

Hong Leong Strategic Fund

Annual Report

Financial Year Ended 31 August 2024

2023/2024

Audited



HONG LEONG STRATEGIC FUND

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Manager's Review and Report

I. FUND INFORMATION

Fund Name

Hong Leong Strategic Fund ("HLSTF" or "the Fund")

Fund Category

Mixed Assets

Fund Type

Growth and Income

Investment Objective

To provide investors with an investment that strives for stable* returns as well as consistency in performance and income**.

Duration of the Fund and its termination date, where applicable

Not Applicable

Benchmark

FTSE Bursa Malaysia (FBM) KLCI (87%) and Malayan Banking Berhad 1-Year Fixed Deposit (FD) Rate (13%)

Distribution Policy

Subject to the Manager's discretion, the Fund will strive to provide yearly distribution, if any, in the form of either cash or additional Units to the Unit holders, depending on interest rates, market conditions and performance of the Fund to all Unit holders. In essence, Unit holders are expected to enjoy cash or Unit distribution plus NAV appreciation from this Fund.

Notes:

* Please take note that this Fund is not a capital guaranteed fund or a capital protected fund and the returns are not guaranteed.

** Income may be distributed in the form of cash and/or Units.

II. FUND PERFORMANCE

Chart 1: Performance of the Fund versus the benchmark covering the last five financial years



Source: Lipper for Investment Management, in Malaysian Ringgit terms, ex-distribution, NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from HLSTF reinvested.

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

Performance Review

This Annual Report covers the twelve-month financial year from 1 September 2023 to 31 August 2024.

The Fund posted a return of 1.84% (based on NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from the Fund reinvested) in the past twelve months while its benchmark the FBM KLCI/Maybank 1-Year FD Rate (87:13) registered a return of 13.93%.

For the five financial years ended 31 August 2024, the Fund posted a return of -16.03% compared to the benchmark's return of 5.68%.

Table 1: Performance of the Fund for the following periods as at 31 August 2024 (Source: Lipper for Investment Management)

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Launch
HLSTF Return (%)	-5.11	6.48	1.84	-10.79	-16.03	-12.44	104.70
Benchmark (%)	4.58	7.33	13.93	5.41	5.68	-4.77	88.78

Table 2: Return of the Fund based on NAV Per Unit-to-NAV Per Unit basis for the period 31 August 2023 to 31 August 2024 (Source: Lipper for Investment Management)

	31-Aug-24	31-Aug-23	Return (%)
NAV Per Unit	RM0.2713	RM0.2664	1.84
Benchmark	188.78	165.70	13.93
vs Benchmark (%)	-	-	-12.09

Table 3: Financial Highlights

The Net Asset Value attributable to Unit holders is represented by:

	31-Aug-24 (RM)	31-Aug-23 (RM)	Change (%)
Unit Holders' Capital	26,911,863	29,629,013	(9.17)
Retained Earnings	2,723,844	2,170,614	25.49
Net Asset Value	29,635,707	31,799,627	(6.80)
Units in Circulation	109,225,738	119,366,187	(8.50)

Table 4: The Highest and Lowest NAV Per Unit, Total Return of the Fund and the breakdown into Capital Growth and Income Distribution for the financial years ended 31 August

	Financial Year 2024	Financial Year 2023	Financial Year 2022
Highest NAV Per Unit (RM)	0.3100	0.2757	0.3183
Lowest NAV Per Unit (RM)	0.2445	0.2442	0.2516
Capital Growth (%)	1.84	0.72	-13.02
Income Distribution (%)	-	-	-
Total Return (%)	1.84	0.72	-13.02

Source: Lipper for Investment Management, in Malaysian Ringgit terms, ex-distribution, NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from HLSTF reinvested.

Table 5: Average Total Return of the Fund for the financial year ended 31 August 2024

	1 Year	3 Years	5 Years
Average Total Return (%)	1.84	-3.60	-3.21

Source: Lipper for Investment Management, in Malaysian Ringgit terms, ex-distribution, NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from HLSTF reinvested.

Table 6: Annual Total Return of the Fund for the financial years ended 31 August

Financial Year	2024	2023	2022	2021	2020
Annual Total Return (%)	1.84	0.72	-13.02	11.64	-15.69

Source: Lipper for Investment Management, in Malaysian Ringgit terms, ex-distribution, NAV Per Unit-to-NAV Per Unit basis with gross income (if any) from HLSTF reinvested.

III. INVESTMENT PORTFOLIO

Chart 2: Asset Allocation - September 2023 to August 2024

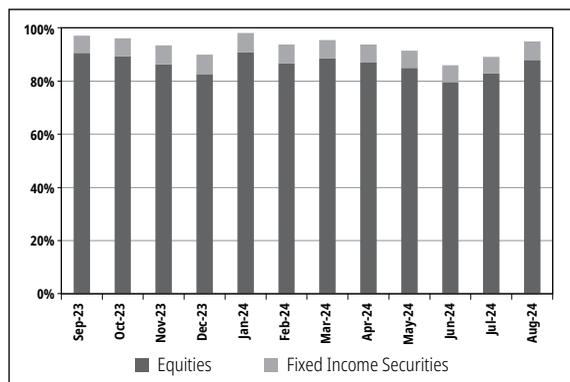


Chart 3: Sector Allocation as at 31 August 2024

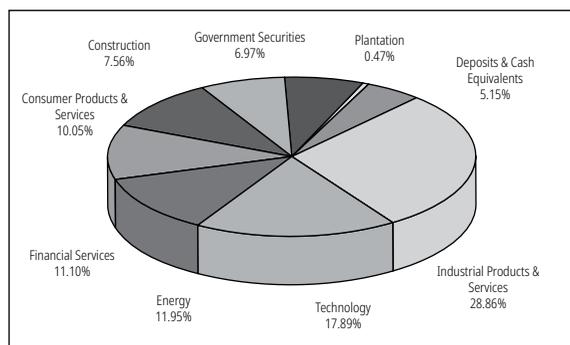
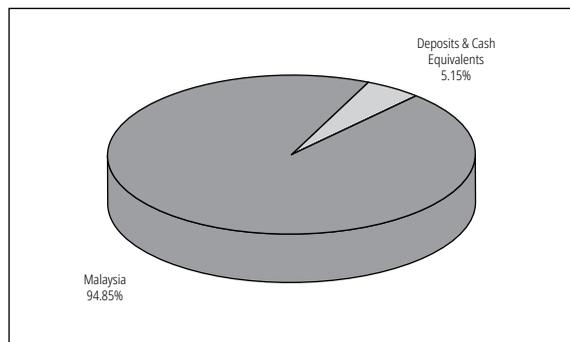


Chart 4: Geographical Allocation as at 31 August 2024



Strategies employed by the Fund during the period under review

On the equities front, the Fund took some profit in the technology, health care and telecommunications and media sectors and increase its exposure to larger cap industrial products and services sector, and financial services sector. This strategy had broadly paid off as increase foreign fund inflows benefited these stocks. However, the Fund was also affected by selected technology and electronic manufacturing services names whereby their outlook was weaker-than-expected.

The Fund continues to adhere to a bottom-up stock-picking strategy.

On the fixed income front, we maintain our defensive strategy in order to manage fund volatility in a rising rate environment.

An explanation on the differences in portfolio composition

On the equities front, there was a decrease in allocation to the technology sector due to the slower-than-expected recovery in the sector, on the back of higher inventory levels. The Fund has increased exposure to the industrial products and services sector, and the financial services sector due to the high dividend yield provided by these stocks.

On the fixed income front, during the financial year under review, the Fund maintained its preference in bonds as we see potential capital gains and further rate cut by the Federal Reserve (Fed) going forward.

Operational review of the Fund

For the financial year under review, there were no significant changes in the state of affairs of the Fund or circumstances that would materially affect the interest of Unit holders up to the date of this Manager's report.

IV. MARKET REVIEW

Equities

During the financial year under review, the MSCI AC Asia Pacific ex Japan Index increased 13.5%. The best performing markets were Taiwan and India while the laggards were Hong Kong and China. In the local market, the FBM KLCI rose 14.7%. Small caps underperformed as the FBM Small Cap Index rose only 7.5%.

The third quarter of 2023 started strongly. Despite the United States (US) Fed raising the policy rate by another 25 basis points (bps), expectations that the interest hike cycle is nearing the end buoyed investor sentiment. However, the market euphoria was short-lived as bond yields accelerated higher. With the China economy not exactly in the pink of health and the US economy starting to show conspicuous signs of weakening, bonds look increasingly attractive compared to equities.

The final quarter of 2023 started on a tentative note as investors maintained a high cash level in their portfolios in view of the weak economic outlook and heightened geopolitical risk. However, global equity markets rallied strongly in the last two months of the year as statements by the US Fed left very little doubt that the current rate hike cycle is at an end. US indices led the global equity rally as the Dow Jones Industrial Average (DJIA) Index hit an all-time high in December.

In the first quarter of 2024, stronger-than-expected economic data out of US resulted in Fed rate cut expectations being dialled back. The global Artificial Intelligence (AI) optimism helped drive upside in tech and related proxies. The Chinese market saw some optimism during the quarter but lost momentum due to US-China tensions. Japan equities staged a strong resurgence as the country's exit from deflation attracted investors.

The second quarter of 2024 started strongly, even with US Inflation data surprising on the upside. Despite bond yields accelerating higher, AI optimism continue to dominate the market. ASEAN generally underperformed and their currencies too came under pressure as US Dollar (USD) surged. Hong Kong in particular saw weakness as the country reported underwhelming property data.

The third quarter of 2024 saw optimism in the market, as there was high conviction that the Fed would cut rates in September. However, in the first week of August, markets corrected sharply triggered by a Japanese Yen (JPY) carry trade unwind and fears of a US recession. While markets quickly rebounded in the following weeks, tech stocks were well below the pre-August levels as investors re-assessed the outlook of AI capex monetisation.

The Malaysia market outperformed peers in the third quarter of 2023 as investors seek shelter in defensive equity markets during the prevailing risk-off sentiment. The conclusion of the state elections also removed some degree of political uncertainty while the launch of the Madani economy by the Prime Minister also provided a boost to investor sentiment in the local market.

Although the FBM KLCI posted a positive return, it was a quiet fourth quarter for the Malaysia market in comparison to other global peers as investors, particularly foreign investors, appeared to find more urgency to cover their underweight in developed markets before deploying cash in emerging markets.

In the first quarter of 2024, Malaysia started strongly, leading the ASEAN market with AI related names performing well. This was further reinforced by the signing of a memorandum of understanding between Malaysia and Singapore to form the Johor-Singapore Special Economic Zone (JS-SEZ). While foreign interest was evident, it did not translate into real flows as Malaysia recorded a net foreign outflow during the quarter.

Trading value in Malaysia was elevated in the second quarter of 2024, reaching values not seen since May 2021 during the COVID-19 lockdown. AI continued to drive the markets, spilling over to the construction sector, which is seen to benefit from the data-centre driven boom. The Malaysian Index was one of the best performers year-to-date (YTD) in ASEAN.

The third quarter started strongly for the Malaysian market as the construction sector remained in favour due to the data-centred driven jobs. August saw global markets correct sharply due to the JPY carry trade unwind, and Malaysia was not spared. The markets broadly rebounded over the month with financials leading as better-than-expected Gross Domestic Product (GDP) data saw fund flows into banks.

Fixed Income

During the financial year under review, the market was volatile again following stronger-than-expected consumer spending and Producer Price Index (PPI) in January amid sticky inflation numbers and strong job data. The Fed remained concerned over the lack of progress on inflation and held the view to hold rates steady until there is greater confidence that US inflation was moving sustainably towards 2%. US Treasuries (UST) 2-Year and 10-Year yields spiked up from January to April and declined further to 4.26% and 4.03% respectively in end-July 2024 (end-July 2023: 2-Year – 4.88%, 10-Year - 3.96%).

In August, UST were stronger across the curve in trading ahead of Fed Chair Powell's speech at the Jackson Hole Symposium, amidst some concerns that the annual payroll figures scheduled for release may see a large downward revision and reignite fears about the general health of the labour market. Benchmark yields were lower between 6 bps and 8 bps for the day in a mild steepening of the UST curve. The benchmark 2-Year UST closed at 3.99%, while the benchmark 10-Year UST yield fell to 3.84% as of month end.

On the domestic front, Malaysia's headline inflation rate rose to a 10-Month high of 2.0% in May, due largely to higher Housing, Water, Electricity, Gas and Other Fuels (HWEG) at 3.2%. HWEG inflation has increased to the highest level since September 2022, attributable to higher housing costs and water tariff hikes in several states. In July, the headline inflation remained steady at 2.0%, slightly below consensus forecasts of 2.1%. Core inflation also held steady at 1.9%, the same pace as in June.

The Malaysian Government Securities (MGS) yields generally tracked the UST movements although at a more subdued level as domestic inflation numbers were more stable. Local bond yields were volatile throughout the financial year, however 5-Year and 10-Year MGS yields ended marginally lower at 3.52% and 3.77% respectively at end-August 2024 (end-June 2023: 5-Year – 3.60%, 10-Year – 3.84%).

V. FUTURE PROSPECTS AND PROPOSED STRATEGIES

Equities

We expect investor sentiment to be cautious leading up to the US presidential elections. The Fed has started cutting rates by 50 bps in September 2024 and is expected to continue doing so in the foreseeable future. Economic data will be monitored closely for any sustained weakness. Over in China, it appears that long awaited stimulus measures by the government have started to take place, although it remains unclear whether it will be enough to kickstart the Chinese economy again. With inflation expected to be at benign levels for the year, it is encouraging to know that global central banks will have the flexibility to ease monetary policy to support the economy should the need arise.

We expect the local market to also gain some interest among foreign investors who are looking to have exposure in the emerging market space as the 'risk-on' sentiment prevails. Prevailing themes such as the AI and data-centre driven capex investments and the JS-SEZ continue to put the spotlight on Malaysia. However, the recent sharp appreciation of the Ringgit warrants some caution on export related stocks.

As the economic outlook is still fraught with uncertainty, we expect investors to remain cautious. We opine the best strategy to navigate through this challenging environment is through bottom-up stock picking and remain invested in high quality companies.

Fixed Income

The Fed in its July 2024 Federal Open Market Committee (FOMC) meeting, unanimously agreed to keep the target range of its Fed Funds Target Rate (FFTR) unchanged at 5.25%-5.50%. While there remains the risk for the Fed to delay cuts further if the inflation descent is stalled again, that risk is now better balanced by the cooling of the labour market. We foresee the UST to be lower in the medium term due to US labour market weakness, however market swings can be drastic near term.

We expect Malaysia to meet the deficit goal of 4.3% of GDP for 2024, but is unclear whether will stick to the medium-term fiscal path of lowering the deficit ratio to below 3.5% in 2025 due to uncertainty on RON95 subsidy rationalisation, higher operating expenditure on civil servant salary increase and whether there are any offsetting revenue measures. We expect no change in the Overnight Policy Rate (OPR) at 3.00% and on the Monetary Policy Committee (MPC) statement on policy stance.

We continue to overweight medium bonds to manage volatility and seek opportunities to rebalance our portfolios.

VI. SOFT COMMISSIONS

The Manager has received soft commissions from brokers/dealers in the form of goods and services such as research materials, data and quotation services incidental to investment management of the Fund and investment related publications. Such soft commissions received are utilised in the investment management of the Fund and are of demonstrable benefit to the Fund and Unit holders and there was no churning of trades.

VII. SECURITIES LENDING OR REPURCHASE TRANSACTIONS

No securities lending or repurchase transactions have been carried out during the financial year under review.

VIII. CROSS TRADE TRANSACTIONS

No cross trade transactions have been carried out during the financial year under review.

STATEMENT BY THE MANAGER

I, Chue Kwok Yan, as the Director of Hong Leong Asset Management Bhd, do hereby state that, in the opinion of the Manager, the financial statements set out on pages 19 to 54 are drawn up in accordance with the provision of the Deeds and give a true and fair view of the financial position of the Fund as at 31 August 2024 and of its financial performance, changes in equity and cash flows for the financial year ended 31 August 2024 in accordance with the Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS").

For and on behalf of the Manager,

Hong Leong Asset Management Bhd
(Company No.: 199401033034 (318717-M))

CHUE KWOK YAN

Chief Executive Officer/Executive Director

Kuala Lumpur
21 October 2024

TRUSTEE'S REPORT

TO THE UNIT HOLDERS OF HONG LEONG STRATEGIC FUND ("Fund")

We have acted as Trustee of the Fund for the financial year ended 31 August 2024 and we hereby confirm to the best of our knowledge, after having made all reasonable enquiries, Hong Leong Asset Management Bhd has operated and managed the Fund during the year covered by these financial statements in accordance with the following:

1. Limitations imposed on the investment powers of the management company under the deed, securities laws and the Guidelines on Unit Trust Funds;
2. Valuation and pricing is carried out in accordance with the deed; and
3. Any creation and cancellation of units are carried out in accordance with the deed and any regulatory requirement.

For Deutsche Trustees Malaysia Berhad

Ng Hon Leong
Head, Fund Operations

Kuala Lumpur
21 October 2024

Sylvia Beh
Chief Executive Officer

INDEPENDENT AUDITORS' REPORT

TO THE UNIT HOLDERS OF HONG LEONG STRATEGIC FUND

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our Opinion

In our opinion, the financial statements of Hong Leong Strategic Fund ("the Fund") give a true and fair view of the financial position of the Fund as at 31 August 2024, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 31 August 2024, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including material accounting policy information, as set out on pages 19 to 54.

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.

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 the Manager's Review and Report, but does not include the financial statements of the Fund and our auditors' report thereon.

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

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

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

Responsibilities of the Manager for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- (d) Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements of the Fund represent the underlying transactions and events in a manner that achieves fair presentation.

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

OTHER MATTERS

This report is made solely to the unit holders 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
21 October 2024

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2024

	Note	2024 RM	2023 RM
INVESTMENT INCOME			
Interest income from financial assets measured at fair value through profit or loss ("FVTPL")		74,755	75,517
Interest income from financial assets measured at amortised cost		60,856	74,848
Dividend income		533,668	833,945
Net gain on financial assets at FVTPL	7	713,474	89,034
		<u>1,382,753</u>	<u>1,073,344</u>
EXPENDITURE			
Management fee	4	(579,070)	(624,291)
Trustee's fee	5	(21,374)	(21,850)
Auditors' remuneration		(11,300)	(9,700)
Tax agent's fee		(3,350)	(4,100)
Transaction costs		(194,096)	(211,674)
Other expenses		(20,333)	(16,761)
		<u>(829,523)</u>	<u>(888,376)</u>
PROFIT BEFORE TAXATION		553,230	184,968
Taxation	6	-	-
PROFIT AFTER TAXATION AND TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		<u>553,230</u>	<u>184,968</u>
Profit after taxation is made up as follows:			
Realised amount		1,104,032	(26,652)
Unrealised amount		(550,802)	211,620
		<u>553,230</u>	<u>184,968</u>

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

STATEMENT OF FINANCIAL POSITION

AS AT 31 AUGUST 2024

	Note	2024 RM	2023 RM
ASSETS			
Cash and cash equivalents		2,189,420	2,256,159
Amount due from brokers/dealers		220,279	-
Amount due from the Manager			
-creation of units		-	1,177
Dividends receivable		16,250	27,069
Financial assets at FVTPL	7	28,110,147	29,592,734
Tax recoverable		23,405	23,405
TOTAL ASSETS		<u>30,559,501</u>	<u>31,900,544</u>
LIABILITIES			
Amount due to brokers/dealers		840,643	-
Amount due to the Manager			
-cancellation of units		18,815	32,268
-management fee		47,062	53,321
Amount due to the Trustee		1,830	1,866
Other payables and accruals		15,444	13,462
TOTAL LIABILITIES		<u>923,794</u>	<u>100,917</u>
NET ASSET VALUE OF THE FUND		<u>29,635,707</u>	<u>31,799,627</u>
EQUITY			
Unit holders' capital		26,911,863	29,629,013
Retained earnings		2,723,844	2,170,614
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>29,635,707</u>	<u>31,799,627</u>
UNITS IN CIRCULATION (UNITS)	8	<u>109,225,738</u>	<u>119,366,187</u>
NET ASSET VALUE PER UNIT (RM)		<u>0.2713</u>	<u>0.2664</u>

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2024

	Unit holders' capital RM	Retained earnings RM	Total RM
Balance as at 1 September 2023	29,629,013	2,170,614	31,799,627
Movement in net asset value:			
Creation of units from applications	449,196	-	449,196
Cancellation of units	(3,166,346)	-	(3,166,346)
Total comprehensive income for the financial year	-	553,230	553,230
Balance as at 31 August 2024	<u>26,911,863</u>	<u>2,723,844</u>	<u>29,635,707</u>
Balance as at 1 September 2022	30,291,617	1,985,646	32,277,263
Movement in net asset value:			
Creation of units from applications	1,532,641	-	1,532,641
Cancellation of units	(2,195,245)	-	(2,195,245)
Total comprehensive income for the financial year	-	184,968	184,968
Balance as at 31 August 2023	<u>29,629,013</u>	<u>2,170,614</u>	<u>31,799,627</u>

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2024

	2024 RM	2023 RM
CASH FLOWS FROM OPERATING ACTIVITIES		
Proceeds from sales of financial assets at FVTPL	25,940,450	26,642,070
Purchase of financial assets at FVTPL	(23,243,950)	(27,606,751)
Interest income received from financial assets measured at FVTPL and amortised cost	143,456	157,448
Dividend income received	462,471	734,672
Management fee paid	(585,329)	(626,252)
Trustee's fee paid	(21,410)	(21,919)
Payment for other fees and expenses	(33,001)	(32,893)
Net cash generated from/(used in) operating activities	<u>2,662,687</u>	<u>(753,625)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from creation of units	450,373	1,531,464
Payments for cancellation of units	(3,179,799)	(2,162,977)
Net cash used in financing activities	<u>(2,729,426)</u>	<u>(631,513)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(66,739)	(1,385,138)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR	2,256,159	3,641,297
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	<u>2,189,420</u>	<u>2,256,159</u>

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2024

1. THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

Hong Leong Strategic Fund (“the Fund”) was constituted pursuant to the execution of a Deed dated 20 January 2005 and Supplemental Deeds dated 22 November 2007, 28 January 2008, 2 June 2009 and 30 April 2010 between Hong Leong Asset Management Bhd (“the Manager”) and AmTrustee Berhad for the unit holders of the Fund. AmTrustee Berhad has been replaced with Deutsche Trustees Malaysia Berhad (“the Trustee”) effective 1 September 2012 and Supplemental Master Deeds were entered into between the Manager and the Trustee for the unit holders of the Fund on 27 July 2012, 25 March 2015, 28 November 2019, 7 February 2020, 21 December 2021, 28 April 2022, 23 March 2023, 23 October 2023 and 13 February 2024 to effect the change (“the Deeds”).

The Fund aims to provide investors with an investment that strives for stable returns as well as consistency in performance and income.

For equity portion, the Fund will generally invest in companies with good income and growth potential, i.e. companies that are projected to achieve earnings growth over the next 12 to 24 months. The Fund may also invest in undervalued companies that have longer term upside i.e. over the next 12 to 24 months. For the fixed income portion, the Fund will not invest in any fixed income securities that are rated “BBB” and below, and will only invest in fixed income securities that are rated at least “A3” as rated by RAM Rating Services Berhad or its equivalent ratings by Malaysia Rating Corporation Berhad. The Fund commenced operations on 8 March 2005 and will continue its operations until terminated as provided under Part 12 of the Deeds.

The Manager of the Fund is Hong Leong Asset Management Bhd, a company incorporated in Malaysia. The principal activity of the Manager is the management of unit trust funds, private retirement schemes and private investment mandates. Its holding company is Hong Leong Capital Berhad, a company incorporated in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

The financial statements were authorised for issue by the Manager on 21 October 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements:

(a) Basis of preparation

The financial statements have been prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”) and International Financial Reporting Standards (“IFRS”).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(k).

- (i) Amendments to published standard and interpretations that are relevant and effective 1 September 2023.

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 September 2023 that have a material effect on the financial statements of the Fund.

- (ii) New standards, amendment and interpretations effective after 1 September 2023 and have not been early adopted.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 September 2023. None of these are expected to have a material effect on the financial statements of the Fund, except the following set out below:

- Amendments to MFRS 101 'Classification of liabilities as current or non-current' clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

The amendment is effective for the annual financial reporting period beginning on or after 1 September 2024.

The amendment shall be applied retrospectively.

(b) Financial assets and financial liabilities

Classification

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

- those to be measured subsequently at fair value (either through other comprehensive income ('OCI') or through profit or loss), and
- those to be measured at amortised cost.

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flows characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

The Fund classifies cash and cash equivalents, amount due from brokers/dealers, amount due from the Manager and dividends receivable as financial assets measured 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 brokers/dealers, amounts due to the Manager, amount due to the Trustee and other payables and accruals as financial liabilities measured at amortised cost.

Recognition and measurement

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

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

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.

Unrealised gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss are presented in the statement of comprehensive income within net gain or loss on financial assets at fair value through profit or loss in the year which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of dividend income when the Fund's right to receive payments is established.

Quoted investments are valued at the last traded market prices quoted on Bursa Malaysia Securities Berhad ("Bursa Securities") at the date of the statement of financial position.

Unquoted equity security is valued at the initial public offering ("IPO") issue price as announced in the Bursa Securities.

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

Unquoted fixed income securities are revalued on a daily basis based on fair value prices quoted by a bond pricing agency ("BPA") registered with the Securities Commission Malaysia as per the Securities Commission Malaysia's Guidelines on Unit Trust Funds. Where such quotation are not available or where the Manager is of the view that the price quoted by the BPA for a specific unquoted fixed income securities differs from the market price by more than 20 basis points, the Manager may use the market price, provided that the Manager:

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

Deposits with licensed financial institutions are stated at cost plus accrued interest calculated on the effective interest rate method over the period from the date of placement to the date of maturity of the respective deposits, which is a close estimate of their fair value due to the short term nature of the deposits. Financial assets at amortised cost and other financial liabilities are subsequently carried at amortised cost using the effective interest rate method.

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 closed to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

Significant increase in credit risk

A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due.

Definition of default and credit-impaired financial assets

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

Write-off

The Fund writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of obligor's sources of income or assets to generate sufficient future cash flows to pay the amount. The Fund may write-off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains. There are no write-offs/recoveries during the financial year.

(c) 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.

(d) Income recognition

Dividend income is recognised on the ex-dividend date when the Fund's right to receive payment is established.

Interest income from deposits with licensed financial institutions, auto-sweep facility bank account and unquoted fixed income securities are recognised on the 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).

Realised gain or loss on disposal of quoted investments is accounted for as the difference between the net disposal proceeds and the carrying amount of quoted investments determined on a weighted average cost basis.

Realised gain or loss on disposal of unquoted fixed income securities is accounted for as the difference between the net disposal proceeds and the carrying amount of unquoted fixed income securities, determined on cost adjusted for accretion of discount or amortisation of premium.

(e) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash at banks and deposits held in highly liquid investments that are readily convertible to known amounts of cash with an original maturity of three months or lesser which are subject to an insignificant risk of changes in value.

(f) Amount due from/to brokers/dealers

Amount due from/to brokers/dealers represents receivables/payables for investments sold/purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively.

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment for amount due from brokers/dealers. A provision for impairment of amount due from a broker/dealer is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker/dealer. Significant financial difficulties of the broker/dealer, probability that the broker/dealer will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers/dealers is impaired. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) Taxation

Current tax expense is determined according to Malaysian tax laws at the prevailing tax rate based on the taxable profit earned during the financial year.

(h) Distributions

A distribution to the Fund's unit holders is accounted for as a deduction from realised reserve. A proposed distribution is recognised as a liability in the financial year in which it is approved by the Board of Directors of the Manager.

(i) Transaction costs

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

(j) Unit holders' capital

The unit holders' 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 unit 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 the units; and
- the total expected cash flows from the units over its life are based substantially on the profit or loss and change in the net asset value of the Fund.

The outstanding units are carried at the redemption amount that is payable at the date of the statement of financial position if unit holder 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 and cancellation. The Fund's net asset value per unit is calculated by dividing the net assets attributable to unit holders with the total number of outstanding units.

(k) Critical accounting estimates and judgements 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 content of the estimates, certain key variables that are anticipated to have material impact to the Fund's results and financial position are tested for sensitivity to changes in the underlying parameters.

Estimates and judgements 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 Malaysia's Guidelines on Unit Trust Funds.

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

3. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Financial risk management is carried out through internal control process adopted by the Manager and adherence to the investment restrictions as stipulated in the prospectus.

The following table analyses the financial assets and financial liabilities of the Fund in the statement of financial position as at the reporting date:

	Financial assets/ liabilities at FVTPL RM	Financial assets/ liabilities at amortised cost RM	Total RM
2024			
<u>Financial assets</u>			
Cash and cash equivalents	-	2,189,420	2,189,420
Amount due from brokers/dealers	-	220,279	220,279
Dividends receivable	-	16,250	16,250
Financial assets at FVTPL (Note 7)	28,110,147	-	28,110,147
	<u>28,110,147</u>	<u>2,425,949</u>	<u>30,536,096</u>
<u>Financial liabilities</u>			
Amount due to brokers/dealers	-	840,643	840,643
Amount due to the Manager			
-cancellation of units	-	18,815	18,815
-management fee	-	47,062	47,062
Amount due to the Trustee	-	1,830	1,830
Other payables and accruals	-	15,444	15,444
	<u>-</u>	<u>923,794</u>	<u>923,794</u>
2023			
<u>Financial assets</u>			
Cash and cash equivalents	-	2,256,159	2,256,159
Amount due from Manager			
-creation of units	-	1,177	1,177
Dividends receivable	-	27,069	27,069
Financial assets at FVTPL (Note 7)	29,592,734	-	29,592,734
	<u>29,592,734</u>	<u>2,284,405</u>	<u>31,877,139</u>
<u>Financial liabilities</u>			
Amount due to the Manager			
-cancellation of units	-	32,268	32,268
-management fee	-	53,321	53,321
Amount due to the Trustee	-	1,866	1,866
Other payables and accruals	-	13,462	13,462
	<u>-</u>	<u>100,917</u>	<u>100,917</u>

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

(a) Market risk

(i) Price risk

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

The price risk is managed through diversification and selection of securities and other financial instruments within specified limits according to the Deeds.

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

	2024 RM	2023 RM
Financial assets at FVTPL:		
- Quoted equity securities	25,375,576	27,502,700
- Quoted warrant	-	38,913
- Unquoted equity security	668,250	-
- Unquoted fixed income security*	2,066,321	2,051,121
	<u>28,110,147</u>	<u>29,592,734</u>

* Includes interest receivables of RM12,121 (2023: RM12,121).

The table below summarises the sensitivity of the Fund's net asset value and profit after taxation to movements in prices of quoted equity securities, quoted warrant, unquoted equity security and unquoted fixed income security at the end of each reporting year. The analysis is based on the assumptions that the market price of the quoted equity securities, quoted warrant, unquoted equity security and unquoted fixed income security fluctuated by 5% with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the quoted equity securities, quoted warrant, unquoted equity security and unquoted fixed income security having regard to the historical volatility of the prices.

% Change in price of financial assets at FVTPL	Market value RM	Impact on profit after taxation/net asset value RM
2024		
-5%	26,693,125	(1,404,901)
0%	28,098,026	-
5%	29,502,927	1,404,901
2023		
-5%	28,101,582	(1,479,031)
0%	29,580,613	-
5%	31,059,644	1,479,031

(ii) Interest rate risk

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

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

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

The table below summarises the sensitivity of the Fund's net asset value and profit after taxation to movements in prices of unquoted fixed income security held by the Fund at the end of the reporting year as a result of movement in interest rate. The analysis is based on the assumptions that the interest rate changed by 1% (100 basis points) with all other variables held constant. This represents management's best estimate of a reasonable possible shift in the interest rate, having regard to the historical volatility of the interest rate.

% Change in interest rate	Impact on profit after taxation/net asset value	
	2024 RM	2023 RM
+1%	(90,200)	(105,837)
-1%	90,200	105,837

As at end of each reporting year, the Fund does not hold any deposits and is not exposed to a material level of interest rate risk.

(b) Credit risk

Credit risk refers to the risk that an issuer or counterparty will default on its contractual obligation resulting in financial loss to the Fund.

Investment in unquoted fixed income securities may involve a certain degree of credit/default risk with regards to the issuers. Generally, credit risk or default risk is the risk of loss due to the issuer's non-payment or untimely payment of the investment amount as well as the returns on investment. This will cause a decline in value of the defaulted unquoted fixed income securities and subsequently depress the net asset value of the Fund. Usually credit risk is more apparent for an investment with a longer tenure, i.e. the longer the duration, the higher the credit risk. Credit risk can be managed by performing continuous fundamental credit research and analysis to ascertain the creditworthiness of its issuer. In addition, the Manager imposes a minimum rating requirement as rated by either local and/or foreign rating agencies and manages the duration of the investment in accordance with the objective of the Fund.

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

The settlement terms of the proceeds from the creation of units receivable from the Manager are governed by the Securities Commission Malaysia's Guidelines on Unit Trust Funds.

The credit/default risk is minimal as all transactions in quoted investments and unquoted investments are settled/paid upon delivery using approved brokers/dealers.

The following table sets out the credit risk concentration of the Fund at the end of each reporting year:

	Cash and cash equivalents RM	Amount due from brokers/dealers RM	Amount due from the Manager -creation of units RM	Dividends receivable RM	Unquoted fixed income security RM	Total RM
2024						
- AAA	2,189,420	-	-	-	-	2,189,420
- NR#	-	220,279	-	16,250	2,066,321	2,302,850
	2,189,420	220,279	-	16,250	2,066,321	4,492,270
2023						
- AAA	2,246,159	-	-	-	-	2,246,159
- AA1	10,000	-	-	-	-	10,000
- NR#	-	-	1,177	27,069	2,051,121	2,079,367
	2,256,159	-	1,177	27,069	2,051,121	4,335,526

The unquoted fixed income security is not rated as the unquoted fixed income security is guaranteed and issued by the Government of Malaysia.

All financial assets of the Fund are neither past due nor impaired.

(c) Liquidity risk

Liquidity risk is the risk that investments cannot be readily sold at or near its actual value without taking a significant discount. This will result in lower net asset value of the Fund.

The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payments and cancellations of the units by unit holders. Liquid assets comprise cash at banks, deposits with licensed financial institutions and other instruments.

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

	Less than 1 month RM	1 month to 1 year RM	Total RM
2024			
<u>Financial liabilities</u>			
Amount due to brokers/dealers	840,643	-	840,643
Amount due to the Manager			
-cancellation of units	18,815	-	18,815
-management fee	47,062	-	47,062
Amount due to the Trustee	1,830	-	1,830
Other payables and accruals	-	15,444	15,444
Contractual cash out flows	908,350	15,444	923,794
2023			
<u>Financial liabilities</u>			
Amount due to the Manager			
-cancellation of units	32,268	-	32,268
-management fee	53,321	-	53,321
Amount due to the Trustee	1,866	-	1,866
Other payables and accruals	-	13,462	13,462
Contractual cash out flows	87,455	13,462	100,917

(d) Capital risk

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

(e) 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 information presented herein represents the estimates of fair values as at the date of the statement of financial position.

The Fund's financial assets and financial liabilities are measured on an ongoing basis at either fair value or at amortised cost based on the respective classification.

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date. Valuation techniques used for non-standardised financial instruments such as options, currency swaps and other over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

For instruments for which there is no active market, the Fund may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted equity, debt securities and other debt instruments for which market were or have been inactive during the financial year. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counter party risk.

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

(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); and
- 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 requires 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 judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement 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 of the Fund's financial assets (by class) measured at fair value:

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2024				
<u>Financial assets at FVTPL:</u>				
- Quoted equity securities	25,375,576	-	-	25,375,576
- Unquoted equity security	-	-	668,250	668,250
- Unquoted fixed income security	-	2,066,321	-	2,066,321
	<u>25,375,576</u>	<u>2,066,321</u>	<u>668,250</u>	<u>28,110,147</u>
2023				
<u>Financial assets at FVTPL:</u>				
- Quoted equity securities	27,502,700	-	-	27,502,700
- Quoted warrant	38,913	-	-	38,913
- Unquoted fixed income security	-	2,051,121	-	2,051,121
	<u>27,541,613</u>	<u>2,051,121</u>	-	<u>29,592,734</u>

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities and warrant. The Fund does not adjust the quoted prices for these instruments. The Fund's policies on valuation of these financial assets are stated in Note 2(b).

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include unquoted fixed income security. As Level 2 instruments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Unquoted equity security is valued at the initial public offering "IPO" issue price and classified at Level 3. The Fund's policies on valuation of these financial assets are stated in Note 2(b).

- (ii) The carrying values of financial assets (other than financial assets at FVTPL) and financial liabilities are a reasonable approximation of their fair values due to their short term nature.

4. MANAGEMENT FEE

In accordance with Division 13.1 of the Deeds, the Manager is entitled to a management fee of up to 2.50% per annum calculated daily based on the net asset value of the Fund.

For the financial period from 1 September 2023 to 29 February 2024 the management fee is recognised at a rate of 2.00% (2023: 2.00%) per annum. With effective from 1 March 2024, the management fee is recognised at a rate of 1.80% per annum.

There is no further liability to the Manager in respect of management fee other than the amount recognised above.

5. TRUSTEE'S FEE

In accordance with Division 13.2 of the Deeds, the Trustee is entitled to a fee not exceeding 1.00% per annum subject to a minimum of RM18,000 per annum calculated daily based on the net asset value of the Fund.

For the financial year ended 31 August 2024, the Trustee's fee is recognised at a rate of 0.07% (2023: 0.07%) per annum.

There is no further liability to the Trustee in respect of Trustee's fee other than the amount recognised above.

6. TAXATION

	2024 RM	2023 RM
Tax charge for the financial year:		
Current taxation	-	-

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

	2024 RM	2023 RM
Profit before taxation	553,230	184,968
Taxation at Malaysian statutory rate of 24% (2023: 24%)	132,775	44,392
Tax effects of:		
Investment income not subject to tax	(331,861)	(257,603)
Expenses not deductible for tax purposes	53,086	57,241
Restriction on tax deductible expenses for unit trust fund	146,000	155,970
Taxation	-	-

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	2024 RM	2023 RM
<u>Financial assets at FVTPL:</u>		
Quoted equity securities	25,375,576	27,502,700
Quoted warrant	-	38,913
Unquoted equity security	668,250	-
Unquoted fixed income security	2,066,321	2,051,121
	<u>28,110,147</u>	<u>29,592,734</u>
<u>Net gain on financial assets at FVTPL:</u>		
Realised gain/(loss) on disposals	1,264,276	(122,586)
Changes in unrealised fair values	(550,802)	211,620
	<u>713,474</u>	<u>89,034</u>

Financial assets at FVTPL as at 31 August 2024 are as detailed below:

	Quantity Units	Aggregate cost RM	Fair value RM	Percentage of net asset value %
QUOTED EQUITY SECURITIES				
<u>Main Market</u>				
<u>Construction</u>				
Binastra Corporation Berhad	600,000	615,000	756,000	2.55
Crest Builder Holdings Berhad	700,000	481,000	455,000	1.54
Gamuda Berhad	136,996	489,140	1,027,470	3.47
	1,436,996	1,585,140	2,238,470	7.56
<u>Consumer Products & Services</u>				
CAB Cakaran Corporation Berhad	1,300,000	1,035,080	845,000	2.85
Formosa Prosonic Industries Berhad	160,000	485,036	460,800	1.55
Genting Malaysia Berhad	400,000	1,203,438	1,008,000	3.40
	1,860,000	2,723,554	2,313,800	7.80
<u>Energy</u>				
Bumi Armada Berhad	1,800,000	1,006,761	963,000	3.25
Petra Energy Berhad	600,000	906,880	858,000	2.90
Uzma Berhad	500,000	585,000	500,000	1.69
Velesto Energy Berhad	5,800,000	1,520,140	1,218,000	4.11
	8,700,000	4,018,781	3,539,000	11.95
<u>Financial Services</u>				
Alliance Bank Malaysia Berhad	200,000	683,051	862,000	2.91
AMMB Holdings Berhad	250,000	962,500	1,300,000	4.39
RHB Bank Berhad	183,688	1,009,776	1,126,007	3.80
	633,688	2,655,327	3,288,007	11.10
<u>Industrial Products & Services</u>				
Aurelius Technologies Berhad	250,000	837,500	732,500	2.47
Cape EMS Berhad	2,350,000	2,064,825	857,750	2.89
EG Industries Berhad	700,000	1,119,780	1,288,000	4.35
Hiap Teck Venture Berhad	2,000,000	700,550	670,000	2.26
Sunway Berhad	507,600	992,340	2,081,160	7.02
V.S. Industry Berhad	800,000	705,561	872,000	2.94
	6,607,600	6,420,556	6,501,410	21.93
<u>Main Market</u>				
<u>Plantation</u>				
Johor Plantations Group Berhad	145,000	121,800	140,650	0.47
<u>Technology</u>				
Frontken Corporation Berhad	150,000	495,399	540,000	1.82
Genetec Technology Berhad*	430,000	1,128,104	430,000	1.45
Malaysian Pacific Industries Berhad	35,000	1,159,189	1,036,000	3.50
Notion VTeC Berhad	500,000	449,100	475,000	1.60
Pentamaster Corporation Berhad	300,000	1,456,774	1,185,000	4.00
Unisem (M) Berhad	300,000	949,330	945,000	3.19
	1,715,000	5,637,896	4,611,000	15.56

	Quantity/ Normal value Units/RM	Aggregate cost RM	Fair value RM	Percentage of net asset value %
<u>ACE Market</u>				
<u>Industrial Products & Services</u>				
Coraza Integrated Technology Berhad	1,500,000	956,450	622,500	2.10
KJTS Group Berhad	2,200,000	1,128,230	1,430,000	4.83
	3,700,000	2,084,680	2,052,500	6.93
<u>Technology</u>				
ECA Integrated Solution Berhad	1,800,000	1,538,100	540,000	1.82
Visdynamics Holdings Berhad	443,350	224,112	150,739	0.51
	2,243,350	1,762,212	690,739	2.33
TOTAL QUOTED EQUITY SECURITIES	27,041,634	27,009,946	25,375,576	85.63
UNQUOTED EQUITY SECURITY				
<u>Consumer Products & Services</u>				
99 Speed Mart Retail Holdings Berhad#	405,000	668,250	668,250	2.25
TOTAL UNQUOTED EQUITY SECURITY	405,000	668,250	668,250	2.25
UNQUOTED FIXED INCOME SECURITY				
<u>Government Investment Issue</u>				
4.13% Government of Malaysia 09/07/2029	2,000,000	2,054,421	2,066,321	6.97
TOTAL UNQUOTED FIXED INCOME SECURITY	2,000,000	2,054,421	2,066,321	6.97
TOTAL INVESTMENTS		29,732,617	28,110,147	94.85
UNREALISED LOSS ON FINANCIAL ASSETS AT FVTPL			(1,622,470)	
TOTAL FAIR VALUE OF FINANCIAL ASSETS AT FVTPL			28,110,147	

Financial assets at FVTPL as at 31 August 2023 are as detailed below:

	Quantity Units	Aggregate cost RM	Fair value RM	Percentage of net asset value %
QUOTED EQUITY SECURITIES				
<u>Main Market</u>				
<u>Construction</u>				
Gamuda Berhad	401,143	1,424,796	1,805,143	5.68
<u>Consumer Products & Services</u>				
Focus Point Holdings Berhad	2,520,000	1,802,540	1,940,400	6.10
Genting Malaysia Berhad	400,000	1,203,438	1,028,000	3.23
	2,920,000	3,005,978	2,968,400	9.33
<u>Energy</u>				
Bumi Armada Berhad	2,800,000	1,560,088	1,428,000	4.49
Perdana Petroleum Berhad	3,800,000	805,100	950,000	2.99
Velesto Energy Berhad	5,500,000	1,353,310	1,292,500	4.06
	12,100,000	3,718,498	3,670,500	11.54
<u>Financial Services</u>				
Alliance Bank Malaysia Berhad	250,000	841,035	862,500	2.71
<u>Industrial Products & Services</u>				
Hiap Teck Venture Berhad	2,000,000	710,000	870,000	2.74
SKP Resources Bhd.	1,100,000	1,131,230	1,061,500	3.34
	3,100,000	1,841,230	1,931,500	6.08
<u>Technology</u>				
D & O Green Technologies Berhad	450,000	2,239,853	1,593,000	5.01
Frontken Corporation Berhad	250,000	825,664	875,000	2.75
Inari Amertron Berhad	300,000	939,254	945,000	2.97
Malaysia Pacific Industries Bhd	80,000	2,649,575	2,304,000	7.25
Pentamaster Corporation Berhad	250,000	1,278,975	1,322,500	4.16
Unisem (M) Berhad	300,000	949,330	981,000	3.08
UWC Berhad	300,000	1,486,747	1,050,000	3.30
	1,930,000	10,369,398	9,070,500	28.52
<u>Telecommunications & Media</u>				
Telekom Malaysia Berhad	200,000	1,012,760	1,020,000	3.21
<u>ACE Market</u>				
<u>Health Care</u>				
DC Healthcare Holdings Berhad	2,800,000	1,280,000	1,456,000	4.58
<u>Industrial Products & Services</u>				
Coraza Integrated Technology Berhad	1,500,000	956,450	990,000	3.11
YBS International Berhad	950,000	659,851	584,250	1.84
	2,450,000	1,616,301	1,574,250	4.95

	Quantity/ Normal value Units/RM	Aggregate cost RM	Fair value RM	Percentage of net asset value %
<u>Technology</u>				
Eca Integrated Solution Berhad	1,800,000	1,538,100	1,467,000	4.61
Genetec Technology Berhad*	550,000	1,477,179	1,309,000	4.12
Visdynamics Holdings Berhad	943,350	476,861	367,907	1.16
	3,293,350	3,492,140	3,143,907	9.89
TOTAL QUOTED EQUITY SECURITIES				
	29,444,493	28,602,136	27,502,700	86.49
QUOTED WARRANT				
<u>ACE Market</u>				
<u>Technology</u>				
Visdynamics Holdings Berhad -Warrants C	235,837	-	38,913	0.12
TOTAL QUOTED WARRANT				
	235,837	-	38,913	0.12
UNQUOTED FIXED INCOME SECURITY				
<u>Government Investment Issue</u>				
4.13% Government of Malaysia 09/07/2029	2,000,000	2,062,266	2,051,121	6.45
TOTAL UNQUOTED FIXED INCOME SECURITY				
	2,000,000	2,062,266	2,051,121	6.45
TOTAL INVESTMENTS				
		30,664,402	29,592,734	93.06
UNREALISED LOSS ON FINANCIAL ASSETS AT FVTPL				
			(1,071,668)	
TOTAL FAIR VALUE OF FINANCIAL ASSETS AT FVTPL				
			29,592,734	

During the financial year, a total of 8,400,000,000 shares for 99 Speed Mart Retail Holdings Berhad were made available for Initial Public Offering ("IPO") at a cost of RM1.65 per share by way of bookbuilding.

Subsequent to the financial year ended 31 August 2024, 99 Speed Mart Retail Holdings Berhad began trading on the main market on 9 September 2024 at a price of RM1.88 per share.

* On 27 October 2023, Genetec Technology Berhad transferred from ACE Market to Main Market of Bursa Malaysia.

8. UNITS IN CIRCULATION

	2024 No. of units	2023 No. of units
At the beginning of the financial year	119,366,187	122,037,749
Add: Creation of units during the financial year		
- Arising from applications	1,577,261	5,744,462
Less: Cancellation of units during the financial year	(11,717,710)	(8,416,024)
At the end of the financial year	<u>109,225,738</u>	<u>119,366,187</u>

9. TOTAL EXPENSE RATIO ("TER")

	2024 %	2023 %
TER	<u>2.08</u>	<u>2.17</u>

Total expense ratio includes management fee, Trustee's fee, auditors' remuneration, tax agent's fee and other expenses for the financial year divided by the Fund's average net asset value calculated on a daily basis and is calculated as follows:

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

Where;

- A = Management fee
- B = Trustee's fee
- C = Auditors' remuneration
- D = Tax agent's fee
- E = Other expenses excluding Sales and Service Tax ("SST") on transaction costs
- F = Average net asset value of the Fund calculated on a daily basis

The average net asset value of the Fund for the financial year calculated on a daily basis is RM30,525,951 (2023: RM31,210,972).

10. PORTFOLIO TURNOVER RATIO ("PTR")

	2024 Times	2023 Times
PTR	<u>0.80</u>	<u>0.86</u>

PTR is derived from the following calculation:

$$\frac{\text{(Total acquisitions for the financial year + total disposals for the financial year)}}{2}$$

Average net asset value of the Fund for the financial year calculated on a daily basis

Where;

- total acquisitions for the financial year
= RM23,989,851 (2023: RM27,059,058)
- total disposals for the financial year
= RM24,995,807 (2023: RM26,347,297)

11. UNITS HELD BY THE MANAGER AND RELATED PARTIES TRANSACTIONS AND BALANCES

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

<u>Related parties</u>	<u>Relationships</u>
Hong Leong Asset Management Bhd	The Manager
Hong Leong Islamic Asset Management Sdn Bhd	Subsidiary of the Manager
Hong Leong Capital Berhad	Holding company of the Manager
Hong Leong Financial Group Berhad ("HLFG")	Ultimate holding company of the Manager
Subsidiaries and associates of HLFG as disclosed in its financial statements	Subsidiaries and associate companies of the ultimate holding company of the Manager

No units were held by the Manager and parties related to the Manager as at 31 August 2024 and 31 August 2023.

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other related party transactions and balances. The Manager is of the opinion that all transactions with the related companies have been entered into at agreed terms between the related parties.

	2024 RM	2023 RM
<u>Related party balances</u>		
Cash at bank:		
- Hong Leong Bank Berhad	2,090,816	2,246,159
<u>Related party transactions</u>		
Interest income from auto-sweep facility bank account:		
- Hong Leong Bank Berhad	50,761	73,396
Dividend income from quoted equity security:		
- Hong Leong Bank Berhad	-	37,000
Purchase of quoted equities securities:		
- Hong Leong Investment Bank Berhad	8,980,026	11,511,678
Disposal of quoted equity securities:		
- Hong Leong Investment Bank Berhad	11,339,097	9,091,989

12. TRANSACTIONS WITH BROKERS/DEALERS

Detail of transactions with brokers/dealers are as follows:

	Values of trade RM	Percentage of total trade %	Brokerage fees RM	Percentage of total brokerage fees %
2024				
Hong Leong Investment Bank Berhad*	20,319,123	40.44	47,674	35.77
Public Investment Bank Berhad	3,250,646	6.47	8,151	6.12
Affin Hwang Investment Bank Berhad	3,021,436	6.01	7,557	5.67
JPMorgan Securities (Malaysia) Sdn Bhd	2,998,237	5.97	7,487	5.62
Phillip Capital Sdn Bhd	2,845,185	5.66	6,537	4.90
RHB Investment Bank Berhad	2,657,867	5.29	7,541	5.66
Kenanga Investment Bank Berhad	2,281,767	4.54	6,815	5.11

	Values of trade RM	Percentage of total trade %	Brokerage fees RM	Percentage of total brokerage fees %
Nomura Securities Malaysia Sdn Bhd	2,132,731	4.25	5,341	4.01
CLSA Securities Malaysia Sdn Bhd	2,108,049	4.20	5,285	3.96
Aminvestment Bank Berhad	1,990,700	3.96	10,601	7.95
Others	6,639,582	13.21	20,293	15.23
	50,245,323	100.00	133,282	100.00
2023				
Hong Leong Investment Bank Berhad*	20,603,667	38.66	51,490	38.20
JPMorgan Securities (Malaysia) Sdn Bhd	6,683,579	12.54	16,710	12.40
CLSA Securities Malaysia Sdn Bhd	5,967,357	11.20	14,927	11.07
Credit Suisse Securities (M) Sdn Bhd	3,637,524	6.82	9,098	6.75
RHB Investment Bank Berhad	3,148,785	5.91	7,880	5.85
Nomura Securities Malaysia Sdn Bhd	2,945,992	5.53	7,357	5.46
Phillip Capital Sdn Bhd	2,636,677	4.95	6,587	4.89
Kenanga Investment Bank Berhad	2,021,264	3.79	5,075	3.76
CGS International Securities Malaysia Sdn Bhd (formerly known as CGS-CIMB Securities Sdn Bhd)	1,934,291	3.63	4,820	3.58
Public Investment Bank Berhad	1,762,522	3.31	5,980	4.44
Others	1,948,666	3.66	4,861	3.60
	53,290,324	100.00	134,785	100.00

* Transactions with brokers/dealers related to the Manager.

The Manager is of the opinion that all transactions with the related companies have been entered into at agreed terms between the related parties.

Performance Data

for the Financial Years Ended 31 August

		Financial Year 2024 %	Financial Year 2023 %	Financial Year 2022 %
A. (i) Portfolio Compositions:				
Construction		7.56	5.68	8.28
Consumer Products & Services		10.05	9.33	7.85
Energy		11.95	11.54	–
Financial Services		11.10	2.71	17.93
Health Care		–	4.58	7.20
Industrial Products & Services		28.86	11.03	1.92
Plantation		0.47	–	–
Property		–	–	3.92
Technology		17.89	38.53	34.56
Telecommunications & Media		–	3.21	0.50
Government Securities		6.97	6.45	6.32
Deposits & Cash Equivalents		5.15	6.94	11.52
Geographical Allocation:				
Malaysia		94.85	93.06	88.48
Deposits & Cash Equivalents		5.15	6.94	11.52
(ii) Total Net Asset Value	(ex-distribution)	RM29,635,707	RM31,799,627	RM32,277,263
(iii) Net Asset Value Per Unit Units in Circulation	(ex-distribution) (ex-distribution)	RM0.2713 109,225,738	RM0.2664 119,366,187	RM0.2645 122,037,749
(iv) Highest/Lowest NAV Per Unit	Highest NAV Per Unit	RM0.3100	RM0.2757	RM0.3183
(ex-distribution)	Lowest NAV Per Unit	RM0.2445	RM0.2442	RM0.2516
(v) Total Return of the Fund*		1.84%	0.72%	-13.02%
- Capital Growth		1.84%	0.72%	-13.02%
- Income Distribution		–	–	–
(vi) The distribution (gross) is made out of:-				
- The Fund's Capital		–	–	–
- The Fund's Income		–	–	–
- Total Distribution Amount		–	–	–
- The Fund's Capital (% of Total Distribution Amount)		–	–	–
- The Fund's Income (% of Total Distribution Amount)		–	–	–
(vii) Distribution Per unit	Additional Units	–	–	–
	Distribution (Gross)	–	–	–
	Distribution (Net)	–	–	–
	Distribution Date	–	–	–
	Cum-Distribution NAV/Unit	–	–	–
	Ex-Distribution NAV/Unit	–	–	–
(viii) Total Expense Ratio (TER)		2.08%	2.17%	2.16%
(ix) Portfolio Turnover Ratio (PTR) (times)		0.80#	0.86	0.94
B. Average Total Return, NAV Per Unit-to-NAV Per Unit basis (as at 31/08/2024)*				
(i) One year		1.84%		
(ii) Three years		-3.60%		
(iii) Five years		-3.21%		

* Source: Lipper for Investment Management
(Returns are calculated after adjusting for distributions and/or additional units, if any)

The PTR decreased by 0.06 times (6.98%) to 0.80 times for the financial year ended 31 August 2024 versus 0.86 times for the financial year ended 31 August 2023 mainly due to lower level of rebalancing activities undertaken by the Fund.

Corporate Information

Manager

Hong Leong Asset Management Bhd [199401033034 (318717-M)]

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Level 30, Menara Hong Leong
No. 6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur

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50490 Kuala Lumpur

Board of Directors

Ms. Lee Jim Leng
Mr. Chue Kwok Yan
YBhg Dato' Abdul Majit bin Ahmad Khan
YM Tunku Dato' Mahmood Fawzy bin Tunku Muhiyiddin

Executive Director / Chief Executive Officer

Mr. Chue Kwok Yan

Trustee

Deutsche Trustees Malaysia Berhad

Auditor

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146)

Distributors

Hong Leong Bank Berhad
Affin Bank Berhad
Areca Capital Sdn Bhd
CIMB Investment Bank Berhad
HSBC Bank Malaysia Berhad
Malayan Banking Berhad
OCBC Bank (Malaysia) Berhad
Standard Chartered Bank Malaysia Berhad
United Overseas Bank (Malaysia) Berhad
Registered Independent Tied Agents with FIMM

Corporate Directory

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