



# **ABF Malaysia Bond Index Fund**

*Annual Report*

31 December 2012



**AmInvest**

**Manager**

AmInvestment Services Berhad  
9th Floor, Bangunan AmBank Group  
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**Board of Directors**

Kok Tuck Cheong  
Professor Dr Annuar Md. Nassir  
Dato' Dr Mahani Zainal Abidin  
Lee Siang Korn @ Lee Siang Chin  
Datin Maznah Mahbob  
Harinder Pal Singh

**Investment Committee**

Professor Dr Annuar Md. Nassir  
Dato' Dr Mahani Zainal Abidin  
Lee Siang Korn @ Lee Siang Chin  
Harinder Pal Singh

**Investment Manager**

AmInvestment Management Sdn Bhd

**Trustee**

HSBC (Malaysia) Trustee Berhad

**Auditors and Reporting Accountants**

Ernst & Young

**Taxation Adviser**

Deloitte KassimChan Tax Services Sdn Bhd

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Chin Woon Li  
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# Contents

<b>1</b>	Manager's Report
<b>12</b>	Additional Information
<b>19</b>	Independent Auditors' Report to the Unitholders
<b>21</b>	Statement of Financial Position
<b>22</b>	Statement of Comprehensive Income
<b>23</b>	Statement of Changes in Equity
<b>24</b>	Statement of Cash Flows
<b>25</b>	Notes to the Financial Statements
<b>45</b>	Statement by the Manager
<b>46</b>	Trustee's Report
<b>47</b>	Directory



# Manager's Report

Dear Unitholders,

We are pleased to present you the Manager's report and the audited accounts of ABF Malaysia Bond Index Fund ("Fund") for the financial year ended 31 December 2012.

## Salient Information of the Fund

<b>Name</b>	ABF Malaysia Bond Index Fund ("Fund")				
<b>Category/Type</b>	Fixed Income ETF/Equity				
<b>Objective</b>	A listed bond fund that is passively managed against the given benchmark and the returns will be expected to correspond closely to the performance of the benchmark index.				
<b>Index Component</b>	Details of the index component as at 31 December 2012 are as follows:				
	<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
	GJ080019	Government of Malaysia	4.273	14 February 2014	3,500,000,000
	MN04002W	Government of Malaysia	5.094	30 April 2014	24,000,000,000
	PK070017	Silterra Capital Berhad	3.900	06 June 2014	1,800,000,000
	VGI10222	Cagamas Berhad	3.700	11 July 2014	620,000,000
	GI090042	Government of Malaysia	3.909	31 July 2014	4,500,000,000
	MHI10002	Government of Malaysia	3.434	15 August 2014	7,700,000,000
	GHI10017	Government of Malaysia	3.505	30 September 2014	7,000,000,000
	GJ090030	Government of Malaysia	3.902	30 December 2014	5,500,000,000
	MJ090004	Government of Malaysia	3.741	27 February 2015	13,500,000,000
	GN050001	Government of Malaysia	4.419	16 March 2015	2,000,000,000
	UII00019	Bank Pembangunan Malaysia Berhad	4.150	10 April 2015	1,500,000,000
	VII00060	Danga Capital Berhad	4.350	13 April 2015	2,000,000,000
	GII00042	Government of Malaysia	3.473	15 July 2015	3,000,000,000
	GHI20001	Government of Malaysia	3.186	31 July 2015	4,000,000,000
	(Forward)				

Code	Issuer	Coupon %	Final Maturity	Notional Amount (RM)
MJI00001	Government of Malaysia	3.835	12 August 2015	10,000,000,000
GJI00009	Government of Malaysia	3.860	30 September 2015	3,500,000,000
MO05002S	Government of Malaysia	4.720	30 September 2015	6,975,000,000
MHI20003	Government of Malaysia	3.197	15 October 2015	6,000,000,000
VG120430	Cagamas Berhad	3.500	21 December 2015	575,000,000
GHI20090	Government of Malaysia	3.235	8 February 2016	3,500,000,000
VII10195	Pengurusan Air SPV Berhad	3.840	17 June 2016	1,400,000,000
MO060001	Government of Malaysia	4.262	15 September 2016	19,700,000,000
VJI00354	Cagamas Berhad	3.850	20 October 2016	500,000,000
UII10086	Cagamas Berhad	3.730	11 November 2016	825,000,000
GN060019	Government of Malaysia	3.820	15 November 2016	11,000,000,000
PR03062E	Syarikat Prasarana Negara Berhad	4.270	30 November 2016	1,913,853,702
UII20008	The Export-Import Bank of Korea	4.070	02 February 2017	500,000,000
UN070014	The Asian Development Bank	4.000	08 February 2017	500,000,000
MN070002	Government of Malaysia	3.814	15 February 2017	9,500,000,000
GN070008	Government of Malaysia	3.941	15 June 2017	3,000,000,000
VJI10196	Pengurusan Air SPV Berhad	3.980	16 June 2017	1,500,000,000
GJI20009	Government of Malaysia	3.309	30 August 2017	9,500,000,000
ML100002	Government of Malaysia	4.012	15 September 2017	14,000,000,000
UK100107	Cagamas Berhad	3.980	20 October 2017	1,000,000,000
MJI20005	Government of Malaysia	3.314	31 October 2017	10,500,000,000
UN080007	The Export-Import Bank of Korea	4.500	12 March 2018	500,000,000
VKI10197	Pengurusan Air SPV Berhad	4.040	15 June 2018	1,500,000,000
GLI10001	Government of Malaysia	3.872	30 August 2018	6,500,000,000
MKI10005	Government of Malaysia	3.580	28 September 2018	10,000,000,000
GN080031	Government of Malaysia	4.295	31 October 2018	7,500,000,000
VK120194	Johor Corporation	3.680	14 June 2019	800,000,000
VLI10198	Pengurusan Air SPV Berhad	4.150	17 June 2019	500,000,000

(Forward)

<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
MS04003H	Government of Malaysia	5.734	30 July 2019	6,500,000,000
GO09000I	Government of Malaysia	3.910	13 August 2019	3,500,000,000
GLI2002I	Government of Malaysia	3.704	30 September 2019	8,000,000,000
MO090002	Government of Malaysia	4.378	29 November 2019	17,600,000,000
MLI20006	Government of Malaysia	3.492	31 March 2020	7,500,000,000
GO09006I	Government of Malaysia	4.492	30 April 2020	3,500,000,000
GLI20098	Government of Malaysia	3.576	15 May 2020	3,500,000,000
GNI10002I	Government of Malaysia	4.284	15 June 2020	5,500,000,000
GNI100060	Government of Malaysia	3.998	30 November 2020	3,000,000,000
VNI10049	Pengurusan Air SPV Berhad	4.380	29 April 2021	500,000,000
GNI10025	Government of Malaysia	4.170	30 April 2021	10,000,000,000
MOI1000I	Government of Malaysia	4.160	15 July 2021	10,500,000,000
VNI20195	Johor Corporation	3.840	14 June 2022	1,800,000,000
VNI20202	Perbadanan Tabung Pendidikan Tinggi Nasional	3.850	15 June 2022	2,500,000,000
VNI20270	DanaInfra Nasional Berhad	3.740	20 July 2022	700,000,000
MOI2000I	Government of Malaysia	3.418	15 August 2022	10,500,000,000
DNI20017	Khazanah Nasional Berhad	0.000	2 September 2022	1,500,000,000
PNI20073	Syarikat Prasarana Negara Berhad	3.770	6 September 2022	1,000,000,000
VNI20343	Perbadanan Tabung Pendidikan Tinggi Nasional	3.800	15 September 2022	1,000,000,000
GOI20037	Government of Malaysia	3.699	15 November 2022	8,500,000,000
DS081080	Khazanah Nasional Berhad	0.000	14 August 2023	2,000,000,000
VPI2027I	DanaInfra Nasional Berhad	3.870	19 July 2024	500,000,000
MY050003	Government of Malaysia	4.837	15 July 2025	3,000,000,000
PZ00197S	Bank Pembangunan Malaysia Berhad	7.500	30 October 2025	500,000,000
MSI10003	Government of Malaysia	4.392	15 April 2026	8,000,000,000
VSI10260	Syarikat Prasarana Negara Berhad	4.350	4 August 2026	1,200,000,000
MX060002	Government of Malaysia	4.709	15 September 2026	3,000,000,000

(Forward)

	<b>Code</b>	<b>Issuer</b>	<b>Coupon %</b>	<b>Final Maturity</b>	<b>Notional Amount (RM)</b>
	MSI20002	Government of Malaysia	3.892	15 March 2027	5,500,000,000
	MX070003	Government of Malaysia	3.502	31 May 2027	6,000,000,000
	GSI20059	Government of Malaysia	3.899	15 June 2027	5,000,000,000
	VSI20272	DanaInfra Nasional Berhad	4.040	20 July 2027	900,000,000
	PSI20074	Syarikat Prasarana Negara Berhad	4.000	6 September 2027	1,000,000,000
	DSI20018	Khazanah Nasional Berhad	0.000	12 October 2027	1,000,000,000
	MX080003	Government of Malaysia	5.248	15 September 2028	4,000,000,000
	VX090825	Syarikat Prasarana Negara Berhad	5.070	28 September 2029	1,500,000,000
	MXI00003	Government of Malaysia	4.498	15 April 2030	2,000,000,000
	MXI10004	Government of Malaysia	4.232	30 June 2031	3,500,000,000
	MXI20004	Government of Malaysia	4.127	15 April 2032	5,500,000,000
	DXI20016	Khazanah Nasional Berhad	0.000	3 September 2032	1,000,000,000
	VZ090246	IMalaysia Development Berhad	5.750	27 May 2039	650,000,000
	VZ090241	IMalaysia Development Berhad	5.750	27 May 2039	600,000,000
	VZ090245	IMalaysia Development Berhad	5.750	27 May 2039	650,000,000
	VZ090248	IMalaysia Development Berhad	5.750	27 May 2039	650,000,000
	VZ090247	IMalaysia Development Berhad	5.750	27 May 2039	650,000,000
	<i>Source: Markit Indices Limited (Formerly known as International Index Company Limited ("IIC"))</i>				
<b>Duration</b>	ABF Malaysia Bond Index Fund was established on 12 July 2005 and shall exist for as long as it appears to the Manager and the Trustee that it is in the interests of the unitholders for it to continue. In some circumstances, the unitholders can resolve at a meeting to terminate the Fund.				
<b>Performance Benchmark</b>	iBoxx® ABF Malaysia Bond Index.				
<b>Income Distribution Policy</b>	Income distribution (if any) will be paid semi-annually.				



**Breakdown of Unit Holdings by Size**

For the financial year under review, the size of the Fund stood at 537,421,800 units.

Size of holding	As at 31 December 2012		As at 31 December 2011	
	No of units held	Number of unitholders	No of units held ('000)	Number of unitholders
Less than 100	199	4	-	-
100 – 1,000	6,801	16	6.3	16
1,001 – 10,000	24,500	6	21.0	6
10,001 – 100,000	197,000	4	55.0	3
100,001 to less than 5% of issue units	5,159,430	4	5,243.6	5
5% and above of issue units	532,033,870	1	532,095.9	2

**Fund Performance Data****Portfolio Composition**

Details of portfolio composition of the Fund for the three financial years as at 31 December are as follows:

	FY 2012 %	FY 2011 %	FY 2009 %
Malaysian Government securities	80.3	89.8	91.9
Quasi-Government bonds	13.6	6.9	7.0
Cash and others	6.1	3.3	1.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Note: The abovementioned percentages are based on total investment carrying value plus cash.*

**Performance Details**

Performance details of the Fund for the three financial years ended 31 December are as follows:

	FY 2012	FY 2011	FY 2010
Net asset value (RM)	584,660,282	590,794,246	584,921,826
Units in circulation	537,421,800	537,421,800	537,421,800
Net asset value per unit (RM)*	1.0879	1.0993	1.0884
Highest net asset value per unit (RM)*	1.1200	1.0993	1.0917
Lowest net asset value per unit (RM)*	1.0863	1.0642	1.0559
Closing quoted price (RM/unit)*	1.1030	1.0720	1.0870
Highest quoted price (RM/unit)*	1.1030	1.0900	1.0830
Lowest quoted price (RM/unit)*	1.0680	1.0650	1.0620
Benchmark performance (%)	4.18	4.85	5.13
Total return (%) <sup>(1)</sup>	3.80	4.57	5.19
- Capital growth (%)	-0.98	1.12	1.60
- Income distribution (%)	4.78	3.45	3.59
Gross distribution (sen per unit)	5.25	3.75	3.85
Net distribution (sen per unit)	5.25	3.75	3.85

(Forward)

	FY 2012	FY 2011	FY 2010
Distribution yield (%) <sup>(2)</sup>	4.76	3.50	3.54
Management expense ratio (%) <sup>(3)</sup>	0.19	0.19	0.19
Portfolio turnover ratio (times) <sup>(4)</sup>	0.91	0.26	0.33

\* Above prices and net asset value per unit are shown as ex-distribution.

Note:

- (1) Total return is the annualised return of the Fund for the respective financial years computed based on the net asset value per unit and net of all fees, annualised over one year.
- (2) Distribution yield is calculated based on the total distribution for the year divided by the closing quoted price.
- (3) Management expense ratio ("MER") is calculated based on the total fees and expenses incurred by the Fund divided by the average fund size calculated on a daily basis.
- (4) Portfolio turnover ratio ("PTR") is computed based on the average of the total acquisitions and total disposals of investment securities of the Fund divided by the average fund size calculated on a daily basis. The PTR increased by 0.65 times (>100%) as compared to 0.26 times for the financial year ended 31 December 2011 mainly due to increase investing activities.

#### Average Total Return (as at 31 December 2012)

	ABFMYI <sup>(a)</sup> %	iBoxx Index <sup>(b)</sup> %
One year	3.8	4.2
Three years	4.5	4.8
Five years	4.2	4.5
Since launch (13 July 2005)	3.9	4.2

#### Annual Total Return

Financial Year Ended (31 December)	ABFMYI <sup>(a)</sup> %	iBoxx Index <sup>(b)</sup> %
2012	3.8	4.2
2011	4.6	4.9
2010	5.2	5.1
2009	-0.1	0.2
2008	7.7	6.0

(a) Independently verified by Perkasa Normandy Manager Sdn Bhd.

(b) iBoxx ABF Malaysia Index ("iBoxx Index") (source: [www.indexco.com](http://www.indexco.com)).

The Fund's performance is calculated based on net asset value per unit of the Fund. Average total returns ABF Malaysia Bond Index Fund ("ABFMYI") for a period is computed based on the absolute return for that period annualised over one year.

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

**Has the Fund achieved its objective?**

For the financial year under review, the Fund has met its objective i.e passively managed against the given benchmark and the return corresponded closely to the performance of the benchmark index.

**Fund Performance**

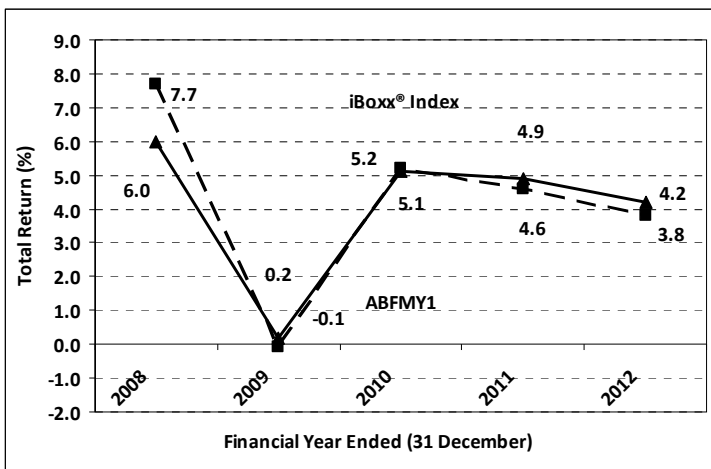
For the financial year under review, the Fund recorded a return of 3.80%.

Thus, the Fund's return of 3.80% continues to track closely the benchmark return of 4.18%.

As compare to the financial year ended 31 December 2011, the NAV of the Fund decreased by 1.04% from RM590,794,246 to RM584,660,282. The NAV per unit of the Fund also decreased by 1.04% from RM1.0993 to RM1.0879, while units in circulation remain unchanged at 537,421,800 units.

The closing price of the Fund quoted on Bursa Malaysia increased by 2.89% from RM1.0720 to RM1.1030.

The line chart below shows comparison between the annual performances of ABFMY1 and iBoxx® Index for each of the financial years ended 31 December.



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

**Strategies and Policies Employed**

For the financial year under review, the Fund used a passive strategy whereby the Manager aims, by way of representative sampling, to achieve a return on the Fund assets that closely tracks the returns of the benchmark index.

**Portfolio Structure**

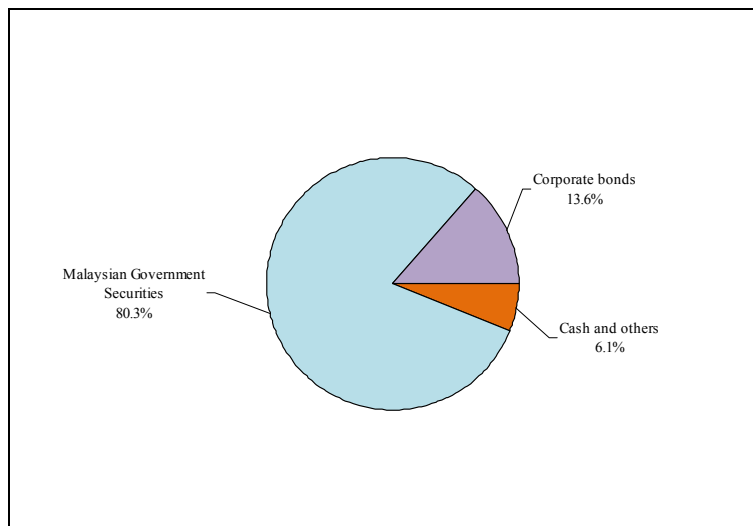
This table below is the asset allocation of the Fund for the financial year under review.

	FY 2012 %	FY 2011 %	Changes %
Malaysian Government securities	80.3	89.8	-9.5
Quasi-Government bonds	13.6	6.9	6.7
Cash and others	6.1	3.3	2.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

(Forward)

During the financial year under review, the Fund's cash holdings increased from 3.3% to 6.1% as at 31 December 2012. Holdings in Quasi-Government bonds were at 13.6% while the Fund's holdings of Malaysian Government securities ("MGS") decreased from 89.8% to 80.3% for the financial year under review.

This pie chart below shows the sectoral composition of the Fund for the financial year under review.



#### **Distribution/ unit splits**

During the financial year under review, the Fund declared the following income distributions, detailed as follows:

<b>1.75 sen per unit final income distribution*</b>	<b>Change in the unit price prior and subsequent to the final income distribution</b>	<b>Before income distribution on 10 February 2012 (RM)</b>	<b>After income distribution on 10 February 2012 (RM)</b>
	Net asset value per unit	1.1116	1.0941
<b>1.75 sen per unit interim income distribution</b>	<b>Change in the unit price prior and subsequent to the interim distribution</b>	<b>Before income distribution on 5 September 2012 (RM)</b>	<b>After income distribution on 5 September 2012 (RM)</b>
	Net asset value per unit	1.1121	1.0946
<b>1.75 sen per unit final income distribution**</b>	<b>Change in the unit price prior and subsequent to the interim distribution</b>	<b>Before income distribution on 24 December 2012 (RM)</b>	<b>After income distribution on 24 December 2012 (RM)</b>
	Net asset value per unit	1.1038	1.0863

\* Final income distribution for the financial year ended 31 December 2011.

\*\* Final income distribution for the financial year 31 December 2012.

There was no unit split made for the financial year under review.

<b>State of Affairs</b>	There has been neither significant change to the state of affairs of the Fund nor any circumstances that materially affect any interests of the unit holders during the financial year under review.
<b>Rebates and Soft Commission</b>	It is our policy to pay all rebates to the Fund. However, soft commissions received for goods and services such as fundamental database, financial wire services, technical analysis software and stock quotation system incidental to investment management of the Fund are retained by the Manager. For the financial year under review, the Manager has received soft commissions.
<b>Market Review</b>	<p>In January 2012, Malaysian Government Securities (MGS) had a strong start in January 2012 as market players begun to build up their portfolio for the new year. Despite the festive season, average daily volume was stronger. Most of the trades were done at the 5- and 7-year as investors gradually overweight duration to capitalize on a dovish interest rate environment. At month end, MGS across the curve traded tighter with 3-year at 2.92%, 5-year 3.18%, 7-year 3.38%, 10-year 3.56%, 15-year 3.85% and 20-year 4.01%.</p> <p>In February 2012, despite the shortened month, trading in the MGS were brisk, recording RM85.1 billion of trades. Strong buying was seen up till the third week of February before profit-taking activities emerged towards the end of the month especially for longer end maturities as the MGS curve bullish flattened. The 3-year, 5-year, 7-year, 10-year and 15-year MGS yields closed at 2.93%, 3.20%, 3.36%, 3.48%, and 3.73% respectively.</p> <p>In March 2012, MGS closed with a weaker tone as appetite on risk assets resurfaces. Trading volume dropped significantly to RM61.5 billion. Sell down were seen from the second week onward, mainly due to the positive data from US, expectations of a higher inflation and a bigger than expected 7.5-year Global Innovation Index (GII) offering. At close, MGS ended 12 – 19 basis points (bps) higher across all benchmark tenures with 3-year, 5-year, 7-year, 10-year, 15-year and 20-year MGS yields closing at 3.12%, 3.28%, 3.54%, 3.66%, 3.94% and 4.10% respectively.</p> <p>In April 2012, local MGS market witnessed a mild bullish trend as investors re-enter the market to capture higher yield. Most of the MGS benchmark traded a tad lower with 3-year, 5-year, 7-year, 10-year, 15-year and 20-year MGS yields closing at 3.18%, 3.24%, 3.39%, 3.51%, 3.87% and 4.11% respectively.</p> <p>In May 2012, trading in local govies was rather lackluster with most market players continuing to stay on the sidelines amid the deepening economic crisis in the Eurozone. Buying interest was mainly seen in the short to mid-term tenors as the yield curve range-bound throughout with the 7-year MGS benchmark yield dropping 4.0bps to close at 3.43%.</p> <p>In June 2012, the 3-year, 5-year, 7-year, 10-year, 15-year and 20-year MGS yields were seen rallied up to 10bps at 3.06%, 3.19%, 3.37%, 3.51%, 3.77% and 3.98% respectively. The bullish sentiment is in line with our previous write-up on pro-long low interest rate environment where investors are gradually extending duration to capitalize on dovish interest rate outlook.</p> <p>In July 2012, MGS/GII trading volume was healthy throughout the month as investors were fairly bullish taking cue from the recent rally in US Treasuries and further policy easing on the global front with South Korea unexpectedly cutting its key policy rate by 25bps to 3.00%. In addition, the benign domestic inflation and interest rate outlook</p> <p>(Forward)</p>

provided further catalyst for market players to extend investments to longer-dated bonds as the 10-year, 15-year, and 20-year MGS benchmarks yields settled at 3.36%, 3.57% and 3.70% respectively while the yields on the short to belly of the curve closed slightly lower with the 3-year, 5-year and 7-year at 3.03%, 3.16% and 3.29% respectively.

In August 2012, the 3-year, 5-year, 7-year, 10-year and 15-year MGS yields were higher at 3.05%, 3.25%, 3.38%, 3.47%, and 3.64% respectively. Local govies saw some selling pressure right after the better than expected Gross Domestic Product (GDP) figures. While there were swings in the longer tenor, the 3-year maturities continue to hold steady.

In September 2012, the MGS/GII trading volume remained relatively weak with RM32.0 billion worth of trades done. Most market players stayed on the sidelines ahead of the Budget 2013 which was announced at the end of the month and profit taking was evident across all tenures of the MGS benchmarks. The 3-year, 5-year, 7-year and 20-year MGS yields edged higher to close at 3.14%, 3.33%, 3.51%, 3.47% and 3.84% respectively.

In October 2012, the MGS/GII trading volume recovered modestly to RM53.4 billion. The top 5 trades were mostly at the long end with MGS 03/20 topped the list at RM9.9 billion done, followed by MGS 08/22 at RM4.4 billion, GII 11/22 at RM4.4 billion, GII 08/17 at RM3.9 billion and MGS 04/32 at RM3.8 billion. The bullish sentiment in govies is in line with the weak economic data released during the same month. At close, the 3-year, 5-year, 7-year, 10-year, 15-year and 20-year MGS yields closed at 3.05%, 3.20%, 3.41%, 3.46%, 3.68% and 3.87% respectively.

In November 2012, the MGS/GII closed weaker for the month but on lighter volumes, as most investors have started winding down their activities as we approach the end of 2012. The losses were led by the shorter tenors. Overall, the 3-year, 5-year, 7-year, 10-year and 15-year MGS yields were higher at 3.12%, 3.25%, 3.45%, 3.49%, and 3.69% respectively.

In December 2012, Malaysian govies closed firmer on the front-end of the curve but on thinner trades ahead of the major festive season. Mid to long-end curves are largely range bound as investors are taking the wait-and-see approach as US fiscal cliff debates unfold. At close, the 3, 5, 7, 10, 15, 20-year MGS were quoted at 3.00%, 3.22%, 3.44%, 3.50%, 3.69% and 3.90% respectively.

**Market Outlook**

Federal Open Market Committee (FOMC) surprised market in December by announcing a new “quantitative” style of forward guidance for monetary policy. Previously, the FOMC had anticipated that it would keep the fed funds rate in 0 – 0.25% at least until mid-2015. Now, the Committee expects to maintain this target range for as long as the unemployment rate remains above 6.5% and inflation not more than 2.5%. At the conclusion of the policy meeting, the Committee announced that it would purchase long-term Treasury securities at a pace of USD45 billion per month after Operation Twist runs out at end of 2012. With this, we expect the low interest rate environment in the United State to extend beyond 2015/2016 compared to what we initially forecasted.

In the Eurozone, both manufacturing and service sector Purchasing Managers Index (PMI) remained at 46.2 and 46.7 in November, signaling the region's economy is still at a contracting mode. This is further confirmed by a 0.34% year-over-year (YoY) real GDP contraction in third quarter (3Q) of 2012 (second quarter (2Q) of 2012: - 0.21%). As it stands, the 17-country block has once again slipped back into recession

(Forward)

(last recession was in June'09). Looking ahead to 2013, we expect European Central Bank (ECB) to undertake more dovish measures and also to kick start the Outright Monetary Transactions (OMTs) if the debt-laden countries fulfill the prerequisites of seeking aid from Europe's bailout fund and signing up to conditions. The political scene in Italy is also a watchful event as the ousted formal Prime Minister Silvio Berlusconi is planning a comeback and might derail the country's austerity program if he was reelected again. Italy is expected to have an early election in February 2013.

On a positive note, China's data has turned positive with HSBC PMI index showing gain in 2 consecutive month (December 51.5 November 50.5). This confirmed that China's manufacturing sector is gaining momentum and likely to spill over the benefit to export oriented ASEAN countries. Also, we expect Beijing to keep its pro-growth fiscal and monetary policy stance in place and pursue an appropriate pace of growth in total social financing as well as tax cuts. Growth in infrastructure investment is expected to maintain strong momentum as there are still plenty of key construction projects in the pipeline.

Locally, most economists expect Malaysia GDP to grow at c.5.0% in 2012 and 5.3 – 5.5% in 2013 on the back of gradual implementation of Economic Transformation Programme (ETP) and still resilient domestic consumption. On this note, we do not expect Bank Negara Malaysia (BNM) to ease Overnight Policy Rate (OPR) any further unless global economic outlook deteriorates drastically in the near future. That being said, with a benign inflation outlook and still looming external headwinds, we also do not expect BNM to hike rate at this juncture. Local rates are likely to be range bound throughout 2013 in the absence of any catalyst.

Kuala Lumpur, Malaysia  
AmInvestment Services Berhad

31 January 2013

# Additional Information

## **Board of Directors of the Manager**

The Board of Directors, of which one-half are independent members, exercise ultimate control over the operations of the Manager. For the financial year under review from 1 January 2012 to 31 December 2012, there were six (6) Board of Director meetings held by the Manager.

Details of the Directors of the Manager are set out as below:

<b>Name</b>	: Harinder Pal Singh a/l Joga Singh
<b>Age</b>	: 51
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Bachelor Degree in Accounting, University of Malaya
<b>Executive/Non-Executive Director</b>	: Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: <ul style="list-style-type: none"> <li><b>Bank Negara Malaysia</b> Senior Administrative Officer, Insurance Inspection Department (1986 – 1993)</li> <li><b>Securities Commission Malaysia</b> Assistant Manager, Market Surveillance Department (1993 – 1995)</li> <li><b>Arab-Malaysian Securities Sdn Bhd</b> Seconded to PT Arab-Malaysian Capital Indonesia as Director of Operations (1995 – 1998)</li> <li><b>AmMerchant Bank Berhad</b> Manager, Corporate Services (1998 – 2000)</li> <li><b>AmInvestment Services Berhad</b> <ul style="list-style-type: none"> <li>• Manager, Client Service &amp; Operations (July 2001 – June 2002)</li> <li>• Senior Manager, Client Service &amp; Operation (July 2002 – 2003)</li> <li>• Head, Sales Services (2003-December 2006)</li> <li>• Principal Officer / Director of Operations (Present)</li> <li>• Director (September 2008 - Present)</li> </ul> </li> </ul>
<b>Occupation</b>	: Principal Officer/Director of Operations of AmInvestment Services Berhad
<b>Date of appointment</b>	: 22 September 2008
<b>Directorship of other public companies</b>	: None
<b>Number of Board meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Five (5)
<b>Member of any other Board Committee</b>	: Investment Committee (Non-Independent)



<b>Date of appointment to the Investment Committee</b>	: 12 July 2005
<b>Number of Investment Committee meetings attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Nine (9)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None

<b>Name</b>	: Kok Tuck Cheong
<b>Age</b>	: 57
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Bachelor of Science (Honours) in Commerce and Accountancy and Master of Science in Financial Managerial Controls, University of Southampton.
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: He started his career with AmMerchant Bank Berhad in Treasury Department before joining Banking and Corporate Finance Department and later Investment Department where he served in various positions. He was appointed as General Manager, Banking in January 1989 and later served as Senior General Manager until his appointment as Executive Director in September 2000.
<b>Occupation</b>	: Chief Executive Officer of AmInvestment Bank Berhad
<b>Date of appointment</b>	: 9 November 2001
<b>Directorship of other public companies</b>	: None
<b>Number of Board meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Six (6)
<b>Member of any other Board Committee</b>	: Audit Committee
<b>Date of appointment to the Investment Committee</b>	: Not applicable
<b>Number of Investment Committee meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Not applicable
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None

<b>List of convictions for offences within the past 10 years (if any)</b>	: None
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<b>Name</b>	: Datin Maznah binti Mahbob
<b>Age</b>	: 53
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: A graduate of the Institute of Chartered Secretaries and Administrators (UK) and holds the Capital Markets Services Representative License
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Non-Independent Director
<b>Working Experience</b>	: She has been in the funds management industry since 1987, in a fund management role, before assuming the responsibility as the Chief Executive Officer of Funds Management Division, AmlInvestment Bank Group in 2002. Prior to this, she was in Corporate Finance Department of AmlInvestment Bank Berhad for 3 years.
<b>Occupation</b>	: Chief Executive Officer of Funds Management Division and Chief Executive Officer/Executive Director of AmlInvestment Management Sdn Bhd.
<b>Date of appointment</b>	: 29 December 2005
<b>Directorship of other public companies</b>	: None
<b>Number of Board meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Six (6)
<b>Member of any other Board Committee</b>	: None
<b>Date of appointment to the Investment Committee</b>	: Not applicable
<b>Number of Investment Committee meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Not applicable
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None

<b>Name</b>	: Professor Dr Annuar bin Md Nassir
<b>Age</b>	: 54
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Doctor of Philosophy, University Putra Malaysia
<b>Executive/Non-Executive Director</b>	: Non-Executive Director

<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	: <b>University Putra Malaysia, Serdang</b> <ul style="list-style-type: none"> <li>• Dean (February 2006 – April 2011)</li> <li>• Deputy Dean (September 2002 – January 2006)</li> <li>• Professor (March 2000-Present)</li> <li>• Associate Professor (March 1993 – March 2000)</li> </ul> <b>University Pertanian Malaysia</b> Tutor (1981 – 1984)
<b>Occupation</b>	: Professor, Faculty of Economics and Management of University Putra Malaysia
<b>Date of appointment</b>	: 8 April 2003
<b>Directorship of other public companies</b>	: None
<b>Number of Board Meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Six (6)
<b>Member of any other Board Committee</b>	: Investment Committee and Audit Committee (Independent)
<b>Date of appointment to the Investment Committee</b>	: 12 July 2005
<b>Number of Investment Committee meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Eleven (11)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None

<b>Name</b>	: Dato' Dr Mahani binti Zainal Abidin
<b>Age</b>	: 58
<b>Nationality</b>	: Malaysian
<b>Qualification</b>	: Doctor of Philosophy in Development Economics, University of London.
<b>Executive/Non-Executive Director</b>	: Non-Executive Director
<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	: <b>National Economic Advisory Council (NEAC)</b> Council Member (2009 – 2011) Member (1998 – 2000)  <b>Institute of Strategic and International Studies (ISIS), Malaysia</b> Director General (May 2007 – December 2009)

**Ministry of Higher Education Malaysia**

Deputy Director-General (2005 – 2007)

**National Accreditation Board**

Deputy Chairman (2003 – 2007)

**Prime Minister's Department, Malaysia**

Head, Special Consultancy Team on Globalisation National Economic Action Council (April 2001 – July 2005)

**BHLB Unit Trust**

Member of Investment Panel (April 1999 – June 2004)

**Employees Provident Fund Board, Malaysia**

Board Member (June 1998 – 2001)

**Faculty of Economic and Administration, University of  
Malaya**

Professor (1992 – 2007)

<b>Occupation</b>	:	Chief Executive, Institute of Strategic and International Studies (ISIS) Malaysia.
<b>Date of appointment</b>	:	14 July 2004
<b>Directorship of other public companies</b>	:	Amlslamic Bank Berhad
<b>Number of Board Meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	:	Five (5)
<b>Member of any other Board Committee</b>	:	Investment Committee and Audit Committee (Independent)
<b>Date of appointment to the Investment Committee</b>	:	12 July 2005
<b>Number of Investment Committee meetings attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	:	Eight (8)
<b>Family relationship with any director</b>	:	None
<b>Conflict of interest with the Fund</b>	:	None
<b>List of convictions for offences within the past 10 years (if any)</b>	:	None

<b>Name</b>	:	Lee Siang Korn @ Lee Siang Chin
<b>Age</b>	:	64
<b>Nationality</b>	:	Malaysian
<b>Qualification</b>	:	<ul style="list-style-type: none"> <li>• Fellow of the Institute of Chartered Accountants, England and Wales (July 1972)</li> <li>• Member of the Malaysian Association of Certified Public Accountants (June 1975)</li> </ul>
<b>Executive/Non-Executive Director</b>	:	Non-Executive Director

<b>Independent/Non-Independent Director</b>	: Independent Director
<b>Working Experience</b>	: <b>Surf88.Com Sdn Bhd</b> Chairman and Founding Shareholder (1999-2004)  <b>Arab-Malaysian Securities Sdn Bhd</b> Managing Director (1986-1999)  <b>Arab-Malaysian Merchant Bank Berhad</b> General Manager, Corporate Finance (1983-1986)
<b>Occupation</b>	: Director
<b>Date of appointment</b>	: 20 December 2006
<b>Directorship of other public companies</b>	: <ul style="list-style-type: none"> <li>• Social Security Organisation of Malaysia (SOCSO)</li> <li>• Star Publications (Malaysia) Berhad</li> <li>• Uni.Asia Life Assurance Berhad</li> </ul>
<b>Number of Board Meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Six (6)
<b>Member of any other Board Committee</b>	: Investment Committee and Audit Committee (Independent)
<b>Date of appointment to the Investment Committee</b>	: 12 July 2005
<b>Number of Investment Committee meeting attended for the financial year (From 1 January 2012 to 31 December 2012)</b>	: Eleven (11)
<b>Family relationship with any director</b>	: None
<b>Conflict of interest with the Fund</b>	: None
<b>List of convictions for offences within the past 10 years (if any)</b>	: None

### **Material Litigation**

For the financial year under review, neither the Directors of the management company nor the Manager of the Fund were engaged in any material litigation and arbitration, including those pending or threatened, and any facts likely to give any proceedings, which might materially affect the business/financial position of the Manager and of its delegates. The Fund has also not engaged in any material litigation and arbitration, including those pending or threatened, and any facts likely to give any proceedings, which might materially affect the Fund.

### **Investment Manager**

We have appointed AmlInvestment Management Sdn Bhd, a licensed fund manager approved by Securities Commission Malaysia on 4 March 1997, to implement the Fund's investment strategy on behalf of us to achieve the objectives of the Fund. AmlInvestment Management Sdn Bhd, a wholly owned subsidiary of AmlInvestment Group Berhad has been in the fund management industry since 1982.

## Investment Committee

The Investment Committee reviews the Fund's investment objective and guidelines; and to ensure that the Fund is invested appropriately. For the financial year under review from 1 January 2012 to 31 December 2012, there were eleven (11) Investment Committee Meetings held by the Manager.

## Unitholders

List of the unitholders having the largest number of units:

Name	Number of Units Held	Unit Held (in%)
HSBC BANK MALAYSIA BERHAD	532,033,870	98.997504
AmlINVESTMENT BANK BERHAD	4,324,430	0.804663
CITIBANK BERHAD	400,000	0.074429
HWANGDBS INVESTMENT BANK BERHAD	295,000	0.054892
CITIBANK BERHAD	140,000	0.026050
PUBLIC INVESTMENT BANK BERHAD	100,000	0.018607
AmlINVESTMENT BANK BERHAD	62,000	0.011537
MAYBANK INVESTMENT BANK BERHAD	20,000	0.003721
PUBLIC INVESTMENT BANK BERHAD	15,000	0.002791
CIMB INVESTMENT BANK BERHAD	10,000	0.001861
CIMB INVESTMENT BANK BERHAD	5,500	0.001023
ALLIANCE INVESTMENT BANK BERHAD	3,000	0.000558
HONG LEONG INVESTMENT BANK BERHAD	2,000	0.000372
HWANGDBS INVESTMENT BANK BERHAD	2,000	0.000372
HWANGDBS INVESTMENT BANK BERHAD	2,000	0.000372
INTER-PACIFIC SECURITIES SDN BHD	1,000	0.000186
KENANGA INVESTMENT BANK BERHAD	1,000	0.000186
MAYBANK INVESTMENT BANK BERHAD	1,000	0.000186
OSK INVESTMENT BANK BERHAD	700	0.000130
CIMB INVESTMENT BANK BERHAD	700	0.000130
KENANGA INVESTMENT BANK BERHAD	500	0.000093
CIMB INVESTMENT BANK BERHAD	500	0.000093
MAYBANK INVESTMENT BANK BERHAD	300	0.000056
HWANGDBS INVESTMENT BANK BERHAD	300	0.000056
MAYBANK INVESTMENT BANK BERHAD	200	0.000037
KENANGA INVESTMENT BANK BERHAD	101	0.000019
KENANGA INVESTMENT BANK BERHAD	100	0.000019
OSK INVESTMENT BANK BERHAD	100	0.000019
HWANGDBS INVESTMENT BANK BERHAD	100	0.000019
PUBLIC INVESTMENT BANK BERHAD	100	0.000019



# Independent Auditors' Report to the Unitholders

## **ABF Malaysia Bond Index Fund**

### **Report on the financial statements**

We have audited the financial statements of **ABF Malaysia Bond Index Fund**, which comprise the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 21 to 44.

#### *Manager's and Trustee's responsibilities for the financial statements*

The Manager of the Fund is responsible for the preparation of these financial statements 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 that are free from material misstatement, whether due to fraud or error. The Trustee is responsible for ensuring that the Manager maintains proper accounting and other records as are necessary to enable true and fair presentation of these financial statements.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation of the financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2012 and of its financial position and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

## **Other matters**

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

Ernst & Young  
AF: 0039  
Chartered Accountants

Yeo Beng Yean  
No. 3013/10/14 (J)  
Chartered Accountant

Kuala Lumpur, Malaysia  
31 January 2013





## Statement of Financial Position

As At 31 December 2012

	Note	31 December 2012 RM	31 December 2011 RM	1 January 2011 RM
<b>ASSETS</b>				
Investments	4	557,949,490	571,884,722	578,438,535
Deposits with financial institutions	5	36,399,802	19,212,505	6,555,503
Cash at banks		1,487	1,458	195,608
<b>TOTAL ASSETS</b>		<b>594,350,779</b>	<b>591,098,685</b>	<b>585,189,646</b>
<b>LIABILITIES</b>				
Amount due to Manager	6	50,047	48,475	48,080
Amount due to Trustee	7	35,033	33,932	33,655
Amount due to index provider	8	53,045	67,227	38,406
Distribution payable		9,404,882	-	-
Sundry payables and accrued expenses		147,490	154,805	147,679
<b>TOTAL LIABILITIES</b>		<b>9,690,497</b>	<b>304,439</b>	<b>267,820</b>
<b>EQUITY</b>				
Unitholders' capital	10(a)	563,972,881	563,972,881	563,972,881
Retained earnings	10(b)(c)	20,687,401	26,821,365	20,948,945
<b>TOTAL EQUITY</b>	10	<b>584,660,282</b>	<b>590,794,246</b>	<b>584,921,826</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>594,350,779</b>	<b>591,098,685</b>	<b>585,189,646</b>
<b>UNITS IN CIRCULATION</b>				
	10(a)	537,421,800	537,421,800	537,421,800
<b>NET ASSET VALUE PER UNIT - EX DISTRIBUTION</b>				
		108.79 sen	109.93 sen	108.84 sen

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



## Statement of Comprehensive Income

For The Financial Year Ended 31 December 2012

	Note	2012 RM	2011 RM
<b>INVESTMENT INCOME</b>			
Interest income		20,727,912	21,456,361
Net gain from investments:			
– Financial assets at fair value through profit or loss (“FVTPL”)	9	<u>2,475,390</u>	<u>5,669,907</u>
Gross Income		<u>23,203,302</u>	<u>27,126,268</u>
<b>EXPENDITURE</b>			
Manager’s fee	6	593,094	581,387
Trustee’s fee	7	415,166	406,971
Licence fee	8	92,783	91,521
Auditors’ remuneration		9,000	9,000
Tax agent’s fee		3,000	5,000
Administrative expenses		<u>9,578</u>	<u>6,651</u>
Total Expenditure		<u>1,122,621</u>	<u>1,100,530</u>
<b>NET INCOME BEFORE TAX</b>		22,080,681	26,025,738
<b>LESS: INCOME TAX</b>	12	<u>-</u>	<u>-</u>
<b>NET INCOME AFTER TAX</b>		22,080,681	26,025,738
<b>OTHER COMPREHENSIVE INCOME</b>		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u>22,080,681</u>	<u>26,025,738</u>
Total comprehensive income comprises the following:			
Realised income		28,782,122	21,686,651
Unrealised (loss)/gain		<u>(6,701,441)</u>	<u>4,339,087</u>
		<u>22,080,681</u>	<u>26,025,738</u>
Distributions for the year:			
Net distributions	13	<u>28,214,645</u>	<u>20,153,318</u>
Gross/net distributions per unit (sen)	13	<u>5.25</u>	<u>3.75</u>

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



## Statement of Changes in Equity

For The Financial Year Ended 31 December 2012

	Note	Unitholders' capital RM	Retained earnings RM	Total equity RM
At 1 January 2011		563,972,881	20,948,945	584,921,826
Total comprehensive income for the year		-	26,025,738	26,025,738
Distributions	13	-	(20,153,318)	(20,153,318)
<b>Balance at 31 December 2011</b>		<u>563,972,881</u>	<u>26,821,365</u>	<u>590,794,246</u>
At 1 January 2012		563,972,881	26,821,365	590,794,246
Total comprehensive income for the year		-	22,080,681	22,080,681
Distributions	13	-	(28,214,645)	(28,214,645)
<b>Balance at 31 December 2012</b>		<u>563,972,881</u>	<u>20,687,401</u>	<u>584,660,282</u>

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



# Statement of Cash Flows

For The Financial Year Ended 31 December 2012

	2012 RM	2011 RM
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	539,167,817	152,383,500
Interest received	23,371,944	23,033,476
Manager's fee paid	(591,522)	(580,992)
Trustee's fee paid	(414,065)	(406,694)
Licence fee paid	(106,965)	(62,700)
Tax agent's fee paid	(4,000)	(5,000)
Payments for other administrative expenses	(24,893)	(8,525)
Purchase of investments	<u>(525,401,227)</u>	<u>(141,736,895)</u>
Net cash generated from operating and investing activities	<u>35,997,089</u>	<u>32,616,170</u>
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Distributions paid	<u>(18,809,763)</u>	<u>(20,153,318)</u>
Net cash used in financing activity	<u>(18,809,763)</u>	<u>(20,153,318)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	17,187,326	12,462,852
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>19,213,963</u>	<u>6,751,111</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>36,401,289</u>	<u>19,213,963</u>
Cash and cash equivalents comprise:		
Deposits with financial institutions	36,399,802	19,212,505
Cash at banks	<u>1,487</u>	<u>1,458</u>
	<u>36,401,289</u>	<u>19,213,963</u>

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



## 1. GENERAL INFORMATION

ABF Malaysia Bond Index Fund (“the Fund”) was established pursuant to a Deed dated 12 July 2005 as amended by Deeds Supplemental thereto (“the Deed”), between AmlInvestment Services Berhad as the Manager, HSBC (Malaysia) Trustee Berhad as the Trustee and all unitholders.

The Fund was set up with the objective for investors who seek an “index-based” approach to investing in a portfolio of Ringgit Malaysia denominated Government and quasi-Government debt securities. As provided in the Deeds, the “accrual period” or financial year shall end on 31 December and the units in the Fund were first offered for sale on 13 July 2005.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) as issued by the Malaysian Accounting Standards Board (“MASB”) and also prepared in compliance with International Financial Reporting Standards.

The financial statements of the Fund have been prepared under the historical cost convention, unless otherwise stated in the accounting policies.

### Changes in accounting policies

#### Transition to MFRS and application of MFRS 1

These are the Fund’s first annual financial statements prepared in accordance with MFRS. For the periods up to and including the year ended 31 December 2011, the financial statements of the Fund were prepared in accordance with Financial Reporting Standards (“FRS”) in Malaysia.

The accounting policies set out in Note 3 have been applied in preparing the financial statements of the Fund for the financial year ended 31 December 2012, the comparative information presented in these financial statements for the financial year ended 31 December 2011 and in the preparation of the opening statement of financial position at 1 January 2011 (which is also the Fund’s date of transition).

There are no adjustments arising from the transition to MFRS.

#### Standards issued but not yet effective

As at the date of authorisation of these financial statements, the following Standards, Amendments and Interpretations of the Issues Committee (“IC Interpretations”) have been issued by MASB but are not yet effective and have not been adopted by the Fund.

		<b>Effective for financial periods beginning on or after</b>
MFRS 12	Disclosure of Interests in Other Entities	1 January 2013
MFRS 13	Fair Value Measurement	1 January 2013
Amendments to MFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 101	Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 132	Financial Instruments: Presentation (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 134	Interim Financial Reporting (Annual Improvements 2009-2011 Cycle)	1 January 2013
Amendments to MFRS 12	Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to MFRS 132	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to MFRS 9	Financial Instruments	1 January 2015
Amendments to MFRS 7	Financial Instruments: Disclosures - Mandatory Date of MFRS 9 and Transition Disclosures	1 January 2015

The Fund plans to adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are expected to have no significant impact to the financial statements of the Fund upon their initial application except as described below:

#### MFRS 9 *Financial Instruments*

MFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of MFRS 139 Financial Instruments: Recognition and Measurement ("MFRS 139") and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139 and replaces the guidance in MFRS 139.

In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of MFRS 9 may have an effect on the classification and measurement of the Fund's financial assets but will not have an impact on the classification and measurement of financial liabilities. The Fund will quantify the effect in conjunction with the other phases when the final standard including all phases is issued.

#### MFRS 13 *Fair Value Measurement*

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under MFRS when fair value is required or permitted. The Fund is currently assessing the impact that this Standard will have on the financial position and performance of the Fund but based on preliminary analyses, no material impact is expected.

### 3. **SIGNIFICANT ACCOUNTING POLICIES**

#### **Income recognition**

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

Interest income on fixed income securities and short-term deposits are recognised on an accrual basis using the effective interest method, which includes the accretion of discount and amortisation of premium.

#### **Income tax**

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

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

#### **Functional and presentation currency**

Functional currency is the currency of the primary economic environment in which the Fund operates that most faithfully represents the economic effects of the underlying transactions. This is the Ringgit Malaysia which reflects the currency of the economy in which the Fund competes for funds, issues and redeems units. The Fund has also adopted Ringgit Malaysia as its presentation currency.

#### **Statement of cash flows**

The Fund adopts the direct method in the preparation of the statement of cash flows.

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash with insignificant risk of changes in value.

#### **Distribution**

Distributions are at the discretion of the Fund. A distribution to the Fund's unitholders is accounted for as a deduction from realised reserves except where distribution is sourced out of distribution/loss equalisation which is accounted for as a deduction from unitholders' capital. A proposed distribution is recognised as a liability in the period in which it is approved.

#### **Unitholders' capital**

The unitholders' capital of the Fund meets the definition of puttable instruments and is classified as equity instruments under the revised MFRS 132.

#### **Distribution/loss equalisation**

Distribution/loss equalisation represents the average distributable amount included in the creation and cancellation prices of units. This amount is either refunded to unitholders by way of distribution and/or adjusted accordingly when units are cancelled.

## Financial assets

Financial assets 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.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Fund determines the classification of its financial assets at initial recognition, and the categories applicable to the Fund include financial assets at fair value through profit or loss ("FVTPL") and loans and receivables.

### (i) Financial assets at FVTPL

Financial assets are classified as financial assets at FVTPL if they are held for trading or are designated as such upon initial recognition. Financial assets held for trading by the Fund include fixed income securities acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value. Changes in the fair value of those financial instruments are recorded in 'Net gain or loss on financial assets at fair value through profit or loss'. Interest earned elements of such instruments, are recorded separately in 'Interest income'.

Investments are stated at fair value on a portfolio basis in accordance with the provisions of the Deed, fair value is determined based on prices provided by the index provider, Markit Indices Limited [formerly known as International Index Company Limited ("IIC")], plus accrued interest. Adjusted cost of investments relates to the purchase cost plus accrued interest, adjusted for amortisation of premium and accretion of discount, if any, calculated over the period from the date of acquisition to the date of maturity of the respective securities as approved by the Manager and the Trustee. Unrealised gain or loss recognised in profit or loss is not distributable in nature.

On disposal of investments, the net realised gain or loss on disposal is measured as the difference between the net disposal proceeds and the carrying amount of the investments. The net realised gain or loss is recognised in profit or loss.

### (ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. The Fund includes short-term receivables in this classification.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

## Impairment of financial assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

### (i) Loans and receivables carried at amortised cost



To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Fund considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced through the use of an allowance account. When loans and receivables become uncollectible, they are written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

### **Financial liabilities**

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

Financial liabilities, within the scope of MFRS 139, 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.

The Fund's financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is extinguished. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

### **Classification of realised and unrealised gains and losses**

Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised (i.e. sold, redeemed or matured) during the reporting period.

Realised gains and losses on disposals of financial instruments classified at fair value through profit or loss are calculated using the weighted average method. They represent the difference between an instrument's initial carrying amount and disposal amount.

### **Significant accounting estimates and judgments**

The preparation of the Fund's financial statements requires the Manager to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in the future.

The Fund classifies its investments as financial assets at FVTPL as the Fund may sell its investments in the short-term for profit-taking or to meet unitholders' cancellation of units.

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

#### 4. INVESTMENTS

	31 December 2012 RM	31 December 2011 RM	1 January 2011 RM
<b>Financial assets at FVTPL</b>			
At nominal value:			
Quasi-Government Bonds	80,000,000	40,000,000	40,000,000
Malaysian Government Securities	391,710,000	441,660,000	435,000,000
Government Investment Issues	62,150,000	61,650,000	80,000,000
	<u>533,860,000</u>	<u>543,310,000</u>	<u>555,000,000</u>
At fair value:			
Quasi-Government Bonds	80,545,619	40,945,030	40,724,017
Malaysian Government Securities	413,569,828	467,388,803	455,396,455
Government Investment Issues	63,834,043	63,550,889	82,318,063
	<u>557,949,490</u>	<u>571,884,722</u>	<u>578,438,535</u>

Details of investments as at 31 December 2012 are as follows:

Maturity date	Issuer	Credit rating	Nominal value RM	Fair value RM	Adjusted cost RM	Fair value as a percentage of net asset value %
<b>Quasi-Government Bonds</b>						
06.06.2014	Siltterra Capital Berhad	AAA	15,000,000	15,155,568	15,038,119	2.59
30.11.2016	Syarikat Prasarana Negara Berhad	AAA	5,000,000	5,127,218	4,979,539	0.88
14.06.2019	Johor Corporation	AAA	10,000,000	10,013,148	10,030,220	1.71
14.06.2022	Johor Corporation	AAA	50,000,000	50,249,685	50,490,243	8.59
			<u>80,000,000</u>	<u>80,545,619</u>	<u>80,538,121</u>	<u>13.77</u>
<b>Malaysian Government Securities</b>						
27.02.2015 (Forward)	Government of Malaysia	AAA	30,790,000	31,590,864	31,253,137	5.40

Maturity date	Issuer	Credit rating	Nominal value RM	Fair value RM	Adjusted cost RM	Fair value as a percentage of net asset value %
<b>Malaysian Government Securities</b>						
12.08.2015	Government of Malaysia	AAA	25,000,000	25,809,847	25,714,871	4.42
30.09.2015	Government of Malaysia	AAA	15,000,000	15,798,445	15,430,399	2.70
15.10.2015	Government of Malaysia	AAA	25,000,000	25,285,799	25,248,738	4.33
15.09.2016	Government of Malaysia	AAA	110,800,000	116,469,692	115,371,474	19.92
15.02.2017	Government of Malaysia	AAA	20,000,000	20,706,123	20,388,544	3.54
15.07.2021	Government of Malaysia	AAA	80,000,000	85,304,699	85,582,153	14.59
15.08.2022	Government of Malaysia	AAA	120,000	120,709	120,184	0.02
15.04.2026	Government of Malaysia	AAA	60,000,000	65,142,686	64,128,611	11.14
15.04.2030	Government of Malaysia	AAA	25,000,000	27,340,964	27,305,982	4.68
			<u>391,710,000</u>	<u>413,569,828</u>	<u>410,544,093</u>	<u>70.74</u>
<b>Government Investment Issues</b>						
30.12.2014	Government of Malaysia	AAA	5,150,000	5,230,377	5,161,647	0.90
16.03.2015	Government of Malaysia	AAA	10,000,000	10,396,176	10,169,966	1.78
30.09.2015	Government of Malaysia	AAA	2,000,000	2,053,912	2,026,422	0.35
15.06.2017	Government of Malaysia	AAA	5,000,000	5,132,120	5,042,864	0.88
30.08.2018	Government of Malaysia	AAA	10,000,000	10,341,903	10,128,060	1.77
30.04.2021	Government of Malaysia	AAA	10,000,000	10,491,420	10,541,384	1.79
15.06.2027	Government of Malaysia	AAA	20,000,000	20,188,135	20,331,819	3.45
			<u>62,150,000</u>	<u>63,834,043</u>	<u>63,402,162</u>	<u>10.92</u>
<b>Total financial assets at FVTPL</b>			<u>533,860,000</u>	<u>557,949,490</u>	<u>554,484,376</u>	<u>95.43</u>
<b>Excess of fair value over cost</b>				<u>3,465,114</u>		

The weighted average effective yields on unquoted investments are as follows:

	<b>31 December 2012 %</b>	<b>Effective yield* 31 December 2011 %</b>	<b>1 January 2011 %</b>
Quasi-Government Bonds	3.67	3.56	3.80
Malaysian Government Securities	3.27	3.96	3.50
Government Investment Issues	<u>3.47</u>	<u>3.38</u>	<u>3.56</u>

\* As provided by Markit Indices Limited (formerly known as International Index Company Limited).

Analyses of the remaining maturity of unquoted investments as at 31 December 2012 and 31 December 2011 are as follows:

	<b>1 to 2 years RM</b>	<b>2 to 5 years RM</b>	<b>More than 5 years RM</b>
<b>31 December 2012</b>			
At nominal value:			
Quasi-Government Bonds	15,000,000	5,000,000	60,000,000
Malaysian Government Securities	-	226,590,000	165,120,000
Government Investment Issues	<u>5,150,000</u>	<u>17,000,000</u>	<u>40,000,000</u>
<b>31 December 2011</b>			
At nominal value:			
Quasi-Government Bonds	10,000,000	20,000,000	10,000,000
Malaysian Government Securities	55,000,000	181,660,000	205,000,000
Government Investment Issues	<u>5,000,000</u>	<u>26,650,000</u>	<u>30,000,000</u>

## 5. DEPOSITS WITH FINANCIAL INSTITUTIONS

	<b>31 December 2012 RM</b>	<b>31 December 2011 RM</b>	<b>1 January 2011 RM</b>
At nominal value:			
Short-term deposits with licensed banks	<u>36,396,700</u>	<u>19,210,900</u>	<u>6,555,000</u>
At carrying value:			
Short-term deposits with licensed banks	<u>36,399,802</u>	<u>19,212,505</u>	<u>6,555,503</u>

Details of deposits with financial institutions as at 31 December 2012 are as follows:

Maturity date	Bank	Nominal value RM	Carrying value RM	Purchase cost RM	Carrying value as a percentage of net asset value %
<b>Short-term deposits with licensed banks</b>					
02.01.2013	RHB Bank Berhad	20,000,000	20,001,709	20,000,000	3.42
02.01.2013	OCBC Bank (Malaysia) Berhad	16,396,700	16,398,093	16,396,700	2.81
		<u>36,396,700</u>	<u>36,399,802</u>	<u>36,396,700</u>	<u>6.23</u>

The weighted average interest rate and average remaining maturities of short-term deposits are as follows:

	Weighted average interest rate			Remaining maturities		
	31 December 2012 %	31 December 2011 %	1 January 2011 %	31 December 2012 Days	31 December 2011 Days	1 January 2011 Days
Short-term deposits with licensed banks	<u>3.11</u>	<u>3.05</u>	<u>2.80</u>	<u>2</u>	<u>3</u>	<u>3</u>

#### 6. AMOUNT DUE TO MANAGER

Manager's fee was charged at a rate of 0.10% per annum on the net asset value of the Fund, calculated on a daily basis (2011: 0.10%).

The normal credit period in the previous and current financial years for Manager's fee payable is one month.

#### 7. AMOUNT DUE TO TRUSTEE

Trustee's fee was charged at a rate of 0.07% per annum on the net asset value of the Fund, calculated on a daily basis (2011: 0.07%).

The normal credit period in the previous and current financial years for Trustee's fee payable is one month.

#### 8. AMOUNT DUE TO INDEX PROVIDER

Amount due to index provider is the licence fee payable to Markit Indices Limited (formerly known as International Index Company Limited), the provider of the benchmark index.

Licence fee is calculated on a daily basis at the following rate:

<b>Fund Size</b>	<b>% p.a.</b>
<b>From 1 July 2008 onwards</b>	
For amount equal to or less than Initial Funding	0.0175
For amount above Initial Funding, but equal to or less than 275% of Initial Funding	0.01
For amount above 275% of Initial Funding	No charge

Subject to a minimum annual fee of USD21,234

\* Initial Funding for the Fund was USD115,400,000.

## 9. NET GAIN FROM INVESTMENTS

	<b>2012 RM</b>	<b>2011 RM</b>
Net gain on financial assets at FVTPL comprised:		
– Net realised gain on sale of investments	9,176,831	1,330,820
– Net unrealised (loss)/gain on changes in fair value of investments	<u>(6,701,441)</u>	<u>4,339,087</u>
	<u>2,475,390</u>	<u>5,669,907</u>

## 10. TOTAL EQUITY

Total equity is represented by:

	<b>Note</b>	<b>31 December 2012 RM</b>	<b>31 December 2011 RM</b>	<b>1 January 2011 RM</b>
Unitholders' capital	(a)	563,972,881	563,972,881	563,972,881
Retained earnings				
– Realised income	(b)	17,222,287	16,654,810	15,121,477
– Unrealised gain	(c)	<u>3,465,114</u>	<u>10,166,555</u>	<u>5,827,468</u>
		<u>584,660,282</u>	<u>590,794,246</u>	<u>584,921,826</u>

### (a) UNITHOLDERS' CAPITAL/UNITS IN CIRCULATION

	<b>2012</b>		<b>2011</b>	
	<b>Number of units</b>	<b>RM</b>	<b>Number of units</b>	<b>RM</b>
At beginning/end of the year	<u>537,421,800</u>	<u>563,972,881</u>	<u>537,421,800</u>	<u>563,972,881</u>

As at 31 December 2012, the approved Fund size is 1 billion units.

**(b) REALISED – DISTRIBUTABLE**

	<b>2012 RM</b>	<b>2011 RM</b>
At beginning of the year	16,654,810	15,121,477
Total comprehensive income for the year	22,080,681	26,025,738
Net unrealised loss/(gain) attributable to investments held transferred to unrealised reserve [Note 10(c)]	6,701,441	(4,339,087)
Distributions out of realised reserve (Note 13)	(28,214,645)	(20,153,318)
Net increase in realised reserve for the year	<u>567,477</u>	<u>1,533,333</u>
At end of the year	<u>17,222,287</u>	<u>16,654,810</u>

**(c) UNREALISED – NON-DISTRIBUTABLE**

	<b>2012 RM</b>	<b>2011 RM</b>
At beginning of the year	10,166,555	5,827,468
Net unrealised (loss)/gain attributable to investments held transferred from realised reserve [Note 10(b)]	<u>(6,701,441)</u>	<u>4,339,087</u>
At end of the year	<u>3,465,114</u>	<u>10,166,555</u>

**11. UNITS HELD BY RELATED PARTIES**

	<b>2012</b>		<b>2011</b>	
	<b>Number of units</b>	<b>RM</b>	<b>Number of units</b>	<b>RM</b>
Parties related to the Manager*	<u>4,386,430</u>	<u>4,838,232</u>	<u>59,805,630</u>	<u>64,111,635</u>

\* The parties related to the Manager are the legal and beneficial owners of the units. The Manager, AmlInvestment Services Berhad, did not hold any unit in the Fund as at 31 December 2012 and 31 December 2011.

**12. INCOME TAX**

Income tax payable is calculated on investment income less deduction for permitted expenses as provided for under Section 63B of the Income Tax Act, 1967.

Pursuant to Schedule 6 paragraph 35 of the Income Tax Act, 1967, interest income derived by the Fund is exempted from tax.

A reconciliation of income tax expense applicable to net income before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Fund are as follows:

	<b>2012 RM</b>	<b>2011 RM</b>
Net income before tax	<u>22,080,681</u>	<u>26,025,738</u>
Taxation at Malaysian statutory rate of 25%	5,520,200	6,506,400
Tax effects of:		
Income not subject to tax	(7,476,200)	(6,781,600)
Loss not deductible for tax purposes	1,675,400	-
Restriction on tax deductible expenses for unit trust fund	135,600	132,900
Non-permitted expenses for tax purposes	129,900	127,500
Permitted expenses not used and not available for future years	<u>15,100</u>	<u>14,800</u>
Tax expense for the financial year	<u>-</u>	<u>-</u>

### 13. DISTRIBUTIONS

Distributions to unitholders declared on 10 February 2012, 5 September 2012 and 24 December 2012 (declared on 14 January 2011 and 15 July 2011 for the previous financial year) are from the following sources:

	<b>2012 RM</b>	<b>2011 RM</b>
Undistributed net income brought forward	-	8,800,924
Interest income	20,322,236	11,678,367
Net realised gain on sale of investments	<u>9,015,030</u>	<u>774,557</u>
	29,337,266	21,253,848
Less: Expenses	<u>(1,122,621)</u>	<u>(1,100,530)</u>
Total amount of distributions	<u>28,214,645</u>	<u>20,153,318</u>
Gross/net distributions per unit (sen)	<u>5.25</u>	<u>3.75</u>
Distributions made out of:		
– Realised reserve [Note 10(b)]	<u>28,214,645</u>	<u>20,153,318</u>
Comprising:		
Cash distributions	<u>28,214,645</u>	<u>20,153,318</u>



#### 14. **MANAGEMENT EXPENSE RATIO (“MER”)**

The Fund's MER is as follows:

	<b>2012</b> <b>% p.a.</b>	<b>2011</b> <b>% p.a.</b>
Manager's fee	0.10	0.10
Trustee's fee	0.07	0.07
Licence fee	0.01	0.01
Trust administrative expenses	0.01	0.01
	<hr/>	<hr/>
Total MER	<b>0.19</b>	<b>0.19</b>

The MER of the Fund is the ratio of the sum of annualised fees and expenses incurred by the Fund to the average net asset value of the Fund calculated on a daily basis.

#### 15. **PORTFOLIO TURNOVER RATIO (“PTR”)**

The PTR of the Fund is the ratio of average total acquisitions and disposals of investments to the average net asset value of the Fund calculated on a daily basis, is 0.91 times (2011: 0.26 times).

#### 16. **SEGMENTAL REPORTING**

In accordance with the objective of the Fund, substantially all of the Fund's investments are made in the form of fixed income instruments in Malaysia. The Manager is of the opinion that the risk and rewards from these investments are not individually or segmentally distinct and hence the Fund does not have separately identifiable business or geographical segments.

#### 17. **TRANSACTIONS WITH FINANCIAL INSTITUTIONS**

Details of transactions with financial institutions for the financial year ended 31 December 2012 are as follows:

<b>Financial institutions</b>	<b>Transaction value</b>	
	<b>RM</b>	<b>%</b>
CIMB Bank Berhad	3,232,807,700	48.69
OCBC Bank (Malaysia) Berhad	1,736,092,669	26.15
CIMB Investment Bank Berhad	290,797,700	4.38
Citibank Berhad	236,332,581	3.56
Deutsche Bank (Malaysia) Berhad	182,293,010	2.74
The Royal Bank of Scotland Berhad	174,764,671	2.63
OSK Investment Bank Berhad	163,046,777	2.46
AmBank (M) Berhad*	123,408,640	1.86
Public Bank Berhad	119,000,000	1.79
United Overseas Bank (Malaysia) Bhd.	109,597,500	1.65
Other financial institutions	271,703,181	4.09
	<hr/>	<hr/>
Total	<b>6,639,844,429</b>	<b>100.00</b>

\* A financial institution related to the Manager. The Manager and the Trustee are of the opinion that the above transactions have been entered in the normal course of business and have been established under terms that are no less favorable than those arranged with independent third parties.

The above transactions were in respect of fixed income instruments and money market instruments. Transactions in fixed income instruments and money market instruments do not involve any commission or brokerage.

## 18. FINANCIAL INSTRUMENTS

### (a) Classification of financial instruments

The significant accounting policies in Note 3 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities of the Fund in the statement of financial position by the class of financial instrument to which they are assigned, and therefore by the measurement basis.

	Financial assets at FVTPL RM	Loans and receivables at amortised cost RM	Financial liabilities at amortised cost RM	Total RM
<b>31 December 2012</b>				
<b>Assets</b>				
Investments	557,949,490	-	-	557,949,490
Deposits with financial institutions	-	36,399,802	-	36,399,802
Cash at banks	-	1,487	-	1,487
	<u>557,949,490</u>	<u>36,401,289</u>	<u>-</u>	<u>594,350,779</u>
Total financial assets	<u>557,949,490</u>	<u>36,401,289</u>	<u>-</u>	<u>594,350,779</u>
<b>Liabilities</b>				
Amount due to Manager	-	-	50,047	50,047
Amount due to Trustee	-	-	35,033	35,033
Amount due to index provider	-	-	53,045	53,045
Distribution payable	-	-	9,404,882	9,404,882
Sundry payables and accrued expenses	-	-	147,490	147,490
	<u>-</u>	<u>-</u>	<u>9,690,497</u>	<u>9,690,497</u>
Total financial liabilities	<u>-</u>	<u>-</u>	<u>9,690,497</u>	<u>9,690,497</u>
<b>31 December 2011</b>				
<b>Assets</b>				
Investments	571,884,722	-	-	571,884,722
Deposits with financial institutions	-	19,212,505	-	19,212,505
Cash at banks	-	1,458	-	1,458
	<u>571,884,722</u>	<u>19,213,963</u>	<u>-</u>	<u>591,098,685</u>
Total financial assets	<u>571,884,722</u>	<u>19,213,963</u>	<u>-</u>	<u>591,098,685</u>

(Forward)

	Financial assets at FVTPL RM	Loans and receivables at amortised cost RM	Financial liabilities at amortised cost RM	Total RM
<b>31 December 2011</b>				
<b>Liabilities</b>				
Amount due to Manager	-	-	48,475	48,475
Amount due to Trustee	-	-	33,932	33,932
Amount due to index provider	-	-	67,227	67,227
Sundry payables and accrued expenses	-	-	154,805	154,805
	<u>-</u>	<u>-</u>	<u>304,439</u>	<u>304,439</u>

	Income, expense, gains and losses	
	2012 RM	2011 RM
Net gain from financial assets at FVTPL	2,475,390	5,669,907
Income, of which derived from:		
– Interest income from financial assets at FVTPL	20,032,609	20,995,060
– Interest income from loans and receivables	<u>695,303</u>	<u>461,301</u>

(b) **Financial instruments that are carried at fair value**

The Fund's financial assets at FVTPL are carried at fair value. The fair values of these financial assets were determined using prices in active markets for identical assets.

Unquoted debt securities

The indicative prices for RM-denominated unquoted debt securities are based on information provided by the index provider, Markit Indices Limited (formerly known as International Index Company Limited) via iBoxx.

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair values are observable; either directly or indirectly; or
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by the level of the fair value hierarchy:

	<b>Level 1 RM</b>	<b>Level 2 RM</b>	<b>Level 3 RM</b>	<b>Total RM</b>
<b>31 December 2012</b>				
Financial assets at FVTPL	-	557,949,490	-	557,949,490
<b>31 December 2011</b>				
Financial assets at FVTPL	-	571,884,722	-	571,884,722

(c) **Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value**

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value due to their short period to maturity or short credit period:

- Deposits with financial institutions
- Cash at banks
- Amount due to Manager
- Amount due to Trustee
- Amount due to index provider
- Distribution payable
- Sundry payables and accrued expenses

There were no financial instruments which are not carried at fair values and whose carrying amounts are not reasonable approximation of their respective fair values.

19. **RISK MANAGEMENT POLICIES**

The Fund is exposed to a variety of risks that included market risk, credit risk, liquidity risk, single issuer risk, regulatory risk, management risk and non-compliance risk.

Risk management is carried out by closely monitoring, measuring and mitigating the above said risks, careful selection of investments coupled with stringent compliance to investment restrictions as stipulated by the Capital Market and Services Act 2007, Securities Commission's Guidelines on Exchange Traded Funds and the Deed as the backbone of risk management of the Fund.

**Market risk**

Market risk is the risk that the value of a portfolio would decrease due to changes in market risk factors such as equity prices, foreign exchange rates, interest rates and commodity prices.

(a) **Objectives and limitations of the Value at Risk ("VaR") methodology**

The Fund models the Value-at-Risk based on Gaussian distribution to assess possible changes in the market value of the portfolio. Based on 180 weekly historical data points, the potential loss at the 99% confidence level is estimated. The VaR model is designed to measure market risk during normal market conditions. Due to the fact that VaR relies on historical data to provide information and that there is no prediction of the future change

in the risk factors, the probability of large market movement may be underestimated. VaR may also be under- or over-estimated due to the interdependence between the market risk factors. Even though positions may change throughout the day, the VaR only represents the risk of the portfolio at the close of each business day. Analysis is carried out to estimate potential losses at 99% confidence level.

In practice, the actual portfolio results will differ from the VaR calculation. In particular, the calculation does not provide a meaningful indication of losses under stressed market conditions.

**(b) VaR assumptions**

The VaR that the Fund measures is an estimate, using a confidence level of 99%, of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average under normal market conditions, not more than once every hundred days.

	<b>Value-at-Risk (%)</b>	
	<b>Interest rate risk</b>	<b>Total VaR</b>
<b>31 December 2012</b>	0.33	0.33
Average Daily	0.45	0.45
Highest	0.57	0.57
Lowest	0.32	0.32
<b>31 December 2011</b>	0.53	0.53
Average Daily	0.57	0.57
Highest	0.60	0.60
Lowest	0.53	0.53

Based on Gaussian VaR, using historical weekly data for the past 180 weeks, ABF Malaysia Bond Index portfolio that invests mainly in Ringgit denominated fixed income securities had a daily 1% Value-at-Risk (VaR) of approximately 0.33% (2011: 0.53%). This implies that not more than 1 out of 100 trading days would record a daily loss exceeding 0.33% (2011: 0.53%) of the net asset value.

**Credit risk**

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Fund by failing to discharge an obligation. The Fund invests a minimum of 95% of the net asset value of the Fund in local bonds. As such the Fund would be exposed to the risk of bond issuers defaulting on its repayment obligations which in turn would effect the net asset value of the Fund. This risk is mitigated by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of the relevant issuers.

(a) **Credit quality of financial assets**

The following table presents the Fund's portfolio of debt securities by rating category rated by rating agencies, i.e. RAM and MARC as at the reporting date:

<b>Credit rating</b>	<b>RM</b>	<b>As a % of debt securities</b>	<b>As a % of net asset value</b>
<b>31 December 2012</b>			
AAA	<u>557,949,490</u>	<u>100.00</u>	<u>95.43</u>
<b>31 December 2011</b>			
AAA	<u>571,884,722</u>	<u>100.00</u>	<u>96.80</u>

For deposits with financial institutions, the Fund only makes placement with financial institutions with sound rating. The following table presents the Fund's portfolio of deposit by rating category as at the reporting date:

<b>Credit rating</b>	<b>RM</b>	<b>As a % of deposit</b>	<b>As a % of net asset value</b>
<b>31 December 2012</b>			
PI/MARC I	<u>36,399,802</u>	<u>100.00</u>	<u>6.23</u>
<b>31 December 2011</b>			
PI/MARC I	<u>19,212,505</u>	<u>100.00</u>	<u>3.25</u>

(b) **Credit risk concentration**

Concentration of risk is monitored and managed based on sectorial distribution. The table below analyses the Fund's portfolio of debt securities by sectorial distribution as at 31 December 2012 and 31 December 2011:

<b>Sector</b>	<b>RM</b>	<b>As a % of debt securities</b>	<b>As a % of net asset value</b>
<b>31 December 2012</b>			
Sovereign	<u>557,949,490</u>	<u>100.00</u>	<u>95.43</u>
<b>31 December 2011</b>			
Sovereign	561,704,763	98.22	95.08
Supranational	10,179,959	1.78	1.72
	<u>571,884,722</u>	<u>100.00</u>	<u>96.80</u>

There is no geographical risk as the Fund invests only in investments in Malaysia.

**Liquidity risk**

Liquidity risk is defined as the risk of being unable to raise funds or borrowing to meet payment obligations as they fall due. The Fund maintains sufficient level of liquid assets, after consultation with the Trustee, to meet anticipated payments and cancellation of units by unitholders. Liquid assets comprise cash deposits with licensed financial institutions and other instruments, which

are capable of being converted into cash within 5 to 7 days. The Fund's policy is to always maintain a prudent level of liquid assets so as to reduce liquidity risk.

### Objectives and assumptions

The coupons could be paid on annual, bi-annual or quarterly basis. Alongside with those bonds are zero coupon bonds that only pay the nominal amount at maturity date. Cash received from bonds are calculated as follows:

\$ = cash received  
 R = annual coupon rate  
 F = coupon frequency

- For zero coupon bonds,  $F = 0$   
 At maturity: \$ = Nominal
- For  $F > 0$   
 Before maturity: coupon payment, \$ = Nominal \* (R/F)  
 At maturity: maturity payment, \$ = Nominal + (Nominal \* R/F)

The following table presents undiscounted contractual cash flows from different asset classes in the Fund:

	Contractual Cash Flows (Undiscounted)					
	0 – 1 year RM	1 – 2 years RM	2 – 3 years RM	3 – 4 years RM	4 – 5 years RM	More than >5 years RM
<b>31 December 2012</b>						
<b>Financial assets</b>						
Financial assets held at FVTPL	21,782,355	41,639,855	127,989,525	132,659,448	36,443,727	333,354,758
Deposits with financial institutions	36,402,904	-	-	-	-	-
Other assets	1,487	-	-	-	-	-
<b>Total assets</b>	<b>58,186,746</b>	<b>41,639,855</b>	<b>127,989,525</b>	<b>132,659,448</b>	<b>36,443,727</b>	<b>333,354,758</b>
<b>Financial liabilities</b>						
Other liabilities	9,690,497	-	-	-	-	-
<b>31 December 2011</b>						
<b>Financial assets</b>						
Financial assets held at FVTPL	23,012,549	92,023,149	115,921,516	101,396,773	58,750,146	300,879,975
Deposits with financial institutions	19,217,321	-	-	-	-	-
(Forward)						

### Contractual Cash Flows (Undiscounted)

	0 – 1 year RM	1 – 2 years RM	2 – 3 years RM	3 – 4 years RM	4 – 5 years RM	More than >5 years RM
<b>31 December 2011</b>						
<b>Financial assets</b>						
Other assets	1,458	-	-	-	-	-
<b>Total assets</b>	<u>42,231,328</u>	<u>92,023,149</u>	<u>115,921,516</u>	<u>101,396,773</u>	<u>58,750,146</u>	<u>300,879,975</u>
<b>Financial liabilities</b>						
Other liabilities	304,439	-	-	-	-	-

#### Single Issuer risk

Internal policy restricts the Fund from investing in securities issued by any issuer of not more than a certain percentage of its net asset value. Under such restriction, the risk exposure to the securities of any single issuer is diversified and managed based on internal/external ratings.

#### Regulatory risk

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

#### Management risk

Poor management of the Fund may cause considerable losses to the Fund that in turn may affect the net asset value of the Fund.

#### Non-Compliance risk

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

20.

### CAPITAL MANAGEMENT

The primary objective of the Fund's capital management is to ensure that it maximises unitholder's value by expanding its fund size to benefit from economies of scale and achieving growth in net asset value from the performance of its investments. As disclosed in Note 10, the approved fund size by the Securities Commission is 1,000,000,000 units of which 537,421,800 units have been issued and a further 462,578,200 units can be issued in future period based on the daily net asset value per unit on the respective creation dates.

The Fund manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Fund may issue new or bonus units, make distribution payment, or return capital to unitholders by way of redemption of units.

No changes were made in the objective, policies or processes during the financial year ended 31 December 2012 and 31 December 2011.





## Statement by the Manager

I, **HARINDER PAL SINGH**, for and on behalf of the Manager, AmlInvestment Services Berhad, for **ABF Malaysia Bond Index Fund** do hereby state that in the opinion of the Manager, the accompanying statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and the accompanying notes are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Fund as at 31 December 2012 and the comprehensive income, the changes in equity and cash flows of the Fund for the year then ended.

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**HARINDER PAL SINGH**

For and on behalf of the Manager  
AmlInvestment Services Berhad

Kuala Lumpur, Malaysia  
31 January 2013



**TRUSTEE'S REPORT**

**TO THE UNITHOLDERS OF  
ABF MALAYSIA BOND INDEX FUND**

We have acted as Trustee of **ABF Malaysia Bond Index Fund** ("the Fund") for the financial year ended 31 December 2012. To the best of our knowledge, **AmInvestment Services Berhad** ("the Management Company"), has operated and managed the Fund in accordance with the following:-

- a) limitations imposed on the investment powers of the Management Company and the Trustee under the Deed, the Securities Commission's Guidelines on Exchange-Traded Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- b) valuation/pricing is carried out in accordance with the Deed and any regulatory requirements; and
- c) creation and cancellation of units are carried out in accordance with the Deed and any regulatory requirements.

During this financial year, a total distribution of 5.25 sen per unit (net) has been distributed to the unitholders of the Fund. We are of the view that the distribution is not inconsistent with the objectives of the Fund.

For HSBC (Malaysia) Trustee Berhad

Tan Bee Nie  
Head, Trustee Operations  
Kuala Lumpur  
Date : 31 January 2013

**HSBC (Malaysia) Trustee Berhad**  
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#### **Related Institutional Unit Trust Agent**

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AmlInvestment Bank Berhad Head Office  
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55 Jalan Raja Chulan, 50200 Kuala Lumpur

For more details on the list of IUTAs, please contact the Manager.

*For enquiries about this or any of the other Funds offered by AmlInvestment Services Berhad  
please call 2032 2888 between 8.45 a.m. to 5.45 p.m. (Monday - Thursday),  
Friday (8.45 a.m. to 5.00 p.m.)*

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