BPI Sustainable Global Equity Fund-of-Funds

Financial Statements
As at December 31, 2023 and 2022 and for the year ended December 31, 2023 and for the period from March 28, 2022 (launch date) to December 31, 2022

Independent Auditor's Report

To the Unitholders and Trustee of
BPI Sustainable Global Equity Fund-of-Funds
27th Floor, Ayala Triangle Gardens 2
Paseo de Roxas corner Makati Avenue
Makati City

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BPI Sustainable Global Equity Fund-of-Funds (the "Fund") as at December 31, 2023 and 2022, and its financial performance and its cash flows for the year ended December 31, 2023 and for the period from March 28, 2022 (launch date) to December 31, 2022 in accordance with Philippine Financial Reporting Standards (PFRSs).

What we have audited

The financial statements of the Fund comprise:

- the statements of financial position as at December 31, 2023 and 2022;
- the statements of total comprehensive income for the year ended December 31, 2023 and for the period from March 28, 2022 (launch date) to December 31, 2022;
- the statements of changes in net assets attributable to holders of redeemable units for the year ended December 31, 2023 and for the period from March 28, 2022 (launch date) to December 31, 2022;
- the statements of cash flows for the year ended December 31, 2023 and for the period from March 28, 2022 (launch date) to December 31, 2022; and
- the notes to the financial statements, including material accounting policy information.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). 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, the trustee of BPI Sustainable Global Equity Fund-of-Funds 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 PFRSs, 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 PSAs 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 PSAs, 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.

- 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.

Ruth F. Blasco
Partner
CPA Cert No. 112595
P.T.R. No. 0018519, issued on January 11, 2024, Makati City
TIN 235-725-236
BIR A.N. 08-000745-133-2023, issued on May 9, 2023; effective until May 8, 2026
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
June 19, 2024

BPI Sustainable Global Equity Fund-of-Funds

Statements of Financial Position
As at December 31, 2023 and 2022
(All amounts in United States Dollar)

	Notes	2023	2022
Assets			
CURRENT ASSETS			
Deposit in bank	2	263,007	13,443
Financial assets at fair value through profit or loss	3,9	908,603	368,902
Receivable	4	200,000	-
Total assets		1,371,610	382,345
Liabilities and Net assets attributable to holders of redeemable units			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	5	230,004	419
Net assets attributable to holders of redeemable units	6	1,141,606	381,926
Total liabilities and net assets attributable to holders of redeemable units		1,371,610	382,345

(The notes on pages 1 to 12 are an integral part of these financial statements.)

BPI Sustainable Global Equity Fund-of-Funds

Statements of Total Comprehensive Income
For the year ended December 31, 2023 and for the period from March 28, 2022 (launch date) to December 31, 2022
(All amounts in United States Dollar)

	Notes	2023	2022
Income (loss)			
Net income (loss) on financial assets at fair value through profit or loss			
Fair value gain (loss)	3	107,474	(28,097)
Realized gain (loss) on sale	3	1,040	(173)
		108,514	(28,270)
Expenses			
Trust fees	8	7,285	2,924
Others	7	129	52
		7,414	2,976
Income (loss) before tax		101,100	(31,246)
Final withholding tax		-	-
Net income (loss) for the year/period		101,100	(31,246)
Other comprehensive income		-	-
Total comprehensive income (loss) for the year/period		101,100	(31,246)

(The notes on pages 1 to 12 are an integral part of these financial statements.)

BPI Sustainable Global Equity Fund-of-Funds

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units
For the year ended December 31, 2023 and for the period from March 28, 2022 (launch date) to December 31, 2022
(All amounts in United States Dollar)

	Notes	2023	2022
Balances as at January 1, 2023/ March 28, 2022		381,926	-
Comprehensive income (loss)			
Net income (loss) for the year/period		101,100	(31,246)
Other comprehensive income		-	-
Total comprehensive income (loss) for the year/period		101,100	(31,246)
Transactions with unitholders			
Issuance of units	4,6	834,186	475,235
Redemption of units	5,6	(175,606)	(62,063)
Total transactions with unitholders		658,580	413,172
Balances as at December 31	6	1,141,606	381,926

(The notes on pages 1 to 12 are an integral part of these financial statements.)

BPI Sustainable Global Equity Fund-of-Funds

Statements of Cash Flows
For the year ended December 31, 2023 and for the period from March 28, 2022 (launch date)
to December 31, 2022
(All amounts in United States Dollar)

	Notes	2023	2022
Cash flows from operating activities			
Income (loss) before tax		101,100	(31,246)
Adjustments for:			
Net (income) loss on financial assets at fair value through profit or loss			
Fair value (gain) loss	3	(107,474)	28,097
Realized (gain) loss on sale	3	(1,040)	173
Operating loss before change in working capital		(7,414)	(2,976)
Change in working capital			
Increase in accounts payable and accrued expenses		408	419
Net cash used in operations		(7,006)	(2,557)
Payments on acquisition of securities	3,5	(226,128)	(401,172)
Proceeds from sale of securities	3	20,000	4,000
Net cash used in operating activities		(213,134)	(399,729)
Cash flows from financing activities			
Proceeds from issuance of redeemable units	6	634,186	475,235
Payments for redemption of redeemable units	6	(171,488)	(62,063)
Net cash from financing activities		462,698	413,172
Net increase in deposit in bank		249,564	13,443
Deposit in bank			
January 1, 2023/ March 28, 2022		13,443	-
December 31	2	263,007	13,443

(The notes on pages 1 to 12 are an integral part of these financial statements.)

BPI Sustainable Global Equity Fund-of-Funds

Notes to the Financial Statements
As at December 31, 2023 and 2022 and for the year ended December 31, 2023
and for the period from March 28, 2022 (launch date) to December 31, 2022
[In the notes, all amounts are shown in United States Dollar (USD) unless otherwise stated]

1 General information

BPI Sustainable Global Equity Fund-of-Funds (the "Fund") is a Unit Investment Trust Fund (UITF) established in accordance with, and operates subject to the provisions of, the Fund's Plan Rules and regulations issued by the Bangko Sentral ng Pilipinas (BSP). UITFs are created by virtue of BSP Circular No. 447 which also governs the administration and investments of UITFs and requires that an external audit of the Fund be conducted annually.

The BSP approved the Fund's Plan Rules on March 8, 2022 and started operating as a UITF since March 28, 2022. The Fund aims to outperform its benchmark which is the MSCI AC World Index.

Pursuant to the existing BSP rules and regulations, as a Fund-of-Funds, the Fund is mandated to invest at least 90% of its assets in a single collective investment scheme. The underlying collective investment scheme is referred to as the Target Fund.

BPI Asset Management and Trust Corporation ("BPI-AMTC") serves as the Fund Manager (the "Fund Manager") and Trustee (the "Trustee") of the Fund. The Fund has no employees.

In February 2023, BPI AMTC announced the change in its trade name from BPI Asset Management and Trust Corporation to BPI Wealth - A Trust Corporation, or simply BPI Wealth.

On July 19, 2023, the Board of Directors (BOD) of BPI Wealth approved the amendments to the Fund's Plan Rules to reflect the change in the name of the Fund from BPI Invest Sustainable Global Equity Fund-of-Funds to BPI Sustainable Global Equity Fund-of-Funds. The change was noted by the BSP on August 3, 2023 and was effective on August 24, 2023.

The Fund Manager is a wholly-owned subsidiary of Bank of the Philippine Islands ("BPI" or "Parent Bank"), a domestic commercial bank with an expanded banking license in the Philippines.

Approval of the financial statements

These financial statements have been approved and authorized for issue by the Fund's Trustee on June 19, 2024.

2 Deposit in bank

The account as at December 31, 2023 consists of regular non-interest bearing savings deposit amounting to USD263,007 (2022 - USD13,443).

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

The account at December 31, 2023 consists of investments in mutual funds amounting to USD908,603 (2022 - USD368,902).

The detailed list of investments is presented in Note 9.

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

	2023	2022
January 1, 2023/ March 28, 2022	368,902	-
Additions	451,187	401,172
Disposals	(18,960)	(4,173)
Fair value adjustment, net	107,474	(28,097)
At December 31	908,603	368,902

Payments on acquisition of securities in 2023 amount to USD226,128 (2022 - USD401,172).

For the period ended December 31, 2023, proceeds from disposals of financial assets at FVTPL amount to USD20,000 (2022 - USD4,000). Realized gain resulting from the sale of financial assets at FVTPL which is presented in the statement of total comprehensive income amounts to USD1,040 (2022 - loss of USD173).

4 Receivables

The account at December 31, 2023 consists of capital shares receivable from the issuances of shares yet to be collected as at year-end amounting to USD200,000 (2022 - nil).

5 Accounts payable and accrued expenses

The account as at December 31 consists of:

	Note	2023	2022
Due to brokers		225,059	-
Capital shares redeemed payable		4,118	-
Trust fees payable	8	784	406
Others		43	13
		230,004	419

Due to brokers represent payables for securities purchased that have been contracted for but not yet settled or delivered as at reporting date. These accounts are required to be settled within three days from transaction date.

Capital shares redeemed payable represents redemptions made by investors yet to be paid as at year-end.

Others pertain to accrued professional fees.

6 Net assets attributable to holders of redeemable units

The consideration received or paid for units issued or redeemed is based on the value of the Fund's net asset value (NAV) per redeemable unit at the date of the transaction. The total equity as shown in the statements 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, 2023, the PFRS NAV is equal to the Fund's trading NAV of USD1,141,623 (2022 - USD381,928) and decreased by an adjustment on accrual of professional fees amounting to USD17 (2022 - USD2). 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 at December 31 follow:

	2023	2022
Trading NAV	1,141,623	381,928
Outstanding units	11,049	4,405
Trading NAV per unit	103.32	86.70

Proceeds from issuance of and payments for redemptions of units for the period ended December 31, 2023 amount to USD634,186 and USD171,488, respectively (2022 - USD475,235 and USD62,063, respectively).

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

	2023	2022
January 1	4,405	-
Issuances	8,467	5,094
Redemptions	(1,823)	(689)
December 31	11,049	4,405

7 Other expenses

The account for the periods ended December 31 consists of:

	2023	2022
Professional fees	44	13
Others	85	39
	129	52

Others include index licensing fee and taxes and licenses.

8 Related party transactions

As the Fund's Trustee, BPI Wealth 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 consideration for the above management, distribution and administration services, the Fund pays BPI Wealth a fee of not more than 1.25% per annum based on the Fund's trading NAV, net of applicable taxes.

Total trust fees for the period ended December 31, 2023 amount to USD7,285 (2022 - USD2,924), of which USD784 (2022 - USD406) remains unpaid and recorded under accounts payable and accrued expenses in the statement of financial position (Note 5).

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.

9 Breakdown of financial assets at FVTPL

The detailed list of investments is as follows:

As at December 31, 2023

Security description	Number of shares	Market value
Mutual funds		
Janus Henderson Horizon Global Sustainable Equity Fund	21,763	380,848
Neuberger Berman Global Sustainable Equity Fund	9,153	100,040
Wellington Climate Strategy Fund	1,308	24,032
Blackrock Global Fund - Sustainable Energy Fund	1,008	19,798
Schroder ISF Global Sustainable Growth	993	383,885
		908,603

As at December 31, 2022

Security description	Number of shares	Market value
Mutual funds		
Janus Henderson Horizon Global Sustainable Equity Fund	9,320	132,442
Wellington Climate Strategy Fund	2,485	41,289
Neuberger Berman Global Sustainable Equity Fund	2,310	20,395
Schroder ISF Global Sustainable Growth	558	174,776
		368,902

10 Financial risk and capital management

10.1 Risk management process

The Fund's activities expose it to financial risks: market risk (primarily price risk), credit risk and liquidity risk by virtue of its investment in the Target Fund. 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 the policies approved by the Board of Directors. The Board of Directors 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 risk inherent in investments approved by the investors.

The Fund, operating as a Fund-of-Funds, aims to outperform its benchmark which is the MSCI AC World Index. Pursuant to the existing BSP rules and regulations, as a Fund-of-Funds, this Fund is mandated to invest at least 90% of its assets in more than one collective investment scheme.

10.2 Market risk

The Fund invests at least 90% of its assets in the Target Fund, which bears the market price risk.

The Target Fund trades in financial instruments, taking tactical and strategic positions in traded equity instruments. Investment positions are reported at estimated market value with changes reflected in profit or loss. Investment positions are subject to various risk factors, which primarily include exposures to price risk. This arises from investments held by the Target Fund for which prices in the future are uncertain.

The Fund's overall market position is monitored on a daily basis by the Trustee and reviewed on a monthly basis by the Trustee's Board of Directors. Compliance with the Fund's investment policies is reported to the Trustee's Board of Directors on a monthly basis.

Pursuant to the existing BSP rules and regulations, as a Fund-of-Funds, this Fund is mandated to invest at least 90% of its assets in more than one collective investment scheme. Such underlying collective investment schemes are referred to as Target Funds and are selected consistent with the provisions on investment objective and investment policy following the Trustee's established investment process.

The Trustee manages price risk through diversification and careful selection of collective investment schemes 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 fifteen percent (15%) of the NAV except for non-risk assets as defined by the BSP. In the case of Fund-of-Funds, the exposure limit shall be applied on the Target Fund's underlying investments. Furthermore, the investment in any one Target Fund shall not exceed ten percent (10%) of the total net asset value of the Target Fund.

To estimate its exposure to price risk, the Trustee evaluates the impact of changes in the MSCI World Index on the Fund's net income (loss) on financial assets at FVTPL as at December 31:

	2023	2022
MSCI AC World Index	12.01%	20.88%
Increase/decrease on net income (loss) on financial assets at FVTPL	109,168	77,134

The sensitivity analysis takes into account the annualized volatility of the MSCI AC World Index during the period. Annualized volatility determines how much the return of the Fund will deviate from normal returns because of the movement in MSCI AC World Index.

10.3 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 bank deposit, investment in Target Fund classified as financial assets at FVTPL, other investments and receivables. The carrying amounts of these financial assets, as shown in the statement of financial position, represent the Fund's maximum exposure to credit risk.

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 the Trustee's Board of Directors.

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:

	2023	2022
Deposit in bank	263,007	13,443
Financial assets at FVTPL	908,603	368,902
Receivables	200,000	-
	1,371,610	382,345

For financial assets measured at amortized cost, the Fund measures credit risk and the 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, 2023 and 2022, all of the Fund's financial assets are classified as Stage 1 accounts (performing). There are no financial assets classified under Stage 2 (underperforming) and Stage 3 (impaired).

The credit quality of the Fund’s financial assets as at December 31, 2023 and 2022 follows:

(a) Deposit in bank

The Fund’s deposit account is maintained with a highly reputable universal bank in the Philippines, with an average credit rating of Baa2 by Moody’s.

(b) Financial assets at FVTPL

The Fund’s financial assets at FVTPL consist of investments in the Target Fund with excellent capacity to meet financial commitments and with very low credit risk.

(c) Receivable

The Fund’s receivable pertains to capital shares receivable which arises from issuance of shares.

10.4 Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources 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 a liquid Target Fund and deposit instruments.

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 its 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 client’s liquidity requirements are met in a timely and orderly manner.

The Fund’s financial liabilities pertain to due to brokers, capital shares redeemed payable, trust fees payable and accrued professional fees, which are all contractually due within twelve (12) months from the reporting date.

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

10.5 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.

10.6 Fair value of financial instruments

The Fund's financial assets at FVTPL amounting to USD908,603 are classified under Level 1 as at December 31, 2023 (2022 - USD368,902). There are no financial instruments measured at fair value which are classified under Level 2 and Level 3.

The fair value of the Target Fund is based on the closing price in Bloomberg.

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 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 periods presented, unless otherwise stated.

11.1 Basis of preparation

The financial statements of the Fund have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). The term PFRSs, in general, includes all applicable PFRSs, 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 and Sustainability Reporting Standards Council and adopted by the Philippine Securities and Exchange Commission.

The 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) Amendments to existing standards adopted by the Fund

The following amendments to existing standards have been adopted by the Fund effective January 1, 2023:

i. Amendments to PAS 1, 'Presentation of Financial Statements', and PFRS Practice Statement 2

   The amendments require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' (being information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

   To support these amendments, PFRS Practice Statement 2, Making Materiality Judgements, was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

   The adoption of these amendments resulted in changes in the accounting policies disclosed by the Fund.

There are no other new standards, amendments to existing standards and interpretations effective on January 1, 2023 that are considered relevant or have a material impact on the financial statements of the Fund.

(a) 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 on or after January 1, 2024 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.

11.2 Financial instruments

11.2.1 Measurement methods

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 expensed 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 fair value through other comprehensive income (FVOCI), if any, as described in Note 11.3.1.2.

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).

11.3 Financial assets

11.3.1.1 Classification and subsequent measurement

The Fund applies PFRS 9 and classifies its financial assets in the following measurement categories: at FVTPL 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 financial assets into one of the following measurement categories:

- *Amortized cost*

Assets that are held for collection of contractual cash flows where those cash flows represent solely 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 allowance 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 deposit held at call with a bank and receivable.

- *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 income (loss) on financial assets at FVTPL in the period in which it arises.

As at December 31, 2023, the Fund's investments in the Target Fund is mandatorily classified at 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 instruments 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.

11.3.1.2 Impairment

The Fund assesses on a forward-looking basis the ECL associated with its debt instruments 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 shall measure the loss allowance on deposit in bank and receivable 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 shall measure 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.

11.4 Financial liabilities

The Fund classifies its financial at amortized cost. The liabilities subsequently measured at amortized cost include accounts payable and accrued expenses.

11.5 Determination of fair value.

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 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 Fund has no financial assets and liabilities carried at fair value other than its investments in the Target Fund classified as financial assets at FVPTL (Note 3).

11.6 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.

11.7 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 last traded market 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 (Note 6) calculated in accordance with the Fund's regulations.

11.8 Revenue and expense recognition

Net income (loss) on financial assets at fair value through profit or loss

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

Trust fees and other expenses

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

11.9 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.

Interest income from cash deposits, if any, is 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 considered tax-exempt.

11.10 Functional and presentation currency

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

11.11 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.