

# Quarterly Report

## Mar 2018

For the Period Ended 31 March 2018

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Areca Steady *fixed*INCOME Fund

Management Company



(740840-D)



# QUARTERLY REPORT MARCH 2018

## ✧ ARECA Steady *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 Steady <i>fixed</i> INCOME Fund	9

## CORPORATE DIRECTORY

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### 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

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### HEAD OFFICE

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

### PENANG – PULAU TIKUS

368-2-02 Belissa Row  
Jalan Burma, Georgetown  
10350 Pulau Pinang  
Tel : 604-210 2011  
Fax: 604-210 2013

### PERAK – IPOH

11A, (First Floor)  
Persiaran Greentown 5  
Greentown Business Centre  
30450 Ipoh, Perak  
Tel : 605-249 6697  
Fax: 605-249 6696

### MALACCA

95, Jalan Melaka Raya 24  
Taman Melaka Raya  
75000 Melaka  
Tel : 606-282 9111  
Fax: 606-283 9112

**QUARTERLY REPORT MARCH 2018**  
ARECA Steady fixedINCOME FUND

**FUND INFORMATION**

<b>Name of the Fund</b>	Areca Steady fixedINCOME Fund																																			
<b>Fund Category/ Type</b>	Fixed Income (Wholesale Fund)/Income																																			
<b>Objective of the Fund</b>	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																																			
<b>Performance Indicator</b>	Maybank's 12-month fixed deposit rate																																			
<b>Distribution Policy of the Fund</b>	Yearly or more frequent, subject to availability of the 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 with no entry fee.																																			
<b>Profile of unitholdings</b>	<b>As at 31 March 2018</b>																																			
	<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;">2</td> <td style="text-align: center;">3.57</td> <td style="text-align: center;">0.07</td> <td style="text-align: center;">0.21</td> </tr> <tr> <td>50,001 to 500,000</td> <td style="text-align: center;">38</td> <td style="text-align: center;">67.86</td> <td style="text-align: center;">9.33</td> <td style="text-align: center;">28.16</td> </tr> <tr> <td>500,001 and above</td> <td style="text-align: center;">16</td> <td style="text-align: center;">28.57</td> <td style="text-align: center;">23.73</td> <td style="text-align: center;">71.63</td> </tr> <tr> <td><b>Total*</b></td> <td style="text-align: center;"><b>56</b></td> <td style="text-align: center;"><b>100.00</b></td> <td style="text-align: center;"><b>33.13</b></td> <td style="text-align: center;"><b>100.00</b></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	2	3.57	0.07	0.21	50,001 to 500,000	38	67.86	9.33	28.16	500,001 and above	16	28.57	23.73	71.63	<b>Total*</b>	<b>56</b>	<b>100.00</b>	<b>33.13</b>	<b>100.00</b>
Size of Holding (Units)	No. of accounts	%	No. of units held 'million	%																																
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<i>* excluding units held by the Manager</i>																																				
<b>Rebates &amp; Soft Commissions</b>	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.																																			
<b>Inception Date</b>	11 May 2009																																			
<b>Initial Offer Price</b>	RM1.0000 per unit during the initial offer period of 21 days ended 31 May 2009																																			
<b>Pricing Policy</b>	Single Pricing – Selling and repurchase of units by the Manager are at Net Asset Value per unit																																			
<b>Financial year end</b>	30 June																																			

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

**FUND PERFORMANCE**

	<b>1.1.2018 to 31.3.2018</b>	<b>1.10.2017 to 31.12.2017</b>
<b>Net Asset Value ("NAV")</b>		
Total Net Asset Value (RM million)	35.75	35.87
Units in circulation (million units)	33.21	33.73
NAV per unit (RM)	1.0766	1.0635

<b>HIGHEST &amp; LOWEST NAV</b>		
<i>Please refer to <b>Note 1</b> for further information on NAV and pricing policy</i>		
Highest NAV per unit (RM)	1.0766	1.0635
Lowest NAV per unit (RM)	1.0635	1.0543

<b>ASSET ALLOCATION</b> % of NAV		
<b>Fixed Income Securities</b>		
Quoted securities-local	0.36	0.40
Unquoted bonds-local	69.12	68.80
Collective investment schemes	28.39	27.92
<b>Cash &amp; cash equivalents including placements and repo</b>	<b>2.13</b>	<b>2.88</b>

<b>DISTRIBUTION</b>		
Distribution date	-	-
Gross distribution (sen per unit)	-	-
Net distribution (sen per unit)	-	-
NAV before distribution (RM per unit)	-	-
NAV after distribution (RM per unit)	-	-

<b>UNIT SPLITS</b>		
There was no unit split exercise for the financial period under review.		

<b>EXPENSE/ TURNOVER</b>		
Management expense ratio (MER) (%)	0.27	0.25
<i>Please refer to <b>Note 2</b> for further information</i>		
Portfolio turnover ratio (PTR) (times)	-	0.04
<i>Please refer to <b>Note 3</b> for further information</i>		

<b>TOTAL RETURN</b>		
<i>Please refer to <b>Note 4</b> for further information</i>		
Total Return (%)	1.23	0.83
- Capital Return (%)	1.23	0.83
- Income Return (%)	-	-
Annual Total Return (%)	5.09*	3.35*
Performance Indicator: Average Maybank's 12-month fixed deposit rate (%)	3.31*	3.14*

\* Annualised for comparison purpose only

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

	<b>1-yr</b>	<b>3-yrs</b>	<b>5-yrs</b>
Average Total Return per annum (%)	4.55	4.68	4.29

**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 5.09% against the benchmark 12mth FD of 3.31%. The Fund outperformed the benchmark on the backdrop of a US as well as Malaysian Policy Rate hike during this quarter. Yield curves' marginal rise did not reflect OPR hike. Demand for corporate bonds was well sustained from domestic and offshore participants.

The Fund is 69.1% invested across 17 MYR denominated corporate bond issues in a diverse spread of sectors. The largest sector exposure is the Banking/Finance (25.8%) followed by Tradings/Services sector (18.7%) with an average modified duration of 1.4 years. Credit exposure is dominated by AA ratings (44.5%). We also hold 28.4% in other Collective Investment Schemes.

Moving forward, we will maintain our strategy of insulating the portfolio from the lagged rise in yields before targeting new issues to raise portfolio duration and yield.

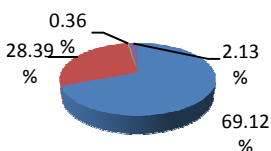
**Investment Policy and Strategy**

The Fund primarily invests in a diversified portfolio of fixed income investments with intention to hold until maturity. The Fund focuses mainly on quality debentures with maturity of 3 to 7 years with small exposure to other maturity periods.

**NAV per unit as at 31 March 2018**

RM1.0766

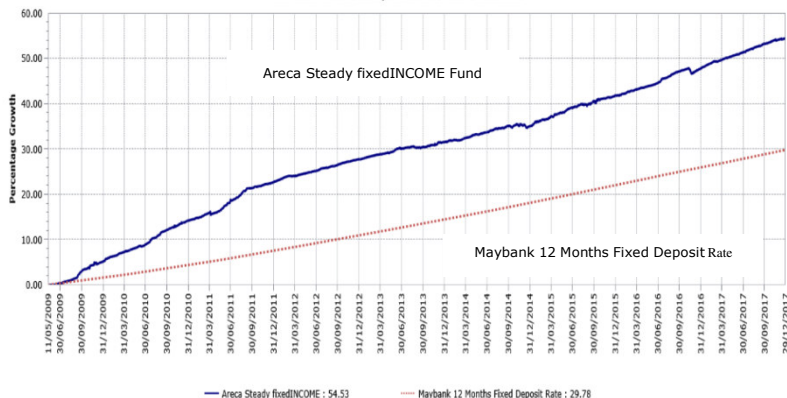
**Asset Allocation/ Portfolio Composition as at** **31.3.2018** **31.12.2017**



Quoted securities-local	0.36%	0.40%
Unquoted bonds-local	69.12%	68.80%
Collective investment scheme	28.39%	27.92%
Cash & cash equivalents	2.13%	2.88%

**Performance of Areca Steady fixedINCOME Fund for the financial period since inception to 31 March 2017**

Total Return of Areca Steady fixedINCOME Fund vs Benchmark



Source: Lipper



## **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 Steady fixedINCOME FUND

**TRUSTEE'S REPORT**

*For The Period Ended 31 March 2018*

**To the Unit holders of Areca Steady fixedINCOME Fund**

We have acted as Trustee of Areca Steady 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 Deeds, 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 Deeds 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 Steady 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 Deeds 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 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

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

18 May 2018

**UNAUDITED STATEMENT OF FINANCIAL POSITION**

**As At 31 March 2018**

	Note	31.3.2018 RM	31.12.2017 RM
<b>Current Assets</b>			
Financial assets at fair value through profit or loss	4	34,984,294	34,845,638
Cash and cash equivalents	5	820,539	1,069,897
<b>Total Assets</b>		<b>35,804,833</b>	<b>35,915,535</b>
<b>Current Liabilities</b>			
Accrued management fee		27,223	27,428
Other payables and accruals		27,405	13,348
<b>Total Liabilities</b>		<b>54,628</b>	<b>40,776</b>
<b>Net Asset Value of the Fund</b>		<b>35,750,205</b>	<b>35,874,759</b>
<b>Equity</b>			
Unit holders' capital		33,683,997	34,246,927
Retained earnings		2,066,208	1,627,832
<b>Total Net Asset Attributable to Unit Holders</b>		<b>35,750,205</b>	<b>35,874,759</b>
<b>Number of Units in Circulation</b>		<b>33,208,084</b>	<b>33,733,082</b>
<b>Net Asset Value Per Unit (Ex Distribution)</b>		<b>1.0766</b>	<b>1.0635</b>

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

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

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

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

	<b>Note</b>	<b>1.1.2018 to 31.3.2018 RM</b>	<b>1.10.2017 to 31.12.2017 RM</b>
<b>Investment Income</b>			
Interest income		338,004	346,878
Gross dividend income		90,000	-
Net gain on financial assets at fair value through profit or loss	4	112,898	39,825
		540,902	386,703
<b>Expenses</b>			
Management fee		79,581	83,076
Trustee's fee		-	-
Audit fee		9,490	
Tax agent's fee		3,300	-
Other expenses		6,189	5,257
		98,560	88,333
<b>Net Profit Before Taxation</b>		442,342	298,370
Taxation		3,966	1,583
<b>Net Profit After Taxation And Total Comprehensive Income For The Financial Period</b>		438,376	296,787
<b>Net Profit After Taxation Is Made Up As Follows:</b>			
Realised amount		325,478	259,762
Unrealised amount		112,898	37,025
		438,376	296,787

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

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

**UNAUDITED STATEMENT OF CHANGES IN EQUITY**  
*For The Financial Period Ended 31 March 2018*

	<b>Unit holders' capital RM</b>	<b>Retained earnings RM</b>	<b>Total net asset value RM</b>
<b>Balance as at 1 January 2018</b>	34,246,927	1,627,832	35,874,759
Movement in unit holders' capital:			
Creation of units arising from application	430,000	-	430,000
Creation of units arising from distribution	-	-	-
Cancellation of units	(992,930)	-	(992,930)
Total comprehensive income for the financial period	-	438,376	438,376
<b>Balance as at 31 March 2018</b>	<b>33,683,997</b>	<b>2,066,208</b>	<b>35,750,205</b>
<b>Balance as at 1 October 2017</b>	34,136,944	1,331,045	35,467,989
Movement in unit holders' capital:			
Creation of units arising from application	250,000	-	250,000
Creation of units arising from distribution	-	-	-
Cancellation of units	(140,017)	-	(140,017)
Total comprehensive income for the financial period	-	296,787	296,787
<b>Balance as at 31 December 2017</b>	<b>34,246,927</b>	<b>1,627,832</b>	<b>35,874,759</b>

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

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

**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
<b>Cash Flows From Operating Activities</b>			
Proceeds from disposal of investments		-	3,002,800
Purchase of investments		-	(2,508,200)
Interest received from deposits with licensed financial institutions		7,861	4,996
Interest received from unquoted fixed income securities		304,385	397,663
Dividend Received		90,000	-
Management fee paid		(79,785)	(84,703)
Payment for other fees and expenses		(8,888)	(6,938)
Net cash flows generated from operating activities		<u>313,573</u>	<u>805,618</u>
<b>Cash Flows From Financing Activities</b>			
Proceeds from creation of units		-	250,000
Payment for cancellation of units		(992,930)	(140,017)
Distribution paid		-	-
Net cash flows generated from/(used in) financing activities		<u>992,930</u>	<u>109,983</u>
<b>Net (Decrease)/Increase In Cash And Cash Equivalents</b>		(679,357)	915,601
<b>Cash And Cash Equivalents At The Beginning Of The Financial Period</b>		1,069,897	154,296
<b>Cash And Cash Equivalents At The End Of The Financial Period</b>	5	<u>390,540</u>	<u>1,069,897</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 March 2018**

**1 THE FUND, THE MANAGER AND THEIR PRINCIPAL ACTIVITIES**

Areca Steady fixedINCOME Fund (“the Fund”) is a wholesale fund that was formed under a custodian structure on 11 May 2009. A trustee was later appointed for the Fund with the signing of a Trust Deed dated 24 July 2009 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 6 of the Deed, which include money market instruments, fixed income securities and deposits with financial institutions. The Fund commenced operations on 11 May 2009 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 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.

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 as follows:

	<b>Loan and receivables RM</b>	<b>Financial assets at fair value through profit or loss RM</b>	<b>Total RM</b>
<u>31 March 2018</u>			
Quoted securities	-	127,500	127,500
Unquoted fixed income securities	-	24,709,069	24,709,069
Collective investment scheme	-	10,147,725	10,147,725
Cash and cash equivalents	820,539	-	820,539
	<u>820,539</u>	<u>34,984,294</u>	<u>35,804,833</u>
<u>31 December 2017</u>			
Quoted securities	-	145,000	145,000
Unquoted fixed income securities	-	24,683,182	24,683,182
Collective investment scheme	-	10,017,456	10,017,456
Cash and cash equivalents	1,069,897	-	1,069,897
	<u>1,069,897</u>	<u>34,845,638</u>	<u>35,915,535</u>

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



## QUARTERLY REPORT MARCH 2018

### ARECA Steady fixed INCOME FUND

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 Deed and Securities 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:

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>RM</b>	<b>RM</b>
Financial assets at fair value through profit or loss*	<u>34,984,294</u>	<u>34,845,638</u>

\* Include interest receivable RM337,317 (31.12.2017: RM311,559)

##### (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 bond portfolio management depends on forecasting interest rate movements. Prices of bonds move inversely to interest rate movements, therefore as interest rates rise, the prices of bonds decrease and vice versa. Furthermore, bonds with longer maturity and lower yield 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

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

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.

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 redemption of units payable to the Manager are governed by the Securities Commissions 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 a concern for unquoted fixed income securities. The risk arises when an 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:

	<b>Financial assets at fair value through profit or loss RM</b>	<b>Cash and Cash Equivalents RM</b>	<b>Total RM</b>
<u>31 March 2018</u>			
Finance			
AAA	-	430,218	430,218
AA-	-	390,321	390,321
Collective investment scheme			
Not rated	10,147,725	-	10,017,456
Quoted securities			
Not rated	127,500	-	127,500
Unquoted fixed income securities:			
AAA	2,604,737	-	2,604,737
AA1/AA+	2,335,881	-	2,335,881
AA2/AA	1,539,593	-	1,539,593
AA3/AA-	8,707,847	-	8,707,847
A1/A+	1,005,688	-	1,005,688
A3/A-	4,225,805	-	4,225,805
A	1,030,890	-	1,030,890
Non-rated	3,258,629	-	3,258,629
	<u>34,984,294</u>	<u>820,539</u>	<u>35,804,833</u>

**QUARTERLY REPORT MARCH 2018**

ARECA Steady fixed **INCOME** FUND

	<b>Financial assets at fair value through profit or loss</b>	<b>Cash and Cash Equivalents</b>	<b>Total</b>
<u>31 December 2017</u>			
Finance			
AAA	-	5,946	5,946
Collective investment scheme	-	1,063,951	1,063,951
Not rated	10,017,456	-	10,017,456
Quoted securities			
Not rated	145,000	-	145,000
Unquoted fixed income securities			
AAA	2,587,511	-	2,587,511
AA1/AA+	1,017,675	-	1,017,675
AA2/AA	5,064,343	-	5,064,343
AA3/AA-	9,649,879	-	9,649,879
A1/A+	2,109,911	-	2,109,911
A3/A-	1,009,621	-	1,009,621
Non-rated	3,244,242	-	3,244,242
	<u>34,845,638</u>	<u>1,069,897</u>	<u>35,915,535</u>

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 at the end of the financial period 31 March 2018 are neither past due nor impaired.

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.

	<b>Less than one month RM</b>	<b>Between one month to one year RM</b>	<b>Total RM</b>
<u>As at 31 March 2018</u>			
Accrued management fee	27,223	-	27,223
Other payables and accrued expenses	2,617	24,788	27,405
Contractual cash outflows	29,840	24,788	54,628
<u>As at 31 December 2017</u>			
Accrued management fee	27,428	-	27,428
Other payables and accrued expenses	1,645	11,703	13,348
Contractual cash outflows	29,073	11,703	40,776

Capital risk

The capital of the Fund is represented by equity consisting of unit holders' capital and accumulated losses. The amount of equity can change significantly on a daily basis as the

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

Fund is subject to daily subscriptions and redemptions at the discretion of shareholders. 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 shareholders 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.
  - 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:

## QUARTERLY REPORT MARCH 2018

ARECA Steady fixed **INCOME** FUND

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
<u>31 March 2018</u>				
Financial assets at fair value through profit or loss:				
- collective investment scheme	10,147,725	-	-	10,147,725
- quoted securities	127,500	-	-	127,500
- unquoted fixed income securities	-	24,709,069	-	24,709,069
	10,275,225	24,709,069	-	34,984,294

### 31 December 2017

Financial assets at fair value through profit or loss:				
- collective investment scheme	10,017,456	-	-	10,017,456
- quoted securities	145,000	-	-	145,000
- unquoted fixed income securities	-	24,683,182	-	24,683,182
	10,162,456	24,683,182	-	34,845,638

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 the 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 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 RM	31.12.2017 RM
Designated at fair value through profit or loss		
- Quoted investments	127,500	145,000
- Unquoted fixed income securities	24,709,069	24,683,182
- Collective investment scheme	10,147,725	10,017,456
	34,984,294	34,845,638

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

	<b>31.3.2018</b>	<b>31.12.2017</b>
	<b>RM</b>	<b>RM</b>
Net gain on financial assets at fair value through profit or loss:		
-realised gain/(loss) on disposals	-	2,800
-unrealised fair value gain	112,898	37,025
	112,898	39,825
	112,898	39,825

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

Unquoted Fixed Income Securities

<b>Name of Issuer</b>	<b>Nominal value</b>	<b>Carrying value</b>	<b>Fair value as at 31.3.2018</b>	<b>Fair value as at 31.3.2018 expressed as a percentage of value of the Fund</b>
	<b>RM</b>	<b>RM</b>	<b>RM</b>	<b>%</b>
<u>Bonds in Malaysia</u>				
5.15% Alpha Circle Sdn Bhd 19/11/2019 (AA-)	6,000,000	6,107,361	6,113,121	17.10
8.25% Hong Leong Bank Berhad 09/09/2039 (AA2)	3,000,000	3,190,244	3,168,884	8.86
2.00% Eastern & Oriental Berhad 06/03/2020 (Not Rated)	3,500,000	3,226,982	3,258,629	9.11
6.70% CIMB Bank Berhad 07/10/2038 (AA)	1,250,000	1,310,970	1,303,583	3.65
8.25% AmBank (M) Berhad 18/08/2039 (A1)	1,000,000	1,064,911	1,056,921	2.96
5.46% TRIpIc Ventures Sdn Bhd 08/10/2021 (AAA)	1,000,000	1,064,059	1,061,092	2.97
5.60% CIMB Thai Bank Public Company Limited 05/07/2024 (AA3)	1,000,000	1,022,861	1,023,581	2.86
5.50% Al Dzhab Assets Berhad 21/06/2021 (AAA)	1,000,000	1,047,079	1,045,508	2.92
5.35% Golden Assets International Finance Limited 05/08/2019 (A1)	1,000,000	1,010,415	1,011,015	2.83
5.50% Sabah Development Bank Berhad 11/05/2022 AA1	1,000,000	1,030,888	1,032,298	2.89
4.50% AMMB Holdings Berhad 08/08/2019 (AA3)	1,000,000	1,004,288	1,005,688	2.81
7.50% DRB-Hicom Berhad 28/12/2114 (A-)	1,000,000	1,028,320	1,030,890	2.88
6.23% Lebuhraya DUKE Fasa 3 Sdn Bhd 21/08/2037 (AA-)	500,000	551,542	550,127	1.54
7.50% PBFIn Berhad 05/06/2059 (AA2)	500,000	531,653	528,578	1.48
4.80% UEM Sunrise Bhd 08/04/2022 (AA-)	500,000	510,225	511,705	1.43

**QUARTERLY REPORT MARCH 2018**

ARECA Steady fixed **INCOME** FUND

<b>Name of Issuer</b>	<b>Nominal value</b>	<b>Carrying value</b>	<b>Fair value as at 31.3.2018</b>	<b>Fair value as at 31.3.2018 expressed as a percentage of value of the Fund</b>
4.34% Sarawak Hidro Sdn Berhad 09/08/2024 (AAA)	500,000	498,109	498,199	1.39
5.00% Alpha Circle Sdn Bhd 21/11/2018 (AA-)	500,000	509,033	509,313	1.42
Total unquoted fixed income securities	<u>24,250,000</u>	24,708,940	<u>24,709,069</u>	69.12
Accumulated unrealised loss on unquoted fixed income securities at fair value through profit or loss		<u>129</u>		
Total unquoted fixed income securities at fair value through profit or loss		<u>24,709,069</u>		

<b>Name of Counter</b>	<b>Quantity Units</b>	<b>Aggregate cost RM</b>	<b>Fair value as at 31.3.2018 RM</b>	<b>Fair value as at 31.3.2018 expressed as a percentage of value of the Fund %</b>
<u>Collective Investment Scheme</u>				
Areca Situational Income Fund	7,441,221	7,463,145	8,124,325	22.73
Areca Situational Income 2.0 Fund	2,000,000	2,008,200	2,023,400	5.66
Total collective investment scheme at fair value through profit or loss	<u>9,441,221</u>	9,471,345	<u>10,147,725</u>	28.39
Accumulated unrealised gain on collective investment scheme at fair value through profit or loss		<u>676,380</u>		
Total collective investment scheme at fair value through profit or loss		<u>10,147,725</u>		

Quoted securities

TRADING/SERVICES

Barakah-Offshore-RCULS 13/18	500,000	679,000	127,500	0.36
Total quoted securities in Malaysia	<u>500,000</u>	679,000	<u>127,500</u>	0.36
Accumulated unrealised loss on quoted securities at fair value through profit or loss		<u>(551,500)</u>		
Total quoted securities at fair value through profit or loss		<u>127,500</u>		

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

**QUARTERLY REPORT MARCH 2018**

ARECA Steady fixed **INCOME** FUND

<b>Name of Issuer</b>	<b>Nominal value RM</b>	<b>Carrying Value RM</b>	<b>Fair value as at 31.12.2017 RM</b>	<b>Fair value as at 31.12.2017 expressed as a percentage of value of the Fund %</b>
<u>Bond in Malaysia</u>				
5.15% Alpha Circle Sdn Bhd 19/11/2019 (AA-)	6,000,000	6,093,263	6,030,323	16.81
8.25% Hong Leong Bank Berhad 09/09/2039 (AA2)	3,000,000	3,269,589	3,251,949	9.06
2.00% Eastern & Oriental Berhad 06/03/2020 (Not Rated)	3,500,000	3,212,627	3,244,243	9.04
6.70% CIMB Bank Berhad 07/10/2038 (AA)	1,250,000	1,296,890	1,290,090	3.60
8.25% AmBank (M) Berhad 18/08/2039 (A1)	1,000,000	1,095,598	1,086,158	3.03
5.46% TRIPic Ventures Sdn Bhd 08/10/2021 (AAA)	1,000,000	1,057,207	1,050,447	2.93
5.60% CIMB Thai Bank Public Company Limited 05/07/2024 (AA3)	1,000,000	1,039,833	1,037,283	2.89
5.50% Al Dzhahab Assets Berhad 21/06/2021 (AAA)	1,000,000	1,034,856	1,033,366	2.88
5.35% Golden Assets International Finance Limited 05/08/2019 (A1)	1,000,000	1,022,603	1,023,753	2.85
5.50% Sabah Development Bank Berhad 11/05/2022 AA1	1,000,000	1,012,525	1,017,675	2.84
4.50% AMMB Holdings Berhad 08/08/2019 (AA3)	1,000,000	1,016,123	1,015,753	2.83
7.50% DRB-Hicom Berhad 28/12/2114 (A-)	1,000,000	1,006,571	1,009,621	2.81
6.23% Lebuhraya DUKE Fasa 3 Sdn Bhd 21/08/2037 (AA-)	500,000	565,149	559,479	1.56
7.50% PFin Berhad 05/06/2059 (AA2)	500,000	525,948	522,303	1.46
4.80% UEM Sunrise Bhd 08/04/2022 (AA-)	500,000	507,881	504,241	1.41
4.34% Sarawak Hidro Sdn Berhad 09/08/2024 (AAA)	500,000	506,543	503,698	1.40
5.00% Alpha Circle Sdn Bhd 21/11/2018 (AA-)	500,000	502,945	502,800	1.40
Total unquoted fixed income securities	<u>24,250,000</u>	<u>24,766,151</u>	<u>24,683,182</u>	<u>68.80</u>
Accumulated unrealised loss on unquoted fixed income securities at fair value through profit or loss		<u>(82,969)</u>		
Total unquoted fixed income securities at fair value through profit or loss		<u>24,683,182</u>		



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

Name of Counter	Quantity Units	Aggregate cost RM	Fair value as at 31.12.2017 RM	Fair value as at 31.12.2017 expressed as a percentage of value of the Fund %
<u>Collective Investment Scheme</u>				
Areca Situational Income Fund	7,441,221	7,463,145	7,949,456	22.16
Areca Situational Income 2.0 Fund	2,000,000	2,008,200	2,068,000	5.76
Total collective investment scheme at fair value through profit or loss	<u>9,441,221</u>	9,471,345	<u>10,017,456</u>	<u>27.92</u>
Accumulated unrealised gain on collective investment scheme at fair value through profit or loss		<u>546,111</u>		
Total collective investment scheme at fair value through profit or loss		<u><u>10,017,456</u></u>		
<u>Quoted securities</u>				
TRADING/SERVICES				
Barakah-Offshore-RCULS 13/18	500,000	679,000	145,000	0.40
Total quoted securities in Malaysia	500,000	679,000	145,000	0.40
Accumulated unrealised loss on quoted securities at fair value through profit or loss		<u>(534,000)</u>		
Total quoted securities at fair value through profit or loss		<u>145,000</u>		

**5 CASH AND CASH EQUIVALENTS**

	31.3.2018 RM	31.12.2017 RM
Bank balance with a licensed bank	430,218	5,946
Deposit with a licensed financial institution	390,321	1,063,951
	<u>820,539</u>	<u>1,069,897</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 a licensed financial institution	<u>3.05</u>	<u>3.15</u>

The deposit has an average maturity of 4 days (31.12.2017:3 days).

**6 QUARTERLY ACCOUNTS**

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







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