

# ***Odyssey Peso Bond Fund***

**Financial Statements**

**As at and for the years ended December 31, 2021 and 2020**

## **Independent Auditor's Report**

To the Unitholders and Trustee of  
**Odyssey Peso Bond Fund**  
7th Floor, BPI Buendia Center,  
Sen. Gil Puyat Avenue, Makati City

### **Report on the Audits of the Financial Statements**

#### ***Our Opinion***

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Odyssey Peso Bond Fund (the "Fund") as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

#### ***What we have audited***

The financial statements of the Fund comprise:

- the statements of financial position as at December 31, 2021 and 2020;
- the statements of total comprehensive income for the years ended December 31, 2021 and 2020;
- the statements of changes in net assets attributable to holders of redeemable units for the years ended December 31, 2021 and 2020;
- the statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### ***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's 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***

We are independent of the Fund in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and Code of Ethics.

*Other Matter - Restriction on Use*

This report is intended solely for the information and use of the unitholders and trustee of Odyssey Peso Bond Fund and the Bangko Sentral ng Pilipinas and is not intended for any other purpose.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 PSA 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

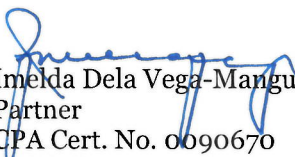
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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.
- 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.

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To the Unitholders and Trustee of  
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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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 auditor's report to the related disclosures in the financial statements 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 auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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.

**Isla Lipana & Co.**



Imelda Dela Vega-Mangundaya  
Partner  
CPA Cert. No. 0090670

P.T.R. No. 0024586, issued on January 5, 2021, Makati City

SEC A.N. (individual) as general auditors 90670-SEC; Category A, valid to audit 2019 to 2023  
financial statements

SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024  
financial statements

TIN 152-015-124

BIR A.N. 08-000745-047-2018, issued on November 23, 2021; effective until November 22, 2024

BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City  
June 15, 2022

## Odyssey Peso Bond Fund

Statements of Financial Position  
December 31, 2021 and 2020  
(All amounts in Philippine Peso)

	Notes	2021	2020
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Deposits in bank	2	58,014,833	139,646,976
Financial assets at fair value through profit or loss	3,10	2,964,928,545	3,415,436,856
Other investments	4	280,000,000	400,000,000
Receivables	5	67,710,850	65,887,154
Total current assets		3,370,654,228	4,020,970,986
<b>NON-CURRENT ASSETS</b>			
Other long-term investments	4	50,000,000	-
Total assets		3,420,654,228	4,020,970,986
<b><u>LIABILITIES AND NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</u></b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued expenses	6	4,659,817	5,514,217
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>			
	7	3,415,994,411	4,015,456,769
Total liabilities and net assets attributable to holders of redeemable units		3,420,654,228	4,020,970,986

(The notes on pages 1 to 15 are an integral part of these financial statements)

## Odyssey Peso Bond Fund

Statements of Total Comprehensive Income  
For the years ended December 31, 2021 and 2020  
(All amounts in Philippine Peso)

	Notes	2021	2020
<b>INCOME (LOSS)</b>			
Net income (loss) on financial assets at fair value through profit or loss:			
Interest income	3	128,705,739	123,140,870
Realized gain on sale	3	13,085,331	40,532,058
Fair value (loss) gain	3	(254,306,780)	145,877,350
Interest income on:			
Other investments	4	34,323,079	40,094,856
Deposits in bank	2	766,762	2,563,136
Redemption of investments		825,000	-
		(76,600,869)	352,208,270
<b>EXPENSES</b>			
Trust fees	9	36,995,362	33,524,874
Other	8	847,856	465,106
		37,843,218	33,989,980
(LOSS) INCOME BEFORE TAX		(114,444,087)	318,218,290
FINAL WITHHOLDING TAX		32,759,116	33,159,772
NET (LOSS) INCOME FOR THE YEAR		(147,203,203)	285,058,518
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		(147,203,203)	285,058,518

(The notes on pages 1 to 15 are an integral part of these financial statements)

## Odyssey Peso Bond Fund

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units  
For the years ended December 31, 2021 and 2020  
(All amounts in Philippine Peso)

	Notes	2021	2020
Balances as at January 1		4,015,456,769	2,924,466,951
Comprehensive income			
Net (loss) income for the year		(147,203,203)	285,058,518
Other comprehensive income		-	-
Total comprehensive (loss) income for the year		(147,203,203)	285,058,518
Transactions with unitholders			
Issuance of units	5,7	363,568,600	2,415,377,367
Redemption of units	6,7	(815,827,755)	(1,609,446,067)
Total transactions with unitholders		(452,259,155)	805,931,300
Balances as at December 31	7	3,415,994,411	4,015,456,769

(The notes on pages 1 to 15 are an integral part of these financial statements)

## Odyssey Peso Bond Fund

### Statements of Cash Flows For the years ended December 31, 2021 and 2020 (All amounts in Philippine Peso)

	Notes	2021	2020
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>			
(Loss) income before tax		(114,444,087)	318,218,290
Adjustments for:			
Net loss (income) on financial assets at fair value through profit or loss:			
Fair value loss (gain)	3	254,306,780	(145,877,350)
Realized gain on sale	3	(13,085,331)	(40,532,058)
Interest income	3	(128,705,739)	(123,140,870)
Interest income on:			
Deposits in bank	2	(766,762)	(2,563,136)
Other investments	4	(34,323,079)	(40,094,856)
Operating loss before changes in working capital		(37,018,218)	(33,989,980)
Changes in working capital			
Increase in other receivables	5	(261,441)	-
Decrease (increase) in other investments	4	120,000,000	(360,000,000)
(Decrease) increase in accounts payable and accrued expenses	6	(349,251)	841,601
Net cash from (used in) operations		82,371,090	(393,148,379)
Proceeds from sale of securities	3,5	1,265,069,682	848,707,718
Payments on acquisition of securities	3	(1,082,990,920)	(1,354,659,854)
Interest received		172,872,424	165,702,649
Final taxes paid		(32,759,116)	(33,159,772)
Net cash from used in operating activities		404,563,160	(766,557,638)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Payments on acquisition of long-term investments	4	(50,000,000)	-
Net cash used in investing activities		(50,000,000)	-
<b>CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of redeemable units	7	380,137,601	2,398,910,366
Payments for redemption of redeemable units	7	(816,332,904)	(1,618,592,617)
Net cash (used in) from financing activities		(436,195,303)	780,317,749
<b>NET (DECREASE) INCREASE IN DEPOSITS IN BANK</b>		(81,632,143)	13,760,111
<b>DEPOSITS IN BANK</b>			
At January 1		139,646,976	125,886,865
At December 31	2	58,014,833	139,646,976

(The notes on pages 1 to 15 are an integral part of these financial statements)



## Odyssey Peso Bond Fund

### Notes to the Financial Statements

As at and for the years ended December 31, 2021 and 2020

(Amounts are shown in Philippine Peso, unless otherwise stated)

#### 1 General information

Odyssey Peso Bond Fund (the “Fund”) is a Unit Investment Trust Fund (UITF) established in accordance with, and operated subject to the provisions of, the Fund’s Trust Deed and the regulations issued by the Bangko Sentral ng Pilipinas (BSP). UITFs are created by virtue of BSP Circular No. 447 which governs the administration and investments of UITFs and requires that an external audit of the Fund be conducted annually. The Fund was launched as a UITF on May 5, 2003.

The Fund was organized to engage in the sale of its units and investment of the proceeds thereof in a diversified portfolio of Philippine Peso-denominated fixed income instruments and intends to achieve investment returns that outperform the BPI Philippine Government Bond Index. The benchmark tracks the performance of Philippine Government bonds but it also allows the Fund to maintain its current duration position while providing a wider range of investment opportunities for the Fund. As an open-end pooled trust fund, the Fund stands ready to redeem its outstanding units at a value defined under the Fund's Plan Rules.

BPI Asset Management and Trust Corporation (“BPI-AMTC”) serves as the Fund Manager (the “Fund Manager”) and Trustee (the “Trustee”) of the Fund. BPI-AMTC is a wholly-owned subsidiary of Bank of the Philippine Islands (“BPI”) a domestic commercial bank with an expanded banking license in the Philippines. The Fund has no employees.

The Fund’s proprietary assets and/or assets owned within and outside the Philippines are under the custody of Hong Kong and Shanghai Banking Corporation Ltd. (HSBC).

#### *Coronavirus pandemic*

The COVID-19 pandemic is impacting both the Philippine and global economy and markets, and accordingly impacting the Fund’s net asset value (NAV) and NAV per unit. The Fund Manager is taking necessary actions to mitigate the potential impact. While the Fund cannot specifically quantify the potential direct or indirect effects of the COVID-19 pandemic, it is still expected to continue on a going concern basis for the foreseeable future.

#### *Approval of the financial statements*

These financial statements have been approved and authorized for issue by the Fund’s Trustee on June 15, 2022.

#### 2 Deposits in bank

The account at December 31 consists of:

	2021	2020
Time	53,000,000	129,000,000
Savings	5,014,833	10,646,976
	58,014,833	139,646,976

In 2021, deposits in bank earn interest at effective rates ranging from 0.14% to 1.20% (2020 - 0.13% to 5.25%).

For the year ended December 31, 2021, interest income earned from the above deposits amount to P766,762 (2020 - P2,563,136). There is no interest receivable as at December 31, 2021 (2020 - P1,720).

### 3 Financial assets at fair value through profit or loss (FVTPL)

The account at December 31 consists of the following investments:

	2021	2020
Philippine government debt securities	2,521,541,798	2,721,131,683
Corporate debt securities	443,386,747	694,305,173
	2,964,928,545	3,415,436,856

The detailed list of investments is presented in Note 10. These investments are held for trading.

In 2021, investments in government securities earn interest at annual rates ranging from 1.90% to 9.70% (2020 - 2.10% to 9.70%), while corporate debt securities earn interest at annual rates ranging from 2.20% to 4.13% in 2021 and 2020.

For the year ended December 31, 2021, interest income earned from the above securities amounts to P128,705,739 (2020 - P123,140,870), of which P39,876,876 remains collectible as at December 31, 2021 (2020 - P47,673,544) (Note 5).

Movements in the account for the years ended December 31 follow:

	2021	2020
At January 1	3,415,436,856	2,723,075,312
Additions	1,082,990,920	1,354,659,854
Disposals	(1,279,192,451)	(808,175,660)
Fair value adjustment, net	(254,306,780)	145,877,350
At December 31	2,964,928,545	3,415,436,856

Payments for acquisitions of securities in 2021 amount to P1,082,990,920 (2020 - P1,354,659,854).

Proceeds from disposals of financial assets at FVTPL made for the year ended December 31, 2021 amount to P1,292,277,782 (2020 - P848,707,718). Realized gain on sale of financial assets at FVTPL in 2021 amounts to P13,085,331 (2020 - gain of P40,532,058) and is presented in the statement of total comprehensive income.

### 4 Other investments

The account at December 31, 2021 consists of short-term and long-term time deposits amounting to P280,000,000 and P50,000,000 (2020 - P400,000,000 and nil), respectively, with terms of more than 90 days and more than one year, respectively, from dates of acquisition.

For the year ended December 31, 2021, interest income earned from short-term and long-term time deposits amount to P34,106,412 and P216,667 (2020 - P40,094,856 and nil), respectively, of which P324,767 and P10,666 (2020 - P1,613,889 and nil), respectively, represent interest receivable as at December 31, 2021.

## 5 Receivables

The account at December 31 consists of:

	Notes	2021	2020
Interest receivable	2,3,4	40,212,309	49,289,153
Due from brokers		27,208,100	-
Other receivables		261,441	-
Capital shares receivable		29,000	16,598,001
		67,710,850	65,887,154

Capital shares receivable represents subscription made by investors with outstanding collection at reporting date.

## 6 Accounts payable and accrued expenses

The account at December 31 consists of:

	Note	2021	2020
Trust fees payable	9	2,906,863	3,391,486
Capital shares redeemed payable		1,357,175	1,862,324
Others		395,779	260,407
		4,659,817	5,514,217

Capital shares redeemed payable represents redemptions made by investors yet to be paid as at reporting date.

Others represent accrued professional and custodian fees.

## 7 Net assets attributable to holders of redeemable units

The consideration received or paid for units issued or re-purchased is based on the value of the Fund's NAV per redeemable unit at the date of transaction. The total equity as shown in the statement of financial position represents the Fund's NAV based on Philippine Financial Reporting Standards (PFRS NAV).

NAV consists of principal and accumulated earnings.

As at December 31, 2021, the PFRS NAV is equal to the Fund's trading NAV of P3,415,995,159 (2020 - P4,015,137,050) decreased by adjustment on accrual of professional fees amounting to P748 (2020 - increased by P319,719). The adjustment is due to timing difference only and does not materially affect the reported trading NAV of the Fund.

Details of the Fund's trading NAV per unit as at December 31 follow:

	2021	2020
Trading NAV	3,415,995,159	4,015,137,050
Outstanding units	10,809,442	12,225,273
Trading NAV per unit	316.02	328.43

Proceeds from issuance and payments for redemptions of units for the year ended December 31, 2021 amount to P380,137,601 and P816,332,904 (2020 - P2,398,910,366 and P1,618,592,617), respectively.

The movements in the number of redeemable units of the Fund are as follows:

	2021	2020
At January 1	12,225,273	9,774,075
Issuances	1,133,403	7,471,082
Redemptions	(2,549,234)	(5,019,884)
At December 31	10,809,442	12,225,273

## 8 Other expenses

The account for the years ended December 31 consists of:

	2021	2020
Professional fees	434,394	116,940
Custodian fees	403,794	336,210
Others	9,668	11,956
	847,856	465,106

The Fund has an existing custodian agreement with HSBC for custodial services of the Fund's proprietary assets and/or assets owned in the Philippines. Relative to this, the Fund pays monthly custodian fees of not more than 0.015% per annum of the average daily trading NAV of the Fund.

Others pertain to real-time gross settlement fee, time deposit placement fee and administrative fees.

## 9 Related party transactions

As the Fund's Trustee, BPI-AMTC shall have the exclusive management, administration, operation and control of the Fund and full discretion in respect of investments, and the sole right, at any time, to sell, convert, reinvest, exchange, transfer or otherwise change or dispose of the assets comprising the Fund.

In 2021 and 2020, in consideration for the management, distribution and administration services, the Fund pays BPI-AMTC a fee of not more than 1.00% per annum based on the Fund's trading NAV, net of applicable taxes.

Total trust fees for the year ended December 31, 2021 amount to P36,995,362 (2020 - P33,524,874), of which P2,906,863 remains unpaid as at December 31, 2021 (2020 - P3,391,486) and recorded under accounts payable and accrued expenses in the statement of financial position as at December 31, 2021 (Note 6).

The Fund's units are being distributed through BPI branches. BPI acts as the receiving bank for the subscriptions and redemptions related to the Fund.

There were no remunerations paid by the Fund to the members of the Trustee's Board of Directors (BOD).

## 10 Breakdown of financial assets at FVTPL

The details of the Fund's investments are as follows:

*As at December 31, 2021*

Description	Maturity date	Market value
<i>Philippine government debt securities</i>		
FXT2017 07192031 912	July 19, 2031	828,613,686
RTB5 -13 08122025 912	August 12, 2025	428,226,138
RTB5 -14 06022027 912	June 2, 2027	302,009,447
FXT1064 01102029 912	January 10, 2029	301,027,616
FXT2023 01242039 912	January 24, 2039	224,222,925
FXT7- 64 04222028 912	April 22, 2028	149,776,320
FXT1060 09092025 912	September 9, 2025	139,399,351
RTB5 -12 03122024 912	March 12, 2024	105,631,107
FXT2016 05272030 912	May 27, 2030	42,630,079
FXT2011 10202025 912	October 20, 2025	5,129
		2,521,541,798
<i>Corporate debt securities</i>		
Cyberzone Properties, Inc.	January 7, 2023	203,257,223
SM Prime Holdings, Inc.	March 25, 2025	106,947,072
Energy Development Corporation	May 3, 2023	51,114,215
China Banking Corporation	October 22, 2022	50,237,098
Ayala Land, Inc.	September 29, 2025	31,831,139
		443,386,747
		2,964,928,545

*As at December 31, 2020*

Description	Maturity date	Market value
<i>Philippine government debt securities</i>		
FXT2017 07192031 912	July 19, 2031	1,152,875,225
RTB5 -13 08122025 912	August 12, 2025	522,168,498
FXT1064 01102029 912	January 10, 2029	385,377,090
FXT2023 01242039 912	January 24, 2039	355,751,853
RTB5 -12 03122024 912	March 12, 2024	110,715,138
FXT7- 62 02142026 912	February 14, 2026	57,189,565
FXT3 - 24 07042022 912	July 4, 2022	51,794,984
FXT2016 05272030 912	May 27, 2030	48,201,868
FXT5 - 76 10172024 912	October 17, 2024	37,051,876
FXT2011 10202025 912	October 20, 2025	5,586
		2,721,131,683
<i>Corporate debt securities</i>		
Cyberzone Properties, Inc.	January 7, 2023	226,082,861
SM Prime Holdings, Inc.	March 25, 2025	108,684,638
Petron Corporation	October 27, 2021	107,914,867
Aboitiz Equity Ventures	August 6, 2022	66,784,965
SM Investments Corporation	December 9, 2023	51,968,222
Energy Development Corporation	May 3, 2023	51,193,160
China Banking Corporation	October 22, 2022	49,719,173
Ayala Land, Inc.	September 29, 2025	31,957,287
		694,305,173
		3,415,436,856

## **11 Financial risk and capital management**

### **11.1 Risk management process**

The Fund's activities expose it to financial risks: market risk (primarily interest rate risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Fund's financial performance.

The management of these risks is carried out by the Trustee under policies approved by the BOD. The BOD approves written policies covering overall risk management. Any prospective investment shall be limited to the type of investments described in the Plan Rules of the Fund thereby limiting the risk exposure of the Fund to the risks inherent in investments approved by the investors.

The Fund's objective is to achieve capital appreciation and income growth in Philippine Peso terms over a period of time by investing in a diversified portfolio of Philippine Peso-denominated fixed income instruments. The Fund aims to outperform its benchmark which is the BPI Philippine Government Bond Index.

### **11.2 Market risk**

The Fund trades in financial instruments, taking tactical and strategic positions in traded and over-the-counter instruments. Trading positions are reported at estimated market value with changes reflected in profit or loss. Trading positions are subject to various risk factors, which primarily include exposures to interest rate risk. Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of the Fund's financial assets and liabilities and future cash flows.

#### *Interest rate risk*

The Fund's interest rate risk exposure primarily relates to debt securities (classified as financial assets at FVTPL) whose market values fluctuate as a result of changes in interest rates or factors specific to their issuer. The Fund's overall market positions are monitored on a daily basis by the Trustee and is reviewed on a monthly basis by the Trustee's BOD. Compliance with the Fund's investment policies are reported to the Trustee's BOD on a monthly basis.

Interest rate risk is measured using duration and contained through duration limits. In addition, the Trustee manages interest rate risk through diversification and careful selection of securities and other financial instruments within specified limits as indicated in the Fund's Plan Rules. The exposure of the Fund to a single entity and its related parties shall not exceed 15% of the NAV except non-risk assets as defined by the BSP.

The sensitivity to a reasonable possible change in market interest rates of the Fund's net income is approximated via modified duration approach.

The following table demonstrates the sensitivity to a reasonable possible shift of  $\pm 100$  bps in interest rates for the years ended December 31 with all other variables held constant:

	2021	2020
Increase/decrease on net loss on financial assets at FVTPL	158,756,832	210,378,671

The Fund determines the reasonably possible change in interest rates using the percentage changes in weighted average yield rates of outstanding securities during the year.

#### *Foreign exchange risk*

The Fund has no foreign currency-denominated financial assets and liabilities subject to the effects of fluctuation in foreign exchange rates.

### 11.3 Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund's main credit risk exposures are from Philippine government and corporate debt securities classified as financial assets at FVTPL. The Fund is also exposed to counterparty credit risk on deposits in bank, other investments, and receivables.

Credit risk is minimized through diversification or by investing in a variety of investments belonging to different sectors or industries. The Fund manages credit risk by the selection and approval of counterparties and brokers with stable credit ratings.

In accordance with the Fund's policy, the fund's overall credit position is monitored on a daily basis by the Trustee and is reviewed on a monthly basis by its Trustee's BOD.

All transactions in traded securities are coursed through approved counterparties. Pre-settlement and/or settlement risk exposures are earmarked against approved trading lines and lifted upon settlement of the transaction.

The maximum exposure to credit risk before any enhancements at December 31 is the carrying amount of the financial assets as set out below:

	2021	2020
Deposits in bank	58,014,833	139,646,976
Financial assets at FVTPL	2,964,928,545	3,415,436,856
Other investments	280,000,000	400,000,000
Receivables	67,710,850	65,887,154
Other long-term investments	50,000,000	-
	3,420,654,228	4,020,970,986

For financial assets at amortized cost, consisting of deposits in bank, other investments and receivables, the Fund measures credit risk and expected credit losses (ECL) using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward-looking information in determining any ECL. As a result, no loss allowance has been recognized based on 12-month ECL as any such impairment would be insignificant to the Fund.

As at December 31, 2021 and 2020, all of the Fund's financial assets are classified as stage 1 accounts (performing). There are no financial assets classified under stages 2 (underperforming) and 3 (impaired).

The credit quality of the Fund's financial assets as at December 31, 2021 and 2020 follows:

*(a) Deposits in bank and other investments*

The Fund's deposit exposures are with highly reputable universal banks in the Philippines with an average credit rating of Baa2 by Moody's.

*(b) Financial assets at FVTPL*

The Fund invests primarily in high yield investment securities. The Fund's debt securities issued by the Philippine government have an average credit rating of stable investment grade (Baa2) by Moody's. Unrated securities are investments in various medium and long-term corporate debt securities that are from counterparties with no history of default with the Fund.

### *(c) Receivables*

The Fund's receivables arise mainly from interest receivable, due from brokers, capital shares receivable and other receivables. The counterparties involved do not have any history of default with the Fund.

Interest receivable arises mainly from interest earned on deposits in bank, other investments and investments in Philippine government and corporate debt securities classified as financial assets at FVTPL.

Capital shares receivable pertains to subscriptions made by investors with outstanding collection as at year-end.

Receivables are considered to be fully collectible as at December 31, 2021 and 2020.

### **11.4 Liquidity risk**

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous to the Fund.

The Fund is exposed to daily cash redemptions of redeemable units. It therefore invests the majority of its assets in investments that are regularly traded in an active market and can be readily disposed of. The Fund's investment portfolio consists mainly of deposit instruments and fixed income instruments that are regularly traded in active markets.

In accordance with the Fund's policy, the Trustee monitors the Fund's liquidity position on a daily basis and excess cash positions are invested in securities that are readily realizable to ensure that redemptions are funded within the prescribed period indicated in the Fund's Plan Rules.

The Trustee also has in place a liquidity contingency plan drawn up specifically for UITFs and other managed accounts. The liquidity contingency plan provides a framework for addressing potential liquidity crisis situations which consists of identifying early warning indicators of a potential liquidity problem, setting out response action plans and defining the roles and responsibilities of key units and personnel to effectively manage the liquidity situation and ensure that client's liquidity requirements are met in a timely and orderly manner.

The Fund's financial liabilities pertain to trust fees payable, capital shares redeemed payable and other liabilities, which are all contractually due within twelve (12) months from the reporting date (Note 6).

Overall, due to the Fund's structure and strong liquidity position, the liquidity risk exposure of the Fund is negligible.

### **11.5 Fair value of financial instruments**

As at December 31, 2021, the Fund's financial assets at FVTPL representing government debt securities amounting to P2,521,541,798 (2020 - P2,721,131,683) are classified under Level 1. Corporate debt securities amounting to P443,386,747 (2020 - P694,305,173), which are designated at FVTPL are classified under Level 2. There are no financial instruments measured at fair value which are classified under Level 3. There were no transfers between the fair value hierarchies during the reporting periods.

The fair values of Philippine government debt securities are based on prices (BVAL) from Bloomberg.

The fair value of corporate debt securities which are traded in active markets is based on closing prices from Philippine Dealing & Exchange Corp. In the absence of done transactions, bid prices are used. In the absence of both closing and bid prices, the price is derived based on the corresponding government security reference rate plus risk premium.



The carrying amounts of the Fund's other financial assets and financial liabilities at reporting period approximate their fair values considering that these have short-term maturities.

### **11.6 Capital management**

The capital of the Fund is represented by the net assets attributable to holders of redeemable units as shown in the statement of financial position. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders of the Fund. Units are redeemed on demand at the holder's discretion.

As at reporting date, the Fund does not foresee any imminent significant redemptions as holders of these investments typically retain their holdings for the medium-term to long-term period.

The Fund is not subject to externally imposed minimum capital requirements.

## **12 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 both years presented, unless otherwise stated.

### **12.1 Basis of preparation**

The financial statements of the Fund have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRSs in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee, Standing Interpretations Committee and International Financial Reporting Interpretations Committee which have been approved by the Financial Reporting Standards Council and adopted by the Securities and Exchange Commission.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL.

There are currently no areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Fund's financial statements.

### **Changes in accounting policy and disclosures**

#### *(a) New standards, amendments to standards and interpretations*

There are no standards, amendments to standards, or interpretations that are effective for annual periods beginning on January 1, 2021 that are considered as relevant and have a material effect on the financial statements of the Fund.

#### *(b) New standards, amendments to standards, and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2021 and have not been early adopted in preparing these financial statements. None of these are considered relevant and expected to have a material effect on the financial statements of the Fund.

### **12.2 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Fund recognizes a financial instrument in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the instrument.

### *12.2.1 Measurement methods*

#### *Amortized cost and effective interest rate*

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider ECL and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Fund revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in the statement of total comprehensive income.

#### *Initial recognition, measurement and derecognition*

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade date, the date on which the Fund commits to purchase or sell the asset.

At initial recognition, the Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are recognized as expense in the statement of total comprehensive income. Immediately after initial recognition, an ECL allowance is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in Note 12.3.2 below.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Fund recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

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

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

Financial instruments are included in current assets and current liabilities, except if the financial instruments are expected to be realized or settled longer than twelve (12) months after the reporting period, which are then classified as non-current.

## 12.3 Financial assets

### 12.3.1 Classification and subsequent measurement

The Fund classifies its financial assets in the following measurement categories: at FVTPL, at FVOCI and at amortized cost.

The classification requirements for debt instruments are described below:

#### *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the Fund's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Fund classifies its debt instruments into one of the following measurement categories:

- *Amortized cost*

Assets that are held for collection of contractual cash flows where those cash flows represent sole payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any ECL recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Amortized cost financial assets include deposits in bank, other investments, and receivables.

Deposits in bank include deposits held at call with a bank and short-term highly liquid investments with original maturities of three months or less from the date of acquisition, which are considered as cash and cash equivalents. Other investments consist of short-term and long-term deposits with terms of more than 90 days and 1 year, respectively, from the date of acquisition. Receivables consist of interest receivable, due from brokers, capital shares receivable and other receivables.

- *FVOCI*

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses, if any, on the instrument's amortized cost which are recognized in the statement of total comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

As at December 31, 2021 and 2020, the Fund has no financial assets under the FVOCI category.

- *FVTPL*

Assets that do not meet the criteria for amortized cost or FVOCI and the collection of contractual cash flows is only incidental to achieving the Fund's business model objective are measured at FVTPL. A gain or loss on a debt security that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of total comprehensive income under 'Net (loss) income from financial assets at fair value through profit or loss' in the period in which it arises.

The Fund's investments in government and corporate debt securities are classified as FVTPL as disclosed in Note 3.

*Business model:* The business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Fund in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

*SPPI:* Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether the financial instruments' cash flows represent SPPI (the "SPPI test"). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

#### *12.3.2 Impairment*

The Fund assesses on a forward-looking basis the ECL associated with its debt instruments, deposits in bank, other assets and receivables carried at amortized cost. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and,
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

At each reporting date, the Fund measures the loss allowance on debt instruments, deposits in bank, other investments, and receivables at an amount equal to the lifetime ECL 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 measures the loss allowance at an amount equal to 12-month ECL. Significant financial difficulties of the counterparties, probability that the counterparties will enter bankruptcy or financial reorganization, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest 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.

#### **12.4 Financial liabilities**

The Fund classifies its financial liabilities in the following categories: financial liabilities at FVTPL and financial liabilities at amortized cost.

### *Financial liabilities at FVTPL*

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Fund as at FVTPL upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in profit or loss.

The Fund has no financial liabilities which are held for trading or designated at FVTPL as at December 31, 2021 and 2020.

### *Other liabilities measured at amortized cost*

Financial liabilities that are not classified as FVTPL fall into the category of other liabilities measured at amortized cost.

Financial liabilities measured at amortized cost include accounts payable and accrued expenses.

## **12.5 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Fund classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active 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. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

The Fund has no financial assets and liabilities carried at fair value other than its investments in Philippine government and corporate bonds classified as FVTPL. The government and corporate bonds are categorized under Level 1 and Level 2 of the fair value hierarchy, respectively (Note 3).

## **12.6 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

As at December 31, 2021 and 2020, there are no financial assets and liabilities that have been offset.

## **12.7 Subscriptions and redemptions**

Subscriptions and additional investments are recorded upon receipt of notice of subscription from unitholders. Redemptions are recorded upon receipt of notice of redemption.

## **12.8 Redeemable units**

The Fund issues redeemable units, which are redeemable at the holder's option and are classified as equity in accordance with PAS 32, *Financial Instruments: Presentation*. The equity of the Fund is represented by the net assets attributable to holders of redeemable units. Each unit has the following features which allow it to be classified as an equity:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation;
- the unit has no priority over other claims to the assets of the Fund on liquidation, and it does not need to be converted into another instrument before it is classified as such; and
- all units impose a contractual obligation on the Fund to deliver a pro rata share of its net assets on liquidation.

In addition, the Fund has no other financial instrument or contract that has:

- total cash flows based substantially on profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the Fund (excluding any effects of such instrument or contract); and
- the effect of substantially restricting or fixing the residual return to the unitholders.

Should the redeemable units' terms or conditions change such that they do not comply with the strict criteria as mentioned above, the redeemable units would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying value of the equity instrument and fair value of the liability on the date of reclassification would be recognized in equity.

Redeemable units are issued and redeemed at prices based on the Fund's trading NAV per unit at the time of issue or redemption. The Fund's trading NAV per unit is calculated by dividing the net assets attributable to the holders of redeemable units with the total number of outstanding redeemable units. In accordance with the provisions of the Fund's regulations, investment positions are valued based on the closing price for the purpose of determining the NAV per unit for subscriptions and redemptions.

Redeemable units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's NAV calculated in accordance with the Fund's regulations.

## **12.9 Revenue and expense recognition**

### *Net income (loss) on financial assets at FVTPL*

Net income (loss) on financial assets at FVTPL includes all realized and unrealized fair value changes and interest income.

### *Interest income on financial assets measured at amortized cost*

Interest is recognized on a time-proportionate basis using the effective interest rate method. Interest income from financial assets measured at amortized cost includes interest from deposits in bank and other investments.

### *Other income*

Other income is recognized when earned and the right to receive payment is established.

### *Trust fees and other expenses*

Expenses are recognized in the period in which they are incurred.

## **12.10 Taxation**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The Fund has interest income from cash deposits, investments in debt securities and other investments which are subject to final withholding tax. Such income is presented at gross amount and the related final tax is presented in the statement of total comprehensive income as final withholding tax. Realized gain on sale of financial assets at FVTPL is tax-exempt.

## **12.11 Functional and presentation currency**

The subscriptions and redemptions of the Fund's redeemable units are denominated in Philippine Peso. The performance of the Fund is measured and reported to the investors in Philippine Peso. The Fund's Trustee considers the Philippine Peso as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Philippine Peso, which is the Fund's functional currency.

## **12.12 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or unitholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

## **12.13 Events after the reporting date**

Post year-end events that provide additional information about the Fund's position at the end of the reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.