

# Odyssey Diversified Capital Fund

**Financial Statements**

**As at and for the years ended December 31, 2023 and 2022**



**pwc**



## Independent Auditor's Report

To the Unitholders and Trustee of  
**Odyssey Diversified Capital Fund**  
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 Odyssey Diversified Capital Fund (the "Fund") as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended 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 years ended December 31, 2023 and 2022;
- the statements of changes in net assets attributable to holders of redeemable units for the years ended December 31, 2023 and 2022;
- the statements of cash flows for the years ended December 31, 2023 and 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.

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#### **Other Matter - Restriction on Use**

This report is intended solely for the information and use of the unitholders, the trustee of Odyssey Diversified Capital 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 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.



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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.



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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.**

A handwritten signature in black ink that reads "Ruth F. Blasco".

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

## Odyssey Diversified Capital Fund

Statements of Financial Position  
As at December 31, 2023 and 2022  
(All amounts in Philippine Peso)

	Notes	2023	2022
<b>Assets</b>			
<b>Current assets</b>			
Deposits in banks	2	33,319,751	19,913,538
Financial assets at fair value through profit or loss	3,9	948,792,342	1,134,892,562
Receivables	4	8,524,640	12,349,687
<b>Total assets</b>		<b>990,636,733</b>	<b>1,167,155,787</b>
<b>Liabilities and Net assets attributable to holders of redeemable units</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses	5	2,176,193	2,453,515
<b>Net assets attributable to holders of redeemable units</b>	6	<b>988,460,540</b>	<b>1,164,702,272</b>
<b>Total liabilities and net assets attributable to holders of redeemable units</b>		<b>990,636,733</b>	<b>1,167,155,787</b>

(The notes on pages 1 to 17 are an integral part of these financial statements.)

## Odyssey Diversified Capital Fund

Statements of Total Comprehensive Income  
For the years ended December 31, 2023 and 2022  
(All amounts in Philippine Peso)

	Notes	2023	2022
<b>Income (loss)</b>			
Net income (loss) on financial assets at fair value through profit or loss:			
Interest income	3	46,891,690	43,252,537
Fair value gain (loss)	3	34,878,506	(58,662,475)
Realized loss	3	(9,040,315)	(21,251,062)
Dividend income	3	9,485,769	6,902,795
Interest income on deposits in banks	2	1,250,234	585,417
		83,465,884	(29,172,788)
<b>Expenses</b>			
Trust fees	8	16,591,748	18,560,073
Other	7	238,250	245,245
		16,829,998	18,805,318
<b>Income (loss) before tax</b>		66,635,886	(47,978,106)
Final withholding tax		9,628,385	8,767,591
<b>Net income (loss) for the year</b>		57,007,501	(56,745,697)
Other comprehensive income		-	-
<b>Total comprehensive income (loss) for the year</b>		57,007,501	(56,745,697)

(The notes on pages 1 to 17 are an integral part of these financial statements.)

## Odyssey Diversified Capital Fund

Statements of Changes in Net Assets  
Attributable to Holders of Redeemable Units  
For the years ended December 31, 2023 and 2022  
(All amounts in Philippine Peso)

	Notes	2023	2022
<b>Balances as at January 1</b>		1,164,702,272	1,338,507,156
<b>Comprehensive income (loss)</b>			
Net income (loss) for the year		57,007,501	(56,745,697)
Other comprehensive income		-	-
<b>Total comprehensive income (loss) for the year</b>		57,007,501	(56,745,697)
<b>Transactions with unitholders</b>			
Issuance of units	4,6	11,871,653	12,452,887
Redemption of units	5,6	(245,120,886)	(129,512,074)
<b>Total transactions with unitholders</b>		(233,249,233)	(117,059,187)
<b>Balances as at December 31</b>	6	988,460,540	1,164,702,272

(The notes on pages 1 to 17 are an integral part of these financial statements.)



## Odyssey Diversified Capital Fund

Statements of Cash Flows  
For the years ended December 31, 2023 and 2022  
(All amounts in Philippine Peso)

	Notes	2023	2022
<b>Cash flows from operating activities</b>			
Income (loss) before tax		66,635,886	(47,978,106)
Adjustments for:			
Net (income) loss on financial assets at fair value through profit or loss:			
Interest income	3	(46,891,690)	(43,252,537)
Fair value (gain) loss	3	(34,878,506)	58,662,475
Realized loss	3	9,040,315	21,251,062
Dividend income	3	(9,485,769)	(6,902,795)
Interest income on deposits in banks	2	(1,250,234)	(585,417)
Interest received	2,3,4	50,316,141	44,498,691
Dividends received	3,4	8,983,204	6,894,189
Operating income before changes in working capital		42,469,347	32,587,562
Changes in working capital			
Decrease in accounts payable and accrued expenses		(236,865)	(219,916)
Net cash from operating activities		42,232,482	32,367,646
Proceeds from sale of securities	3,4	687,146,246	1,166,627,908
Payments on acquisition of securities	3	(473,165,921)	(1,101,249,321)
Final taxes paid		(9,628,385)	(8,767,591)
Net cash from operating activities		246,584,422	88,978,642
<b>Cash flows from financing activities</b>			
Proceeds from issuance of redeemable units	6	11,983,134	12,341,406
Payments for redemption of redeemable units	6	(245,161,343)	(129,200,828)
Net cash used in financing activities		(233,178,209)	(116,859,422)
<b>Net increase (decrease) in deposits in banks</b>		13,406,213	(27,880,780)
<b>Deposits in banks</b>			
At January 1		19,913,538	47,794,318
At December 31	2	33,319,751	19,913,538

(The notes on pages 1 to 17 are an integral part of these financial statements.)

## Odyssey Diversified Capital Fund

Notes to the Financial Statements

As at and for the years ended December 31, 2023 and 2022

(In the notes, all amounts are shown in Philippine Peso unless otherwise stated)

### 1 General information

Odyssey Diversified Capital Fund (the “Fund”) is a Unit Investment Trust Fund (UITF) established in accordance with, and operates 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 December 4, 2006.

The Fund was organized to engage in the sale of its units and investment of the proceeds thereof in a diversified portfolio of fixed income and equity securities to pursue long-term capital and income growth and intends to achieve investment returns that outperform its benchmark, which is a combination of 70% BPI Philippine Government Bond Index and 30% Philippine Stock Exchange Index (PSEi). 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 Wealth - A Trust Corporation (Formerly BPI Asset Management and Trust Corporation), 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.

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.

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”) (Note 7).

#### *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 Deposits in banks

The account at December 31 consists of:

	2023	2022
Time	28,000,000	14,000,000
Savings	5,319,751	5,913,538
	33,319,751	19,913,538

In 2023, deposits in banks earn interest at effective rates ranging from 4.08% to 6.00% (2022 - 0.20% to 4.40%).

For the year ended December 31, 2023, interest income earned from the above deposits amount to P1,250,234 (2022 - P585,417). Interest receivable amounts to P7,467 as at December 31, 2023 (2022 - P3,422) (Note 4).

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

The account at December 31 consists of the following investments:

	2023	2022
Debt securities		
Philippine government debt securities	603,489,451	725,824,210
Philippine corporate debt securities	46,746,844	65,316,868
	650,236,295	791,141,078
Listed equity securities	298,556,047	343,751,484
	948,792,342	1,134,892,562

The detailed list of investments is presented in Note 9. These investments are held for trading.

In 2023, investments in government securities earn interest at annual rates ranging from 2.70% to 6.50% (2022 - 1.90% to 7.00%), while corporate debt securities earn interest at annual rates ranging from 3.09% to 5.68% (2022 - 2.20% to 5.68%).

For the year ended December 31, 2023, interest income earned from government securities amounts to P43,887,930 (2022 - P37,871,716) and corporate securities amounts to P3,003,760 (2022 - 5,380,821), of which P7,848,825 remains collectible as at December 31, 2023 (2022 - P10,027,087) (Note 4).

For the year ended December 31, 2023, dividend income earned from investments in listed equity securities amounts to P9,485,769 (2022 - P6,902,795), of which P668,348 remains collectible as at December 31, 2023 (2022 - P165,783) (Note 4).

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

	2023	2022
At January 1	1,134,892,562	1,282,226,600
Additions	473,165,921	1,101,249,321
Disposals	(694,144,647)	(1,189,920,884)
Fair value adjustment, net	34,878,506	(58,662,475)
At December 31	948,792,342	1,134,892,562

Payments on acquisition of securities in 2022 amount to P473,165,921 (2022 - P1,101,249,321).

Proceeds from disposals of financial assets at FVTPL for the year ended December 31, 2023 amount to P687,146,246 (2022 - P1,166,627,908). Realized loss on sale of financial assets at FVTPL in 2023 amounts to P9,040,315 (2022 - P21,251,062) and is presented in the statement of total comprehensive income.

### 4 Receivables

The account at December 31 consists of:

	Notes	2023	2022
Interest receivable	2,3	7,856,292	10,030,509
Dividend receivable	3	668,348	165,783
Due from brokers		-	2,041,914
Capital shares receivable		-	111,481
		8,524,640	12,349,687

Due from brokers represent receivables for securities sold that have been contracted for but not yet settled or delivered at the end of reporting period. Trading transactions are generally settled three days after the transaction date.

Capital shares receivable pertains to subscriptions made by investors with outstanding collections as at reporting date.

## 5 Accounts payable and accrued expenses

The account at December 31 consists of:

	Note	2023	2022
Trust fees payable	8	1,256,973	1,492,406
Capital shares redeemed payable		865,723	906,180
Others		53,497	54,929
		2,176,193	2,453,515

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

Others represent accrued professional and custodian fees.

## 6 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 net asset value (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, 2023, the PFRS NAV is equal to the Fund's trading NAV of P988,453,196 (2022 - P1,164,702,945) increased by adjustment on accrual of professional fees amounting to P7,344 (2022 - decreased by P673). 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 is calculated as follows:

	2023	2022
Trading NAV	988,453,196	1,164,702,945
Outstanding units	5,113,830	6,356,034
Trading NAV per unit	193.29	183.24

Proceeds from issuance and payments for redemptions of units for the year ended December 31, 2023 amount to P11,983,134 and P245,161,343 (2022 - P12,341,406 and P129,200,828), respectively.

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

	2023	2022
At January 1	6,356,034	6,990,142
Issuances	62,810	67,288
Redemptions	(1,305,014)	(701,396)
At December 31	5,113,830	6,356,034

## 7 Other expenses

The account for the years ended December 31 consists of:

	2023	2022
Custodian fees	192,654	203,093
Professional fees	43,830	37,970
Others	1,766	4,182
	238,250	245,245

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 0.014% (2022 - 0.011%) 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.

## 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 2023 and 2022, in consideration for the management, distribution and administration services, the Fund pays BPI Wealth a fee of not more than 1.50% per annum based on the Fund's trading NAV, net of applicable taxes.

Total trust fees for the year ended December 31, 2023 amount to P16,591,748 (2022 - P18,560,073), of which P1,256,973 remains unpaid as at December 31, 2023 (2022 - P1,492,406) 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 (BOD).

## 9 Breakdown of financial assets at FVTPL

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

As at December 31, 2023

Security description	Maturity date	Market value
<i>Philippine government debt securities</i>		
FXT2017 07192031 912-TX	July 19, 2031	129,166,654
FXT2025 11242042 912-TX	November 24, 2042	95,874,206
RTB5-14 06022027 912-TX	June 2, 2027	67,948,998
FXT1070 10202032 912-TX	October 20, 2032	59,773,910
RTB5-16 03072028 912-TX	March 7, 2028	59,586,238
RTB5-17 08222028 912-TX	August 22, 2028	47,987,223
FXT1064 01102029 912-TX	January 10, 2029	44,148,350
FXT1068 06232032 912-TX	June 23, 2032	27,684,791
FXT2023 01242039 912-TX	January 24, 2039	26,640,557
FXT10-71 08172033 912-TX	August 17, 2033	14,870,282
RTB5-15 03042027 912-TX	March 4, 2027	14,669,666
FXT1069 09152032 912-TX	September 15, 2032	10,438,925
FXT1067 01202032 912-TX	January 20, 2032	4,699,651
		<b>603,489,451</b>
<i>Philippine corporate debt securities</i>		
SM Prime Holdings, Inc.	March 25, 2025	9,803,493
Converge Information and Communications Technology Solutions, Inc.	April 8, 2027	9,902,349
ACEN Corporation	September 22, 2027	9,616,206
SMC Global Power Holdings Corporation	April 26, 2028	8,791,464
Ayala Land, Inc.	September 29, 2025	8,633,332
		<b>46,746,844</b>

Security description	No. of shares	Market value
<i>Listed equity securities</i>		
SM Investment Corporation	47,179	41,140,088
SM Prime Holdings, Inc.	978,856	32,204,362
BDO Unibank, Inc.	159,056	20,756,808
Bank of the Philippine Islands	164,833	17,109,665
Ayala Land, Inc.	489,950	16,878,778
International Container Terminal Service, Inc.	60,910	15,032,588
PLDT, Inc.	11,503	14,712,337
Ayala Corporation	21,430	14,593,830
JG Summit Holdings, Inc.	334,810	12,773,002
Monde Nissin Corporation	1,327,300	11,122,774
Globe Telecom, Inc.	6,273	10,789,560
Metropolitan Bank & Trust Company	201,298	10,326,587
Universal Robina Corporation	82,939	9,803,390
Wilcon Depot, Inc.	423,500	8,851,150
Puregold Price Club, Inc.	312,400	8,403,560
GT Capital Holdings, Inc.	13,596	8,021,640
Aboitiz Equity Ventures	173,910	7,756,386
Manila Electric Company	18,670	7,449,330
Jollibee Foods Corporation	27,136	6,821,990
ACEN Corporation	1,459,000	6,390,420
Megaworld Prop & Holdings	3,000,000	5,910,000
Converge ICT Solutions, Inc.	434,400	3,640,272
Semirara Mining and Power Corporation	100,000	3,025,000
Union Bank of the Philippines	35,725	1,798,754
Security Bank Corporation	24,790	1,772,485
Robinsons Land Corporation	67,817	1,081,003
Alliance Global Inc	34,600	390,288
		298,556,047
		948,792,342

As at December 31, 2022

Security description	Maturity date	Market value
<i>Philippine government debt securities</i>		
FXT2017 07192031 912-TX	July 19, 2031	125,405,004
RTB5-16 03072028 912-TX	March 7, 2028	107,017,805
RTB5-14 06022027 912-TX	June 2, 2027	94,479,790
FXT1064 01102029 912-TX	January 10, 2029	74,210,519
FXT1070 10202032 912-TX	October 20, 2032	67,105,760
FXT7-62 02142026 912-TX	February 12, 2026	54,883,919
FXT2025 11242042 912-TX	November 24, 2042	48,489,649
FXT1060 09092025 912-TX	September 9, 2025	47,632,543
RTB5-15 03042027 912-TX	April 4, 2027	28,655,432
FXT1068 06232032 912-TX	June 23, 2032	26,533,903
FXT2023 01242039 912-TX	January 24, 2039	23,841,653
FXT5-77 04082026 912-TX	April 8, 2026	18,673,305
FXT1067 01202032 912-TX	January 20, 2032	8,894,928
		725,824,210

Security description	Maturity date	Market value
<i>Philippine corporate debt securities</i>		
SM Prime Holdings, Inc.	March 25, 2025	28,742,593
Converge Information and Communications Technology Solutions, Inc.	April 8, 2027	9,687,087
ACEN Corporation	September 22, 2027	9,479,502
SMC Global Power Holdings Corporation	April 26, 2028	9,021,361
Ayala Land, Inc.	September 29, 2025	8,386,325
		65,316,868
	No. of shares	Market value
<i>Listed equity securities</i>		
SM Investment Corporation	54,399	48,959,100
SM Prime Holdings, Inc.	1,200,656	42,623,288
BDO Unibank, Inc.	256,536	27,115,855
Ayala Land, Inc.	825,850	25,436,180
Bank of the Philippine Islands	219,907	22,430,514
Ayala Corporation	29,474	20,484,430
International Container Terminal Service, Inc.	93,650	18,730,000
Metropolitan Bank & Trust Company	339,438	18,329,652
Jollibee Foods Corporation	62,196	14,305,080
Aboitiz Equity Ventures	217,330	12,539,941
Globe Telecom, Inc.	5,543	12,083,740
Aboitiz Power Corporation	333,320	11,349,546
PLDT, Inc.	7,373	9,710,241
Monde Nissin Corporation	832,600	9,225,208
Universal Robina Corporation	59,129	8,041,544
Manila Electric Company	24,380	7,284,744
GT Capital Holdings, Inc.	16,653	7,244,055
JG Summit Holdings, Inc.	131,670	6,623,001
Wilcon Depot, Inc.	150,000	4,425,000
Robinsons Land Corporation	250,421	3,746,298
Puregold Price Club, Inc.	103,330	3,606,217
Megaworld Prop & Holdings	1,719,647	3,439,294
Metro Pacific Investments Corporation	891,500	3,048,930
ACEN Corporation	302,412	2,304,379
Security Bank Corporation	7,610	662,070
Converge ICT Solutions, Inc.	200	3,177
		343,751,484
		1,134,892,562

## 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 and 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 the 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 its 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 on investments approved by the investors.

The Fund's objective is to achieve long-term capital and income growth by investing in a diversified portfolio of fixed income and equity securities. The Fund aims to outperform its benchmark, which is composed of 70% BPI Philippine Government Bond Index and 30% PSEi.



## 10.2 Market risk

The Fund trades financial instruments, taking tactical and strategic positions in traded equity and fixed income 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 price and interest rate risk. Price risk arises from investments held by the Fund for which prices in the future are uncertain, while 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.

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 is reported to the Trustee's BOD on a monthly basis.

### *Price risk*

The Trustee manages price 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 for non-risk assets as defined by the BSP. In the case of exchange-traded equity securities, the maximum exposure of the Fund to each issuer shall be 15% or the benchmark percent weighting of the issuer, whichever is higher.

The Fund's policy is to concentrate its investment portfolio in sectors where the Fund can maximize the returns derived for the level of risk to which the Fund is exposed. The table below is a summary of the percentage exposures of the Fund to each sector as at December 31:

	2023	2022
Holdings	28.36%	28.77%
Property	18.78%	21.89%
Financials	17.34%	19.94%
Food and beverage	9.29%	9.18%
Communications	9.76%	6.34%
Power and water	4.64%	6.09%
Transportation	5.04%	5.45%
Retail	5.78%	2.34%
Government	1.01%	-
Total	100.00%	100.00%

To estimate its exposure to price risk, the Trustee evaluates the impact of changes in the PSEi on the Fund's net income (loss) on financial assets at FVTPL for the years ended December 31:

	2023	2022
Changes in PSEi	14.53%	21.06%
Increase/decrease on net income (loss) on financial assets at FVTPL	43,694,858	73,071,134

The sensitivity analysis takes into account the annualized volatility of the PSEi for the past year. Annualized volatility determines how much the return of the Fund will deviate from normal returns because of the movement in the PSEi.

### *Interest rate risk*

The Fund's interest rate risk exposure primarily relates to government and corporate 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.

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 sensitivity to a reasonable possible change in market interest rates on the Fund's net income (loss) on financial assets at FVTPL is approximated via the modified duration approach.

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

	2023	2022
Increase/decrease on net income (loss) on financial assets at FVTPL	39,358,601	42,324,251

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.

### **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 Philippine government and corporate debt securities classified as financial assets at FVTPL. The Fund is also exposed to counterparty credit risk on deposits in banks 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 the 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:

	Notes	2023	2022
Deposits in banks	2	33,319,751	19,913,538
Financial assets at FVTPL	3,9	650,236,295	791,141,078
Receivables	4	8,524,640	12,349,687
		692,080,686	823,404,303

For financial assets at amortized cost, the Fund measures credit risk and the expected credit loss (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 stages 2 (underperforming) and 3 (impaired).

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

*(a) Deposits in banks*

The Fund's deposit accounts are maintained 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, dividend receivable, due from brokers, and capital shares receivable. The counterparties involved do not have any history of default with the Fund.

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

Dividend receivable arises from dividends declared but not yet received as at reporting date.

Due from brokers arise from sale of investments in equity securities during the last three trading days of the reporting period and are usually settled three days after trade date. The Fund's brokers are registered trading participants of the PSE.

Capital shares receivable pertains to subscriptions made by investors with outstanding collections as at reporting date.

Receivables are considered to be fully collectible as at December 31, 2023 and 2022.

#### **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 equity securities listed in the Philippine Stock Exchange, 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 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 trust fees payable, capital shares redeemed payable and accrued professional and custodian fees, which are all contractually due within twelve (12) months from the reporting date (Note 5).

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

## **10.5 Fair value of financial instruments**

As at December 31, 2023, the Fund's financial assets at FVTPL representing government debt and equity securities amounting to P902,045,498 (2022 - P1,069,575,694) are classified under Level 1. Corporate debt securities amounting to P46,746,844 (2022 - P65,316,868), 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 level in the fair value hierarchy during the reporting periods.

The fair value of Philippine government debt securities is based on prices 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 fair values of listed equity securities are 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.

## **10.6 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.

## **11 Summary of material 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.

### **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.

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) 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.

### *(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 on or after January 1, 2024 and have not been early adopted in preparing these financial statements. None of these are considered relevant and are 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 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 fair value through other comprehensive income (FVOCI), if any, as described in Note 11.3.2.

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 Classification and subsequent measurement*

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

The classification requirements for debt and equity 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 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 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 banks and receivables.

Deposits in banks 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 equivalents. Receivables consist mainly of interest receivable, due from brokers, dividend receivable, and capital shares 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 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 Notes 3 and 9.

*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.

#### *Equity investments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund measures all equity investments at FVTPL, except where the Fund's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value.

Dividends, when representing a return on such investments, continue to be recognized in profit or loss as dividend income when the Fund's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in 'Net income (loss) on financial assets at fair value through profit or loss' in the statement of total comprehensive income.

Equity investments classified as financial assets at FVTPL are disclosed in Notes 3 and 9.

#### *11.3.2 Impairment*

The Fund assesses on a forward-looking basis the ECL associated with its debt instruments, deposits in banks, other investments 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 its debt instruments, deposits in banks, 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.

#### **11.4 Financial liabilities**

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

#### **11.5 Fair value measurement**

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 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.

The Fund has no financial assets and liabilities carried at fair value other than its investments in debt and equity securities classified as financial assets at FVTPL. Equity securities and government bonds are categorized under Level 1, while corporate bonds are categorized under Level 2 of the fair value hierarchy (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 the 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.

#### **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 and interest.

*Interest income on financial assets measured at amortized cost*

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

*Dividend income*

Dividend income is recognized when the right to receive payment is established.

*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.

The Fund has interest income from cash deposits and fixed income securities 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 recorded net of applicable taxes.

#### **11.10 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.

#### **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.