

SBM YIELD FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 2021

**SBM YIELD FUND**

---

| <b>CONTENTS</b>  | <b>PAGES</b> |
|--|--------------|
| CORPORATE INFORMATION                                      | 1            |
| MANAGER'S REPORT   | 2(i) - 2(x)  |
| CORPORATE GOVERNANCE REPORT                                | 3(i) - 3(xi) |
| INDEPENDENT AUDITOR'S REPORT                               | 4 - 5        |
| STATEMENT OF FINANCIAL POSITION                            | 6            |
| STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME | 7            |
| STATEMENT OF CHANGES IN NET ASSETS                         | 8            |
| STATEMENT OF CASH FLOWS                                    | 9            |
| NOTES TO THE FINANCIAL STATEMENTS                          | 10 - 41      |

|   |   |
|---|---|
| MANAGER   | SBM Mauritius Asset Managers Ltd<br>12th Floor, Hennessy Tower<br>Pope Hennessy Street<br>Port Louis<br>Mauritius                         |
| FUND ADMINISTRATOR AND<br>REGISTRY AND TRANSFER AGENT | SBM Fund Services Ltd<br>10th Floor, Hennessy Tower<br>Pope Hennessy Street<br>Port Louis<br>Mauritius                                    |
| BANKER AND CUSTODIAN                                  | SBM Bank (Mauritius) Ltd<br>SBM Tower<br>1, Queen Elizabeth II Avenue<br>Port Louis<br>Mauritius  |
| REGISTERED OFFICE                                     | SBM Bank (Mauritius) Ltd<br>SBM Tower<br>1, Queen Elizabeth II Avenue<br>Port Louis<br>Mauritius  |
| TRUSTEE   | DTOS Trustees Ltd<br>10th Floor, Standard Chartered Tower<br>19-21 Bank Street ,Cybercity<br>Mauritius                                    |
| INVESTMENT COMMITTEE                                  | Mr. Alain Eric Koo Khen Heong Venpin<br>Mr. Roshan Ramoly<br>Mr. Richard Robinson<br>Mr. Edward Vaughan Heberden<br>Mr. Assad Abdullatiff |
| AUDITOR   | Deloitte<br>7th Floor, Standard Chartered Tower<br>19-21 Bank street ,Cybercity<br>Ebene<br>Mauritius                                     |

## **Investment Manager's statement**

Dear Unitholder,

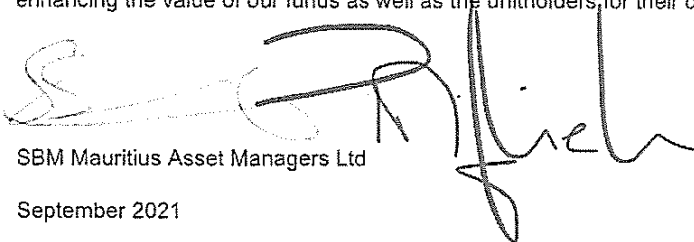
The pandemic swept the globe in March 2020 causing unprecedented health and economic concerns. Although policymakers had recourse to unprecedented stimulus measures to limit the economic impact of the Covid-19 pandemic, the global economy went into a recession during the calendar year 2020. Globally, policy measures limited the negative spill-overs from the "real" economy to the financial markets.

In Mauritius, the closure of the domestic frontier presented significant headwinds to economic growth given the country's dependence on the leisure and hospitality sector. With easing of restrictions and an acceleration in the pace of vaccine roll-out, there was a positive shift in investor sentiment in 2021; the SEMDEX prolonged its 2021 bull-run after the budget speech held in June 2021 which among others, laid out the strategy in terms of easing of travel restrictions and paving the way for a bounce back of the tourism industry. Domestic yields increased significantly during that particular month.

Despite the uncertain conditions that prevailed during the year, we proved once again that we remain a reliable partner for all our stakeholders; our investment philosophy and processes ensured that our in-house funds delivered solid returns relative to their pre-set objectives. The Fund continued raised its exposure to cash and cash equivalent during the year, in anticipation of higher yields, and also increased its allocation to "quality" domestic corporate bonds. Funds were deployed in government securities in 2021 following the pick-up in yields.

Global economic activity has rebounded strongly since the onset of the pandemic but the environment remains challenging amid the mutations of the Covid-19 virus, inflation concerns and Fed's potential tapering of its assets purchase. Though the Fed has indicated that it will be in no rush to raise rates once it starts its tapering, yields are likely to trend upward in the forthcoming months. Domestically, the vaccination roll-out has been positive but economic recovery remains highly dependent on the tourism sector. At the same time, the weakening of the currency and global inflationary pressures from supply-chain disruptions are likely to threaten domestic price stability. The government has imposed price controls on certain basic goods, which are likely to dampen short-term inflationary pressures. At monetary policy level, the Bank of Mauritius has rejected bids on certain issuances, potentially indicating that yields may stabilize at current levels in the near-term. At the same time, excess liquidity may renew its upward trend as government securities mature. In the face of the market challenges, we remain focused on our funds' long-term objectives and believe that our strategy will continue to benefit from the prevailing market conditions.

We would like to thank the management team and all the stakeholders for their contribution towards enhancing the value of our funds as well as the unitholders for their confidence in us.

  
SBM Mauritius Asset Managers Ltd  
September 2021

## Investment Manager's Report

### Performance commentary

For the financial year ended 30 June 2021, SBM Yield Fund registered a return of 10.2% against a benchmark performance of 4.7%. The net assets increased from MUR 179.0M to MUR 216.9M over FY21 with net asset value per unit (NAV) increasing from MUR 11.10 to MUR 11.67.

As an indication of the domestic bond market performance, the yield on the 3Y Government bonds increased from 1.56% to 2.54%. On the global front, the Bloomberg Barclays Global Aggregate Index rose from USD 526.93 to USD 540.81 registering a performance of 2.6% in USD terms..

### ANNUALISED RETURN

|                    | <u>1 YEAR</u> | <u>3 YEAR</u> | <u>5 YEAR</u> | <u>SINCE<br/>INCEPTION</u> |
|--------------------|---------------|---------------|---------------|----------------------------|
| SBM Yield Fund (%) | +10.2         | +5.9          | +5.9          | +5.0                       |
| Benchmark (%)      | +4.7          | +6.4          | +4.9          | +5.7                       |
|                    | <u>FY 21</u>  | <u>FY 20</u>  | <u>FY 19</u>  | <u>FY 18</u>               |
| SBM Yield Fund (%) | +10.2         | +4.6          | +2.9          | +7.3                       |
| Benchmark (%)      | +4.7          | +8.5          | +6.0          | +2.5                       |

The benchmark is a composite of 60% 3Y GOM Bond and 40% Bloomberg Barclays Global Aggregate Bond index. The Bloomberg Barclays Global Aggregate Bond index is a measure of global investment grade debt from twenty-four local currency markets. Computation of benchmark return is based on the observations as at month-end and the blended performance of the benchmark reflects monthly rebalancing.

### VALUE OF MUR 100,000 INVESTED SINCE INCEPTION

Past performance is not a reliable indicator of future performance and unit prices may fluctuate with prevailing market conditions and current performance may be higher or lower than the performance cited. For more information on the fund's objectives, risks, and strategy, please consult its Prospectus. Latest unit prices are available on the website: <https://nbfc.sbmgroup.mu/mam/financial-products/funds-performance>

The graph illustrates the performance of MUR 100,000 invested in the Fund at inception. The growth of investment amount assumes that dividends, if any, are re-invested and does not include sales charge but takes into account the running expenses of the Fund as well as taxes and other deductions.

**Positioning and strategy**

SBM Yield Fund invests in global fixed income securities with a strategic allocation of 60% in domestic bonds and 40% in international fixed income instruments.

During the year, the Fund maintained an overweight in domestic fixed income mainly on account of expensive investment grade securities amid historically low policy rates and the potential foreign exchange rate risk given our mid-term views on the Mauritian rupee.

The overall exposure to domestic securities is 84.7% as at 30 June 21 against a central target of 60%. During the year, the Fund focused on building the domestic corporate bond segment rather than foreign debt instruments to manage potential interest rate risks from rising international yields and reduce overall portfolio duration. The Fund also raised exposure to "quality" corporate bonds Forty Two Point Two (GCR: AAA), CIM Financial Services Ltd (Care: MAU AA), Ascencia Limited (Care: MAU A+) and Gamma Civic Ltd (Care: MAU AA-).

The domestic portfolio remains mainly invested in Government of Mauritius (GoM) with an allocation of 60.3% as at 30 June 21 against 60.0% for the benchmark. Given that the GoM are valued at mark-to-market, some profit bookings were made in June 2021 following rising yields in the domestic market.

Subject to the issuances of the Bank of Mauritius and evolution of excess liquidity, the Fund may review the duration target of the portfolio while it anticipates maintaining an underweight in international bonds amid expectations of falling bond prices.

**ASSET ALLOCATION (% net assets)**

|                                 | 30/06/20 | 30/06/21 |
|---------------------------------|----------|----------|
| Domestic fixed income.....      | 73.9     | 84.7     |
| International fixed income..... | 10.9     | 9.8      |
| Alternative investment.....     | 1.7      | 0.0      |
| Domestic equities.....          | 0.7      | 0.0      |
| Cash & cash equivalents.....    | 12.8     | 5.5      |

**GEOGRAPHICAL ALLOCATION (% net assets)**

|                    | 30/06/20 | 30/06/21 |
|--------------------|----------|----------|
| Mauritius.....     | 90.6     | 60.0     |
| North America..... | 5.7      | 14.4     |
| Central Asia.....  | 3.7      | 0.0      |
| Europe.....        | -        | 13.6     |
| Asia Pacific.....  | -        | 10.6     |
| Others.....        | -        | 1.3      |

**SECTOR ALLOCATION (% net assets)**

|                              | Fund | Index |
|------------------------------|------|-------|
| Government of Mauritius..... | 60.3 | 60.0  |
| Financial.....               | 23.7 | 2.1   |
| Diversified.....             | 7.5  | -     |
| Industrial.....              | 2.9  | 0.4   |
| Consumer Non-Cyclical.....   | 2.6  | 1.5   |
| Technology.....              | 1.1  | 0.4   |
| Communications.....          | 0.8  | 0.5   |
| Consumer Cyclical.....       | 0.6  | 0.5   |
| Utilities.....               | 0.3  | 0.4   |
| Energy.....                  | 0.1  | 0.3   |
| Basic Materials.....         | 0.1  | 0.1   |
| Not Classified.....          | -    | 33.8  |

**TOP 5 HOLDINGS (% net assets)**

|                                    | 30/06/20    | 30/06/21    |
|------------------------------------|-------------|-------------|
| Govt. of Mauritius Bond 08/02/39.. | 10.3        | 9.4         |
| Govt. of Mauritius Bond 25/01/28.. | 8.2         | 8.2         |
| Govt. of Mauritius Bond 12/06/22.. | -           | 6.0         |
| Govt. of Mauritius Bond 07/09/38.. | 6.3         | 5.8         |
| Govt. of Mauritius Bond 11/05/38.. | 5.7         | 5.3         |
| <b>TOTAL</b>                       | <b>30.5</b> | <b>34.7</b> |

**TOP 5 CORPORATE HOLDINGS (% net assets)**

|   | 30/06/20   | 30/06/21    |
|---|------------|-------------|
| IBL Ltd Series 2 08/09/22.....              | 5.8        | 4.7         |
| CIM Financial Services Ltd<br>31/07/25..... | -          | 4.2         |
| Ciel 02/02/25.....                          | 2.9        | 2.4         |
| Gamma Civic 18/06/31.....                   | -          | 2.3         |
| Ascencia Ltd 29/12/30.....                  | -          | 2.3         |
| <b>TOTAL</b>                                | <b>8.7</b> | <b>15.9</b> |

## Economic Review

### Economy

The global economy contracted in calendar year 2020 with the growth rate estimated at -3.3%, after a series of restrictions aimed at curbing the spread of the Covid-19 adversely impacted economic activity. Real GDP growth among developed nations is estimated at -4.6% with the US, Germany, France, Italy and Spain registering respective rates of -3.5%, -4.8%, -8.0%, -8.9% and -10.8%. Emerging and developing nations posted -2.1%, dragged by China (2.3%), India (-7.3%), Brazil (-4.1%) and Russia (-3.0%). Supply-chain disruptions significantly increased inflationary pressures in 2020 with global inflation estimated at 3.2%. Domestically, economic activity was impacted by the national lockdown in March and stringent travel restrictions; according to Statistics Mauritius, real GDP declined by 14.9% in 2020. The contraction was more severe in the tourism sector which adversely impacted foreign exchange flows, and the current account deficit. The MUR weakened over the year, by 6.2% against the USD, standing at 40.15/USD in June 2020 compared to 42.65/USD in June 2021.

| REAL GDP GROWTH (IMF estimates, % YoY) |          |              |                    |                  |                           |                  |       |       |           |
|--|----------|--------------|--------------------|------------------|---------------------------|------------------|-------|-------|-----------|
| Group/<br>Country                      | Advanced | Euro<br>Area | EM &<br>Developing | Emerging<br>Asia | Sub-<br>Saharan<br>Africa | United<br>States | China | India | Mauritius |
| 2020                                   | -4.6     | -6.5         | -2.1               | -0.9             | -1.8                      | -3.5             | 2.3   | -7.3  | -15.8     |
| 2021(F)                                | 5.6      | 4.6          | 6.3                | 7.5              | 3.4                       | 7.0              | 8.1   | 9.5   | 6.6       |
| 2022(F)                                | 4.4      | 4.3          | 5.2                | 6.4              | 4.1                       | 4.9              | 5.7   | 8.5   | 5.2       |

In 2021, economic conditions significantly improved with the continued support of policymakers, the on-going vaccination progress and easing of restrictions in several economies. The International Monetary Fund (IMF) revised upwards its 2021 real GDP growth projection for the US to 7.0%, 0.6 percentage point higher than its projections in April 2021, reflecting the relatively advanced pace of vaccines rollout and additional fiscal stimulus. The Biden administration has proposed two multi-year spending packages equivalent to 18% of 2021 GDP: the American Families Plan (USD 2T) and the American Jobs Plan (USD 2.3T); aimed at supporting vulnerable households, strengthening the recovery and improving labour productivity.

Growth projections for 2021 in the Eurozone have been reviewed to 4.6% by the IMF, 0.3 percentage point higher than its April 2021 World Economic Outlook (WEO) projection. As confinement measures are gradually lifted, economic growth is projected to rebound strongly in the second half of 2021 boosted by private consumption, substantial fiscal support and strong external demand. Germany, France, Italy and Spain, are projected to grow by 3.6%, 5.8%, 4.9% and 6.2%, respectively.

## Economic Review (Cont'd)

### Economy (Cont'd)

Real GDP growth in developing and emerging economies is projected to outpace advanced economies with a forecast of 6.3% in 2021, against 6.7% in IMF's April 2021 forecast. The relatively higher projections among emerging nations are likely to be led by the strong rebounds in India and China, which are projected to grow by 9.5% and 8.1%, respectively. However, lack of access to vaccines and challenges in controlling renewed waves of the pandemic are likely to dictate the growth path among those nations.

On the domestic economy, the IMF projects real GDP to grow by 6.6% in 2021 and 5.2% in 2022. The recovery is expected to be driven by the construction and manufacturing sectors alongside accommodation and food service activities. Monetary policymakers are likely to maintain the accommodative monetary policy stance in the short term to support economic activity and cushion against the likely disruptive effects of the second wave of Covid-19.

According to the July 2021 WEO, inflation rates in developed economies and emerging market and developing economies are estimated to be at 2.4% and 5.4% respectively. Higher inflation is expected in some emerging markets and developing economies on account of elevated food prices. Inflation is expected to return to its pre-pandemic levels in most nations in 2022. In the US, the PCE inflation rate is expected to hover above 2% in the near term driven primarily by transitional factors, pent-up demand and on-going supply-chain disruptions. Statements from central banks regarding outlook for monetary policy remain key in shaping inflation expectations.



## Financial markets review

### Equity markets

After hitting a 4-year low in March 2020 following the declaration of Covid-19 as a pandemic and implementation of lockdown measures in several countries, markets recovered most of the losses by August 2020, supported by unprecedented monetary and fiscal stimuli by policymakers, globally. Near-zero Federal Funds rate, trillions of dollar of fiscal support and positive vaccine news pushed US equities in record territories during the first half of the financial year. Growth stocks outperformed the broader indices, aided by technology and software stocks. During the second half of the year, rising inflation concerns raised 10Y US yields which dented the performance of growth stocks and the Nasdaq witnessed a correction in February 2021. Investors rotated into value and smaller caps, which outperformed the broader market up to May. As an indication, the S&P 500 index registered +14.4% over the period Jan-Jun 21 compared to the S&P 500 Value index and Russell 2000 index which posted +17.0%. Falling yields towards the end of the financial year and higher earnings expectations pushed key equity markets to record highs; overall, the MSCI World index recorded +37.0% YoY.

In Mauritius, the SEMDEX did not track the recovery of global indices mainly on account of exacerbating economic conditions, the uncertainty surrounding the full opening of borders and potential spillovers from the tourism sector to other sectors. Following the budgetary measures in June and the announcement of the reopening of borders, the SEMDEX posted relatively strong growth aided by tourism-related stocks. A strong growth of +8.8% was registered during the month of June 2021 only, driving a YoY rise of 12.2% in the index

#### EQUITY INDEX PERFORMANCE (% local currency)

| Index                    | 1M   | 3M    | 6M    | YTD   | 1Y    | 3Y    | 5Y     |
|--------------------------|------|-------|-------|-------|-------|-------|--------|
| S&P 500.....             | +2.2 | +8.2  | +14.4 | +14.4 | +38.6 | +58.1 | +104.8 |
| MSCI World.....          | +1.4 | +7.3  | +12.2 | +12.2 | +37.0 | +44.4 | +82.5  |
| MSCI World Small Cap.... | +0.1 | +4.6  | +14.1 | +14.1 | +51.0 | +35.0 | +81.9  |
| MSCI Europe.....         | +1.6 | +5.4  | +13.6 | +13.6 | +25.1 | +17.2 | +34.4  |
| MSCI EM.....             | -0.1 | +4.4  | +6.5  | +6.5  | +38.1 | +28.5 | +64.8  |
| MSCI AC Asia.....        | -0.5 | +2.2  | +4.0  | +4.0  | +31.7 | +25.3 | +61.3  |
| SEMDEX.....              | +8.8 | +16.6 | +13.1 | +13.1 | +12.2 | -16.9 | +6.4   |
| DEMEX.....               | +7.7 | +23.4 | +33.0 | +33.0 | +37.5 | +18.6 | +46.7  |

#### TOP INDEX LEADERS (% local currency)

| Global equities              | 1Y     | Domestic equities      | 1Y    |
|------------------------------|--------|------------------------|-------|
| Apple Inc.....               | +51.2  | MCB Group Limited..... | +15.7 |
| Microsoft Corp.....          | +34.4  | Alteo Limited.....     | +69.7 |
| Tesla Inc.....               | +214.7 | Ciel Limited .....     | +46.6 |
| Amazon.com Inc .....         | +24.7  | SBM Holdings Ltd ..... | +15.0 |
| Alphabet Inc - Class C ..... | +77.3  | Gamma Civic Ltd.....   | +39.7 |

## Financial markets review (Cont'd)

### Bond markets

The Barclays Global Aggregate Bond index registered USD returns of +2.6% during the financial year 2021. During the second and third quarters of FY21, the global bond market sold off following the global rollout of vaccines, passage of the USD 1.9 trillion fiscal stimulus package in the US and higher inflationary pressures. In the last quarter of FY21, however, global bonds rallied as markets shrugged off inflation concerns and the rapid spread of the more contagious Delta variant threatened the global economic recovery. Emerging market debt performed particularly well during the fourth quarter while inflation-protected Treasury securities posted strong returns amid higher inflation readings.

During the financial year, the Fed maintained its monthly asset purchase of USD 80Bn of Treasury securities and USD 40Bn of mortgage-backed securities while keeping the Fed Funds rate in the range of 0.0%-0.25%. It shifted to a more hawkish outlook in June 2021 with the Federal Open Market Committee (FOMC) anticipating two interest-rate hikes by the end of 2023. Faster than expected vaccine rollout combined with the large fiscal stimulus drove 10-year US Treasury yield higher by 108 bps from 0.66% in June 2020 to 1.74% in March 2021. However, US Treasuries rallied over Q4:FY21 primarily due to concerns over the spread of the Delta variant; with 10-year US Treasury yield tumbling to 1.47% in June 2021.

The European Central Bank (ECB) kept the interest rate unchanged on the main refinancing operations, the marginal lending facility and the deposit facility at 0.00%, 0.25% and -0.50%, respectively. The Governing Council conducted net purchases under the pandemic emergency purchase programme (PEPP) at a significantly higher pace during the last quarter of FY21. Bond yields were generally on the uptrend mainly on account of Europe's vaccine catch-up and ratification of the EU Covid Recovery Fund - NextGenerationEU. The corresponding yields on 10-year German and Spanish bonds surged by 24 bps and 39 bps to -0.21% and 0.41%. Conversely, yields on 10-year Italian bond ticked lower in FY 2021 from 1.26% to 0.82%; amid optimism that the newly appointed Prime Minister of Italy, Mario Draghi, will push for key structural reforms.

Yields on the domestic bond market trended upward during the FY21 amid the shift in sentiment from the pandemic-related shock, decrease in MUR excess liquidity and sovereign rating downgrade. On the secondary market, yields on the 91D Treasury Bills increased by 27 bps to 1.01% over the year. Yields on 182D Treasury Bills and 364D Treasury Bills increased by 36 and 42 bps to reach 1.22% and 1.48%, respectively. 3Y GOM Notes yield increased from 1.56% to 2.54% while 5Y GOM Bonds traded at 3.12% against 1.89% in June 2020. Long-term yields rose more aggressively with 10Y GOM Bond trading at 4.34% as at June 2021, equivalent to an increase of 186 bps. The yield on 15Y GOM bonds was also on the upward trend standing at 4.76% against a preceding reading of 2.81%. The 20Y GOM Bond yields increased from 3.05% to 5.14%.

## Financial markets review (Cont'd)

### Bond markets (Cont'd)

| BOND INDEX PERFORMANCE (% local currency)                   |      |      |      |      |       |       |       |
|---|------|------|------|------|-------|-------|-------|
| Index   | 1M   | 3M   | 6M   | YTD  | 1Y    | 3Y    | 5Y    |
| Barclays Global Aggregate Bond.....                         | -0.9 | +1.3 | -3.2 | -3.2 | +2.6  | +13.2 | +12.3 |
| Barclays US Aggregate Bond.....                             | +0.7 | +1.8 | -1.6 | -1.6 | -0.3  | +16.9 | +16.1 |
| Barclays US Govt Inflation-Linked All Maturities Index..... | +0.7 | +3.5 | +1.6 | +1.6 | +6.5  | +21.5 | +23.4 |
| Barclays High Yield bond.....                               | +0.2 | +3.1 | +2.1 | +2.1 | +14.6 | +21.0 | +36.9 |
| JP Morgan EMU IG Bond.....                                  | +0.4 | -0.7 | -3.1 | -3.1 | -0.1  | +9.4  | +7.5  |
| JP Morgan EM Bond.....                                      | +0.9 | +4.5 | -1.0 | -1.0 | +7.5  | +22.6 | +26.4 |
| FTSE Asian Broad Bond.....                                  | +0.5 | +1.4 | -0.2 | -0.2 | +4.1  | +21.9 | +24.7 |

### MARKET YIELDS (%)

| Tenor | United States |        | Germany |        | India  |        | China  |        | Mauritius |        |
|-------|---------------|--------|---------|--------|--------|--------|--------|--------|-----------|--------|
|       | Jun-21        | Jun-20 | Jun-21  | Jun-20 | Jun-21 | Jun-20 | Jun-21 | Jun-20 | Jun-21    | Jun-20 |
| 91D   | 0.05          | 0.13   | -0.67   | -0.63  | 3.80   | 3.74   | -      | -      | 1.01      | 0.74   |
| 182D  | 0.04          | 0.16   | -0.65   | -0.61  | 3.89   | 3.75   | 2.06   | -      | 1.22      | 0.86   |
| 364D  | 0.08          | 0.15   | -0.66   | -0.63  | 4.19   | 3.86   | 2.31   | 2.09   | 1.48      | 1.06   |
| 3Y    | 0.45          | 0.17   | -0.67   | -0.72  | 5.18   | 4.68   | 2.75   | 2.33   | 2.54      | 1.56   |
| 5Y    | 0.88          | 0.30   | -0.59   | -0.7   | 5.87   | 5.35   | 2.92   | 2.55   | 3.12      | 1.89   |
| 10Y   | 1.47          | 0.62   | -0.26   | -0.49  | 6.62   | 6.24   | 3.08   | 2.85   | 4.34      | 2.48   |
| 15Y   | 1.65          | 0.84   | -0.01   | -0.31  | 6.88   | 6.52   | -      | -      | 4.76      | 2.81   |
| 20Y   | 1.96          | 1.12   | 0.06    | -0.20  | 7.00   | 6.61   | 3.31   | 3.45   | 5.14      | 3.05   |

### Commodity markets

The S&P GSCI index registered a USD performance of +57.4% over the financial year 2021, mainly led by the rebound in oil prices from about USD 40/Bbl in the mid-2020 to above USD 70/Bbl as at June 2021. Brent and WTI prices rallied by more than 80% during FY21 mainly supported by stronger demand conditions amid easing of lockdown restrictions and supply measures from OPEC. Natural gas gained strongly as demand outpaced supply. Precious metals registered mixed performances with Silver advancing by +43.5% on the back of its dual precious metals and industrial uses while Gold posted -0.6%. Gold initially edged higher as investors hedged against the rising inflation threat but the bull run came to an end with the resurgence of the USD and strong economic data.

## Financial markets review (Cont'd)

### Commodity markets (Cont'd)

| COMMODITIES                      | Jun-21   | Jun-20   | FY21 (% YoY) |
|----------------------------------|----------|----------|--------------|
| WTI<br>\$/Bbl.....               | 73.47    | 39.27    | +87.1        |
| Brent \$/Bbl.....                | 75.13    | 41.15    | +82.6        |
| Natural gas USD<br>\$/mmBtu..... | 3.65     | 1.75     | +108.5       |
| Copper \$/Oz.....                | 429.65   | 271.35   | +58.3        |
| Silver Spot \$/Oz .....          | 26.13    | 18.21    | +43.5        |
| Gold Spot \$/Oz.....             | 1,770.11 | 1,780.96 | -0.6         |

### Forex

The U.S. Dollar Index (DXY) traded sideways over FY21 with the USD initially strengthening on the back of stimulus and higher long-term rates but eventually lost ground against other major currencies as longer US yields eased. The weakening of the dollar was also attributable to investors pricing in an early Fed tightening while the inflation outlook and higher oil prices presented headwinds.

The euro appreciated against the US dollar, buoyed by easing Covid-19 restrictions, rising consumer confidence and the vaccination programme. The pound sterling strengthened, backed by hopes that the UK would ease its lockdown restrictions sooner than expected amid the fast vaccine rollout. The pound was also supported by a post-Brexit trade deal with the EU.

Among Asian markets, the Japanese Yen depreciated against the dollar, unwinding an advance spurred by demand for safe-haven assets during the pandemic. The acceleration in the vaccine rollout across the world drove investors into riskier assets. The CNY strengthened in FY21 driven by a broadening US dollar weakness amid China's strong economic rebound. Robust exports growth resulted in a current account surplus and supported the yuan. The Indian rupee appreciated against the US dollar amid the improved risk appetite in the region. The strengthening of the INR was also attributable to foreign inflows through FDI and FPI.

In Mauritius, the MUR depreciated by 6.2% YoY against the USD; the central bank sold USD 25M at Rs 42.50/USD on 28 June 21 against a sale of USD 25M at Rs 40.70/USD on 10 June 2. The currency continued to be under pressure amid the widening current account deficit and travel restrictions.

| FOREX             | Jun-21 | Jun-20 | FY21 (% YoY) |
|-------------------|--------|--------|--------------|
| Dollar index..... | 92.44  | 97.39  | -5.1         |
| EUR-USD .....     | 1.19   | 1.12   | +5.6         |
| GBP-USD .....     | 1.38   | 1.24   | +11.5        |
| USD-JPY .....     | 111.11 | 107.93 | +2.9         |
| USD-CNY .....     | 6.46   | 7.07   | -8.6         |
| USD-INR .....     | 74.33  | 75.51  | -1.6         |
| USD-MUR .....     | 42.65  | 40.15  | +6.2         |

## Market Outlook

The market environment remains highly uncertain with the spread of the delta variant and the rise in inflationary pressures. International equity markets may be entering a phase of transition as earnings, economic growth and policy stimulus peak. High inflationary pressures and an improving labour market may result in the Fed tapering its monthly asset purchases in 2021. The latest labour market data showed a drop in the unemployment rate; 934,000 jobs were added during the month of July against consensus estimates of 870,000.

With 10Y yields increasingly likely to test the 1.60% - 1.70% range by the end of 2021, the Fund is likely to maintain an underweight to this asset class, especially in a context of weak MUR. Purchase of low-yielding assets denominated in foreign currencies may impact the medium- to long-term performances due to interest rate and re-investment risks. The strategy will involve a relatively low duration while underweighting the high-yield and emerging markets space amid potential tapering.

The trajectory of recovery in domestic economic activity in 2021 is reliant on tourism given its double digit direct and indirect contributions to economic output. So far, the policymakers have supported the sector through the moratoriums on loans, Government Wage Assistance Scheme and lending from the Mauritius Investment Corporation Ltd. In its last budget, it was announced that as from October 1, there will not be any entry restriction on vaccinated travelers provided that their PCR tests are negative within 72 hours before departure. A prospective rebound in this sector's output during the upcoming peak season is likely to ease pressure on the MUR and on the debt-to-GDP ratio.

Yields tumbled in July after gaining significant grounds following the issuances of 20Y and 15Y GoM bonds in June. It is expected that the Bank of Mauritius will maintain its accommodative monetary policy amid the uncertainty surrounding the pick-up in economic activity. The pursuit of this policy is likely to be supported by the relatively low reading of 2.6% for headline inflation in July; according to BoM projections, domestic inflation continues to be subject to transitory supply-side pressures and is forecast to stand at about 3.5% for 2021. It is expected that domestic fixed income allocations will maintain a barbell strategy in managing interest rate and re-investment risks. Subject to availability and credit spreads, the exposure to "quality" corporate credit will be increased in the portfolios.

The Trustee and Manager of SBM Yield Fund ("the Fund") are pleased to submit their Corporate Governance Report for the year ended 30 June 2021, inclusive of other statutory disclosures.

## INTRODUCTION

SBM Yield Fund was authorised by the Financial Services Commission under the Unit Trust Act, 1989 as amended, and established as a Unit Trust by a Trust Deed of the SBM Investment Unit Trust dated 5 June 2006 between SBM Mauritius Asset (The Manager) and DTOS Trustees Ltd (The Trustee) and subsequently governed by the Supplemental Deeds No. 1 dated 30 November 2012 and No. 3 dated 14 November 2013. It is an open-ended Collective Investment Scheme established under Section 3 of the Unit Trust Act, 1989, authorised and regulated under the Trust Act, 2001, Securities Act, 2005 and the Securities (Collective Investment Schemes and Closed-end Funds) Regulation, 2008 by the Financial Services Commission.

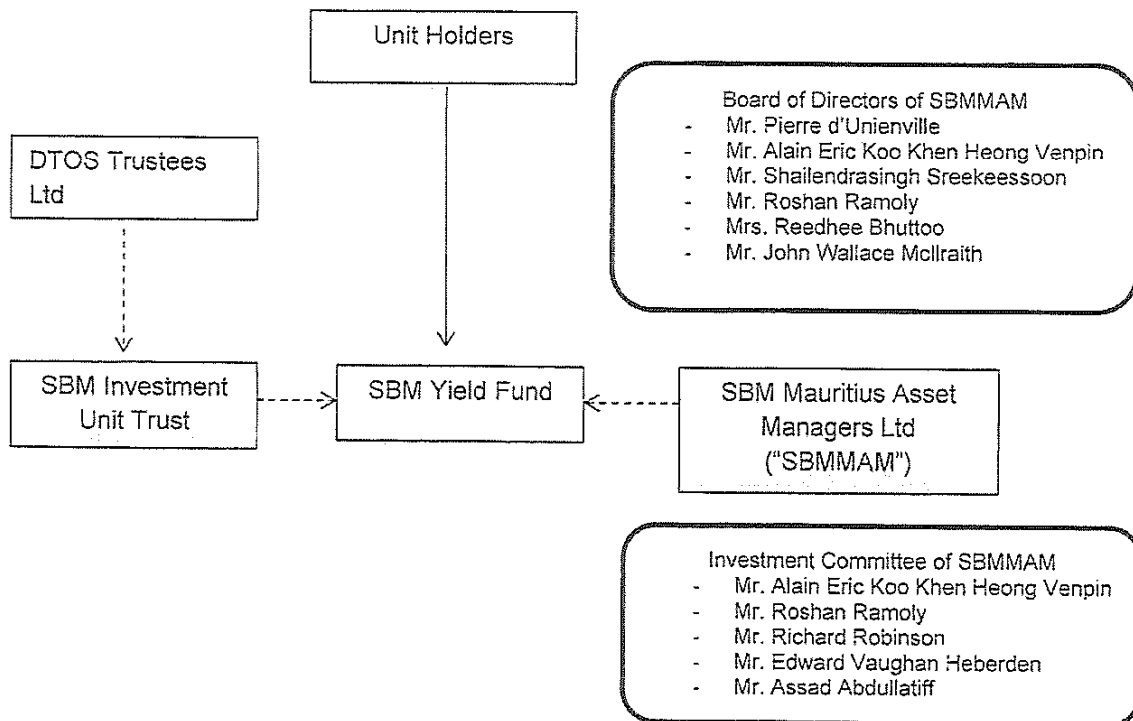
The Fund's objective is to offer a portfolio of investment to individual and corporate investors that aims to achieve the maximum return comparable to that of a standard fixed income portfolio whilst providing regular income.

The Fund is a public interest entity as defined under the Financial Reporting Act 2004.

## INTRODUCTION

SBM Yield Fund's corporate governance framework includes its Trustee, Investment Committee, the Manager, the board of the Manager, Unitholders, and other stakeholders.

The organisation's structure is as follows:



## INTRODUCTION (CONTINUED)

The Trustee, the Manager and the board of the Manager are fully committed to achieving and sustaining the highest standards of corporate governance with the aim of maximising long-term value creation for the Unitholders of the Fund and all the stakeholders at large. Much emphasis is on the conduct of business practices that display characteristics of good corporate governance namely discipline, transparency, independence, integrity, accountability, social responsibility, professionalism, and fairness.

In addition, the Trustee, the Manager, and the board of the Manager of the Fund continuously review the implications of corporate governance principles and practices in light of their experience, regulatory requirements and investor expectations. They hereby confirm that the Fund, as set out in this report, has strived to comply in all material aspects with the following legal and regulatory framework:

- Trust deed and subsequent Supplemental Deeds;
- Terms of reference of the Trustee and sub-committee;
- The National Code of Corporate Governance for Mauritius 2016 (the "Code");
- The Trust Act, 2001;
- The Securities Act, 2005; and
- The Securities (Collective Investment Schemes and Closed-end Funds) Regulations, 2008.

The main roles as described under Principle 2, 3 and 4 of the Code of Corporate Governance are fulfilled by the Board of the Manager.

The Board of the Manager has attempted to create the right balance and composition to better meet the objectives of the organisation. The Board is unitary and comprises of six Directors, of which four are Independent and two are Executive Directors. The Independent Directors do not have any relationship with the majority Shareholders, therefore a sufficient number of directors do not have any relationship with the organisation. The Board is led by Mr. Pierre Marrier d'Unienville, and all Board members currently reside in Mauritius.

There exists a transparent procedure in place regarding the appointment of prospective Directors which is made in accordance with the skills, knowledge and expertise required on the Board. The re-election of Directors is made on an annual basis at the Annual Meeting of Shareholders. New Board members are provided with an induction pack to provide them with sufficient knowledge and understanding of the Fund's business.

All Board members are fully apprised of their fiduciary duties as laid out in the Companies Act 2001.

## TRUST DEED AND SUPPLEMENTAL DEEDS

The Trust Deed and subsequent Supplemental Deeds of the Fund comply with the provisions of the Trust Act, 2001, The Securities Act, 2005 and The Securities (Collective Investment Schemes and Closed-end Funds) Regulations, 2008. The Deed is available upon written request to the Manager at the Registered Office of the Fund.

Salient features of the documents are:

No Unitholder shall be entitled to:

- require the transfer to him of any of the assets comprised in the Fund;
- interfere with or question the exercise or non-exercise by the Trustee or the Manager of the rights and powers of the Trustee and the Manager in their dealings with the Fund or its assets or any part thereof;
- attend meetings whether as Unitholders or otherwise, or to vote or to take part in or consent to any action concerning any property of any entity in which the Fund holds an interest;

#### TRUST DEED AND SUPPLEMENTAL DEEDS (CONTINUED)

A Unitholder is entitled to any distribution as approved and declared by the Manager as per provisions of the Trust Deed.

#### THE TRUSTEE AND THE MANAGER

##### Corporate Profile of the Trustee – DTOS Trustees Ltd

DTOS Trustees Ltd is a private company incorporated in Mauritius on 23<sup>rd</sup> May 2003. DTOS Trustees Ltd is a wholly owned subsidiary of DTOS Ltd and is duly licensed by the Financial Services Commission to act as a qualified trustee. It offers a complete and comprehensive range of trust services including trust formation / migration, corporate trusteeship, advice on tax, regulatory and statutory matters, accounting, administration, and tax filings, where required.

##### Role of the Trustee

The Trustee has been appointed in order to ensure that the affairs of the Fund are being managed and administered for the benefit of the Unitholders and to their best interests along the following principles:

- **International best standards and regulatory compliance**  
Overseeing the conduct of the Fund's business and monitoring whether the business is being properly managed at all levels according to international best standards and in accordance to provisions of its regulatory regime;
- **Accounts and risk management**  
Reviewing and, where appropriate, approving risk policy, financial statements, annual budgets, business plans and internal reports.
- **Supervision of fund intermediaries**  
Supervising the fund intermediaries in their delivery of services to the Fund and ensure that such delivery is done diligently and creates most value for the Unitholders of the Fund.

##### Corporate Profile of the Manager – SBM MAM

SBM Mauritius Asset Managers Ltd ("SBM MAM") is licensed and regulated by the Financial Services Commission of Mauritius and holds a CIS Manager license. It is 100% owned by SBM Capital Markets Ltd. SBM MAM offers investment management services across a number of asset classes including equities, fixed income, private and alternative investments.

##### Role of the Manager and its obligations

The Manager is appointed by the Trustee and under the supervision of the Trustee, manages and administers the Fund for the benefit of the Unitholders of the Fund in accordance with the Trust Deed and Prospectus of the Fund.

Its obligations cover but are not restricted to the following:

- **Conduct of Business**  
It shall conduct its business in a proper and efficient manner to ensure that any undertaking in the affairs of the Fund is carried out in a proper, ethical, and efficient manner.
- **Supervision of assets**  
The Manager shall manage and supervise all assets of the Fund to the best interest of the Unitholders.



## THE TRUSTEE AND THE MANAGER (CONTINUED)

### Role of the Manager and its obligations (continued)

- **Trade in units of the Fund**

It shall sell and issue units of the Fund in accordance to the provisions of the Trust Deed and Prospectus and in so doing shall ensure that the interests of unit-holders are protected at all times.

## THE INVESTMENT COMMITTEE

The Trust Deed provides for the establishment of an Investment Committee composed of at least 3 persons and not more than 6 persons. The main purpose of the committee is to issue guidelines and advise the Manager on investments.

Currently, the Committee is composed of 5 members and meets on a quarterly basis. It reviews the performance of the Fund, ensures that the investment strategy complies with the provisions of the Trust Deed and Prospectus.

### Managing Conflict of Interest and Related Party Transactions

The Fund adheres to the Group Conflict of Interest and Related Party Transactions policy to assist the Board of the Trustee and Manager in identifying and disclosing actual and potential conflicts and help ensure the avoidance of conflicts of interest, where necessary.

For the related party transaction, please refer to Note 14 to the Financial Statements.

### Information, information technology and information security policy

The Trustee and Manager confirm that information, information technology and information security policy exist within the Group.

## RISK GOVERNANCE AND INTERNAL CONTROL

### RISK MANAGEMENT

The Manager is responsible for the risk management practice and procedures in place within the operating structure of the Fund for risk management. The Manager also defines the overall strategy for risk tolerance and is responsible for the design, implementation and review of a risk management framework, processes and day-to-day management of risk as performed by the intermediaries and service providers of the Fund. Part of the responsibility to monitor the framework and processes has been delegated to the Investment Committee which conducts reviews on a quarterly basis.

The Fund's policy on risk management encompasses all business risks including operational, technology, business continuity, financial, compliance and reputational risks which could influence the achievement of the Fund's objectives. In context, a due diligence exercise is undertaken in collaboration with nominated intermediaries to ensure that they have the capability to commit on the implementation of appropriate customised procedures and controls for the purpose of the Fund.

The risk management mechanisms in place include:

- A system for the ongoing identification and assessment of risk;
- Development of strategies in respect of risk and definition of acceptable and non-acceptable levels of risk;

**RISK GOVERNANCE AND INTERNAL CONTROL (CONTINUED)**

**RISK MANAGEMENT (CONTINUED)**

- The communication of risk management policies across the multiple parties and functionaries involved in the processes;
- The implementation of a documented system of processes with appropriate controls and approval mechanism that closely align the control effort to the nature and importance of the risk;
- Processes to reduce or mitigate identified risks and contain them within the levels of tolerance defined and agreed by the Board of the Manager;
- Compliance reports are prepared and presented to the board of the Manager on a quarterly basis; and
- Internal audit functions exist at the level of the Manager and Fund Administrator whereby the processes pertaining to the affairs of the Fund are scrutinised and undergo audit reviews. Quarterly reports are prepared and presented to the boards of the Manager and Fund Administrator.

Risk exposure of the Fund falls within the following areas or risk:

**Operational risks**

Operational risk is defined as risk of direct or indirect loss resulting from inadequate or failed internal process, people, and systems or from external events. Assets of the Fund are properly safeguarded, and reporting infrastructures are adequate and effective for timely and accurate data collection.

**Compliance risks**

Compliance risk is defined as risk of loss from failure to comply with regulations governing the conduct of an organisation's business. It is a composite risk made up of risk of legal or regulatory sanctions, financial loss, or loss of reputation.

**Technology risks**

Technology risks include hardware and software failures, system development and infrastructure issues. To varying degrees, the Fund is reliant upon certain technologies and systems for the smooth and efficient running of its operations. Disruption to these technologies could adversely affect its efficiency.

**Business continuity risks**

This relates to losses from failed transaction processing and process management.

**Reputational risks**

This relates to losses due to unintentional or negligent failure to meet a professional obligation to specific clients or from the nature or design of a product.

**Financial risks**

The primary sources of financial risks faced by the Fund are risks inherent to its investment activities. Investment values and returns are dependent on the performance of financial markets and may adversely affect the Fund's financial results. The financial risks faced by the Fund and management of these risks are further discussed in the notes to the financial statements.

**INTERNAL CONTROL**

The Manager and the board of the Manager acknowledge their responsibility for internal control and work closely together and with the Fund Administrator to put in place a system of internal controls which is designed to provide the Trustee with reasonable assurance that the assets are safeguarded; that operations are carried out effectively and efficiently; that the financial controls are reliable and in compliance with applicable laws and regulations and that material frauds and other irregularities are either prevented or detected within a reasonable time.

**RISK GOVERNANCE AND INTERNAL CONTROL (CONTINUED)**

**INTERNAL CONTROL (CONTINUED)**

The Manager and Fund Administrator prepare compliance and risk monitoring reports that are submitted to the Investment Committee and Board of the Manager on a quarterly basis for their review, following which recommendations are made to the Manager on an on-going basis. Preventive and corrective actions are then duly implemented to address internal control deficiencies and opportunities for improving the systems.

**WHISTLEBLOWING POLICY**

In order to enhance good governance and transparency, the Group has a Whistleblowing policy. The main aims of the policy are to provide an avenue for raising concerns related to fraud, corruption, and any other misconduct. The policy addresses the following:

- Protection of and Remedies for Whistle blowers and Complainants;
- Channels and Procedures;
- Hotline, Email and PO Box facilities

**REPORTING WITH INTEGRITY**

The Manager is required to ensure that adequate accounting records are maintained so as to disclose at any time, and with reasonable adequacy, the financial position of the Fund. The Manager is also responsible for taking reasonable steps to safeguard the assets of the Fund to prevent and detect fraud and other irregularities.

The Manager must present financial statements for each financial year, which give a true and fair view of the affairs of the Fund, and the results for that period. In preparing such financial statements, the Manager is required to:

- select suitable accounting policies and apply them on a consistent basis using reasonable and prudent judgment
- state whether or not the Trust Act, 1989, the Trust Act, 2001 and International Financial Reporting Standards (IFRS) have been adhered to and explain material departures thereto
- use the going concern basis unless it is inappropriate.

The Manager acknowledges its responsibility for ensuring the preparation of the financial statements in accordance with IFRS and the responsibility of external auditors to report on these financial statements. The Manager is responsible for ensuring the maintenance of adequate accounting records and an effective system of internal controls and risk management and the selection of appropriate accounting policies.

Nothing has come to the Manager's attention, to indicate any material breakdown in the functioning of the internal controls and systems during the period under review, which could have a material impact on the business. The financial statements are prepared from the accounting records on the basis of consistent use of appropriate accounting records supported by reasonable and prudent judgments and estimates that fairly present the state of affairs of the Fund.

The financial statements have been prepared on a going concern basis and there is no reason to believe that the Fund will not continue as a going concern in the next financial year.

### **REPORTING WITH INTEGRITY (CONTINUED)**

The Manager confirms that in preparing the financial statements, it has:

- selected suitable accounting policies and applied them consistently
- made judgments and estimates that are reasonable and prudent
- followed the International Financial Reporting Standards
- prepared the financial statements on the going concern basis
- adhered to the Code of Corporate Governance in all material aspects and reasons have been provided for non-compliance.

The Manager is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements comply with the Trust Act 1989, the Trust Act 2001, the Securities Act 2005, the Securities (Collective Investment Schemes and Closed-end Funds) Regulations 2008 and have been prepared in accordance with the International Reporting Standards. The Manager is also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual report is published in full on the website of the Manager of the Fund.

### **AUDIT**

#### **Internal Audit**

The Non-Banking Financial cluster ('NBFC') of the SBM Group has its own permanent Internal Audit function reporting to the Risk Committee of SBM (NBFC) Holdings Ltd, the holding Company of NBFC. The internal audit team comprises of three fully qualified accountants. The internal auditors provide assurance about the effectiveness of the risk management and control processes in place and they maintain their independence by reporting to the Risk Committee. The Head of Internal Audit has regular access to the Trustee and Manager and the chairperson of the Risk Committee. There were no restrictions on access by the internal auditors to records or members of the management team.

The Audit and Risk Committees of NBFC are chaired by a Chartered Accountant and the Committee comprises of independent members with more than 30 years' experience in the Financial Services industry. The Risk Committees reviews and approves Internal Audit's plan and resources and evaluates the effectiveness of the function. The Audit and Risk Committees ensure that a consistent risk-based audit methodology is applied. The audit reports are thereafter tabled at the Committee and the findings and methodologies are reviewed and discussed by the Risk Committee.

As the third line of defense, the role of internal audit is to provide independent, objective assurance services designed to add value and improve NBFC entities' operations. Audits are carried out to review the adequacy and effectiveness of the group's system of internal controls, as per the Board approved risk-based audit plan. In conducting reviews, the Internal Auditors are alert to indicators of fraud and opportunities that could allow fraud, such as control weaknesses. In doing so, the Internal Auditors obtain reasonable assurance that business objectives for the process under review are being achieved and material control deficiencies are detected. Upon completion of each review, a formal report detailing the audit findings and the appropriate recommendations are issued to the chairperson of Risk Committee and the Chief Executive Officer. Any deviation in policies and non-performance of internal controls are duly reported and discussed at Risk Committee level. Corrective actions are promptly taken and regular follow ups as well as reporting performed by Internal Audit until complete resolution.

**AUDIT (CONTINUED)**

**External Audit**

Deloitte was appointed as statutory auditors of the Fund for the financial year ended 30 June 2021. The Trustee and Manager assess and review on a regular basis the independence of the external auditor.

The fees paid to the external auditors for audit services were MUR 126,500 (2020: MUR 115,000). The external auditors did not provide any non-audit services during the year under review.

**RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS**

**SHAREHOLDING**

**Holding Structure – 30 June 2021**

As at 30 June 2021, the Fund had issued 18,579,486.71 units for a total fund size of MUR 216,869,195. The NAV per unit of the Fund as at 30 June 2021 was MUR 11.67.

The NAV per unit for the past five years are as follows:

| Year      | NAV per unit |
|-----------|--------------|
| June 2017 | 10.47        |
| June 2018 | 10.87        |
| June 2019 | 10.86        |
| June 2020 | 11.10        |
| June 2021 | 11.67        |

**Unit-holders' Relations and Communication**

Unitholders are strongly encouraged to visit the website of the Manager to remain updated on the Fund's initiatives/projects, goals, and prices.

**Analysis of ownership**

The Fund had 450 Unitholders as at 30 June 2021. A breakdown of the category of Unitholders and the unit ownership as at 30 June 2021 are set out below:

RELATIONS WITH SHAREHOLDERS AND OTHER KEY STAKEHOLDERS (CONTINUED)

SHAREHOLDING (CONTINUED)

| Market Value      | No of Clients | No of Units          | % Holding      |
|-------------------|---------------|----------------------|----------------|
| 0-59,999          | 148           | 288,407.96           | 1.55%          |
| 60,000 - 99,999   | 32            | 228,449.44           | 1.23%          |
| 100,000 - 124,999 | 34            | 327,822.17           | 1.76%          |
| 125,000 - 199,999 | 114           | 1,440,625.03         | 7.75%          |
| 200,000 - 499,999 | 46            | 1,157,631.61         | 6.23%          |
| 500,000 - 999,999 | 30            | 1,613,645.18         | 8.69%          |
| 1M - 1,499,999    | 23            | 2,198,321.01         | 11.83%         |
| 1.5M - 1,999,999  | 5             | 711,691.49           | 3.83%          |
| 2M - 2,999,999    | 12            | 2,487,946.36         | 13.39%         |
| 3M - 5,999,999    | 2             | 547,403.21           | 2.95%          |
| 6M - 10M          | 1             | 539,735.23           | 2.91%          |
| 10M-20 M          | 2             | 2,565,426.02         | 13.81%         |
| ABOVE 20 M        | 1             | 4,472,382.00         | 24.07%         |
| <b>TOTAL</b>      | <b>450</b>    | <b>18,579,486.71</b> | <b>100.00%</b> |

Unit-holders' Agreement

To the best knowledge of the Manager and Trustee, there has been no such agreement with any of its Unitholders for the year under review.

Unit-holders' Calendar

The Fund has planned the following forthcoming events:

|                                 |  |
|---------------------------------|--|
| Reporting date                  | 30 June 2021                             |
| Publication of year end results | Within 90 days from end of 30 June 2021  |
| Declaration of dividend         | Within 3 months from end of 30 June 2021 |

Dividend Policy

The objective of the Fund is to pay out all income available for distribution on a quarterly basis. In that respect, income excludes capital gains, both realised and unrealised. While fixing the dividend rate, the Trustee and Manager also take into account other considerations that might affect the economic interests and proper long-term running of the Fund.

OTHER STATUTORY DISCLOSURES

SIGNIFICANT CONTRACTS

The following agreements have been approved by the Trustee and Manager and are still effective as at end of the financial year 2020-2021:

- Custody Agreement with the SBM Bank (Mauritius) Limited.
- Administration Agreement with SBM Fund Services Ltd.
- Fund Management Agreement with SBM Mauritius Asset Managers Ltd.

**SBM YIELD FUND  
CORPORATE GOVERNANCE REPORT  
FOR THE YEAR ENDED 30 JUNE 2021**

3(x)

**Employee Share Option Scheme**

The Fund has no share option plans.

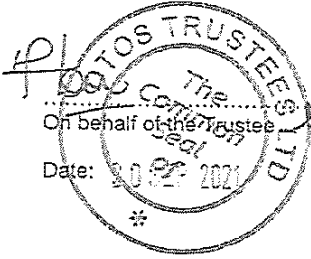
**Directors and Officers Liability Insurance**

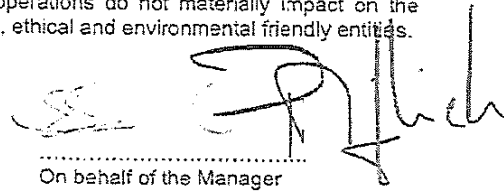
The Fund has subscribed to a Directors and Officers Liability Insurance policy in respect of legal actions or liability which may arise against its Trustee, Manager, and officers. The cover does not provide insurance against fraudulent, malicious, or wilful acts or omissions.

**Ethics and Business Conduct**

Under regulatory supervision of the Financial Services Commission, all officers and agents of the Fund are expected to maintain a high level of ethics in their behaviour and business transactions. The transactions of the Fund are carried out as per its Manager's and Fund Administrator's Code of Business Conduct and Ethics, applicable to all direct and indirect employees who deal with the matters of the Fund.

The Fund is involved in the provision of services and its operations do not materially impact on the environment. Investing strategies include investment in sound, ethical and environmental friendly entities.

  
On behalf of the Trustee *W. Wernau*  
Date: 30 JUN 2021

  
On behalf of the Manager

**Trustee's and Manager's Responsibilities in respect of the Financial Statements**

The Trustee and Manager are required to ensure that adequate accounting records are maintained so as to disclose at any time, and with reasonable adequacy, the financial position of the Fund. They are also responsible for taking reasonable steps to safeguard the assets of the Fund to prevent and detect fraud and other irregularities.

They must present financial statements for each financial year, which give a true and fair view of the affairs of the Fund, and the results for that period. In preparing such financial statements, they are required to:

- select suitable accounting policies and apply them on a consistent basis using reasonable and prudent judgment
- state whether or not the Trust Act, 1989, the Trust Act, 2001 and International Financial Reporting Standards (IFRS) have been adhered to and explain material departures thereto
- use the going concern basis unless it is inappropriate.

The Manager acknowledges its responsibility for ensuring the preparation of the financial statements in accordance with IFRS and the responsibility of external auditors to report on these financial statements. The Manager is responsible for ensuring the maintenance of adequate accounting records and an effective system of internal controls risk management and the selection of appropriate accounting policies.

Nothing has come to the Trustee's and Manager's attention, to indicate any material breakdown in the functioning of the internal controls and systems during the period under review, which could have a material impact on the business. The financial statements are prepared from the accounting records on the basis of consistent use of appropriate accounting records supported by reasonable and prudent judgments and estimates that fairly present the state of affairs of the Fund.

The financial statements have been prepared on a going concern basis and there is no reason to believe that the Fund will not continue as a going concern in the next financial year.

The Trustee and Manager confirm that in preparing the financial statements, they have:

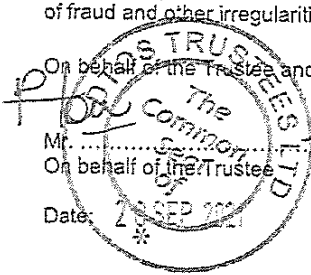
- selected suitable accounting policies and applied them consistently
- made judgments and estimates that are reasonable and prudent
- followed the International Financial Reporting Standards
- prepared the financial statements on the going concern basis
- adhered to the Code of Corporate Governance in all material aspects and reasons have been provided for non-compliance.

The Trustee and Manager are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Fund and to enable them to ensure that the financial statements comply with the Trust Act, 1989, the Trust Act, 2001, the Securities Act, 2005, the Securities (Collective Investment Schemes and Closed-end Funds) Regulations, 2008 and have been prepared in accordance with International Financial Reporting Standards. They are also responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Trustee and Manager

*P. S. Subramanyam*  
Mr. P. S. Subramanyam  
On behalf of the Trustee

Date: 2 SEP 2021



*[Handwritten Signature]*  
Mr. S. R. K. Srinivasan  
On behalf of the Manager



STATEMENT OF COMPLIANCE  
(Section 75 (3) of the Financial Reporting Act)

Name of PIE: The SBM Yield Fund

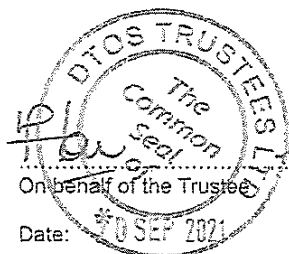
Reporting Period: Year ended 30 June 2021

We, the Trustee and Manager of the SBM Yield Fund (the "Fund") confirm that to the best of our knowledge, the Fund has complied with most of its obligation and requirements under the Code of Corporate Governance except for Principle 2, 3 and 4 of the Code of Corporate Governance.

The reason for non-compliance is that the Fund is set-up as a Trust and not a company. In this context, it has no board of directors, no board committees, and no company secretary.

However, the main roles as described under Principle 2, 3 and 4 of the Code of Corporate Governance are fulfilled by the Board of the Manager, SBM Mauritius Asset Managers Ltd, as described above.

On behalf of the Trustee and Manager

  
On behalf of the Trustee  
Date: 30 SEP 2021  
*[Handwritten signature]*

*[Handwritten signature]*  
On behalf of the Manager

## Independent auditor's report to the Members of SBM Yield Fund

4

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of **SBM Yield Fund** (the "Fund") set out on pages 6 to 41, which comprise the statement of financial position as at 30 June 2021, and the statement of profit or loss and other comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 June 2021, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the requirements of the Mauritius Companies Act 2001 and the Financial Reporting Act 2004.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the International Ethics Standard Board for Accountants' *Code of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other information

The Trustee and the Manager are responsible for the other information. The other information comprises the Corporate Information, the Manager's Report, and the corporate governance report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Corporate Governance Report*

Our responsibility under the Financial Reporting Act 2004 is to report on the compliance with the Code of Corporate Governance disclosed in the annual report and assess the explanations given for non-compliance with any requirement of the Code. From our assessment of the disclosures made on corporate governance in the annual report, the Public Interest Entity has, pursuant to section 75 of the Financial Reporting Act 2004, complied with the requirements of the Code.

#### Responsibilities of trustee and manager for the Financial Statements

The Trustee and the Manager are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001 and the Financial Reporting Act 2004 and they are also responsible for such internal control as the Trustee and the Manager determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee and the Manager are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee and the Manager either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

The Trustee and the Manager are responsible for overseeing the Fund's financial reporting process.

**Independent auditor's report to the Members of  
SBM Yield Fund (cont'd)**

5

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the trustee and the manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on other legal and regulatory requirements**

*Mauritius Companies Act 2001*

In accordance with the requirements of the Mauritius Companies Act 2001, we report as follows:

- we have no relationship with, or interest in, the Fund other than in our capacity as auditor and tax advisor;
- we have obtained all information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Fund as far as appears from our examination of those records.

**Use of this report**

This report is made solely to the Fund's members, as a body, in accordance with section 205 of the Mauritius Companies Act 2001. Our audit work has been undertaken so that we might state to the Fund's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

  
Deloitte

**Chartered Accountants**

20 September 2021

  
**LLK Ah Hee, FCCA**  
**Licensed by FRC**

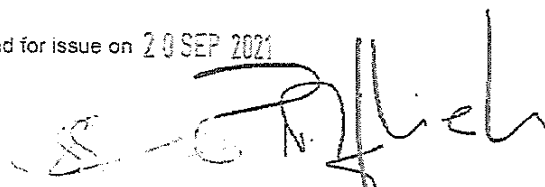
SBM YIELD FUND  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2021

6.

|   | Notes | 2021<br>MUR        | 2020<br>MUR        |
|---|-------|--------------------|--------------------|
| <b>ASSETS</b>   |       |                    |                    |
| Cash and cash equivalents   |       | 12,710,239         | 23,472,414         |
| Other receivables   | 6     | 34,397             | 33,906             |
| Financial assets at fair value through other comprehensive income | 7     | 60,631,922         | 37,611,380         |
| Financial assets at fair value through profit or loss             | 8     | 113,346,460        | -                  |
| Financial assets at amortised cost                                | 9     | 31,020,229         | 118,429,765        |
| <b>TOTAL ASSETS</b>   |       | <u>217,743,247</u> | <u>179,547,465</u> |
| <b>LIABILITIES</b>  |       |                    |                    |
| Other payables  | 12    | 580,447            | 518,137            |
| Income tax liability  | 13(a) | 293,605            | 30,760             |
| <b>TOTAL LIABILITIES</b>  |       | <u>874,052</u>     | <u>548,897</u>     |
| <b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS</b>     |       |                    |                    |
| Redeemable units  | 5(a)  | 196,518,396        | 167,290,921        |
| Retained earnings   |       | 1,228,124          | 5,736,944          |
| Fair value reserve  |       | 7,631,856          | 5,739,830          |
| Other reserve   |       | 11,490,819         | 230,873            |
|   | 5     | <u>216,869,195</u> | <u>178,998,568</u> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                               |       | <u>217,743,247</u> | <u>179,547,465</u> |

Approved by the Trustees and the Manager and authorised for issue on 20 SEP 2021

  
Signed on behalf of the Trustees:  


  
Signed on behalf of the Manager:

The notes on pages 10 to 41 form part of these financial statements.

**SBM YIELD FUND**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2021**

7.

|   | Notes | 2021<br>MUR              | 2020<br>MUR             |
|---|-------|--------------------------|-------------------------|
| <b>INCOME</b>   |       |                          |                         |
| Dividend income   | 16    | 175,444                  | 236,502                 |
| Interest income at EIR  | 16    | 2,483,822                | 7,838,438               |
| Interest income on financial assets at FVTPL                                | 16    | 5,932,364                | -                       |
| Net gain on financial assets held at FVTPL                                  | 8     | 11,225,274               | -                       |
| Foreign exchange gain   |       | 34,672                   | 20,025                  |
| Other income  |       | -                        | 9,310                   |
|   |       | <u>19,851,576</u>        | <u>8,104,275</u>        |
| <b>FUND EXPENSES</b>  |       |                          |                         |
| Manager's fees  | 17    | 1,820,439                | 1,418,662               |
| Registry fees   | 19    | 214,170                  | 166,904                 |
| Administrator's fees  | 20    | 321,254                  | 250,352                 |
| Trustee's fees  | 18    | 224,251                  | 148,848                 |
| Custodian fees  | 22    | 128,237                  | 158,023                 |
| Auditor's fees  |       | 119,375                  | 125,378                 |
| Legal & professional fees   |       | 63,001                   | 72,238                  |
| Sundry expenses   |       | 67,658                   | 9,682                   |
| Expected credit losses  | 10    | (8,103)                  | (80,376)                |
| Provision no longer required written back                                   |       | -                        | (411,824)               |
|   |       | <u>2,950,282</u>         | <u>1,857,887</u>        |
| <b>PROFIT BEFORE TAXATION</b>   |       | 16,901,294               | 6,246,388               |
| Tax (expense) /income   | 13(b) | <u>(305,030)</u>         | <u>35,136</u>           |
| <b>PROFIT FOR THE YEAR</b>  |       | 16,596,264               | 6,281,524               |
| <b>OTHER COMPREHENSIVE INCOME</b>   |       |                          |                         |
| <i>Items that will not be reclassified subsequently to profit or loss</i>   |       |                          |                         |
| Net gain on financial assets held at FVOCI                                  | 7     | <u>1,892,026</u>         | <u>1,259,242</u>        |
| <b>CHANGE IN NET ASSETS ATTRIBUTABLE TO<br/>HOLDERS OF REDEEMABLE UNITS</b> |       | <u><u>18,488,290</u></u> | <u><u>7,540,766</u></u> |

The notes on pages 10 to 41 form part of these financial statements.

**SBM YIELD FUND  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2021**

8.

|   | Issued             | Retained         | Non-distributable income |                   | Total              |
|---|--------------------|------------------|--------------------------|-------------------|--------------------|
|   | units              | earnings         | Fair value               | Other             |                    |
|   | MUR                | MUR              | reserve                  | reserve           | MUR                |
|   |                    |                  | MUR                      | MUR               |                    |
| As at 1 July 2019   | 169,095,422        | 3,567,602        | 4,480,588                | 210,848           | 177,354,460        |
| Issue of units  | 27,039,868         | -                | -                        | -                 | 27,039,868         |
| Redemption of units   | (28,844,369)       | -                | -                        | -                 | (28,844,369)       |
| Distribution paid to unitholders  | -                  | (4,092,157)      | -                        | -                 | (4,092,157)        |
| Change in net assets attributable to holders of redeemable units for the year | -                  | 6,281,524        | 1,259,242                | -                 | 7,540,766          |
| Transfer of undistributable income*   | -                  | (20,025)         | -                        | 20,025            | -                  |
| As at 30 June 2020  | <u>167,290,921</u> | <u>5,736,944</u> | <u>5,739,830</u>         | <u>230,873</u>    | <u>178,998,568</u> |
| As at 1 July 2020   | 167,290,921        | 5,736,944        | 5,739,830                | 230,873           | 178,998,568        |
| Issue of units  | 54,954,523         | -                | -                        | -                 | 54,954,523         |
| Redemption of units   | (25,727,048)       | -                | -                        | -                 | (25,727,048)       |
| Distribution paid to unitholders (Note 23)                                    | -                  | (9,845,138)      | -                        | -                 | (9,845,138)        |
| Change in net assets attributable to holders of redeemable units for the year | -                  | 16,596,264       | 1,892,026                | -                 | 18,488,290         |
| Transfer of undistributable income*   | -                  | (11,259,946)     | -                        | 11,259,946        | -                  |
| As at 30 June 2021  | <u>196,518,396</u> | <u>1,228,124</u> | <u>7,631,856</u>         | <u>11,490,819</u> | <u>216,869,195</u> |

**\*Note:**

As per the Fund's prospectus, capital gains arising from changes in the value of investments, both realised and unrealised are credited to non-distributable reserve and shall not be available for distribution as dividends. Capital losses arising from changes in the value of investments will be debited to fair value reserve and shall not be offset against income received. All other undistributable income and expenses are transferred to other reserve.

The notes on pages 10 to 41 form part of these financial statements.

SBM YIELD FUND  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2021

9.

|   | Notes | 2021<br>MUR         | 2020<br>MUR        |
|---|-------|---------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |       |                     |                    |
| Profit before tax   |       | 16,901,294          | 6,246,388          |
| <i>Adjustments for:</i>                                       |       |                     |                    |
| Dividend income   | 16    | (175,444)           | (236,502)          |
| Interest income   | 16    | (8,416,186)         | (7,838,438)        |
| Net gain on financial assets held at FVTPL                    |       | (10,447,451)        | -                  |
| Foreign Exchange gain   |       | (34,672)            | (20,025)           |
| Expected credit losses  | 10    | (8,103)             | (80,376)           |
| <b>Operating loss before working capital changes</b>          |       | <b>(2,180,562)</b>  | <b>(1,928,953)</b> |
| (Increase)/ decrease in other receivables                     |       | (178)               | 54,331             |
| Increase/ (decrease) in other payables                        |       | 62,310              | (368,100)          |
| Purchase of financial assets at FVOCI                         | 7     | (19,003,922)        | (5,996,501)        |
| Purchase of financial assets at FVTPL                         | 8     | (17,828,920)        | -                  |
| Purchase of financial assets at amortised cost                | 9     | (10,000,000)        | (3,000,000)        |
| Proceeds from disposal of equity financial assets at FVOCI    | 7     | 1,066,667           | 24,928,902         |
| Proceeds from disposal of financial assets at FVTPL           | 8     | 10,233,880          | -                  |
| Maturity of debts held at amortised cost                      | 9     | -                   | 5,000,000          |
| Interest received   |       | 7,373,267           | 7,842,275          |
| Dividend received   |       | 175,131             | 293,349            |
| <b>Net cash (used in)/generated from operations</b>           |       | <b>(30,102,327)</b> | <b>26,825,303</b>  |
| Taxation paid   | 13(a) | (42,185)            | (430,575)          |
| <b>Net cash (used in)/generated from operating activities</b> |       | <b>(30,144,512)</b> | <b>26,394,728</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                   |       |                     |                    |
| Issue of units  |       | 54,954,523          | 27,039,868         |
| Redemption of units   |       | (25,727,048)        | (28,844,389)       |
| Distributions to unitholders                                  |       | (9,845,138)         | (4,092,157)        |
| <b>Net cash generated from/(used in) financing activities</b> |       | <b>19,382,337</b>   | <b>(5,896,658)</b> |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   |       | <b>(10,762,175)</b> | <b>20,498,070</b>  |
| Cash and cash equivalents at beginning of year                |       | 23,472,414          | 2,974,344          |
| <b>Cash and cash equivalents at end of year</b>               |       | <b>12,710,239</b>   | <b>23,472,414</b>  |

The notes on pages 10 to 41 form part of these financial statements.

## 1. LEGAL FORM AND PRINCIPAL ACTIVITY

SBM Yield Fund ("the Fund") was authorised by the Minister and approved by the Financial Services Commission under the Unit Trust Act 1989 (repealed and replaced by Trust Act 2001) and established as a Unit Trust by a Trust Deed dated 5 June 2006 between SBM Mauritius Asset Managers Ltd ("The Manager") and DTOS Trustees Ltd ("The Trustee").

The Fund's objective is to provide regular income and maximise returns on a long term basis for the benefit of the unitholders.

The Trust's application made further to the transitional provisions set out under Section 160 of the Securities Act 2005, it has been authorised to operate as a Collective Investment Scheme under Section 97 of the Securities Act 2005.

## 2. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Fund has applied all new and revised standard and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 July 2020.

### 2.1 New and Revised Standards and Interpretations Issued

#### (a) *Standards and amendments to existing standards effective 1 July 2020*

The following relevant revised standard has been applied in these financial statements. Their applications have not had any material impact on the amounts reported for current and prior years.

|                      |   |
|----------------------|---|
| IAS 1                | Presentation of Financial Statements - Amendments regarding the definition of material  |
| IAS 8                | Accounting Policies, Changes in Accounting Estimates and Errors - Amendments regarding the definition of material   |
| IAS 39               | Financial Instruments: Recognition and Measurement - Amendments regarding pre-replacement issues in the context of the IBOR reform  |
| IFRS 7               | Financial Instruments: Disclosures - Amendments regarding pre-replacement issues in the context of the IBOR reform  |
| IFRS 9               | Financial Instruments - Amendments regarding pre-replacement issues in the context of IBOR reform   |
| Conceptual Framework | Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regards to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework |

#### (b) *New standards, amendments and interpretations effective after 1 July 2020 and have*

At the date of authorisation of these financial statements, the following relevant new and revised Standards were in issue but effective on annual periods beginning on or after the respective dates as indicated:

|       |  |
|-------|--|
| IAS 1 | Presentation of Financial Statements - Amendments regarding the classification of liabilities (effective 1 January 2023) |
|-------|--|



## 2. APPLICATION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)

### 2.1 New and Revised Standards and Interpretations Issued (continued)

(b) *New standards, amendments and interpretations effective after 1 July 2020 and have not been early adopted (continued)*

|        |  |
|--------|--|
| IAS 1  | Presentation of Financial Statements - Amendments regarding the disclosure of accounting policies (effective 1 January 2023)   |
| IAS 8  | Accounting Policies, Changes in Accounting Estimates and Error - Amendments regarding the definition of accounting estimates (1 January 2023)  |
| IAS 12 | Income taxes - Amendments regarding deferred tax on leases and decommissioning obligations (effective 1 January 2023)  |
| IAS 39 | Financial Instruments: Recognition and Measurement - Amendments regarding replacement issues in the context of the IBOR reform (effective 1 January 2021)  |
| IFRS 7 | Financial Instruments: Disclosures - Amendments regarding replacement issues in the context of the IBOR reform (effective 1 January 2021)  |
| IFRS 9 | Financial Instruments - Amendments resulting from replacement issues in the context of the IBOR reform (effective 1 January 2021)  |
| IFRS 9 | Financial Instruments - Amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (fees in the '10 per cent' test for derecognition of financial liabilities) (effective 1 January 2022) |

The Fund anticipates that these amendments will be applied where applicable in the financial statements at the above effective dates in future periods. No potential impact is expected upon application of these amendments.

## 3. ACCOUNTING POLICIES

### 3.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income, which are measured at fair value.

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Foreign currency translation

The financial statements are presented in MUR (presentation currency) which is also the currency of the primary economic environment in which the Fund operates (functional currency). The Fund determines its own functional currency and items included in the financial statements of the Fund are measured using that functional currency.

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Foreign currency translation

##### *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Fund at their respective functional currency spot rates prevailing at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences arising on settlement or retranslation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

#### (b) Taxes

##### *Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Taxes (Continued)

*Deferred tax*

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

(c) Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Financial instruments (Continued)

As a result of the adoption of IFRS 9, the Fund has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require:

- Impairment of financial assets to be presented in a separate line item in the statement of comprehensive income; and
- Separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

#### *Financial assets*

##### Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them. The Fund initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Management has made an assessment on the basis of the facts and circumstances that existed at the date of initial application to determine whether to classify the debt instruments held at amortised cost or financial assets at fair value through OCI. The determination of the business model within which a financial asset is held at amortised cost needs to meet the objective, which is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Purchases or sales of financial assets that require delivery of assets within a time frame

- trade date for equity instruments, i.e., the date that the Fund commits to purchase or sell the asset;
- settlement date for debt instruments, i.e., the date that the Fund settles the purchase or sale of the asset.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (Continued)

*Financial assets (continued)*

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

(i) Financial assets at amortised cost

The Fund measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; or
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund's financial assets at amortised cost include cash and cash equivalents and investments in Inflation- indexed Government bonds and unquoted bonds.

(ii) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Fund can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by instrument

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as income in the statement of profit or loss when the right of payment has been established, except when the Fund benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Fund elected to classify irrevocably its listed and non listed equity and debt investments under this category.

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Financial instruments (Continued)

##### *Financial assets (continued)*

##### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Fund of similar financial assets) is primarily derecognised (i.e., removed from the Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement.

In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

##### Impairment of financial assets

The Fund recognises loss allowances for ECLs on financial assets measured at amortised cost and FVOCI.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are, measured at 12-months ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments (Continued)

*Financial assets (continued)*

*Impairment of financial assets (continued)*

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Fund considers a financial asset to be in default when the financial assets is more than 30 days past due.

The Fund considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of 'investment grade'. The Fund considers this to be Baa3 for Moody's rating or BBB- as per Standard and Poor's rating. (See Note 15.5).

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from the default events that are possible within the 12 months after the reporting date (or shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating the ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the entity in accordance with the contract and cash flows that the Fund expects to receive).

*Credit-impaired financial assets*

At each reporting date, the Fund is required to assess whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as default or being more than 30 days past due; or
- It is probable that the borrower will enter bankruptcy or other financial reorganisation.

*Presentation of allowances for ECLs in the statement of financial position*

Presentation of allowances for financial assets measured at amortised cost is deducted from the gross carrying amount of assets.

*Write-off policy*

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Financial assets written off may still be subject to enforcement activities under the Fund's recovery procedures. Any recoveries made are recognised in profit or loss.

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Financial instruments (Continued)

##### *Financial liabilities*

##### Initial recognition and measurement

Financial liabilities comprise of other payables, which are measured at amortised cost.

##### Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

##### Other payables

Accounts payable are stated at their amortised cost using the effective interest method.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

##### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

##### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

##### Determination of fair value

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:



3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial Instruments (Continued)

*Financial liabilities (continued)*

Determination of fair value (continued)

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period.

(d) Revenue recognition under IFRS 9

(i) *Interest income calculated using effective interest method*

Interest revenue and expense are recognised in the statement of other comprehensive income for all interest-bearing financial instruments using the effective interest method.

(ii) *Dividend Income*

Dividend income is recognised when the Fund's right to receive the payment is established.

(e) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at bank.

(f) Related parties

Parties are considered to be related to the Fund if they have the ability, directly or indirectly, to control the Fund or exercise significant influence over the Fund. Related parties may be individuals or other entities.

(g) Redeemable units

*Classification of redeemable units*

Redeemable units are classified as equity instruments when:

- The redeemable units entitle the holder to a pro rata share of the Fund's net assets in the event of the Fund's liquidation.
- The redeemable units are in the class of instruments that is subordinate to all other classes of instruments.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Redeemable units (Continued)

- All redeemable units in the class of instruments that is subordinate to all other classes of instruments have identical features.
- The redeemable units do not include any contractual obligation to deliver cash or another financial asset other than the holder's rights to a pro rata share of the Fund's net assets.
- The total expected cash flows attributable to the redeemable units over the life of the instrument 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.

In addition to the redeemable units having all the above features, the Fund must have no other financial instrument or contract that has:

- Total cash flows 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; and
- The effect of substantially restricting or fixing the residual return to the holders of redeemable units.

The Fund continuously assesses the classification of the redeemable units. If the redeemable units cease to have all the features or meet all the conditions set out to be classified as equity, the Fund will reclassify them as financial liabilities and measure them at fair value at the date of reclassification, with any differences from the previous carrying amount recognised in equity. If the redeemable units subsequently have all the features and meet the conditions to be classified as equity, the Fund will reclassify them as equity instruments and measure them at the carrying amount of the liabilities at the date of the reclassification.

The issuance, acquisition and cancellation of redeemable units are accounted for as equity transactions. Upon issuance of shares, the consideration received is included in equity.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Fund's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities. Uncertainties about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Judgements**

In the process of applying the Fund's accounting policies, management has made the following judgement, which has the most significant effect on the amounts recognised in the financial statements:

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Judgements (Continued)

*Determination of functional currency*

The primary objective of the Fund is to generate returns in MUR, its capital-raising currency. The liquidity of the Fund is managed on a day-to-day basis in MUR. The Fund's performance is evaluated in MUR. Therefore management considers MUR as the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions.

*Going concern*

The Manager of the Fund has made an assessment of its ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future.

Furthermore, the Manager is not aware of any material uncertainty that may cast significant doubt upon the Fund's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

*Business model assumption*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (see financial assets sections of note 3). The Fund determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Fund monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Fund's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

During the year, there was a change in business model of the Fund whereby management has decided to trade actively on fixed income securities, previously categorised under Hold to collect approach, as from October 2020 given that a secondary market is now available for these securities. As a result, all government bonds previously held under amortised cost have now been reclassified to financial assets at FVPL.

**Estimates**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjournment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. The Fund based its assumptions and estimates on parameters available when the financial statements were prepared. However existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Fund. Such changes are affected in the assumptions when they occur.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Estimates (continued)

*Expected credit losses (ECLs)*

To calculate the ECL, the Fund has applied judgements that have a significant effect on the amounts recognised in the financial statements and include the classification of financial instruments into financial assets measured at amortised cost category. Estimated ratings have been used for the calculation [See Note 15.5].

5. CAPITAL MANAGEMENT

As a result of the ability to issue, repurchase and resell units, the capital of the Fund can vary depending on the demand for redemption and subscriptions to the Fund. The Fund is not subject to externally imposed capital requirements and has no legal restrictions on the issue, repurchase or resale of redeemable units beyond those included in the Fund's prospectus.

The investment objective of the Fund is to achieve attractive risk-returns through a combination of long-term capital appreciation and current income by making portfolio investments.

The Fund's objectives for managing capital are:

- To invest the capital in investments, meeting the description, risk, exposure and expected return indicated in its prospectus.
- To maintain sufficient liquidity to meet the expenses of the Fund, and to meet redemption requests as they arise.
- To maintain sufficient size to make the operation of the Fund cost efficient.

The capital of the Fund consists of units denominated in Mauritian Rupees and is redeemable at the option of the unit holder based on net asset value. The redeemable participating units have been classified as equity.

(a) Movement in units during the year

|  | 2021              |                    | 2020              |                    |
|--|-------------------|--------------------|-------------------|--------------------|
|  | No. of units      | MUR                | No. of units      | MUR                |
| At start of year                                       | 16,125,940        | 167,290,921        | 16,335,956        | 169,095,422        |
| Units created  | 4,747,638         | 54,954,523         | 2,451,993         | 27,039,868         |
| Units liquidated                                       | (2,294,091)       | (25,727,048)       | (2,662,009)       | (28,844,369)       |
| At end of year   | <u>18,579,487</u> | <u>196,518,396</u> | <u>16,125,940</u> | <u>167,290,921</u> |
|  |                   |                    | 2021              | 2020               |
|  |                   |                    | MUR               | MUR                |
| (b) Net asset value per unit                           |                   |                    |                   |                    |
| Net assets attributable to holders of redeemable units |                   |                    | 216,869,195       | 178,998,568        |
| Net assets per redeemable units (MUR)                  |                   |                    | 11.67             | 11.10              |
| (c) Prices per unit                                    |                   |                    |                   |                    |
| Issue price  |                   |                    | <u>11.73</u>      | <u>11.16</u>       |
| Redemption price                                       |                   |                    | <u>11.61</u>      | <u>11.04</u>       |

Unitholders have the rights to receive an equal share of dividends and to a share pro-rata to their number of units held in the distribution of the surplus assets of the Fund on winding up.

6. OTHER RECEIVABLES

|                     | 2021          | 2020          |
|---------------------|---------------|---------------|
|                     | MUR           | MUR           |
| Dividend receivable | 9,826         | 9,513         |
| Prepayments         | 24,571        | 24,393        |
|                     | <u>34,397</u> | <u>33,906</u> |

The carrying value of the other receivables approximates its fair value and is receivable within 3 months.

7. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

|  | EQUITY            | DEBT              | TOTAL             |
|--|-------------------|-------------------|-------------------|
|  | MUR               | MUR               | MUR               |
| At 01 July 2020                                      | 12,358,717        | 25,252,663        | 37,611,380        |
| Reclassified from financial assets at amortised cost | -                 | 2,996,713         | 2,996,713         |
| Additions  | -                 | 19,003,922        | 19,003,922        |
| Disposals  | (1,066,667)       | -                 | (1,066,667)       |
| Interest accrued                                     | -                 | 222,343           | 222,343           |
| Expected credit loss (Note 10)                       | -                 | (27,795)          | (27,795)          |
| Fair value gain                                      | 602,319           | 1,289,707         | 1,892,026         |
| At 30 June 2021                                      | <u>11,894,369</u> | <u>48,737,553</u> | <u>60,631,922</u> |
| At 01 July 2019                                      | 8,171,908         | 46,908,494        | 55,080,402        |
| Additions  | 5,996,501         | -                 | 5,996,501         |
| Disposals  | (2,227,610)       | (22,701,292)      | (24,928,902)      |
| Interest accrued                                     | -                 | 134,251           | 134,251           |
| Expected credit loss (Note 10)                       | -                 | 54,286            | 54,286            |
| Fair value gain                                      | 417,918           | 856,924           | 1,274,842         |
| At 30 June 2020                                      | <u>12,358,717</u> | <u>25,252,663</u> | <u>37,611,380</u> |

(a) Equity at Financial assets measured at fair value through other comprehensive income

|                                    | FAIR VALUE        |                   |
|------------------------------------|-------------------|-------------------|
|                                    | 2021              | 2020              |
|                                    | MUR               | MUR               |
| New Mauritius Hotels               | 140,480           | 163,200           |
| Ascencia Ltd                       | 25,107            | 14,026            |
| SBM Holdings Ltd                   | -                 | 1,180,389         |
| iShares Core US                    | 9,701,490         | 9,326,592         |
| iShares US Preference Stock ETF US | 2,027,292         | 1,674,510         |
|                                    | <u>11,894,369</u> | <u>12,358,717</u> |

7. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(b) Debt at Financial assets measured at fair value through other comprehensive income

|                                  | 2021              | 2020              |
|----------------------------------|-------------------|-------------------|
|                                  | MUR               | MUR               |
| SBM Maharaja Bond Fund           | 7,539,761         | 6,672,837         |
| SBM USD Note                     | 1,999,226         | 1,802,206         |
| MCB Group Ltd Notes              | 2,474,945         | 2,415,270         |
| SBM MUR Note                     | 7,033,687         | 3,999,981         |
| IBL Ltd Notes                    | 10,337,737        | 10,362,369        |
| CIM Financial Services Ltd Notes | 9,149,754         | -                 |
| Alpha Capital Protected Note     | 3,160,176         | -                 |
| Forty Two Point Two              | 7,042,268         | -                 |
|                                  | <u>48,737,553</u> | <u>25,252,663</u> |

(c) Financial assets measured at fair value through OCI are further analysed as follows:

|             | 2021              | 2020              |
|-------------|-------------------|-------------------|
|             | MUR               | MUR               |
| Non-current | 60,631,922        | 37,611,380        |
| Current     | -                 | -                 |
|             | <u>60,631,922</u> | <u>37,611,380</u> |

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | 2021               |
|--|--------------------|
|  | MUR                |
| At 01 July   | -                  |
| Reclassified from financial assets at amortised cost | 94,450,054         |
| Additions  | 17,828,920         |
| Disposals  | (10,233,880)       |
| Interest accrued                                     | 76,092             |
| Fair value gain                                      | 11,225,274         |
| At 30 June   | <u>113,346,460</u> |

During the year, there was a change in business model to reflect the change in investment strategy and more active trading in Government of Mauritius securities. As a result, all government bonds previously held under amortised cost have been reclassified to financial assets at FVTPL.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Financial assets at FVTPL can be analysed as follows:

|   | <u>2021</u>        |
|---|--------------------|
|   | MUR                |
| 5.05%15YGOMBD220133_MU0GBDA05671          | 6,425,685          |
| 5.95% 15 YR GOM BOND 9/11/33_MU0GBDA07479 | 7,963,944          |
| 5.95%20YGOMBN08.02.2039_MU0GBDA07909      | 20,311,311         |
| 6.08%20YFOMB070938_MU0GBDA07198           | 12,597,125         |
| 6.18%20YGOMB110538_MU0GBDA06240           | 11,510,437         |
| MAURCN 1.6% 06/07/2023_MU0BNTA12331       | 4,996,115          |
| MAURGB 5.42 03/09/28_MU0GBDA05911         | 3,366,412          |
| MAURGB 6.50% 22/07/36_MU0GBDA03098        | 9,719,546          |
| MAURGB 7% 15/01/36_MU0GBDA02157           | 5,692,607          |
| MAURGB 7.4 01/25/28_MU0GBDA06604          | 17,849,107         |
| MAUTN 0.72% 12/06/2022_MU0GNTA12173       | 12,914,171         |
|   | <u>113,346,460</u> |

(b) Financial assets at FVTPL are further analysed as follows:

|             | <u>2021</u>        |
|-------------|--------------------|
|             | MUR                |
| Non-current | 100,432,289        |
| Current     | 12,914,171         |
|             | <u>113,346,460</u> |

9. FINANCIAL ASSETS HELD AT AMORTISED COST

|   | <u>2021</u>       | <u>2020</u>        |
|---|-------------------|--------------------|
|   | MUR               | MUR                |
| At 01 July                                | 118,429,765       | 120,537,338        |
| Reclassified to financial assets at FVTPL | (94,450,054)      | -                  |
| Reclassified to financial assets at FVOCI | (2,996,713)       | -                  |
| Additions                                 | 10,000,000        | 3,000,000          |
| Maturity of debts                         | -                 | (5,000,000)        |
| Interest amortised                        | 1,333             | (118,063)          |
| Expected credit losses (Note 10)          | 35,898            | 26,090             |
| Unrealised loss                           | -                 | (15,600)           |
| At 30 June                                | <u>31,020,229</u> | <u>118,429,765</u> |

9. FINANCIAL ASSETS HELD AT AMORTISED COST (CONTINUED)

(a) The breakdown of financial assets held at amortised cost is as follows:

| 2021  | <u>Interest rate</u> | <u>Maturity</u> | <u>MUR</u>         |
|---|----------------------|-----------------|--------------------|
| Government bonds                                | 6.28% - 7.47%        | Jul 29 - Apr 33 | 10,150,031         |
| Term deposits with other financial institutions | 5% - 5.6%            | Apr 25 - Jun 30 | 5,767,623          |
| Other local bonds                               | 4.15% - 4.98%        | Feb 25 - Jun 31 | 15,102,575         |
|   |                      |                 | <u>31,020,229</u>  |
| 2020  | <u>Interest rate</u> | <u>Maturity</u> | <u>MUR</u>         |
| Government bonds                                | 3.94% - 7.47%        | Dec 22 - Feb 39 | 104,544,840        |
| Term deposits with other financial institutions | 5% - 5.6%            | Apr 25 - Jun 30 | 5,764,952          |
| Other local bonds                               | 4.3% - 4.98%         | Nov 22 - Feb 25 | 8,119,973          |
|   |                      |                 | <u>118,429,765</u> |

(b) Financial assets held at amortised cost are further analysed as follows:

|             | <u>2021</u>       | <u>2020</u>        |
|-------------|-------------------|--------------------|
|             | <u>MUR</u>        | <u>MUR</u>         |
| Non-current | 31,020,229        | 118,429,765        |
| Current     | -                 | -                  |
|             | <u>31,020,229</u> | <u>118,429,765</u> |

(c) Details of financial assets held at amortised cost classified under term deposits with other financial institutions and other local bonds are as follows:

|  | <u>2021</u>       | <u>2020</u>        |
|--|-------------------|--------------------|
|  | <u>MUR</u>        | <u>MUR</u>         |
| Government bonds                                       | 10,150,031        | 104,544,840        |
| <u>Term deposits with other financial institutions</u> |                   |                    |
| ABC Banking Corporation Ltd Notes                      | 2,764,734         | 2,765,574          |
| Bank One Limited Notes                                 | 3,002,889         | 2,999,378          |
|  | <u>5,767,623</u>  | <u>5,764,952</u>   |
| <u>Other local bonds</u>                               |                   |                    |
| Ciel Note  | 5,115,123         | 5,123,260          |
| Ascencia Ltd   | 4,987,768         | -                  |
| Gamma Civic  | 4,999,684         | -                  |
| Alpha Capital Protected Note - Series 1                | -                 | 2,996,713          |
|  | <u>15,102,575</u> | <u>8,119,973</u>   |
|  | <u>31,020,229</u> | <u>118,429,765</u> |



10. ALLOWANCE FOR EXPECTED CREDIT LOSSES (ECLs)

|                          | ECL on<br>FVOCI<br>MUR | ECL on<br>Amortised<br>MUR | TOTAL<br>MUR   |
|--------------------------|------------------------|----------------------------|----------------|
| At 01 Jul 2020           | 92,602                 | 363,283                    | 455,885        |
| Reclassification         | 19,763                 | (19,763)                   | -              |
| Movement during the year | 27,795                 | (35,898)                   | (8,103)        |
| At 30 June 2021          | <u>140,160</u>         | <u>307,622</u>             | <u>447,782</u> |
| At 01 Jul 2019           | 146,888                | 389,373                    | 536,261        |
| Movement during the year | (54,286)               | (26,090)                   | (80,376)       |
| At 30 June 2020          | <u>92,602</u>          | <u>363,283</u>             | <u>455,885</u> |

The financial assets are classified under Stage 1 (2020: Stage 1).

11. FAIR VALUE MEASUREMENT HIERARCHY

Fair value of the Fund's local and foreign investments that are measured at fair value on a recurring basis

IFRS 13 requires disclosures relating to fair value measurement using a three level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level of input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of local and foreign investments grouped into level 1 and 2 based on the degree to which the fair value is observable.

| 2021                             | Level 1<br>MUR    | Level 2<br>MUR     | Level 3<br>MUR   | Total<br>MUR       |
|----------------------------------|-------------------|--------------------|------------------|--------------------|
| <u>Financial assets at FVOCI</u> |                   |                    |                  |                    |
| <i>Equity investments</i>        | 11,894,369        | -                  | -                | 11,894,369         |
| <i>Debt investments</i>          | 38,037,616        | 7,539,761          | 3,160,176        | 48,737,553         |
| <u>Financial assets at FVTPL</u> |                   |                    |                  |                    |
| <i>Debt investments</i>          | -                 | 113,346,460        | -                | 113,346,460        |
| At 30 June 2021                  | <u>49,931,985</u> | <u>120,886,221</u> | <u>3,160,176</u> | <u>173,978,382</u> |

11. FAIR VALUE MEASUREMENT HIERARCHY (CONTINUED)

| 2020                             | Level 1<br>MUR    | Level 2<br>MUR   | Level 3<br>MUR | Total<br>MUR      |
|----------------------------------|-------------------|------------------|----------------|-------------------|
| <u>Financial assets at FVOCI</u> |                   |                  |                |                   |
| Equity investments               | 12,358,717        | -                | -              | 12,358,717        |
| Debt investments                 | 18,579,826        | 6,672,837        | -              | 25,252,663        |
| At 30 June 2020                  | <u>30,938,543</u> | <u>6,672,837</u> | <u>-</u>       | <u>37,611,380</u> |

Following the change in business model for fixed income securities, government bonds have been classified under Level 2 for the year ended 30 June 2021.

The change in Level 3 hierarchy of MUR 3,160,176 (2020: MUR nil) represents only addition in Alpha Capital Protected Note during the year.

There has been no transfer between levels during the financial year.

Concentration of equity price risk

The equity investments are further analysed as follows:

|  | 2021<br>MUR       | 2020<br>MUR       | 2021<br>%  | 2020<br>%  |
|--|-------------------|-------------------|------------|------------|
| <u>Local</u>                                 |                   |                   |            |            |
| Banks, insurance and other<br>finance sector | -                 | 1,180,389         | -          | 87         |
| Leisure and hotels sector                    | 140,480           | 163,200           | 85         | 12         |
| Others                                       | 25,107            | 14,027            | 15         | 1          |
|  | <u>165,587</u>    | <u>1,357,616</u>  | <u>100</u> | <u>100</u> |
| <u>Foreign</u>                               |                   |                   |            |            |
| Financial Sector                             | 11,728,782        | 11,001,101        | 100        | 100        |
|  | <u>11,894,369</u> | <u>12,358,717</u> |            |            |

12. OTHER PAYABLES

|                      | 2021<br>MUR    | 2020<br>MUR    |
|----------------------|----------------|----------------|
| Manager's fees       | 154,901        | 118,077        |
| Trustee's fees       | 55,568         | 65,237         |
| Auditor's fees       | 126,500        | 123,625        |
| Administrator's fees | 27,336         | 20,837         |
| Registry fees        | 18,224         | 13,891         |
| Custodian fees       | 10,196         | 8,032          |
| Entry and exit fees  | 5,596          | 1,337          |
| Tax advisor fees     | 20,700         | 29,900         |
| Professional fees    | 8,625          | 15,093         |
| Unclaimed dividends  | 152,801        | 122,107        |
|                      | <u>580,447</u> | <u>518,137</u> |

The carrying amount of other payables approximate their fair value.

Other payables are unsecured, interest free and repayable within 3 months.

13. TAXATION

Income tax is calculated at the rate of 15% on profit for the year as adjusted for income tax purposes (2020: 15%).

| (a) Income tax liability                        | 2021        | 2020      |
|---|-------------|-----------|
|   | MUR         | MUR       |
| At 01 July                                      | 30,760      | 496,471   |
| Charge for the year                             | 293,605     | 224,191   |
| Tax paid during the year                        | (42,185)    | (430,575) |
| Under / (Over) provision in previous year       | 11,425      | (259,327) |
| At 30 June                                      | 293,605     | 30,760    |
|   |             |           |
| (b) Reconciliation of tax charge                | 2021        | 2020      |
|   | MUR         | MUR       |
| Accounting profit                               | 16,901,294  | 6,246,388 |
| Tax on accounting profit at the tax rate of 15% | 2,535,194   | 936,958   |
| <i>Tax effect of:</i>                           |             |           |
| Exempt income                                   | (1,031,033) | -         |
| Non taxable income                              | (1,572,318) | (894,778) |
| Non-deductible expenses                         | 361,762     | 282,011   |
| Under / (Over) provision in previous year       | 11,425      | (259,327) |
| Tax expense / (Income)                          | 305,030     | (35,136)  |
|   |             |           |
| Tax charge for the year                         | 293,605     | 224,191   |
| Under / (Over) provision in previous year       | 11,425      | (259,327) |
| Tax expense / (Income)                          | 305,030     | (35,136)  |

14. RELATED PARTY DISCLOSURES

During the years ended 30 June 2021 and 2020, the Fund transacted with related entities. Details of the nature, volume of transactions and balances with the entities are shown below.

|   | Balances with related parties |         | Fund expenses |           |
|---|-------------------------------|---------|---------------|-----------|
|   | 2021                          | 2020    | 2021          | 2020      |
|   | MUR                           | MUR     | MUR           | MUR       |
| <u>SBM Mauritius Asset Managers Ltd</u> |                               |         |               |           |
| Manager fees payable                    | 154,901                       | 118,077 |               |           |
| Manager fees                            |                               |         | 1,820,439     | 1,418,662 |
| Entry and Exit fees payable             | 10,196                        | 8,032   |               |           |

14. RELATED PARTY DISCLOSURES (CONTINUED)

|   | Balances with related parties |            | Fund expenses |         |
|---|-------------------------------|------------|---------------|---------|
|   | 2021                          | 2020       | 2021          | 2020    |
|   | MUR                           | MUR        | MUR           | MUR     |
| <u>SBM Fund Services Ltd</u>            |                               |            |               |         |
| Administrator fees payable              | 27,336                        | 20,837     |               |         |
| Administrator fees                      |                               |            | 321,254       | 250,352 |
| Registry fees payable                   | 18,224                        | 13,891     |               |         |
| Registry fees                           |                               |            | 214,170       | 166,904 |
| <u>DTOS Trustees Ltd</u>                |                               |            |               |         |
| Trustee fees payable                    | 55,568                        | 65,237     |               |         |
| Trustee fees                            |                               |            | 224,251       | 148,848 |
| <u>SBM Bank (Mauritius) Ltd</u>         |                               |            |               |         |
| Custodian fees payable                  | 10,196                        | 8,032      |               |         |
| Custodian fees                          |                               |            | 128,237       | 158,023 |
| Balances held with Bank                 | 12,710,239                    | 23,472,414 |               |         |
| Bank charges                            |                               |            | 4,569         | 3,914   |
| <u>SBM Holdings Ltd</u>                 |                               |            |               |         |
| Investments in ultimate holding company | 9,932,913                     | 6,982,576  |               |         |
| Dividend income                         |                               |            | -             | 61,002  |
| Interest Income                         |                               |            | 331,429       | 318,251 |
| <u>SBM Maharaja Bond Fund</u>           |                               |            |               |         |
| Investment in other related parties     | 7,539,761                     | 6,672,837  |               |         |

No compensation was paid to key management personnel during the year (2020: Nil).

Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivable or payable.

15. FINANCIAL RISK MANAGEMENT

Risk is inherent in the Fund's activities and is managed through a process of ongoing identification, measurement and monitoring subject to risk limits and other controls put in place at the investment manager company level. The Fund is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds. The Fund has investment guidelines that set out its overall business strategies and its tolerance for risk.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

| 15.1 Categories of financial instruments              | 2021               | 2020               |
|---|--------------------|--------------------|
|   | MUR                | MUR                |
| <u>Financial assets</u>                               |                    |                    |
| Cash and cash equivalents at amortised cost           | 12,710,239         | 23,472,414         |
| Other receivables at amortised cost                   | 9,826              | 9,513              |
| Financial assets at fair value through OCI            | 60,631,922         | 37,611,380         |
| Financial assets at fair value through profit or loss | 113,346,460        | -                  |
| Financial assets at amortised cost                    | 31,020,229         | 118,429,765        |
|   | <u>217,718,677</u> | <u>179,523,072</u> |
| <u>Financial liabilities</u>                          |                    |                    |
| Other payables at amortised cost                      | 580,447            | 518,137            |

15.2 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses), for each class of financial asset, financial liability and equity as provided in Note 3.

15.3 Risk management

The Fund's credit risk is managed by the Investment manager subject to the Fund's established policy, procedures and controls. The credit exposure is monitored by the investment team and reported to the Fund's board and Investment Committee on a quarterly basis. There are internal limits with respect to single issuer exposure, maximum sector exposure and the Fund will hold a diversified portfolio of securities in mitigating overall portfolio credit risk. Investment-grade securities are mostly targeted in managing credit risk but credit migration is monitored.

15.4 Market risk

Market risk is the risk of loss resulting from adverse movement in market rates or prices such as interest rates, foreign exchange rates and equity prices.

*Foreign currency risk*

The Fund invests in securities, including maintenance of cash that are denominated in such currencies other than in Mauritian Rupee ("MUR"). Accordingly, the value of the Fund's assets may be affected favourably or unfavourably by fluctuations in currency rates. Therefore, the Fund will necessarily be subject to foreign exchange risk.

The currency profile of the Fund's financial assets and liabilities is summarised as follows:

|                      | Financial assets   |                    | Financial Liabilities |                |
|----------------------|--------------------|--------------------|-----------------------|----------------|
|                      | 2021               | 2020               | 2021                  | 2020           |
|                      | MUR                | MUR                | MUR                   | MUR            |
| United States Dollar | 21,812,390         | 19,726,927         | -                     | -              |
| Euro                 | 22,726             | 20,115             | -                     | -              |
| Mauritian Rupee      | 195,883,560        | 159,776,030        | 580,447               | 518,137        |
|                      | <u>217,718,677</u> | <u>179,523,072</u> | <u>580,447</u>        | <u>518,137</u> |

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

15.4 Market risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, on the Fund's profit before tax and equity:

|                      | Increase / decrease<br>percentage |      | Effect on profit before tax<br>and equity |             |
|----------------------|-----------------------------------|------|---|-------------|
|                      | 2021                              | 2020 | 2021<br>MUR                               | 2020<br>MUR |
| United States Dollar | 10%                               | 10%  | (2,181,239)                               | (1,972,693) |
|                      | -10%                              | -10% | 2,181,239                                 | 1,972,693   |
| Euro                 | 10%                               | 10%  | (2,273)                                   | (2,011)     |
|                      | -10%                              | -10% | 2,273                                     | 2,011       |

*Equity and Bond price risk*

The Fund is exposed to the risk that the value of its investment securities will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or factors affecting all securities traded in the market. Market risk is managed through diversification of the investment portfolio.

Price sensitivity analysis

The sensitivity analysis has been determined based on the exposure to equity and bond price risks at the reporting date and assesses the impact of a 5% change in the price of local and foreign investment.

|                   | Change<br>in price | 2021      | 2020      |
|-------------------|--------------------|-----------|-----------|
|                   | %                  | MUR       | MUR       |
| Profit before tax | + 5                | 8,698,919 | 1,880,569 |

A fall in equity and bond prices by 5% would have resulted in an equal but opposite impact on net assets.

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

15.4 Market risk (Continued)

*Interest rate risk (Continued)*

At the reporting date, the interest rate profile of the Fund's interest bearing financial instruments was:

|  | 2021               | 2020               |
|--|--------------------|--------------------|
|  | MUR                | MUR                |
| <i>Variable rate asset</i>                                 |                    |                    |
| Financial assets at fair value through other comprehensive | 12,550,379         | 9,088,106          |
| Financial assets at amortised cost                         | 20,137,482         | 10,151,107         |
| Balance with bank  | 12,710,239         | 23,472,414         |
|  | <u>45,398,102</u>  | <u>42,711,626</u>  |
| <i>Fixed rate assets</i>                                   |                    |                    |
| Financial assets at fair value through other comprehensive | 36,187,174         | 16,164,557         |
| Financial assets at fair value through profit or loss      | 113,346,450        | -                  |
| Financial assets at amortised cost                         | 10,882,747         | 108,278,658        |
|  | <u>160,416,380</u> | <u>124,443,215</u> |

The Fund is exposed to interest rate risk on its variable rate assets.

Interest rate sensitivity analysis

The sensitivity analysis below assesses the impact of a change in interest rate over a 12-month period. If the interest rate had been 2% higher:

|                             | in<br>interest<br>rate by<br>% | 2021    | 2020    |
|-----------------------------|--------------------------------|---------|---------|
|                             |                                | MUR     | MUR     |
| Effect on profit before tax | + 2                            | 907,962 | 854,233 |

A decrease in interest rate by 2% would have resulted in an equal but opposite impact on profit before tax and net assets.

15.5 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation. The Fund is exposed to the risk of credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. These credit exposures exist within debt instruments, short-term trade receivables, and cash and cash equivalents.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

15.5 Credit risk (continued)

The Investment Manager's policy is to closely monitor the creditworthiness of the fund's counterparties by reviewing their credit ratings, financial statements and press releases on a regular basis.

Credit risk disclosures are segmented into two sections based on whether the underlying financial instrument is subject to IFRS 9's impairment disclosures or not.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of exposures. The Fund considers that these exposures have low credit risk based on the external credit rating of the counterparties. The Fund has assessed that ECL on cash and cash equivalents is not considered to be material.

*Financial assets subject to IFRS 9's impairment*

The Fund's financial assets subject to the expected credit loss model within IFRS 9 are financial assets at amortised cost and financial assets at fair value through other comprehensive income.

At 30 June 2021, the total financial assets at amortised cost was MUR 43,730,968 on which a loss allowance of MUR 307,622 had been provided (2020: Financial assets at amortised cost was MUR 141,902,179 on which a loss allowance of MUR 363,283 was provided).

The total financial assets through other comprehensive income (debt instruments) was MUR 48,737,553 on which a loss allowance of MUR 140,160 had been provided (2020: Financial assets at FVOCI was MUR 25,252,663 on which a loss allowance of MUR 92,602 was provided).

There is not considered to be any concentration of credit risk within these assets. No assets are considered impaired and no amounts have been written off in the period.

Probabilities of default have been used to calculate the loss allowance. The 12-month and lifetime probabilities are based on historical data supplied by Moody or Standard and Poor for each credit rating and are recalibrated based on current market prices. Loss given default parameters generally reflect an assumed recovery rate of 55%. However, if the assets were credit-impaired, the estimate loss would be based on a specific assessment of expected cash shortfalls and on the original effective interest rate.



15. FINANCIAL RISK MANAGEMENT (CONTINUED)

15.5 Credit risk (Continued)

The loss on financial assets is detailed as follows:

| 2021   | Rating        | PD_1            | LGD_1     | MUR                   |
|--|---------------|-----------------|-----------|-----------------------|
| <i><u>Financial assets at FVOCI</u></i>          |               |                 |           |                       |
| Term deposits with financial institutions        | AA- - Ba2     | 0.0043 - 0.0083 | 41% - 45% | 53,061                |
| Other local bonds                                | AAA - Unrated | 0.0043 - 0.0137 | 37% - 41% | 87,098                |
|  |               |                 |           | <u>140,160</u>        |
| <i><u>Financial assets at amortised cost</u></i> |               |                 |           |                       |
| Government Bonds                                 | Baa2          | 0.0013          | 45%       | 6,072                 |
| Term deposits with other financial institutions  | A+ - Unrated  | 0.0006 - 0.1948 | 45%       | 266,443               |
| Other local bonds                                | AA- - A+      | 0.0043 - 0.0072 | 37%       | 35,107                |
|  |               |                 |           | <u>307,622</u>        |
| Total  |               |                 |           | <u><u>447,782</u></u> |
| 2020   | Rating        | PD_1            | LGD_1     | MUR                   |
| <i><u>Financial assets at FVOCI</u></i>          |               |                 |           |                       |
| Term deposits with other financial institutions  | Baa1 - Ba1    | 0.0028 - 0.0083 | 45%       | 24,712                |
| Other local bonds                                | Unrated       | 0.0159          | 41%       | 67,890                |
|  |               |                 |           | <u>92,602</u>         |
| <i><u>Financial assets at amortised cost</u></i> |               |                 |           |                       |
| Government Bonds                                 | Baa1          | 0.0013          | 45%       | 62,541                |
| Term deposits with other financial institutions  | Unrated       | 0.1948          | 45%       | 267,165               |
| Other local bonds                                | A - Unrated   | 0.0065 - 0.0159 | 41%       | 33,577                |
|  |               |                 |           | <u>363,283</u>        |
| Total  |               |                 |           | <u><u>455,885</u></u> |

## 15. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 15.5 Credit risk (Continued)

#### *Financial assets not subject to IFRS 9's impairment requirements*

The Fund is not exposed to credit risk on its equity instruments measured at FVTPL and FVOCI and its debt instruments measured at FVTPL. These classes of financial assets are not subject to IFRS 9's requirements. The carrying amount of these assets (amounting to MUR 125,240,829) under IFRS 9 represents the Fund's maximum exposure to credit risk on financial instruments not subject to IFRS 9 impairment requirements under respective reporting (2020: MUR 12,358,717).

### 15.6 Liquidity risk

Liquidity risk is defined as the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risk arises because of the possibility that the Fund could be required to pay its liabilities or redeem its shares earlier than expected. The Fund is exposed to cash redemptions of its redeemable shares on a regular basis. Shares are redeemable at the holder's option based on the Fund's NAV per share at the time of redemption, calculated in accordance with the Fund's prospectus.

The Manager may limit the total number of the units in the Fund that may be redeemed on any business day to 10% of that outstanding units in the Fund.

The Fund's policy is to satisfy redemption requests by the following means (in decreasing order of priority):

- Searching for new investors
- Withdrawal of cash deposits
- Disposal of highly liquid assets (i.e., short-term, low-risk debt investments)
- Disposal of other assets

The Fund invests primarily in marketable securities and other financial instruments which, under normal market conditions, are readily convertible to cash. In addition, the Fund's policy is to maintain sufficient cash and cash equivalents to meet normal operating requirements and expected redemption requests.

#### **Financial liabilities**

The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Fund can be required to pay.

#### **Financial assets**

Analysis of equity and debt securities into maturity groupings is based on the expected date on which these assets will be realised. For other assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date on which the assets will be realised.

SBM YIELD FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

37.

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

15.6 Liquidity risk (Continued)

The following table summarises the maturity profile of the Fund's financial liabilities based on contractual undiscounted cash flows. The table also analyses the maturity profile of the Fund's financial assets (undiscounted where appropriate) in order to provide a complete view of the Fund's contractual commitments and liquidity.

| 2021  | Less than 1       | 1 to 2 years      | 2 to 5 years      | Over 5 years       | No stated         | Total              |
|---|-------------------|-------------------|-------------------|--------------------|-------------------|--------------------|
|   | year              | 1 to 2 years      | 2 to 5 years      | Over 5 years       | maturity          |                    |
|   | MUR               | MUR               | MUR               | MUR                | MUR               | MUR                |
| <u>Financial assets</u>                     |                   |                   |                   |                    |                   |                    |
| Cash and cash equivalents at amortised cost | 12,710,239        | -                 | -                 | -                  | -                 | 12,710,239         |
| Other receivables at amortised cost         | 9,826             | -                 | -                 | -                  | -                 | 9,826              |
| Financial assets at FVOCI                   | -                 | 15,972,857        | 17,199,195        | 8,025,739          | 19,434,132        | 60,631,923         |
| Financial assets at FVTPL                   | 12,914,171        | -                 | 4,996,115         | 95,436,174         | -                 | 113,346,460        |
| Financial assets at amortised cost          | -                 | -                 | 7,879,761         | 23,140,468         | -                 | 31,020,229         |
|   | <u>25,634,236</u> | <u>15,972,857</u> | <u>30,075,071</u> | <u>126,602,381</u> | <u>19,434,132</u> | <u>217,718,677</u> |
| <u>Financial liabilities</u>                |                   |                   |                   |                    |                   |                    |
| Other payables                              | 580,447           | -                 | -                 | -                  | -                 | 580,447            |
| 2020  |                   |                   |                   |                    |                   |                    |
| <u>Financial assets</u>                     |                   |                   |                   |                    |                   |                    |
| Cash and cash equivalents at amortised cost | 23,472,414        | -                 | -                 | -                  | -                 | 23,472,414         |
| Other receivables at amortised cost         | 9,513             | -                 | -                 | -                  | -                 | 9,513              |
| Financial assets at FVOCI                   | -                 | -                 | 14,579,845        | 3,999,981          | 19,031,554        | 37,611,380         |
| Financial assets at amortised cost          | -                 | -                 | 20,418,518        | 98,011,247         | -                 | 118,429,765        |
|   | <u>23,481,927</u> | <u>-</u>          | <u>34,998,363</u> | <u>102,011,228</u> | <u>19,031,554</u> | <u>179,523,072</u> |
| <u>Financial liabilities</u>                |                   |                   |                   |                    |                   |                    |
| Other payables                              | 518,137           | -                 | -                 | -                  | -                 | 518,137            |

15. FINANCIAL RISK MANAGEMENT (CONTINUED)

15.7 Liquidity risk (Continued)

Excessive risk concentration

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentration of risks arises when a number of financial instruments or contracts are entered into with the same counterparty or when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. Concentrations of liquidity risk may arise from repayment terms of financial liabilities. Concentrations of foreign exchange risk may arise if the Fund has a significant net open position in a single foreign currency. In order to avoid excessive concentration of risk, the Fund's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The investment manager is instructed to reduce exposure to excessive risk concentrations.

The Fund shall not invest more than 20% of its Net Asset Value in securities issued by a single issuer (a company or other corporate entity including the subsidiaries thereof) at the time of purchase.

The Fund shall not hold more than 20% of any class of security listed or unlisted, issued by a single issuer.

16. INCOME

|   | <u>2021</u>             | <u>2020</u>             |
|---|-------------------------|-------------------------|
|   | MUR                     | MUR                     |
| <u>Interest income calculated using effective interest method</u> |                         |                         |
| Income on Government bond   | 6,365,389               | 5,744,500               |
| Interest on deposits with financial institutions                  | 1,027,095               | 399,072                 |
| Interest on other investments                                     | <u>1,023,702</u>        | <u>1,694,866</u>        |
|   | <u>8,416,186</u>        | <u>7,838,438</u>        |
| Dividend Income   | <u>175,444</u>          | <u>236,502</u>          |
| Total   | <u><u>8,591,630</u></u> | <u><u>8,074,940</u></u> |

17. MANAGER'S FEES

Manager's fees are computed daily based on 0.85% p.a of net asset value of the Fund (2020:0.85% of NAV) and the fees are payable monthly in arrears.

18. TRUSTEE'S FEES

Trustee's fees are computed daily based on 0.085% p.a of net asset value of the Fund plus VAT (2020:0.085% of NAV plus VAT) with a minimum of MUR 3,500 and maximum MUR 6,000 per month and the fees are payable monthly in arrears.

19. REGISTRY'S FEES

Registry's fees are computed daily based on 0.10% p.a of net asset value of the Fund (2020:0.10% of NAV) and the fees are payable monthly in arrears.

20. ADMINISTRATOR'S FEES

Administrator's fees are computed daily based on 0.15% p.a of net asset value of the Fund (2020:0.15% of NAV) and the fees are payable monthly in arrears.

21. ENTRY FEE AND EXIT FEE

Entry fees of up to 0.50% (2020: up to 0.50%) on the units subscribed are retained by the Investment Manager to meet any administration costs in relation to subscription of units.

Exit fees of 0.5% of the Net Asset Value per unit will be applicable at the time of redemption. The redemption proceeds will be reduced by the amount of the exit fees and the net amount paid to the Unitholder.

22. CUSTODIAN FEES

Custodian's fees are computed daily based on 0.06% p.a of investment value of the Fund (2020: 0.06% p.a of investment value) plus transaction charges of MUR 100 for each local trade and EUR 20 for each foreign trade (2020: MUR 100 for each local trade and EUR 20 for each foreign trade) and are payable monthly in arrears.

23. DISTRIBUTION TO UNITHOLDERS

As at 30 June 2021 distributions made to unitholders were follows:

|                                | <u>Distribution</u> | <u>Distribution</u> |
|--------------------------------|---------------------|---------------------|
|                                | MUR                 | per unit            |
|                                |                     | MUR                 |
| Year ended 30 June 2020        | 5,735,331           | 0.31                |
| Quarter ended 30 Sept 2020     | 1,237,827           | 0.07                |
| Quarter ended 31 December 2020 | 1,424,024           | 0.08                |
| Quarter ended 31 March 2021    | 1,447,956           | 0.08                |
|                                | <u>9,845,138</u>    |                     |

24. COVID 19 IMPACT ASSESSMENT

The global public health crisis, the Covid-19, led to the shutdown of the global economy and prompted a global equity market collapse in March 2020. The global policy response to cushion the coronavirus shock has been unprecedented in terms of speed and size as policymakers supported the economies by committing to keep rates low and enabling an increasingly accommodative monetary as well as fiscal policies.

**24. COVID 19 IMPACT ASSESSMENT (CONTINUED)**

The pandemic's near-term evolution, containment measures, vaccinations roll-out, easing of restrictions and dovish stance from central banks contributed to the positive market sentiment and pushed equity markets to all-time highs by the end of financial year 2021. Although unprecedented policy responses were required to cushion against the adverse impacts of the Covid-19, monetary and fiscal stimuli along with supply-chain disruptions raised inflationary pressures. Extended high inflation rates may impact the path of interest rates, and hence equity and debt markets, but drastic policy changes are not expected in the near-term.

While markets have rebounded strongly in FY21, the potential impacts from further spread of the virus despite the vaccination roll-outs are difficult to assess and may vary across countries, markets and sectors. Any public health emergency, including any outbreak of Covid-19 mutations or other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on the Fund including the fair value of its investments. External factors remain beyond the Investment Manager's control and cannot be forecasted but they have adverse impacts on the value of investments.

With respect to SBM Yield Fund, its strategic allocation is 60% domestic fixed income and 40% international fixed income. Bonds generally carry lower volatility compared to stocks and usually include a condition to repay the original sum at a specified date in the future and normally provide a fixed level of income. However, the capital value of a bond fund and the level of its income may still fluctuate. Investments in higher yielding bonds issued by borrowers with lower credit ratings may result in a greater risk of default and have a negative impact on income and capital value. Income payments may constitute a return of capital in whole or in part. The impact of COVID-19 on investment value is outlined below:

**- Domestic fixed income securities**

Although Mauritius was downgraded by international agencies, the Investment Manager does not expect significant impacts on the carrying value of GoM securities as no sovereign default risk is currently anticipated. Most of the corporate bonds in the portfolio are issued by entities listed on the Stock Exchange of Mauritius. The bonds are valued at fair value and their market prices are expected to reflect the underlying risks. The main risk in current context is the rise in yields which is likely to reduce the fair value of bond prices but the Manager has views on the evolution of short- and long-term yields, and may adjust the portfolio's duration through trades in managing such risks. Credit risks are managed through limits on issuer, diversified portfolio and limited concentrations. The underlying risks of the issuers are regularly monitored.

The Investment Manager does not expect significant impacts on the carrying value of term deposits with stable banking and non-banking institutions. Nevertheless, those instruments are valued using a hold-to-collect approach under IFRS9 and provisions for expected capital losses are based on issuer rating.

**24. COVID 19 IMPACT ASSESSMENT (CONTINUED)**

**- Foreign fixed income securities**

Given the relatively small fund size and objective to achieving maximum diversification, the Fund's foreign fixed income allocation involves mostly fixed income and fixed-income related mutual funds and ETFs which are measured at fair value. Since the foreign portfolio is mainly invested in international mutual funds and ETFs, the Manager does not anticipate funding liquidity and asset liquidity risks in the current conditions. Any adverse impact of Covid-19 is reflected in the market price of those securities. Adverse credit events would likely result in a fall in prices but mitigated through those securities' diversified portfolios. In addition to credit and interest rate risks from holding foreign fixed income securities, there are potential losses from adverse movement of the MUR against other currencies in which the Fund is invested. The MUR remained relatively weak during the financial year and significantly depreciated towards the end of June 2021. As a result, the carrying value of international investments increased. The Investment Manager seeks to limit its exposure in exotic foreign currencies in managing FX risks

Overall, the Fund has not been impacted in terms of significant redemptions as there has been more issue of units. The Investment Manager monitors closely the liquidity position of the Fund.

**25. EVENTS AFTER REPORTING DATE**

There has been no other material events after the reporting date which would require disclosure or adjustment to the Financial Statements for the year ended 30 June 2021.