continue its operations until terminated by the Trustee as provided under Clause 12.1 of the Deed.

The Fund may invest in any of the following investments:

- (a) Equities listed or traded on the recognised Malaysian stock exchange or any other foreign exchanges;
- (b) Unlisted equities;
- (c) Fixed income securities listed or traded on the recognised Malaysian stock exchange or any other foreign exchanges;
- (d) Unlisted fixed income securities
- (e) Money market instruments;
- (f) Debt securities which are sovereign issued, sovereign backed or sovereign guaranteed;
- (g) Derivatives;
- (h) Placement of fixed deposits with Financial Institutions;
- (i) Units/shares in collective investment schemes, both local and foreign; and
- (j) Any other form of investments as may be determined by the Manager from time to time that is in line with the Fund's objectives.

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 unitholders with long term capital appreciation.

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

The financial statements were authorised for issue by the Manager on 14 August 2020.

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES

Financial instruments are as follows:

	<u>Note</u>	At amortised <u>cost</u> RM	At fair value through profit <u>or loss</u> RM	<u>Total</u> RM
<u>2020</u>				
<u>Financial assets</u>				
Quoted equities	9	-	85,869,550	85,869,550
Unquoted fixed income securities	9	-	808,248	808,248
Collective investment scheme	9	-	642,600	642,600
Exchange-traded funds	9	-	1,294,894	1,294,894
Cash and cash equivalents	10	13,480,635	-	13,480,635
Dividends receivable		22,517	-	22,517
Amount due from Manager				
- management fee rebate receivable		389	-	389
Total		<u>13,503,541</u>	<u>88,615,292</u>	<u>102,118,833</u>
<u>Financial liabilities</u>				
Amount due to Manager				
- management fee		81,388	-	81,388
- cancellation of units		10,128	-	10,128
Amount due to Trustee		4,476	-	4,476
Auditors' remuneration		9,000	-	9,000
Tax agent's fee		4,516	-	4,516
Other payables and accruals		11,226	-	11,226
Total		<u>120,734</u>	<u>-</u>	<u>120,734</u>

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES

Financial instruments are as follows: (continued)

	<u>Note</u>	At amortised <u>cost</u> RM	At fair value through profit <u>or loss</u> RM	<u>Total</u> RM
<u>2019</u>				
<u>Financial assets</u>				
Quoted equities	9	-	90,026,599	90,026,599
Unquoted fixed income securities	9	-	1,291,103	1,291,103
Collective investment scheme	9	-	619,650	619,650
Exchange-traded funds	9	-	1,076,677	1,076,677
Cash and cash equivalents	10	1,304,983	-	1,304,983
Dividends receivable		181,995	-	181,995
Amount due from broker		2,127,959	-	2,127,959
Amount due from Manager - management fee rebate receivable		314	-	314
Total		<u>3,615,251</u>	<u>93,014,029</u>	<u>96,629,280</u>
<u>Financial liabilities</u>				
Amount due to Manager				
- management fee		76,899	-	76,899
- cancellation of units		5,030,105	-	5,030,105
Amount due to Trustee		4,229	-	4,229
Auditors' remuneration		9,000	-	9,000
Tax agent's fee		7,350	-	7,350
Performance fee		286,846	-	286,846
Other payables and accruals		10,972	-	10,972
Total		<u>5,425,401</u>	<u>-</u>	<u>5,425,401</u>

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

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.

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

##### 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.

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

	<u>2020</u> RM	<u>2019</u> RM
<b>Quoted investments</b>		
Quoted equities	85,869,550	90,026,599
Exchange-traded funds securities	1,294,894	1,076,677
	<u>87,164,444</u>	<u>91,103,276</u>
<b>Unquoted investments</b>		
Unquoted fixed income securities*	808,248	1,291,103
Collective investment scheme	642,600	619,650
	<u>1,450,848</u>	<u>1,910,753</u>

\* Includes interest receivable of RM6,969 (2019: RM25,654).

The following table summarises the sensitivity of the Fund's profit after taxation and net asset value ("NAV") to price risk movement. The analysis is based on the assumptions that the market price increased by 10% (2019: 5%) and decreased by 10% (2019: 5%) with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the quoted securities, having regard to the historical volatility of the prices.

<u>% Change in price</u>	<u>Market value</u> RM	<u>Impact on</u> profit after tax/NAV RM
<u>2020</u>		
-10%	79,747,491	(8,860,832)
0%	88,608,323	-
+10%	<u>97,469,155</u>	<u>8,860,832</u>
<u>2019</u>		
-5%	88,338,956	(4,649,419)
0%	92,988,375	-
+5%	<u>97,637,794</u>	<u>4,649,419</u>

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

##### Market risk (continued)

##### (b) Interest rate risk

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

This risk is crucial in an unquoted fixed income securities fund since unquoted fixed income securities portfolio management depends on forecasting interest rate movements. Prices of unquoted fixed income securities move inversely to interest rate movements, therefore as interest rates rise, the prices of unquoted fixed income securities decrease and vice versa. Furthermore, unquoted fixed income securities with longer maturity and lower yield coupon rates are more susceptible to interest rate movements.

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

The table below summarises the sensitivity of the Fund's profit after taxation and NAV to movements in prices of unquoted fixed income securities held by the Fund as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate increased and decreased by 2% (200 basis points) (2019: 1%; 100 basis points) with all other variables held constant.

<u>% Change in interest rate</u>	<u>Impact on profit after tax/NAV</u>	
	<u>2020</u>	<u>2019</u>
	RM	RM
+ 2% (2019: +1%)	(1,203)	(2,632)
- 2% (2019: -1%)	1,344	2,646

The Fund's exposure to interest rate risk associated with deposit with a licensed financial institution is not material as the carrying value of the deposit is held on a short-term basis.

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

##### Market risk (continued)

##### (c) Currency risk

Currency risk is associated with investments denominated in foreign currencies. When the foreign currencies fluctuate in an unfavourable movement 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:

	Quoted <u>equities</u> RM	Unquoted fixed income <u>securities</u> RM	Collective investment <u>scheme</u> RM	Exchange- traded <u>funds</u> # RM	Cash and cash <u>equivalents</u> RM	Other <u>assets</u> * RM	<u>Total</u> RM
<u>2020</u>							
Chinese Yuan	-	-	-	-	7	-	7
Hong Kong Dollar	31,195,295	-	-	-	2,703,096	-	33,898,391
Korean Won	1,765,951	-	-	-	-	10,017	1,775,968
Philippine Peso	-	-	-	-	401	-	401
Singapore Dollar	5,316,964	-	-	-	2,546,000	-	7,862,964
United States Dollar	28,618,064	808,248	642,600	964,894	2,808,812	-	33,842,618
	<u>66,896,274</u>	<u>808,248</u>	<u>642,600</u>	<u>964,894</u>	<u>8,058,316</u>	<u>10,017</u>	<u>77,380,349</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

**2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)**

Market risk (continued)

(c) Currency risk (continued)

	Quoted <u>equities</u> RM	Unquoted fixed income <u>securities</u> RM	Collective investment <u>scheme</u> RM	Exchange- traded <u>funds</u> RM	Cash and cash <u>equivalents</u> RM	Other <u>assets</u> * RM	<u>Total</u> RM
<u>2019</u>							
Chinese Yuan	-	-	-	7	-	7	
Hong Kong Dollar	25,919,448	-	-	-	7,611	138,041	26,065,100
Indonesian Rupiah	4,441,571	-	-	-	-	-	4,441,571
Philippine Peso	-	-	-	-	376	-	376
Singapore Dollar	11,219,631	-	-	-	289,210	-	11,508,841
Thailand Baht	2,832,205	-	-	-	-	-	2,832,205
United States Dollar	25,408,517	1,291,103	619,650	794,177	290,137	2,127,959	30,531,543
	<u>69,821,372</u>	<u>1,291,103</u>	<u>619,650</u>	<u>794,177</u>	<u>587,341</u>	<u>2,266,000</u>	<u>75,379,643</u>

\* Other assets consist of dividends receivable and amount due from broker.

# Relates to exchange-traded fund – local with units denominated in USD

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE 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 by each currency's respective historical volatility (2019: 5%), with all other variables held 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 each currency's respective historical volatility (2019: 5%). Disclosures below are shown in absolute terms, changes and impacts could be positive or negative.

	Change in rate %	Impact on profit after tax/NAV RM
<u>2020</u>		
Chinese Yuan	+/-6.29	-
Hong Kong Dollar	+/-6.32	+/- 2,141,598
Korean Won	+/-9.58	+/-170,154
Philippine Peso	+/-6.74	+/- 27
Singapore Dollar	+/-4.49	+/- 353,098
United States Dollar	+/-6.26	+/- 2,119,774
<u>2019</u>		
Chinese Yuan	+/-5	-
Hong Kong Dollar	+/-5	+/- 1,303,255
Indonesian Rupiah	+/-5	+/- 222,079
Philippine Peso	+/-5	+/- 19
Singapore Dollar	+/-5	+/- 575,442
Thailand Baht	+/-5	+/- 141,610
United States Dollar	+/-5	+/- 1,526,577



## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

##### 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 investments. The Manager manages the credit risk by undertaking credit evaluation to minimise such risk.

The settlement terms of amount due from brokers are governed by the relevant rules and regulations as prescribed by the respective stock exchange.

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

For unquoted fixed income securities, the Manager regularly reviews the rating assigned to the issuer so that necessary steps can be taken if the rating falls below those described in the Deeds and SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

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

	Unquoted fixed income securities RM	Cash and cash equivalents RM	Other assets* RM	Total RM
<u>2020</u>				
Basic Materials				
- Ba3	808,248	-	-	808,248
Financial Services				
- AAA	-	13,480,635	-	13,480,635
Technology				
- NR	-	-	22,517	22,517
Others				
- NR	-	-	389	389
	<u>808,248</u>	<u>13,480,635</u>	<u>22,906</u>	<u>14,311,789</u>

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

##### Credit risk

	Unquoted fixed income securities RM	Cash and cash equivalents RM	Other assets* RM	Total RM
<u>2019</u>				
Consumer Services				
- NR	-	-	30,930	30,930
Financial Services				
- AAA	-	1,304,983	-	1,304,983
- NR	-	-	2,266,000	2,266,000
Industrials				
- NR	1,291,103	-	-	1,291,103
Technology				
- NR	-	-	13,024	13,024
Others				
- NR	-	-	314	314
	<u>1,291,103</u>	<u>1,304,983</u>	<u>2,310,268</u>	<u>4,906,354</u>

\* Other assets consist of amount due from broker, amount due from Manager and dividends receivable.

##### 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, deposit with a licensed financial institution and other instruments, which are capable of being converted into cash within 7 days.

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

##### Liquidity risk (continued)

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 <u>one month</u> RM	Between <u>one month</u> <u>to one year</u> RM	<u>Total</u> RM
<u>2020</u>			
Amount due to Manager			
- management fee	81,388	-	81,388
- cancellation of units	10,128	-	10,128
Amount due to Trustee	4,476	-	4,476
Auditors' remuneration	-	9,000	9,000
Tax agent's fee	-	4,516	4,516
Other payables and accruals	-	11,226	11,226
	<u>95,992</u>	<u>24,742</u>	<u>120,734</u>
<u>2019</u>			
Amount due to Manager			
- management fee	76,899	-	76,899
- cancellation of units	5,030,105	-	5,030,105
Amount due to Trustee	4,229	-	4,229
Auditors' remuneration	-	9,000	9,000
Tax agent's fee	-	7,350	7,350
Performance fee	286,846	-	286,846
Other payables and accruals	-	10,972	10,972
	<u>5,398,079</u>	<u>27,322</u>	<u>5,425,401</u>

##### 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.

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 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. The Fund utilises the current bid price for financial assets which falls within the bid-ask spread.

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.

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.

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 3 FAIR VALUE ESTIMATION (CONTINUED)

##### (i) Fair value hierarchy (continued)

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>2020</u>				
Financial assets at fair value through profit or loss				
- quoted equities	85,869,550	-	-	85,869,550
- unquoted fixed income securities	-	808,248	-	808,248
- collective investment scheme	642,600	-	-	642,600
- exchange-traded funds	1,294,894	-	-	1,294,894
	<u>87,807,044</u>	<u>808,248</u>	<u>-</u>	<u>88,615,292</u>
<u>2019</u>				
Financial assets at fair value through profit or loss				
- quoted equities	90,026,599	-	-	90,026,599
- unquoted fixed income securities	-	1,291,103	-	1,291,103
- collective investment scheme	619,650	-	-	619,650
- exchange-traded funds	1,076,677	-	-	1,076,677
	<u>91,722,926</u>	<u>1,291,103</u>	<u>-</u>	<u>93,014,029</u>

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, collective investment scheme and exchange-traded funds. The Fund does not adjust the quoted prices for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include unquoted fixed income securities. As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

- (ii) The carrying value of cash and cash equivalents, amount due from broker, amount due from Manager, dividends receivable and all current liabilities are a reasonable approximation of the fair values due to their short term nature.

## **AFFIN HWANG ABSOLUTE RETURN FUND III**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)**

#### **4 MANAGEMENT FEE**

In accordance with the Deeds, the Manager is entitled to a management fee at a rate not exceeding 5.00% per annum on the NAV of the Fund calculated on a daily basis.

For the financial year ended 30 June 2020, the management fee is recognised at a rate of 1.00% per annum (2019: 1.00%) on the NAV of the Fund calculated on a daily basis as stated in the Information Memorandum.

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

#### **5 TRUSTEE FEE**

In accordance with the Deeds, 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 year ended 30 June 2020, the Trustee fee is recognised at a rate of 0.055% (2019: 0.055%) per annum on the NAV of the Fund, calculated on a daily basis, exclusive of foreign custodian fees as stated in the Information Memorandum.

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

#### **6 PERFORMANCE FEE**

In accordance with the Information Memorandum, the Manager is entitled to a performance fee at a rate of 20% on the appreciation in the NAV per unit over and above the Hurdle Value during the financial year.

The Hurdle Value is the High-Water Mark ("HWM") plus 8.0%, while the HWM is the closing NAV per unit on the last business day of the financial year or the HWM of the previous financial year, whichever is higher.

The performance fee is calculated on a daily basis, but it is only payable to the Manager at the end of the financial year, if the NAV per unit is higher than the Hurdle Value on the last business day of the financial year.

Performance fee is derived from the following calculation:

$$\text{Performance fee} = (A - B) \times 20\% \times C$$

A = NAV per unit (before performance fee)

B = Hurdle Value

C = Total number of units in circulation of the Fund

The target Hurdle Value has not been met during the financial year ended 30 June 2020. As a result, performance fee for the financial year ended 30 June 2020 is RM Nil (2019: RM286,846).

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 7 FUND ACCOUNTING FEE

Effective 1 January 2020, the annual fund valuation and accounting fee for the Fund is RM12,000 per annum.

#### 8 TAXATION

	<u>2020</u> RM	<u>2019</u> RM
Current taxation - foreign	-	-

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

	<u>2020</u> RM	<u>2019</u> RM
Net profit/(loss) before taxation	3,007,276	7,851,529
Tax at Malaysian statutory tax rate of 24% (2019: 24%)	721,746	1,884,367
Tax effects of:		
Investment income not subject to tax	(1,074,861)	(2,358,031)
Expenses not deductible for tax purposes	140,867	240,518
Restrictions on tax deductible expenses for Wholesale Funds	212,248	233,146
Tax expense	-	-

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RM	2019 RM
Financial assets at fair value through profit or loss:		
- quoted equities – local	18,973,276	20,205,227
- quoted equities – foreign	66,896,274	69,821,372
- unquoted fixed income securities – foreign	808,248	1,291,103
- collective investment scheme – foreign	642,600	619,650
- exchange-traded funds – local	1,294,894	1,076,677
	<u>88,615,292</u>	<u>93,014,029</u>
Net gain on financial assets at fair value through profit or loss:		
- realised gain/(loss) on sale of investments	4,536,716	(5,946,315)
- unrealised gain on changes in fair value	3,503,190	12,791,598
- management fee rebate on exchange-traded funds – local #	4,139	3,666
	<u>8,044,045</u>	<u>6,848,949</u>

# In arriving at the fair value of exchange-traded funds, the management fee initially paid to the Manager of exchange-traded funds have been considered as part of its net asset value. In order to prevent the double charging of management fee which is not permissible under SC's Guidelines, management fee charged on the Fund's investments in exchange-traded funds have been fully refunded to the Fund. Accordingly, any rebate of management fee received from the Manager of exchange-traded funds is reflected as an increase in the net asset value of the exchange-traded funds.



## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(a) Quoted equities – local

(i) Quoted equities – local as at 30 June 2020 are as follows:

<u>Name of counters</u>	<u>Quantity</u>	Aggregate <u>cost</u> RM	Fair <u>value</u> RM	Percentage <u>of NAV</u> %
<u>Consumer Products &amp; Services</u>				
Rex Industry Bhd	2,170,800	1,031,130	575,262	0.56
<u>Energy</u>				
Yinson Holdings Berhad	1,323,100	5,664,939	7,806,290	7.65
<u>Technology</u>				
Opensys (M) Berhad	5,000,000	2,956,500	3,550,000	3.48
My EG Services Bhd	2,926,400	4,111,873	4,126,224	4.05
Datasonic Group Bhd	2,082,500	3,022,109	2,915,500	2.86
	10,008,900	10,090,482	10,591,724	10.39
Total quoted equities – local	13,502,800	16,786,551	18,973,276	18.60
Accumulated unrealised gain on quoted equities – local		2,186,725		
Total quoted equities – local		18,973,276		

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(a) Quoted equities – local (continued)

(ii) Quoted equities – local as at 30 June 2019 are as follows:

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>Consumer Products &amp; Services</u>				
Rex Industry Bhd	2,170,800	1,031,130	759,780	0.83
Genting Malaysia Bhd	618,600	2,604,900	1,998,078	2.19
	<u>2,789,400</u>	<u>3,636,030</u>	<u>2,757,858</u>	<u>3.02</u>
<u>Industrials</u>				
Ekovest Bhd	1,342,900	1,188,051	1,141,465	1.25
Iskandar Waterfront City Bhd	3,225,500	3,150,782	3,419,030	3.75
	<u>4,568,400</u>	<u>4,338,833</u>	<u>4,560,495</u>	<u>5.00</u>
<u>Energy</u>				
Yinson Holdings Bhd	1,168,700	4,631,845	7,094,009	7.78
<u>Technology</u>				
Inari Amertron Bhd	911,700	1,540,408	1,449,603	1.59
My EG Services Bhd	2,954,600	4,018,753	4,343,262	4.76
	<u>3,866,300</u>	<u>5,559,161</u>	<u>5,792,865</u>	<u>6.35</u>
Total quoted equities – local	<u>12,392,800</u>	<u>18,165,869</u>	<u>20,205,227</u>	<u>22.15</u>
Accumulated unrealised gain on quoted equities – local		<u>2,039,358</u>		
Total quoted equities – local		<u>20,205,227</u>		

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(b) Quoted equities – foreign

(i) Quoted equities - foreign as at 30 June 2020 are as follows:

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>HONG KONG</u>				
<u>Consumer Services</u>				
Sands China Ltd	128,000	2,444,441	2,150,666	2.11
Meituan Dianping	52,700	2,610,987	5,006,981	4.91
	<u>180,700</u>	<u>5,055,428</u>	<u>7,157,647</u>	<u>7.02</u>
<u>Financial Services</u>				
Hong Kong Exchange & Clearing	2,200	332,699	400,774	0.39
HSBC Holdings PLC	136,750	4,346,566	2,732,279	2.68
PingAn Insurance Group Co China	140,000	6,413,985	5,989,057	5.87
	<u>278,950</u>	<u>11,093,250</u>	<u>9,122,110</u>	<u>8.94</u>
<u>Technology</u>				
Xiaomi Corp	553,000	3,797,196	3,924,457	3.85
Tencent Holdings Ltd	39,900	8,001,439	10,991,081	10.78
	<u>592,900</u>	<u>11,798,635</u>	<u>14,915,538</u>	<u>14.63</u>
<u>SOUTH KOREA</u>				
<u>Technology</u>				
Samsung Electronics Co Ltd	9,391	1,684,313	1,765,951	1.73
<u>SINGAPORE</u>				
<u>Financial Services</u>				
DBS Group Holdings Ltd	48,500	3,563,283	3,093,283	3.03
Mapletree North Asia Com Trust	784,000	2,874,490	2,223,681	2.18
Keppel Pacific Oak US REIT	1,007,098	3,133,727	2,955,369	2.90
Prime US REIT	686,400	2,545,394	2,278,917	2.23
	<u>2,525,998</u>	<u>12,116,894</u>	<u>10,551,250</u>	<u>10.34</u>

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(b) Quoted equities – foreign (continued)

(i) Quoted equities – foreign as at 30 June 2020 are as follows: (continued)

<u>Name of counters</u>	<u>Quantity</u>	Aggregate <u>cost</u> RM	Fair <u>value</u> RM	Percentage <u>of NAV</u> %
<u>UNITED STATES</u>				
<u>Consumer Services</u>				
Alibaba Group Holding Ltd	11,612	7,250,510	10,731,166	10.52
<u>Technology</u>				
Apple Inc.	1,528	1,832,339	2,386,589	2.34
Microsoft Corporation	7,343	2,752,528	6,400,325	6.27
Kingsoft Cloud Holdings	28,619	2,957,638	3,865,698	3.79
	37,490	7,542,505	12,652,612	12.40
Total quoted equities – foreign	3,637,041	56,541,535	66,896,274	65.58
Accumulated unrealised gain on quoted equities – foreign		10,354,739		
Total quoted equities – foreign		66,896,274		

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(b) Quoted equities – foreign (continued)

(ii) Quoted equities – foreign as at 30 June 2019 are as follows:

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>HONG KONG</u>				
<u>Financial Services</u>				
AIA Group Ltd	59,200	2,047,015	2,635,379	2.89
Industrial & Commercial Bank of China	644,000	2,096,625	1,937,347	2.12
Ping An Insurance Group Co. China	157,100	6,853,524	7,790,913	8.55
	<u>860,300</u>	<u>10,997,164</u>	<u>12,363,639</u>	<u>13.56</u>
<u>Industrials</u>				
China Resources Cement Holding	241,000	976,119	964,544	1.06
<u>Technology</u>				
HKBN Ltd	420,000	1,895,486	3,126,520	3.43
Tencent Holdings Ltd	50,800	9,458,633	9,464,745	10.38
	<u>470,800</u>	<u>11,354,119</u>	<u>12,591,265</u>	<u>13.81</u>
<u>INDONESIA</u>				
<u>Financial Services</u>				
Ciputra Development Tbk PT	3,856,300	1,540,405	1,296,720	1.42
<u>Industrials</u>				
PT Jasa Marga	1,878,656	3,145,648	3,144,851	3.45
<u>SINGAPORE</u>				
<u>Financial Services</u>				
DBS Group Holdings Ltd	43,900	3,164,486	3,482,524	3.82
Keppel-KBS US REIT	889,498	2,776,914	2,792,632	3.06
Manulife US REIT	960,191	3,271,834	3,431,065	3.76
Mapletree Industrial Trust	338,293	1,974,146	2,315,613	2.54
Mapletree North Asia Commerical Trust	628,500	2,019,596	2,784,827	3.05
	<u>2,860,382</u>	<u>13,206,976</u>	<u>14,806,661</u>	<u>16.23</u>

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(b) Quoted equities – foreign (continued)

(ii) Quoted equities – foreign as at 30 June 2019 are as follows: (continued)

<u>Name of counters</u>	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
<u>SINGAPORE (CONTINUED)</u>				
<u>Industrials</u>				
Venture Corp Ltd	53,000	2,897,162	2,636,667	2.89
<u>THAILAND</u>				
<u>Consumer Services</u>				
CP ALL PCL	245,400	2,275,151	2,832,205	3.11
<u>UNITED STATES</u>				
<u>Consumer Services</u>				
Alibaba Group Holding Ltd	9,922	6,023,463	6,944,150	7.61
Ctrip.com International Ltd	12,570	1,882,637	1,916,613	2.10
	22,492	7,906,100	8,860,763	9.71
<u>Technology</u>				
Alphabet Inc - Class C	310	1,386,444	1,383,853	1.52
Facebook Inc	4,995	3,478,252	3,950,128	4.33
Microsoft Corporation	9,020	3,381,153	4,990,076	5.47
	14,285	8,245,849	10,324,057	11.32
Total quoted equities – foreign	10,502,655	62,544,693	69,821,372	76.56
Accumulated unrealised gain on quoted equities – foreign		7,276,679		
Total quoted equities – foreign		69,821,372		

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(c) Unquoted fixed income securities – foreign

(i) Unquoted fixed income securities – foreign as at 30 June 2020 are as follows:

<u>Name of issuer</u>	<u>Nominal value RM</u>	<u>Adjusted cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
4.8% Press Metal Labuan Ltd Call: 30.10.2020 (Ba3)	842,800	725,253	808,248	0.79
Total unquoted fixed income securities – foreign	<u>842,800</u>	<u>725,253</u>	<u>808,248</u>	<u>0.79</u>
Accumulated unrealised gain on unquoted fixed income securities – foreign		82,995		
Total unquoted fixed income securities – foreign		<u>808,248</u>		

(ii) Unquoted fixed income securities – foreign as at 30 June 2019 are as follows:

<u>Name of issuer</u>	<u>Nominal value RM</u>	<u>Adjusted cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
8.10% Yinson Juniper Ltd Call: 29.03.2024 (NR)	1,239,300	1,244,704	1,291,103	1.41
Total unquoted fixed income securities – foreign	<u>1,239,300</u>	<u>1,244,704</u>	<u>1,291,103</u>	<u>1.41</u>
Accumulated unrealised gain on unquoted fixed income securities – foreign		46,399		
Total unquoted fixed income securities – foreign		<u>1,291,103</u>		

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(d) Collective investment scheme – foreign

(i) Collective investment scheme – foreign as at 30 June 2020 are as follows:

	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
Sotella Fund	3	665,550	642,600	0.63
Total collective investment scheme – foreign	3	665,550	642,600	0.63
Accumulated unrealised loss on collective investment scheme – foreign		(22,950)		
Total collective investment scheme – foreign		642,600		

(ii) Collective investment scheme – foreign as at 30 June 2019 are as follows:

	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
Sotella Fund	3	665,550	619,650	0.68
Total collective investment scheme – foreign	3	665,550	619,650	0.68
Accumulated unrealised loss on collective investment scheme – foreign		(45,900)		
Total collective investment scheme – foreign		619,650		



## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

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

(e) Exchange-traded fund – local

(i) Exchange-traded fund – local as at 30 June 2020 are as follows:

	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
TradePlus S&P New China Tracker – MYR	50,000	268,500	330,000	0.32
TradePlus S&P New China Tracker – USD	140,000	771,453	964,894	0.95
Total exchange-traded fund – local	<u>190,000</u>	<u>1,039,953</u>	<u>1,294,894</u>	<u>1.27</u>
Accumulated unrealised gain on exchange-traded fund – local		254,941		
Total exchange-traded fund – local		<u>1,294,894</u>		

(ii) Exchange-traded fund – local as at 30 June 2019 are as follows:

	<u>Quantity</u>	<u>Aggregate cost RM</u>	<u>Fair value RM</u>	<u>Percentage of NAV %</u>
TradePlus S&P New China Tracker – MYR	50,000	268,500	282,500	0.31
TradePlus S&P New China Tracker – USD	140,000	771,453	794,177	0.87
Total exchange-traded fund – local	<u>190,000</u>	<u>1,039,953</u>	<u>1,076,677</u>	<u>1.18</u>
Accumulated unrealised gain on exchange-traded fund – local		36,724		
Total exchange-traded fund – local		<u>1,076,677</u>		

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 10 CASH AND CASH EQUIVALENTS

	<u>2020</u> RM	<u>2019</u> RM
Cash and bank balances	8,079,158	594,808
Deposit with a licensed financial institution	5,401,477	710,175
	<u>13,480,635</u>	<u>1,304,983</u>

Weighted average effective interest rates per annum of deposit with a licensed financial institution are as follows:

	<u>2020</u> %	<u>2019</u> %
Deposit with a licensed financial institution	<u>2.00</u>	<u>3.00</u>

Deposit with a licensed financial institution has an average day to maturity of 1 day (2019: 1 day).

#### 11 NUMBER OF UNITS IN CIRCULATION

	<u>2020</u> No. of units	<u>2019</u> No. of units
At the beginning of the financial year	129,125,000	179,935,000
Creation of units arising from applications	40,412,000	4,730,000
Cancellation of units	(29,381,000)	(55,540,000)
At the end of the financial year	<u>140,156,000</u>	<u>129,125,000</u>

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 12 TRANSACTIONS WITH BROKERS/DEALERS

- (i) Details of transactions with the top 10 brokers and dealers for the financial year ended 30 June 2020 are as follows:

<u>Name of brokers/dealers</u>	<u>Value of trade</u> RM	<u>Percentage of total trade</u> %	<u>Brokerage fees</u> RM	<u>Percentage of total brokerage</u> %
CLSA Ltd	37,469,770	17.74	35,736	12.79
Robert W. Baird & Co.	30,215,497	14.31	16,434	5.88
Affin Hwang Investment Bank Bhd*	23,798,784	11.27	58,771	21.04
Citigroup Global Markets Malaysia Sdn Bhd	16,843,100	7.97	33,754	12.08
CLSA Securities Sdn Bhd	13,310,816	6.30	17,304	6.20
Macquarie Capital Securities Ltd	12,788,342	6.05	5,211	1.87
Macquarie Bank Ltd	10,761,823	5.10	4,305	1.54
DBS Vickers Securities Pte Ltd	9,146,670	4.33	24,669	8.83
China International Capital Securities Ltd	8,910,782	4.22	9,384	3.36
CIMB Investment Bank Bhd	5,726,759	2.71	10,611	3.80
Others	42,247,109	20.00	63,127	22.61
	<u>211,219,452</u>	<u>100.00</u>	<u>279,306</u>	<u>100.00</u>

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 12 TRANSACTIONS WITH BROKERS/DEALERS (CONTINUED)

- (ii) Details of transactions with the top 10 brokers and dealers for the financial year ended 30 June 2019 are as follows:

<u>Name of brokers/dealers</u>	<u>Value of trade</u> RM	<u>Percentage of total trade</u> %	<u>Brokerage fees</u> RM	<u>Percentage of total brokerage</u> %
China International Capital Corp HK Securities Ltd	42,786,064	19.70	49,078	13.56
CLSA Ltd	26,578,867	12.24	28,437	7.86
Macquarie Bank Ltd	19,505,053	8.98	30,958	8.55
DBS Vickers Securities (S) Pte Ltd	13,830,965	6.37	39,481	10.91
CCB International Securities Ltd	12,706,492	5.85	31,766	8.78
Affin Hwang Investment Bank Bhd*	12,702,462	5.85	29,827	8.24
CLSA Singapore Pte Ltd	10,262,815	4.72	10,926	3.02
Macquarie Capital Securities Ltd	9,278,584	4.27	21,169	5.85
UOB Kay Hian Pte Ltd	8,179,300	3.77	20,448	5.65
Citigroup Global Markets Inc	7,480,440	3.44	14,961	4.13
Others	53,897,404	24.81	84,848	23.45
	<u>217,208,446</u>	<u>100.00</u>	<u>361,899</u>	<u>100.00</u>

\* Included in transactions with brokers and dealers are trades in the stockbroking industry with Affin Hwang Investment Bank Bhd and Affin Hwang Asset Management Bhd, a company related to the Manager and the Manager amounting to RM23,798,784 (2019: RM12,702,462). The Manager is of the opinion that all transactions with the related company have been entered into at agreed terms between the related parties.

# Included in the transactions with brokers and dealers are cross trades conducted between the Fund and other funds; and private mandates managed by the Manager amounting to:

<u>Name of brokers/dealers</u>	<u>2020</u> RM	<u>2019</u> RM
RHB Investment Bank Bhd	-	7,053,968
Nomura Singapore Limited	-	2,053,371
RHB Bank Bhd	1,280,569	-
	<u>1,280,569</u>	<u>9,107,339</u>

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 12 TRANSACTIONS WITH BROKERS AND DEALERS (CONTINUED)

The cross trades are conducted between the Fund, other funds and private mandates managed by the Manager as follows:

	<u>2020</u> RM	<u>2019</u> RM
Affin Hwang Flexible Maturity Income Fund VIII	-	4,135,847
Affin Hwang Flexible Maturity Income Fund 10	-	2,070,895
Private mandates managed by the Manager	1,280,569	2,900,597
	<u>1,280,569</u>	<u>9,107,339</u>

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

The related parties of and their relationship 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
Affin Bank Berhad ("ABB")	Ultimate holding company of the Manager
Subsidiaries and associated companies of ABB as disclosed in its financial statements	Subsidiaries and associated companies of the ultimate holding company of the Manager as disclosed in its financial statements

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

	<u>2020</u> No. of units	<u>2020</u> RM	<u>2019</u> No. of units	<u>2019</u> RM
<u>The Manager:</u>				
Affin Hwang Asset Management Berhad (The units are held legally for booking purposes)	3,367	2,450	3,342	2,361

## AFFIN HWANG ABSOLUTE RETURN FUND III

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020 (CONTINUED)

#### 14 MANAGEMENT EXPENSE RATIO ("MER")

	<u>2020</u> %	<u>2019</u> %
MER	<u>1.15</u>	<u>1.41</u>

MER is derived from the following calculation:

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

A	=	Management fee, excluding management fee rebate
B	=	Trustee fee
C	=	Fund accounting fee
D	=	Auditors' remuneration
E	=	Tax agent's fee
F	=	Other expenses, excluding sales and service tax on transaction costs and withholding tax
G	=	Average NAV of the Fund calculated on a daily basis

The average NAV of the Fund for the financial year calculated on a daily basis is RM89,073,206 (2019: RM98,536,086).

#### 15 PORTFOLIO TURNOVER RATIO ("PTR")

	<u>2020</u>	<u>2019</u>
PTR (times)	<u>1.20</u>	<u>1.10</u>

PTR is derived from the following calculation:

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

where: total acquisition for the financial year = RM100,605,029 (2019: RM99,926,286)  
total disposal for the financial year = RM113,031,726 (2019: RM117,295,099)

#### 16 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

The worsening macro-economic outlook as a result of Covid-19, both domestically and globally, has resulted in the deterioration of the Fund's Net Asset Value/unit as of the date of this report. This is mainly due to the decrease in fair value of the Fund's investments at fair value through profit or loss.

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

## **AFFIN HWANG ABSOLUTE RETURN FUND III**

### **STATEMENT BY THE MANAGER**

I, 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 as the Manager, the financial statements set out on pages 1 to 41 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 30 June 2020 and of its financial performance, changes in equity and cash flows for the financial year ended 30 June 2020 in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

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

**TENG CHEE WAI**  
**EXECUTIVE DIRECTOR/MANAGING DIRECTOR**

Kuala Lumpur  
14 August 2020

## INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG ABSOLUTE RETURN FUND III

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Our opinion

In our opinion, the financial statements of Affin Hwang Absolute Return Fund III (“the Fund”) give a true and fair view of the financial position of the Fund as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

#### What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 30 June 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 1 to 41.

#### Basis for opinion

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

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

#### Independence and other ethical responsibilities

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



## INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG ABSOLUTE RETURN FUND III (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 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 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 ABSOLUTE RETURN FUND III (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 Funds'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 ABSOLUTE RETURN FUND III (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  
14 August 2020

## **DIRECTORY OF SALES OFFICE**

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