



## **SFS FIXED INCOME FUND**



**ANNUAL REPORT  
AND ACCOUNTS**

**2020**



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## Corporate Information as at 31 December, 2020

### Fund Manager

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

### Directors of the Fund Managers

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

### Registrars

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

### Trustees

STL Trustees Limited  
Polaris Bank Building  
(3rd floor)  
30 Marina, Lagos

### Custodian

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

### Bankers

Stanbic-IBTC Bank Plc	Polaris Bank Limited
Walter Carrington Crescent	3, Akin Adesola Street
Victoria Island, Lagos	Victoria Island, Lagos

### Auditors

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



## Fund Manager's Report For the year ended 31 December, 2020

### ECONOMIC REVIEW 2020

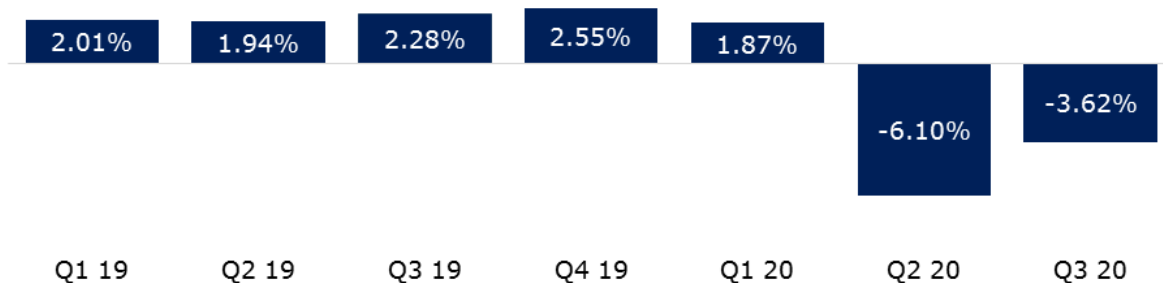
Due to the effects of COVID-19 and National lockdowns both nationally and globally, the Nigerian economy's growth trajectory went negative in 2020.

In Q1 2020 there was slow momentum within the Nigerian economy, with growth at 1.87% but in Q2 growth contracted to -6.2% due to the FGN imposed widespread nationwide lockdowns to contain the virus.

The contraction in Q2 2020 was caused by both the oil and non-oil sector, specifically Transportation falling by 41.63%. This was however driven slightly upwards by the Finance Sector growing 20.83%.

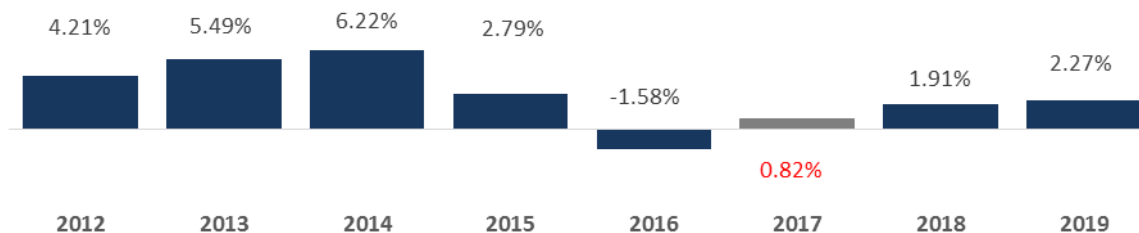
The performance of the economy in Q3 2020 reflected residual effects of the restrictions to movement and economic activity implemented across the country in early Q2 2020 in response to the pandemic. As these restrictions were lifted, businesses re-opened and international travel and trading activities resumed, some economic activities returned to growth in Q3 2020. A total of 18 economic activities recorded positive-growth in Q3 2020, compared to 13 activities in Q2 2020.

### QUARTERLY GDP GROWTH (Q1 2019 – Q3 2020)



Source: National Bureau of Statistics (NBS), SFS Capital Research

### ANNUAL GDP GROWTH (2012-2020)



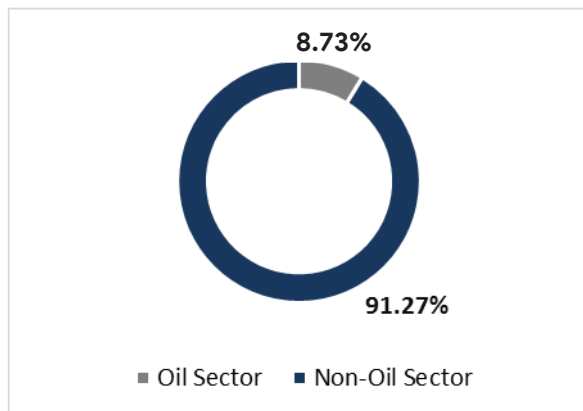
Source: National Bureau of Statistics (NBS), SFS Capital Research



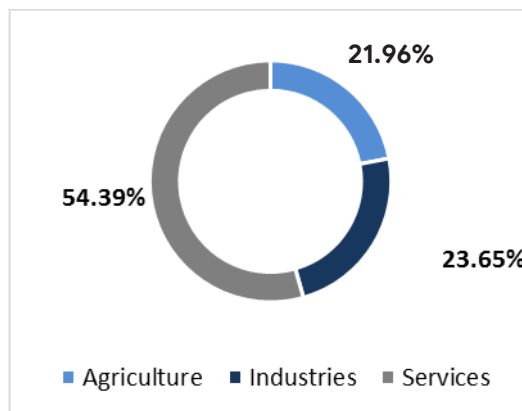


## Fund Manager's Report For the year ended 31 December, 2020

CONTRIBUTION OF OIL AND NON-OIL SECTORS



CONTRIBUTION TO REAL GDP Q3 2020



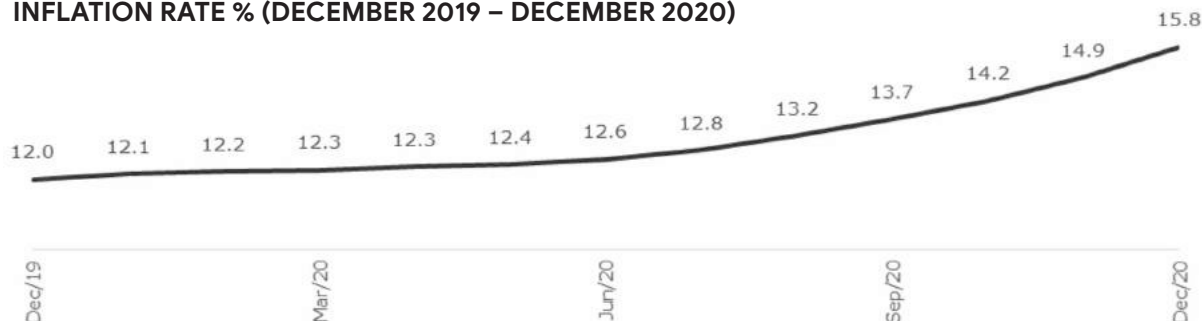
### NON-OIL SECTOR

The non-oil sector contributed 91.27% to the nation's GDP in Q3 2020, higher than its share in Q3 2019 (90.23%) and the second quarter of 2020 (91.07%). The non-oil sector was driven mainly by Information and Communication Telecommunications (ICT), with other drivers being Agriculture, Construction, Financial and Insurance, and Public Administration.

### OIL SECTOR

The oil sector contributed 8.73% to total real GDP in Q3 2020, down from 9.77% recorded in Q3 2019 and 8.93% recorded in the preceding Q2 2020. In Q3 2020, the average daily oil production recorded stood at 1.67 million barrels per day (mbpd), which was 0.37mbpd lower than the average production recorded in the same quarter of 2019 and 0.14mbpd lower than production volume recorded in Q2 2020.

### INFLATION RATE % (DECEMBER 2019 – DECEMBER 2020)



Source: National Bureau of Statistics (NBS), SFS Capital Research





## Fund Manager's Report For the year ended 31 December, 2020

The headline inflation increased by 12.13% in January 2020 to 15.75% in December 2020. In August 2020, headline inflation rose to 13.22% and continued a steady increase to 15.75% in December 2020, the highest rate recorded since January 2018.

The continuous increase in the headline inflation rate can be attributed to the increase in the food sub index. Also, the inflationary impacts of the land border closure were further worsened by the prevailing exchange rate crisis.

### I&E FX WINDOW

The Investor and Exporters' (I&E) FX window introduced in April 2017, is one of the strategic instruments projected to support and stabilise the Naira against other currencies.

Total foreign exchange inflows to the I&E window dropped by 88.05% percent from USD\$3.19 billion in January to USD\$381.2 million in May 2020. This however improved gradually in the Q3 2020, which was largely driven by the Central Bank of Nigeria (CBN) intervention in the I&E window.

The CBN intervention increased in Q3 2020 to USD\$434.6 from less than a million-dollar in Q2 2020. Also, the effect of COVID-19 on oil prices continues to constrain the CBN'S capacity to intervene in the I&E window.

By December 2020, the exchange rate at the I&E Window officially depreciated by 11.8% with an exchange rate of N410.25/\$1. In 2021 however, the exchange rate between the Naira and the dollar appreciated, closing at N394/\$1, representing a marginal gain in the value of the Naira.

### I&E FX WINDOW RATES (USD/NGN)



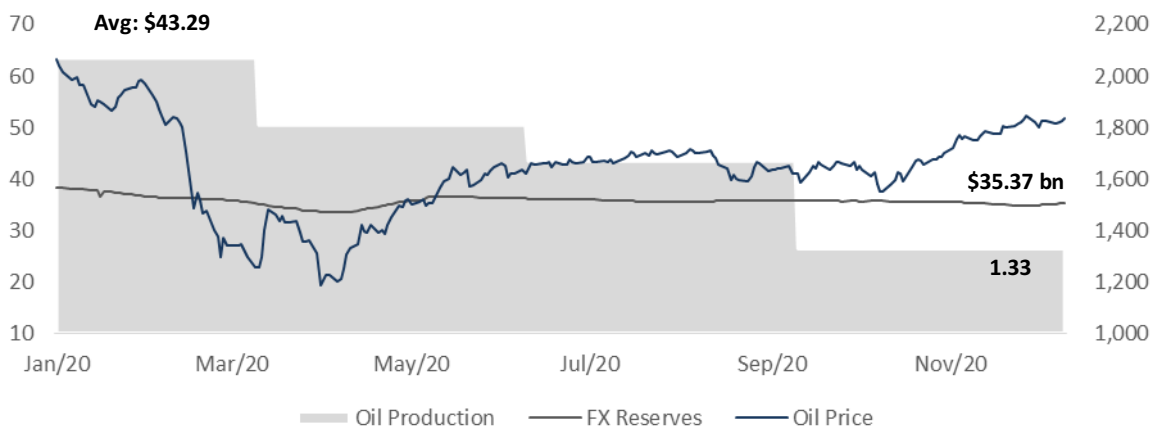
Source: Bloomberg, SFS Capital Research





## Fund Manager's Report For the year ended 31 December, 2020

### NIGERIA CRUDE OIL PRODUCTION, BRENT PRICE & NIGERIA'S FX RESERVES (2019-2020)



Source: Bloomberg, Central Bank of Nigeria, OPEC, SFS Capital Research

Oil Production – in thousands of barrels per day

FX Reserves – US\$ Billion (bn)

Oil Price – Brent Crude US\$ per barrel

The price of Brent Crude Oil traded at an average of US\$43.29 per barrel in 2020, decreasing 33% from an average of US\$64.16 per barrel in 2019. Brent prices reached an annual daily low of US\$19.33 per barrel in April due to global lockdowns reducing oil demand caused by the pandemic. This eventually increased to US\$52.26 per barrel in November.

On 8th March 2020, Saudi Arabia initiated a price war with Russia, enabling a 65% quarterly fall in the price of oil. Oil prices sank to their lowest since 2002, falling below \$20 a barrel in April also due to a fall in demand of oil from Asia as lockdowns were in effect and factories closed.

The price of oil became negative on 20th April. As oil production can be slowed, but not stopped entirely, and even the lowest possible production level resulted in greater supply than demand; those holding oil futures became willing to pay to offload contracts for oil they expected to be unable to store.

Nigeria's foreign currency earnings is still under pressure. This has further implications for the country, as a drop in foreign currency earnings could hamper the CBN's ability to defend the Naira.







## Fund Manager's Report For the year ended 31 December, 2020

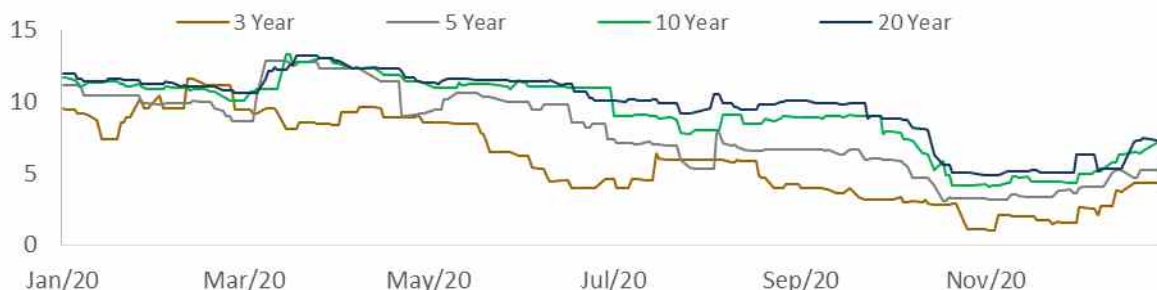
### FIXED INCOME MARKET REVIEW

In 2020, debt was mostly raised via Commercial Papers ("CP") than any other instrument in the Nigerian capital market. Seventeen (17) issuers raised circa N650 billion through CP issuances. The growth in CPs is buoyed by a fall in bond and treasury bill rates. Also, the relatively lower rates on money market instruments in 2019, made for bolder fund-raising outings by issuers.

There were 6 bond issuances in the year, raising a total of N152 billion. Dangote Cement was the largest issuer of bonds, raising N100 billion and were also the largest CP issuers, raising N150 billion. There were few State Bond issuances in 2020 with Lagos State raising N100 billion. High leverage and poor IGR made it tougher for states to access the bond market directly.

The CBN introduced of a new "Special Bill" which is a part of its efforts at deepening the financial markets and availing the monetary authority with an additional liquidity management tool.

### NIGERIAN FEDERAL GOVERNMENT (FGN) BOND YIELDS



Source: Bloomberg, SFS Capital Research

### NIGERIA TREASURY BILL YIELDS



Source: Bloomberg, SFS Capital Research

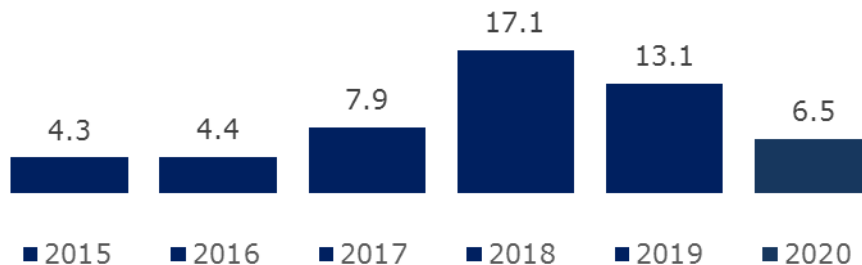






## Fund Manager's Report For the year ended 31 December, 2020

### VALUE OF OMO AUCTIONS (N'TN)



Source: Bloomberg, FMDQ, SFS Capital Research

Open Market Operations (“OMO”) have been rising in significance overtime. OMO has become the CBN's monetary policy tool of choice. The CBN released a circular in October restricting local corporates and retail investors from participating in OMO auctions. These included local PFAs and Asset Management companies. As a result, yields on treasury bills dropped.

Since 2019, OMO auctions have been on a steady decline and in 2020, the CBN mopped-up over N6 trillion in 101 transactions, the lowest since 2017.

With the restrictions placed by CBN on the participation of local corporates and retail investors in OMO Auctions in 2019, there has been a significant drop in the yields in 2020.

OMO yields across all tenors decreased from an average of 5.07% in Q2, to 1.86% in Q3 and finally 0.58% in Q4 2020. Year – on – Year decrease in average OMO yields was from 13.18% in December 2019 to 0.58% in December 2020, representing a decrease of circa 95.6%.

### FUND PERFORMANCE

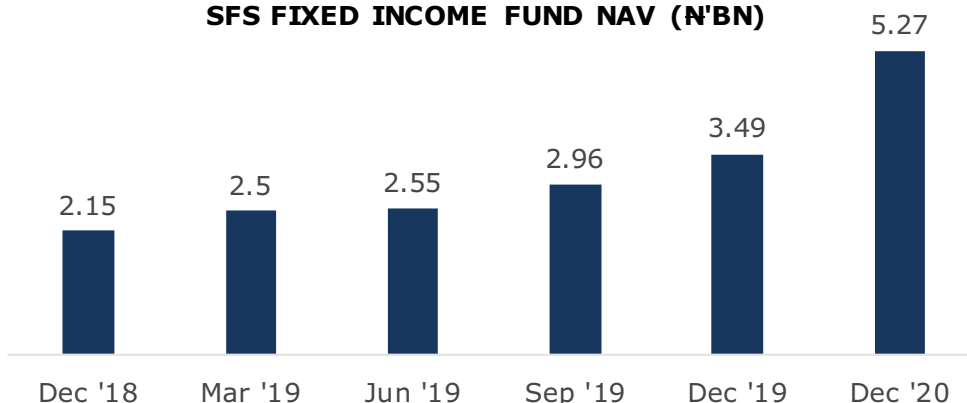
The SFS Fixed Income Fund (“SFS FIF”) continues to grow and deliver value to its investors, and 2020 was no different. The Net Asset Value (“NAV”) of the Fund grew 66% in 2020, to close the year at N5.27billion. The Fund has also earned competitive returns for its investors. The yield on the fund as at the end of Q4 2020 was 7.60%, 725 basis points higher than the 90-day NTB.



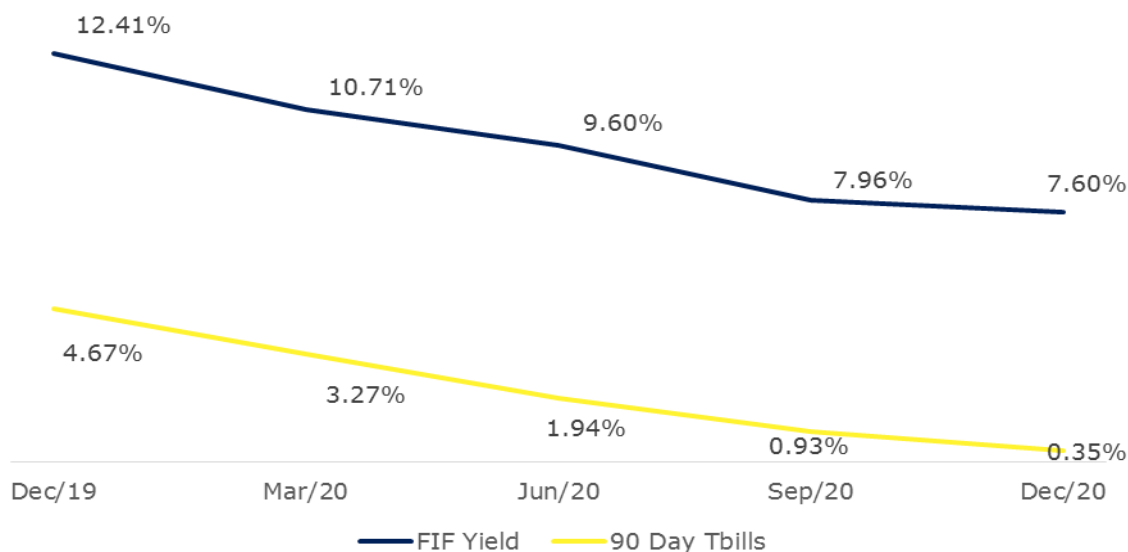


## Fund Manager's Report For the year ended 31 December, 2020

### SFS FIXED INCOME FUND NAV (N'BN)



### SFS FIF YIELD VS. 90-DAY TREASURY BILLS



Asset	Allocation
Treasury Bills	NIL
Bonds (FGN, State & Corporate)	83.40%
Cash	16.60%





## Fund Manager's Report For the year ended 31 December, 2020

### FORECAST

The continued downward pressure in interest rates persists, as the CBN maintains its stance to only sell OMO instruments to FPIs (Foreign Portfolio Investors) and Banks. The CBN maintained the CRR requirements for Banks at 27.5% and voted to reduce the MPR from 12.5% to 11.5% stating that the recent inflationary pressures are not driven by monetary policies, rather because of structural policies. The MPC was of the view that this action would provide cheaper credit to improve aggregate demand, stimulate production, reduce unemployment, and support the recovery of output growth.

However, with the second wave of COVID-19 infections and imminent lockdowns in several nations amidst limited access to vaccines, the growth projections might be threatened. Until a credible vaccine is found, with enough supply to reach most, the recovery is most likely going to be U-shaped. Monetary and fiscal policy, especially the latter, are key to cushioning the effects of the recession on citizens and will determine the length of the trough in the U-Shape.

In 2021, we expect GDP growth to rebound, due to increase in economic activity and some improvements in the oil market. Brent prices being north of \$40/bp remains healthy for the 2021 budget revenue projections which is critical to achieving the projected revenue figures in the budget. Also, we expect CBN to readjust the exchange rate to around N420/\$ from the N379/\$ currently in line with the International Monetary Fund (IMF) and the World Bank recommendations.

The SFS FIF is still expected to outperform its peers and its benchmark significantly. One of the benefits of the Fund is that it can play across the entire breadth of the yield curve, which gives the fund manager flexibility to reorganize the portfolio in response to changing market realities.

## Report of the Trustees For the year ended 31 December, 2020

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 2020.

**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.

**Results:** The results for the year have been duly audited in accordance with Section 169(1) of the Investments and Securities Act 2007, and the Trust Deed establishing the Fund.

**Returns:** The Fund Manager made a return of 9.80% 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 (Executive Director)

## Report of the Trustees For the year ended 31 December, 2020

**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 Fund Manager:**

The Investments and Securities Act, 2007 requires the Fund Manager to keep proper 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
- 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:

## Report of the Trustees For the year ended 31 December, 2020

- 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 period under review, the Fund Manager amended the Trust Deed of the Fund to align with the New Securities & Exchange Commission Rules released December 23, 2019 and the Supplemental Trust Deed was approved by the Commission.

The Fund was 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.





## **Report of the Trustees** For the year ended 31 December, 2020

**Charitable donations:** The Fund did not make any charitable donations during the period. (2020: 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**



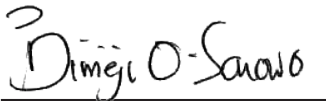
**Funmi Ekundayo**  
**FRC/2014/NBA/00000006946**  
**Managing Director**  
**STL Trustees Limited**  
**Lagos, Nigeria**



## Certification of Accounts by Director 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  
Executive Director



Patrick Ilodiana  
Managing Director

4th February, 2021



## **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 31st December, 2020, the statement of comprehensive income, statement of changes in net assets attributable to unit holders, and statement of cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory information, as set out on pages 23 to 36.

### **Opinion**

In our opinion, these financial statements gives a true and fair view of the financial position of SFS Fixed Income Fund ("The Fund") as at 31st December, 2020 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.

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

The Fund Manager is responsible for the preparation of these financial statements that give 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



## **Independent Auditor's Report to the unit holders of SFS Fixed Income Fund**

accounting policies used 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.

### **Going Concern**

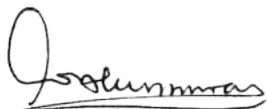
The Fund's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to wind up the Fund or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Fund's financial statements is appropriate.

Management has not identified a material uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Fund's ability to continue as a going concern.

### **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.**  
**4th February, 2021**





## Statement of Comprehensive Income For the year ended 31 December, 2020

	Notes	2020 N'000	2019 N'000
<b>Income</b>			
Interest Income	6	495,113	399,137
<b>TOTAL INCOME</b>		<b>495,113</b>	<b>399,137</b>
Administrative expenses	7	11,378	6,552
Managers fees		45,162	26,083
Trustees fees		2,258	1,304
Custodian fees		4,516	2,608
<b>TOTAL EXPENSES</b>		<b>63,314</b>	<b>36,547</b>
<b>PROFIT FOR THE YEAR BEFORE TAX</b>		<b>431,799</b>	<b>362,590</b>
Income tax expenses	8	-	-
<b>PROFIT FOR THE YEAR AFTER TAX</b>		<b>431,799</b>	<b>362,590</b>
<b>OTHER COMPREHENSIVE INCOME:</b>			
Net gain/(loss) on available for sale financial assets		-	-
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>431,799</b>	<b>362,590</b>
<b>Unit price</b>		<b>1</b>	<b>1</b>
<b>Earnings yield</b>		<b>9.80%</b>	<b>14.59%</b>





## Statement of Financial Position For the year ended 31 December, 2020

	Notes	2020 N'000	2019 N'000
<b>ASSETS</b>			
Cash and cash equivalents	9	886,653	45,872
Investment Securities	10	4,454,028	3,451,260
Other Receivables		1,000	-
<b>TOTAL ASSETS</b>		<b>5,341,681</b>	<b>3,497,132</b>
<b>LIABILITY</b>			
Other liabilities	11	72,984	42,485
<b>TOTAL LIABILITIES</b>		<b>72,984</b>	<b>42,485</b>
<b>NET ASSET ATTRIBUTABLE TO UNIT HOLDERS</b>		<b>5,268,697</b>	<b>3,454,647</b>
<b>REPRESENTED BY</b>			
Equity attributable to unit holders	12	3,778,088	2,395,837
Accumulated surplus	13	1,490,609	1,058,810
<b>UNIT HOLDERS' FUNDS</b>		<b>5,268,697</b>	<b>3,454,647</b>

These financial statements were approved by the Board of Directors of the Fund Managers on 4th February, 2021 and signed on behalf of the board of directors by the directors listed below:

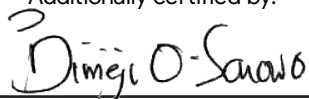


**Yemi Gbenro**  
(Director of the Fund Manager)



**Patrick Ilodiana**  
(Managing Director of the Fund Manager)

Additionally certified by:



**Dimeji Sonowo**  
(Executive Director of the Fund Manager)







## Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 31 December, 2020

	Notes	2020 N'000	2019 N'000
<b>Reserves:</b>			
<b>Balance, beginning of year</b>			
Profit for the year		1,058,810	696,220
Prior year adjustment		431,799	362,590
Other comprehensive income or (loss):		-	-
Increase in fair value of financial assets		-	-
		<b>1,490,609</b>	<b>1,058,810</b>
<b>Equity:</b>			
<b>Contributions and redemption by unit holders</b>			
Subscription, beginning of year		2,395,837	1,450,606
Subscription during the period (At Par)		5,006,105	3,305,378
Discount on subscription		-	-
(Premium)/discount on redemption		-	-
Redemption of units by unit holders		(3,623,854)	(2,360,147)
<b>Balance, end of year</b>		<b>3,778,088</b>	<b>2,395,837</b>
<b>Total Unit holders' funds at year end</b>		<b>5,268,697</b>	<b>3,454,647</b>





## Statement of Cash Flow

For the year ended 31 December, 2020

	Notes	2020 N'000	2019 N'000
<b>Cash flows from operating activities:</b>			
Profit before income tax		431,799	362,590
<i>Adjustment for:</i>			
Fair value changes on equities		-	-
		<b>431,799</b>	<b>362,590</b>
Changes in operating assets/liabilities			
Other Assets		(1,000)	-
Other creditors		30,499	15,190
<b>Net cashflows from operating activities</b>		<b>461,298</b>	<b>377,780</b>
Cashflows from Investing activities:			
Purchase of Investments (at cost)		(1,002,768)	(1,282,348)
<b>Cash flows from financing activities:</b>			
Proceeds from units issued during the year	12	5,006,105	3,305,378
Redemption of units during the year		(3,623,854)	(2,360,147)
<b>Net cash generated from financing activities</b>		<b>1,382,251</b>	<b>945,231</b>
Increase in cash and cash equivalents		840,781	40,663
Cash and cash equivalents at start of year		45,872	5,209
Cash and cash equivalents at end of year	9	<b>886,653</b>	<b>45,872</b>



# NOTES TO THE FINANCIAL STATEMENT

As At 31st December, 2020



## Notes to the Financial Statements For the year ended 31 December, 2020

### 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).

The financial statements were authorized for issue by the directors on 4<sup>th</sup> February, 2021.

#### (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 assets 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.



## Notes to the Financial Statements For the year ended 31 December, 2020

(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.

(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.





## Notes to the Financial Statements For the year ended 31 December, 2020

(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, de-recognition 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 is 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 (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 de-recognition).

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.







## Notes to the Financial Statements For the year ended 31 December, 2020

### (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, or 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.





## Notes to the Financial Statements For the year ended 31 December, 2020

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:
- 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 meets these conditions and is 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 relevant standards and interpretations not yet adopted as at 31 December, 2020**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. The most significant standards are highlighted below:





## Notes to the Financial Statements For the year ended 31 December, 2020

(a) **IFRS 17: Insurance Contracts**

This standard was adopted in May 2017 and will become effective on 1<sup>st</sup> January, 2022.

When operational, it will replace IFRS 4. Under IFRS 17 model, insurance contracts liabilities will be calculated at the present value of future insurance cash flows with a provision for risk. The discount rate will reflect current interest rates.

(b) **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:



## Notes to the Financial Statements For the year ended 31 December, 2020

(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.

(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.

(iv) **Cash and cash equivalents**

The Fund held cash and cash equivalents of N5.208 million as at 31 December 2020. The cash and cash equivalent are held with Stanbic IBTC Nominees. 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.



## Notes to the Financial Statements For the year ended 31 December, 2020

### (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 2020. 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 N886.65million 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 Statements For the year ended 31 December, 2020

(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.







## Notes to the Financial Statements For the year ended 31 December, 2020

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.

### (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 is 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.





## Notes to the Financial Statements For the year ended 31 December, 2020

### (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.

(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.

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

AT 31 December 2020	Notes	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	Above 6 months	Over 1 year
		N'000	N'000	N'000	N'000	N'000
Cash and cash equivalent	9	886,653	886,653	886,653	-	-
Financial assets at fair value:	10	4,454,028	4,454,028	-	-	4,454,028
Other Receivables		1,000	1,000	1,000	-	-
Held to maturity investment securities		-	-	-	-	-
Available for sale investment securities		-	-	-	-	-
		<b>5,341,681</b>	<b>5,341,681</b>	<b>887,653</b>	<b>-</b>	<b>4,454,028</b>
Other liabilities	11	(72,984)	(72,984)	(72,984)	-	-
Gap (assets-liabilities)		5,268,697	5,268,697	814,669	-	4,454,028
Cummulative liquidity gap		<b>5,268,697</b>	<b>5,268,697</b>	<b>814,669</b>	<b>-</b>	<b>4,454,028</b>

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.





## Notes to the Financial Statements For the year ended 31 December, 2020

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.

<i>In the thousands of naira</i>	Level 1	Level 2	Level 3
<b>Assets</b>			
Financial assets at fair value through profit or loss - TB	-	-	-
Quoted equity	-	-	-
Available-for-sale financial assets:			
FGN bonds	4,372,750	-	-
Corporate bonds	81,278	-	-
<b>Total Financial Assets</b>	<b>4,454,028</b>	<b>-</b>	<b>-</b>



## Notes to the Financial Statements For the year ended 31 December, 2020

	2020 N'000	2019 N'000
<b>6 Gross Income</b>		
Interest on Bank Placements	16,482	-
Interest on treasury Bills	131,448	318,601
Income from Bonds	334,267	44,436
Income from Commercial Papers	12,916	36,100
	<b>495,113</b>	<b>399,137</b>
<b>7 Administrative Expenses</b>		
Auditors fees	1,040	1,040
Other accrued administrative costs	10,338	5,512
	<b>11,378</b>	<b>6,552</b>
<b>8 Income Tax</b>		
Provision	NIL	NIL
The Fund is exempted from Income Tax		
<b>9 Cash Balances</b>		
Stanbic IBTC	886,653	45,072
Polaris Bank Limited	-	800
	<b>886,653</b>	<b>45,872</b>
<b>10 Investments</b>		
Government Treasury Bills	-	2,027,199
Federal Government Bonds	4,372,750	1,424,061
Private Sector Bonds	81,278	-
	<b>4,454,028</b>	<b>3,451,260</b>





## Notes to the Financial Statements For the year ended 31 December, 2020

	2020 N'000	2019 N'000
<b>11 Other Liabilities</b>		
Accrued fees due to Professionals	72,969	33,268
Other payables	15	9,217
	72,984	42,485
<b>12 Equity</b>		
Balance, beginning of year	2,395,837	1,450,606
Subscriptions received in the year	5,006,105	3,305,378
Redemption/withdrawals	(3,623,854)	(2,360,147)
Balance at 31 December	3,778,088	2,395,837
<b>13 Accumulated Surplus</b>		
Balance, beginning of year	1,058,810	696,220
Net Income for the year	431,799	362,590
Balance, end of year	1,490,609	1,058,810
	NIL	NIL

### 14. Staff number & Remuneration

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

- 15 Financial commitment and contingencies
- i The Fund did not provide any guarantee on behalf of any person or body during the year.
- ii All the known financial commitments have been considered in the preparation of these financial statements.
- 16 Post Balance Sheet Events
- There are no post balance sheet events as at 4th February, 2021 which would have had a material effect on these financial statements which have not been adequately provided for.



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