

# EXPLANATORY MEMO BPI PREMIUM BOND FUND



The **BPI PREMIUM BOND FUND** is an intermediate bond Unit Investment Trust Fund established under the authority of the Bangko Sentral ng Pilipinas ("BSP"). The following is a summary of the Fund's Plan Rules and Regulations ("Plan Rules") and the terms and conditions governing the investments in the Fund:

- 1 Trustee**  
BPI Asset Management and Trust Corporation (BPI AMTC)
- 2 Fund Features**

Name of the Fund:	<b>BPI Premium Bond Fund</b>
Fund Classification:	Intermediate Bond Fund
Base Currency:	Philippine Peso
Launch Date:	April 4, 2005
Minimum Investment Amount:	PhP10,000
Minimum Transaction Amount:	PhP1,000
Trust Fee	1.50% p.a.
Dealing	Daily up to 12:00 noon
Custodian Bank	HSBC
External Auditor	Isla Lipana & Co
- 3 Investment policy**
  - 3.1. Investment Objective  
The Fund intends to achieve for its Participants capital appreciation and income derived from a diversified portfolio of primarily medium-term fixed income instruments. The Fund aims to provide absolute returns in excess of the return of the BPI Philippine Government Bond 1-3 Year Index.
  - 3.2. Allowable Investments  
BPI Premium Bond Fund may invest in the following:
    - (a) Tradable fixed-income instruments issued or guaranteed by the Philippine government or the BSP; tradable fixed-income instruments issued by financial institutions or private corporations; exchange-listed securities; marketable instruments that are traded in an organized exchange; loans traded in an organized market; and, such other tradable investment outlets/ categories as the BSP may allow.
    - (b) Tradable fixed-income securities issued, underwritten, or otherwise dealt by BPI and/or any of its subsidiaries, affiliates, their successors-in-interest or assignees, their directors, officers, stockholders, and related interest, and any of their trust and fund managed accounts, under such terms and conditions as the Trustee may deem to be in the best interest of the Fund
    - (c) Bank deposits and such other investments allowed under regulations issued by the BSP.
  - 3.2 For all transactions with related parties or entities, the Trustee of the Fund shall be transparent at all times and maintain an audit trail. The Trustee shall observe the principle of best execution and no purchase/sale shall be made with related counterparties without considering at least two (2) competitive quotes from other sources.
- 3.3. The exposure to a single issue shall not exceed fifteen percent (15%) of the market value of the Fund, provided, that this limitation shall not apply to securities issued or guaranteed by investment grade sovereigns or supranationals, as well as non-risk assets as defined by the BSP.
- 3.4. A list of existing and prospective investments outlets which shall be updated quarterly shall be made available to all Participants. Upon request, a copy of such list shall be furnished such interested Participant/s.
- 4. Disclosure on Profiling process**  
The objective of a Client Suitability Assessment (CSA) is to profile the risk-return orientation of the investor and the result is used as basis to recommend various classes of UITFs. The CSA shall be subject to review every three (3) years. Should there be any change in the investor/s' personal/financial circumstances or preferences prior to three years, he/she should immediately request the UITF Marketing person for a new profiling process and changes be made immediately to the investment in UITF, as applicable.
- 5. Qualified Participants**  
Participation in the Fund shall be open to all persons with legal capacity to enter into contracts. Acceptance of Participants shall be subject to the rules or procedures established by the Trustee which it deems advantageous or to the best interest of the Fund. The Fund is suitable for investors with at least a moderately conservative risk profile.
- 6. Subscription and Redemption of Units of Participation**  
Participation shall always be through participation units and each unit shall have uniform rights or privileges as any other unit. Admission or redemption of units of participation in the Fund, including fractions thereof, shall be based on the applicable NAVPU for the day. The NAVPU shall be based on the prevailing market value of underlying investments at any relevant time. Admission and/or notice of redemption received by the Trustee on or before the cut-off time shall be considered as transaction for the day. However, admission/notice of redemption received after the cut-off time shall be considered as transaction for the next applicable banking day. Upon initial participation, the Participating Trust Agreement shall be made available to the Participant. A Confirmation of Participation or Transaction Advice shall be provided to the Participant for subsequent transactions.
- 7. Settlement of Contributions and Redemption**  
Contributions and redemptions received on or before the cut-off time are settled at the end of the trading day.
- 8. Suspension of Subscriptions and Redemptions**  
The Trustee may temporarily suspend calculation of the NAV/NAVPU of the Fund, as well as admission to and redemption from the Fund, if it is unable to determine the NAVPU of the Fund due to any fortuitous event, such as fire, natural calamity, public disorder, or national emergency affecting the financial market resulting in the suspension of trading and consequently, the absence of available market prices of securities/instruments.

**The BPI Premium Bond Fund ("Fund") is a Unit Investment Trust Fund, and is NOT a DEPOSIT product nor an obligation of, nor guaranteed, nor insured by BPI Asset Management and Trust Corporation and is not insured by the Philippine Deposit Insurance Corporation (PDIC). Due to the nature of the investments, yield and potential yields cannot be guaranteed. Any income or loss arising from market fluctuations and price volatility of the securities held by the Fund, even if invested in government securities, is for the account of the investor. As such, units of participation of the trustor in the Fund, when redeemed, may be worth more or be worth less than his/her initial participation/contribution. Historical performance, when presented, is purely for reference purposes and is not a guarantee of future results. The Trustee is not liable for losses, unless upon willful default, evident bad faith or gross negligence. Trustors are advised to read the Declaration of Trust for the Fund, which may be obtained from the office of the Trustee, before deciding to invest.**

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**9. Allocation and Distribution of Income**

Participants shall be entitled to income, profits and losses with respect to its participation in the Fund on a pro rata and pari passu basis depending upon the number of units held by each Participant. The actual distribution or realization of income shall take place every time a redemption of units is made, to the extent of the number of units redeemed.

**10. Valuation**

The NAV shall be the summation of the market value of each investment of the Fund, less taxes, fees, and other qualified expenses as defined herein. The determination of the market value of the investments of the Fund shall be in accordance with existing BSP rules and regulations on marking to market valuation of investment instruments.

**11. Amendments**

The Plan Rules of the Fund may be amended from time to time by the resolution of the BPI AMTC Board of Directors. Participants shall be immediately notified of such amendments and those who are not in conformity with the amendments made shall be allowed to withdraw their participations within 30 calendar days after the amendments are approved or such longer period as may be fixed by the Trustee.

**12. Trust Fee, other expenses and Taxes**

In consideration of the Trustee's services, trust fees shall be collected from the Fund in the amounts indicated in the Fund Features which shall be accrued daily and shall be payable monthly in arrears.

The Trustee may charge special expenses if the same are necessary to preserve or enhance the value of the Fund. Such special expenses shall be payable to the pertinent third party/ies covered by separate contract/s, and disclosed to participants.

**13. Annual External Audit**

An external audit of the Fund shall be conducted annually after the close of each fiscal year by an independent auditor acceptable to BSP. A notice shall be sent to the Participants that the report is available, and upon request, a copy of such report shall be furnished such Participant/s, without charge.

**14. Termination**

The Fund may be terminated by resolution of the BPI AMTC Board of Directors. Following the approval of the termination of the Fund but at least 30 business days prior to the actual termination, the Trustee shall provide notice of the termination to the remaining participants.

**15. Risk disclosure**

Below are the relevant risks that the Fund may be subject to. Some or all of these risks may adversely affect the Fund's NAVPU, return on investment, and/or its ability to meet its investment objectives:

15.1 Market Risk - the risk that movement in the financial markets will adversely affect the investments of the Fund. The markets will fluctuate based on many factors, such as the state of the economy, current events, corporate earnings, interest rate movements.

15.2 Interest Rate Risk -the risk that the value of the portfolio will decline as interest rates rise. Bond prices are inversely related to interest rates. As interest rates increase, bond prices decrease.

15.3 Liquidity Risk - the risk that the investments of the Fund cannot be sold or converted into cash within a reasonable time or in instances where sale or conversion is possible but not at a fair price.

15.4 Credit Risk - the risk that the bond issuer may not be able to pay its debt upon interest payments and maturity

15.5 Inflation Risk - the risk the return of your investments will not keep pace with the increase in consumer prices.

15.6 Reinvestment Risk- risk associated with the possibility of having lower returns or earnings when maturing funds or the interest earnings of funds are re-invested.

15.7 Related Party Risk - Investors are exposed to actual or potential conflicts of interest in the handling of related party transactions by the Trustee, specifically, time deposit placements with the Trustee's own bank and/ or its subsidiary, purchase of debt securities issued by related parties, as well as the execution of trade transactions with related counterparties.

**16. Risk Management and Hedging Policy**

For the general and collective interest of the Fund's Participants, the Trustee is authorized to adopt an external or internal risk management and hedging strategy and a more definitive policy guideline based on generally accepted risk management principles, and duly approved by the BPI AMTC Board of Directors

The Fund may avail itself of instruments solely for the purpose of hedging risk exposures of the existing investments of the Fund, provided, that, these are accounted for in accordance with existing BSP guidelines, as well as the Trustee's risk management and hedging policies duly approved by the BPI AMTC Board of Directors, and disclosed to the Participants.

The Fund may use financial derivatives to hedge the portfolio against market and credit risk. The volatility of the Fund's investments is managed using the principles of Value-at-Risk (VAR). VAR is a measure of the portfolio's maximum potential loss.

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