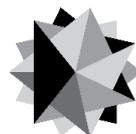


Affin Hwang

Strategic Opportunity Fund 1

Annual Report
30 November 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 STRATEGIC OPPORTUNITY FUND 1

Annual Report and Audited Financial Statements For The Financial Period From 13 January 2020 (Date of Launch) To 30 November 2020

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FUND INFORMATION

Fund Name	Affin Hwang Strategic Opportunity Fund 1
Fund Type	Income
Fund Category	Fixed Income (Wholesale)
Investment Objective	The Fund aims to provide income return whilst seek to repay the capital raised at maturity
Duration of the Fund	Two (2) years close-ended Fund
Termination Date	27 February 2022
Benchmark	2-years Malayan Banking Berhad fixed deposit rate as at Investment Date
Distribution Policy	Depending on the level of income the Fund generates, the Fund will provide distribution at the end of the maturity

BREAKDOWN OF UNITHOLDERS BY SIZE AS AT 30 NOVEMBER 2020

Size of holdings (units)	No. of unitholders	No. of units held * ('000)
5,000 and below	0	0
5,001 to 10,000	5	49
10,001 to 50,000	9	256
50,001 to 500,000	11	1,559
500,001 and above	2	32,039
Total	27	33,903

* Note: Excluding Manager's stock

FUND PERFORMANCE DATA

Category	As at 30 Nov 2020 (%)
Portfolio composition	
Unquoted derivative - option	7.76
Cash & cash equivalent	92.24
Total	100.00
Total NAV (RM'million)	36.760
NAV per Unit (RM)	1.0602
Unit in Circulation (million)	34.674
Highest NAV	1.0602
Lowest NAV	0.9555
Return of the Fund (%) ⁱⁱⁱ	6.02
- Capital Growth (%) ⁱ	6.02
- Income Distribution (%) ⁱⁱ	Nil
Gross Distribution per Unit (sen)	Nil
Net Distribution per Unit (sen)	Nil
Management Expense Ratio (%)	0.09
Portfolio Turnover Ratio (times)	0.02

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

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

An illustration of the above would be as follow:-

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

MANAGER'S REPORT

Income Distribution / Unit Split

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

Performance Review

For the period 27 February 2020 to 30 November 2020, the Fund registered a return of 6.02%. The Net Asset Value (NAV) per unit of the Fund as at 30 November 2020 was RM1.0602 while the initial NAV per unit was RM1.0000. The Benchmark for the period registered a return of 1.60%. The Fund outperformed the Benchmark by 4.42%.

The Fund will strive to meet its objective of providing income return whilst seek to repay the capital raised at maturity.

Fund Performance

Table 1: Performance of the Fund

	Since Commencement (27/2/20 - 30/11/20)
Fund	6.02%
Benchmark	1.60%
Outperformance	4.42%

Source of Benchmark: Maybank

Table 2: Average Total Return

	Since Commencement (27/2/20 - 30/11/20)
Fund	7.98%
Benchmark	2.10%
Outperformance	5.88%

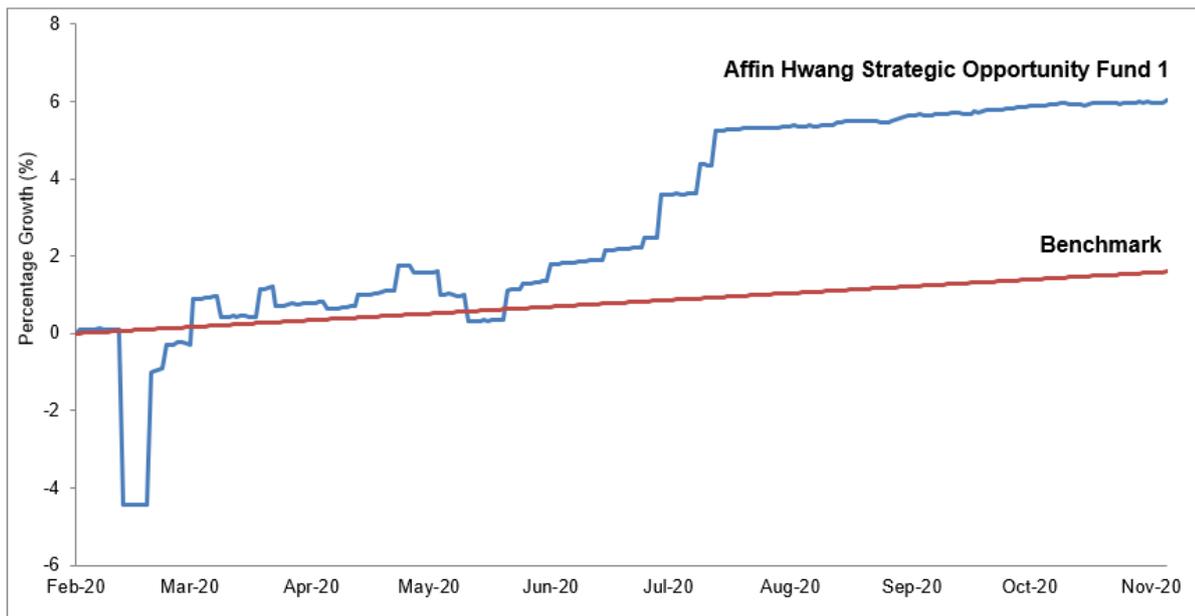
Source of Benchmark: Maybank

Table 3: Annual Total Return

	FYE 2020 (27/2/20 - 30/11/20)
Fund	6.02%
Benchmark	1.60%
Outperformance	4.42%

Source of Benchmark: Maybank

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 Maybank." Benchmark: 2-years Malayan Banking Berhad fixed deposit rate as at Investment Date

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

Asset Allocation

As at 30 November 2020, the asset allocation of the Fund stood at 7.76% of the Fund's NAV in unquoted derivative – option, while the remaining was held in cash and cash equivalent.

Strategies Employed

The Fund invests in a 24 months sharkfin warrant linked to gold to provide income return whilst seek to repay the capital raised at maturity. The option was intended to held until maturity while the remaining assets to be placed as deposits with licensed financial institutions.

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 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 lower 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.

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. In the US, the S&P 500 index closed 12.5% lower that month. In an attempt to stem the fallout from the coronavirus, major economies led by the US has introduced an unprecedented relief package to cushion its economy. The relief package comes as the US also reports the greatest number of Covid-19 cases, making it the country with the largest outbreak in the world surpassing that of Italy and China.

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 since. By November, the S&P 500 index closed 10.8% higher from the previous month. This positive effect extended to Asia as well, with the Hang Seng Index and broader MSCI Asia ex Japan index rising 9.15% and 8.00% respective in the same period.

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.

Tensions between the two global powerhouses rose recently after China ordered the US to close its Chengdu-based consulate. The order followed the US closure of the Chinese consulate in Houston. On the other hand, remarks by US President Donald Trump that he will move to ban Chinese-owned video app TikTok in the US also added fuel to this fire.

On commodities, crude oil prices slid by about 40% YTD as at end of October, after oil prices rebounded 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.

On the domestic front, 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.

Malaysia's economy posted a smaller contraction of 2.7 per cent in the third quarter (3Q) of 2020, surpassing consensus estimate of -4.6 per cent, as well as the Gross Domestic Product (GDP) contraction of 17.1 per cent in 2Q, supported by improvements in all sectors.

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.

Malaysia Budget 2021 was announced in November, with an allocated RM 322.5 billion expenditure, with 26.5% of it coming from borrowings and use of government assets. 5.3% of this budget has been devoted to the Covid-19 fund. Targeted measures by this budget include extension of the Principal Hub incentive to Dec 2022, reduction of individual EPF contribution and review of income tax exemption on Green Sustainable and Responsible Investment Sukuk grant.

The Malaysia bond market saw foreign holdings increase by RM 2.7 billion in November making up 13.6% of total bonds outstanding, its highest since January 2020. Though foreign demand seems to be positive, overall yields still grew as selling concentrated on the lower end of the curve, as yields for the 15-year and 20-year MGS edged up 28 bps and 18 bps in the last week of November.

Investment Outlook

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

Markets will be playing a “recovery theme” from December onwards and into 2021. Current estimates suggest global GDP to fall around 5% at the end of 2020, with an expected rebound of 5.4% in 2021 with the reopening

of economies and growth returns. But as vaccines take time to produce even at current maximum production levels, we should expect this “recovery theme” to be a multi-year theme.

The worldwide Covid-19 death toll has since breached the 1 million mark, with US cases remaining stable at a high rate and Europe battling new waves. The shift in infections to younger age groups and more effective treatments however ensured Europe’s continuous recovery despite the increasing infection rates. It is also more exposed to global trade than US, thus will benefit from the rebound in Chinese demand. Europe’s exposure to financials, cyclical sectors such as energy and industrials, will potentially outperform in the second phase of recovery when economy continues to pick up as yield curve steepens. US dollar should weaken as economy recovers globally given its counter-cyclical behaviour, with more economically sensitive currencies appreciating instead, including euro and British sterling that are undervalued. However, British sterling faces higher volatility due to Brexit negotiations.

US-China trade tensions are likely to remain in the short-term. A Biden presidency could potentially uplift geopolitical risk with a steadier hand at the helm. Consistency in policy implementation is key alongside clarity on the nature of the two countries’ relationship with each other. A Biden win will set the stage for a post-election rally as investors warm to the idea. However, the issue of a divided Congress remains, with markets expecting a Republican-majority in control of the Senate.

In Malaysia, recent alarming increase in Covid-19 cases caused targeted lockdowns across the country, potentially delaying economic recovery although remaining positive on a full rebound by 2021. From a bottom-up perspective, markets are still focused on more export-oriented industries i.e. gloves, electromotive force and technology stocks. Politics pose as minor distraction seeing how the peak of political risk has passed after Sabah election results were released. However, the risk to policy continuity caused by uncertainty of a majority win could lead to potential loss on FDI opportunities to other emerging market countries.

Inflows into global equity funds surge past US\$100 billion in the last 3 weeks of November as investors continue to pile into equities with markets turning risk-on. Buoyed by a “Goldilocks” environment with a favourable US election outcome, low interest rates and positive developments on the vaccine front, we could see additional support for risk assets.

Earnings momentum is expected to continue into 2021 with earnings growth projected to rise by 38.0% in Asia ex-Japan (ex-Financials) according to estimates by some sell-side analysts. Key sectors leading the recovery include the energy, consumer discretionary and industrials. Though, this is tempered by moderately higher valuations which has crept up above historical averages.

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

No cross trade transactions have been carried out during the reported period.

TRUSTEE'S REPORT TO THE UNITHOLDERS OF AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

We have acted as Trustee of Affin Hwang Strategic Opportunity Fund 1 for financial period from 13 January 2020 (Date of Launch) to 30 November 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 Deed, other provisions of the Deed, the Capital Markets and Services Act 2007, the Securities Commission's Guidelines on Unlisted Capital Market Product under the Lodge and Launch Framework and other applicable laws during the period then ended.

We have also ensured the following:

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

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

NORHAYATI BINTI AZIT
DIRECTOR – FUND SERVICES

Kuala Lumpur
15 January 2021

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

FINANCIAL STATEMENTS

**FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020
(DATE OF LAUNCH) TO 30 NOVEMBER 2020**

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

FINANCIAL STATEMENTS

**FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020
(DATE OF LAUNCH) TO 30 NOVEMBER 2020**

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AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020

	<u>Note</u>	Financial period from 13.1.2020 (date of launch) to <u>30.11.2020</u> RM
INVESTMENT INCOME		
Interest income from financial assets at fair value through profit or loss		871,771
Net gain on foreign currency exchanges		181
Net gain on financial asset at fair value through profit or loss	9	1,242,431
Other income		5,769
		<hr/> 2,120,152 <hr/>
EXPENSES		
Trustee fee	5	(5,712)
Fund accounting fee	6	(8,667)
Auditors' remuneration		(10,000)
Tax agent's fee		(3,500)
Other expenses		(2,621)
		<hr/> (30,500) <hr/>
NET PROFIT BEFORE TAXATION		2,089,652
Taxation	7	(1,160)
		<hr/>
NET PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL PERIOD		2,088,492 <hr/> <hr/>
Net profit after taxation is made up of the following:		
Realised amount		860,990
Unrealised amount		1,227,502
		<hr/> 2,088,492 <hr/> <hr/>

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

STATEMENT OF FINANCIAL POSITION AS AT 30 NOVEMBER 2020

	<u>Note</u>	As at <u>30.11.2020</u> RM
ASSETS		
Cash and cash equivalents		25,302
Deposits with licensed financial institutions	8	33,893,273
Financial asset at fair value through profit or loss	9	2,852,847
Tax recoverable		4,390
TOTAL ASSETS		<u>36,775,812</u>
LIABILITIES		
Amount due to Trustee		602
Auditors' remuneration		10,000
Tax agent's fee		3,500
Other payables and accruals		2,001
TOTAL LIABILITIES		<u>16,103</u>
NET ASSET VALUE OF THE FUND		<u>36,759,709</u>
EQUITY		
Unitholders' capital		34,671,217
Retained earnings		2,088,492
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		<u>36,759,709</u>
NUMBER OF UNITS IN CIRCULATION	10	<u>34,674,000</u>
NET ASSET VALUE PER UNIT (RM)		<u>1.0602</u>

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020

	Unitholders' <u>capital</u> RM	Retained <u>earnings</u> RM	<u>Total</u> RM
Balance as at 13 January 2020 (date of launch)	-	-	-
Total comprehensive income for the financial period	-	2,088,492	2,088,492
Movement in unitholders' capital:			
Creation of units arising from applications	34,723,000	-	34,723,000
Cancellation of units	(51,783)	-	(51,783)
Balance as at 30 November 2020	<u>34,671,217</u>	<u>2,088,492</u>	<u>36,759,709</u>

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

STATEMENT OF CASH FLOWS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020

	Financial period from 13.1.2020 (date of launch) to <u>30.11.2020</u> RM
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from maturity of deposits with licensed financial institutions	269,354,213
Placements of deposits with licensed financial institutions	(302,404,213)
Purchase of investments	(1,610,416)
Interest received	28,498
Other income received	5,769
Trustee fee paid	(5,110)
Fund accounting fee paid	(8,667)
Payment for other fees and expenses	(620)
Net realised gain on foreign exchange	15,110
Tax paid	(5,550)
	<hr/>
Net cash used in operating activities	(34,630,986)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from creation of units	34,723,000
Payments for cancellation of units	(51,783)
	<hr/>
Net cash generated from financing activities	34,671,217
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	40,231
EFFECTS OF FOREIGN CURRENCY EXCHANGE	(14,929)
CASH AND CASH EQUIVALENTS AT THE DATE OF LAUNCH	-
	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	25,302
	<hr/> <hr/>

Cash and cash equivalents as at 30 November 2020 comprise of bank balances.

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 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, International Financial Reporting Standards (“MFRS”).

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

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

(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 2023) clarify that a liability is classified as non-current if an entity has a substantive right at the end of the reporting period to defer settlement for at least 12 months after the reporting period.

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

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

B INCOME RECOGNITION

Interest income

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

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

C TAXATION

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

D FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia (“RM”), which is the Fund’s functional and presentation currency.

E FOREIGN CURRENCY TRANSLATION

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Classification

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

- those to be measured at fair value through profit or loss, and
- those to be measured at amortised cost

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. Consequently, all investments and derivatives not designated as hedging instruments are measured at fair value through profit or loss.

The Fund classifies cash and cash equivalents and deposits with licensed financial institutions as financial assets at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

The Fund classifies amount due to Trustee, auditors' remuneration, tax agent's fee and other payables and accruals as financial liabilities measured at amortised cost.

(ii) Recognition and measurement

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

Financial liabilities, within the scope of MFRS 9, are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument.

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

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(ii) Recognition and measurement (continued)

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 on financial assets at fair value through profit and loss' in the period which they arise.

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

The Fund's investment in unquoted derivative – option is valued on a weekly basis using valuation techniques by BNP Paribas Issuance B.V. (the "Option Seller"). Refer to Note 3 for further explanation.

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

(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.

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

F FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(iii) Impairment (continued)

Definition of default and credit-impaired financial assets

Qualitative criteria:

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

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

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

Write-off

The Fund writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount.

The Fund may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in bad debt recoveries. There are no write-offs/recoveries during the financial period.

G CASH AND CASH EQUIVALENTS

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

H UNITHOLDERS' CAPITAL

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

- the units entitle the holder to a proportionate share of the Fund's net asset value;
- the units are the most subordinated class and class features are identical;
- there is no contractual obligations to deliver cash or another financial asset other than the obligation on the Fund to repurchase; and
- the total expected cash flows from the units over its life are based substantially on the profit or loss of the Fund.

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

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

I DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The fair value of unquoted derivative – option is determined in accordance with the accounting policy set out in Note F.

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 held-for-trading and accounted for in accordance with the accounting policy set out in Note F.

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

J CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

In undertaking any of the Fund's investment, the Manager will ensure that all assets of the Fund under management will be valued appropriately, that is at fair value and in compliance with the Securities Commission's ("SC") Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

(i) Fair value of unquoted derivative – option

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

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

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

K REALISED AND UNREALISED PORTIONS OF PROFIT OR LOSS AFTER TAX

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020

1 INFORMATION ON THE FUND

The Wholesale Fund was constituted under the name Affin Hwang Strategic Opportunity Fund 1 (the “Fund”) pursuant to the execution of a Deed dated 16 December 2019 (the “Deed”) entered into between Affin Hwang Asset Management Berhad (the “Manager”) and TMF Trustees Malaysia Berhad (the “Trustee”).

The Fund commenced operations on 27 February 2020 and will continue its operations until terminated by the Trustee as provided under Clause 11.3 of the Deed or on maturity date of the Fund which falls on the second anniversary of the investment date of the Fund.

The Fund may invest in any of the following investments:

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

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

The main objective of the Fund is to provide income return whilst seeking to repay the capital raised at maturity.

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

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

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

2 FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments are as follows:

	Note	At amortised cost RM	At fair value through profit or loss RM	Total RM
<u>As at 30.11.2020</u>				
<u>Financial assets</u>				
Cash and cash equivalents		25,302	-	25,302
Deposits with licensed financial institutions	8	33,893,273	-	33,893,273
Unquoted derivative – option	9	-	2,852,847	2,852,847
Total		<u>33,918,575</u>	<u>2,852,847</u>	<u>36,771,422</u>
<u>Financial liabilities</u>				
Amount due to Trustee		602	-	602
Auditors' remuneration		10,000	-	10,000
Tax agent's fee		3,500	-	3,500
Other payables and accruals		2,001	-	2,001
Total		<u>16,103</u>	<u>-</u>	<u>16,103</u>

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

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

Market risk

(a) Price risk

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

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

Market risk (continued)

(b) Interest rate risk

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

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

(c) Currency risk

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

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

	Unquoted derivative – <u>option</u> RM	Cash and cash <u>equivalents</u> RM	<u>Total</u> RM
<u>As at 30.11.2020</u>			
<u>Financial assets</u>			
United States Dollar	2,852,847	320	2,853,167

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

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

Market risk (continued)

(c) Currency risk (continued)

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

	<u>Change in price</u> %	<u>Impact on profit after tax/NAV</u> RM
<u>As at 30.11.2020</u>		
United States Dollar	+/- 7.33	<u>+/- 209,137</u>

Credit risk

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

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

The settlement terms of the proceeds from the creation of units' receivable from the Manager are governed by the SC's Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework.

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

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

Credit risk (continued)

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

	<u>Cash and cash equivalents</u> RM	<u>Deposits with licensed financial institutions</u> RM	<u>Unquoted derivative – option</u> RM	<u>Total</u> RM
<u>As at 30.11.2020</u>				
Financial services				
- AAA	25,302	-	-	25,302
- AA2	-	33,893,273	-	33,893,273
- AA3	-	-	2,852,847	2,852,847
	<u>25,302</u>	<u>33,893,273</u>	<u>2,852,847</u>	<u>36,771,422</u>

Liquidity risk

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

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

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

	<u>Within one month</u> RM	<u>Between one month to one year</u> RM	<u>Total</u> RM
<u>As at 30.11.2020</u>			
Amount due to Trustee	602	-	602
Auditors' remuneration	-	10,000	10,000
Tax agent's fee	-	3,500	3,500
Other payables and accruals	-	2,001	2,001
	<u>602</u>	<u>15,501</u>	<u>16,103</u>

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

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

Capital risk

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

3 FAIR VALUE ESTIMATION

Financial instruments comprise financial assets and financial liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

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

(i) Fair value hierarchy

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

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

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

3 FAIR VALUE ESTIMATION

(ii) Fair value hierarchy (continued)

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

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

	<u>Level 1</u> RM	<u>Level 2</u> RM	<u>Level 3</u> RM	<u>Total</u> RM
<u>As at 30.11.2020</u>				
Financial assets at fair value through profit or loss				
- unquoted derivative				
- option	-	-	2,852,847	2,852,847
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Level 3 instrument

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

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

The descriptions of unobservable inputs in the option valuation are:

- **Expected/implied Volatility:** this is derived by the Option Seller from a number of parameters including but not limited to the Option Seller assumptions, using proxies from correlated assets and derivation from observable inputs like realised volatility of the commodity and volatility quotes in the broker market.
- **Net Cost of Borrowing:** the net cost of borrowing for the Option Seller is expressed as a spread over Euribor rates. The fair value of the option is impacted by the cost of borrowing associated with the option seller having to buy units of the underlying commodity.

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

3 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value hierarchy (continued)

Level 3 instrument (continued)

The expected/implied volatility number and the cost of borrowing varies on a daily basis. The fair value of the option increases when either of the implied volatility or the cost of borrowing increases.

The following table presents the movements in Level 3 instruments for the financial period from 13 January 2020 (date of launch) to 30 November 2020:

	Financial period from 13.1.2020 (date of launch) to <u>30.11.2020</u> RM
Opening balance	-
Purchase	1,610,416
Net change in fair value on financial asset at fair value through profit or loss	1,242,431
	<u>2,852,847</u>

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

4 MANAGEMENT FEE

In accordance with the Deed, the Manager is entitled to a management fee at a rate not exceeding 3.00% per annum on the NAV of the Fund calculated on a daily basis.

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

5 TRUSTEE FEE

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

For the financial period from 13 January 2020 (date of launch) to 30 November 2020, the Trustee fee is recognised at a rate of 0.02% per annum on the NAV of the Fund, exclusive of foreign custodian fees and charges, calculated on a daily basis as stated in the Fund's Information Memorandum.

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

6 FUND ACCOUNTING FEE

The fund valuation and accounting fee for the Fund is RM13,000 per annum.

7 TAXATION

	Financial period from 13.1.2020 (date of launch) to <u>30.11.2020</u> RM
Current taxation	1,160

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

7 TAXATION (CONTINUED)

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

	Financial period from 13.1.2020 (date of launch) to 30.11.2020 RM
Net profit before taxation	2,089,652
Tax at Malaysian statutory rate of 24%	501,516
Tax effects of:	
Investment income not brought to tax	(507,452)
Expenses not deductible for tax purposes	4,440
Restriction on tax deductible expenses for Wholesale Funds	2,656
Tax expense	1,160

8 DEPOSITS WITH LICENSED FINANCIAL INSTITUTIONS

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

	As at 30.11.2020 %
Deposits with licensed financial institutions	3.35

Deposits with licensed financial institutions have an average maturity of 455 days. The amount includes interest receivable of RM843,273.

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

9 FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

The Fund invests in unquoted derivative – option. An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. The notional amount of the Fund's exposure to the unquoted derivative – option as at 30 November 2020 is RM33,865,627. The Fund's investment in unquoted derivative – option is set out below:

	As at 30.11.2020
Financial asset at fair value through profit or loss:	
- unquoted derivative – option	2,852,847
	Financial period from 13.1.2020 (date of launch) to 30.11.2020
Net gain on financial asset at fair value through profit or loss:	
- unrealised gain on changes in fair value	1,242,431

(a) Unquoted derivative – option

(i) Unquoted derivative – option as at 30 November 2020 are as follows:

<u>Name of issuer</u>	<u>Nominal value</u> RM	<u>Adjusted cost</u> RM	<u>Fair value</u> RM	<u>Percentage of NAV</u> %
USD 24 Months Sharkfin Warrant linked to Gold	900	1,610,416	2,852,847	7.76
Total unquoted derivative – option	900	1,610,416	2,852,847	7.76
Accumulated unrealised gain on unquoted derivative – option		1,242,431		
Total unquoted derivative – option		2,852,847		

The unquoted derivative – option expires on 15 February 2022.

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

10 NUMBER OF UNITS IN CIRCULATION

	As at <u>30.11.2020</u> No. of units
At the date of launch	-
Creation of units arising from applications	34,723,000
Cancellation of units	<u>(49,000)</u>
At the end of the financial period	<u><u>34,674,000</u></u>

11 TRANSACTIONS WITH DEALER

- (i) Details of transactions with the top dealer for the financial period from 13 January 2020 (date of launch) to 30 November 2020 are as follows:

<u>Name of dealers</u>	<u>Value of trade</u> RM	<u>Percentage of total trade</u> %
BNP Paribas	<u>1,610,416</u>	<u>100.00</u>

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

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

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

<u>Related parties</u>	<u>Relationship</u>
Affin Hwang Asset Management Berhad	The Manager
Affin Hwang Investment Bank Berhad	Holding company of the Manager
Affin Bank Berhad (“ABB”)	Ultimate holding company of the Manager
Subsidiaries and associated companies of ABB as disclosed in its financial statements	Subsidiary 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 as at the end of the financial period as follows:

	<u>As at 30.11.2020</u>	
	No. of units	RM
<u>The Manager:</u>		
Affin Hwang Asset Management Berhad (The units are held legally for booking purposes)	770,993	817,370
	<u>770,993</u>	<u>817,370</u>

13 MANAGEMENT EXPENSE RATIO (“MER”)

MER	Financial period from 13.1.2020 (date of launch) to <u>30.11.2020</u> %
	<u>0.09</u>

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

13 MANAGEMENT EXPENSE RATIO (“MER”) (CONTINUED)

MER is derived from the following calculation:

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

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

The average NAV of the Fund for the financial period calculated on a daily basis is RM32,368,592.

14 PORTFOLIO TURNOVER RATIO (“PTR”)

	Financial period from 13.1.2020 (date of launch) to <u>30.11.2020</u>
PTR (times)	<u>0.02</u>

PTR is derived from the following calculation:

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

where: total acquisition for the financial period = RM1,610,416

total disposal for the financial period = RM Nil

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 13 JANUARY 2020 (DATE OF LAUNCH) TO 30 NOVEMBER 2020 (CONTINUED)

15 COMPARATIVES

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

16 SIGNIFICANT EVENT DURING THE FINANCIAL PERIOD

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

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

AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

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 of the Manager, the financial statements set out on pages 1 to 26 are drawn up in accordance with the provisions of the Deed and give a true and fair view of the financial position of the Fund as at 30 November 2020 and of its financial performance, changes in equity and cash flows for the financial period from 13 January 2020 (date of launch) to 30 November 2020 in accordance with the Malaysian Financial Reporting Standards, 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
15 January 2021

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Affin Hwang Strategic Opportunity Fund 1 (“the Fund”) give a true and fair view of the financial position of the Fund as at 30 November 2020, and of its financial performance and its cash flows for the financial period from 13 January 2020 (date of launch) to 30 November 2020 in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 30 November 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial period from 13 January 2020 (date of launch) to 30 November 2020, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 1 to 26.

Basis for opinion

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

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

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 STRATEGIC OPPORTUNITY FUND 1 (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the Manager for the financial statements

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

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

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1 (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements

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

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

- (a) Identify and assess the risks of material misstatement of the financial statements of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- (d) Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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.

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF
AFFIN HWANG STRATEGIC OPPORTUNITY FUND 1 (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
15 January 2021

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