

# EXPLANATORY MEMO

## ABF PHILIPPINES BOND INDEX FUND



The ABF PHILIPPINES BOND INDEX FUND is an index-tracker Unit Investment Trust Fund established under the authority of the Bangko Sentral ng Pilipinas ("BSP"). The following is a summary of the Fund's Trust Deed and the terms and conditions governing the investments in the Fund:

### 1 Fund Manager

Bank of the Philippine Islands through the Asset Management and Trust Group

### 2 Trustee

Hongkong and Shanghai Banking Corporation, Ltd.

### 3 Fund Features

Name of the Fund:	<b>ABF Philippines Bond Index Fund</b>
Fund Classification:	Index Tracker Bond Fund
Base Currency:	Philippine Peso
Launch Date:	April 21, 2006
Minimum Investment Amount:	PhP 10,000
Minimum Transaction Amount:	PhP 1,000
Management Fee	0.252% p.a.
Trust Fee	0.08% p.a
Dealing	Daily up to 12:00 noon
Custodian Bank	HSBC
External Auditor	Isla Lipana & Co

### 4 Investment policy

#### 4.1. Investment Objective

The Fund aims to achieve investment returns that closely track the total return of the iBoxx Philippines index, before fees and expenses, by investing in a diversified portfolio of peso-denominated sovereign, quasi-sovereign, and supranational bonds.

#### 4.2. Allowable Investments

ABF Philippines Bond Index Fund may invest in the following:

- Index securities consisting of peso-denominated debt obligations issued or guaranteed by the Philippine Government/any other Asian government, by an agency or instrumentality of the Philippine Government/any other Asian government, by a Philippine Government/any other Asian government sponsored entity or quasi Philippine Government/any other Asian government entity and peso-denominated debt obligations issued by supranational financial institution, or by an agency or instrumentality of any supranational financial institution or by an entity sponsored by any supranational financial institution, in each case as determined by the Index Licensor and which are for the time being constituent securities of the iBoxx Philippines Index;
- Non-index securities consisting of peso-denominated securities which are issued by an issuer of any Index Security and are similar to comparable Index Securities and are likely to behave in such a manner that is consistent with the Investment Objective
- Bank deposits and such other investments allowed under regulations issued by the BSP

#### 4.3. Investment Restrictions

- Maximum exposure to non-Philippine Government Security of the same issue is 10%.

- Maximum exposure to Philippine government securities including Index and Non-Index Securities of the same issue is 20%.
- Maximum exposure to Non-Index securities is 10%.

4.4. 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.

### 5 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.

### 6 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 and/or Fund Manager which it deems advantageous or to the best interest of the Fund. The Fund is suitable for investors with a moderately aggressive risk profile.

### 7 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.

### 8 Settlement of Contributions and Redemption

Contributions received on or before the cut-off time of are settled at the end of the next day following valuation day. Redemptions received on or before the cut-off time are settled on the 2nd banking day from the trading day using the NAVPU of that trading day as the basis for the settlement.

### 9 Suspension of Subscriptions and Redemptions

The Manager may suspend the right to redeem or delay the payment of redemption during any period when the dealing of Units is suspended by the BSP or, unless otherwise disallowed by the BSP, during any of the following periods: when settlement or clearing of relevant securities is disrupted, when funds cannot be normally remitted without prejudicing the interests of Holders, when the iBoxx Philippines Index is not compiled or published, any breakdown in the means employed in determining the Value of the Fund Assets or the liabilities of the Trust or when for any other reason the Value of any Investment cannot be promptly and accurately ascertained; or when the business operations of the Manager/Trustee in relation to the operation of the Trust are substantially interrupted or closed due to force majeure.

The Participation in the Fund is a trust product, NOT a bank deposit or an obligation of, or guaranteed, nor issued, nor insured by the Bank of the Philippine Islands or its affiliates or subsidiaries and therefore are not insured or governed by the Philippine Deposit Insurance Corporation (PDIC). Any income and 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 the fund is not capital protected and may not be suitable for clients seeking preservation of capital. Historical performance when presented is purely for reference purposes and not a guarantee of similar future results.

**10 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 redemption of units is made, to the extent of the number of units redeemed.

**11 Valuation**

All assets of the Fund shall be determined by reference to bid prices furnished by the Index Licensor, a pricing service or by brokers approved by the Manager and the Trustee. Cash and deposits shall be valued at face value unless any adjustment should be made to reflect the fair value thereof. The Manager may, however, with the consent of the Trustee adjust the value of any asset or permit other methods of valuation if the Manager considers that such adjustment or other method is required to reflect more fairly the value of the asset or other property. The NAVPU of the Fund shall be computed daily before the start of trading.

**12 Amendments**

The Trust Deed may be amended from time to time by the Trustee and the Manager, with the consent of the Supervisory Committee, or sanction of an Extraordinary Resolution. Notice of the amendment shall be sent to Participants unless the amendment, in the opinion of the Manager, with the consent of the Trustee, is not of material significance. The form and timing of such notification shall be determined by the Manager at its discretion.

**13 Trust Fee, other expenses and Taxes**

In consideration of the Fund Manager and Trustee's services, management and 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 Fund Manager and Trustee may charge all other reasonable costs, charges and expenses which in the opinion of the Trustee and the Manager are properly incurred in the administration of the Fund and its Assets and pursuant to the performance of their respective duties under the Trust Deed.

**14 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.

**15 Termination**

The Fund may be terminated by resolution of the Board of Directors of the Trustee with the prior approval of the Fund Manager and the Supervisory Committee. Following the approval of the termination of the Fund but at least 90 business days prior to the actual termination, a notice of the termination shall be provided to the remaining participants.

**16 Risk disclosure**

Below are some of 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:

- 16.1. Market Risk – The potential for an investor to experience losses due to changes in market prices of securities. It is the exposure to the uncertain market value of a portfolio due to price fluctuations.
- 16.2. Interest Rate Risk – The risk that the value of a portfolio will decline because of rising interest rates.
- 16.3. Liquidity Risk - is financial risk due to inability to sell or convert assets into cash quickly or in instances where conversion to cash is possible but at a loss.
- 16.4. Credit Risk – Investment in fixed income carry a risk of default which means that the issuer is unable to make interest and principal payments.
- 16.5. Income Risk – This is the risk that the income of the Fund will fall due to falling interest rates.
- 16.6. Tracking Error Risk – Risk that returns may deviate from the index due to fees, expenses, liquidity of the market and changes in the index and regulatory policies.
- 16.7. Concentration of the Index in certain issues – The Fund's investments may be concentrated in securities of a single or several issuers as a result of tracking the index.
- 16.8. Changes in the composition of the index – An investor's will generally reflect the index as its constituents change and not necessarily the way it is comprised at the time of actual investment.
- 16.9. 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.

**17 Risk Management and Hedging Policy**

The Fund may avail itself of instruments solely for the purpose of hedging risk exposures if it is of a kind that is not for speculation and is reasonably expected to have the effect of reducing risk, reducing costs and the tracking error as against the iBoxx Philippines Index or generating additional capital or income with no, or with an acceptably low level of, risk and in each case is economically appropriate to the efficient portfolio management of the Fund.

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