

平成30年6月期 決算短信 (平成29年7月1日～平成30年6月30日)

平成30年10月1日

ファンド名 ABF 汎アジア債券インデックス・ファンド 上場取引所 東京証券取引所
 コード番号 1349
 連動対象指標 Markit iBoxx® ABF パン・アジア指数
 主要投資資産 有価証券
 売買単位 1口
 管理会社 ステート・ストリート・グローバル・アドバイザーズ・シンガポール・リミテッド
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 有価証券報告書提出予定日 平成30年12月19日

I ファンドの運用状況

1. 2018年6月期の運用状況 (平成29年7月1日～平成30年6月30日)

(1) 資産内訳

(百万円未満切捨て)

	主要投資資産		現金・預金・その他の資産 (負債控除後)		合計 (純資産)	
	金額	構成比	金額	構成比	金額	構成比
	百万円	%	百万円	%	百万円	%
2018年6月期	412,635	(100)	△230	(-)	412,404	(100)
2017年6月期	435,425	(100)	△402	(-)	435,022	(100)

(2) 設定・交換実績

(千口未満四捨五入)

	前計算期間末 発行済口数(①)	設定口数(②)	交換口数(③)	当計算期間末 発行済口数 (①+②-③)
	千口	千口	千口	千口
2018年6月期	34,019	1,180	2,520	32,679
2017年6月期	30,907	4,512	1,400	34,019

(3) 基準価額

(百万円未満切捨て)

	総資産 (①)	負債 (②)	純資産 (③(①-②))	1口当たり基準価額 (③/当計算期間末発行済口数×1口)
	百万円	百万円	百万円	円
2018年6月期	423,176	10,772	412,404	12,619
2017年6月期	439,776	4,754	435,022	12,787

(4) 分配金

		1口当たり分配金
*		*円 (米ドル)
2018年6月期	2018年7月23日	205 (1.84)
2017年12月期	2018年1月22日	193 (1.74)
2017年6月期	2017年7月24日	183 (1.65)
2016年12月期	2017年1月23日	169 (1.52)

* 各期間における分配のための基準日を記載しております。

* 日本円への換算は下記(注)記載の換算率で計算されており(円位未満切捨て)、実際に受益者に分配される金額とは異なることがあります。

(注) 日本円への換算は、1米ドル=111.43円の換算率(2018年9月13日に株式会社三菱UFJ銀行が発表した対顧客電信売・買相場の仲値)により計算されています。

2. 会計方針の変更

- ① 会計基準等の改正に伴う会計方針の変更
 ② ①以外の会計方針の変更

有・無
 有・無

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STATEMENT OF NET ASSETS

As at 30th June 2018

	Notes	30th June 2018 US\$	30th June 2017 US\$
Assets			
Current assets			
Investments	10(b)&(c)	3,703,091,528	3,907,610,455
Amounts due from brokers		81,292,908	24,119,685
Interest receivable	8(e)	–	1
Cash at banks	8(e)	13,309,163	14,930,650
		<u>3,797,693,599</u>	<u>3,946,660,791</u>
Total assets			
		<u>3,797,693,599</u>	<u>3,946,660,791</u>
Liabilities			
Current liabilities			
Amounts payable on redemption of units		1,132,451	2,295,278
Amounts due to brokers		87,976,464	33,279,804
Audit fee payable		72,040	74,518
Trustee fee payable	8(d)	149,312	161,327
Management fee payable	8(c)	1,055,148	1,422,383
Index license fee payable	9(a)	120,256	121,216
Other payables		6,165,700	5,311,738
		<u>6,165,700</u>	<u>5,311,738</u>
Liabilities (excluding net assets attributable to holders of redeemable units)			
		<u>96,671,371</u>	<u>42,666,264</u>
Net assets attributable to holders of redeemable units			
	3	<u>3,701,022,228</u>	<u>3,903,994,527</u>

HSBC Institutional Trust
Services (Singapore) Limited

State Street Global Advisors
Singapore Limited

The notes on pages 16 to 44 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30th June 2018

		For the year ended 30th June 2018 US\$	For the year ended 30th June 2017 US\$
Income			
Interest income on bank deposits	8(e)	44,555	22,462
Net gain/(loss) on investments	6	84,912,561	(54,115,046)
Net foreign exchange loss		(590,023)	(1,296,620)
Other income	5	116,178	692,920
		<u>84,483,271</u>	<u>(54,696,284)</u>
Total investment income/(loss)		<u>84,483,271</u>	<u>(54,696,284)</u>
Expenses			
Management fee	8(c)	4,248,240	4,404,858
Trustee fee	8(d)	1,941,660	1,959,440
Index license fee	9(a)	349,040	349,999
Publication and printing expenses		38,891	38,903
Audit fee		73,208	114,746
Processing agent fee	9(b)	12,922	15,199
Safe custody and bank charges	8(e)	33,700	63,982
Legal and professional fees		190,739	311,730
Annual insurance premium		26,750	26,750
Other operating expenses		26,285	15,401
		<u>6,941,435</u>	<u>7,301,008</u>
Total operating expenses		<u>6,941,435</u>	<u>7,301,008</u>
Operating profit/(loss)		<u>77,541,836</u>	<u>(61,997,292)</u>
Finance costs			
Distributions to holders of redeemable units	12	(113,472,967)	(91,855,546)
Loss after distributions and before tax		(35,931,131)	(153,852,838)
Taxation	7	(10,537,039)	(8,067,845)
Loss after distributions and tax/decrease in net assets attributable to holders of redeemable units from operations		<u>(46,468,170)</u>	<u>(161,920,683)</u>

The notes on pages 16 to 44 form part of these financial statements.

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STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS

For the year ended 30th June 2018

	For the year ended 30th June 2018 <i>US\$</i>	For the year ended 30th June 2017 <i>US\$</i>
Balance at beginning of the year	3,903,994,527	3,688,337,097
Issue of units	136,894,063	535,521,493
Redemption of units	(293,398,192)	(157,943,380)
Net (redemption)/issue of units	(156,504,129)	377,578,113
Decrease in net assets attributable to holders of redeemable units from operations	(46,468,170)	(161,920,683)
Balance at the end of the year	<u>3,701,022,228</u>	<u>3,903,994,527</u>

The notes on pages 16 to 44 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 30th June 2018

	For the year ended 30th June 2018 US\$	For the year ended 30th June 2017 US\$
Cash flows from operating activities		
Decrease in net assets attributable to holders of redeemable units from operations	(46,468,170)	(161,920,683)
Adjustment for:		
Interest income on bank deposits	(44,555)	(22,462)
Distributions to holders of redeemable units	113,472,967	91,855,546
Taxation	10,537,039	8,067,845
Revaluation (gain)/loss in foreign exchange	(21,497)	1,130,737
	78,087,304	(60,723,134)
Operating profit/(loss) before working capital changes	78,087,304	(60,723,134)
Net decrease/(increase) in investments	204,518,927	(223,859,215)
Net (increase)/decrease in amounts due from brokers	(57,173,223)	25,674,381
Net decrease/(increase) in interest receivable	1	(1)
Net increase/(decrease) in amounts due to brokers	54,696,660	(19,382,437)
Net (decrease)/increase in accounts payable and accrued expenses	(378,857)	719,787
	279,750,812	(277,570,619)
Cash generated from/(used in) operations	279,750,812	(277,570,619)
Interest income on bank deposits received	44,556	22,461
Taxes paid	(9,686,909)	(6,953,026)
	270,108,459	(284,501,184)
Net cash generated from/(used in) operating activities	270,108,459	(284,501,184)
Cash flows from financing activities		
Distributions paid to holders of redeemable units	(113,472,967)	(91,855,546)
Issue of units	136,894,063	535,521,493
Redemption of units	(294,561,019)	(155,648,102)
	(271,139,923)	288,017,845
Net cash (used in)/generated from financing activities	(271,139,923)	288,017,845
Net (decrease)/increase in cash and cash equivalents	(1,031,464)	3,516,661
Effect of currency translation	21,497	(1,130,737)
Cash and cash equivalents at the beginning of the year	14,930,650	12,710,609
	13,309,163	14,930,650
Cash and cash equivalents at the end of the year	13,309,163	14,930,650
Analysis of balance of cash and cash equivalents:		
Cash at banks	13,309,163	14,930,650

The notes on pages 16 to 44 form part of these financial statements.

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STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 30th June 2018

Reconciliation of liabilities arising from financing activities

	For the year ended 30th June 2018 US\$	For the year ended 30th June 2017 US\$
At 1st July	2,295,278	–
Changes from financing cash flows		
Redemption paid	(294,561,019)	(155,648,102)
Other changes		
Redemption of units	293,398,192	157,943,380
At 30th June	<u>1,132,451</u>	<u>2,295,278</u>

The notes on pages 16 to 44 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

ABF Pan Asia Bond Index Fund (the "Fund") is a Singapore unit trust authorised under Section 286 of the Securities and Futures Act (Cap. 289) of Singapore and Section 104 of the Securities and Futures Ordinance (Cap. 571) of Hong Kong. The Fund was constituted by a trust deed dated 21st June 2005 between State Street Global Advisors Singapore Limited and HSBC Institutional Trust Services (Singapore) Limited (the "Trust Deed"). The Trust Deed was amended and restated by an Amending and Restating Deed on 28th June 2006, a Second Amending and Restating Deed dated 28th June 2007, a supplemental deed dated 27th June 2008, a Third Amending and Restating Deed dated 24th June 2011, and a Fourth Amending and Restating Deed dated after year ended 30th June 2018. The Trust Deed and all supplemental deeds are governed in accordance with the laws of Singapore. The Fund is also listed on The Stock Exchange of Hong Kong Limited and Tokyo Stock Exchange. The date of commencement of operation of the Fund was 29th June 2005.

The investment objective of the Fund is to seek to provide investment results that correspond closely to the total return of the Markit iBoxx ABF Pan-Asia Index (the "Underlying Index"), before fees and expenses. The Underlying Index is determined and composed by Markit Indices Limited (the "Index Provider"). The Underlying Index is an indicator of investment returns of debt obligations denominated in China Renminbi, Hong Kong Dollar, Indonesian Rupiah, Korean Won, Malaysian Ringgit, Philippine Peso, Singapore Dollar or Thai Baht (each an "Asian Currency") issued or guaranteed by government, quasi-government organizations or supranational financial institutions, in each case as determined by the Index Provider and which are for the time being constituent securities of the Underlying Index.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRSs require the use of certain critical accounting estimates. It also requires the Manager to exercise their judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

New and amended standards that are effective in the current year and have been adopted by the Fund

Amendments to IAS 7, "Statement of Cash Flows" became effective for annual periods beginning on or after 1st July 2017. These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Adoption of these amendments did not have a material impact on the Fund's financial statements.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1st July 2017 that have a material impact on the Fund.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

New standards and amendments to the standards that are relevant to the Fund but are not yet effective and have not been early adopted by the Fund

IFRS 9, "Financial instruments", addresses the classification, measurement and derecognition of financial assets and financial liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1st July 2018.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9, the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Fund.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Investments

The Fund invests in debt securities which are classified as financial assets at fair value through profit or loss. These investments are designated by the Manager at fair value through profit or loss at inception. Purchases and sales of investments are accounted for on a trade date basis. Investments are initially recognised at fair value, excluding transaction costs which are expensed as incurred, and are subsequently re-measured at fair value. Realised and unrealised gains and losses on investments are included in the Statement of Comprehensive Income in the period in which they arise. Investments 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.

Investments that are listed or traded on an exchange are fair valued based on quoted bid prices. Investments which are not listed on an exchange are valued by using quotes from brokers. The investments are fair valued based on quoted bid prices inclusive of accrued interests.

Foreign exchange contracts are valued at the difference between forward rates ruling at the valuation date and the contract rates. Realised and unrealised gains and losses on foreign exchange contracts are recognised in the Statement of Comprehensive Income.

Transfers between levels of fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

(c) Income

Interest income on bank deposits is recognised on a time-proportionate basis using the effective interest method. Interest income on investments is accounted for as part of net gain/loss on investments in the Statement of Comprehensive Income. Other income is accounted for in the Statement of Comprehensive Income on an accrual basis.

(d) Expenses

Expenses are accounted for in the Statement of Comprehensive Income on an accrual basis.

(e) Taxation

No provision for Hong Kong profits tax has been made as the Fund was authorised as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempted from profits tax under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

The Fund may potentially be liable to pay PRC withholding income tax on the PRC sourced capital gains, unless reduced or exempted under relevant tax treaty. Withholding taxes are disclosed separately in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand deposits with original maturities of three months or less.

(g) Amounts due from/to brokers

Amounts due from/to brokers represent receivables for investments sold and payables for investments purchased that have been contracted for but not yet settled by the end of the year.

(h) Translation of foreign currencies

Functional and presentation currency

The Fund's subscription and redemption of units are denominated in United States Dollar ("US\$"). The performance of the Fund is measured and reported to the investors in the United States Dollar, which is the Fund's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the year end date.

Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

(i) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is reported in the Statement of Net Assets, where the Fund currently has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Redeemable units

The Fund issues redeemable units, which are redeemable at the holder's option and are classified as financial liabilities. Redeemable units can be put back to the Fund for cash equal to a proportionate share of the Fund's net asset value. The redeemable unit is carried at the redemption amount that is payable at the date of redemption if the holder exercises the right to put the unit back to the Fund.

Redeemable units are issued and redeemed at the holder's option at prices based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the holders of redeemable units with the total number of outstanding redeemable units.

(k) Segmental information

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Manager, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision-maker that makes strategic decisions.

(l) Distributions

Proposed distributions to holders of redeemable units are recognised in the Statement of Comprehensive Income when they are appropriately authorised. The distribution on redeemable units is recognised as a finance cost in the Statement of Comprehensive Income.

3. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS AND NUMBER OF UNITS IN ISSUE

Net assets attributable to holders of redeemable units

The Fund's capital is represented by the units in the Fund, and is shown as net assets attributable to holders of redeemable units in the Statement of Net Assets. In accordance with the Fund's Trust Deed, redeemable units are generally only issued and redeemed in blocks of 10,000 units with effect from 20th June 2013 or in whole multiples thereof. Subscriptions and redemptions of units during the year are shown in the Statement of Changes in Net Assets Attributable to Holders of Redeemable Units. In order to achieve the investment objectives, the Fund endeavors to invest its capital in accordance with the defined investment policies, whilst maintaining sufficient liquidity to meet redemption requests. Such liquidity is augmented by the holding of liquid investments.

Net assets attributable to holders of redeemable units represent a liability in the Statement of Net Assets, carried at the redemption amount that would be payable at the Statement of Net Assets date if the holders of redeemable units exercised the right to redeem units in the Fund.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3. NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS AND NUMBER OF UNITS IN ISSUE *(Continued)*

Number of units in issue

	2018 <i>units</i>	2017 <i>units</i>
Units in issue at the beginning of the year	34,018,734	30,907,054
Issue of units	1,180,110	4,511,680
Redemption of units	<u>(2,520,000)</u>	<u>(1,400,000)</u>
Units in issue at the end of the year	<u><u>32,678,844</u></u>	<u><u>34,018,734</u></u>

	2018 <i>US\$</i>	2017 <i>US\$</i>
Net assets attributable to holders of redeemable units	<u><u>3,701,022,228</u></u>	<u><u>3,903,994,527</u></u>
Net assets attributable to holders of redeemable units (per unit)	<u><u>113.25</u></u>	<u><u>114.76</u></u>
Net asset value per Creation unit (1 Creation unit is equivalent to 10,000 units)	<u><u>1,132,544</u></u>	<u><u>1,147,601</u></u>

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NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Manager makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Manager is of the opinion that the Fund has no critical accounting estimates and assumptions during the financial year.

5. OTHER INCOME

For each application for the creation or redemption of units, the Fund is entitled to receive a transaction fee of HK\$1,000 (approximately US\$128) per application and 0.23% for creation of units and 0.125% for redemption of units dilution charges from authorised participants.

6. NET GAIN/(LOSS) ON INVESTMENTS

	2018 US\$	2017 US\$
Change in unrealised gain/(loss) in value of investments	(85,013,697)	(155,979,421)
Realised gain on sale of investments	<u>169,926,258</u>	<u>101,864,375</u>
	<u><u>84,912,561</u></u>	<u><u>(54,115,046)</u></u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7. TAXATION

No provision for Hong Kong profits tax has been made as the Fund is authorised as a collective investment scheme under Section 104 of the Hong Kong Securities and Futures Ordinance and is therefore exempted from profits tax under Section 26A(1A) of the Hong Kong Inland Revenue Ordinance.

The Fund is also a designated unit trust in Singapore and therefore, the following income is exempted from tax in accordance with sections 35(12) and (12A) of the Income Tax Act (Cap 134):

- (a) gains or profits derived from Singapore or elsewhere from the disposal of securities;
- (b) interest (other than interest for which tax has been deducted under section 45 of the Income Tax Act);
- (c) dividends derived from outside Singapore and received in Singapore;
- (d) gains or profits derived from foreign exchange transactions, transactions in future contracts, transactions in interest rate or currency forwards, swaps or option contracts and transactions in forwards, swaps or option contracts relating to any securities of financial index; and
- (e) distributions from foreign unit trusts derived from outside Singapore and received in Singapore.

The Fund had incurred taxes of US\$10,537,039 (2017: US\$8,067,845) during the year ended 30th June 2018. The amount includes withholding taxes from China, Philippines and Indonesia totaling US\$9,807,373 (2017: US\$9,080,362) and the remaining portion of US\$729,666 (2017: tax credit US\$1,012,517) relate to payments of corporate income tax and other taxes.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7. TAXATION *(Continued)*

Capital gains on debt securities in PRC

The Fund invests in RMB denominated bonds (“RMB bonds”) in the China Inter-bank Bond Market (“CIBM”) in the People’s Republic of China (“PRC”). Under the prevailing PRC tax regulations, there are no specific rules or regulations governing the taxation of the disposal of RMB bonds by foreign institutional investors. Under the general taxing provision of the Corporate Income Tax Law, the Fund may potentially be liable to pay PRC withholding income tax on the PRC sourced capital gains at the rate of 10%, unless reduced or exempted under relevant tax treaty. Based on the current verbal interpretation of the PRC State Administration of Taxation and the local PRC tax authorities, the authorities are with the view that capital gains derived by foreign institutional investors from disposal of PRC debt securities should not be treated as PRC sourced income and thus should not be subject to PRC withholding income tax. However, there are no written tax regulations issued by the PRC tax authorities to confirm this interpretation. As a matter of practice, PRC withholding income tax on capital gains realised by non-PRC tax resident enterprises from the trading of debt securities has not been strictly enforced by the PRC tax authorities. The Manager has assessed the likelihood of such exposure and believes that there is no material tax exposure on the basis that no collection has been made by the China tax authority since the commencement of operation of the Fund. As such, no provision was made for taxation from such gains in the financial statements. However, there is a possibility that the PRC tax authorities may change their current interpretation or issue specific regulation to clarify the tax treatment on bond trading gains. The Manager continues to monitor the position and will make an appropriate adjustment if and when it is considered that there are sufficient grounds to do so.

Furthermore, according to the notice Caishui [2016] No. 36 (“Circular 36”), Value-Added Tax (“VAT”) at 6% shall be levied on the difference between the selling and buying prices of those marketable securities effective from 1st May 2016, unless specifically reduced or exempted under the prevailing regulations. The gains derived from trading of RMB denominated debt securities by the foreign institutional investors recognised by People’s Bank of China in CIBM are exempted from VAT in the PRC under Circular 36 and Caishui [2016] No.70.

Interest income on debt securities in PRC

Overseas and PRC withholding tax was charged on certain interest income received during the year. As at 30th June 2018, the Fund made provision of US\$3,966,939 for withholding income tax on interest income from PRC non-government securities (2017: US\$3,065,400). The amount is included in “Other payables” in the Statement of Net Assets. In addition, according to Circular 36, interest received from government bonds and local government bonds are exempted from VAT. However, the prevailing VAT regulations do not specifically exempt VAT on interest received by foreign institutional investors. Hence, interest income on non-government bonds (including corporate bonds) would be subject to 6.72% VAT and local surtaxes.

As at 30th June 2018 and 30th June 2017, the Manager does not consider that the potential VAT and surtaxes exposure arising from the Fund’s accumulated interest income received from PRC non-government bonds since 1st May 2016 to be material.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

8. TRANSACTIONS WITH RELATED PARTIES INCLUDING THE MANAGER AND ITS CONNECTED PERSONS

Connected Persons of the Manager are those as defined in the Code on Unit Trusts and Mutual Funds established by the Securities and Futures Commission of Hong Kong (the "SFC Code"). The Manager and the Trustee of the Fund are State Street Global Advisors Singapore Limited and HSBC Institutional Trust Services (Singapore) Limited, respectively. State Street Global Advisors Singapore Limited is a subsidiary of State Street Corporation. HSBC Institutional Trust Services (Singapore) Limited is a subsidiary of HSBC Holdings plc. All transactions entered into during the year between the Fund and the related parties including the Manager and its Connected Persons were carried out in the ordinary course of business and on normal commercial terms. To the best of the Manager's knowledge, the Fund does not have any other transactions with the Connected Persons of the Manager except for those disclosed below.

(a) Foreign currency transactions with connected persons of the Manager and the Trustee

During the year ended 30th June 2018, the Manager transacted in foreign currency transactions totaling US\$922,577,384 (2017: US\$1,444,903,466) through its affiliated party, State Street Global Markets, LLC and the Trustee's affiliated parties, HSBC Hong Kong and HSBC Australia for the Fund's investments and settlement purpose. The amount represents 100% (2017: 100%) of the Fund's foreign currency transactions during the year ended 30th June 2018.

Name of company	Aggregate value of foreign currency transactions <i>US\$</i>	% of total foreign currency transactions %
2018		
HSBC Australia	573,165,015	62.13
HSBC Hong Kong	229,272,369	24.85
State Street Global Markets, LLC	120,140,000	13.02
2017		
HSBC Australia	915,091,237	63.33
HSBC Hong Kong	291,942,230	20.21
State Street Global Markets, LLC	237,870,000	16.46

During the years ended 30th June 2018 and 2017, the Connected Persons of the Manager and the Trustee as listed above had included normal bid-offer spread for the foreign currency transactions entered with the Fund, which were carried out in the ordinary course of business and on normal commercial terms. There were no direct commissions paid to Connected Persons of the Manager or the Trustee during the years ended 30th June 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

8. TRANSACTIONS WITH RELATED PARTIES INCLUDING THE MANAGER AND ITS CONNECTED PERSONS *(Continued)*

(b) Holdings of units

As at 30th June 2018, the directors and officers of the Manager did not hold any units in the Fund (2017: Nil). The Hong Kong and Shanghai Banking Corporation Limited, a related party, held 27,841,917 units (2017: 27,146,358 units) of the Fund as nominee on behalf of its clients, representing 85.17% (2017: 79.75%) of the Fund's net assets.

(c) Management fee

The Fund pays the Manager a management fee*, monthly in arrears and accrued daily, determined on the average daily net assets of the Fund at the rate as follows:

For first US\$1 billion	0.13%
For next US\$250 million	0.12%
For next US\$250 million	0.11%
Thereafter	0.10%

* This fee may be increased to a maximum of 0.25% per annum upon three months' notice in writing to unitholders.

(d) Trustee fee

The Fund pays the Trustee a trustee fee*, monthly in arrears and accrued daily, of 0.05% per annum of the average daily net assets of the Fund.

* This fee may be increased to a maximum of 0.15% per annum upon three months' notice in writing to unitholders.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

8. TRANSACTIONS WITH RELATED PARTIES INCLUDING THE MANAGER AND ITS CONNECTED PERSONS *(Continued)*

(e) Bank balances

The bank balance of the Fund is held with a related party of the Trustee, (i.e. The Hongkong Shanghai Banking Corporation Limited). The details of such transactions are as follows:

	As at 30th June 2018 US\$	As at 30th June 2017 US\$
Bank balances	13,309,163	14,930,650
Interest receivable	-	1
	13,309,163	14,930,651

During the year ended 30 June 2018 and 2017, the below income and expenses related to the bank balance of the Fund stated in Statement of Comprehensive Income was earned/paid from/to a related party of the Trustee, (i.e. The Hongkong Shanghai Banking Corporation Limited).

	For the year ended 30th June 2018 US\$	For the year ended 30th June 2017 US\$
Interest income	44,555	22,462
Interest expenses	17,193	39,124
Bank charges	-	109
	44,555	61,695

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

9. OTHER EXPENSES

(a) Index license fee

The index license fee is paid to the Index Provider of the Underlying Index. The index license fee is calculated at a scale rate with a maximum of 0.0175% per annum (2017: 0.0175% per annum) on the daily average net asset value of the Fund, subject to a minimum of US\$184,000 per annum (2017: US\$184,000 per annum). The index license fee is accrued daily and is payable quarterly in arrears.

(b) Processing agent fee

The processing agent fee is paid to Hong Kong Conversion Agency Services Limited. The processing agent performs, through Hong Kong Securities Clearing Company Limited, certain of its services in connection with the creation and redemption of Units by authorised participants including facilitating the deposit of units into Central Clearing and Settlement System ("CCASS") upon creation of units and the withdrawal of units from CCASS upon redemption.

A monthly retainer fee of HK\$5,000 is also charged to the Fund.

10. FINANCIAL RISK MANAGEMENT

(a) Strategy in using financial instruments

The investment objective of the Fund is to seek to provide investment results that correspond closely to the total return of the Underlying Index, before fees and expenses. The Underlying Index is determined and composed by the Index Provider. The Underlying Index is an indicator of investment returns of Asian Currency denominated debt obligations issued or guaranteed by an Asian government, quasi Asian government organisations or supranational financial institutions, in each case as determined by the Index Provider and which are for the time being constituent securities of the Underlying Index.

All the financial assets and liabilities are classified as loans and receivables except for investments and derivative financial instruments, which are classified as financial assets at fair value through profit or loss.

The Fund is exposed to risks including market price risk, interest rate risk, credit risk, liquidity risk, currency risk and emerging market risk.

These risks, and the respective risk management policies employed by the Fund to manage these risks, are discussed below:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. FINANCIAL RISK MANAGEMENT (Continued)

(b) Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Fund's fixed income securities are susceptible to market price risk arising from uncertainties about future price of the securities. The Fund's market price risk is managed through diversification of the investment portfolio. As at year end, the overall market exposures were as follows:

	2018			2017		
	Fair value US\$	Cost US\$	% of net assets	Fair value US\$	Cost US\$	% of net assets
Investments						
– Debt securities	3,703,091,528	3,922,531,530	100.06	3,907,610,455	4,042,036,760	100.09
	<u>3,703,091,528</u>	<u>3,922,531,530</u>	<u>100.06</u>	<u>3,907,610,455</u>	<u>4,042,036,760</u>	<u>100.09</u>

Market exposures

The following table shows the market exposure the Fund has to various markets, incorporating the underlying market risk through all financial assets and liabilities held by the Fund.

	2018 US\$ equivalent	2017 US\$ equivalent
Markets exposed to		
China	900,043,434	904,380,723
Hong Kong	329,116,331	340,746,083
Indonesia	284,000,035	305,094,977
Malaysia	412,771,256	437,920,981
Philippines	215,795,823	235,711,011
Singapore	580,742,371	631,025,101
South Korea	614,873,284	670,696,395
Thailand	365,748,994	382,035,184
	<u>3,703,091,528</u>	<u>3,907,610,455</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Market price risk *(Continued)*

There were investments issued by a single issuer with market value exceeding 10% of the Fund's net asset value at 30th June 2018 or 30th June 2017, as follows:

	2018	2017
	%	%
China Government	18.17	18.26
Korea Treasury	16.23	16.81
Singapore Government	14.06	14.48

During the year ended 30th June 2018, the Underlying Index increased by 2.08% (1 year return as of 30th June 2017: declined by 0.97%), while the returns of the Fund including dividends increased by 1.59% (1 year return as of 30th June 2017: declined by 1.49%).

The table below summarises the impact on net assets attributable to holders of redeemable units as a result of increases/decreases of the Underlying Index to which the Fund is exposed. The analysis is based on the assumption that the Underlying Index had increased/decreased by the respective percentage with all other variables held constant and the Fund's investments moved according to the historical correlation with the Underlying Index.

	2018		2017	
	Change in market index %	Impact US\$	Change in market index %	Impact US\$
	+/-	+/-	+/-	+/-
Markit iBoxx ABF Pan-Asia Index in US\$	6.00	222,185,492	6.00	234,456,627

Assumption: The change is based on the annualised return of the Underlying Index since inception and takes into consideration the Fund's historical correlation with the Underlying Index, which would be revised when there is evidence that the Underlying Index have become significantly more volatile.

The Manager has used their view of what would be a "reasonable shift" in each key market to estimate the change for use in the market sensitivity analysis above.

Disclosures above are shown in absolute terms, changes and impacts could be positive or negative. Changes in market index % are revised annually depending on management's current view of market volatility and other relevant factors.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is generally lower for shorter-term investments and higher for longer-term investments.

The majority of the Fund's financial assets and liabilities are interest bearing; as a result, the Fund is subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

The table below summarises the Fund's exposure to interest rate risk. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

As at 30th June 2018

	Up to 1 year <i>US\$</i>	1-5 years <i>US\$</i>	Over 5 years <i>US\$</i>	Non-interest bearing <i>US\$</i>	Total <i>US\$</i>
Assets					
Investments	205,286,809	1,480,368,561	2,017,436,158	-	3,703,091,528
Cash at banks	13,309,163	-	-	-	13,309,163
Amounts due from brokers	-	-	-	81,292,908	81,292,908
	<u>218,595,972</u>	<u>1,480,368,561</u>	<u>2,017,436,158</u>	<u>81,292,908</u>	<u>3,797,693,599</u>
Total assets					
	<u>218,595,972</u>	<u>1,480,368,561</u>	<u>2,017,436,158</u>	<u>81,292,908</u>	<u>3,797,693,599</u>
Liabilities					
Amounts due to brokers	-	-	-	(87,976,464)	(87,976,464)
Other liabilities	-	-	-	(8,694,907)	(8,694,907)
Net assets attributable to holders of redeemable units	-	-	-	(3,701,022,228)	(3,701,022,228)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,797,693,599)</u>	<u>(3,797,693,599)</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,797,693,599)</u>	<u>(3,797,693,599)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,797,693,599)</u>	<u>(3,797,693,599)</u>
Total interest sensitivity gap					
	<u>218,595,972</u>	<u>1,480,368,561</u>	<u>2,017,436,158</u>		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest rate risk (Continued)

As at 30th June 2017

	Up to 1 year US\$	1-5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
Assets					
Investments	176,332,593	1,507,049,911	2,224,227,951	-	3,907,610,455
Cash at banks	14,930,650	-	-	-	14,930,650
Amounts due from brokers	-	-	-	24,119,685	24,119,685
Other assets	-	-	-	1	1
Total assets	191,263,243	1,507,049,911	2,224,227,951	24,119,686	3,946,660,791
Liabilities					
Amounts due to brokers	-	-	-	(33,279,804)	(33,279,804)
Other liabilities	-	-	-	(9,386,460)	(9,386,460)
Net assets attributable to holders of redeemable units	-	-	-	(3,903,994,527)	(3,903,994,527)
Total liabilities	-	-	-	(3,946,660,791)	(3,946,660,791)
Total interest sensitivity gap	191,263,243	1,507,049,911	2,224,227,951		

At 30th June 2018, should interest rates have lowered/risen by 50 basis points (2017: 50 basis points) with all other variables remaining constant, the increase/decrease in net assets attributable to holders of redeemable units for the year would amount to approximately US\$124,127,783 and US\$115,951,702 respectively (2017: US\$130,620,619 and US\$122,383,282), arising substantially from the increase/decrease in market values of debt securities.

Assumption: The change is based on the historical interest rate fluctuations and would be revised when there is evidence that interest rates have become significantly more volatile.

The Manager manages the investment portfolio by ensuring that the Fund replicates the Underlying Index movements effectively based on market exposures as well as duration risks across the yield curve.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(d) Credit and counterparty risk

Credit and counterparty risk is the risk that an issuer or counterparty will be unable or unwilling to pay amounts in full when due.

All transactions in securities are settled/paid for upon delivery using approved brokers. The risk of default from transactions is considered minimal, as delivery of securities sold is only made when the broker has received payment. Payment is made on a purchase when the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Fund's financial assets which are potentially subject to concentration of counterparty risk consist principally of bank deposits and assets held with the custodians.

The table below summarises the assets placed with banks and custodians at 30th June 2018 and 2017:

As at 30th June 2018

	US\$	Credit rating	Source of credit rating
Custodians and Banks			
The Hongkong & Shanghai Banking Corporation Limited	3,716,400,691	Aa3	Moody's

As at 30th June 2017

	US\$	Credit rating	Source of credit rating
Custodians and Banks			
The Hongkong & Shanghai Banking Corporation Limited	3,922,541,105	Aa2	Moody's

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. FINANCIAL RISK MANAGEMENT (Continued)

(d) Credit and counterparty risk (Continued)

The table below categorised the investment portfolio by credit rating sourced from Markit iBoxx and supplemented by Standard & Poor's (converted to the Markit iBoxx credit rating for disclosure purpose):

Portfolio by rating category

Rating (Markit iBoxx)	2018 % of Investment	2017 % of Investment
AAA	14	23
AA	25	40
A	35	11
BBB	22	22
Non-rated	4	4
	100	100
Total	100	100

The maximum exposure to credit and counterparty risk as at 30th June 2018 and 2017 is the carrying amount of the financial assets as set out below:

	2018 US\$	2017 US\$
Investments	3,703,091,528	3,907,610,455
Amounts due from brokers	81,292,908	24,119,685
Interest receivable	–	1
Cash at banks	13,309,163	14,930,650
	3,797,693,599	3,946,660,791
	3,797,693,599	3,946,660,791

None of these assets are impaired nor past due but not impaired.

The Manager limits the Fund's exposure to counterparty risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings and that the Manager considers to be well established.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty or incur higher costs in settling a liability, including a redemption request.

The Fund is exposed to daily redemptions of units in the Fund. The Manager invests the majority of the Fund's assets in investments that are traded in an active market which can be readily disposed of.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the year-end date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month <i>US\$</i>	1 month to less than 3 months <i>US\$</i>	Over 3 months <i>US\$</i>
As at 30th June 2018			
Amounts payable on redemption	1,132,451	–	–
Amounts due to brokers	87,976,464	–	–
Audit fee payable	–	72,040	–
Trustee fee payable	–	149,312	–
Management fee payable	–	1,055,148	–
Index license fee payable	–	120,256	–
Other payables	37,451	89,547	6,038,702
Net assets attributable to holders of redeemable units	<u>3,701,022,228</u>	<u>–</u>	<u>–</u>
Contractual cash out flows	<u>3,790,168,594</u>	<u>1,486,303</u>	<u>6,038,702</u>
As at 30th June 2017			
Amounts payable on redemption	2,295,278	–	–
Amounts due to brokers	33,279,804	–	–
Audit fee payable	–	74,518	–
Trustee fee payable	–	161,327	–
Management fee payable	–	1,422,383	–
Index license fee payable	–	121,216	–
Other payables	13,976	109,190	5,188,572
Net assets attributable to holders of redeemable units	<u>3,903,994,527</u>	<u>–</u>	<u>–</u>
Contractual cash out flows	<u>3,939,583,585</u>	<u>1,888,634</u>	<u>5,188,572</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(e) Liquidity risk *(Continued)*

Units are redeemed on demand at the holder's option. However, the Trustee and the Manager do not envisage that the contractual maturity disclosed in the tables above will be representative of the actual cash outflows, as the holders typically retain their units for the medium to long term. At 30th June 2018 and 2017, there were 2 unitholders, which were the nominee account holders of the Fund holding more than 10% of the Fund's units. Please refer to note 13 for details.

The Fund manages its liquidity risk by investing in investments that it expects to be able to liquidate within one month or less. The following table illustrates the expected liquidity of assets held:

	Less than 1 month <i>US\$</i>	1-12 months <i>US\$</i>
As at 30th June 2018		
Total assets	<u>3,797,693,599</u>	<u>–</u>
	Less than 1 month <i>US\$</i>	1-12 months <i>US\$</i>
As at 30th June 2017		
Total assets	<u>3,946,660,791</u>	<u>–</u>

(f) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund has assets and liabilities denominated in currencies other than US dollars, the functional currency. The Fund is therefore exposed to currency risk, as the value of the assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates. Although the Fund has not actively engaged in hedging activities, the Manager may enter into spot and forward foreign exchange contracts from time to time to hedge against the fluctuations in exchange rates in relation to the settlement of creation and redemption of units, and other operational uses such as covering the Fund's exposure to currency risk from re-balancing the portfolios prior to market closure due to holiday.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(f) Currency risk *(Continued)*

The table below summarises the Fund's monetary exposure to currency risks:

	2018	2017
	US\$	US\$
	<i>equivalents</i>	<i>equivalents</i>
Hong Kong Dollar	329,366,690	340,958,041
Indonesian Rupiah	283,459,165	304,932,784
Malaysian Ringgit	412,871,787	438,382,932
Philippine Peso	215,387,906	235,108,350
Renminbi	897,457,451	904,280,659
Singapore Dollar	580,031,150	631,289,945
South Korean Won	616,675,797	671,527,273
Thai Baht	366,480,362	382,240,958

The table below summarises the impact on net assets attributable to holders of redeemable units as a result of increases/decreases of key exchange rates on the exposures tabled above, to which the Fund is exposed. The analysis is based on the assumption that the exchange rates had increased/decreased by the respective percentage (based on historical currency fluctuations and would be revised when the currency have become significantly more volatile) with all other variables held constant.

	2018		2017	
	Change	Impact	Change	Impact
	%	US\$	%	US\$
	+/-	+/-	+/-	+/-
Hong Kong Dollar	1	3,293,667	1	3,409,580
Indonesian Rupiah	12	34,015,100	12	36,591,934
Malaysian Ringgit	12	49,544,614	11	48,222,123
Philippine Peso	12	25,846,549	11	25,861,919
Renminbi	11	98,720,320	8	72,342,453
Singapore Dollar	8	46,402,492	8	50,503,196
South Korean Won	12	74,001,096	11	73,868,000
Thai Baht	12	43,977,643	11	42,046,505

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(g) Emerging market risk

The Fund invests in certain Asian bond markets that are considered to be emerging markets. These markets are subject to special risks associated with foreign investment in these emerging markets including, but not limited to: generally less efficient securities markets; generally greater price volatility; exchange rate fluctuations and exchange controls; imposition of restrictions on the expatriation of funds or other assets; less publicly available information about issuers; the imposition of taxes; higher transaction and custody costs; settlement delays and risk of loss; difficulties in enforcing contracts; lesser regulation of securities markets; smaller market capitalization; different accounting and disclosure standards; governmental interference; greater risk of market shutdown; the risk of expropriation of assets; higher inflation; and social, economic and political uncertainties.

The Fund is designed to track the performance of the Underlying Index, a broad Asian local currency bond index; therefore the exposure to emerging market risk in the Fund will be substantially the same as the Underlying Index. As an index fund, the Manager manages the Fund's exposure to emerging market risk by ensuring that the key characteristics of the Fund, such as market weights and duration, are closely aligned to the characteristics of the Underlying Index.

(h) Capital risk management

The Fund's capital is represented by the net assets attributable to holders of redeemable units. The amount of net assets attributable to holders of redeemable units can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of the holders of redeemable units. The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for the holders of redeemable units and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

In order to maintain or adjust the capital structure, the Fund's policy is to perform the following:

- monitor the level of daily subscriptions and redemptions relative to the liquid assets; and
- redeem and issue units in accordance with the Trust Deed and supplemental deeds.

The Trustee and Manager monitor capital on the basis of the value of net assets attributable to holders of redeemable units.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Fair value estimation

The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Fund is the current bid price.

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 carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

IFRS 13, requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

10. FINANCIAL RISK MANAGEMENT *(Continued)*

(i) Fair value estimation *(Continued)*

The following table analyses within the fair value hierarchy the Fund's investments (by class) measured at fair value at 30th June 2018 and 2017:

As at 30th June 2018	Level 1 <i>US\$</i>	Level 2 <i>US\$</i>	Level 3 <i>US\$</i>	Total balance <i>US\$</i>
Investments				
– Debt securities	–	3,703,091,528	–	3,703,091,528
	–	3,703,091,528	–	3,703,091,528
	<u>–</u>	<u>3,703,091,528</u>	<u>–</u>	<u>3,703,091,528</u>
As at 30th June 2017	Level 1 <i>US\$</i>	Level 2 <i>US\$</i>	Level 3 <i>US\$</i>	Total balance <i>US\$</i>
Investments				
– Debt securities	–	3,907,610,455	–	3,907,610,455
	–	3,907,610,455	–	3,907,610,455
	<u>–</u>	<u>3,907,610,455</u>	<u>–</u>	<u>3,907,610,455</u>

Investments whose values are based on quoted market prices in active markets are classified within Level 1. As of 30th June 2018 and 2017, the Fund did not hold any investments classified in Level 1.

Financial instruments that trade in markets that are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. As of 30th June 2018 and 2017, the Fund held investments in debt securities which were classified in Level 2.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently. As of 30th June 2018 and 2017, the Fund did not hold any investments classified in Level 3.

There was no transfer between levels for the years ended 30th June 2018 and 2017.

The assets and liabilities included in the Statement of Net Assets, except for investments are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

11. SOFT DOLLAR PRACTICES

The Manager may effect transactions, provided that any such transaction is consistent with standards of "best execution", by or through the agency of another person for the account of the Fund with whom the Manager or any of its Connected Persons have an arrangement under which that party will from time to time provide to or procure for the Manager or any of its Connected Persons goods, services or other benefits (such as research and advisory services, computer hardware associated with specialised software or research services and performance measures) the nature of which is such that their provision can reasonably be expected to benefit the Fund as a whole and may contribute to an improvement in the performance of the Fund. For the avoidance of doubt, such goods and services may not include travel, accommodation, entertainment, general administrative goods or services, general office equipment or premises, membership fees, employees' salaries or direct money payments.

The Manager has not participated in any soft dollar arrangements in respect of any transactions for the account of the Fund.

12. DISTRIBUTIONS

	2018	2017
	<i>US\$</i>	<i>US\$</i>
Interim distribution		
– US\$1.74 on 33,021,584 units paid on 1st February 2018	57,457,556	–
– US\$1.52 on 33,739,624 units paid on 7th February 2017	–	51,284,228
Final distribution		
– US\$1.65 on 33,948,734 units paid on 3rd August 2017	56,015,411	–
– US\$1.25 on 32,457,054 units paid on 4th August 2016	–	40,571,318
	–	40,571,318
Total distribution	113,472,967	91,855,546

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

13. SEGMENT INFORMATION

The Manager makes the strategic resource allocations on behalf of the Fund. The Fund has determined the operating segments based on the reports reviewed by the Manager, which are used to make strategic decisions.

The Manager is responsible for the Fund's entire portfolio and considers the business to have a single operating segment. The Manager's asset allocation decisions are based on a single, integrated investment strategy and the Fund's performance is evaluated on an overall basis.

The investment objective of the Fund is to seek to provide investment results that correspond to the total return of the Markit iBoxx ABF Pan-Asia Index, before fees and expenses.

The internal reporting provided to the Manager for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRSs.

There were no changes in the reportable segments during the years ended 30th June 2018 and 2017.

All activities of the Fund are in a single business of investment activities conducted mainly in the Asia Pacific region. The Fund's income is from investments in debt securities issued by organisations in the Asia Pacific region.

The Fund has no assets classified as non-current assets. The Fund has a diversified portfolio of investments. Please refer to note 10 for investment holdings issued by a single issuer that account for more than 10% of the Fund's net assets.

The underlying index of the Fund namely Markit iBoxx ABF Pan-Asia Index, did not have any constituent stock that accounted for more than 10% of the index as at 30th June 2018 (2017: Nil).

The Fund also has a diversified unitholder population. As at 30th June 2018, there were 2 unitholders, which were the nominee account holders of the Fund (2017: two unitholders) holding more than 10% of the Fund's units. The two nominee account holders hold 85% and 11% (2017: 80% and 12%) of the Fund's units as at 30th June 2018.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

14. SUPPLEMENTAL RATIOS

	2018	2017
Expense ratio ¹	0.18%	0.19%
Turnover ratio ²	41.46%	24.02%

¹ The expense ratio has been computed based on the guidelines laid down by the Investment Management Association of Singapore ("IMAS"). The calculation of the expense ratio at financial year end was based on total operating expenses of US\$6,924,242 (2017: US\$7,261,884) divided by the average net asset value of US\$3,894,741,334 (2017: US\$3,921,577,363) for the year. The total operating expenses do not include (where applicable) brokerage and other transactions costs, performance fee, interest expense, distribution paid out to unitholders, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other funds and tax deducted at source or arising out of income received. The Fund does not pay any performance fee. The average net asset value is based on the daily balances.

² The portfolio turnover ratio is calculated in accordance with the formula stated in the Code on Collective Investment Schemes. The calculation of the portfolio turnover ratio was based on the lower of the total value of purchases or sales, being purchases of US\$1,614,654,216 (2017: sales of US\$941,927,694) of the underlying investments, divided by the average daily net asset value of US\$3,894,741,334 (2017: US\$3,921,577,363). In line with Statement of Recommended Accounting Practice 7 "Reporting framework for Unit Trusts" ("RAP 7") issued by the Institute of Singapore Chartered Accountants, total value of purchases or sales for the current year do not include brokerage and other transaction costs.

15. EVENT OCCURRING AFTER YEAR END DATE

Subsequent to the year end, the Fund announced a dividend distribution of US\$1.84 per unit on 17th July 2018. The dividend was paid on 2nd August 2018. The net assets attributable to holders of redeemable units as at 30th June 2018 has not accrued the dividend distribution payable as mentioned above.

The Trustee appointed HSBC Bank Plc (connected person of the Trustee) as the stock lending agent for stock lending transactions after the year ended 30th June 2018.

On 30 August 2018, the Standing Committee of the State Council proposed a three-year exemption from Corporate Income Tax (CIT) and Value Added Tax (VAT) on interest income derived by overseas investors from their investment in China bond markets. However, the specific tax regulation has not been issued as at 26th September 2018 and there are some issues such as the effective date of the exemption and applicable participants for the exemption, etc. remain unclear as at 26th September 2018. The impact can only be assessed when there are further updates.

16. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Trustee and the Manager on 26th September 2018.