

The Paria US\$ Monthly Fixed Income Fund

Audited Financial Statements

For the year ended June 30, 2024

(Expressed in United States Dollars)



Statement of Trustee’s Responsibilities

The Trustee, First Citizens Trustee Services Limited, is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of The Paria US\$ Monthly Fixed Income Fund, (the “Fund”) which comprise the statement of financial position as at June 30, 2024, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of material accounting policies and other explanatory information;
- Ensuring that the Fund keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures the security of the Fund’s assets, detection/prevention of fraud, and the achievement of the Fund’s operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that complies with laws and regulations; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these financial statements, the Trustee utilised the IFRS Accounting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where the International Financial Reporting Standards presented alternative accounting treatments, the Trustee chose those considered most appropriate in the circumstances.

Nothing has come to the attention of the Trustee to indicate that the Fund will not remain a going concern for the next twelve months from the reporting date; or up to the date the accompanying financial statements have been authorised for issue, if later.

The Trustee affirms that it has carried out its responsibilities as outlined above.



September 26, 2024
Trustee



September 26, 2024
Trustee

Independent Auditor’s Report

To the Unitholders of
The Paria US\$ Monthly Fixed Income Fund

Our opinion

We have audited the financial statements of The Paria US\$ Monthly Fixed Income Fund, (the “Fund”) which comprise the statement of financial position as at June 30, 2024, the related statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and the accompanying notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2024, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”).

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 the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”) and we have fulfilled our 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.

Responsibilities of the Trustee and Those Charged with Governance for the Financial Statements

The Trustee is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards, and for such internal control as the Trustee determines 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 is 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 either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund’s financial reporting process.

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 judgment and maintain professional scepticism 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’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.



September 26, 2024
Port of Spain,
Trinidad, West Indies

Statement of Financial Position

		As at June 30	
	Notes	2024	2023
Assets			
Investment securities			
- Fair value through other comprehensive income (FVOCI)	4a	81,442,515	68,613,910
- Fair value through profit or loss (FVPL)	4b	9,817,360	28,287,700
- Amortised cost	4c	26,085,909	28,766,254
Interest receivable		1,263,390	1,044,917
Due from related party		46,190	87,138
Cash and cash equivalents	5	24,639,804	11,465,097
Total assets		\$143,295,168	\$138,265,016
Liabilities			
Accrued expenses and other payables	6	226,394	319,614
Total liabilities		226,394	319,614
Equity			
Net assets attributable to unitholders	7	143,068,774	137,945,402
Total equity		143,068,774	137,945,402
Total liabilities and equity		\$143,295,168	\$138,265,016

The accompanying notes form an integral part of these financial statements.

On September 26, 2024, the Trustee of The Paria US\$ Monthly Fixed Income Fund authorised these financial statements for issue.



Trustee



Trustee

Statement of Profit or Loss and Other Comprehensive Income

		Year ended June 30	
	Notes	2024	2023
Income			
Net interest income	8	4,391,569	4,268,512
Net realised gain on sale of investment securities		14,406	35,041
Net unrealised gain on investment securities		42,767	707
Total investment income		4,448,742	4,304,260
Expenses			
Management and custodian fees	9	(2,154,682)	(1,888,580)
Other administrative expenses	10	(743,466)	(790,470)
Net impairment write back on investment securities	12.1 (xii)	6,604	36,100
Total expenses		(2,891,544)	(2,642,950)
Profit for the year		1,557,198	1,661,310
Other comprehensive income			
Reclassifiable to profit or loss			
Fair value gains arising during the year		1,727,724	428,193
Total comprehensive income for the year		\$3,284,922	\$2,089,503

The accompanying notes form an integral part of these financial statements.

The Paria US\$ Monthly Fixed Income Fund

Audited Financial Statements

For the year ended June 30, 2024

(Expressed in United States Dollars)



Statement of Changes in Equity

	Equity				
	Net assets directly attributable to unitholders # of units	Net assets directly attributable to unitholders Amount	Fair value reserve	Retained earnings	Net assets attributable to unitholders
Year ended June 30 2024					
Balance as at July 1, 2023	14,380,033	143,800,335	(6,381,606)	526,673	137,945,402
Subscriptions	10,958,409	109,584,094	-	-	109,584,094
Redemptions	(10,774,564)	(107,745,644)	-	-	(107,745,644)
Net investment income	-	-	-	1,557,198	1,557,198
Distributions to unitholders	-	-	-	(1,518,958)	(1,518,958)
Reinvestment of distributions	151,896	1,518,958	-	-	1,518,958
Other comprehensive income	-	-	1,727,724	-	1,727,724
Balance as at June 30, 2024	14,715,774	\$147,157,743	\$(4,653,882)	\$564,913	\$143,068,774
Year ended June 30, 2023					
Balance as at July 1, 2022	17,743,743	177,437,436	(6,809,799)	282,932	170,910,569
Subscriptions	8,980,884	89,808,841	-	-	89,808,841
Redemptions	(12,486,351)	(124,863,511)	-	-	(124,863,511)
Net investment income	-	-	-	1,661,310	1,661,310
Distributions to unitholders	-	-	-	(1,417,569)	(1,417,569)
Reinvestment of distributions	141,757	1,417,569	-	-	1,417,569
Other comprehensive loss	-	-	428,193	-	428,193
Balance as at June 30, 2023	14,380,033	\$143,800,335	\$(6,381,606)	\$526,673	\$137,945,402

The accompanying notes form and integral part of these financial statements.

Statement of Cash Flows

	Notes	Year ended 30 June	
		2024	2023
Cash flows from operating activities			
Net investment income for the year		1,557,198	1,661,310
Adjustments to reconcile net investment income for the year to net cash used in operating activities:			
Net impairment writeback on investment securities	12.1 (xii)	(6,604)	(36,100)
Purchase of investment securities		(64,352,267)	(51,642,636)
Proceeds from the sale and maturity of investment securities		74,789,270	58,971,435
Net unrealised gain on investments securities- FVPL		(42,767)	(707)
Net amortization premium/discounts of investment Securities		(337,828)	423,727
Changes in working capital:			
(Increase)/ decrease in interest receivable		(218,473)	267,890
Increase/ (decrease) in due to related party		40,948	(25,221)
Decrease in accrued expenses and other payables		(93,220)	(220,198)
Net cash generated from operating activities		11,336,257	9,399,500
Cash flows from financing activities			
Subscriptions proceeds received		109,584,094	89,808,841
Redemptions paid		(107,745,644)	(124,863,511)
Net cash generated from/ (used in) financing activities		1,838,450	(35,054,670)
Net increase/ (decrease) in cash and cash equivalents		13,174,707	(25,655,170)
Cash and cash equivalents			
Beginning of year		11,465,097	37,120,267
End of year	5	\$24,639,804	\$11,465,097
Supplemental Cash Flow Disclosures			
Interest received		\$3,835,269	\$4,960,131

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

1 Description of the Fund

The following brief description of The Paria US\$ Monthly Fixed Income Fund, (the “Fund”) is provided for general information purposes only. Reference should be made to the Trust Deed and Prospectus of the Fund for more complete information.

General information

The Fund is an open-ended mutual fund denominated in the United States (“US”) dollars and is registered and regulated under the provisions of the Securities Industry Act, 1995 in Trinidad and Tobago. An open-ended fund is one in which the number of units which may be issued in the fund is unlimited.

The Fund was established by the original trustee, First Citizens Bank Limited, under a Trust Deed dated July 26, 2004, in order to provide investors with high current income through investment in a diversified portfolio of high-quality debt instruments. The Fund’s Trustee, since July 2007, is First Citizens Trustee Services Limited. The Fund’s investment activities are managed by First Citizens Portfolio and Investment Management Services Limited (the Investment Manager), with First Citizens Depository Services Limited as its custodian.

On September 12, 2017, a supplemental Trust deed containing an Amended Trust deed was executed with effect from September 29, 2017. The name of the Fund changed from The Paria Fund to The Paria US\$ Monthly Fixed Income Fund. There were no changes in the Amended Trust Deed which alter the operations of the Fund.

Subscriptions

Subscriptions into the Fund are made by investors at a price per unit (the “subscription price”) based on the net asset value per unit of US\$10 each. Units may be subscribed at an initial minimum value of US\$100 and in multiples of US\$25 each thereafter.

Distributions

The net profits of the Fund are calculated and accrued to the investor daily and distributed monthly. Investors have the option to either receive a cash distribution or to reinvest income distributions into units at the prevailing subscription price as at the date of distribution.

Redemptions

Units are redeemed without charge at a price per unit (bid price) based on the net asset value per unit at the date of receipt of the request for redemption. The Trustee seeks to maintain as far as is reasonably possible a bid price of US\$10 per unit. Units may be redeemed in cash up to a limit of US\$50,000 or one per cent of the net asset value of the Fund, whichever is lower, during any sixty-day period for any one investor.

Management and trustee fees

Trustee fees are payable to the Trustee at a rate of 0.25% per annum on the average net assets of the Fund.

Investment management and custodian fees collectively are payable up to a maximum of 2.50%.

Distribution fees are payable at a rate of 0.25% per annum on the average net assets of the Fund.

2 Material accounting policies

The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Fund have been prepared in accordance with IFRS Accounting Standards. IFRS Accounting Standards comprise the following authoritative literature:

- IFRS Accounting Standards
- IAS Standards
- Interpretations developed by the IFRS Interpretations Committee (IFRIC Interpretations) or its predecessor body, the Standing Interpretations Committee (SIC Interpretations).

These financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value.

(a) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund’s accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(i) Standards, amendments and interpretations to existing Standards applicable to the Fund in the current year which were adopted by the Fund

The Fund adopted the following new amendments with a transition date of July 1, 2023. There were no significant changes made to these financial statements resulting from the adoption of these new amendments:

Amendments IAS1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies. The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

Amendments to IAS 8 - Definition of Accounting Estimates. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(ii) Standards, amendments and interpretations issued to existing standards that are not yet effective and have not been early adopted by the Fund

IFRS S1 - General requirements for disclosure of sustainability-related financial information (Effective January 1, 2024). This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity’s value chain.

IFRS S2 - Climate-related disclosures information (Effective January 1, 2024). This is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities.

IFRS 18 - Presentation and Disclosures in Financial Statements (Effective January 1, 2027). This standard includes requirements for all entities applying IFRS for the presentation and disclosure of information in financial statements, with a focus on updates to the statement of profit or loss. It replaces IAS 1 – Presentation of Financial Statements.

The Fund is in the process of assessing the impact of the new and revised standards not yet effective on the financial statements and does not anticipate any material impact.

(iii) Standards, amendments and interpretations issued which are effective and not adopted by the Fund

A number of new standards, amendments to standards and interpretations which have been issued for annual periods beginning after July 1, 2023, but are not considered relevant to the Fund and have not been adopted.

The Paria US\$ Monthly Fixed Income Fund
Audited Financial Statements
For the year ended June 30, 2024
(Expressed in United States Dollars)



Notes to the Financial Statements (continued)

2 Material accounting policies (continued)

2.2 Foreign currency

(a) Functional and presentation currency

The accounting records, as well as the financial statements of the Fund, are maintained in the United States ("US") dollars. US dollar is the functional and reporting currency of the Fund and subscriptions and redemptions are performed in US dollars. The Trustee considers the US dollar to be the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the statement of financial position date.

Foreign exchange gains and losses arising from the translation of financial assets and liabilities are included in the statement of profit or loss and other comprehensive income.

2.3 Financial assets and financial liabilities

The Fund's financial assets and liabilities are recognised in the statement of financial position when it becomes a party to the contractual obligation of the instrument.

(i) Financial assets

The Fund classifies its financial assets based on the following business models:

- Hold to collect
- Hold to collect and sell
- Hold for trading

Based on these factors the Fund classified its financial assets into one of the following three measurement categories:

- Hold to Collect - Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at fair value through profit or loss (FVPL) are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3(ii). Interest income from these financial assets is included in "Net interest income" on the statement of profit or loss and other comprehensive income using the effective interest rate method.

Any gain or loss arising on derecognition is recognized directly in the Statement of Profit or Loss and Other Comprehensive Income and presented in other gains/ (losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the Statement of Profit or Loss and Other Comprehensive Income.

- Hold to Collect & Sell - Fair value through other comprehensive income (FVOCI)

Assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amounts are taken through OCI, except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net interest income" on the statement of profit or loss and other comprehensive income. The interest income from these financial assets is included in "Net interest income" using the effective interest rate method.

- Hold for Trading - Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within gain or loss in the period in which it arises.

- Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, and government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Fund's business model for managing the asset and
- (ii) The cash flow characteristics of the asset.

Fund's business model

The business model reflects how the Fund manages the assets in order to generate cash flows. An assessment is made at a portfolio level and includes an analysis of factors such as:

- The stated objective and policies of the portfolio and the operation of those in practice. More specifically whether the Fund's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows from the sale of assets.
- Past experience on how the cash flows for these assets were collected.
- Determination of performance targets for the portfolio, how evaluated and reported to key management personnel.
- Management identification of and response to various risks, which include but not limited to liquidity risk, market risk, credit risk and interest rate risk.
- Management considers, in classifying its assets, the level of historical sales and forecasted liquidity requirements.

Arising out of the assessment, the portfolios were deemed to have the business models identified as follows:

Amortised Cost (Hold to Collect)	FVOCI (Hold to Collect & Sell)	FVPL (Hold for Trading)
Debt instruments with a modified duration of less than or equal to three (3) years at recognition	Debt instruments with a modified duration greater than three (3) years at recognition	Debt instruments with tenors less than or equal to one (1) year which can be easily liquidated within three (3) business days
Income receivable		Cash and cash equivalents
Due from related parties		

• Solely payments of principal and interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund assesses whether flows represent solely payment of principal and interest (SPPI test). In making this assessment, the Fund considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

The Fund reclassifies debt instruments when, and only when, its business model for managing those assets changes. The classification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

• Recognition/de-recognition of financial assets

All purchases and sales of financial assets are recognised on the trade date - the date on which the Fund commits to purchase or sell the financial asset. Financial assets are initially recognised at fair value plus transaction cost. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all risks and rewards of ownership.

• Impairment

The Fund assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instruments carried at amortised cost and fair value through other comprehensive income. The Fund recognises a loss allowance for such losses at each reporting date.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

- Note 12.1(vi) provides more detail on how the expected credit loss allowance is measured.

(ii) Financial liabilities

Financial liabilities are classified and subsequently measured at amortised cost. Financial liabilities include due to related parties and other payables. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished (that is, when the obligation specified in the contract is discharged, cancelled or expired).

2.4 Due to/ due from related party

Due to/due from related party represents the net balance of daily cash redemptions and subscriptions of redeemable units with a related party at year-end. Due to/due from related party is carried at cost.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and deposits held at call with financial institutions and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.6 Net assets attributable to unitholders

Units are redeemable at the unitholder's option subject to certain restrictions as outlined in Note 1 and are classified as equity in accordance with IAS 1 (amendment), 'Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation'. The distribution of these units is recognised in the statement of changes in equity. The units can be put back to the Fund at any time for cash equal to the Fund's net asset value per share as determined under the Trust Deed. Units are carried as net assets attributable to unitholders at the redemption amount that is payable at the statement of financial position date if the unitholder exercised its right to put the unit back into the Fund.

2.7 Interest income

Interest income is recognised in the statement of profit or loss and other comprehensive income for all interest bearing- instruments on an accrual basis using the effective interest method based on the initial carrying amount. Interest income includes coupons earned on fixed income investments, loans and accrued discount and premium on treasury bills and other discounted instruments.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost). Before any impairment allowance) or the amortised cost of a financial liability. The calculation does not consider expected credit losses and include transaction costs, premium, discounts and all fees paid or received that are integral to the effective interest rate, such as origination fees.

For financial assets that are credit impaired (stage 3), interest income is calculated by applying the effective interest rate (EIR) to the carrying value net of the expected credit loss provision. For financial assets classified as Purchased or Originated Credit Impaired (POCI), the Group calculates credit-adjusted effective interest rate, which is calculated based on the amortised cost of these financial assets instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

The Paria US\$ Monthly Fixed Income Fund

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(Expressed in United States Dollars)



First Citizens

Notes to the Financial Statements (continued)

2 Material accounting policies (continued)

2.8 Expenses

Expenses are accounted for on an accrual basis.

2.9 Transaction costs

Transaction costs are costs incurred to acquire investment securities. They include the bid-ask spread, fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are capitalized at initial recognition by inclusion in the purchase price of the investment.

2.10 Subscriptions and redemptions

Subscriptions and redemptions are accounted for on an accrual basis.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position where there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Due to broker

Due to broker represents amounts owed to brokers for unsettled trades as at the year-end. This is measured at cost.

2.13 Taxation

(a) Tax levied on unitholders

Distribution income to Trinidad and Tobago residents are not subject to taxation. Tax on distribution income is withheld on distributions paid to non-resident unitholders at the rate applicable to the country in which the unitholders reside.

(b) Tax levied on the Fund

Under the provisions of the Corporation Tax Act of Trinidad and Tobago, the Fund is exempt from taxation on its profits; therefore, no provisions have been made in these financial statements for taxes. The Fund is subject to foreign withholding tax on certain interest, dividends and capital gains receivable.

2.14 Provisions

Provisions are recognised when the Fund has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.15 Distributions to unitholders

Distributions to unitholders are recognised in the statement of changes in equity when they are appropriately authorised as described in Note 1.

2.16 Going concern

The financial statements are prepared on the assumption that the Fund is a going concern and will continue in operation for the foreseeable future unless the sponsor intends to either liquidate the Fund or cease operations or has no realistic alternative but to do so. If such an intention or need exists, the financial statements will be prepared on a non-going concern basis. The war in Ukraine is not expected to have a significant impact on the Fund. Management has determined that there is no material uncertainty that casts doubt on the Fund's ability to continue as a going concern. It expects that the war in Ukraine might have some impact, though not significant, in relation to the effects on some future asset valuations due to volatility in equity or debt security prices and foreign exchange rates.

2.17 Comparative figures

Certain changes in the presentation have been made during the year and comparative figures have been restated accordingly. These changes have no impact on the total comprehensive income for the previous year.

3 Critical accounting estimates and judgements

The Fund makes estimates and assumptions about the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are outlined below:

(i) Financial assets at fair value

The Fund uses the discounted cash flow method to determine the fair value of financial assets not traded in active markets. The discounted cash flow method discounts the cash flows of the financial assets at an appropriate yield plus a credit spread where applicable. The Group's credit spread methodology utilises gradient tenors and currency-specific spreads. The appropriate credit spread for the agency or corporate fixed income security is determined using a cubic spline interpolation of the appropriate currency and credit rating category in the credit spread matrix on a per cash flow basis. This singular credit spread is then added to the discount spot rates to value the facility using the discounted cash flow method.

The models used to determine fair values are periodically reviewed by experienced personnel of Group Market Risk.

The carrying amount of fair value through other comprehensive income financial assets would decrease by \$6,696,616 if the discount rate used in the discounted cash flow analysis is increased by 300 basis points from management's estimates (2023 - \$6,483,410). The carrying amount of financial assets at fair value through profit or loss would decrease by \$46,906 if the discount rate used in the discounted cash flow analysis is increased by 300 basis points from management's estimates (2023: \$347,966).

(ii) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 12.1 (vi) which also sets out key sensitivities of the ECL to changes in these elements. In the current environment additional factors were taken into consideration note 12.1(v).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for a significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and the associated ECL; and
- Establishing groups of similar financial assets for the purpose of measuring ECL;
- Determination of macroeconomics drivers and forecasting macroeconomics scenarios;
- Recovery rates on unsecured exposures;
- Drawdown of approved facilities.

(iii) Loss given default

The Loss Given Default rate on corporate senior unsecured bonds is estimated to be 60% based on the International Swaps and Derivatives Association standard Credit Default Swap contract specification for North American corporate issuers. The Loss Given Default rate on sovereign senior unsecured bonds is estimated to be 46% based on the average Loss Given Default rate on Sovereign bonds during the period 1983 to 2022 as reported by Moody's Investors Service.

4 Investment securities

a. Investments - Fair value through other comprehensive income (FVOCI)

	2024	June 30 2023
Government debt securities	34,793,478	27,420,271
Corporate debt securities	46,649,037	41,193,639
	\$81,442,515	\$68,613,910
<i>Movement</i>		
Balance at the beginning of year	68,613,910	79,393,959
Additions of investment at FVOCI	19,185,709	-
Net amortised premium/ discount	(992,204)	(989,981)
Maturities/principal repayments at FVOCI	(7,088,770)	(10,231,694)
Net unrealised gain on revaluation of FVOCI for the year	1,727,724	428,193
Net impairment write back on investment securities	(3,854)	13,433
	\$81,442,515	\$68,613,910

b. Investments - Fair value through profit or loss (FVPL)

Government debt securities	9,817,360	28,287,700
	\$9,817,360	\$28,287,700
<i>Movement</i>		
Balance at the beginning of year	28,287,700	20,077,664
Additions of investment at FVPL	21,056,868	51,642,636
Net amortised premium/ discount	1,330,025	722,394
Maturities/principal repayments at FVPL	(40,900,000)	(44,155,701)
Net unrealised gain on revaluation of FVPL	42,767	707
	\$9,817,360	\$28,287,700

c. Investments - Amortised cost

Government debt securities	19,269,973	3,261,896
Corporate debt securities	6,815,936	25,504,358
	\$26,085,909	\$28,766,254
<i>Movement</i>		
Balance at the beginning of year	28,766,254	33,483,767
Additions of investment at amortised cost	24,109,690	-
Net amortised premium/ discount	7	(156,140)
Maturities/principal repayments	(26,800,500)	(4,584,040)
Net impairment write back on investment securities	10,458	22,667
	\$26,085,909	\$28,766,254

5 Cash and cash equivalents

Bank current account	23,697,041	10,525,005
Short term instruments	942,763	940,092
	\$24,639,804	\$11,465,097

6 Accrued expenses and other payables

Investment management fees payable	126,507	223,380
Trustee fees payable	29,090	28,749
Distribution fees payable	29,090	28,749
Operating expenses accrued	25,033	24,126
Other payables	16,674	14,610
	\$226,394	\$319,614

7 Net assets attributable to unitholders

Net assets directly attributable to unitholders represent the value of assets available to unitholders for daily redemptions in the normal course of business based on the Trustee's discretion.

Net assets attributable to unitholders represents the unitholders equity in the Fund which would be realised by the unitholders in the event of the liquidation of the Fund. This net asset value may fall below that which is directly attributable due to prevailing market conditions, as experienced at the current year end. Given current market conditions, the calculated net asset value attributable to unitholders as at June 30, 2024, is \$9.72 (2023: \$9.59).

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Notes to the Financial Statements (continued)

7 Net assets attributable to unitholders (continued)

The fair value reserve and undistributed surplus represents the undistributed accumulated appreciation on financial assets and accumulated operating gains of the Fund respectively and do not form part of the amount available to unitholders for redemptions in the normal course of business. The Trustee considers the fair value reserve to be distributable only when realised and based on the discretionary powers granted to it in the Fund’s Trust Deed, does not consider the fair value reserve to be available for immediate distribution.

The table below illustrates the calculation of the operating net asset value (NAV) of a unit in the Fund at the statement of financial position date.

	2024	2023
Net assets attributable to unitholders	143,068,774	137,945,402
Add fair value reserve	4,653,882	6,381,606
Less undistributed surplus	(564,913)	(526,673)
Net assets directly attributable to unitholders	\$147,157,743	\$143,800,335
Number of units outstanding	14,715,774	14,380,033
Net value per unit based on net assets directly attributable to unitholders	\$10.00	\$10.00

8 Net interest income

Interest income	4,053,741	4,692,241
Amortisation of:		
Premium	(1,123,821)	(1,210,191)
Discount	1,461,649	786,462
Net interest income	\$4,391,569	\$4,268,512

9 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Investment Management and Custodian fees.

First Citizens Portfolio and Investment Management Services Limited, the Investment Manager of the Fund, is entitled to a fee based on the average net asset value of the Fund. The Custodian of the Fund, First Citizens Depository Services Limited also receives in return a fee based on the average net asset value of the Fund. The investment management and custodian fee for the year ended June 30, 2024, totalled \$2,154,682 (2023: \$1,888,580) of which \$126,507 (see Note 6) (2023: \$223,380) was payable at the year-end and included in accrued expenses and other payables.

Trustee and distribution fees

The Trustee of the Fund is First Citizens Trustee Services Limited, which receives a fee based on the average net asset value of the Fund. Total trustee fees for the year amounted to \$342,031 (2023: \$378,591), with \$29,090 (2023: \$28,749) in outstanding accrued fees due at the end of the year.

First Citizens Investment Services Limited is the distributor of the Fund and receives a fee based on the average net asset value of the Fund. Total distribution fees for the year amounted to \$342,031 (2023: \$378,591), with \$29,090 (2023: \$28,749) in outstanding accrued fees due at the end of the year.

First Citizens Bank Limited acts as the Bank of the Fund with a banking relationship similar to that of any non-related bank.

The fees payable and charged for the year ended June 30, 2024, are outlined in Notes 6 and 10 respectively.

The balance outstanding at the year-end along with other related party transactions are detailed below.

	2024	2023
Investment securities	\$4,994,394	\$9,992,485
Cash and cash equivalents	\$19,520,698	\$10,149,610
Due from related parties	\$46,190	\$87,138
Value of units held in the Fund	\$110,756	\$109,572
Distributions received during the year	\$1,184	\$8,330

The balance due from related parties is interest-free and does not have a stated repayment date.

10 Other administrative expenses

	2024	2023
Trustee fees	342,031	378,591
Distributor fees	342,031	378,591
Audit fees	16,829	15,624
SEC market access fees	11,013	8,555
Other operating expenses	31,562	9,109
	\$743,466	\$790,470

11 Distributions to unitholders

	2024	2023
Average rate of return without reinvestment option	1.08%	0.90%
Annualized effective yield with the reinvestment option	1.11%	0.94%

Distributions are declared as outlined in Note 1. Distributions of \$1,518,958 were declared to unitholders for the year ended June 30, 2024 (2023: \$1,417,569).

12 Financial risk management

The Fund’s activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Fund’s aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Fund’s financial performance.

The Investment Manager’s risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Investment Manager regularly reviews its risk management policies and systems to reflect changes in markets and emerging best practices.

Risk management is overseen by the Board of Directors of the Investment Manager which has delegated its responsibility to an Investment Committee that is responsible for the supervision of the fiduciary investment activities of the Investment Manager. The Investment Committee receives information on key market and economic risk events, trends and forecasts. In addition, the Fund’s Investment Policy Statement identifies and defines the various financial risks faced by the Fund and sets appropriate risk limits and controls.

The First Citizens Group (the Group) risk policies utilise the three lines of defence concept to manage risk. The first line encompasses the functional units which design and implement controls to mitigate the risks which they face, the second line is control functions such as risk management and finance which monitor the first line against these standards/controls. The third line is the Group’s internal audit function which provides an additional assurance and independent review or risk management and the control environment.

The most significant types of financial risk are credit risk, market risk, concentration risk and liquidity risk. Market risk includes currency risk, interest rate and other price risk.

12.1 Credit risk

(i) Definition

The Fund is exposed to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main concentration to which the Fund is exposed arises from the Fund’s investment in debt securities. The Fund is also exposed to counterparty credit risk on cash and cash equivalents and receivable balances.

(ii) Management of risk

Credit risk is mitigated to some extent by limiting the Fund’s exposure to issuers with high credit ratings. The Fund also reduces this risk by prudent credit analysis of issuers to restrict questionable exposures in the Fund.

(iii) Credit risk grading

The Fund uses the Group’s internal credit risk grading or ratings which reflect its assessment of the risk profile or the probability of default (PD) of counterparties. The Fund utilises one (1) rating model for all financial assets.

Investment securities

For sovereign and corporate financial assets, the ratings published by Standards and Poor’s Rating Agency (S&P), Moody’s or Fitch where available, are used. For sovereigns with no S&P/Moody’s/Fitch rating, the Group’s Economic Research and Analytics Unit uses a model based on the S&P methodology to generate a rating.

For corporate investment securities with no S&P/Moody’s/Fitch rating, a rating is assigned using the Group’s Borrower Risk Rating (BRR) model. S&P published ratings are continuously monitored and updated. The PD’s associated with each rating are determined based on realised default over the prior 12 months, as published by the rating agency. The ratings generated by the BRR model are also updated annually.

The table below provides a comparative view of the rating models used by First Citizens Group:

	S&P Rating	Research & Analytics Risk Rating (Investment Securities)	FC Borrower Risk Rating (Corporate)	FC IG Code	Interpretation
Investment Grade	AAA, AA+	A+	1	98	Extremely Low Risk
	AA, AA-	A			
	A+, A	A-	2	95	Very Low Risk
	BBB+, BBB, BBB-	B+	3	90	Low Risk
Speculative Grade	BB+, BB, BB-	B	4	85	Moderate Risk
	B+, B, B-	B-	5	80	High Risk
	CCC+, CCC, CCC-, CC+, CC, CC-, C+, C, C-	C	6		Very High Risk
	D	D	7	65	In Default

As at June 30, 2024, 100% (2023: 100%) of the investments in debt securities and other securities have at least a BBB- based on Standards & Poor’s Ratings.

(iv) Expected credit loss measurement

The Fund applies the simplified approach to all amounts receivable and due from related parties. At initial recognition, the Fund recognises a loss allowance based on Lifetime ECLs. This approach does not require the significant estimation and judgement necessary to determine whether there have been changes in credit risk and whether such changes are significant. A provision matrix is used to measure the Lifetime ECL.

For all investments, IFRS 9 outlines a three-stage model (general approach) for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Fund.
- If a significant increase in credit risk (‘SICR’) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit impaired.

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Notes to the Financial Statements (continued)

12 Financial risk management (continued)

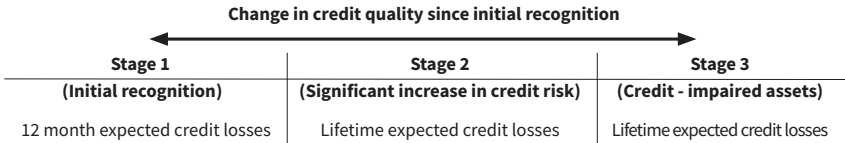
12.1 Credit risk (continued)

(iv) Expected credit loss measurement (continued)

- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’. Please refer to note 12.1(v) for a description of how the Fund defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 12.1(vi) for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 12.1 (vii) includes an explanation of how the Fund has incorporated this in its ECL model.
- Purchased or originated credit-impaired (POCI) financial assets are those assets that are credit-impaired on initial recognition. The ECL is always measured on a lifetime basis and is deemed “built-in” to the fair value on origination. A credit-impaired effective interest rate is used to amortise these instruments to their maturity. Changes to the lifetime expected credit losses are adjusted in the amortised prices.

Further explanation is also provided of how the Fund determines appropriate groupings when ECL is measured on a collective basis refer to note 12.1(vii).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):



Significant increase in credit risk (SICR)

The Fund considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

Investment securities:

Criteria	Hold to Collect/ Hold to collect and Sell	Single “B” or High Yield Portfolio
Absolute Measure	PD - 15% or higher	PD - 25% or higher
AND	AND	AND
Relative measure	One notch downgrade (Research & Analytics Risk Rating investment securities rating scale)	One notch downgrade (Research & Analytics Risk Rating investment securities rating scale)
OR	OR	OR
Absolute measure	Eurobonds in Trigger 3 CDS Breach	Eurobonds in Trigger 3 CDS Breach
Special Consideration	Evidence of cash flow strain and implied increased default risk	Evidence of cash flow strain and implied increased default risk

The Fund has not used the low credit risk exemption for any financial instruments for the year ended June 30, 2024, and June 30, 2023.

Significant decrease in credit risk (SDCR)

With respect to the cure for SICR, the Fund considers a significant decrease in credit risk has occurred when the following happens:

Investment securities:

Criteria	Hold to Collect/ Hold to collect and Sell	Single “B” or High Yield Portfolio
Absolute Measure	PD - below 12.5%	PD below 20%
AND	AND	AND
Relative measure	One notch upgrade (investment securities rating scale)	One notch upgrade (investment securities rating scale)
OR	OR	OR
Relative measure	No Trigger 3 CDS breach for at least 10 consecutive trading days	No Trigger 3 CDS breach for at least 10 consecutive trading days
Special Consideration	Issuer has met contractual payments consistently for a period of one-year from initial classification of Stage 2	Issuer has met contractual payments consistently for a period of one-year from initial classification of Stage 2

(v) Definition of default and credit-impaired assets

The Fund defines a financial instrument as in default or credit impaired, when it meets one or more of the following criteria:

Qualitative criteria

The borrower is more than ninety (90) days past due on its contractual payments.

Quantitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower formally files for bankruptcy or there is a commencement of foreclosure proceedings.
- The obligation is classified doubtful or worse as per the Group’s classification process.
- Restructure proceedings or an indication of the intention to restructure is initiated by the issuer.

The criteria above have been applied to all financial instruments held by the Fund and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), throughout the Fund’s expected loss calculations.

An investment instrument is considered to no longer be in default (i.e. to have cured) when it has been restructured. An exception exists for credit-impaired facilities at origination.

(vi) Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation (as defined in note 12.1 (v)), either over the next twelve (12) months (12M PD) or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Fund expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). The EAD is calculated as the outstanding balance less the discounted collateral value.
- LGD is expressed as the percentage of loss expected to be incurred if the default occurs over the remaining expected lifetime of the investment security and represents management’s expectation of the extent of loss on a defaulted exposure. LGD varies by seniority of the claim and product type, while the availability of collateral is factored before LGD is considered.

PDs

The investment securities’ PDs for sovereign and corporate instruments are taken from the Standard & Poor’s (S&P) Annual Sovereign Default and Rating Transition Study and the Annual Global Corporate Default Transition Study, respectively.

EAD

For amortising products EAD is based on the contractual repayments owed by the borrower over a twelve (12) month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment assumptions are also incorporated into the calculation.

For revolving products, the EAD is calculated by taking the current drawn balance and adding a credit conversion factor (CCF) which adjusts for the expected drawdown of the remaining unutilised limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on an analysis of the product’s usage over a two (2) year period. (Note 12.1 (v)).

LGD

For sovereign investment securities, LGDs are obtained from Moody’s Investor Services’ Data Report on Sovereign Global Default and Recovery Rates (1983-2022). Corporate investment securities LGDs are based on the standard terms for North American corporate entities CDS contracts, taken from Moody’s Analytics’ CDS-implied EDF™ Credit Measures and Fair-value Spreads.

(vii) Forward-looking information incorporated in the ECL models

Determination of macro-economic scenarios and probabilities

For each country in which the Fund has investment securities, management performs scenario analysis to determine the impact of future economic conditions on the PD in these countries. After testing multiple economic indicators, a main macro-economic variable (MEV) is determined, which is statistically linked to the credit risk of that sovereign. To increase the robustness of the model, management adopted a bivariate model to determine two MEVs for key sovereigns. The statistical relationship is determined through regression analysis and an analysis of various measures of significance. The sign of the coefficients is also an important factor in determining the use of the two MEVs. Correlation analysis is then conducted between the two MEVs and key sovereign credit risk metrics, to determine which are most significant. Three selected sovereign credit risk metrics were identified as sovereign credit rating drivers to quantify the impact of the MEVs on each credit risk driver. To establish scenarios, the MEVs are ‘shocked’, such that the official forecast for each year moves up and down by a multiple of the historical standard deviation to establish a best- and worse-case. The new values derived are run through a regression model to quantify the relationship between the credit rating and the scenarios. Data used in the update of the model as at June 30, 2024, incorporated the current global economic conditions, as such the forward-looking scenarios factored in the economic and other shock including tighter monetary policy, sticky underlying inflation pressures and geopolitical risks.

Credit ratings were forecasted for the next three years using these macroeconomic scenarios. The weightings applied to the forecasted ratings were 60% for year 1, 20% each for years 2 and 3. These weightings were determined based on management’s judgment and experience.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Management judgment has also been applied in this process. Forecasts of these economic variables (the “base economic scenario”) are provided by the Economics Research Unit on a periodic basis and provide the best estimate view of the economy over the next three years. After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used. The impact of these economic variables on the PD, EAD and LGD has been determined by performing regression analysis to understand the impact changes in these variables have had historically on default rates and LGD.

Economic assumptions

The most significant period-end assumptions used for the ECL estimate as at 30 June 2024 are set out below. The scenarios “base”, “best” and “worst” were used for the investment portfolios.

Sensitivity analysis

The most significant assumptions affecting the ECL allowance is GDP, given the significant impact it could have on the Fund’s financial performance. Given the current investment portfolio, a 1% change in this indicator will not have any impact on the PDs and LGDs of the ECL.

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Notes to the Financial Statements (continued)

12 Financial risk management (continued)

12.1 Credit risk (continued)

(viii) Risk limit control and mitigation policies

The Fund structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, groups of borrowers, industry and country segments. The Fund monitors its concentration of credit exposure so that no single borrower default will have a material impact on the Fund. These limits are implemented and monitored by the Group Credit Risk Management Unit through the Group Credit Policy Manual. In instances where it is strategically beneficial and adequately documented, the Fund would seek approval on an exception basis for variation to the approved limits from the Board of Directors.

- (a) Single borrower and borrower group exposure limits
Limits established by regulatory authorities have been incorporated into the credit policies where concentration is restricted by limiting credit amounts to a percentage of the capital base. This is supported by a stringent reporting requirement and is further enhanced by policies requiring periodic review of all commercial credit relationships.
- (b) Industry exposure limits
These limits have been established based on a ranking of the riskiness of various industries. The ranking is guided by a model developed for the Group for this purpose. The model utilises a scale incorporating scores of 1 to 6 with 1 being the least risky. Exposure limits as a percentage of the total credit portfolio have been established to the various Industry exposure categories based on the risk ranking.
- (c) Country exposure limits
Exposure limits have been established for selected countries which are considered to be within the Fund's target market. Three (3) risk categories have been developed and the selected countries have been assigned to these categories based either on ratings issued by acceptable rating agencies or the Fund's own internal assessment of the strategic direction of the Fund. Maximum cross border exposure has been limited to a pre-determined portion of total assets and this amount is allocated to the various risk categories with a larger share being allocated to the more highly rated categories.
- (d) Impairment and provisioning policies
The Fund's impairment provision policy is covered in detail in Note 2.3(i).

(ix) Maximum exposure to credit risk

Table with 3 columns: Description, 2024, June 30 2023. Rows include Gross maximum exposure, Investment securities, Fair value through other comprehensive income (FVOCI), Fair value through profit or loss (FVPL), Amortised cost, Interest receivable, Due from related party, Cash and cash equivalents.

The above table represents a worst-case scenario of credit risk exposure to the Fund without taking account of any collateral held or other credit enhancements attached.

As shown above, 18.11% of the total maximum exposure is derived from cash and cash equivalents from other Banks and receivables (2023: 9.11%); while 81.89% represents investments in other debt securities (2023: 90.89%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Fund resulting from both its cash and cash equivalents and receivables portfolio and its other debt securities based on the following:

- The Fund limits its exposure to issuers with high credit ratings
- The Fund performs prudent credit analysis of issuers to restrict questionable exposures to the Fund

Maximum exposure to credit risk - Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment.

Table with 3 columns: Description, 2024, June 30 2023. Rows include Maximum exposure, Financial instruments, Cash and cash equivalents, Investment securities – fair value through profit or loss (FVPL).

Concentration of risks of financial assets with credit exposure

Table with 5 columns: Description, Financial Institutions, Public Sector, Private Sector, Total. Rows include As at June 30 2024, Investment securities, Interest receivable, Due from related party, Cash and cash equivalents, As at June 30 2023, Investment securities, Interest receivable, Due from related party, Cash and cash equivalents.

(x) Expected credit loss

The following table contains an analysis of the credit risk exposure of financial instruments for which

an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Fund's maximum exposure to credit risk on these assets.

Table with 5 columns: Description, Stage 1 12-month ECL, Stage 2 Lifetime ECL, Stage 3 Lifetime ECL, Total. Rows include Credit rating: Investment grade, Standard monitoring, Special monitoring, Default, Gross balance, Loss allowance, Carrying balance for June 30 2024 and June 30 2023.

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 are due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent step up (or step down) between 12 months and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models; currently, ten years of data for PDs are being used, and management's intention is to maintain this ten-year rolling average for the PDs.
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange re-translations for assets denominated in foreign currencies and other movements; and
- Financial assets that were written off during the period.

For the financial year ended June 30, 2024, there was no significant increase in credit risk (SICR) on financial instruments.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors.

Table with 5 columns: Description, Stage 1 12-month ECL, Stage 2 Lifetime ECL, Stage 3 Lifetime ECL, Total. Rows include Investment securities, Loss allowance as at July 1, 2023, Movement with P&L Impact, Transfer from stage 1 to stage 2, Transfer from stage 1 to stage 3, New financial assets originated, Change in PDS/LGDs/EADs, Repayment, Total net P&L charge during the period.

Table with 5 columns: Description, Stage 1 12-month ECL, Stage 2 Lifetime ECL, Stage 3 Lifetime ECL, Total. Rows include Other movement with no P&L impact, Investment securities derecognised during the period, Write-offs, Loss allowance as at June 30, 2024.

Table with 5 columns: Description, Stage 1 12-month ECL, Stage 2 Lifetime ECL, Stage 3 Lifetime ECL, Total. Rows include Investment securities, Loss allowance as at July 1, 2022, Movement with P&L Impact, Transfer from stage 1 to stage 2, Transfer from stage 1 to stage 3, New financial assets originated, Change in PDS/LGDs/EADs, Repayment, Total net P&L charge during the period.

Table with 5 columns: Description, Stage 1 12-month ECL, Stage 2 Lifetime ECL, Stage 3 Lifetime ECL, Total. Rows include Other movement with no P&L impact, Investment securities derecognised during the period, Write-offs, Loss allowance as at June 30, 2023.

12.2 Market risk

The Fund takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

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First Citizens

Notes to the Financial Statements (continued)

12 Financial risk management (continued)

12.2 Market risk (continued)

(a) Price risk

The Fund is exposed to price risk on its debt securities. Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instruments or issuer, or factors affecting all similar financial instruments traded in the market.

The Fund's policy is to manage price risk through diversification and selection of financial instruments within specified limits set by the Investment Manager's Board of Directors.

The fair value of debt securities exposed to price risk was as follows:

	2024	2023
Government debt securities	44,610,838	55,707,971
Corporate debt securities	46,649,037	41,193,639
	<u>\$91,259,875</u>	<u>\$96,901,610</u>

The Fund had no concentrations in individual debt or other securities exceeding 9.42% (2023: 15.65%) of the net assets attributable to unitholders.

As at June 30, 2024, had debt security prices increased by 5% or decreased by 5%, with all other variables held constant, and had the fair value of the Fund's portfolio of debt securities moved in a similar manner to the movement in price, equity would have increased/decreased by \$4,074,571 (2023: \$3,432,917) respectively.

(b) Currency risk

The Fund does not hold significant financial assets or liabilities denominated in currencies other than the US dollar, the functional currency. Foreign currency risk, as defined in IFRS 7, arises as to the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. IFRS 7 considers the foreign exchange exposure relating to non-monetary assets and liabilities to be a component of market price risk not foreign currency risk.

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate due to changes in foreign exchange rates.

The Fund seeks to manage its exposure to foreign exchange risk by ensuring that, as far as possible, transactions entered into are denominated in the Fund's functional currency.

As at June 30, 2024, and June 30, 2023, participation in monetary and non-monetary assets and liabilities of non-functional currencies were negligible hence the Fund was not exposed to significant foreign exchange risk.

(c) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow. The Fund holds fixed interest debt securities that expose the Fund to fair value interest rate risk. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes to market interest rates.

The Fund manages its exposure to interest rate risk by monitoring the daily interest sensitivity gap and attempts to ensure that an appropriate mix of interest-bearing securities are held.

Concentration of interest rate risk

The table below summarises the Fund's exposure to interest rate risk. Included in the table are the Fund's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturities.

	Up to 1 year	1 to 5 years	Over 5 years	Non-interest Bearing	Total
As at June 30 2024					
Investment securities	26,120,570	88,463,829	2,761,385	-	117,345,784
Interest receivable	-	-	-	1,263,390	1,263,390
Due from related party	-	-	-	46,190	46,190
Cash and cash equivalents	24,639,804	-	-	-	24,639,804
Total financial assets	\$50,760,374	\$88,463,829	\$2,761,385	\$1,309,580	\$143,295,168
Total liabilities	-	-	-	226,394	226,394
Total financial liabilities	\$-	\$-	\$-	\$226,394	\$226,394

Interest Sensitivity gap **\$50,760,374** **\$88,463,829** **\$2,761,385**

As at June 30 2023

Investment securities	59,163,025	54,375,886	12,128,953	-	125,667,864
Interest receivable	-	-	-	1,044,917	1,044,917
Due from related party	-	-	-	87,138	87,138
Cash and cash equivalents	11,465,097	-	-	-	11,465,097
Total financial assets	\$70,628,122	\$54,375,886	\$12,128,953	\$1,132,055	\$138,265,016
Total liabilities	-	-	-	319,614	319,614
Total financial liabilities	\$-	\$-	\$-	\$319,614	\$319,614

Interest sensitivity gap **\$70,628,122** **\$54,375,886** **\$12,128,953**

(d) Sensitivity analysis for interest rate risk

The table below summarises the Fund's sensitivity to a reasonable change in the market interest rate (2024: 300bps; 2023: 300bps) with all other variables held constant on operating profit, other comprehensive income, and equity before distributions to unitholders are considered.

	Effect on operating profit	Effect on other comprehensive income	Effect on equity
Year ended June 30 2024			
Change in interest rate			
- 300bps	\$1,077,709	\$6,696,616	\$7,774,325
300bps	\$(1,077,709)	\$(6,696,616)	\$(7,774,325)
Year ended June 30 2023			
Change in interest rate			
- 300bps	\$639,418	\$6,483,410	\$7,122,828
300bps	\$(639,418)	\$(6,483,410)	\$(7,122,828)

12.3 Liquidity risk

(iii) Definition

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities and redeemable units.

(ii) Management of risk

The Fund is exposed to daily cash redemption of redeemable units. It, therefore, invests the majority of its assets in marketable securities which can be disposed of in a relatively short space of time if the need arises.

The Fund has the ability to borrow using the Fund's assets as security at times when the Trustee considers it inadvisable to realise any of the assets of the Fund. Such borrowings may be used to provide cash to settle trades or to redeem units. No such borrowings have arisen during the year.

The Fund also provides for certain restrictions on the maximum value of units that can be redeemed in cash over defined periods of time and for the redemption of units in specie where there is insufficient cash available.

(iii) Maturity analysis of financial liabilities

All balances are due within twelve months of the statement of financial position date and are equal to their carrying balances as the impact of discounting is not significant.

The table below summarizes the maturity profile of the Fund's financial liabilities:

	On-demand/ no stated maturity	Less than 3 months	Less than 6 months	Total
As at June 30 2024				
Accrued expenses and other payables	-	226,394	-	226,394
	<u>\$-</u>	<u>\$226,394</u>	<u>\$-</u>	<u>\$226,394</u>
As at June 30 2023				
Accrued expenses and other payables	-	319,614	-	319,614
	<u>\$-</u>	<u>\$319,614</u>	<u>\$-</u>	<u>\$319,614</u>

12.4 Climate related risk

Climate change presents immediate and long-term risks to the Fund and its clients with the risks expected to increase over time. Climate change risk refers to the risk of loss arising from climate change and is comprised of both physical risk and transition risk. Physical risk considers how chronic and acute climate change (e.g., increased storms, drought, fires, floods) can directly damage physical assets or otherwise impact their value or productivity.

Transition risk considers how changes in policy, technology, business practices and market preferences to address climate change can lead to changes in the value of assets. Climate change risk is an overarching risk that can act as a driver of other categories of risk, such as credit risk from obligors exposed to high climate risk, reputational risk from increased stakeholder concerns about financing high carbon industries and operational risk from physical climate risks to the Fund's Management's and Trustee's facilities.

The Fund currently identifies climate change risk as an emerging risk within its enterprise risk management framework. Emerging risks are risks or thematic issues that are either new to the landscape, or in the case of climate risk, existing risks that are rapidly changing or evolving in an escalating fashion, which are difficult to assess due to limited data or other uncertainties.

12.5 Fair value of financial assets and financial liabilities

(i) Financial instruments not measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Fund's statement of financial position at their fair value.

	Carrying value June 30		Fair value June 30	
	2024	2023	2024	2023
Financial assets				
Cash and cash equivalents	\$24,639,804	\$11,465,097	\$24,639,804	\$11,465,097
Due from related party	\$46,190	\$87,138	\$46,190	\$87,138
Interest receivable	\$1,263,390	\$1,044,917	\$1,263,390	\$1,044,917
Investments – amortised cost	\$26,085,909	\$28,766,254	\$25,988,032	\$28,487,548
Financial liabilities				
Accrued expenses and other payables	\$226,394	\$319,614	\$226,394	\$319,614

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Notes to the Financial Statements (continued)

12 Financial risk management (continued)

12.5 Fair value of financial assets and financial liabilities (continued)

(i) Financial instruments not measured at fair value (continued)

Investment securities measured at amortised cost

The fair value of investment securities at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using a discounted cash flow valuation methodology where all cash-flows of the instruments are discounted at an appropriate yield plus a credit spread where applicable. The fair value of the amortised cost portfolio is computed for disclosure purposes only.

Financial instruments where carrying value is equal to fair value

Due to their liquidity and short-term maturity, the carrying values of certain financial instruments approximate their fair values. Financial instruments where carrying value is approximately equal to fair value include cash and cash equivalents, income receivable, due to related parties and other payables.

(ii) Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Fund's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes debt instruments.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The following table analyses within the fair value hierarchy the Fund's assets as at June 30, 2024, and June 30, 2023:

	Level 1	Level 2	Level 3	Total
As at June 30 2024				
Investment securities				
Fair value through other comprehensive income				
- Debt securities	77,408,138	4,034,377	-	81,442,515
	\$77,408,138	\$4,034,377	\$-	\$81,442,515
Investment securities				
Fair value through profit or loss				
- Debt securities	9,817,360	-	-	9,817,360
	\$9,817,360	\$-	\$-	\$9,817,360
Total investment securities	\$87,225,498	\$4,034,377	\$-	\$91,259,875
As at June 30 2023				
Investment securities				
Fair value through other comprehensive income				
- Debt securities	64,349,691	4,264,219	-	68,613,910
	\$64,349,691	\$4,264,219	\$-	\$68,613,910
Investment securities				
Fair value through profit or loss				
- Debt securities	28,287,700	-	-	28,287,700
	\$28,287,700	\$-	\$-	\$28,287,700
Total investment securities	\$92,637,391	\$4,264,219	\$-	\$96,901,610

13 Contingencies and commitments

The Fund has no undisclosed contingent liabilities or commitments which have not been provided for in these financial statements.

14 Subsequent events

The Fund evaluated all events that occurred from July 1, 2024, through September 26, 2024, the date the financial statements were available to be issued. During the period, the Fund did not have any subsequent events requiring recognition or disclosure in the financial statements, other than those disclosed below.

Subsequent to year-end, up to September 26, 2024, the Fund received subscriptions amounting to \$14,557,274, paid redemptions amounting to \$19,037,674 and distributed income of \$304,379.