

Quarterly Report

Mar 2018

For the Period Ended 31 March 2018

Areca Flexi*fixed*INCOME Fund

Management Company



(740840-D)

QUARTERLY REPORT MARCH 2018

✦ ARECA Flexi *fixed*INCOME FUND

Contents

CORPORATE DIRECTORY	2
MANAGER'S REPORT	
Fund Information, Performance & Review	3
Market Review & Outlook	7
TRUSTEE'S REPORT	8
STATEMENT BY THE MANAGER	8
UNAUDITED FINANCIAL STATEMENTS FOR Areca Flexi <i>fixed</i> INCOME Fund	8

CORPORATE DIRECTORY

MANAGER

Areca Capital Sdn Bhd (740840-D)
107, Blok B, Pusat Dagangan Phileo Damansara 1
No. 9, Jalan 16/11, Off Jalan Damansara
46350 Petaling Jaya, Selangor
Tel: 603-7956 3111, Fax: 603-7955 4111
website: www.arecacapital.com
e-mail: invest@arecacapital.com

BOARD OF DIRECTORS

Wong Teck Meng (Executive)
Edward Iskandar Toh Bin Abdullah (Executive)
Raja Datuk Zaharaton Bt Raja Dato' Zainal Abidin
(Independent)
Dr. Junid Saham (Independent)

INVESTMENT COMMITTEE MEMBERS

Dato' Seri Lee Kah Choon (Independent)
Raja Datuk Zaharaton Bt Raja Dato' Zainal Abidin
(Independent)
Dr. Junid Saham (Independent)

TRUSTEE

RHB Trustees Berhad (573019-U)
Level 11, Tower 1, RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel: 03-9280 8799 Fax: 03-9280 8796

AUDITOR

PricewaterhouseCoopers (AF1146)
Level 10, 1 Sentral, Jalan Rakyat
Kuala Lumpur Sentral, P O Box 10192
50706 Kuala Lumpur
Tel: 03-2173 1188, Fax: 03-2173 1288

TAX ADVISER

PricewaterhouseCoopers Taxation Services
Sdn Bhd (464731-M)
Level 10, 1 Sentral, Jalan Rakyat
Kuala Lumpur Sentral, P O Box 10192
50706 Kuala Lumpur
Tel: 03-2173 1188, Fax: 03-2173 1288

MANAGER'S OFFICE AND BRANCHES

HEAD OFFICE

107, Blok B, Pusat Dagangan Phileo Damansara 1, No. 9, Jalan 16/11, Off Jalan Damansara,
46350 Petaling Jaya, Selangor
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website: www.arecacapital.com
e-mail: invest@arecacapital.com

PENANG – PULAU TIKUS

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10350 Pulau Pinang
Tel : 604-210 2011
Fax: 604-210 2013

PERAK – IPOH

11A, (First Floor)
Persiaran Greentown 5
Greentown Business Centre
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MALACCA

95A, Jalan Melaka Raya 24
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Tel : 606-282 9111
Fax: 606-283 9112

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixedINCOME FUND

FUND INFORMATION

Name of the Fund	Areca Flexi fixedINCOME Fund																																			
Fund Category/ Type	Fixed Income (Wholesale Fund)/Income & Growth																																			
Objective of the Fund	To provide qualified investors with relatively steady income and moderate capital appreciation over a short to medium-term by investing in fixed income investments																																			
Performance Indicator	Maybank's 6-month fixed deposit rate																																			
Distribution Policy of the Fund	Yearly or more frequent, subject to the availability of distributable income. In the absence of instructions to the contrary from unit holder, the Manager is entitled to reinvest the income distributed from the Fund in additional units of that Fund at the NAV per unit at the end of the distribution day (at ex-distribution price) with no entry fee.																																			
Profile of unitholdings	As at 31 March 2018																																			
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Size of Holding (Units)</th> <th style="text-align: center;">No. of accounts</th> <th style="text-align: center;">%</th> <th style="text-align: center;">No. of units held 'million</th> <th style="text-align: center;">%</th> </tr> </thead> <tbody> <tr> <td>Up to 5,000</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td>5,001 to 10,000</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> </tr> <tr> <td>10,001 to 50,000</td> <td style="text-align: center;">4</td> <td style="text-align: center;">8.33</td> <td style="text-align: center;">0.15</td> <td style="text-align: center;">0.55</td> </tr> <tr> <td>50,001 to 500,000</td> <td style="text-align: center;">29</td> <td style="text-align: center;">60.42</td> <td style="text-align: center;">5.90</td> <td style="text-align: center;">21.30</td> </tr> <tr> <td>500,001 and above</td> <td style="text-align: center;">15</td> <td style="text-align: center;">31.25</td> <td style="text-align: center;">21.64</td> <td style="text-align: center;">78.15</td> </tr> <tr> <td>Total*</td> <td style="text-align: center;">48</td> <td style="text-align: center;">100.00</td> <td style="text-align: center;">27.69</td> <td style="text-align: center;">100.00</td> </tr> </tbody> </table>	Size of Holding (Units)	No. of accounts	%	No. of units held 'million	%	Up to 5,000	-	-	-	-	5,001 to 10,000	-	-	-	-	10,001 to 50,000	4	8.33	0.15	0.55	50,001 to 500,000	29	60.42	5.90	21.30	500,001 and above	15	31.25	21.64	78.15	Total*	48	100.00	27.69	100.00
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<i>* excluding units held by the Manager</i>																																				
Rebates & Soft Commissions	The Manager retains soft commissions received from stockbrokers, provided these are of demonstrable benefit to unitholders. The soft commissions may take the form of goods and services such as data and quotation services, computer software incidental to the management of the Fund and investment related publications. Cash rebates, if any, are directed to the account of the Fund. During the period under review, the Manager had not received any soft commissions.																																			
Inception Date	3 January 2012																																			
Initial Offer Price	RM1.0000 per unit during the initial offer period of 21 days ended 23 January 2012																																			
Pricing Policy	Single Pricing – Selling and repurchase of units by Manager are at Net Asset Value per unit																																			
Financial year end	30 June																																			

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixedINCOME FUND

FUND PERFORMANCE

	1.1.2018 to 31.3.2018	1.10.2017 to 31.12.2017
Net Asset Value ("NAV")		
Total Net Asset Value (RM million)	29.97	13.74
Units in circulation (million units)	27.69	12.87
NAV per unit (RM)	1.0822	1.0668
<i>*Ex-distribution</i>		
HIGHEST & LOWEST NAV		
<i>Please refer to Note 1 for further information on NAV and pricing policy</i>		
Highest NAV per unit (RM)	1.0822	1.0668
Lowest NAV per unit (RM)	1.0668	1.0489
<i>*Ex-distribution</i>		
ASSET ALLOCATION % of NAV		
Fixed Income Securities		
Unquoted bonds-local	18.07	39.36
Collective investment scheme	51.65	53.86
Cash & cash equivalents including placements and repo	30.28	6.78
DISTRIBUTION		
Distribution date	-	-
Gross distribution (sen per unit)	-	-
Net distribution (sen per unit)	-	-
NAV before distribution (RM per unit)	-	-
NAV after distribution (RM per unit)	-	-
UNIT SPLITS		
There was no unit split exercise for the financial period under review.		
EXPENSE/ TURNOVER		
Management expense ratio (MER) (%)	0.20	0.16
<i>Please refer to Note 2 for further information</i>		
Portfolio turnover ratio (PTR) (times)	-	0.02
<i>Please refer to Note 3 for further information</i>		
TOTAL RETURN		
<i>Please refer to Note 4 for further information</i>		
Total Return (%)	1.44	1.71
- Capital Return (%)	1.44	1.71
- Income Return (%)	-	-
Annual Total Return (%)	5.98*	6.94*
Performance Indicator: Average Maybank's 6-month fixed deposit rate (%)	3.26*	3.08*
<i>*Annualised for comparison purpose only</i>		

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixed**INCOME** FUND

	1-yr	3-yrs	5-yrs
Average Total Return per annum	6.26	8.92	9.17

NOTES:

Note 1: *Selling of units by the Management Company (i.e. when you purchase units and invests in the Fund) and redemption of units by the Management Company (i.e. when you redeem your units and liquidate your investments) will be carried out at NAV per unit (the actual value of a unit). The entry/ exit fee (if any) would be computed separately based on your net investment/ liquidation amount.*

Note 2: *MER is calculated based on the total fees and expenses incurred by the Fund, divided by the average net asset value calculated on a daily basis.*

Note 3: *PTR is computed based on the average of the total acquisitions and total disposals of the investment securities of the Fund, divided by the average net asset value calculated on a daily basis.*

Note 4: *Fund performance figures are calculated based on NAV to NAV and assume reinvestment of distributions (if any) at NAV. The total return data and the performance indicator are sourced from Lipper.*

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

FUND REVIEW

For the quarter ending 31 March 2018, the Fund posted an annualized quarterly return of 5.98% against the benchmark 6mth FD of 3.26%. The Fund gained from accretion of long dated bonds as well as support from investments in Collective Investment Schemes. Yields of corporate bonds continue to be supported by strong demand from domestic and foreign investors despite hike in Overnight Policy Rate in March.

At the end of March, the Fund is 18.1% invested in a basket of high grade MYR denominated corporate bonds. We have also diversified 51.7% of the portfolio into MYR based Collective Investment Schemes.

Our strategy moving forward is to look for opportunities to extend duration after yield curve moves up to reflect higher deposit rates and global inflation.

Investment policy and strategy

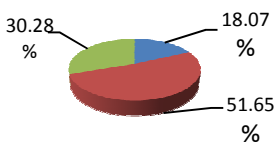
The Fund primarily invests in a diversified portfolio of fixed income investments consisting of debentures, money market instruments and deposits with licensed institutions and any other fixed income related instruments that are in lines with the Fund's objective.

NAV per unit as at 31 March 2018

RM1.0822

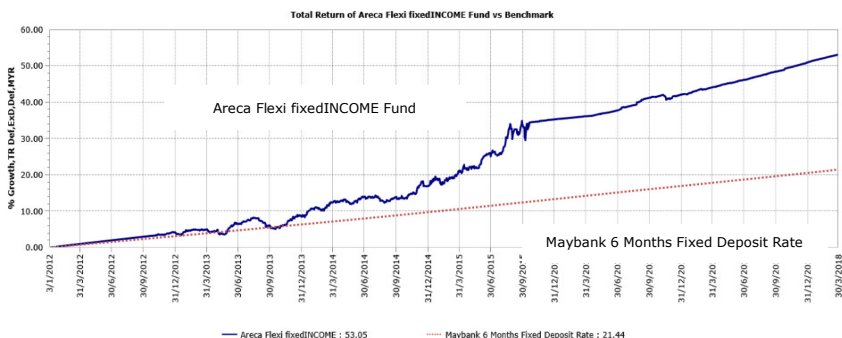
Asset Allocation/ Portfolio Composition as at

31.3.2018 31.12.2017



Unquoted bonds-local	18.07%	39.36%
Collective investment scheme	51.65%	53.86%
Cash & cash equivalents	30.28%	6.78%

Performance of Areca Flexi fixedINCOME Fund for the financial period since inception to 31 March 2018



Source Lipper

QUARTERLY REPORT MARCH 2018

ARECA Flexi fixedINCOME FUND

MARKET REVIEW & OUTLOOK

ECONOMIC REVIEW & OUTLOOK

Advance estimate for the first quarter of 2018 show year-on-year annualized GDP growth of 2.9%. This follows the upwardly revised 4Q2017's 2.6% growth marking it the 8th consecutive quarter of steady rise. Unemployment rate has gradually declined and now reads 4.1% as at end March, the lowest level in 17 years for the sixth month running. Meanwhile, the Federal Funds Rate was raised once in March by a quarter percent to 1.75% in what is widely seen as the first of three hikes with hawks pushing for four this year, supported by optimistic economic outlook on growth, bullish job data and rising inflation expectations. With ample liquidity still in the system, the stock market benefited as Trump's tax reform plan received Senate's endorsement at the end of November. The Dow Jones index hit an all-time high of 26,616 on January 26, 2018. A long overdue stock market correction ensued shaving off 10.4% by end of first week in February' reacting in part to Trump's levy imposition on solar panels and washing machines imports broadly targeting China. A full blown trade war now looms after another imposition of 25% tariff on steel and aluminum imports in March as punishment towards China's alleged intellectual property theft and unfair investments in technology sector. China responded with a list of 120 products from the US including fruits and pork subjected to 15-25% import tax. Fortunately, the thawing of relations between North Korea and the US/South Korea which may lead to a historic end to tensions and denuclearization provided some relief.

The start of the year also saw reports surface alluding that China may slowdown purchases of US Treasuries or even stop all together, possibly due to anticipation of what was to come from Trump's disdain towards China-US trade imbalance. In February, China's constitution was amended to allow President Xi Jinping to serve beyond two 5 year terms, a move received with trepidation by the West as it remembers autocratic Chairman Mao's rule. China counter claims it promotes stability and continuity.

Inflation in Malaysia so far has trended down this year as a result of high base effect from petrol influenced sector. March's reading of 1.3% followed January and February's 2.7% and 1.4%, a stark contrast from previous three months' 3.7%, 3.4% and 3.5%. 4Q2017 GDP grew at 5.9%, above market expectation but below previous quarter's 6.2%. For the year, GDP grew 5.9%, the highest level in three years. Foreign Reserves stands at USD107.8 billion (or RM416.4 bil) as at end March, sufficient to finance 7.4 months of retained imports and is 1.1 times short-term external debt.

FIXED INCOME MARKET REVIEW AND OUTLOOK

The 10-year US Treasury benchmark traded at a higher platform of 2.45-2.95% compared to the previous three month's range of 2.28-2.50% reflecting the latest Fed Fund rate hike as well as a more hawkish Fed Reserve stance. Statements released show optimism towards strong labour data, improving PMI and higher inflation expectation. Contradicting this is what appear to be an unwritten 'weak US dollar' policy developing as exports improve, probably as part their 'trade war play'. The outlook point towards at least three rate hikes with hawks calling for a fourth for 2018. US Treasuries will likely test 3% psychological level in due time. Meantime, traders seek shelter by keeping US Treasuries in check with yields below 2.90%, drifting to a low of 2.74 at close of quarter.

In Malaysia, the Monetary Policy Committee announced in January the first Overnight Policy Rate hike since July 2014 from 3.00% to 3.25% citing confidence towards global growth and domestic demand. Inflation remain susceptible to rising commodity and energy prices. As a result, MGS flattened bearishly mirroring most major economies. Short end up to 3 years tenures rose between 33 and 55 basis points while 10 years increased by only 15 basis points. There was a net inflow of foreign funds in this quarter by RM3.54 bil though February itself saw an outflow of RM4.63 bil. Foreign debt holdings stand at RM194.3 bil at end March or 27.6% of outstanding.

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixedINCOME FUND

TRUSTEE'S REPORT

For The Period Ended 31 March 2018

To the Unit holders of Areca Flexi fixedINCOME Fund

We have acted as Trustee of Areca Flexi fixedINCOME Fund (the "Fund") for the financial period ended 31 March 2018. In our opinion and to the best of our knowledge, Areca Capital Sdn Bhd, the Manager has operated and managed the Fund in accordance with the following:

- (a) limitations imposed on the investment powers of the Manager and the Trustee under the Deed, the Securities Commission Malaysia's Guidelines on Unlisted Capital Market Products under the Lodge And Launch Framework, the Capital Markets and Services Act, 2007 and other applicable laws;
- (b) valuation or 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 relevant regulatory requirements.

For and on behalf of the Trustee

RHB TRUSTEES BERHAD (Company No: 573019-U)

MOHD SOFIAN BIN KAMARUDDIN
VICE PRESIDENT

LEE YIT CHENG
HEAD, GROUP INT'L OPS SUPPORT &
TRUSTEES OPS

Kuala Lumpur
18 May 2018

STATEMENT BY THE MANAGER

To the Unit holders of Areca Flexi fixedINCOME Fund

We, Wong Teck Meng and Edward Iskandar Toh Bin Abdullah, two of the Directors of Areca Capital Sdn Bhd, do hereby state that in our opinion as the Manager, the unaudited financial statements are drawn up in accordance with the provisions of the Deed and give a true and fair view of the financial position of the Fund as at 31 March 2018 and of its results, changes in net assets attributable to unitholders and cash flows of the Fund for the financial period ended 31 March 2018 in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

For and on behalf of the Manager

Areca Capital Sdn Bhd

WONG TECK MENG
EXECUTIVE DIRECTOR

EDWARD ISKANDAR TOH BIN ABDULLAH
CIO/ EXECUTIVE DIRECTOR

Kuala Lumpur
18 May 2018

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixedINCOME FUND

UNAUDITED STATEMENT OF FINANCIAL POSITION
As At 31 March 2018

	Note	31.3.2018 RM	31.12.2017 RM
Current Assets			
Financial assets at fair value through profit or loss	4	20,896,063	12,800,958
Cash and cash equivalents	5	9,098,298	944,041
Amount due from manager		-	-
Total Assets		<u>29,994,361</u>	<u>13,744,999</u>
Current Liabilities			
Accrued management fee		10,749	6,744
Other payables & accruals		12,901	5,561
Total Liabilities		<u>23,650</u>	<u>12,305</u>
Net Asset Value of the Fund		<u>29,970,711</u>	<u>13,732,694</u>
Equity			
Unit holders' capital		28,956,805	12,947,491
Retained earnings		1,013,906	785,203
Total Net Assets Attributable to Unit Holders		<u>29,970,711</u>	<u>13,732,694</u>
 Number of Units in Circulation		 <u>27,694,882</u>	 <u>12,873,267</u>
 Net Asset Value Per Unit		 <u>1.0822</u>	 <u>1.0668</u>

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

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixed**INCOME** FUND

UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
For The Financial Period Ended 31 March 2018

	Note	1.1.2018 to 31.3.2018 RM	1.10.2017 to 31.12.2017 RM
Investment Income			
Interest income		68,550	59,484
Gross Dividend Income		90,000	-
Net gain on financial assets at fair value through profit or loss	4	<u>107,101</u>	<u>194,043</u>
		<u>265,651</u>	<u>253,527</u>
Expenses			
Management fee		24,274	20,666
Audit Fee		7,100	-
Trustee's fee		-	-
Tax agent's fee		-	-
Other expenses		1,604	1,440
		<u>32,978</u>	<u>22,106</u>
Net Profit Before Taxation		232,673	231,421
Taxation		<u>3,970</u>	<u>1,897</u>
Net Profit After Taxation And Total Comprehensive Income For The Financial Period		<u>228,703</u>	<u>229,524</u>
Net Profit After Taxation Is Made Up As Follows:			
Realised amount		121,602	34,531
Unrealised amount		<u>107,101</u>	<u>194,993</u>
		<u>228,703</u>	<u>229,524</u>

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

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixedINCOME FUND

UNAUDITED STATEMENT OF CHANGES IN EQUITY

For The Financial Period Ended 31 March 2018

	Unit holders' capital RM	Retained earnings RM	Total net asset value RM
Balance as at 1 January 2018	12,947,491	785,203	13,732,694
Movement in unit holders' capital:			
Creation of units arising from application	16,027,314	-	16,027,314
Creation of units arising from distribution	-	-	-
Cancellation of units	(18,000)	-	(18,000)
Total comprehensive income for the financial period	-	228,703	228,703
Balance as 31 March 2018	28,956,805	1,013,906	29,970,711
Balance as at 1 October 2017	12,750,568	555,679	13,306,247
Movement in unit holders' capital:			
Creation of units arising from application	524,456	-	524,456
Creation of units arising from distribution	-	-	-
Cancellation of units	(327,533)	-	(327,533)
Total comprehensive income for the financial period	-	229,524	229,524
Balance as 31 December 2017	12,947,491	785,203	13,732,694

UNAUDITED STATEMENT OF CASH FLOWS

For The Financial Period Ended 31 March 2018

Note	1.1.2018 to 31.3.2018 RM	1.10.2017 to 31.12.2017 RM
Cash Flows From Investing And Operating Activities		
Proceeds from disposal of investments	-	500,000
Purchase of investments	(8,000,000)	(1,504,100)
Interest received from deposits with licensed financial institutions	18,051	9,084
Interest received from unquoted fixed income securities	62,495	39,100
Dividend received	90,000	-
Management fee paid	(20,270)	(21,765)
Tax paid	(3,970)	-
Payment for other fees and expenses	(1,363)	(3,403)
Net Cash Flow (Used In)/ Generated From Operating Activities	(7,822,058)	(981,084)
Cash Flows From Financing Activities		
Cash proceeds from creation of units	13,587,195	546,326
Payment for cancellation of units	(18,000)	(327,533)
Net Cash Flow Generated From Financing Activities	13,569,195	218,793
Net Increase/(Decrease) In Cash And Cash Equivalents	5,714,137	(762,291)
Cash And Cash Equivalents At The Beginning Of The Financial Period	944,041	1,706,332
Cash And Cash Equivalents At The End Of The Financial Period	5,658,178	944,041

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

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixedINCOME FUND

NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018

1 THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES

Areca Flexi fixedINCOME Fund (“the Fund”) is a wholesale fund that was formed under a trust structure on 3 January 2012 pursuant to a Trust Deed dated 28 April 2011 as modified by the First Supplemental Deed dated 15 August 2013 (“the Deed”) between Areca Capital Sdn Bhd as the Manager, RHB Trustees Berhad as the Trustee and all the registered unitholders of the Fund.

The principal activity of the Fund is to invest in investments as defined under Schedule 7 of the Deed, which include money market instruments, fixed income securities and deposits with financial institutions. The Fund commenced operations on 3 January 2012 and will continue its operations until terminated by the Trustee in accordance with Part 11 of the Deed.

The objective of the Fund is to provide qualified investors with relatively steady income and moderate capital appreciation over a short to medium-term by investing in fixed income investments.

The Manager of the Fund is Areca Capital Sdn Bhd, a company incorporated in Malaysia. Its principal activities are managing private and unit trust funds.

2 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments of the Fund are as follows:

	Loan and receivables RM	Financial assets at fair value through profit or loss RM	Total RM
<u>31 March 2018</u>			
Collective investment scheme	-	15,480,334	15,480,334
Unquoted fixed income securities	-	5,415,729	5,415,729
Cash & cash equivalents	9,098,298	-	9,098,298
	9,098,298	20,896,063	29,994,361
<u>31 December 2017</u>			
Collective investment scheme	-	7,396,293	7,396,293
Unquoted fixed income securities	-	5,404,665	5,404,665
Cash & cash equivalents	944,041	-	944,041
	944,041	12,800,958	13,744,999

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

The Fund seeks to provide sophisticated investors with a stable stream of consistent income while maintaining capital stability by investing in fixed income investments with medium to long term investment horizon. In order to meet its stated investment objectives, the Fund utilises risk management for both defensive and proactive purposes. Rigorous analysis of sources of risk in the portfolio is carried out and the following policies are implemented to provide effective ways to reduce future risk and enhance future returns within the Fund’s mandate.

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

Financial risk management is carried out through internal control processes adopted by the Manager and adherence to the investment restrictions as stipulated in the Deed and Securities

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixedINCOME FUND

Commission Guidelines on Unlisted Capital Market Products Under the Lodge and Launch Framework.

Market risk

(a) Price risk

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

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

	31.3.2018	31.12.2017
	RM	
Financial asset at fair value through profit or loss*	<u>20,896,063</u>	<u>12,800,958</u>

*Include interest receivable RM41,302 (31.12.2017: RM53,298)

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

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

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

Investors should note that fixed income securities (such as the bonds held by the Fund) and money market instruments are subject to interest rate fluctuations. Such investments may be subject to unanticipated rise in interest rates which may impair the ability of the issuers to make payments of interest 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 Fund's investments in deposits with licensed financial institutions are short term in nature. Therefore, exposure to interest rate fluctuations is minimal.

Credit risk

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

QUARTERLY REPORT MARCH 2018

ARECA Flexi fixedINCOME FUND

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

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

The Fund seeks to mitigate credit/default risk by investing in high quality fixed income securities.

Credit risk is concern for unquoted fixed income securities. The risk arises when issuer is unable to service any profit/contractual coupon or repay the principal amount upon redemption. In such cases, investors may suffer significant losses with respect to their capital invested and income foregone. Management of the credit risk is largely accounted for by the Fund's management of issue-specific risk. This refers to the emphasis on credit analysis conducted to determine issuers' or guarantors' ability to service promised payments.

The maximum exposure to credit risk before any credit enhancements is the carrying amount of the financial assets is set out below:

	Financial assets at fair value through profit or loss RM	Cash and Cash Equivalents RM	Amount due from Manager RM	Total RM
<u>31 March 2018</u>				
Finance				
AAA	-	4,725	-	4,725
AA-	-	9,093,573	-	9,093,573
Collective investment scheme				
Not rated	15,480,334	-	-	15,480,334
Unquoted fixed income securities:				
AAA	996,398	-	-	996,398
AA1	1,032,298	-	-	1,032,298
AA-IS	1,059,440	-	-	1,059,440
Not rated	2,327,593	-	-	2,327,593
	20,896,063	9,098,298	-	29,994,361
<u>31 December 2017</u>				
Finance				
AAA	-	7,698	-	7,698
AA-	-	936,343	-	936,343
Collective investment scheme				
Not rated	7,396,293	-	-	7,396,293
Unquoted fixed income securities:				
AAA	1,007,395	-	-	1,007,395
AA1	1,017,675	-	-	1,017,675
AA3/AA-	1,062,279	-	-	1,062,279
Not rated	2,317,316	-	-	2,317,316
	12,800,958	944,041	-	13,744,999

The Manager considers the risk of material loss in the event of non-performance by the counterparties of the Fund to be unlikely. All financial assets of the Fund for the period 31 March 2018 are neither past due nor impaired.

QUARTERLY REPORT MARCH 2018

ARECA Flexi fixedINCOME FUND

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 NAV of the Fund. The Manager manages this risk by maintaining sufficient level of liquid assets to meet anticipated payment and cancellations of unit by unit holders. Liquid assets comprise bank balance, deposit with a licensed financial institution and other instruments, which are capable of being converted into cash within 7 days.

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

	Less than one month RM	Between one month to one year RM	Total RM
<u>As at 31 March 2018</u>			
Accrued management fee	10,749	-	10,749
Other payables and accruals	644	12,257	12,901
Contractual cash outflows	11,393	12,257	23,605
<u>As at 31 December 2017</u>			
Accrued management fee	6,744	-	6,744
Other payables and accruals	406	5,155	5,561
Contractual cash outflows	7,150	5,155	12,305

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.

Fair value estimation

Fair value is defined as 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 (i.e. an exit price).

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

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

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

Fair value hierarchy

(i) The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities.

QUARTERLY REPORT MARCH 2018

ARECA Flexi fixedINCOME FUND

- Level 2: 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 3: Inputs for the asset and liability that are not based on observable market data (that is, unobservable inputs)

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

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

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

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

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
<u>As at 31 March 2018</u>				
Financial assets at fair value through profit or loss:				
- collective investment scheme	15,480,334	-	-	15,480,334
- unquoted fixed income securities	-	5,415,729	-	5,415,729
				<hr/>
<u>As at 31 December 2017</u>				
Financial assets at fair value through profit or loss:				
- collective investment scheme	7,396,293	-	-	7,396,293
- unquoted fixed income securities	-	5,404,665	-	5,404,665
				<hr/>

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active quoted securities. The Fund does not adjust the quoted prices for these instruments.

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

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

3 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention in accordance with Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS"), as modified by financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with the 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

QUARTERLY REPORT MARCH 2018

ARECA Flexi fixedINCOME FUND

statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires the Manager to exercise their judgment in the process of applying the Fund's accounting policies. Although these estimates and judgment are based on the Manager's best knowledge of current events and actions, actual results may differ.

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31.3.2018	31.12.2017
	RM	RM
Designated at fair value through profit or loss		
- Unquoted fixed income securities	5,415,729	5,404,665
- Collective investment scheme	15,480,334	7,396,293
	<u>20,896,063</u>	<u>12,800,958</u>
 Net gain on financial assets at fair value through profit or loss		
- realised loss on disposals	-	(950)
- unrealised fair value gain	107,101	194,993
	<u>107,101</u>	<u>194,043</u>

Financial assets at fair value through profit or loss as at 31 March 2018 are as follows:

Name of Issuer	Nominal value RM	Carrying value RM	Fair value as at 31.3.2018 RM	Fair value as at 31.3.2018 expressed as a % of value of the Fund %
2.00% Eastern & Oriental Berhad 06/03/2020 (Not Rated)	2,500,000	2,304,987	2,327,592	7.77
5.30% Sabah Dvelopment Bank Berhad 11/05/2022 (AA1)	1,000,000	1,030,888	1,032,298	3.44
4.34% Sarawak Hidro Sdn Bhd 09/08/2024 (AAA)	1,000,000	996,218	996,399	3.32
6.23% Lebuhraya DUKE Fasa 3 Sdn Bhd 21/08/2037 (AA-)	500,000	551,542	550,127	1.84
5.00% Alpha Circle Sdn Bhd 21/11/2018 (AA-)	500,000	509,033	509,313	1.70
Total unquoted fixed income securities in Malaysia	<u>5,500,000</u>	<u>5,392,668</u>	<u>5,415,729</u>	<u>18.07</u>
 Accumulated unrealised gain on financial assets at fair value through profit or loss		<u>23,060</u>		
Total unquoted fixed income securities at fair value through profit or loss		<u>5,415,729</u>		

QUARTERLY REPORT MARCH 2018
ARECA Flexi fixedINCOME FUND

Name of Issuer	Quantity Units	Aggregate cost RM	Fair value as at 31.3.2018 RM	Fair value as at 31.3.2018 expressed as a % of value of the Fund %
<u>Collective investment scheme</u>				
Areca Situational Income Fund	4,987,637	5,000,000	5,445,502	18.17
Areca Situational Income Fund	4,972,652	5,004,100	5,030,832	16.79
Areca Progressive Income Fund	5,000,000	5,000,000	5,004,000	15.06
Total collective investment scheme in Malaysia	<u>14,960,289</u>	15,004,100	<u>15,480,334</u>	51.65
Accumulated unrealised gain on collective investment scheme at fair value through profit or loss		<u>476,234</u>		
Total collective investment scheme at fair value through profit or loss		<u>15,480,334</u>		

Financial assets at fair value through profit or loss as at 31 December 2017 are as follows:

Name of Issuer	Nominal value RM	Carrying value RM	Fair value as at 31.12.2017 RM	Fair value as at 31.12.2017 expressed as a % of value of the Fund %
<u>Bond in Malaysia</u>				
2.00% Eastern & Oriental Berhad 06/03/2020 (Not Rated)	2,500,000	2,294,733	2,317,316	16.87
5.30% Sabah Dvelopment Bank Berhad 11/05/2022 (AA1)	1,000,000	1,012,525	1,017,675	7.41
4.34% Sarawak Hidro Sdn Bhd 09/08/2024 (AAA)	1,000,000	1,013,085	1,007,395	7.34
6.23% Lebuhraya DUKE Fasa 3 Sdn Bhd 21/08/2037 (AA-)	500,000	565,149	559,479	4.07
5.00% Alpha Circle Sdn Bhd 21/11/2018 (AA-)	500,000	502,945	502,800	3.66
Total unquoted fixed income securities in Malaysia	<u>5,500,000</u>	5,388,437	<u>5,404,665</u>	39.35
Accumulated unrealised gain on financial assets at fair value through profit or loss		<u>16,228</u>		
Total unquoted fixed income securities at fair value through profit or loss		<u>5,404,665</u>		

QUARTERLY REPORT MARCH 2018

ARECA Flexi fixedINCOME FUND

Name of Issuer	Quantity Units	Aggregate cost RM	Fair value as at 31.12.2017 RM	Fair value as at 31.12.2017 expressed as a % of value of the Fund %
<u>Collective investment scheme</u>				
Areca Situational Income Fund	4,987,637	5,000,000	5,328,293	38.80
Areca Situational Income 2.0 Fund	2,000,000	2,004,100	2,068,000	15.06
Total collective investment scheme in Malaysia	<u>6,987,637</u>	7,004,100	<u>7,396,293</u>	53.86
Accumulated unrealised gain on collective investment scheme at fair value through profit or loss		<u>392,193</u>		
Total collective investment scheme at fair value through profit or loss		<u>7,396,293</u>		

5 CASH AND CASH EQUIVALENTS

	1.1.2018 to 31.3.2018 RM	1.10.2017 to 31.12.2017 RM
Deposits with licensed financial institutions	6,653,453	936,343
Amount due from manager	2,440,119	
Bank balance with a licensed bank	4,725	7,698
	<u>9,098,297</u>	<u>944,041</u>

The effective weighted average interest rate of short-term deposits with licensed financial institutions per annum as at the date of statement of financial position are as follows:

	31.3.2018 %	31.12.2017 %
Deposits with licensed financial institutions	<u>3.28</u>	<u>3.15</u>

The deposits have an average maturity of 4 days (31.12.2017:4 days).

6 QUARTERLY ACCOUNTS

The quarterly accounts for the 3-month period ended 31 March 2018 have not been audited.



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