

# EXPLANATORY MEMORANDUM

The **Odyssey Peso Bond Fund** (the “Fund”) is a Unit Investment Trust Fund (UITF) established under the authority of the Bangko Sentral ng Pilipinas (BSP). The following is a summary of the Fund’s Plan Rules and Regulations (“Plan Rules”) and the terms and conditions governing the investments in the Fund:

- 1 Trustee**  
BPI Asset Management and Trust Group
- 2 Fund Manager**  
BPI Asset Management and Trust Group
- 3 Classification of the Fund**  
Long Term Bond Fund
- 4 Description of the Fund**

<i>Name of Fund:</i>	Odyssey Peso Bond Fund
<i>Currency:</i>	Philippine Peso
<i>Minimum Participation Amount:</i>	Php 10,000.00*
<i>Minimum Additional Participation Amount:</i>	Php 5,000.00*
<i>Initial NAVPu:</i>	Php 100.00
<i>Launch Date:</i>	May 5, 2003
<i>Recommended Investment Horizon:</i>	At least 1 to 2 years
<i>Redemption Settlement:</i>	2 banking days
<i>Trust Fee:</i>	1.00% p.a.
<i>Investment Objective:</i>	The objective of the Fund is to achieve capital appreciation and income growth in Philippine Peso terms over a period of time by investing in a diversified portfolio of Philippine Peso denominated fixed income instruments.
<i>Return Objective:</i>	The Fund aims to outperform its benchmark which is the HSBC Philippines Local Currency Bond Index. **
<i>Valuation Methodology:</i>	Marked-to-Market
<i>3<sup>rd</sup> Party Custodian:</i>	HSBC, Ltd. (Philippines)

\* Subscriptions to the Fund may be subject to handling or administrative fee which are charged upfront. Distribution agents appointed by the Trustee including the Bank’s own branch network shall be entitled to such fee which shall be covered by a separate Agreement and shall not be an additional charge against the Fund.

\*\* Prior to October 1, 2012, the Fund was benchmarked against the HSBC Philippines Liquid Bond Index

## 5 Investment Guidelines of the Funds

### 5.1 Allowable Investments

The permitted investments of the Fund are as follows:

- a) Bank Deposits;
- b) Securities issued by or guaranteed by the Philippine government, or by the BSP;
- c) Tradable securities issued or guaranteed by multilateral institutions such as the Asian Development Bank (ADB), International Monetary Fund (IMF) and World Bank;
- d) Tradable securities issued by the government of a foreign country, any political subdivision of a foreign country or any supranational entity;
- e) Exchange-listed securities;
- f) Marketable instruments that are traded in an organized exchange;
- g) Loans traded in an organized market; and

The participation in the Fund is a trust product, not a bank deposit and nor an obligation of, nor guaranteed, nor issued, nor insured by BPI Asset Management or its affiliates or subsidiaries and therefore is not insured or governed by the Philippine Deposit Insurance Corporation (PDIC).

Investment or participation in the Fund is subject to risk and possible loss of principal. The Trustee is not liable for losses unless upon willful default, bad faith or gross negligence. Losses, if any, shall be for the account and risk of the Trustor. Past performance is not indicative of future performance. Value of the Fund can go up and down. Any quoted “income expectation” or like terms is neither assured nor guaranteed by Trustee and does not therefore entitle Trustor to a fixed interest or return on its investments. Units of participation in the Fund, when redeemed, may be worth more or less than the original contribution amount.

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- h) Such other tradable investments outlets/categories as may be approved by the relevant authority and allowed by the BSP.
- i) The Trustee may invest in allowable investments denominated in any acceptable foreign currency.
- j) The Trustee may use financial derivative instruments to hedge market risk exposure provided that it is in accordance with the risk management and hedging policy duly approved by the Trustee's Trust Committee and disclosed to the Participants.

5.2 A list of the prospective and outstanding investment outlets shall be made available by the Trustee for the review of all Participants. The list shall be updated quarterly.

### 5.3 Restrictions

- 5.3.1 Maximum exposure of the Fund to an issuer is and its related parties 15%.
- 5.3.2 Maximum exposure of the Fund to any single issuer is 15%.
- 5.3.3 The amount of any issue held may not exceed 15% of the issue size.
- 5.3.4 There is no exposure limit for Philippine sovereign issues.

**6 Client and Product Suitability** – Prior to investment in the Fund, a client shall undergo a client profiling process to guide the client in choosing investment outlets that are best suited to his objectives, risk tolerance, preferences and experience. The Fund is suitable for investors with at least an aggressive risk profile.

**7 Purchase/Admission of Units of Participation in the Funds** – Investments in each of the Funds shall be made by purchasing units of the Fund at the prevailing Net Asset Value per Unit (NAVPU) of the Fund and shall not be less than the Fund's Minimum Participation Amount. Admission of participation shall commence upon execution of a Participation Trust Agreement and the receipt by the Trustee of cleared funds from the Trustor/Participant. The participation of each Trustor/Participant in any of the Funds shall be designated in terms of number of participating units in the Fund. Each unit of participation in a Fund shall have uniform rights and privileges as any other units in the Fund. The Trustee has sole discretion to accept participations and expressly reserves its rights to reject or refuse any participation, investment, or contribution in any of the Funds by any person or entity for any reason whatsoever.

Subsequent contributions of a Trustor/Participant in a Fund is subject to the Fund's Minimum Additional Participation Amount and shall result to the Trustor's/Participant's additional proportionate interest in the Fund.

**8 Subscription and Redemption Cut-off Times for the Funds** – Subscription and redemption orders received on or before 2:00 p.m. shall be considered as a transaction of that day and shall receive that day's NAVPU. However, subscription orders received after the cut-off time shall be considered as transaction for the next applicable banking day.

**9 Redemption of Units of Participation in the Funds** – Redemption from a Fund shall be done through a notice to the Trustee within the Fund's Redemption Notice Period. Redemption of units of participation in a Fund will be based on the applicable NAVPU. Proceeds from redemption of units shall be remitted to the Trustor/Participant by end of day on Trade Date + 1 day.

Redemptions from a Fund shall result in the reduction of the Trustor's/Participant's proportionate interest in the Fund. Such reductions shall be expressed in units of participation based on the NAVPU.

The Trustee may not allow on any single day redemptions from a Fund of more than 10% of the value of the total number of units outstanding for a Fund at the start of the day. The Trustee shall be able to defer any request in whole or in part so that the 10% level is not exceeded.

**10 Units of the Funds** – The total number of outstanding units of a Fund is expanded whenever a Trustor/Participant makes a new or additional purchase of units of participation in the Fund.

The Net Asset Value Per Unit (NAVPU) of a Fund shall be the total net asset value of the Fund divided by the total number of outstanding units of the Fund. In no case will a participation be admitted or redeemed from the Fund except on the basis of the foregoing valuation.

**11 Distribution of Income** – A Participant shall be entitled to a pro-rata distribution of income, profits and losses in respect of their participation in the Fund, upon the redemption of, and corresponding to, its units of participation based on the NAVPU.

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- 12 Valuation of each Fund** – All assets of a Fund shall be marked to market daily in accordance with applicable rules and regulations of the BSP. The Net Asset Value (NAV) of a Fund shall be computed daily starting 4:00 pm Manila Time.

The determination of the market value of the Fund’s investments shall be based on the following:

<b>Asset Class</b>	<b>Valuation</b>
Cash deposits	Valued at cost plus accrued interest
Peso-denominated Government Securities	Peso-denominated government debt securities will be marked-to-market using PDEX R-2’s benchmark yield curve obtained from Bloomberg. Interpolated yields will be computed for each security based on the benchmark yield curve.
Peso-denominated Private Debt Securities	Bid prices/rates to be requested from an accredited dealer or broker
Foreign Currency-denominated Securities	Foreign currency denominated securities will be marked to market using an average of the bid prices/rates from 3 accredited dealers, when available, quoted on Bloomberg starting 4:00PM Manila Time.

- 13 Suspension of NAV calculation** – The Trustee may temporarily suspend calculation of the NAV of the Fund as well as subscriptions and redemptions in the following instances: (1) due to closure of exchanges or regulated markets for periods other than holidays; (2) when the value of an investment of the Fund cannot be determined with the desirable speed and accuracy; (3) when exchange rate or capital transfer restrictions prevent execution of transactions for the account of the Fund; (4) when factors due to political, economic, military or monetary climate which are outside the control, liability and operational scope of the Trustee shall prevent the same from transacting assets and determining the net asset value thereof in a reasonable manner; and (5) when the market of a currency in which a significant portion of the Fund is invested in shall be closed for periods other than normal holidays, or when transactions thereon are suspended or subject to restrictions.

- 14 Amendments** – The Plan Rules of a Fund may be amended from time to time by the Trustee and the amendments shall be submitted to the BSP within the period prescribed by the applicable rules and regulations of the BSP. Trustor/Participants in the Fund shall be immediately notified and shall be allowed to withdraw their participations if they are not in conformity with the amendments made.

A copy of the Fund’s Plan Rules is available at the principal office of the Trustee during regular office hours on any Banking Day upon request of the client.

- 15 Tax Considerations** – Taxation or tax exemption on income or other yield earned from the Fund shall be based on prevailing tax laws and regulations of the relevant tax authority. Taxes, including assessments for deficiencies, penalties, surcharges, claims or cost for defense or counsel in appropriate proceedings shall be for the account of the Fund. The Trustee recommends that prospective participants obtain independent advice on tax issues associated with an investment in the Fund.

- 16 Trust Fee, Other Expenses and Taxes** – In consideration of the Trustee’s services, the Trustee shall be entitled to collect a Trust Fee for each Fund based on the NAV of the Fund. The Trust Fee shall be payable monthly or at such periodic intervals as the Trustee may determine.

The Trustee may, as allowed by the BSP, charge the Fund for special expenses incurred by it in the management of the Fund, including attorney’s fees, custody fees, external audit fees, cost of research, and other similar expenses as it may in its sole discretion determine to be necessary to preserve or enhance the value of the Fund, provided such special expense shall be payable to a third party, covered by a separate contract, and disclosed to Participants.

Distribution agents appointed by the Trustee including the Bank’s own branch network, when allowed by the BSP, shall be entitled to distribution/handling/administrative fees which shall be covered by a separate agreement and shall not be an additional charge against the Fund.

- 17 Audit** – There shall be conducted an annual external audit of the Fund by an independent auditor acceptable to the BSP. The Trustee shall periodically prepare a financial report of the Fund, which shall be made available for inspection by the Participants during business hours on any Banking Day.

- 18 Termination** – The Fund may be terminated or discontinued upon resolution of the Trustee’s Board of Directors. The Participants and the BSP shall be duly notified of such termination and its effectivity.

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**19 Risk Disclosure** – Before investing into any of the Odyssey Funds, the investor should read the complete details of the Fund/s in the Plan Rules, make his/her own risk assessment, and when necessary, he/she must seek independent/professional opinion. The investor should consider, among other things the following points:

- **Interest Rate Risk:** This is the potential for an investor to experience losses due to changes in interest rates. The purchase and sale of a debt instrument may result in profit or loss because the value of debt instrument changes inversely with prevailing interest rates.

The Odyssey Funds, being marked-to-market, are affected by changes in interest rates thereby affecting the value of fixed income investments such as bonds. Interest rate changes may affect fixed income securities inversely, i.e. as interest rates rise, bond prices fall and when interest rates decline, bond prices rise. As the prices of bonds in a fund adjust to a rise in interest rates, the fund's unit price may decline. Investment in government securities in Philippine Peso, although considered credit risk-free, is subject to interest rate risk.

- **Market/Price Risk:** This is the potential for an investor to experience losses due to changes in market prices of securities (e.g. bonds and equities). It is the exposure to the uncertain market value of a portfolio due to fluctuations.

It is the risk of the Fund to lose value due to a decline in securities prices, which may sometimes happen rapidly or unpredictably. The value of investments fluctuates over a given time period because of general market conditions, economic changes or other events that impact large portions of the market such as political events, natural calamities, etc. As a result the Net Asset Value per Unit (NAVPU) may increase to make a profit or decrease to lose money.

- **Liquidity Risk:** This 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. It is caused by different reasons such as trading in securities with small or few outstanding issues, absence of buyers, limited buyers/sell activity, suspension of trading, extreme market conditions, underdeveloped capital market, or events commonly known as “force majeure”.

Liquidity risk occurs when certain securities in the Fund portfolio may be difficult or impossible to sell at a particular time which may prevent redemption of investment in the Fund until its assets can be converted to cash. Even government securities which are the most liquid of fixed income securities may be subjected to liquidity risk particularly if sizeable volume is involved.

- **Credit Risk/Default Risk:** This refers to the risk of loss due to a borrower's failure to repay principal and/or interest in a timely manner on instruments such as bonds, loans, or other forms of security which the borrower issued. This inability of the borrower to make good on its financial obligations may have resulted from adverse changes in its financial condition, thus, lowering credit quality of the security, and consequently lower price (market/price risk) which contributes to the difficulty in selling such security.

It also includes risk on a counterparty (a party that the Fund Manager trades with), defaulting on a contract to deliver its obligation either in cash or securities.

This is the risk of losing value in the Fund portfolio in the event the borrower defaults on his obligation or in the case of a counterparty, when it fails to deliver on the agreed trade. This decline in the value of the Fund happens because the default/failure would make the price of the security go down and may make the security difficult to sell. As these happen, the Fund's NAVPU will be affected by a decline in value.

- **Currency Risk:** This is the possibility for an investor to experience losses due to fluctuations in foreign exchange rates. Exchange rates depend upon a variety of global and local factors, e.g. interest rates, economic performance, and political developments.

This is the risk associated with currency fluctuations when the value of investments in securities denominated in currencies other than the base currency of the Fund depreciates. Conversely, it is the risk of the Fund to lose value when the base currency of the Fund appreciates. The NAVPU of a peso-denominated Fund invested in foreign currency-denominated securities may decrease to incur loss when the peso-appreciates.

- **Management Risk:** The Odyssey Funds are subject to management risk because they are actively managed investment portfolios. The investment manager will apply investment techniques and risk analysis in making portfolio decisions, however, there are no guarantees that these will produce the intended results.

- **Regulatory Risk:** The operation of the Odyssey Funds is subject to various regulations governing areas such as accounting and taxation. There is a risk that regulators may change the current rules or impose new one, leading to a negative impact on the Fund's investments and returns. For example, the imposition of higher taxes would lower the Fund's returns.

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- **Other Risks:** Your participation in the Fund may be further exposed to the risk of any actual or potential conflicts of interest in the handling of in-house or related party transactions by BPI Asset Management. These transactions may include own-bank deposits, purchase of own-institution or affiliate obligations (stock, mortgages); purchase of assets from or sales to own institution, directors, officers, subsidiaries, affiliates or other related interests/parties; or purchases or sales between fiduciary/managed accounts.
- **Transaction Costs:** Your net returns from an investment would also be affected by transactions costs.
- Unit Investment Trust Funds are trust products and not bank deposits. The participation in the Fund is not an obligation of, nor guaranteed, not issued, nor insured by BPI Asset Management or its affiliates or subsidiaries and therefore is not insured by the Philippine Deposit Insurance Corporation (PDIC).
- Investment or participation in the Odyssey Funds is subject to risk and possible loss of principal. Any income or loss arising from market fluctuations and price volatility of 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.
- Past performance is not indicative of future performance. Value of the Odyssey Funds can go up or down. Units of participation in the Fund, when redeemed, may be worth more or less than the original amount invested. Due to the nature of the investment, yields and potential yields cannot be guaranteed.

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