

FRANKLIN MALAYSIA SUKUK FUND

Audited Annual Report
30 September 2020



FRANKLIN
TEMPLETON

FRANKLIN MALAYSIA SUKUK FUND

AUDITED ANNUAL REPORT FOR THE FINANCIAL PERIOD ENDING 30 SEPTEMBER 2020

- I. GENERAL INFORMATION ABOUT THE FUND
- II. MANAGER'S REPORT
- III. FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2019 TO 30 SEPTEMBER 2020

FRANKLIN MALAYSIA SUKUK FUND

I. GENERAL INFORMATION ABOUT THE FUND

Launch and Commencement Date

The Franklin Malaysia Sukuk Fund (the "Fund") was launched on 18 November 2015 and commenced its operations on 9 December 2015.

Fund Name, Category, Type

Fund Name	Franklin Malaysia Sukuk Fund
Fund Category	Sukuk
Fund Type	Growth and income
Share Classes	Class A (MYR) and Class I (MYR)
Performance Benchmark	Refinitiv BPAM 3-7 year Sukuk Index (Formerly known as Thomson Reuters BPAM 3-7 year Sukuk index) <i>Please note that the risk profile of the Fund may be higher than the risk profile of the benchmark</i>
Distribution Policy	<ul style="list-style-type: none">• Class A (MYR) – Subject to the availability of income, distribution is at least on a yearly basis. However, the Manager currently intends to distribute on a quarterly basis.• Class I (MYR) – Subject to the availability of income, distribution is at least on a yearly basis. <i>*Distributions (if any) may be paid by cash or reinvested as additional Units of the Fund</i>

Investment Objective

The Fund is a retail unit trust fund that seeks to maximise total investment return consisting of profit income* and capital gains in the long term through investments primarily in RM-denominated sukuk.

**Distributions (if any) may be paid by cash or reinvested as additional Units of the Fund. At least 2% of the Fund's NAV will comprise of RM-denominated Islamic Liquid Assets, for purposes of (including but are not limited to) meeting redemption requests, meeting liquidity needs and/or defraying Fund expenses.*

Investment Policy and Strategy

The Fund seeks to achieve its objective by investing a minimum of 70% of its NAV in RM-denominated sukuk which are issued or guaranteed by governments, quasi-government entities and/or government related entities, or issued by corporate entities which are incorporated or domiciled anywhere in the world.

The Fund may also invest up to 20% of its NAV in non RM-denominated Islamic Instruments such as non RM-denominated sukuk, Islamic commercial papers, Islamic negotiable instruments, short term Islamic money market instruments, Islamic deposits and/or any other fixed income investments which comply with the Shariah Principles which are issued or guaranteed by governments, quasi-government entities and/or government related entities, or issued by corporate entities incorporated or domiciled in the Asian region (which includes, without limitation, Singapore, Indonesia, China, Hong Kong, Japan and Brunei). The fund manager may also invest the NAV of the Fund in any other countries worldwide (where the regulatory authority of the countries in which the Fund invests is an ordinary or associate member of the IOSCO) if the fund manager sees a potential in the Islamic fixed income market in those countries. The Fund's maximum exposure to any single country other than Malaysia shall not exceed 15% of the Fund's NAV at the time of purchase. In addition, the Fund's investment in non RM-denominated Islamic Instruments may include non RM-denominated units of Shariah-compliant fixed-income collective investment schemes (including ETFs).

The balance of the Fund's NAV not invested in RM-denominated sukuk and non RM-denominated Islamic Instruments will be invested in Other RM-denominated Islamic Instruments such as RM-denominated Islamic commercial papers, RM-denominated Islamic negotiable instruments issued or guaranteed by governments, quasi-government entities and/or government related entities, or issued by corporate entities which are incorporated or domiciled anywhere in the world and RM-denominated Islamic Liquid Assets such as short term Islamic money market instruments, Islamic

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deposits and/or cash. The Manager may adopt temporary defensive strategies by lowering the Fund's exposure to RM-denominated sukuk below the stated minimum 70% of its NAV and by increasing the Fund's exposure to RM-denominated Islamic Liquid Assets in adverse market conditions or if the fund manager is of the view that investments in RM-denominated Islamic Liquid Assets during such period may offer more attractive investment opportunities compared to investments in sukuk.

The fund manager targets to build a portfolio of RM-denominated and non RM-denominated instruments which, at the time of purchase, have a minimum credit rating of BBB3 by RAM or have an equivalent credit rating by MARC or any other recognised credit rating agency. If an instrument is not rated, it may be added to the portfolio of the Fund if, at the time of purchase, the issuer of the instrument has a minimum credit rating of BBB3 by RAM or has an equivalent credit rating by MARC or any other recognised credit rating agency. If an instrument and its issuer are both unrated, the instrument may be added to the portfolio of the Fund if, at the time of purchase, the instrument is assigned an internal rating which in the opinion of the Manager is the equivalent of (or higher than) BBB3 by RAM or an equivalent credit rating by MARC or any other recognised credit rating agency in accordance with its internal guidelines.

If an instrument that the Fund invests in falls below the minimum credit rating stated above or goes into default, the Manager may either dispose of the instrument if the Manager is of the opinion that it is in the best interest of Unit Holders, or continue to hold on to the downgraded or defaulted instrument if the Manager is of the opinion that the immediate disposal of the instrument would not be in the best interest of Unit Holders.

While foreign exchange is not expected to be a primary source of returns for the Fund, it may potentially generate some returns as the Fund may invest up to 20% of its NAV in non RM-denominated Islamic Instruments. On the other hand, the value of the Fund's investments in non RM-denominated Islamic Instruments may depreciate due to movements in the exchange rate between Ringgit Malaysia and the currency of the foreign countries that the Fund invests in. The performance and the NAV of the Fund may be adversely affected as a result of such currency loss. The Manager may also employ Shariah-compliant hedging instruments to reduce the Fund's exposure to foreign exchange fluctuations and for efficient portfolio management from time to time. The hedging tools that the Manager may utilise include, but are not limited to, Islamic foreign exchange forwards and profit rate swaps.

The Manager's investment process uses a mix of bottom up, top down and quantitative approaches.

ASSET ALLOCATION

- A minimum of 70% of its NAV in RM-denominated sukuk;
- Up to 20% of its NAV in non RM-denominated Islamic Instruments;
- At least 2% of its NAV in RM-denominated Islamic Liquid Assets; and
- The balance of its NAV, not invested in RM-denominated sukuk, non RM-denominated Islamic Instruments or RM-denominated Islamic Liquid Assets, in Other RM-denominated Islamic Instruments;

where:

- a. "non RM-denominated Islamic Instruments" include:
 - i) non RM-denominated sukuk;
 - ii) non RM-denominated Islamic commercial papers;
 - iii) non RM-denominated Islamic negotiable instruments;
 - iv) non RM-denominated short term Islamic money market instruments;
 - v) non RM-denominated Islamic deposits;
 - vi) non RM-denominated units of Shariah-compliant fixed-income collective investment schemes including ETFs); and/or
 - vii) any other non RM-denominated fixed income investments which comply with the Shariah Principles which are issued or guaranteed by governments, quasi-government entities and/or government related entities, or issued by corporate entities which are incorporated or domiciled in the Asian region (which includes, without limitation, Singapore, Indonesia, China, Hong Kong, Japan and Brunei), or in

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- any other countries worldwide (where the regulatory authority of the countries in which the Fund invests is an ordinary or associate member of the IOSCO) if the fund manager sees a potential in the Islamic fixed income market in those countries.
- b. "RM-denominated Islamic Liquid Assets" include RM-denominated short term Islamic money market instruments, Islamic deposits and/or cash; and
 - c. "Other RM-denominated Islamic Instruments" include:
 - i) RM-denominated Islamic commercial papers;
 - ii) RM-denominated Islamic negotiable instruments; and/or
 - iii) any other RM-denominated fixed income investments which comply with the Shariah Principles.

BREAKDOWN OF UNITHOLDINGS BY SIZE AS OF 30 SEPTEMBER 2020

BREAKDOWN OF UNITHOLDINGS BY SIZE – CLASS A

Size of Unit Holdings (Units)	No. of Unit Holders	No. of Units Held (in Millions)
5,000 and below	2	0
5,001-10,000	0	0
10,001-50,000	0	0
50,001-500,000	3	0.83
500,001 and above	1	18.95
Total	6	19.78

BREAKDOWN OF UNITHOLDINGS BY SIZE – CLASS I

Size of Unit Holdings (Units)	No. of Unit Holders	No. of Units Held (in Millions)
5,000 and below	0	0
5,001-10,000	0	0
10,001-50,000	0	0
50,001-500,000	0	0
500,001 and above	1	1.20
Total	1	1.20

II. MANAGER'S REPORT

MARKET REVIEW

It was an unprecedented year for the global economy during the period under review, with the emergence of COVID-19 at end-2019. The pandemic is severely impacting the growth trajectory of economies globally. For bond market, the Financial Year 2020 has seen a bullish yield trend, specifically in the last three quarters. It started off in October 2019 with the Malaysia Government Securities (MGS) trading sideways but soon shifted lower as economic activity contracted sharply due to measures introduced to contain the pandemic globally and domestically. From January – September 2020 period, Malaysian sovereign yields declined by 100 basis points (bps) to close at 1.98% on the 3-year segment, and the 10-year trended lower by 67bps to 2.67%. The 20-year MGS rallied by 38bps in the same period to 3.36%. The larger drop on the tail end of the curve has bull steepened the MGS curve. As at end-September 2020, the 10/3 year spread stood at 69bps, while the 20/3 year spread was at 138bps. The bullish yield trend can be mainly attributed to the series of Overnight Policy Rate (OPR) cuts by Bank Negara Malaysia since the beginning of 2020 and the low interest rate environment globally. Since January this year, BNM has slashed the OPR four times for a cumulative 125bps reduction, from 3.00% to 1.75%.

Secondary liquidity for the Malaysian sovereign bonds has improved this financial year compared to the previous year. For the 12 months ended September 2020, the total sovereign bonds traded (MGS and Malaysian Government Investment Issues (MGII)) was higher by 18.6%, at RM1,052bn (2019: RM886bn, 2018: RM599bn). This was despite the volatility caused by the change of the Malaysian ruling government and the global spread of the COVID-19.

On the other hand, corporate bonds saw a slightly weaker performance compared to the previous year. This was probably due to the Movement Control Order (MCO) imposed in the country for three months from March-May 2020, which is usually the busiest period of the year for corporate issuances. However, issuance recovered quickly and is expected to increase further in the last quarter of 2020 as corporate issuers seek to capitalise on the low rate environment for cheaper funding. In terms of rating migration for the year, there were 8 upgrades and 5 downgrades seen in 2020. This was a significant improvement from the negative trend in the last two years (2019: 6 downgrades, 1 upgrade; 2018: 10 downgrades, 0 upgrade).

The Malaysian economy as well as the global economy is expected to contract in 2020 due to the severe economic impact from the COVID-19 pandemic. Malaysia's gross domestic product (GDP) contracted 17.1 per cent year-on-year in the second quarter of 2020 (2Q2020). However, the worst seems to be over, as following the gradual and progressive re-opening of the economy since early May, economic activities have begun to recover from the trough in 2Q2020. The fiscal stimulus packages, alongside monetary and financial measures, will continue to underpin the improving economic outlook. Recovery was also seen in the labour market as unemployment rate dropped from the 30 years peak of 5.3% in May to 4.7% in September. Malaysia's GDP growth and inflation in 2020 is expected to hit -4.9% and -0.3% respectively.

Foreign holdings of the MGS saw a marginal increase from 37.5% recorded at the end of last financial year (September 2019) to 38.8% as of September 2020. It took a dip during the financial year as there were net foreign outflows for two consecutive months in February and March 2020. The unprecedented COVID-19 pandemic has caused a gloomy economic outlook and risk-off sentiment in the financial market. There was a selling pressure on MGS and GII as foreign investors flocked to U.S. Treasuries on safe-haven bids. However, since June 2020, foreign holding of MGS saw four consecutive months of net inflows. The FTSE Russell World Government Bond Index (WGBI) announcement on 24 September 2020 that the nation still remained on watch-list was shrugged-off due to the risk-on appetite for Asian Rates asset class and potential yield-carry requirements by real money investors. Besides, expectations of current low rates are being anchored due to the economic threat by ongoing COVID-19 virus infections.

Currency wise, the MYR initially depreciated against the US Dollar (USD) in the first quarter of 2020 (1Q2020) to a low of RM4.45/USD but strengthened from then on amid the surge in COVID-19 cases in the U.S. and weak economic data. The MYR was trading at about 4.11- 4.17 in September 2020.

MANAGER'S REPORT (CONTINUED)

MARKET OUTLOOK

Bank Negara Malaysia (BNM) has revised the full year GDP for 2020 to -3.5% to -5.5% due to changes in global growth forecast and the lockdown imposed during the second wave of the COVID-19 pandemic. Fiscal deficit target was also revised higher to 5.8% to 6.0%, much higher than the previously announced 3.2%. This is needed to provide a fiscal boost to the economy given the severity of the impact from COVID-19. BNM has utilised the monetary policy tool by aggressively lowering the policy rates to record low of 1.75% during the period under review.

The impact of BNM putting monetary policy on hold with higher fiscal spending will lead to upward yield pressure we are expecting bond yields to increase by 20bps to 40bps in 2021 especially on the longer end of the curve. Although we expect a low interest environment until 2021 due to lack of growth, bond yields may continue to be weak due to higher supply risk of government issuance as well as corporates, both taking advantage to tap the market at this low interest rate.

To mitigate the impact of rising yields, we positioned the portfolio to be short duration and focus on protecting the capital by investing mainly in high quality corporate sukuk instead of long tenor government securities. We believe this portfolio positioning will achieve our fund objective of providing higher return than bank deposit but with reasonable risk reward to unit holders.

REVIEW OF THE FUND PERFORMANCE DURING THE PERIOD

Franklin Malaysia Sukuk Fund delivered a positive net return for both share classes: 5.95% for Class I and 5.75% for Class A, respectively for the period from 1 October 2019 to 30 September 2020.

Both share classes trailed the benchmark, Refinitiv BPAM 3-7 Year Sukuk Index, which returned 7.63%, by 167bps for the Class I and 188bps for the Class A, in net terms.

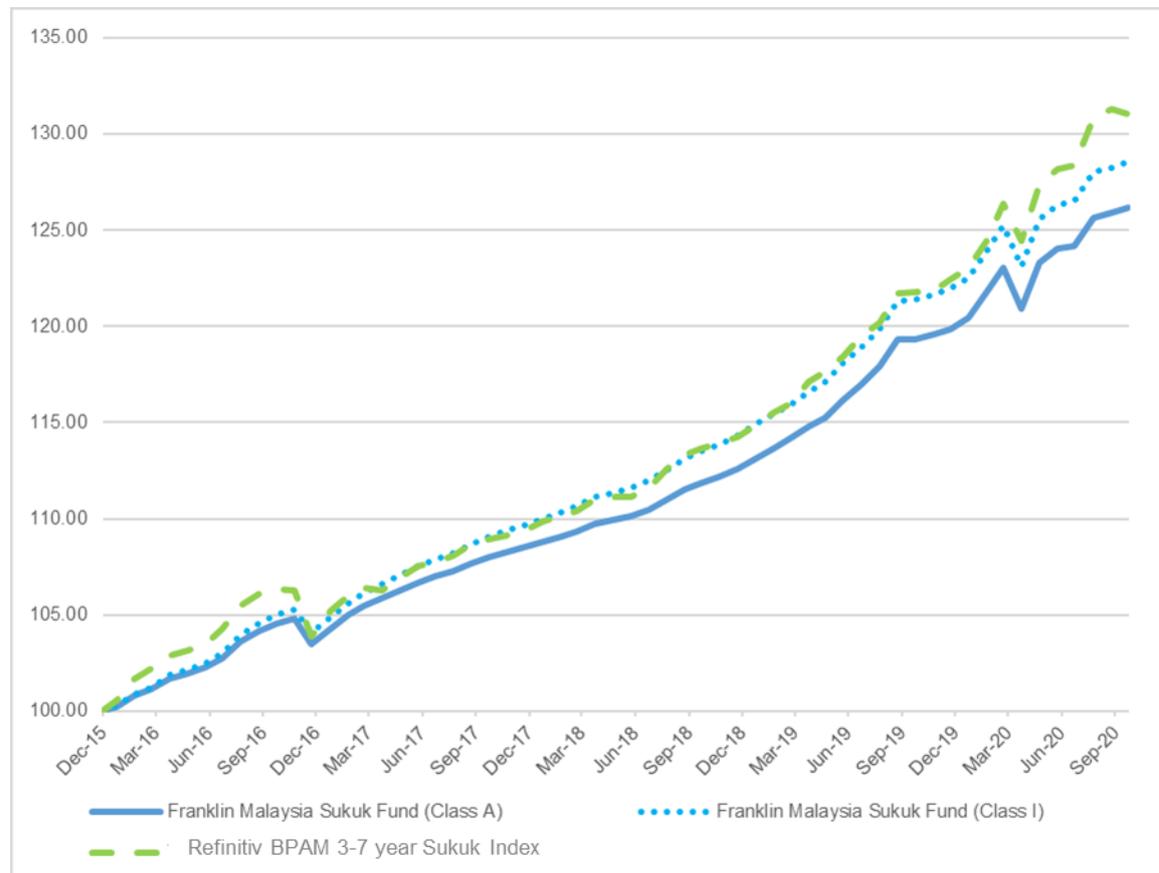
Yield curve positioning detracted due to the Fund's underweighted duration positioning, relative to the benchmark. Security selection detracted marginally as well, due to selection in Corporate Industrial issuers and Treasuries, but positive selection effect in Financial Institutions helped.

The Net Asset Value (NAV) per unit of the Fund as of 30 September 2020 is RM1.0753 (Class A) and RM1.0717 (Class I) while the NAV per unit at 30 September 2019 is RM1.0573 (Class A) and RM1.0610 (Class I). During the period under review, the Fund also made four quarterly distributions (RM0.0100, RM0.0150, RM0.0080, and RM0.0080) for the Class A, and one annual distribution of RM0.0500 for the Class I (in net terms) and had the effect of reducing the NAV of the Fund after distribution.

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MANAGER'S REPORT (CONTINUED)

Fund Performance since inception vs benchmark



Source for Funds' Return: Franklin Templeton, as of 30 September 2020.
Source for Refinitiv BPAM 3-7 year Sukuk Index: Refinitiv

The Fund has achieved its objective to maximise total investment return consisting in the long term through investments primarily in RM-denominated sukuk.

ASSET ALLOCATION

	30 September 2020	30 September 2019
Fixed Income	93.85%	93.27%
Cash & Other Net Assets	6.15%	6.73%

There were no significant changes in asset allocation of the Fund for the period under review.

PORTFOLIO POSITIONING

Our strategy is to remain primarily invested in corporate Sukuk in order to earn higher yield pickup than MGS, as well as to maintain marginally lower duration compared to that of the benchmark.

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MANAGER'S REPORT (CONTINUED)

FUND PERFORMANCE DATA

As of 30 September 2020

Annual Total Return

	FY2020 (1 Oct 2019 – 30 Sep 2020)	FY2019 (1 Oct 2018 – 30 Sep 2019)	FY2018 (1 Oct 2017 – 30 Sep 2018)
Franklin Malaysia Sukuk Fund – Class A (MYR)*	5.75%	6.70%	3.53%
Franklin Malaysia Sukuk Fund – Class I (MYR)*	5.95%	6.93%	4.07%
The Fund's benchmark**	7.63%	7.14%	4.35%

Average Total Returns

	1 Year (1 Oct 2019 – 30 Sep 2020)	3 Years (1 Oct 2017 – 30 Sept 2020)	Since Inception (8 December 2015)
Franklin Malaysia Sukuk Fund – Class A (MYR)*	5.75%	5.32%	4.95%
Franklin Malaysia Sukuk Fund – Class I (MYR)*	5.95%	5.64%	5.36%
The Fund's benchmark**	7.63%	6.36%	5.78%

* Source of Return: Morningstar. © Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

** The Fund's benchmark: Refinitiv BPAM 3-7 year Sukuk Index. Source: Refinitiv

All performance data shown is in the currency stated, include reinvested dividends and are net of management fees. Sales charges and other commissions, taxes and other relevant costs paid by the investor are not included in the calculations.

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

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MANAGER'S REPORT (CONTINUED)

FUND PERFORMANCE DATA FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2019 – 30 SEPTEMBER 2020

Portfolio composition of the fund

Details of portfolio composition of the Fund are as follows:

	As at 30 September 2020	As at 30 September 2019	As at 30 September 2018
	RM	RM	RM
Unquoted Sukuk	21,170,180	23,947,811	23,353,640
Cash and other net assets	1,387,821	1,729,177	674,884
	22,558,001	25,676,988	24,028,524

	As at 30 September 2020		As at 30 September 2019		As at 30 September 2018	
	Class A	Class I	Class A	Class I	Class A	Class I
Total Net Asset Value (NAV) (RM)	21,272,128	1,285,873	24,463,388	1,213,600	22,893,199	1,135,325
NAV per Unit (RM)	1.0753	1.0717	1.0573	1.0610	1.0293	1.0368
Units in Circulation	19,782,734.27	1,199,858.25	23,137,018.72	1,143,873.82	22,241,360.08	1,095,054.59
Highest NAV per Unit (RM)	1.0754	1.0718	1.0590	1.0626	1.0300	1.0633
Lowest NAV per Unit (RM)	1.0389	1.0195	1.0205	1.0049	1.0171	1.0047
Total Return (%)	5.75	5.95	6.70	6.93	3.53	4.07
- Capital Return (%)	1.70	1.01	2.72	2.33	-0.14	-1.67
- Income Return (%)	4.05	4.94	3.98	4.60	3.67	5.74

	As at 30 September 2020		As at 30 September 2019		As at 30 September 2018	
Management Expense Ratio (MER) (%) [^]	0.85	0.66	0.86	0.66	1.21	0.69
	As at 30 September 2020		As at 30 September 2019		As at 30 September 2018	
Portfolio Turnover Ratio (PTR) (times) ^{^^}	0.24		0.40		0.15	

[^] The Fund's MER for Class A decreased due to increase in average daily net asset value during the current financial period. There is no change to the Fund's MER for Class I.

^{^^} The Fund's PTR decreased for the financial period under review as there was lower trading activity during the financial period.

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MANAGER'S REPORT (CONTINUED)

**FUND PERFORMANCE DATA
FOR THE FINANCIAL PERIOD FROM 1 OCTOBER 2019 – 30 SEPTEMBER 2020**

Distribution Record Date	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19	28-Jun-19	29-Mar-19	31-Dec-18	28-Sep-18	29-Jun-18	30-Mar-18	29-Dec-17	29-Sep-17
Gross / Net Distribution per Unit (RM) – Class A	0.0080	0.0080	0.0150	0.0100	0.0100	0.0080	0.0130	0.0080	0.0080	0.0080	0.0130	0.0080
Gross / Net Distribution per Unit (RM) – Class I	-	-	0.0500	-	-	-	0.0448	-	-	-	0.0588	-
Cum-date	30-Jun-20	31-Mar-20	31-Dec-19	30-Sep-19	28-Jun-19	29-Mar-19	31-Dec-18	28-Sep-18	29-Jun-18	30-Mar-18	29-Dec-17	29-Sep-17
Cum-NAV (RM) – Class A	1.0664	1.0464	1.0570	1.0573	1.0466	1.0347	1.0331	1.0291	1.0246	1.0259	1.0298	1.0306
Cum-NAV (RM) – Class I	-	-	1.0713	-	-	-	1.0493	-	-	-	1.0631	-
Ex-date	1-Jul-20	1-Apr-20	2-Jan-20	1-Oct-19	1-Jul-19	1-Apr-19	2-Jan-19	1-Oct-18	2-Jul-18	2-Apr-18	2-Jan-18	2-Oct-17
Ex-NAV (RM) – Class A	1.0587	1.0389	1.0423	1.0476	1.0370	1.0270	1.0205	1.0216	1.0171	1.0182	1.0171	1.0229
Ex-NAV (RM) – Class I	-	-	1.0216	-	-	-	1.0049	-	-	-	1.0047	-

STATEMENT ON SOFT COMMISSION

The Manager did not receive any soft commission for the period under review from any broker or Dealer for the Fund.

FRANKLIN MALAYSIA SUKUK FUND

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

FRANKLIN MALAYSIA SUKUK FUND

**FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020**

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**STATEMENT BY MANAGER
TO THE UNIT HOLDERS OF FRANKLIN MALAYSIA SUKUK FUND**

I, Nor Hanifah Binti Hashim, being the Director of the Manager, Franklin Templeton GSC Asset Management Sdn. Bhd., for **Franklin Malaysia Sukuk Fund** (“the Fund”) do hereby state that, in the opinion of the Manager, the accompanying financial statements comprising the statement of financial position as at 30 September 2020 of the Fund, and the statements of comprehensive income, changes in net assets attributable to unit holders and cash flows for the financial year then ended, and a summary of significant accounting policies and other explanatory notes:

- (a) are drawn up in accordance with the provisions of the Deed, Malaysian Financial Reporting Standards (“MFRS”) and the International Financial Reporting Standards (“IFRS”); and
- (b) give a true and fair view of the financial position of the Fund as at 30 September 2020 and of its financial performance, changes in net assets attributable to unit holders and cash flows for the financial year then ended.

For and on behalf of the Manager
Franklin Templeton GSC Asset Management Sdn. Bhd.

Nor Hanifah Binti Hashim
Director

Kuala Lumpur
23 November 2020

**TRUSTEE'S REPORT
TO THE UNIT HOLDERS OF FRANKLIN MALAYSIA SUKUK FUND**

We have acted as Trustee for **Franklin Malaysia Sukuk Fund** (the "Fund") for the financial year ended 30 September 2020. To the best of our knowledge, for the financial year under review, **Franklin Templeton GSC Asset Management 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 under the Deed(s), the Securities Commission's Guidelines on Unit Trust Funds, the Capital Markets and Services Act 2007 and other applicable laws;
- (b) valuation and pricing for the Fund is carried out in accordance with the Deed(s) of the Fund and any regulatory requirements; and
- (c) creation and cancellation of units for the Fund are carried out in accordance with the Deed(s) of the Fund and any regulatory requirements.

We are of the view that the distributions made during the financial year ended 30 September 2020 by the Manager are not inconsistent with the objectives of the Fund.

For Deutsche Trustees Malaysia Berhad

Ng Hon Leong
Head, Trustee Operations

Gerard Ang Boon Hock
Chief Executive Officer

Kuala Lumpur
23 November 2020

**SHARIAH ADVISER'S REPORT
TO THE UNIT HOLDERS OF FRANKLIN MALAYSIA SUKUK FUND**

We have acted as the Shariah Adviser for **Franklin Malaysia Sukuk Fund** for the financial year ended 30 September 2020.

In our opinion, **Franklin Templeton GSC Asset Management Sdn. Bhd.** has managed and administered Franklin Malaysia Sukuk Fund in accordance with the Shariah Investment Guidelines of the Fund and complied with applicable guidelines, rulings or decisions issued by the Securities Commission Malaysia ("SC") pertaining to Shariah matters for the financial year ended 30 September 2020.

In addition, we also confirm that the investment portfolio of **Franklin Malaysia Sukuk Fund** comprises instruments which have been classified as Shariah-compliant by the Shariah Advisory Council ("SAC") of the SC and the SAC of Bank Negara Malaysia ("BNM"). For instruments other than the abovementioned, we have reviewed the same and are of the opinion that these instruments comply with the Shariah Investment Guidelines of the Fund.

For and on behalf of Shariah Adviser
AMANIE ADVISORS SDN BHD

Datuk Dr Mohd Daud Bakar
Executive Chairman

Kuala Lumpur
23 November 2020

**INDEPENDENT AUDITORS' REPORT
TO THE UNIT HOLDERS OF FRANKLIN MALAYSIA SUKUK FUND**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Franklin Malaysia Sukuk Fund (“the Fund”) give a true and fair view of the financial position of the Fund as at 30 September 2020, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards.

What we have audited

We have audited the financial statements of the Fund, which comprise the statement of financial position as at 30 September 2020, and the statement of comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 7 to 36.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

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

Independence and other ethical responsibilities

We are independent of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*PricewaterhouseCoopers PLT (LLP 0014401 - LCA & AF 1146), Chartered Accountants,
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**INDEPENDENT AUDITORS' REPORT
TO THE UNIT HOLDERS OF FRANKLIN MALAYSIA SUKUK FUND (CONTINUED)**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Information other than the financial statements and auditors' report thereon

The Manager of the Fund is responsible for the other information. The other information comprises General information about the Fund, Manager's Report, Statement by Manager, Trustee's Report and Shariah Adviser's Report, but does not include the financial statements of the Fund and our auditors' report thereon.

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

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

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

Responsibilities of the Manager for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

**INDEPENDENT AUDITORS' REPORT
TO THE UNIT HOLDERS OF FRANKLIN MALAYSIA SUKUK FUND (CONTINUED)**

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' responsibilities for the audit of the financial statements (continued)

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

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

OTHER MATTERS

This report is made solely to the unit holders of the Fund and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP 0014401 - LCA & AF 1146
Chartered Accountants

Kuala Lumpur
23 November 2020

FRANKLIN MALAYSIA SUKUK FUND

STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020

	Note	2020 RM	2019 RM
ASSETS			
Financial assets at fair value through profit or loss	3	21,170,180	23,947,811
Due from Manager		7,500	3,000
Prepaid Shariah adviser fee		3,366	3,366
Cash and cash equivalents	4	1,406,384	1,754,365
TOTAL ASSETS		22,587,430	25,708,542
LIABILITIES			
Accrued management fee	5	11,771	13,521
Accrued trustee fee	5	1,476	1,480
Other payables and accruals		16,182	16,553
TOTAL LIABILITIES (EXCLUDING NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS)		29,429	31,554
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		22,558,001	25,676,988
REPRESENTED BY:			
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS			
- CLASS A		21,272,128	24,463,388
- CLASS I		1,285,873	1,213,600
		22,558,001	25,676,988
NUMBER OF UNITS IN CIRCULATION			
- CLASS A	6(a)	19,782,734.27	23,137,018.72
- CLASS I	6(b)	1,199,858.25	1,143,873.82
NET ASSET VALUE PER UNIT			
- CLASS A		RM 1.0753	RM 1.0573
- CLASS I		RM 1.0717	RM 1.0610

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

FRANKLIN MALAYSIA SUKUK FUND

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

	Note	1 Oct 2019 to 30 Sep 2020 RM	1 Oct 2018 to 30 Sep 2019 RM
INVESTMENT INCOME			
Profit income	3	1,168,204	1,212,913
Other income		-	2,500
Net gain from financial assets at fair value through profit or loss	3	504,589	605,212
		<u>1,672,793</u>	<u>1,820,625</u>
EXPENSES			
Management fee	5	164,602	158,610
Trustee fee	5	18,000	18,000
Audit fee		9,343	9,315
Professional fee		5,618	5,619
Custodian fee		580	512
Shariah adviser fee		19,080	19,371
		<u>217,223</u>	<u>211,427</u>
NET INCOME BEFORE FINANCE COST AND TAXATION		1,455,570	1,609,198
Finance cost	7	(1,029,767)	(929,123)
NET INCOME AFTER FINANCE COST AND BEFORE TAXATION		425,803	680,075
Taxation	8	-	-
INCREASE IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		425,803	680,075
Increase in net assets attributable to unit holders comprises the following:			
Realised amount		148,391	234,137
Unrealised amount		277,412	445,938
		<u>425,803</u>	<u>680,075</u>

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

FRANKLIN MALAYSIA SUKUK FUND**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020**

	1 Oct 2019 to 30 Sep 2020 RM	1 Oct 2018 to 30 Sep 2019 RM
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE BEGINNING OF THE FINANCIAL YEAR	25,676,988	24,028,524
Movement due to units created and cancelled during the financial year:		
Creation of units	3,026,000	205,318
Cancellation of units	(7,600,557)	(166,052)
Reinvestment of distributions	1,029,767	929,123
	<u>(3,544,790)</u>	<u>968,389</u>
Increase in net assets attributable to unit holders during the financial year	<u>425,803</u>	<u>680,075</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AT THE END OF THE FINANCIAL YEAR	<u><u>22,558,001</u></u>	<u><u>25,676,988</u></u>

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

FRANKLIN MALAYSIA SUKUK FUND

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

	Note	1 Oct 2019 to 30 Sep 2020 RM	1 Oct 2018 to 30 Sep 2019 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sales of financial asset at fair value through profit or loss		10,311,401	9,705,500
Payments for purchase of financial asset at fair value through profit or loss		(7,165,350)	(10,430,270)
Profit income received		1,304,373	1,198,724
Other income received		-	2,500
Management fee paid		(166,352)	(163,352)
Trustee fee paid		(18,004)	(18,000)
Audit fee paid		(9,328)	(9,315)
Professional fee paid		(5,618)	(5,565)
Custodian fee paid		(580)	(512)
Shariah adviser fee paid		(19,080)	(23,870)
Printing fee paid		(386)	(2,252)
Net cash generated from operating activities		4,231,076	253,588
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from creation of units		3,021,500	202,318
Payments for cancellation of units		(7,600,557)	(166,052)
Net cash (used in)/generated from financing activities		(4,579,057)	36,266
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(347,981)	289,854
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		1,754,365	1,464,511
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	4	1,406,384	1,754,365

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

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020

1. THE FUND, THE MANAGER AND ITS PRINCIPAL ACTIVITIES

The Franklin Malaysia Sukuk Fund (the “Fund”) was constituted pursuant to a Deed dated 13 February 2015, between Franklin Templeton GSC Asset Management Sdn. Bhd. (the “Manager”) and Deutsche Trustees Malaysia Berhad (the “Trustee”).

The principal objective of the Fund seeks to maximise total investment return consisting of profit income and capital gains in the long term through investments primarily in Malaysian sukuk. The Fund is a multi-class Fund which offers two classes of units. They are Class A, targeted at retail investors and Class I, targeted at institutional investors. Both are denominated in Ringgit Malaysia.

All investments will be subjected to the Securities Commission (“SC”) Guidelines on Unit Trust Funds, the Deed and the objective of the Fund. The Fund commenced operations on 9 December 2015 and will continue its operations until terminated as provided under Clause 12 of the Deed.

The Manager, a company incorporated in Malaysia, is a wholly owned subsidiary of Franklin Resources Inc., a global investment management organisation. Its principal activities are fund management and investment advisory.

The financial statements have been approved for issue by the Manager on 23 November 2020.

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 the items which are considered material to the financial statements unless otherwise stated.

2.1 Basis of preparation

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

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

The preparation of financial statements in conformity with MFRS and IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year.

It also requires the Manager to exercise their judgement in the process of applying the Fund’s accounting policies. Although these estimates and assumptions are based on the Manager’s best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.13.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(a) Standards, amendments to published standards and interpretations that are effective and applicable to the Fund

The Fund has applied the following interpretation to existing standard and amendments to published standard for the first time for the financial year beginning on 1 October 2019:

- Issues Committee (“IC”) interpretation 23 ‘Uncertainty over Income Tax Treatments’ provides guidance on how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. If an entity concludes that it is not probable that the tax treatment will be accepted by the tax authority, the effect of the tax uncertainty should be included in the period when such determination is made. An entity shall measure the effect of uncertainty using the method which best predicts the resolution of the uncertainty. The adoption of IC interpretation 23 does not give rise to any material financial impact on the financial statements of the Fund.

- Annual improvements to MFRSs 2015 – 2017 Cycle:

Amendments to MFRS 112 ‘Income Taxes’ clarify that where income tax consequences of dividends on financial instruments classified as equity is recognised (either in profit or loss, other comprehensive income or equity) depends on where the past transactions that generated distributable profits were recognised. Accordingly, the tax consequences are recognised in statement of comprehensive income when an entity determines payments on such instruments are distribution of profits (that is, dividends). Tax on dividend should not be recognised in equity merely on the basis that it is related to a distribution to owners. The adoption of interpretation to the existing standard and amendments to published standard did not have any impact on the current year or any prior period and is not likely to affect future periods.

There are no other standards, amendments to standards or interpretations that are effective for annual year beginning on 1 October 2019 that have a material effect on the financial statements of the Fund.

(b) New standards, amendments and interpretations effective after 1 October 2020 and have not been early adopted

Financial year beginning after 1 October 2020

- The Conceptual Framework for Financial Reporting (“Framework”) (effective 1 January 2020):

The Framework was revised with the primary purpose to assist the International Accounting Standards Board (“IASB”) to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an IFRS.

The Malaysian Accounting Standards Board also issued Amendments to References to the Conceptual Framework in MFRS Standards (“Amendments”), to update references and quotations to fourteen standards so as to clarify the version of Conceptual Framework these standards refer to, for which the effective date above applies.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) New standards, amendments and interpretations effective after 1 October 2020 and have not been early adopted (continued)

Financial year beginning after 1 October 2020 (continued)

- The Conceptual Framework for Financial Reporting (“Framework”) (effective 1 January 2020) (continued):

The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

- Amendments to MFRS 101 and MFRS 108 ‘Definition of Material’ (effective 1 January 2020) clarify the definition of materiality and use a consistent definition throughout MFRSs and the Framework. The definition of ‘material’ has been revised as ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity’.

The amendments shall be applied prospectively.

The revised Framework and adoption of the amendments to published standards are not expected to give rise to any material impact on the financial statements of the Fund.

2.2 Financial assets and financial liabilities

2.2.1 Classification

The Fund classifies its financial assets and financial liabilities into the following measurement categories:

- Fair value through profit or loss, or
- Amortised cost

(a) Financial assets at fair value through profit or loss

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

(b) Financial assets at amortised cost

The Fund classifies “Cash and cash equivalents”, “Due from Manager”, “Due from brokers” and “Prepaid Shariah adviser fee” at amortised cost as these financial assets are held to collect contractual cash flows consisting of the amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Financial assets and financial liabilities (continued)

2.2.1 Classification (continued)

(c) Financial liabilities at amortised cost

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The Fund classifies “Due to Manager”, “Due to brokers”, “Accrued management fee”, “Accrued trustee fee” and “Other payables and accruals” at amortised cost.

The Fund’s policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

2.2.2 Recognition, de-recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Other financial assets are carried at amortised cost using the effective profit method. Gains or losses arising from changes in the “fair value of the financial assets at fair value through profit or loss” category are presented in the statement of comprehensive income within “net gain/loss on financial assets at fair value through profit or loss” in the period in which they arise.

Profit on debt securities at fair value through profit or loss is recognised in the statement of income and expenses.

Unquoted Sukuk are revalued on a daily basis based on fair value prices quoted by a Bond Pricing Agency (“BPA”) registered with SC as per the SC Guidelines on Unit Trust Funds.

Shariah-compliant deposits with licensed Islamic financial institutions are stated at cost plus accrued profit calculated on the effective profit method over the period from the date of placement to the date of maturity of the respective deposits.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

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

Financial liabilities are derecognised when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expired.

2.3 Income and expenses recognition

(a) Profit income

Profit income is calculated by applying the effective profit rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective profit rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Income and expenses recognition (continued)

(b) Realised gain or loss on sale

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

(c) Expenses

Expenses are recognised in the statement of comprehensive income on an accrual basis.

2.4 Foreign currencies translation

(a) Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the “functional currency”). The financial statements are presented in Ringgit Malaysia (“RM”), which is the Fund’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of comprehensive income.

2.5 Creation and cancellation of units

The Fund issued units, in two different classes of units, known respectively as the Class A and Class I which are cancellable at the unit holder’s option and do not have identical features. In accordance with MFRS 132 (Amendment) “Financial Instruments: Presentation”, such units, by virtue of not having identical features, are classified as financial liabilities. The cancellable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund’s net asset value (“NAV”) attributable to the respective classes. The outstanding units are carried at the redemption amount that is payable at the statement of financial position if the unit holder exercises the right to put back the units to the Fund.

Units are created and cancelled at the unit holder’s option at prices based on the Fund’s NAV per unit of respective classes at the close of business on the relevant dealing day. The Fund’s NAV per unit of respective classes is calculated by dividing the net assets attributable to unit holders of respective classes with the total number of outstanding units of respective classes.

2.6 Due from and due to Manager

“Due from Manager” and “Due to Manager” represents receivable from and payable to the Manager for units created and cancelled.

“Due from Manager” is recognised initially at fair value and subsequently measured at amortised cost using the effective profit method, less an allowance for doubtful debts.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Due from and due to Manager (continued)

The Fund shall measure the loss allowance on amount “Due from Manager” at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the Manager, probability that the Manager will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that is considered to be credit-impaired, profit income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

Bad debts are written off when identified.

“Due to Manager” is recognised initially at fair value and subsequently measured at amortised cost using the effective profit method.

2.7 Due from and due to brokers

Amounts due from and due to brokers represent receivables for securities sold and payables for securities purchased that have been contracted but not yet settled or delivered on the year end date respectively.

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective profit method, less allowance for doubtful debts for amounts due from brokers.

The Fund shall measure the loss allowance on amounts “Due from brokers” at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that is considered to be credit-impaired, profit income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amounts due from and due to brokers are short-term in nature and the carrying amounts approximate the fair values.

2.8 Cash and cash equivalents

For the purpose of the statement of cash flow, cash equivalents are held for the purpose of meeting short-term cash commitment rather than for investment or other purposes. Cash and cash equivalents comprise Shariah-compliant bank balances and deposits with licensed Islamic financial institutions, other short-term, highly liquid investments with original maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk changes in value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Other payables and accruals

Other payables and accruals are obligations to pay for expenses incurred by the Fund. Other payables and accruals are classified as current liabilities as payment is due within the normal operating cycle of the Fund.

Other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective profit method.

2.10 Taxation

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

2.11 Increase/decrease in net assets attributable to unit holders

Income not distributed is included in net assets attributable to unit holders. Movements in net assets attributable to unit holders are recognised in the statement of comprehensive income as finance costs.

2.12 Finance cost

A distribution to the Fund's unit holders is recognised as a deduction from realised profit when they are appropriately approved by the Board of Directors of the Manager. A proposed distribution is recognised as a finance cost in the period in which it is approved by the Trustee.

2.13 Critical accounting estimates and judgements in applying accounting policies

The Fund makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Fund's results and financial position are tested for sensitivity to changes in the underlying parameters.

Estimates and judgement are continually evaluated by the Manager and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In undertaking any of the Fund's investment, the Manager will ensure that all assets of the Fund under management will be valued appropriately, that is at fair value and in compliance with the SC Guidelines on Unit Trust Funds.

Ringgit Malaysia-denominated unquoted Sukuk are valued using fair value prices quoted by BPA. Investment in foreign unquoted Sukuk will be valued by using Reuters. Where BPA and Reuters price are not available, these Sukuk will be valued by reference to the average indicative yield quoted by three independent and reputable institutions provider by the Manager. Where the price quoted by BPA for a specific Sukuk differs from the market price by more than 20 basis points, the Manager may use market price.

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

3. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RM	2019 RM
3.1 Financial assets at fair value through profit or loss		
- Unquoted Sukuk	21,170,180	23,947,811
	1 Oct 2019 to 30 Sep 2020 RM	1 Oct 2018 to 30 Sep 2019 RM
Net gain on financial assets at fair value through profit or loss:		
- Realised gain on disposals	227,177	159,274
- Unrealised gain on changes in fair values	277,412	445,938
	504,589	605,212

The detailed portfolio of investment is disclosed in Note 14 to the financial statements.

3.2 Profit Income

	1 Oct 2019 to 30 Sep 2020 RM	1 Oct 2018 to 30 Sep 2019 RM
Profit income from unquoted Sukuk	1,135,671	1,178,226
Profit income from Islamic money market instruments	32,533	34,687
	1,168,204	1,212,913

4. CASH AND CASH EQUIVALENTS

	2020 RM	2019 RM
Islamic deposits with licensed Islamic financial institutions	1,380,060	1,668,130
Bank balance in a licensed financial institution	26,324	86,235
	1,406,384	1,754,365

5. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

<u>Related parties</u>	<u>Relationship</u>
Franklin Templeton GSC Asset Management Sdn. Bhd.	The Manager
Templeton Global Advisors Limited	Affiliated company of the Manager
Deutsche Trustees (Malaysia) Berhad	The Trustee
Deutsche Bank (Malaysia) Berhad	Associate company of the Trustee

FRANKLIN MALAYSIA SUKUK FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

5. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

Other than disclosed elsewhere in the financial statements, the following related party transactions took place during the financial year. The Manager is of the opinion that all transactions with the related company have been entered into in the normal course of business at agreed terms between the related parties.

5.1 Units held by the Manager and parties related to Manager

	2020		2019	
	Number of units	RM	Number of units	RM
Affiliated company of the Manager				
- Templeton Global Advisors Limited				
- Class A	18,954,778.76	20,382,074	22,985,203.53	24,302,256
- Class I	1,199,858.25	1,285,888	1,143,873.82	1,213,600
	<u>18,954,778.76</u>	<u>20,382,074</u>	<u>22,985,203.53</u>	<u>24,302,256</u>
	<u>1,199,858.25</u>	<u>1,285,888</u>	<u>1,143,873.82</u>	<u>1,213,600</u>

The above units are legally held and were transacted at the prevailing market price.

Other than the above, there were no units held by directors or parties related to the Manager.

5.2 Fees and charges

	Expense		Accrual	
	1 Oct 2019 to 30 Sep 2020 RM	1 Oct 2018 to 30 Sep 2019 RM	2020 RM	2019 RM
(a) Management fee	164,602	158,610	11,771	13,521
(b) Trustee fee	18,000	18,000	1,476	1,480
Total	<u>182,602</u>	<u>176,610</u>	<u>13,247</u>	<u>15,001</u>

(a) Management fee

In accordance with Clause 13.1 of the Deed, management fee can be charged at a maximum of 3.00% per annum, calculated based on the net asset value of the Fund.

Class A

For the financial years ended 30 September 2020 and 2019, the Manager is entitled to receive a fee of 0.65% per annum of the net asset value of the Fund attributable to this class of units.

Class I

For the financial years ended 30 September 2020 and 2019, the Manager is entitled to receive a fee of 0.45% per annum of the net asset value of the Fund attributable to this class of units.

FRANKLIN MALAYSIA SUKUK FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

5. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (CONTINUED)

5.2 Fees and charges (continued)

(b) Trustee fee

In accordance with Clause 13.2 of the Deed, trustee fee can be charged at a maximum of 0.20% per annum, calculated based on the net asset value of the Fund, subject to a minimum fee of RM18,000 per annum (excluding foreign custodian fees and charges).

For the financial years ended 30 September 2020 and 2019, the Trustee is entitled to receive a fee of 0.06% per annum of the net asset value of the Fund, subject to a minimum fee of RM18,000 per annum.

6. NUMBER OF UNITS IN CIRCULATION

(a) CLASS A

	2020 Number of units	2019 Number of units
Beginning balance	23,137,018.72	22,241,360.08
Creation of units	2,846,004.51	199,917.88
Cancellation of units	(7,129,875.13)	(161,759.88)
Reinvestment of distributions	929,586.17	857,500.64
	<u>19,782,734.27</u>	<u>23,137,018.72</u>
Closing balance	<u>19,782,734.27</u>	<u>23,137,018.72</u>

(b) CLASS I

	2020 Number of units	2019 Number of units
Beginning balance	1,143,873.82	1,095,054.59
Reinvestment of distributions	55,984.43	48,819.23
	<u>1,199,858.25</u>	<u>1,143,873.82</u>
Closing balance	<u>1,199,858.25</u>	<u>1,143,873.82</u>

7. FINANCE COST

	1 Oct 2019 to 30 Sep 2020 RM	1 Oct 2018 to 30 Sep 2019 RM
Distribution to unit holders is derived from the following sources:		
Profit income from Shariah-compliant deposits with licensed Islamic financial institutions	28,256	43,675
Profit income from unquoted Sukuk	1,056,824	1,087,779
Other Income	-	2,500
Net realised gain on sale of investment	126,560	27,620
	<u>1,211,640</u>	<u>1,161,574</u>
Less: Expenses	<u>(181,873)</u>	<u>(232,451)</u>
Net distribution amount	<u>1,029,767</u>	<u>929,123</u>

FRANKLIN MALAYSIA SUKUK FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

7. FINANCE COST (CONTINUED)

2020		Gross/Net distribution per unit	
Distribution date	Class A	Class I	
	RM	RM	
1 October 2019	0.0100	-	
2 January 2020	0.0150	0.0500	
1 April 2020	0.0080	-	
1 July 2020	0.0080	-	
2019		Gross/Net distribution per unit	
Distribution date	Class A	Class I	
	RM	RM	
1 October 2018	0.0080	-	
2 January 2019	0.0130	0.0448	
1 April 2019	0.0080	-	
1 July 2019	0.0100	-	

Distribution is based on cumulative net realised income since inception.

Gross distribution is derived using total income less total expenses. Gross distribution per unit is derived from gross realised income less expenses, divided by the number of units in circulation. Net distribution per unit is derived from gross realised income less expenses and taxation, divided by the number of units in circulation.

During the financial years ended 30 September 2020 and 2019, the Fund did not incur unrealised losses on changes in fair value.

8. TAXATION

	1 Oct 2019 to 30 Sep 2020	1 Oct 2018 to 30 Sep 2019
	RM	RM
Current taxation	-	-

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

	1 Oct 2019 to 30 Sep 2020	1 Oct 2018 to 30 Sep 2019
	RM	RM
Income before taxation	425,803	680,075
Taxation at Malaysian statutory rate of 24%	102,193	163,218
Tax effects of:		
Investment income not subject to tax	(401,470)	(436,950)
Restriction on tax deductible expenses	41,747	40,302
Expenses not deductible for tax purposes	257,530	233,430
Taxation	-	-

FRANKLIN MALAYSIA SUKUK FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

9. TRANSACTIONS WITH BROKERS / DEALERS

Details of transactions with the top 10 brokers / dealers for the financial year ended 30 September 2020 are as follows:

	Value of trades RM	Percentage of total trades %	Brokerage RM	Percentage of total brokerage %
Hong Leong Bank Berhad	3,923,775	31.91	-	-
RHB Investment Bank Berhad	3,417,501	27.80	-	-
Bank Islam Malaysia Berhad	3,377,788	27.47	-	-
Malayan Banking Berhad	1,000,000	8.13	-	-
Citibank Malaysia Berhad	576,635	4.69	-	-
Total	12,295,699	100.00	-	-

Details of transactions with the top 10 brokers / dealers for the financial year ended 30 September 2019 are as follows:

	Value of trades RM	Percentage of total trades %	Brokerage RM	Percentage of total brokerage %
Affin Hwang Investment Bank Berhad	8,355,790	42.61	-	-
Bank Islam Malaysia Berhad	2,096,100	10.69	-	-
CIMB Bank Berhad	2,058,506	10.50	-	-
RHB Investment Bank Berhad	2,018,350	10.29	-	-
AmBank Islamic Berhad	1,500,000	7.65	-	-
Deutsche Bank (Malaysia) Bhd	1,038,320	5.29	-	-
CIMB Islamic Bank Berhad	1,029,228	5.25	-	-
Standard Chartered Bank Malaysia Berhad	1,000,000	5.10	-	-
Hong Leong Bank Berhad	514,537	2.62	-	-
Total	19,610,831	100.00	-	-

FRANKLIN MALAYSIA SUKUK FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

10. MANAGEMENT EXPENSE RATIO (“MER”)

	1 Oct 2019 to 30 Sep 2020 %	1 Oct 2018 to 30 Sep 2019 %
MER		
– Class A	0.85	0.86
– Class I	0.66	0.66

MER is derived based on the following calculation in accordance with the Securities Commission regulations:

$$\text{MER} = \frac{(A + B + C + D + E + F + G) \times 100}{H}$$

A = Management fee
 B = Trustee fee
 C = Audit fee
 D = Professional fee
 E = Custodian fee
 F = Printing fee
 G = Shariah adviser fee
 H = Average daily net asset value of the share class

The average daily net asset value of Class A and I for the financial year is RM24,458,207 (2019: RM23,590,598) and RM1,248,379 (2019: RM1,169,896) respectively.

11. PORTFOLIO TURNOVER RATIO (“PTR”)

	1 Oct 2019 to 30 Sep 2020	1 Oct 2018 to 30 Sep 2019
PTR (times)	0.24	0.40

PTR represents the average of total acquisitions and disposals of investments in the Fund for the financial year over the Fund’s average daily net asset value where:

Total acquisition for the financial year ended 30 September 2020 amounted to RM7,256,346 (2019: RM9,763,213).

Total disposal for the financial year ended 30 September 2020 amounted to RM5,039,353 (2019: RM9,847,617).

Average daily net asset value is RM25,706,586 (2019: RM24,760,494).

12. FINANCIAL RISK MANAGEMENT

The Fund seeks to maximise total investment return consisting of profit income and capital gains in the long term through investments primarily in RM denominated Sukuk.

The Fund is involved in investment trading and its activities expose it to a variety of financial risks: market risk (including market price risk and interest rate risk), credit and counterparty risk and liquidity risk.

The Fund is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Fund to transfer the securities might be temporarily impaired. All securities investments present a risk of loss of capital.

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

The overall responsibility for the implementation of the Fund's financial risk management policies lies with the Investment Manager, who, among other things, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Fund. Information about these risk exposures at the reporting date and risk management policies employed are disclosed in Notes 12.1 to 12.5.

12.1 Market risk

(a) Market price risk

Market risk arises because of factors that affect the market overall, and particularly the market where the Fund will be focusing its investments. Factors such as economic growth, financial market conditions, political stability and the social environment are some examples of conditions that have an impact on businesses, which in turn may impact the market value of the investment of the Fund positively or negatively depending on how the market values of the underlying investments held in the portfolio of the Fund are impacted. Investors who purchase units of the Fund may not get back the full amount that they have invested if the NAV per Unit of the Fund falls below the investors' purchase price due to adverse price movements of the Fund's underlying investments.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed. These methods are explained below.

Value-at-risk ("VaR")

VaR is used to monitor the market exposure. VaR is a statistical risk measure that estimates the potential portfolio loss from adverse market moves in an ordinary market environment. VaR can be defined as the predicted loss a portfolio can experience at a specified confidence level over a given period of time. The VaR presented is calculated assuming a one-month (20 day) holding period at a 99% confidence level, and a historical observation period of not less than 1 year (250 days). A 99% 1 month VaR means that the expectation is that 99% of the time over a 1 month period the Fund will lose less than this number in percentage terms.

The VaR is calculated using the Monte Carlo simulation. This approach estimates VaR by generating risk factor scenarios and revaluing portfolio positions using a fundamental risk factor model built up by identifying variables that can impact a security's price and measuring correlations those factors have to each other (derived by applying statistical analysis to historical data). The approach applies random shocks to the factors expected to impact volatility, reprices the portfolio at a point in time, repeats the process thousands of times, and creates a distribution of returns from all the values. The VaR at a 99% confidence level represents the best possible outcome for the worst 1% of returns from the resulting distribution. Both the size and probability of actual portfolio losses can differ significantly from the losses predicted by VaR. In addition, the use of historical data to derive correlations may not encompass all potential events, particularly events which may be extreme in nature. As a result, VaR maybe under or overestimated due to the assumptions placed on the risk factors and the relationship between such factors.

The VaR presented for the Fund represents the VaR for the portfolio of assets in which the Fund invests in.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

12. FINANCIAL RISK MANAGEMENT (CONTINUED)**12.1 Market risk (continued)****(a) Market price risk (continued)**

The market price risk of the Fund estimated through VaR has been computed using a 20-day holding period at a 99% confidence level as follows:

	2020	2019
VaR (%)	2.86	2.45
VaR (RM amount)	<u>605,467</u>	<u>586,721</u>

(b) Currency risk

The Fund may invest up to 20% of its net asset value in non-RM denominated Islamic Instruments and will therefore be exposed to the exchange rate fluctuations of RM, the functional currency, against foreign currencies.

The Manager does not actively manage the foreign currency risk of non-RM denominated assets as in their opinion the cost of such a process would result in an unacceptable reduction in the potential for market growth.

(c) Interest rate risk

Interest rate is a general economic indicator that will have impact on the management of the Fund. It does not in any way suggest that this Fund will invest in conventional financial instruments. All investments carried out for the Fund including placement and deposits are in accordance with Shariah.

The Fund invests in sukuk and Islamic money market instruments and is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cashflows. The Manager monitors the interest rate risk actively by reviewing the profit rate duration of the portfolio in line with fixed income policy committee's recommendations.

The cash balance is held with Deutsche Bank (Malaysia) Berhad. Islamic money market instruments are placed with licensed Islamic institutions. As at 30 September 2020 and 30 September 2019, the effect of any reasonably possible movement in profit rates would have an immaterial effect on the net assets attributable to unit holders.

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.1 Market risk (continued)

(c) Interest rate risk (continued)

	Less than 1 month RM	1 month - 1 year RM	1 - 5 years RM	> 5 years RM	Non-profit bearing RM	Total RM
2020						
Assets						
Financial assets at fair value through profit or loss	-	1,802,491	9,801,177	9,566,512	-	21,170,180
Due from manager	-	-	-	-	7,500	7,500
Prepaid Shariah adviser fee	-	-	-	-	3,366	3,366
Cash and cash equivalents	1,406,384	-	-	-	-	1,406,384
Total assets	1,406,384	1,802,491	9,801,177	9,566,512	10,866	22,587,430
Liabilities						
Accrued management fee	-	-	-	-	11,771	11,771
Accrued trustee fee	-	-	-	-	1,476	1,476
Other payables and accruals	-	-	-	-	16,182	16,182
Net assets attributable to unit holders	-	-	-	-	22,558,001	22,558,001
	-	-	-	-	22,587,430	22,587,430
Total interest sensitivity gap	1,406,384	1,802,491	9,801,177	9,566,512		

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.1 Market risk (continued)

(c) Interest rate risk (continued)

	Less than 1 month RM	1 month - 1 year RM	1 - 5 years RM	> 5 years RM	Non-profit bearing RM	Total RM
2019						
Assets						
Financial assets at fair value through profit or loss	-	4,659,416	10,722,559	8,565,836	-	23,947,811
Due from manager	-	-	-	-	3,000	3,000
Prepaid Shariah adviser fee	-	-	-	-	3,366	3,366
Cash and cash equivalents	1,754,365	-	-	-	-	1,754,365
Total assets	1,754,365	4,659,416	10,722,559	8,565,836	6,366	25,708,542
Liabilities						
Accrued management fee	-	-	-	-	13,521	13,521
Accrued trustee fee	-	-	-	-	1,480	1,480
Other payables and accruals	-	-	-	-	16,553	16,553
Net assets attributable to unit holders	-	-	-	-	25,676,988	25,676,988
	-	-	-	-	25,708,542	25,708,542
Total interest sensitivity gap	1,754,365	4,659,416	10,722,559	8,565,836		

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.2 Liquidity risk

The liquidity risks associated with the need to satisfy shareholders requests for redemptions are mitigated by maintaining a constant pool of cash to satisfy usual levels of demand. The Fund's investments are traded in an active market and are hence considered to be readily realisable. However, the value of the portfolio may be negatively affected if the Fund needs to meet redemptions by selling significant portions of the assets over a short period of time in times of market uncertainty.

The table below analyses the Fund's financial assets and liabilities into relevant maturity groupings based on the remaining period from the statement of financial position 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.

2020	No maturity RM	Less than 1 month RM	Between 1 month to 1 year RM	Total RM
Assets				
Financial assets at fair value through profit or loss	-	21,170,180	-	21,170,180
Due from manager	-	7,500	-	7,500
Prepaid Shariah adviser fee	-	-	3,366	3,366
Cash and cash equivalents	1,406,384	-	-	1,406,384
Total assets	1,406,384	21,177,680	3,366	22,587,430
Liabilities				
Accrued management fee	-	11,771	-	11,771
Accrued trustee fee	-	1,476	-	1,476
Other payables and accruals	-	-	16,182	16,182
Net asset attributable to unit holders*	-	22,558,001	-	22,558,001
Total liabilities	-	22,571,248	16,182	22,587,430
Contractual cash in/(out) flows	1,406,384	(1,393,568)	(12,816)	-

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.2 Liquidity risk (continued)

2019	No maturity RM	Less than 1 month RM	Between 1 month to 1 year RM	Total RM
Assets				
Financial assets at fair value through profit or loss	-	23,947,811	-	23,947,811
Due from manager	-	3,000	-	3,000
Prepaid Shariah adviser fee	-	-	3,366	3,366
Cash and cash equivalents	1,754,365	-	-	1,754,365
Total assets	1,754,365	23,950,811	3,366	25,708,542
Liabilities				
Accrued management fee	-	13,521	-	13,521
Accrued trustee fee	-	1,480	-	1,480
Other payables and accruals	-	-	16,553	16,553
Net asset attributable to unit holders*	-	25,676,988	-	25,676,988
Total liabilities	-	25,691,989	16,553	25,708,542
Contractual cash in/(out) flows	1,754,365	(1,741,178)	(13,187)	-

* Units are redeemed on demand at the unit holder's option (Note 2.5). However, the Manager does not envisage that the contractual maturity disclosed in the table above will be representative of the actual cash outflows, as the unit holders typically retain their units for the medium term.

12.3 Credit risk

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

The credit risk is mitigated by investing in securities which at the time of the purchase have a minimum credit rating of BBB3 by RAM Rating Services Berhad ("RAM") or an equivalent credit rating by Malaysia Rating Corporation Berhad ("MARC") or any recognised credit rating agency.

The Fund may employ Shariah-compliant hedging instruments which are traded over the counter. To mitigate credit risk inherent to those instruments the risk committee within the Manager will exercise due diligence controls prior the Fund investing in said instruments.

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.3 Credit risk (continued)

The credit risk arising from cash and cash equivalents is managed by ensuring that the Fund will only place balances in reputable licensed financial institutions. For "Due from Manager", the settlement term is governed by the Information Memorandum of the Fund. The settlement term of the proceeds from the creation of units receivable from the Manager is also governed by the Securities Commission's Guidelines on Unit Trust Funds.

As at 30 September 2020, cash and cash equivalents are held with counterparties with a credit rating by a recognised credit rating agency. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

The following table sets out the credit risk concentration of the Fund:

	Cash and cash equivalents RM	Financial asset at fair value through profit or loss RM	Amount due from Manager RM	Total RM
2020				
RAM's/MARC's Rating				
AAA/AAA (IS)	1,380,060	3,784,883	-	5,164,943
AA1/AA+(IS)	26,324	3,565,053	-	3,591,377
AA2/AA (IS)	-	2,732,661	-	2,732,661
AA3/AA- (IS)	-	4,704,909	-	4,704,909
A1/A+ (IS)	-	516,235	-	516,235
A2/A (IS)	-	1,037,790	-	1,037,790
A3/A-(IS)	-	4,828,649	-	4,828,649
NR	-	-	7,500	7,500
	<u>1,406,384</u>	<u>21,170,180</u>	<u>7,500</u>	<u>22,584,064</u>
2019				
RAM's/MARC's Rating				
AAA/AAA (IS)	1,668,130	5,833,966	-	7,502,096
AA1/AA+(IS)	86,235	3,480,971	-	3,567,206
AA2/AA (IS)	-	2,623,350	-	2,623,350
AA3/AA- (IS)	-	4,488,700	-	4,488,700
A1/A+ (IS)	-	4,659,416	-	4,659,416
A2/A (IS)	-	1,045,920	-	1,045,920
A3/A-(IS)	-	1,815,488	-	1,815,488
NR	-	-	3,000	3,000
	<u>1,754,365</u>	<u>23,947,811</u>	<u>3,000</u>	<u>25,705,176</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.4 Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded trading securities) is based on last traded prices at the close of trading on the period end date. If a significant movement in fair value occurs subsequent to the close of trading up to midnight on the year end date, valuation techniques will be applied to determine fair value. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The carrying value less impairment allowance 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. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of 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 judgement, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgement. The Investment Manager 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.

	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2020				
Assets				
Financial assets at fair value through profit or loss				
- Sukuk	-	21,170,180	-	21,170,180
	Level 1 RM	Level 2 RM	Level 3 RM	Total RM
2019				
Assets				
Financial assets at fair value through profit or loss				
- Sukuk	-	23,947,811	-	23,947,811

12. FINANCIAL RISK MANAGEMENT (CONTINUED)

12.5 Capital Risk Management

The capital of the Fund is represented by the net assets attributable to its unit holders. These amounts can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of unit holders. The Fund's objectives when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unit holders and 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 redeem and issue new units in accordance with the prospectus which includes the ability to restrict redemptions and requires certain minimum holdings and subscriptions.

13. SUBSEQUENT EVENTS

The Manager proposed for the payment of a distribution of RM0.008 per unit for Class A in respect of the financial quarter ended 30 September 2020, with the final distributable amount determined and approved on 1 October 2020. The distribution will be recognised as finance cost in the statement of comprehensive income for the financial year ending 30 September 2021.

The World Health Organization declared the outbreak of Novel Coronavirus ("COVID-19") as a global pandemic on 11 March 2020. The Manager continues to monitor the developments and impacts to the Fund closely. Please refer to the Manager's Report for more information on the outbreak which created volatilities in the global financial markets.

FRANKLIN MALAYSIA SUKUK FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

14. PORTFOLIO OF INVESTMENTS

	Nominal value RM	Aggregate cost RM	Market value RM	Fair value as a percentage of net asset value %
30 September 2020				
Name of issuer				
SUKUK				
Al Dzahab Assets Berhad 5.15% due 29/03/2024	1,000,000	1,018,585	1,075,711	4.76
Al Dzahab Assets Berhad 5.15% due 14/03/2025	500,000	500,988	539,943	2.39
Bank Muamalat Malaysia Berhad 5.80% due 15/06/2021	1,750,000	1,779,815	1,802,491	7.99
Bank Muamalat Malaysia Berhad 5.50% due 25/11/2021	1,000,000	1,019,173	1,037,790	4.60
Bank Pembangunan Malaysia Berhad 4.28% due 02/03/2022	1,000,000	1,003,169	1,030,969	4.57
Country Garden Real Estate Sdn Berhad 6.40% due 06/05/2022	1,000,000	1,025,600	1,075,450	4.77
DRB-Hicom Berhad 5.1 % due 12/12/2029	500,000	507,755	516,235	2.29
Konsortium Prohawk Sdn Berhad 5.14% due 20/12/2024	1,000,000	1,033,920	1,101,553	4.88
Kuala Lumpur Kepong Berhad 4.58% due 12/08/2025	250,000	254,291	272,276	1.21
MBSB Bank Berhad 4.80% due 09/12/2022	1,000,000	1,018,899	1,058,430	4.69
MBSB Bank Berhad 5.05% due 20/12/2029	800,000	811,179	856,443	3.80
MBSB Bank Berhad 5.25% due 19/12/2031	2,000,000	2,100,466	2,169,715	9.62

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

14. PORTFOLIO OF INVESTMENTS (CONTINUED)

	Nominal value RM	Aggregate cost RM	Market value RM	Fair value as a percentage of net asset value %
30 September 2020				
Name of issuer (continued)				
SUKUK (CONTINUED)				
Prasarana Malaysia Berhad 4.53% due 10/03/2034	1,000,000	1,033,743	1,138,260	5.05
Press Metal Aluminium Holdings Bhd 4.30% due 17/10/2029	1,000,000	1,019,674	1,020,404	4.52
UEM Sunrise Berhad 4.80% due 08/04/2022	2,500,000	2,555,415	2,609,055	11.57
YTL Power International Berhad 5.05% due 03/05/2027	2,000,000	2,097,946	2,234,347	9.90
Zamarad Assets Berhad 5.50% due 27/03/2026	1,000,000	1,000,452	1,099,782	4.88
Zamarad Assets Berhad 5.10% due 24/07/2026	500,000	504,611	531,326	2.36
Total unquoted Sukuk	19,800,000	20,285,681	21,170,180	93.85
Accumulated unrealised gain on financial assets at fair value through profit or loss		884,499		
Total financial assets at fair value through profit or loss		21,170,180		

FRANKLIN MALAYSIA SUKUK FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)**

14. PORTFOLIO OF INVESTMENTS (CONTINUED)

30 September 2019	Nominal value RM	Aggregate cost RM	Market value RM	Fair value as a percentage of net asset value %
Name of issuer				
SUKUK				
Al Dzahab Assets Berhad 5.15% due 29/03/2024	1,000,000	1,023,184	1,053,281	4.10
Al Dzahab Assets Berhad 5.15% due 14/03/2025	500,000	500,989	524,039	2.04
Bank Islam Malaysia Berhad 5.75% due 22/04/2025	4,000,000	4,108,436	4,153,482	16.18
Bank Muamalat Malaysia Berhad 5.50% due 25/11/2021	1,000,000	1,019,225	1,045,920	4.07
Bank Muamalat Malaysia Berhad 5.80% due 15/06/2026	1,750,000	1,779,707	1,815,488	7.07
Bank Pembangunan Malaysia Berhad 4.28% due 02/03/2022	1,000,000	1,002,897	1,019,860	3.97
Country Garden Real Estate Sdn Berhad 6.40% due 06/05/2022	1,000,000	1,025,600	1,053,800	4.10
Digi Telecommunications Sdn Berhad 4.53% due 12/04/2024	1,000,000	1,020,975	1,059,725	4.13
Government of Malaysia 4.369% due 31/10/2028	1,000,000	1,070,817	1,089,283	4.24
Konsortium Prohawk Sdn Berhad 5.14% due 20/12/2024	1,000,000	1,037,797	1,072,831	4.18
Kuala Lumpur Kepong Berhad 4.58% due 12/08/2025	250,000	254,755	263,027	1.02
Lafarge Cement Sdn Berhad 4.80% due 13/01/2020	500,000	505,129	505,934	1.97

FRANKLIN MALAYSIA SUKUK FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2020 (CONTINUED)

14. PORTFOLIO OF INVESTMENTS (CONTINUED)

	Nominal value RM	Aggregate cost RM	Market value RM	Fair value as a percentage of net asset value %
30 September 2019				
Name of issuer (continued)				
SUKUK (CONTINUED)				
MBSB Bank Berhad 4.80% due 09/12/2022	1,000,000	1,020,642	1,043,080	4.06
Prasarana Malaysia Berhad 4.53% due 10/03/2034	1,000,000	1,035,708	1,087,778	4.25
Serba Dinamik Holdings Berhad 5.30% due 02/10/2028	750,000	769,820	803,495	3.13
UEM Sunrise Berhad 4.80% due 08/04/2022	2,500,000	2,554,318	2,631,405	10.25
YTL Power International Berhad 5.05% due 03/05/2027	2,000,000	2,105,441	2,174,864	8.47
Zamarad Assets Berhad 5.10% due 26/01/2028	500,000	504,681	508,736	1.98
Zamarad Assets Berhad 5.50% due 27/09/2027	1,000,000	1,000,603	1,041,783	4.06
Total unquoted Sukuk	22,750,000	23,340,724	23,947,811	93.27
Accumulated unrealised gain on financial assets at fair value through profit or loss		607,087		
Total financial assets at fair value through profit or loss		23,947,811		



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