

Odyssey Philippine Dollar Bond 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 Philippine Dollar Bond 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 Philippine Dollar Bond 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.

Isla Lipana & Co., 29th Floor, AIA Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines
T: +63 (2) 8845 2728, www.pwc.com/ph



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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 Philippine Dollar Bond Fund and the Bangko Sentral ng Pilipinas and is not intended for any other purpose.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Philippine Dollar Bond Fund

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

	Notes	2023	2022
Assets			
Current assets			
Deposits in banks	2	312,668	336,886
Financial assets at fair value through profit or loss	3,9	9,492,304	11,781,985
Receivables	4	173,845	186,092
Total assets		9,978,817	12,304,963
Liabilities and Net assets attributable to holders of redeemable units			
Current liabilities			
Accounts payable and accrued expenses	5	36,867	14,545
Net assets attributable to holders of redeemable units	6	9,941,950	12,290,418
Total liabilities and net assets attributable to holders of redeemable units		9,978,817	12,304,963

(The notes on pages 1 to 13 are an integral part of these financial statements.)

Odyssey Philippine Dollar Bond Fund

Statements of Total Comprehensive Income
For the years ended December 31, 2023 and 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:			
Interest income	3	560,432	597,561
Fair value gain (loss)	3	691,411	(1,846,081)
Realized loss on sale	3	(287,717)	(244,939)
Interest income on:			
Deposits in banks	2	27,030	91,905
Other investments		-	2,540
Unrealized foreign exchange gain (loss), net		76	(262)
		991,232	(1,399,276)
Expenses			
Trust fees	8	138,520	171,293
Others	7	2,213	2,420
		140,733	173,713
Income (loss) before tax		850,499	(1,572,989)
Final withholding tax		12,893	29,695
Net income (loss) for the year		837,606	(1,602,684)
Other comprehensive income		-	-
Total comprehensive income (loss) for the year		837,606	(1,602,684)

(The notes on pages 1 to 13 are an integral part of these financial statements.)

Odyssey Philippine Dollar Bond 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 United States Dollar)

	Notes	2023	2022
Balances as at January 1		12,290,418	15,645,850
Comprehensive income (loss)			
Net income (loss) for the year		837,606	(1,602,684)
Other comprehensive income		-	-
Total comprehensive income (loss) for the year		837,606	(1,602,684)
Transactions with unitholders			
Issuance of units	4,6	450,186	152,868
Redemption of units	5,6	(3,636,260)	(1,905,616)
Total transactions with unitholders		(3,186,074)	(1,752,748)
Balances as at December 31		9,941,950	12,290,418

(The notes on pages 1 to 13 are an integral part of these financial statements.)

Odyssey Philippine Dollar Bond Fund

Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(All amounts in United States Dollar)

	Notes	2023	2022
Cash flows from operating activities			
Income (loss) before tax		850,499	(1,572,989)
Adjustments for:			
Net (income) loss on financial assets at fair value through profit or loss:			
Interest income	3	(560,432)	(597,561)
Fair value (gain) loss	3	(691,411)	1,846,081
Realized loss on sale	3	287,717	244,939
Interest income on:			
Deposits in banks	2	(27,030)	(91,905)
Other investments		-	(2,540)
Unrealized foreign exchange (gain) loss, net		(76)	262
Interest received	2,3,4	610,709	704,637
Operating income before changes in working capital		469,976	530,924
Changes in working capital			
Decrease in other investments		-	400,000
Decrease in accounts payable and accrued expenses		(2,993)	(3,342)
Net cash from operations		466,983	927,582
Proceeds from sale of securities	3	4,643,065	4,541,270
Payments on acquisition of securities	3	(1,949,690)	(3,539,565)
Final taxes withheld		(12,893)	(29,695)
Net cash from operating activities		3,147,465	1,899,592
Cash flows from financing activities			
Proceeds from issuance of redeemable units	6	439,186	154,868
Payments for redemption of redeemable units	6	(3,610,945)	(1,916,717)
Net cash used in financing activities		(3,171,759)	(1,761,849)
Net (decrease) increase in deposits in banks		(24,294)	137,743
Deposits in banks			
At January 1		336,886	199,405
Effects of foreign exchange		76	(262)
At December 31	2	312,668	336,886

(The notes on pages 1 to 13 are an integral part of these financial statements.)

Odyssey Philippine Dollar Bond 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 United States Dollar (USD) unless otherwise stated]

1 General information

Odyssey Philippine Dollar Bond 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 May 5, 2003.

The Fund was organized to engage in the sale of its units and investment of the proceeds thereof in a diversified portfolio of US dollar denominated fixed income instruments issued by the Philippine government, corporations, and financial institutions and intends to achieve investment returns that outperform the JP Morgan Chase Asia Total Returns Philippine Index. As an open-end pooled trust fund, the Fund stands ready to redeem its outstanding units at a value defined under the Fund’s Plan Rules.

BPI Asset Management and Trust Corporation (“BPI AMTC”) serves as the Fund Manager (“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).

The registered office address of the Fund, which is also its principal place of business, is at 7th Floor, BPI Buendia Center, Sen. Gil J. Puyat Avenue, Makati City.

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

Deposits in banks at December 31 consist of:

	2023	2022
Time	209,000	233,000
Savings	103,668	103,886
	312,668	336,886

In 2023, deposits in banks earn interest at effective rates ranging from 0.50% to 5.75% (2022 - 0.05% to 4.25%).

For the year ended December 31, 2023, interest income earned from the above deposits amounts to US\$27,030 (2022 - US\$91,905). Interest receivable at December 31, 2023 amounts to US\$53 (2022 - US\$343) (Note 4).

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

The account at December 31 consists of the following investments denominated in US Dollar:

	2023	2022
Philippine government debt securities	5,389,645	5,681,782
Corporate debt securities	4,102,659	6,100,203
	9,492,304	11,781,985

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 4.20% to 9.50% (2022 - 4.20% to 9.50%) while corporate debt securities earn interest at annual rates ranging from 2.38% to 4.88% (2022 - 3.00% to 4.88%).

For the year ended December 31, 2023, interest income earned from the above securities amounts to US\$560,432 (2022 - US\$597,561), of which US\$162,792 remains collectible as at December 31, 2023 (2022 - US\$185,749) (Note 4).

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

	2023	2022
At January 1	11,781,985	14,874,710
Additions	1,949,690	3,539,565
Disposals	(4,930,782)	(4,786,209)
Fair value adjustment, net	691,411	(1,846,081)
At December 31	9,492,304	11,781,985

Payments on acquisition of securities in 2023 amount to US\$1,949,690 (2022 - US\$3,539,565).

Proceeds from disposals of financial assets at FVTPL made for the year ended December 31, 2023 amount to US\$4,643,065 (2022 - US\$4,541,270). Realized loss on sale of financial assets at FVTPL in 2023 amounts to US\$287,717 (2022 - US\$244,939) 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	162,845	186,092
Capital shares receivable		11,000	-
		173,845	186,092

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

5 Accounts payable and accrued expenses

The account at December 31 consists of:

	Note	2023	2022
Capital shares redeemed payable		25,914	599
Trust fees payable	8	10,425	13,370
Others		528	576
		36,867	14,545

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 redeemed 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 US\$9,941,901 (2022 - US\$12,290,400) increased by adjustment on accrual of professional fee amounting to US\$49 (2022 - US\$18). 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 follows:

	2023	2022
Trading NAV	9,941,901	12,290,400
Outstanding units	318,811	424,918
Trading NAV per unit	31.18	28.92

Proceeds from issuance and payments for redemptions of units for the year ended December 31, 2023 amount to US\$439,186 and US\$3,610,945 (2022 - US\$154,868 and US\$1,916,717), respectively.

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

	2023	2022
At January 1	424,918	484,876
Issuances	14,917	5,140
Redemptions	(121,024)	(65,098)
At December 31	318,811	424,918

7 Other expenses

The account for the years ended December 31 consists of:

	2023	2022
Custodian fees	1,777	2,067
Professional fees	436	353
	2,213	2,420

The Fund has an existing custodian agreement with HSBC for custodial services of the Fund's proprietary assets and/or assets owned in the Philippines. Relative to this, the Fund pays monthly custodian fees of not more than 0.015% (2022 - 0.015%) per annum of the average daily trading NAV of the Fund.

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 1.25% 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 US\$138,520 (2022 - US\$171,293), of which US\$10,425 remains unpaid as at December 31, 2023 (2022 - US\$13,370) 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>		
ROP 01172048 902-TE	January 17, 2048	1,339,545
ROP 02022030 902-TE	February 2, 2030	1,067,983
ROP 10132047 902-TE	October 13, 2047	893,200
ROP 10232034 912-TX	October 23, 2034	565,800
ROP 10232034 902-TE	October 23, 2034	565,800
ROP 03292047 902-TE	March 29, 2047	445,810
ROP 07172033 902-TE	July 17, 2033	257,312
RDB-BOND 04112029 902-TE	April 11, 2029	254,195
		5,389,645
<i>Corporate debt securities</i>		
Aboitiz Equity Ventures, Inc.	January 16, 2030	1,135,812
International Container Terminal Services, Inc.	June 17, 2030	934,688
Globe Telecom, Inc.	July 23, 2035	781,610
Jollibee Food Corporation	January 24, 2026	722,895
Manila Water Company, Inc.	July 30, 2030	364,472
Development Bank of the Philippines	March 11, 2031	163,182
		4,102,659
		9,492,304

As at December 31, 2022

Security description	Maturity date	Market value
<i>Philippine government debt securities</i>		
ROP 02022030 902-TE	February 2, 2030	1,847,358
ROP 10232034 912-TX	October 23, 2034	1,108,650
ROP 10232034 902-TE	October 23, 2034	997,785
ROP 10132047 902-TE	October 13, 2047	860,384
RDB-BOND 10082026 902-TE	October 8, 2026	439,505
ROP 03292047 902-TE	March 29, 2047	428,100
		5,681,782
<i>Corporate debt securities</i>		
Aboitiz Equity Ventures, Inc.	January 16, 2030	1,721,020
International Container Terminal Services, Inc.	June 17, 2030	1,186,437
SM Investments Corporation	June 10, 2024	775,680
Globe Telecom, Inc.	July 23, 2035	756,787
Jollibee Food Corporation	January 24, 2026	711,330
ACEN Corporation	January 29, 2024	610,577
Manila Water Company, Inc.	July 30, 2030	338,372
		6,100,203
		11,781,985

10 Financial risk and capital management

10.1 Risk management process

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

The management of these risks is carried out by the Trustee under 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 in investments approved by the investors.

The Fund is for US Dollar investors who want to achieve capital appreciation and income growth over a period of time. To achieve this, the Fund invests in a diversified portfolio of US Dollar-denominated fixed income instruments issued by the Philippine government, corporations and financial institutions. The Fund aims to outperform its benchmark, the JP Morgan Chase Asia Total Return Philippines Index.

10.2 Market risk

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

Interest rate risk

The Fund's interest rate risk exposure primarily relates to debt securities (classified as financial assets at FVTPL) whose market values fluctuate as a result of changes in interest rates or factors specific to their issuer.

The Fund's overall market positions are monitored on a daily basis by the Trustee and is reviewed on a monthly basis by the Trustee's BOD. Compliance with the Fund's investment policies are reported to the Trustee's BOD on a monthly basis.

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

The sensitivity to a reasonable possible change in market interest rates 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 a reasonable possible shift of ± 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	750,963	758,645

The Fund determines the reasonable 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 takes on exposure to effects of fluctuations in prevailing exchange rates on cash flows from foreign currency-denominated investments. Foreign exchange risk arises when future commercial transactions or recognized monetary assets or monetary liabilities are denominated in a currency that is not the Fund's functional currency. Where non-monetary financial instruments, such as equity securities, are denominated in currencies other than the US Dollar, the price is initially expressed in foreign currency and then converted into US Dollar which will also fluctuate because of changes in foreign exchange rates. PFRS 7, *Financial Instruments, Disclosures*, considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk and not of foreign exchange risk.

As at December 31, 2023 and 2022, the Fund's investment in FVTPL is denominated in US Dollars and therefore not exposed to foreign exchange risk.

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, other investments and receivables.

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

In accordance with the Fund's policy, the fund's overall credit position is monitored on a daily basis by the Trustee and is reviewed on a monthly basis by 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	312,668	336,886
Financial assets at FVTPL	3,9	9,492,304	11,781,985
Receivables	4	173,845	186,092
		9,978,817	12,304,963

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 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 bank and investments in Philippine government and corporate debt securities classified as financial assets at FVTPL.

Capital shares receivable pertains to subscriptions made by investors with outstanding 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 to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous to the Fund.

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

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

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

The Fund's financial liabilities pertain to capital shares redeemed payable, trust fees 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 securities amounting to US\$5,389,645 (2022 - US\$5,681,782) are classified under Level 1. Corporate debt securities amounting to US\$4,102,659 (2022 - US\$6,100,203), which are designated at FVTPL are classified under Level 2. There are no financial instruments measured at fair value which are classified under Level 3. There were no transfers between the fair value hierarchy during the reporting periods.

The fair values of US Dollar denominated Philippine government and corporate debt securities which are traded in active markets are based on bid prices from 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 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, as applicable, 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 below.

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

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

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

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

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 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 bank and receivables.

Deposits in banks include deposits held at call with a bank and short-term highly liquid investments with maturities of three months or less from the date of acquisition and are considered as cash equivalents. Receivables consist of interest receivable and capital share 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.

11.3.2 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 measures the loss allowance on 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 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 Philippine government and corporate bonds classified as financial assets at FVTPL. 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 income.

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 on deposits in banks.

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, fixed income securities and other investments which are subject to final withholding tax. Such income is presented at gross amount and the related final tax is presented in the statement of total comprehensive income as final withholding tax. Realized gain on sale of financial assets at FVTPL is recorded net of applicable taxes.

11.10 Functional and presentation currency

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