



# SFS FIXED INCOME FUND

Fund  
Manager



# 2021

## Annual Report and Accounts



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## CORPORATE INFORMATION AS AT 31 DECEMBER, 2021

### **Fund Manager**

SFS Capital Nigeria Limited  
287, Ajose 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

### **Custodian**

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

### **Trustees**

STL Trustees Limited  
Plot 183 Moshood Olugbani St,  
Victoria Island 106104,  
Lagos

### **Bankers**

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

### **Auditors**

Sterling Partners & Co.  
Terrace E, Ikomi Highrise  
3, Babatola Close, WEMABOD Estate  
Off Obafemi Awolowo way  
Ikeja, Lagos, Nigeria.

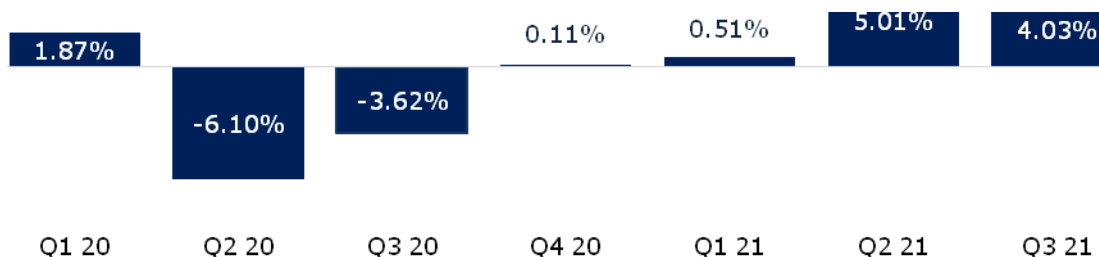
## FUND MANAGER REPORT FOR THE YEAR ENDED 31 DECEMBER, 2021

### ECONOMIC REVIEW 2021

The Nigerian economy's growth trajectory went positive in 2021 growing by 4.03% (year-on-year) in real terms in the 3rd quarter of 2021, showing a sustained growth over the last four quarters since the COVID-19 recession in 2020.

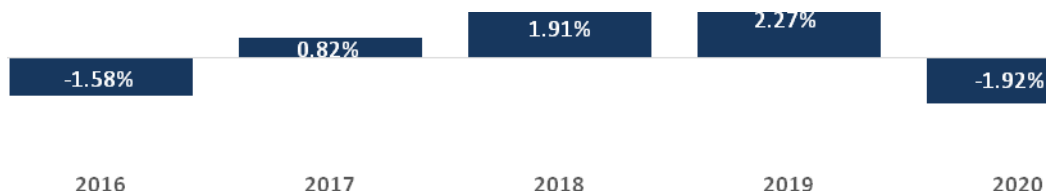
This growth was slower compared to 5.01% recorded in the Q2 2021. Qoq, real GDP grew by 11.07% in Q3 2021 compared to Q2 2021, reflecting higher economic activity than the preceding quarter.

#### QUARTERLY GDP GROWTH (Q1 2020 – Q3 2021)



Source: National Bureau of Statistics (NBS)

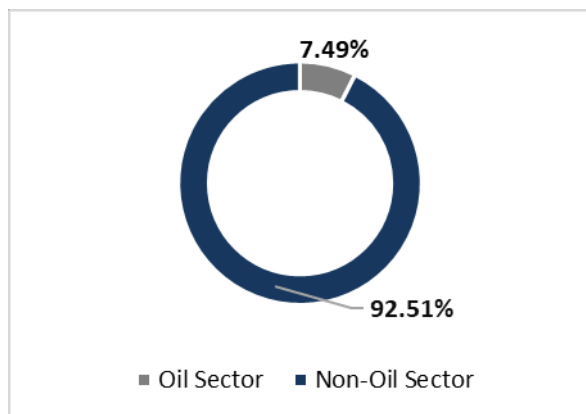
#### ANNUAL GDP GROWTH (2016 – 2020)



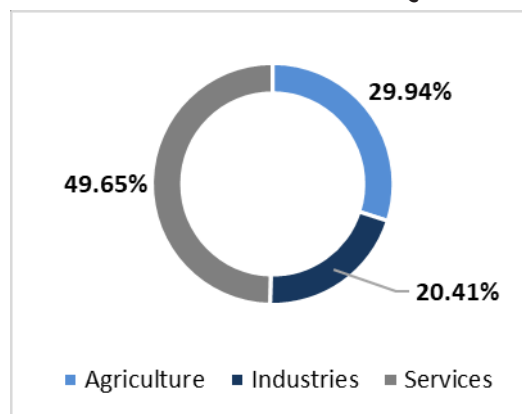
Source: National Bureau of Statistics (NBS)

## FUND MANAGER REPORT FOR THE YEAR ENDED 31 DECEMBER, 2021

CONTRIBUTION OF OIL AND NON-OIL SECTORS



CONTRIBUTION TO REAL GDP Q3 2021



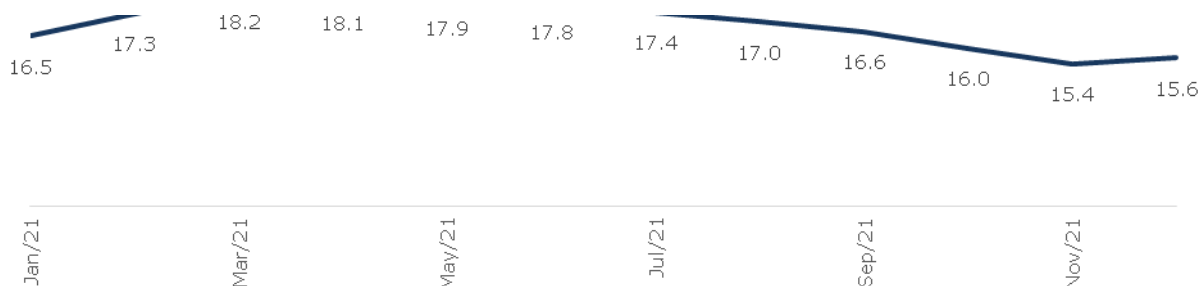
### NON-OIL SECTOR

The Non-Oil sector contributed to 92.51% of the Nigeria's GDP in Q3 2021, slightly higher than the 91.27% recorded in Q3 2020. The sector grew by 5.44% in Q3 2021, mainly driven by Trade, Information and Communication. Other drivers to the contribution were Financial Institutions, Manufacturing, Agriculture and Transportation and Storage.

### OIL SECTOR

The Oil sector contributed 7.49% to GDP in Q3 2021, an increase from 7.42% in Q3 2020. The sector contracted by 10.73% year-on-year in Q3 2021. The contraction was due to a decline in crude oil production. Nigeria's oil production in Q3 2021 stood at 1.57mpd compared to 1.61mpd in Q3 2020 and 1.67mpd in 2020.

### INFLATION RATE % (DECEMBER 2020 – DECEMBER 2021)



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

## FUND MANAGER REPORT FOR THE YEAR ENDED 31 DECEMBER, 2021

For the 8<sup>th</sup> consecutive month, headline inflation declined to 15.4% in November from its peak of 18.2% in March. The inflation rate was lowered due to reduced pressure on food prices. However, high food prices were the major cause of Nigeria's inflation in 2021.

### I&E FX WINDOW

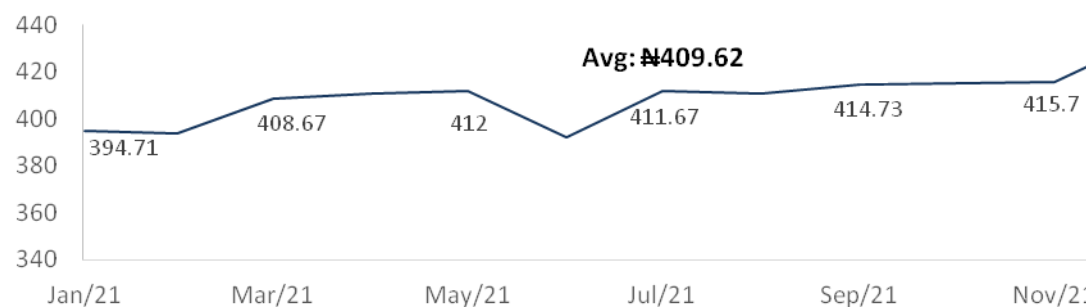
The Investor and Exporters' (I&E) FX window introduced in April 2017, is one of the strategic instruments projected to support and stabilise the Naira against other currencies.

The Naira depreciated on the I&E FX Window by 4.1% to ₦410/US\$ in Q1 2021 from ₦394/US\$ in Q4 2020.

In May, the CBN adopted the I&E Window rate as the official exchange rate. As a result, the performance of the Naira on the I&E Window showed some stability. However, reserves continued to decline.

By December, the I&E Window officially depreciated by 10.21%, closing the year with an exchange rate of ₦435.00 from ₦395.00 in January. This represented a loss in the value of the Naira.

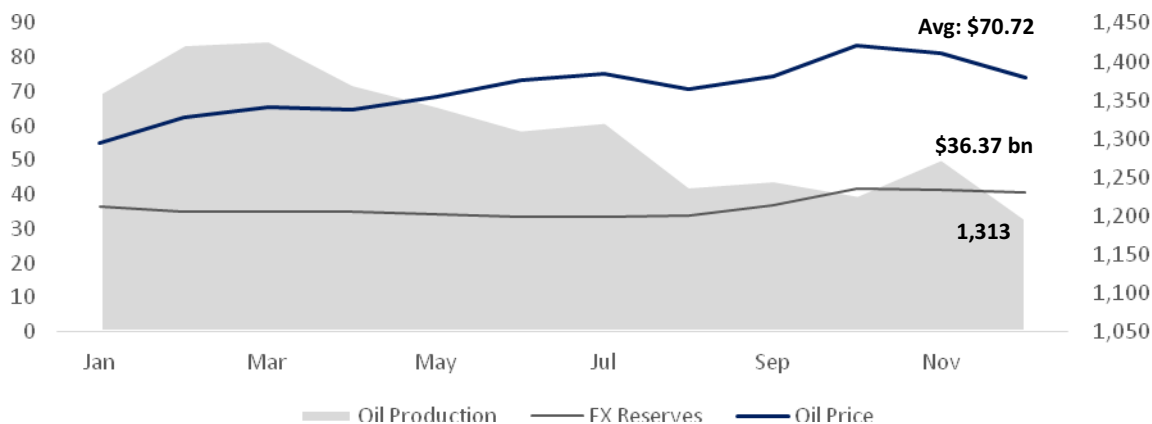
### I&E FX WINDOW RATES (USD/NGN)



Source: FMDQ, SFS Capital Research

## FUND MANAGER REPORT FOR THE YEAR ENDED 31 DECEMBER, 2021

### NIGERIA'S FX RESERVES, BRENT PRICE & NIGERIA'S FX RESERVES (2020 – 2021)



Source: 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

Oil prices increased in 2021 as COVID-19 vaccination rates improved, loosening pandemic-related restrictions, and a growing economy resulted in global oil demand rising faster than supply. The price of Brent crude oil, a global benchmark, started the year at \$50 per barrel and increased to a high of \$86/b in late October before declining in the final weeks of the year.

FX reserves opened the year at \$35.6 billion and increased to US\$40.7bn in December. The increase was due to \$3.35 billion Special Drawing Rights (SDRs) by the International Monetary Fund (IMF) in August 2021 and the \$4 billion raised from the Federal Government's Eurobond in September.

### FIXED INCOME MARKET REVIEW

In 2021, Commercial Paper issuance slowed down to N374bn from N663.6bn in 2020. Sixteen (16) issuers raised circa N374.3bn billion through CP issuances. The decline in CP issuances in the year can be attributed to the uptick in the yield environment and corporates taking advantage of the favourable bond market conditions in 2020 to finance their obligations.

## FUND MANAGER REPORT FOR THE YEAR ENDED 31 DECEMBER, 2021

There were 7 corporate bond issuances in the year, raising a total of ₦227.5 billion. MTN Nigeria was the largest issuer of bonds, raising ₦110 billion. Coronation Merchant Bank and MTN Nigeria were the largest CP issuers, raising ₦76.4 billion and ₦73.5 billion respectively. There was one (1) State Bond issuance in 2021, with Lagos State raising ₦137.328 billion. High leverage and poor IGR made it tougher for states to access the bond market directly.

### NIGERIAN FEDERAL GOVERNMENT (FGN) BOND YIELDS



### NIGERIA TREASURY BILL YIELDS



Source: Bloomberg, FMDQ, SFS Capital Research

Source: Bloomberg, SFS Capital Research



## FUND MANAGER REPORT FOR THE YEAR ENDED 31 DECEMBER, 2021

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



Source: Bloomberg, FMDQ, SFS Capital Research

OMO auctions have been on a steady decline since 2018 and in 2021, the CBN moped-up over ₦2.2 trillion, which represents the lowest in the last five years. This decline can be attributed to the restrictions placed by CBN in 2019 on the participation of local corporates and retail investors in OMO Auctions.

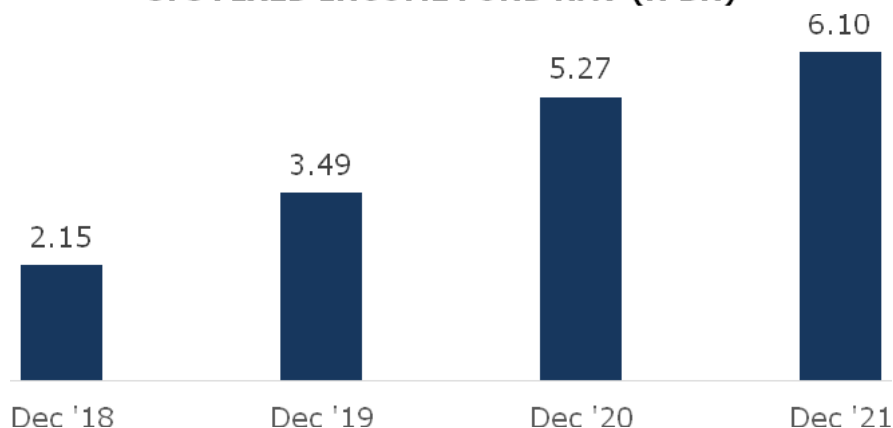
OMO yields across all tenors declined from an average of 8.48% in Q2 2021 to 6.32% in Q3 2021 and finally 5.50% in Q4 2021. There was a Year – on – Year increase in average OMO yields from 0.58% in December 2020 to 5.50% in December 2021.

### FUND PERFORMANCE

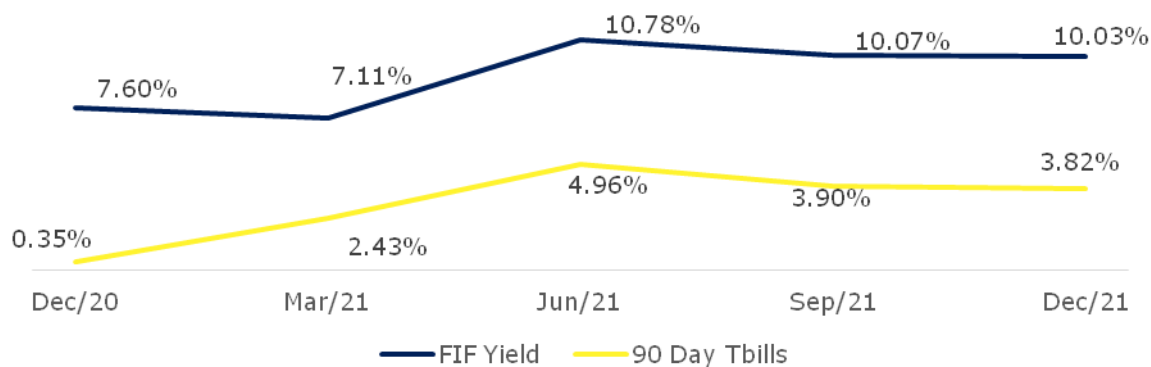
The SFS Fixed Income Fund (“SFS FIF”) continues to grow and deliver value to its investors and 2021 was no different. The Net Asset Value (“NAV”) of the Fund grew by 15.65% in 2021, to close the year at ₦6.10 billion. The Fund has also earned competitive returns for its investors, as the yield on the fund as at the end of Q4 2020 was 10.03%, which was 621 basis points higher than the 90-day NTB.

## FUND MANAGER REPORT FOR THE YEAR ENDED 31 DECEMBER, 2021

### SFS FIXED INCOME FUND NAV (₹'BN)



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



Asset	Allocation
Treasury Bills	NIL
Bonds (FGN, State & Corporate)	94.45%
Cash	5.55%

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## FUND MANAGER REPORT FOR THE YEAR ENDED 31 DECEMBER, 2021

### FORECAST

The IMF expects Nigeria's GDP to slow to a growth rate of 2.7% in 2022 from 3% in 2021, following the decline in the effects of the COVID-19 Pandemic.

In terms of the monetary policy, we expect the CBN to maintain the MPR at 11.5% in H1 2022 with a possible increase by 50bps in the year in a bid to sustain output recovery given the recent reduction in inflation rates. We expect there would be a need for additional borrowings as the Federal Government projects a revenue of N10.7tn in 2022 compared to its revenue target of N8.1tn in 2021.

We also expect that the implementation of the regulatory fees which took effect on January 1<sup>st</sup> 2022 (affecting secondary market bond transactions), the introduction of annual supervisory fees for Collective Investment Schemes (CIS) and annual regulatory fees for fund/portfolio managers will weigh on the volume of secondary market transactions and the additional cost will cause market participants to demand for higher yields.

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.

SFS continues to follow a bar-bell strategy, buying long-tenor instruments to get higher yields, while also maintaining a stock of short-term securities to ensure that liquidity is guaranteed to investors.

## REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 DECEMBER, 2021

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 2021.

***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 8.98% per ₦1.08 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:

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## REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 DECEMBER, 2021

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

### ***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 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.

## REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 DECEMBER, 2021

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;

## REPORT OF THE TRUSTEES FOR THE YEAR ENDED 31 DECEMBER, 2021

- 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:**

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.

### **Charitable donations:**

The Fund did not make any charitable donations during the period. (2021: 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**

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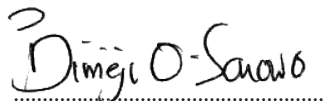
## STATEMENT OF FUND MANAGER'S RESPONSIBILITIES

This statement, which should be read in conjunction with the Auditor's report, is made with a view to setting out for Unit holders, the responsibilities of the Fund Manager with respect to the financial statements.

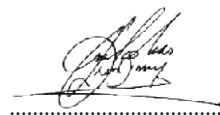
The Fund Manager is responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs of the Fund and the results of its operations for the year. The responsibilities include ensuring that:

- i. The appropriate internal controls are established both to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities;
- ii. The Fund keeps accounting records which disclose the reasonable accuracy of the financial position of the Fund and which ensure that the financial statements comply with the requirements of the Investments and Securities Act and relevant Securities and Exchange Commission circulars;
- iii. The Fund has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that all applicable accounting standards have been followed and;
- iv. The financial statements are prepared on a going concern basis unless it is presumed that the Fund will not continue in business.

The Fund manager further asserts that nothing has come to its attention to indicate that the Fund will not remain a going concern for at least twelve months from the date of these financial statements.



**Dimeji Sonowo**  
**Executive Director**



**Patrick Ilodiana**  
**Managing Director**

**14<sup>th</sup> February, 2022**



## STATEMENT OF TRUSTEES RESPONSIBILITY

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

- Monitoring 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 unit holders in accordance with the Trust Deed and the Custodian Agreement;
- Monitoring the register of unit holders;
- 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 Custodian 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 are within the prescribed limits; and
- Acting at all times in the interest and for the benefit of unit holders of the Fund

We confirm that we discharged the above responsibilities faithfully during the year ended 31<sup>st</sup> December, 2021.

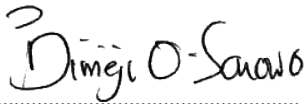
STL Trustees Limited  
Plot 183 Moshood Olugbani St,  
Victoria Island 106104,  
Lagos

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## 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**  
**14<sup>th</sup> February, 2022**



.....  
**Patrick Iloodyanya**  
**Managing Director**

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## **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<sup>st</sup> December, 2021, 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 14 to 28.

### ***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 31<sup>st</sup> December, 2021 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, 2020 the Financial Reporting Council of Nigeria Act 2011 and relevant circulars and guidelines issued by the Securities and Exchange Commission.

### ***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, 2020, 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 this financial statement 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.

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## **INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF SFS FIXED INCOME FUND**

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, 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.

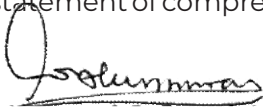
Management has not identified a material uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty.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

## **INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF SFS FIXED INCOME FUND**

### **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.



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

**For: Sterling Partners & Co**  
**Chartered Accountants**  
**Lagos, Nigeria.**

**14<sup>th</sup> February, 2022**

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER, 2021

	Notes	2021 N'000	2020 N'000
<b>Income</b>			
Interest Income	6	629,476	495,113
<b>TOTAL INCOME</b>		<b>629,476</b>	<b>495,113</b>
Administrative expenses	7	16,177	11,378
Managers fees		62,885	45,162
Trustees fees		3,144	2,258
Custodian fees		6,288	4,516
<b>TOTAL EXPENSES</b>		<b>88,494</b>	<b>63,314</b>
<b>PROFIT FOR THE YEAR BEFORE TAX</b>		<b>540,982</b>	<b>431,799</b>
Income tax expenses	8	-	-
<b>PROFIT FOR THE YEAR AFTER TAX</b>		<b>540,982</b>	<b>431,799</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>540,982</b>	<b>431,799</b>
<b>Unit price</b>		<b>1.08</b>	<b>1</b>
<b>Earnings yield</b>		<b>8.98%</b>	<b>9.80%</b>

## STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER, 2021

	Notes	2021 N'000	2020 N'000
<b>ASSETS</b>			
Cash and cash equivalents	9	343,959	886,653
Investment Securities	10	5,849,106	4,454,028
Other Receivables		1,000	1,000
<b>TOTAL ASSETS</b>		<b>6,194,065</b>	<b>5,341,681</b>
<b>LIABILITY</b>			
Other liabilities	11	126,713	72,984
<b>TOTAL LIABILITIES</b>		<b>126,713</b>	<b>72,984</b>
<b>NET ASSET ATTRIBUTABLE TO UNIT HOLDERS</b>			
		<b>6,067,352</b>	<b>5,268,697</b>
<b>REPRESENTED BY</b>			
Equity attributable to unit holders	12	4,035,762	3,778,088
Accumulated surplus	13	2,031,591	1,490,609
<b>UNIT HOLDERS' FUNDS</b>		<b>6,067,352</b>	<b>5,268,697</b>

These financial statements were approved by the Board of Directors of the Fund Managers on 14th February, 2022 and signed on behalf of the board of directors by the directors listed below:

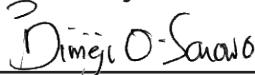


**Yemi Gbenro**  
(Director of the Fund Manager)



**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

	2021 N'000	2020 N'000
<b>Reserves:</b>		
<b>Balance, beginning of year</b>	1,490,609	1,058,810
Profit for the year	540,982	431,799
	<b>2,031,591</b>	<b>1,490,609</b>
<b>Equity:</b>		
<b>Contributions and redemption by unit holders</b>		
Subscription, beginning of year	3,778,088	2,395,837
Subscription during the period (At Par)	5,397,865	5,006,105
Redemption of units by unit holders during the year	(5,140,191)	(3,623,854)
	<b>4,035,762</b>	<b>3,778,088</b>
<b>Balance, end of year</b>	<b>4,035,762</b>	<b>3,778,088</b>
<b>Total Unit holders' funds at year end</b>	<b>6,067,352</b>	<b>5,268,697</b>



## STATEMENT OF CASH FLOW

### Cash flows from operating activities:

Profit before income tax

*Adjustment for:*

Fair value changes on equities

Changes in operating assets/liabilities

Other Assets

Other creditors

### Net cashflows from operating activities

Cashflows from Investing activities:

Purchase of Investments (at cost)

### Cash flows from financing activities:

Proceeds from units issued during the year

Redemption of units during the year

### Net cash generated from financing activities

(Decrease)/Increase in cash and cash equivalents

Cash and cash equivalents at start of year

Cash and cash equivalents at end of year

Notes	2021 N'000	2020 N'000
	540,982	431,799
	-	-
	<b>540,982</b>	<b>431,799</b>
	-	(1,000)
	53,729	30,499
	<b>594,711</b>	<b>461,298</b>
	(1,395,078)	(1,002,768)
12	5,397,865	5,006,105
	(5,140,191)	(3,623,854)
	<b>257,674</b>	<b>1,382,251</b>
	(542,694)	840,781
	886,653	45,872
9	<b>343,959</b>	<b>886,653</b>

The background of the page is a soft-focus photograph of a person's hands typing on a white calculator. The hands are positioned in the lower right and center of the frame. In the background, there is a white pen in a holder, a spiral notebook, and some paper clips. The overall lighting is bright and airy, with a slight vignette effect.

# NOTES TO THE FINANCIAL STATEMENT

As At 31st December, 2021

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

### 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 high-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 Standards (IFRSs).

The financial statements were authorized for issue by the directors on 14<sup>th</sup> February, 2022.

#### (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 statements in conformity with IFRSs requires management to make judgements, estimates, and assumptions 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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

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

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

#### (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 comprise 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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

### 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 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 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 (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).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

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 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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

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 unitholders 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 Fund's 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;
- 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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

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, 2021**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2021, and have not been applied in preparing these financial statements. The most significant standards are highlighted below:

(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.



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

### 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 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 quarterly.

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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

securities held and cash and cash equivalent instruments.

(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 periodically 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 amounts of the relevant financial assets in the statement of financial position.

(iv) **Cash and cash equivalents**

The Fund held cash and cash equivalents of N343.96 million as at 31 December 2021. 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, 2021

### (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 2021. 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 N343.96 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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

(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 investment management behaviour.

The Fund's objective is to manage operational risk 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, and roles
- 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

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

- 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 periodically. The fund has provided the custodian a general lien over the financial assets held in the 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 are 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, and 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 the scope for assets and liabilities to be designated on inception into different accounting categories in certain

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

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.

(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.

(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 assumptions are required to reflect differences between the instruments.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

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

AT 31 December 2021	Notes	Carrying amount N'000	Gross nominal inflow/(outflow) N'000	Less than 3 months N'000	Above 6 months N'000	Over 1 year N'000
Cash and cash equivalent	9	343,959	343,959	343,959	-	-
Financial assets at fair value:	10	5,849,106	5,849,106	-	-	5,849,106
Other Receivables		1,000	1,000	1,000	-	-
Held to maturity investment securities		-	-	-	-	-
Available for sale investment securities		-	-	-	-	-
		<b>6,194,065</b>	<b>6,194,065</b>	<b>344,959</b>	<b>-</b>	<b>5,849,106</b>
Other liabilities	11	126,713	126,713	126,713	-	-
Gap (assets-liabilities)		6,320,778	<b>6,320,778</b>	471,672	-	5,849,106
Cummulative liquidity gap		<b>6,320,778</b>	<b>6,320,778</b>	<b>471,672</b>	<b>-</b>	<b>5,849,106</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.

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

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.

*In the thousands of naira*

### Assets

Financial assets at fair value through profit or loss - TB

Quoted equity

Available-for-sale financial assets:

FGN bonds

Corporate bonds

**Total Financial Assets**

	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss - TB	-	-	-
Quoted equity	-	-	-
Available-for-sale financial assets:			
FGN bonds	5,849,106	-	-
Corporate bonds	-	-	-
<b>Total Financial Assets</b>	<b>5,849,106</b>	-	-

### 6 Gross Income

Interest on Bank Placements

Interest on treasury Bills

Income from Bonds

Gains from Sales of Bond

### 7 Administrative Expenses

Auditors fees

Other accrued administrative costs

	2021 N'000	2020 N'000
Interest on Bank Placements	176,123	16,482
Interest on treasury Bills	9,732	131,448
Income from Bonds	440,899	334,267
Gains from Sales of Bond	2,722	12,916
	<b>629,476</b>	<b>495,113</b>
Auditors fees	1,200	1,040
Other accrued administrative costs	14,977	10,338
	<b>16,177</b>	<b>11,378</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2021

8	<b>Income Tax</b>		
	Provision	NIL	NIL
	The Fund is exempted from Income Tax		
9	<b>Cash Balances</b>		
	Stanbic IBTC	343,959	886,653
		<b>343,959</b>	<b>886,653</b>
10	<b>Investments</b>		
	Government Treasury Bills	-	-
	Federal Government Bonds	5,849,106	4,372,750
	Private Sector Bonds	-	81,278
		<b>5,849,106</b>	<b>4,454,028</b>
11	<b>Other Liabilities</b>		
	Accrued fees due to Professionals	118,207	72,969
	Other payables	8,506	15
		126,713	72,984
12	<b>Equity</b>		
	Balance, beginning of year	3,778,088	2,395,837
	Subscriptions received in the year	5,397,865	5,006,105
	Redemption/withdrawals	(5,140,191)	(3,623,854)
	Balance, end of year	4,035,762	3,778,088

13	<b>Accumulated Surplus</b>		
	Balance, beginning of year	1,490,609	1,058,810
	Net Income for the year	540,982	431,799
	Balance, end of year	2,031,591	1,490,609
14	<b>Staff number &amp; Remuneration</b>		
		NIL	NIL

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

15 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.

16 Post Balance Sheet Events

There are no post balance sheet events as at 14th February, 2022 which would have had a material effect on these financial statements which have not been adequately provided for.



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