

# 2015

ANNUAL REPORT  
& ACCOUNTS

**SFS**  
Capital

**SFS FIXED INCOME FUND**

**BUSINESS DAY**

**SFS**  
Capital



**SFS**  
Capital

**SFS Capital Nigeria Ltd**  
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## CORPORATE INFORMATION

### FUND MANAGER

SFS Capital Nigeria Limited  
287, Ajose Adeogun Street  
Victoria Island  
Lagos  
Nigeria

### DIRECTORS OF THE FUND MANAGER

Dr. Layi Fatona (Chairman)  
Dr. Yemi Kale  
Mr. Patrick Ilodiana (Managing Director/CEO)  
Mr. Yemi Gbenro  
Mr. Dimeji Sonowo (Executive Director)

### REGISTRARS

United Securities Limited  
10, Amodu Ojikutu Street  
Victoria Island, Lagos

### CUSTODIAN

Stanbic-IBTC Bank Plc  
Walter Carrington Crescent  
Victoria Island, Lagos

### TRUSTEES

STL Trustees Limited  
Skye Bank Building  
(3<sup>rd</sup> floor)  
30 Marina, Lagos.

### BANKERS

Stanbic-IBTC Bank Plc  
Walter Carrington Crescent  
Victoria Island, Lagos

Skye Bank Plc  
3, Akin Adesola Street  
Victoria Island, Lagos.

### AUDITORS

Sterling Partners & Co.  
100, Obafemi Awolowo way  
Opposite MAN  
Ikeja, Lagos Nigeria.

## FUND MANAGER'S REPORT

### FUND DESCRIPTION AND OBJECTIVE

The SFS Fixed Income Fund ("SFS FIF" or "the Fund") is an open-ended scheme and duly authorized and registered in Nigeria as a Unit Trust Scheme under Section 160 of ISA. The Fund was launched in May 2014.

SFS FIF invests primarily in high yielding long tenured securities issued by Federal Government of Nigeria, sub-nationals and highly rated corporate institutions (with at least an "A" rating by a SEC registered rating agency). SFS FIF is a low risk financial planning product with an investor base ranging from retail to institutional clients. The Fund makes distributions to unit holders on a quarterly basis.

SFS Capital Nigeria Limited is the Fund Manager. The firm has a skillful team of investment professionals, which has a track record of profitably deploying funds to reap great returns.

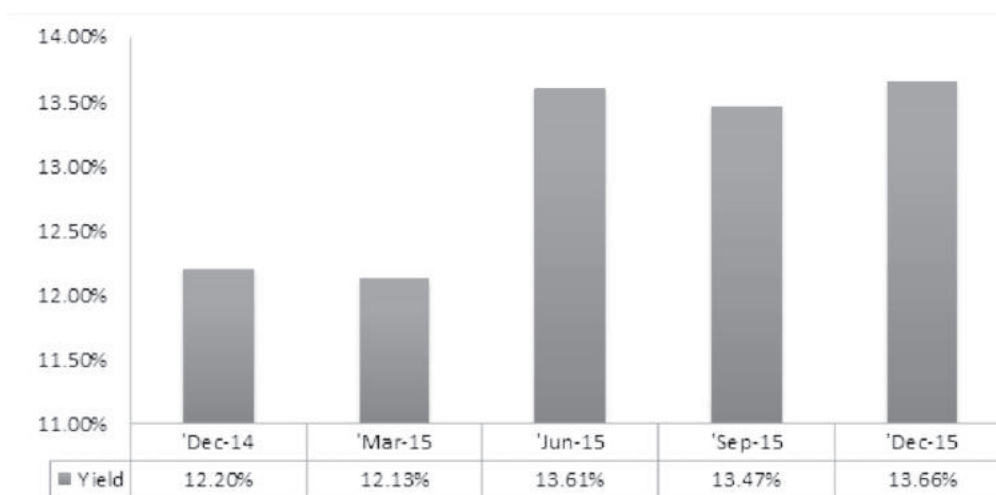
### TARGET INVESTORS

SFS FIF is an investment product that is designed and targeted at investors with a low risk appetite and prefers the idea of period and consistent investment of money towards a goal. SFS FIF is also suited to groups of people who have a collective investment goal.

### FUND PERFORMANCE

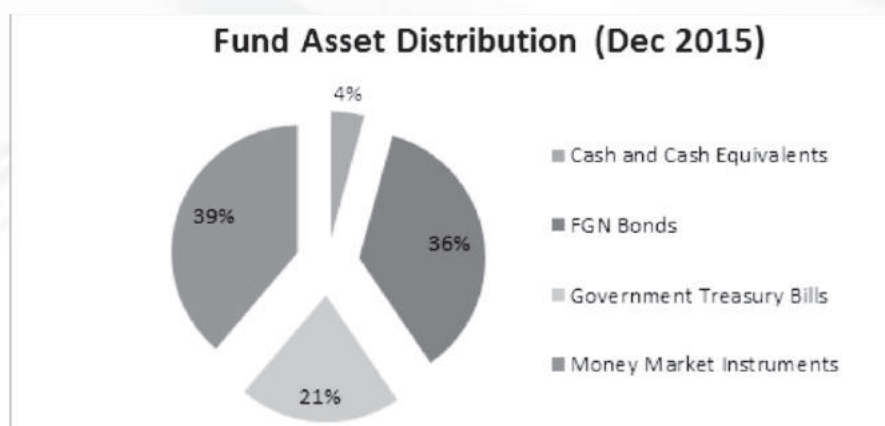
SFS FIF has consistently delivered superior returns to investors. The chart below shows the quarterly yield for the Fund over the last five quarters.

Over the period under review, the Fund had the highest return of 13.66% in the quarter ending December 2015. On the other hand, the lowest return of 12.13% was earned in first quarter of 2015.



## FUND MANAGER'S REPORT

The chart below illustrates the distribution of The Fund's assets as at 31-Dec-2015



### ECONOMIC REVIEW

Nigeria's economic growth slowed in 2015, largely due to political uncertainties and economic quagmire. Consequently, growth slowed across board with third quarter growth of 2.84%, slightly higher than the second quarter but still well below the average growth rate of 5.32% achieved between 2011 and 2014. A fall out of the recent economic drag are inflationary pressures, thus Inflation rose from 8.0% to 9.6% in 2015. This was outside of the government's target range of 6% - 9%.

In line with declining economic fundamentals, Nigeria's Foreign Exchange reserve declined by 15% to close the year at \$29.07bn. The Nigerian Naira depreciated by 17.26% to N196.95/USD at the official foreign exchange market, and also declined by 6.99% to N199.1/USD at the interbank market. The Naira also took a major hit in the alternative markets, where it lost by 39.84% to N265/USD at the Bureau de Change market segment, and also declined by 38.74% to N270/USD at the parallel market. The depreciation in the value of the Naira is largely due to the significant decline in the price of crude oil which reduced the dollars accruing to the government's coffers. This has been further aggravated by restrictive policies implemented by the CBN in a bid to curb unsustainable demand of dollars, in the face of rapidly declining foreign exchange reserves.

The overall outlook for the Nigerian economy is optimistic on the back of the expansive 2016 Budget which is expected to stimulate investment in infrastructure, agriculture and manufacturing. The progress with counter-insurgency in the North-East and targeted interventions in the real sector (via various CBN-led intervention funds) are other positives to stimulate output growth going forward.



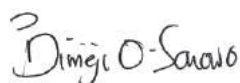
## FIXED INCOME MARKET REVIEW

In 2015, the monetary policy rate (MPR) was reduced from 13% to 11% (with an asymmetric corridor of +200 and -700 basis points), Net Open Position was increased from 0.1% to 0.5%. In a bid to further increase liquidity in the system, the CBN initially reduced the CRR on public funds from 75% to 31% harmonizing it with the CRR on private sector funds which was previously at 20%. Towards the end of the year the CRR was dropped to 20%, while the liquidity ratio closed the year unchanged at 30%.

In 2015, CBN had sold less treasury bills in its bi-monthly auctions at the primary market relative to the preceding year. CBN sold a total of N3.58 trillion, a 6.34% year-on-year decrease compared to N3.82 trillion in 2014. There were also relatively less matured treasury bills which fell 26.04% to N8.69 trillion. The interbank money market recorded net inflows amounting to N1.29 trillion, 94.77% higher.

The domestic bond market grew in 2015, with the total face value on bonds (FGN, State and Corporate) increasing by 28.6% to N6.9 trillion, mostly buoyed by an increase in the FGN Bond segment. The total face value of FGN Bonds grew by 24% to N5.93 trillion in 2015, which was largely as a result of State Government loan conversion.

Other significant events in 2015 include the removal of a few FGN Bonds from the JP Morgan GBI-Emerging Market Index and the Barclays Capital Emerging Markets – Local Currency Bond Index. Generally, the fixed income market was volatile due to political and economic uncertainties as previously identified. As at December 15, 2015, the 20-year, FGN JUL 2030 bond advanced by N29.79 (yield fell to 10.95% from 14.75%). The 10-year, FGN JAN 2022 Bond gained N17.89 (yield fell to 10.84% from 15.25%); the 7-year, FGN JUN 2019 bond strengthened by N14.59 (yield fell to 9.83% from 15.27%); the 5-year FGN APR 2017 bond gained N8.34 (yield fell to 7.85% from 15.17%) while the 3-year, FGN AUG 2016 bond jumped by N6.65 (yield fell to 5.96% from 13.45%).



.....  
Dimeji Sonowo  
Executive Director



.....  
Patrick Ilodiana  
Managing Director





## REPORT OF THE TRUSTEES

The Trustees present their report on the affairs of the SFS Fixed Income Fund, together with the audited financial statements for the year ended 31<sup>st</sup> December, 2015.

### Principal activity:

The principal activity of the SFS Fixed Income Fund ('The Fund') is the pooling of funds from individual members of the public and companies and the investment of such funds in fixed income securities and money market securities as determined by the Fund Manager in accordance with the Trust Deed.

During the year under review, the Fund was administered in accordance with the Trustees Investment Act, CAP T22 LFN, 2004, the Investments and Securities Act, 2007 and the provisions of the Trust Deed, together with the rules and regulations set out by the regulatory bodies established pursuant to the legislation referred to within this paragraph ("Applicable Regulations"), taking into cognisance the prevailing market conditions as well as preserving of (and minimising possible losses to) Unitholders' funds.

### Result:

The results for the year are set out on pages 9 to 12 and have been duly audited in accordance with Section 169(1) of the Investments and Securities Act 2007, and the Trust Deed establishing the Fund.

### Distribution:

The Fund Manager paid a dividend of #22kobo per #1.00 for the period.

### Directors:

The directors of the Fund Manager who served on the board of the Fund Manager during the period under review and up to the date of approving these financial statements were:

- Dr. Layi Fatona (Chairman)
- Mr. Patrick Ilodiana (Managing Director)
- Mr. Yemi Gbenro
- Dr. Yemi Kale
- Mr. Dimeji Sonowo

### Directors' and related parties interest in the units of the Fund:

None of the directors of STL Trustees Limited has any direct or indirect beneficial interest in the units of the Fund.

### Responsibilities of the Manager:

The Investments and Securities Act, 2007 requires the Fund Manager to keep proper Fund books books of account and prepare annual financial statements which give a true and fair view of the state of affairs of the unit trust scheme during the period covered by the financial statements.

In our opinion, the Fund Manager has in preparing the financial statements:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- ensured that the applicable accounting standards have been followed, and in the case of any material departure, that it was fully disclosed and explained in the financial statements; and





## REPORT OF THE TRUSTEES

- prepared the financial statements on a going concern basis; since it was appropriate to assume that the Fund shall continue to exist.

The Fund Manager was responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any point in time, the financial position of the Fund, and enable the Fund Manager to ensure that the financial statements comply with the Trustees Investment Act, CAP T22 LFN, 2004, the Investments and Securities Act, 2007, and the provisions of the Trust Deed, together with the rules and regulations set out by the regulatory bodies established pursuant to the legislation referred to within this paragraph ("Applicable Regulations").

The Fund Manager is also responsible for maintaining adequate financial resources to meet its commitments and to manage the risks to which the Fund is exposed.

### Responsibilities of the Trustee:

The responsibilities of the Trustee as provided by Securities and Exchange Commission's rules and Regulations made pursuant to the Investments and Securities Act, 2007 are as stated below:

- Monitoring of the activities of the Fund Manager and the custodian on behalf of and in the interest of the Unit Holders;
- Ensuring that the Custodian takes into custody all of the scheme's assets and holds it in trust for the holders in accordance with the Trust Deed and the Custodial Agreement;
- Monitoring the register of Unitholders or contributors;
- Ascertaining the Fund Manager's compliance with the Applicable Regulations;
- Ascertaining that the monthly and other periodic returns/reports relating to the Fund are sent by the Fund Manager to the Commission;
- Taking all steps and executing all documents which are necessary to secure acquisitions or disposals properly made by the Fund Manager in accordance with the Trust Deed and Custodial Agreement;
- Exercising any right of voting conferred on it as the registered holder of any investment and/or forward to the fund manager within a reasonable time all notices of meetings, reports, circulars, proxy solicitations and any other document of a like nature for necessary action;
- Ensuring that fees and expenses of the fund is within the prescribed limits; and Acting at all times in the interest and for the benefit of unit holders of the scheme.

### Administration of the Fund:

During the year under review, the asset allocation of the Fund was at variance with the provisions of the Trust Deed but the Fund Manager is now taking steps to remedy the infringement. The Fund Manager is also making effort to rebalance the Fund's P portfolio in conformity with the Trust Deed and Applicable Regulations.



## REPORT OF THE TRUSTEES

In other respects, the Fund appears to have been administered in accordance with the Applicable Regulations, taking into cognisance the prevailing market conditions as well as the goal of preserving and minimising possible losses to Unitholders' funds.

### **Charitable Donations:**

The Fund did not make any charitable donations during the period. (2015: nil)

### **Auditors:**

Messrs Sterling Partners & Co, having indicated their willingness to continue in office, shall do so in accordance with Section 169(1) of the Investments and Securities Act, 2007.

### **By Order of the Trustees**



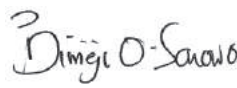
**Funmi Ekundayo**  
**Managing Director**  
STL Trustees Limited  
Lagos, Nigeria  
22<sup>nd</sup> March, 2016




## **CERTIFICATION OF ACCOUNTS BY DIRECTORS OF THE FUND MANAGER**

We hereby certify the accounts and that neither the Fund Manager nor any other person acting on its behalf has:

- i. transferred units to another person for sale, resale or subsequent transfer to the Fund Manager for sale or resale; or
- ii. acquired or disposed of investments for account of the Trust otherwise than through a recognized Stock Exchange or Over The Counter market except where such investments consist of money market instruments or cash deposits; or
- iii. disposed of units to another person for a price lower than the current offered price; or
- iv. acquired units for a price higher than the current bid price.

  
.....  
Dimeji Sonowo

  
.....  
Patrick Ilodiana

## INDEPENDENT AUDITOR'S REPORT

To the unit holders of SFS Fixed Income Fund

### Report on the Financial Statements

We have audited the accompanying financial statements of SFS Fixed Income Fund ("the Fund"), which comprise the statement of financial position as at 31 December, 2015, the statement of comprehensive income, statement of changes in net assets attributable to unit holders, and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 9 to 23.

### Fund Manager's Responsibility for the Financial Statements

The Fund Manager is responsible for the preparation of these financial statements that gives a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011 and relevant Securities and Exchange Commission Circulars and guidelines and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility as Auditors is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards required that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, these financial statements give a true and fair view of the financial position of SFS Fixed Income Fund ("the Fund") as at 31 December, 2015 and of the Fund's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act 2011 and relevant Securities and Exchange Commission circulars and guidelines.

### Report on Other Legal and Regulatory Requirements

#### *Compliance with the Requirements of Schedule 6 of the Companies and Allied Matters Act of Nigeria.*

In our opinion, proper books of accounts have been kept by the Fund, so far as appears from our examination of those books and the Fund's statement of financial position and statement of comprehensive income are in agreement with the books of account.

  
Akinnuwesi O. Israel, FCA  
FRC/2014/ICAN/00000007060

For: Sterling Partners & Co  
Chartered Accountants  
Lagos, Nigeria.  
10<sup>th</sup> February, 2016



## STATEMENT OF FINANCIAL POSITION

as at 31 December 2015

	Note	N'000
<b>ASSETS</b>		
Cash and cash equivalents	9	41,851
Investment Securities	10	937,556
Other assets	11	120
<b>TOTAL ASSETS</b>		<b>979,527</b>
<b>LIABILITY</b>		
Other liabilities		19,363
<b>TOTAL LIABILITIES</b>		<b>19,363</b>
<b>NET ASSET ATTRIBUTABLE TO UNIT HOLDERS</b>		<b>960,164</b>
<b>REPRESENTED BY</b>		
Equity attributable to unit holders	12	843,674
Accumulated surplus		116,490
<b>UNIT HOLDERS' FUNDS</b>		<b>960,164</b>

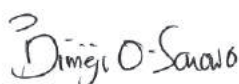
These financial statements were approved by the Board of Directors of the Fund Managers on 10th February, 2016 and signed on behalf of the board of directors by the directors listed below:



**Yemi Gbenro**  
(Director of the fund manager)



**Patrick Ilodiana**  
(Managing Director of the fund manager)



**Dimeji Sonowo**  
(Executive Director of the fund manager)

**STATEMENT OF COMPREHENSIVE INCOME**  
for the period ended 31 December 2015

	Notes	N'000
	6	131,126
		-
		-
		<b>131,126</b>
	7a	-
	7b	4,157
		9,112
		456
		911
		<b>14,636</b>
		116,490
	8	-
		<b>116,490</b>
		-
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		-
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>116,490</b>



## STATEMENT OF CHANGE IN EQUITY

for the period ended 31 December 2015

	Note(s)	N'000	
<b>Balance, beginning of year</b>		-	
Profit for the year		116,490	
Other comprehensive income or (loss):		-	
Increase in fair value of financial assets		-	
		<b>116,490</b>	
<b>Contributions and redemption by unit holders</b>			
Subscription during the period		1,399,459	
Discount on subscription		-	
(Premium)/discount on redemption		-	
Redemption of units by unit holders		(555,785)	
<b>Balance, end of year</b>		<b>960,164</b>	



## STATEMENT OF CASH FLOWS

for the period ended 31 December 2015

	Note(s)	N'000
<b>Income</b>		
<b>Cash flows from operating activities</b>		
Dividend income		116,490
Income tax		-
Net gain from financial instruments at fair value through profit and loss		-
<b>TOTAL INCOME</b>		<b>116,490</b>
Purchase of investments		116,490
Fund Registration & Issuing cost		
Change in operating assets/liabilities		
Administrative expenses		
Managers fees		(120)
Other Assets		19,363
Trusts fees		
Other creditors		
<b>Net cashflows from operating activities</b>		<b>135,733</b>
<b>TOTAL EXPENSES</b>		
<b>PROFIT FOR THE YEAR BEFORE TAX</b>		
Cashflows from Investing activities purchase of Investments (at cost)		(937,556)
Income tax expenses		
<b>Cash flows from financing activities</b>		
Proceeds from units issued during the year		1,399,459
Redemption of units during the year	14	(555,785)
<b>PROFIT FOR THE YEAR AFTER TAX</b>		
<b>Net cash (used in) generated from financing activities</b>		<b>843,674</b>
Increase/(decrease) in cash and cash equivalents		41,851
Cash and cash equivalents at start of year		0
Cash and cash equivalents at end of year	10	41,851



## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

### 1. **Reporting Entity**

SFS Fixed Income Fund ("the fund") is an open-ended mutual fund and trust scheme that invests predominantly in securities issued by the Federal Government of Nigeria, State Governments and highly rated corporate institutions. The Fund may also invest in short-term highly quality money market securities. The Fund is not a legal entity but is constituted and exists under a Trust Deed. It was launched May 02, 2014 and registered with the Securities and Exchange Commission.

The Fund Manager is SFS Capital Nigeria Limited.

### 2.1 **Basis of preparation**

#### (a) **Statement of compliance**

The financial statements have been prepared in accordance with international financial Reporting standard (IFRSs). These are the fund's first financial statement prepared in accordance with IFRSs.

The financial statements were authorized for issue by the directors on 10<sup>th</sup> February, 2016.

#### (b) **Basis of measurement**

These financial statements are prepared on the historical cost basis except for the following:

- Available-for-sale financial assets are measured at fair value

#### (c) **Functional and presentation currency**

The financial statements are presented in Naira, which is the fund's functional currency. All information presented in Naira has been rounded to the nearest thousand

#### (d) **Use of estimates and judgements**

The preparation of financial statement in conformity with IFRSs requires management to make judgements, estimates and assumption that affect the application of accounting policies and the reported amount of asset s and liabilities, income and expense. Actual result may differ from these estimates.

### 2.2 **Significant accounting policies.**

The accounting policies set out below have been consistently applied to all period presented to these financial statements.

This is the first set of accounts to be prepared since incorporation and is therefore based on the International Financial Reporting Standards.

#### (a) **Interest Income and Interest Expense.**

Interest income is recognised on a time-proportionate basis using the effective interest method. It includes interest income from cash and cash equivalents and on available for sale financial assets.



## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

**(b) Cash and cash equivalents**

Cash and cash equivalents comprises deposits with banks and highly liquid financial assets with maturities of less than three months from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Fund in the management of short-term commitments.

- (c)** Net gain from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes but excludes interest and dividend income. Net realised gain from financial instruments at fair value through profit or loss is calculated using the weighted average cost method.

**(d) Fees and Commission expense**

Management fee expense

Management fees are charged at a rate not exceeding 1% of the Net Asset Value of the Fund. They are accrued daily based on portfolio valuation.

**Expenses**

All fees and expenses applicable to the administration and operation of the fund, including accounting, auditing and communication costs, custodian fees, legal and filing fees, applicable taxes and bank charges are payable by the fund.

**(e) Tax**

The Fund is not liable to both company income tax and capital gains tax.

### 2.3 Financial assets

**Classification**

The Fund allocates financial assets to the following IAS 39 categories: (i) loans and receivables and (ii) available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

**(a) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

**(b) Available for sale financial assets**

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

**(c) Recognition, derecognition and measurement**

The Fund uses settlement date accounting for regular purchases and sales of financial assets. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred



## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

(that is, if substantially all the risks and rewards have not been transferred, the entity tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Subsequent to initial recognition, available for sale financial assets are measured at fair value. Gains and losses arising from changes in the fair value are recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement.

### (d) Fair value estimation

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

Subsequent to initial recognition, the fair values of financial instruments are based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

### (e) Impairment of financial assets

Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from - one or more loss events that occurred after initial recognition but before the reporting date, that have an impact on the future cash flows of the asset.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, where the instrument is a debt instrument, the impairment loss is reversed through profit or loss.

### (f) Contingent liabilities

The Fund had no contingent liability as at the reporting date

## 2.4 Unitholders' interest

### (a) Equity attributable to unitholders

The Fund's units in issue are financial instruments issued by the Fund and, on liquidation of the Fund the unit holders are entitled to the residual net assets. They rank *pari passu* in all material respects and have identical terms and conditions. The units provide the investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at each daily redemption date and also in the event of the Funds liquidation.

A puttable financial instrument that includes a contractual obligation for the Fund to repurchase or redeem that instrument for cash or another financial asset is classified as equity if it meets all of the following conditions:

- it entitles the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidations;
- it is in the class of instruments that is subordinate to all other classes of instruments;



## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

- all financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features;
- apart from the contractual obligation for the Fund to repurchase or redeem the instrument for cash or another financial assets, the instruments does not include any other features that would require classification as a liability; and
- the total expected cash flows attributable to the instruments over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund over the life of the instrument.

The Fund's unit meet these conditions and are classified as equity.

Incremental costs directly attributable to the issue or redemption of units are recognised directly in equity as a deduction from the proceeds or part of the acquisition cost.

### (b) Repurchase of units

When units recognised as equity are redeemed, the par value of the shares is presented as a deduction from share capital. Any premium or discount to par value is recognised as an adjustment to share premium, or if share premium is insufficient, as an adjustment to retained earnings:

### 2.5 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. The most significant standards are highlighted below:

#### (a) IFRS 9: Financial Instrument: Classification and Measurement

IFRS 9 deals with recognition, derecognition, classification and measurement of financial assets and financial liabilities. Its requirements represent a significant change from the existing requirements in IAS39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: at amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within the business model whose objective is to hold assets in order to collect contractual cash flows, and the assets contractual term give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standards eliminate the existing IAS 39 categories of held to maturity, available for sale and loan and receivables. The standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The Fund does not plan to adopt this standard early.

#### (b) IFRS 13: Fair Value Measurement

IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosure on fair value measurement. It is applicable for all assets and liabilities that require a fair value based on IFRS. Disclosures for fair values are extended. The Fund will assess whether this new standard has any impact on existing fair value policies and disclosures. IFRS 13 is effective for the annual years beginning on or after 1 January 2015 with early adoption permitted. The Fund does not plan to adopt this standard early.

#### (c) IFRS 7: Financial Instruments: Disclosures

In October 2010 IFRS 7 Financial Instrument Disclosures have been amended to enhance the disclosure requirements for offsetting financial assets and financial liabilities. This amendment is effective for years beginning on or after 1 January 2015.



## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

The Fund expects no significant impact from the adoption of the amendments on its financial position or performance. The Fund does not plan to adopt this standard early.

**(d) Comparatives**

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year.

**3. Financial risk management  
Introduction and overview**

The Fund has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

**Risk Management Framework**

The Fund maintains position in a variety of non-derivative financial instruments in accordance with its investment management strategy. The Fund's investment portfolio comprises equity securities, debt securities and fixed income securities.

The Fund's investment manager has been given a discretionary authority to manage the assets in line with the Fund's investment objectives. Compliance with the target asset allocations and the composition of the portfolio is monitored by the investment committee on a quarterly basis.

In instances where the portfolio has diverged from target asset allocations, the Fund manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

The Fund uses different methods to measure and manage the various types of risk to which it is exposed; the risks and the means of managing them are documented below:

**(a) Credit risk**

Credit risk is defined as the likelihood that a customer or counterparty is unable to meet the contracted financial obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from debt securities held and cash and cash.

**(i) Management of credit risk**

The Fund's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk default by dealing only with counterparties meeting the Fund's credit standards which is assessed sometimes through the credit history of the counterparty.

Credit risk is monitored on a periodic basis by the Fund manager in accordance with policies and procedures in place. Where the credit risk is not in accordance with the investment policy or guidelines of the Fund, the Fund manager is obliged to rebalance the portfolio in compliance with the stated investment parameter.





## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

### (ii) Exposure to credit risk

The Fund's maximum credit risk exposure at the reporting date is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

### (iii) Investment in debt securities

The Fund's maximum credit risk exposure (without taking into account collateral and other credit enhancements) at the reporting date is represented by the respective carrying of the relevant financial assets in the statement of financial position.

As at 31 December 2015, the Fund's investment in debt securities was N354,46 million.

### (iv) Cash and cash equivalents

The Fund held cash equivalents of N41.85 million as at 31 December 2015. The cash and cash equivalent are held with Skye Bank Plc. The fund manager monitors the financial position of the counter parties on a periodic basis.

## (b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

### (i) Management of liquidity risk

The trust deed and the Fund manager's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of units, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund is exposed to liquidity risk because of the need to meet unit holder's redemption.

The Fund has no long term borrowing as at 31 December 2015. Surplus cash held by the Fund over and above balance required for working capital management are invested in interest bearing current accounts and short term deposits, choosing instruments with appropriate maturities. At the reporting date, the Fund held liquid cash assets of N41.85 million which is expected to readily generate cash inflows for managing liquidity risk.

The Fund's overall liquidity risk is monitored on a periodic basis by the Fund manager.

### (ii) Residual contractual maturities of financial assets and liabilities

The table below analyses the Fund's non-derivative financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

## (c) Foreign Exchange risk

Foreign Exchange risk is the exposure of the Fund's financial condition to adverse movements in exchange rates. Where the Fund invests in financial instruments that are denominated in currencies other than its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of the Fund's financial assets and liabilities denominated in currencies other than the Naira.

Currently, the Fund does not have transactions in any other currency except the Fund's functional currency i.e Naira. Hence it is not exposed to foreign exchange risk.





## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

**(d) Other market price risk**

Other price risk is the risk that the fair value of the financial instruments will fluctuate as a result of changes in market prices (other than arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market.

**(e) Operational risk**

Operational risk is the risk of direct and indirect loss arising from a wide variety of causes associated with the process, technology and infrastructure supporting the Fund's activities with financial instruments either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investments management behaviour.

The Fund's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the board of directors. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers, in the following areas:

- Requirement for appropriate segregation of duties between various functions, role and
- Requirement for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirement for the periodic assessment of operational risk faced, and the adequacy of
- Controls and procedures to address the risks identified;
- Contingency plans;
- Ethical and business standards, and
- Risk mitigation, including insurance of this is effective.

Substantially all the assets of the Fund are held by Stanbic IBTC Bank Limited. Bankruptcy or insolvency of the Fund's custodian may cause the Fund's rights with respect to the Securities held by the custodian to be delayed or limited. The Fund manager monitors credit ratings and capital adequacy of its custodian on a periodic basis.

The fund has provided the custodian a general lien over the financial assets held in custody agreement. There was no significant operational risk incidence during the financial year.



## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

**(f) Capital management**

The units issued by the Fund provide an investor with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at the redemption date and are classified as equity. The Fund's objectives in managing the units are to ensure a stable base to maximise returns to all investors, and to manage liquidity arising from redemptions.

**4. Use of estimates and judgements**

These disclosures supplement the commentary on financial risk management (see note 3).

**(a) Uncertainty**

**(i) Determining fair values**

The determination of fair value for financial assets and liabilities for which there is no observable market prices requires the use of valuation techniques as described in note (j). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

**(b) Critical accounting judgments in applying the Fund's accounting policies**

**(i) Financial asset and liability classification**

The Fund's accounting policies guide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

(i) In designating financial assets at fair value through profit or loss, the Fund has determined that it has met one of the criteria for this designation set out in note 2.4

(ii) The unitholders' interest is classified as equity, as the Fund has determined that it has met the criteria for this designation set out in note details of the Fund's classification of financial assets and liabilities are given in note 5.

**(ii) Valuation of financial instruments**

The Fund's accounting policy on fair value measurement is discussed in note 2.3.

The Fund measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the

(i) Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.



## NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

- (ii) Level 2: Valuation techniques based on observable inputs, either directly – i.e. as prices or indirectly – i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- (iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant adjustments or assumption are required to reflect differences between the instruments.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the period ended 31 December 2015

### Classification of Fair Value of Financial Assets & Liabilities

AT 31 December 2015	Notes	Carrying amount N'000	Gros nominal inflow/ (outflow) N'000	Less than 3 months N'000	3 to 6 months N'000	6 months to 1 year N'000	Over 1 year N'000
Cash and cash equivalent	10	41,851	41,851	41,851	-		
Financial assets at fair value	11	937,556	932,295	379,791	557,765		
Held to maturity investment securities	11	-	-	-	-		
Available for sale investment securities	11	-	-	-	-		
Other assets	12	120	120	120			
		979,527	974,266	421,762	557,765		
Other Liabilities	13	(19,363)	(19,363)	(19,363)	-		
Gap ( Assets-Liabilities)		960,164	954,903	402,399	557,765		
Cummulative Liquidity Gap		960,164	954,903	402,399	557,765		

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted prices or dealer price quotations. For all other financial instruments, the Fund determines fair value using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bonds and equity prices, foreign currency exchange rates, equity index prices volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair value. Availability of observation market prices and inputs varies depending on the product and market and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised.

31-Dec-15				
In the thousands of naira	Level 1	Level 2	Level 3	
Assets				
Financial assets at fair value through profit or loss				
Quoted equity	-			
Available-for-sale financial assets				
State bonds	513,320			
Corporate bonds	44,445			
<b>Total assets</b>	<b>557,765</b>			

## NOTES TO THE ACCOUNTS

for the period ended 31 December 2015

	2015 N'000
<b>6 Gross Income</b>	
Interest on Bank Placements	22,878
Interest on treasury Bills	53,485
Income from Bonds	36,956
Income from Commercial Papers	17,807
	<b>131,126</b>
<b>7a Fund Registration &amp; Issuing cost</b>	
The total cost of registration and issuing cost of the Fund was N9.7 million which was paid and borne fully by the Fund Managers as donation to the Fund.	
<b>7b Administrative Expenses</b>	
Members' AGM Expenses	3,296
Auditors fees	700
Subscription to Fund Managers Association	161
Other administrative costs	-
	<b>4,157</b>
<b>8 Income Tax</b>	
Provision	NIL
<b>The Fund is exempted from Income Tax</b>	
<b>9 Cash Balances</b>	
Skye Bank Plc	
<b>10 Investments</b>	
Money Market Instruments	379,791
Government Treasury Bills	203,301
FGN Bonds	354,464
	<b>937,556</b>

## NOTES TO THE ACCOUNTS

for the period ended 31 December 2015

### 11 Other Liabilities

Accrued fees due to Professionals  
Other payables

**2015**  
**N'000**

14,038  
5,325  
19,363

### 12 Equity

Nominal value of units issued at 31 December  
Increase in fair value of Investments  
Balance at 31 December

843,674  
-  
843,674

### 13 Staff number & Remuneration

The Fund does not have staff of its own, hence no staff cost.

### 14 Financial commitment and contingencies

- 1 The Fund did not provide any guarantee on behalf of any person or body during the year.
- 2 All the known financial commitments have been considered in the preparation of these financial statements.

### 15 Post Balance Sheet Events

There are no post balance sheet events which would have had a material effect on these financial statements which have not been adequately provided for.

### 16 Comparative Figures.

These Financial Statements is the first set of accounts to be prepared, hence no comparative figures.





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