

2021

Sagicor Financial Select Fund

Audited Financial Statements



Sagicor

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Sagicor Select Funds Limited
Financial Select Fund

Financial Statements
31 December 2021

Sagicor Select Funds Limited

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Select Fund

Financial Statements

Financial Select Fund

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Independent auditor's report

To the Members of Sagicor Select Funds Limited – Financial Select Fund

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Sagicor Select Funds Limited – Financial Select Fund (the Fund) as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and with the requirements of the Jamaican Companies Act.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.



Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation and existence of investments. Refer to notes 2 (c) and 6 to the financial statements for disclosures of related accounting policies and balances.</i></p> <p>The investment portfolio totalling \$ 4.098 Billion at 31 December 2021 is comprised of listed equity securities.</p> <p>We focused on the valuation and existence of investment because investments represent the principal element of the net asset value as disclosed in the statement of financial position in the financial statements.</p>	<p>We tested the valuation of the investment portfolio of listed equity securities by comparing the prices used by the Fund to prices reported by the Jamaica Stock Exchange.</p> <p>We tested the existence of the investment portfolio by agreeing the holdings to a custodian confirmation from Jamaica Central Securities Depository Limited.</p> <p>No adjustments were identified as a result of the audit procedures performed.</p>



Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS and with the requirements of the Jamaican Companies Act, and for such internal control as management 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, management 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 management 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management'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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Report on other legal and regulatory requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

The engagement partner on the audit resulting in this independent auditor's report is Recardo Nathan.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica
25 February 2022

Sagicor Select Funds Limited

Financial Select Fund

Statement of Comprehensive Income

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 \$'000	2020 \$'000
Income			
Interest income		1,200	1,229
Dividend income		80,700	68,294
Gain on sale of financial assets at fair value through profit or loss		40,405	-
Other income		279	132
Net foreign currency gains on cash and cash equivalents		291	67
Other net changes in fair value on financial assets at fair value through profit or loss		(230,836)	(1,617,908)
		<u>(107,961)</u>	<u>(1,548,186)</u>
Expenses			
Auditors' remuneration		1,759	1,675
Legal and professional fees		7,391	8,950
Director's fees		1,976	1,976
Bank charges		36	26
Transaction costs		8,074	362
Loan interest		396	-
Management fees to fund manager		12,711	15,732
Irrecoverable General Consumption Tax		4,499	3,928
Trustee fees		3,160	1,089
Other expenses		551	632
		<u>40,553</u>	<u>34,370</u>
Net Loss, being Total Comprehensive Loss for the Year		<u>(148,514)</u>	<u>(1,582,556)</u>
Earnings per stock unit			
Basic and diluted (expressed in \$)	10	<u>(0.03)</u>	<u>(0.31)</u>

Sagicor Select Funds Limited

Financial Select Fund

Statement of Financial Position

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 \$'000	2020 \$'000
ASSETS			
Current Assets			
Financial assets at fair value through profit or loss	6	4,098,080	4,289,444
Receivables		6,417	7,700
Withholding tax recoverable		22	22
Cash and cash equivalents	7	42,778	69,962
		<u>4,147,297</u>	<u>4,367,128</u>
EQUITY			
Capital and Reserves Attributable to Equity Holders of the Fund			
Share capital	9	5,023,931	5,023,931
Accumulated loss		(903,520)	(668,305)
		<u>4,120,411</u>	<u>4,355,626</u>
LIABILITIES			
Current Liabilities			
Payables		18,120	11,502
Withholding tax payable		8,766	-
		<u>26,886</u>	<u>11,502</u>
		<u>4,147,297</u>	<u>4,367,128</u>
Net assets value per stock unit (\$)	10	<u>0.81</u>	<u>0.85</u>

Approved for issue by the Board of Directors on 25 February 2022 and signed on its behalf by:



Colin Steele

Chairman



Janene Shaw

Director

Sagicor Select Funds Limited

Financial Select Fund

Statement of Changes in Equity

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital \$'000	Retained Earnings/ (Accumulated Loss) \$'000	Total \$'000
Balance at 1 January 2020		5,023,931	914,251	5,938,182
Total comprehensive loss for the year		-	(1,582,556)	(1,582,556)
Balance at 31 December 2020		5,023,931	(668,305)	4,355,626
Total comprehensive loss for the year		-	(148,514)	(148,514)
Transaction with owners:-				
Dividend paid	11	-	(86,701)	(86,701)
Balance at 31 December 2021		5,023,931	(903,520)	4,120,411

Sagicor Select Funds Limited

Financial Select Fund

Statement of Cash Flows

Year ended 31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2021 \$'000	2020 \$'000
Cash Flows from Operating Activities			
Net loss for the year		(148,514)	(1,582,556)
Adjustments to determine net cash flows provided by operating activities:			
Interest income		(1,200)	(1,229)
Exchange gains on cash and cash equivalents		(291)	(67)
Dividend income		(80,700)	(68,294)
Interest expense		396	-
		<u>(230,309)</u>	<u>(1,652,146)</u>
Change in operating assets and liabilities			
Decrease in financial assets at fair value through profit or loss		191,364	1,574,315
Payables		6,617	4,999
Receivable		1,284	(5,937)
Withholding tax payable		8,766	(8,434)
Cash used in operations		<u>(22,278)</u>	<u>(87,203)</u>
Dividend received		80,700	68,294
Interest received		1,200	1,229
Net cash used in operating activities		<u>59,622</u>	<u>(17,680)</u>
Cash Flows from Financing Activities			
Dividends paid to equity holders	11	(86,701)	-
Related party loan received	8	166,521	-
Related party loan repaid	8	(166,521)	-
Interest paid		(396)	-
Net cash provided by financing activities		<u>(87,097)</u>	<u>-</u>
Net decrease in cash and cash equivalents		<u>(27,475)</u>	<u>(17,680)</u>
Effects of exchange rate changes on cash and cash equivalents		291	67
Cash and cash equivalents at beginning of year		<u>69,962</u>	<u>87,575</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 7)		<u><u>42,778</u></u>	<u><u>69,962</u></u>

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Principal Activities

Sagicor Select Funds Limited (the Company) was incorporated on the 11th of January 2019 as a public company. The principal activity of the Company is the operation of listed equity funds that track various indexes established by the Jamaica Stock Exchange.

Each fund is close-ended and is represented by a separate class of share in the Company. The assets of the Company are specifically owned and segregated for each share class. The Company has five (5) classes of shares with 'Class A' being the "Management Share" and is issued to Sagicor Investments Jamaica Limited (SIJL), the investment manager of the funds. The other shares of the Company represent four (4) segregated classes being the "Class B", "Class C", "Class D" and "Class E" shares.

At 31 December 2021, "Class B", The Financial Select Fund (the Fund) was one of two classes which were operational. A public invitation for subscription in the Fund was made by Sagicor Select Funds Limited via prospectus dated 12 June 2019, in Jamaica. The offer closed on 16 July 2019.

The Company maintains its registered office at 85 Hope Road, Kingston 6, St. Andrew, Jamaica and its operations takes place out of the office of the Sagicor Investments Jamaica Limited which also maintains its registered office at 85 Hope Road, Kingston 6, St. Andrew.

The Company entered into a management agreement with SIJL to act as manager of the Fund.

The financial statements were authorised for issue by the Directors of the Fund on 25 February 2022. The Directors have the power to amend and reissue the financial statements.

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments at fair value through profit loss.

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. Although these estimates are based on managements' best knowledge of current events and action, actual results could differ from those estimates. 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 4.

Standards, interpretations and amendments to published standards effective in the current year

There were no new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year that is relevant to The Fund's operations.

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Fund

The Fund has concluded that the following standards, which are published but not yet effective, are relevant to its operations. These pronouncements are effective for annual periods beginning on or after year end dates noted and will be applied by the Fund as of those dates unless otherwise indicated.

Amendments to IAS 1 'Presentation of financial statements' on classification of liabilities, (effective for annual periods beginning on or after 1 January 2024). These amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectation of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refer to the 'settlement' of a liability. The adoption of this standard is not expected to have a significant impact on the Fund.

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8, (effective for annual periods beginning on or after 1 January 2023) The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The adoption of this standard is not expected to have a significant impact on the Fund.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates ('the functional currency'). The financial statements are presented in Jamaican dollars, which is the Fund's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions. At the statement of financial position date, assets and liabilities denominated in the foreign currencies are translated using the closing exchange rate.

Exchange differences resulting from the settlement of transactions at rates different from those at the dates of the transactions, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the statement of comprehensive income.

Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the statement of comprehensive income within 'other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss'.

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets at fair value through profit or loss

(i) Classification

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed, and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss.

The Fund's policy requires the investment manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information.

(ii) Recognition, derecognition and measurement

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other net changes in fair value of financial assets at fair value through profit or loss in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income when the Fund's right to receive payments is established. Interest on debt securities at fair value through profit or loss is recognised in the statement of comprehensive income.

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(c) Financial assets at fair value through profit or loss (continued)

(iii) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Fund utilises the closing bid price for financial assets.

If a significant movement in fair value occurs subsequent to the close of trading up to midnight in Jamaica on the year end date, valuation techniques will be applied to determine the fair value. A significant event is any event that occurs after the last market price for a security, close of market or close of the foreign exchange, but before the Fund's valuation time that materially affects the integrity of the closing prices for any security, instrument, currency or securities affected by that event so that they cannot be considered 'readily available' market quotations.

(iv) Transfers between levels of the fair value hierarchy

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

(d) Accrued expenses

Accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method. In addition to management fees, the Fund is responsible for the payment of all direct expenses relating to its operations.

(e) Transaction costs

Transactions costs are costs incurred to acquire financial assets at fair value through profit or loss. They include fees and commission paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in profit or loss as an expense.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities in the statement of financial position.

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(g) Share capital

Ordinary stock units are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of new ordinary stock units are included in the cost of acquisition as part of the purchase consideration.

The shares of the Fund are redeemable at the issuer's option. Such shares are classified as equity as they are redeemable for cash equal to a proportionate share of the Fund's net asset value attributable to the share class. The Fund's net asset value per stock unit is calculated by dividing the capital and reserves attributable to equity holders of the Fund with the total number of outstanding stock units in issue for the respective share class. In accordance with the provisions of the Fund's regulations, investment positions are valued based on the closing bid price for the purpose of determining the net asset value per stock unit for redemptions.

Where the Fund re-purchases its stock units, the consideration paid, including any directly attributable incremental costs is deducted from capital and reserves attributable to equity holders of the Fund's until the ordinary stock units are cancelled, reissued or disposed of. Where such stock units are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Fund's equity holders.

(h) Net asset value per stock and earnings per stock unit

The net asset value per stock unit is calculated by dividing the net assets of each share class by the number of outstanding stock units.

Basic earnings per stock unit is calculated by dividing the profit for the year by the weighted average number of ordinary stock units in issue during the year, excluding the average number of ordinary stock units purchased by the Fund and held as treasury shares.

The Fund has not issued any stock units or other instruments that are considered to have dilutive potential.

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(i) Interest income and interest from financial assets at fair value through profit or loss

Interest is recognised on a time-proportionate basis using the effective interest method. Interest income includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss includes interest from debt securities.

(j) Dividend income

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

(k) Dividend distribution

Dividend distribution to the Fund's stockholders is recognised as a liability in the Fund's financial statements in the period in which the dividends are approved by the Fund's stockholders.

(l) Receivables

Receivables represent amounts due from brokers and dividend receivables. Amounts due from brokers represent receivables for securities sold that have been contracted for but not yet settled or delivered on the statement of financial position date respectively. Receivable balances are held for collection.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the customer, probability that the customer will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired. Details about the Fund's impairment policies and the calculation of the loss allowance are provided in Note 3(b).

(m) Payables

Payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors who makes the strategic decisions.

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

3. 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 risk 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 minimise potential adverse effects on the Fund's financial performance.

The Fund is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Fund to transfer securities might be temporarily impaired.

The Fund'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 Fund regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The management of these risks is carried out by the investment manager under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and the investment of excess liquidity. The investment manager has established committees/departments for managing and monitoring risks, as follows:

(i) Audit Committee

The Audit Committee is responsible for the development of credit and investment policies and standards that conform to applicable law, regulations and corporate policies; approving credit proposal requests; reviewing and approving exceptions to core credit and investment policies that may represent unusual risk; and ensuring that aggregate credit risk exposure are within the Fund's risk taking capacity. This Committee is also responsible for formulating and monitoring investment portfolios and investment strategies for the Fund. In addition, this Committee is responsible for approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed. The Committee's decisions receive final ratification at Board Meetings.

The Audit Committee also oversees how management monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit Committee is assisted in its oversight role by the Internal Audit Department of the investment manager. Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee. The Audit Committee ensures adherence to internal policies and procedures, and regulatory rules and guidelines.

(ii) The Asset Management Division

The Asset Management Division of the investment manager is responsible for managing the Fund's assets and liabilities and the overall financial structure. It is also primarily responsible for the Funding and liquidity risks of the Fund.

The most important types of risks faced by the Fund are market risk, credit risk, liquidity risk and operational risk. Market risk includes equity price risk, currency risk and interest rate.

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Market risk

The Fund takes on exposure to market risks, 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 rate, credit spreads, foreign exchange rates and equity prices. Market risk is monitored by the Audit Committee which carries out research and monitors the price movement of financial assets on the local markets. Market risk exposures are measured using sensitivity analysis and historical value-at-risk.

There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk.

(i) Equity price risk

The Fund is exposed to equity securities price risk. This arises for investments held by the Fund for which price in the future is uncertain.

The Fund's equity investments are publicly traded on the Jamaica Stock Exchange.

The Fund's policy is to track the Financial Index of the JSE and therefore manages the investment portfolio to hold equities in similar weightings to that of the index. There is no limit placed on the value of any one stock in the investment portfolio.

The table below summarizes the sensitivity of the Fund's net income to equity price movement as at 31 December. The analysis is based on the assumption of a 5% (2020- 5%) increase or 5% (2020- 10%) decrease in equity prices, with all other variables held constant.

	Effect on capital and reserves attributable to equity holders of the fund 2021 \$'000	Effect on capital and reserves attributable to equity holders of the fund 2020 \$'000
5% (2020- 5%) increase	204,904	214,472
5% (2020- 10%) decrease	(204,904)	(428,944)

The sensitivity analysis presented is based upon the portfolio composition as at 31 December.

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(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Market risk (continued)

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk occurs when the Fund takes on open position in a currency. To control this exchange risk, the Fund ensures that the net exposure in US dollar is kept to an acceptable level by monitoring currency positions.

The Fund also has transactional currency exposure. This exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The Fund ensures that its net exposure is kept at approved levels. The Fund does not have any significant currency risk exposure with this exposure being \$38,000 (2020- \$25,000) representing a US dollar cash balance at the year end.

(iii) Cash flow and fair value Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of markets interest rates on the fair value of financial assets and liabilities and future cash flow. Floating rate instruments expose the Fund to cash flow interest risk, whereas fixed rate instruments expose the Fund to fair value interest risk.

The Fund's exposure to interest rate risk is limited to securities purchased under agreements to resell which totalled \$26,263,000 (2020 - \$43,748,000) at the year end and all mature within one month.

Interest rate sensitivity

The Fund's interest rate risk arises from its securities purchased under agreements to resell. There is no sensitivity to interest rate risk as securities purchased under agreements to resell are short term and are at fixed interest rates.

(b) Credit risk

The Fund takes on exposure to credit risk, which is the risk that its counterparties will cause a financial loss for the Fund by failing to discharge their contractual obligations. Credit risk is an important risk for the Fund's business; management therefore carefully monitors its exposure to credit risk. The Fund credit exposures arise principally from cash and cash equivalents, amounts due from brokers and other receivable balances. The Fund structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties.

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3. Financial Risk Management (Continued)

(b) Credit risk (continued)

The following tables summarise the Fund's maximum credit exposure for financial assets at their carrying amounts, as categorised by issuer:

	2021 \$'000	2020 \$'000
Receivables	6,417	7,700
Cash and cash equivalents	42,778	69,962
	<u>49,195</u>	<u>77,662</u>

At 31 December, all receivables, securities purchased under agreements to resell and cash at bank are held with reputable financial institutions and are due to be settled within 60 days. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Liquidity risk management process

The Fund's liquidity management process, as carried out within the Fund and monitored by the investment manager largely includes optimising cash returns on investments which are used to settle financial liabilities which include payables and amounts due to related parties. These were all contractually payable within one month.

(d) Capital management

The capital of the Fund is represented by the capital and reserves attributable to equity holders of the Fund. The investment manager's objective when managing the Fund's capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for holders of stock units, provide benefits for other stakeholders and maintain a strong capital base to support the development of the investment activities of the Fund.

The Fund is close ended, and capital is deployed to track the Financial Index of the JSE in order to earn the market return on listed equities representing the financial sector of Jamaica.

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3. Financial Risk Management (Continued)

(e) Fair value estimation

The fair value of financial assets traded in active markets are based on quoted market prices at the close of trading on the year-end date. The Fund utilises the closing bid price for financial assets. If a significant movement in fair value occurs subsequent to the close of trading up to midnight in Jamaica on the year-end date, valuation techniques will be applied to determine the fair value.

An active market is a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

The carrying value less impairment provision of cash and cash equivalents, other receivables and payables are assumed to approximate their fair values.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the Fund's accounting policies

In the process of applying the Fund's accounting policies, management has made no significant judgements regarding the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

In the process of applying the Fund's accounting policies, management has made no significant estimate on the amounts recognised in the financial statements.

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5. Financial Instruments by Category

(a) Financial assets

	2021 \$'000	2020 \$'000
Financial assets at fair value through profit or loss	4,098,080	4,289,444
Financial assets at amortised cost -		
Receivables	6,417	7,700
Cash and cash equivalents	42,778	69,962
	<u>4,147,275</u>	<u>4,367,106</u>

(b) Financial liabilities

	2021 \$'000	2020 \$'000
Financial liabilities at amortised cost -		
Payables	<u>26,886</u>	<u>11,502</u>

The Fund's financial instruments resulted in the following income, expenses and gains and losses recognised in the statement of comprehensive income:

	2021 \$'000	2020 \$'000
Fair value through profit or loss:		
Dividend income	80,700	68,294
Gains on sale of financial assets at fair value through profit or loss	40,405	-
Unrealised depreciation in value of financial assets at fair value through profit or loss	<u>(230,836)</u>	<u>(1,617,908)</u>
	<u>(109,731)</u>	<u>(1,549,614)</u>
Amortised cost:		
Foreign exchange gains	291	67
Interest income	<u>1,200</u>	<u>1,229</u>
	<u>1,491</u>	<u>1,296</u>

Sagicor Select Funds Limited

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Notes to the Financial Statements

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6. Financial Assets at Fair Value through Profit or Loss

	2021 \$'000	2020 \$'000
Quoted equity securities	<u>4,098,080</u>	<u>4,289,444</u>
	2021 \$'000	2020 \$'000
Net changes in fair value on financial assets at fair value through profit or loss comprise:		
Realised	40,405	-
Unrealised	<u>(230,836)</u>	<u>(1,617,908)</u>
Net losses	<u>(190,431)</u>	<u>(1,617,908)</u>

Sagicor Select Funds Limited

Financial Select Fund

Notes to the Financial Statements

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6. Financial Assets at Fair Value through Profit or Loss (Continued)

	31 December 2021		
	No. of Stock units	Carrying Value \$'000	% of portfolio
Investments			
Quoted equities:			
Access Financial Services Limited	993,805	20,810	0.51%
Barita Investments Limited	2,900,747	285,782	6.97%
Caribbean Assurance Brokers Limited	1,140,933	2,396	0.06%
Eppley Limited	835,000	30,018	0.73%
General Accident Insurance Company Limited	5,066,798	29,894	0.73%
Guardian Holdings Limited	700,000	358,750	8.75%
Ironrock Insurance Company Limited	1,000,000	3,115	0.08%
Jamaica Stock Exchange Limited	3,328,641	56,986	1.39%
JMMB Group Limited	7,918,810	312,397	7.62%
Key Insurance Company Limited	2,743,705	10,508	0.26%
Lasco Financial Services Limited	5,500,000	15,950	0.39%
Mayberry Investments Limited	5,206,681	41,653	1.02%
Mayberry Jamaican Equities Limited	6,482,385	51,859	1.27%
NCB Financial Group Limited	8,807,137	1,144,487	27.93%
PanJam Investment Limited	4,561,955	307,932	7.51%
Portland JSX Limited	1,486,257	10,285	0.25%
Proven Investments Limited	1,349,090	43,845	1.07%
Proven Investments Limited (USD)	750,000	26,551	0.65%
QWI Investment Limited	5,874,627	5,228	0.13%
Sagicor Group Jamaica Limited	13,787,731	803,135	19.60%
Scotia Group Jamaica Limited	12,578,986	457,749	11.17%
SSL Venture Capital Jamaica	2,109,741	1,983	0.05%
Sterling Investments Limited	1,623,516	4,546	0.11%
Sygnus Credit Investments Limited (USD)	794,875	14,689	0.36%
Sygnus Credit Investments Limited	1,349,219	20,103	0.49%
Victoria Mutual Investments Limited	6,135,970	37,429	0.90%
Total quoted equities	105,026,609	4,098,080	100%

Sagicor Select Funds Limited

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Notes to the Financial Statements

31 December 2021

(expressed in Jamaican dollars unless otherwise indicated)

6. Financial Assets at Fair Value through Profit or Loss (Continued)

	31 December 2020		
	No. of Stock units	Carrying Value \$'000	% of portfolio
Investments			
Quoted equities:			
Access Financial Services Limited	993,805	23,354	0.54%
Barita Investments Limited	3,482,317	293,211	6.84%
Caribbean Assurance Brokers Limited	1,140,933	1,997	0.05%
Eppley Limited	835,000	21,251	0.50%
General Accident Insurance Company Limited	5,066,798	31,262	0.73%
Ironrock Insurance Company Limited	1,000,000	2,880	0.07%
Jamaica Stock Exchange Limited	3,328,641	67,638	1.58%
JMMB Group Limited	8,368,810	284,121	6.62%
Key Insurance Company Limited	63,706	382	0.01%
Lasco Financial Services Limited	5,500,000	14,850	0.35%
Mayberry Investments Limited	5,206,681	28,897	0.67%
Mayberry Jamaican Equities Limited	6,482,385	48,618	1.13%
NCB Financial Group Limited	10,782,834	1,552,728	36.20%
PanJam Investments Limited	4,621,955	314,247	7.33%
Portland JSX Limited	1,486,257	11,890	0.28%
Proven Investments Limited	1,349,090	45,869	1.07%
Proven Investments Limited (USD)	750,000	25,508	0.59%
QWI Investment Limited	5,874,627	4,288	0.10%
Sagicor Group Jamaica Limited	16,930,674	845,687	19.72%
Scotia Group Jamaica Limited	13,698,986	605,906	14.13%
SSL Venture Capital Jamaica	2,109,741	1,055	0.02%
Sterling Investments Limited	1,623,516	4,319	0.10%
Sygnus Credit Investments Limited (USD)	794,875	10,373	0.24%
Sygnus Credit Investments Limited	799,219	12,788	0.30%
Victoria Mutual Investments Limited	6,135,970	36,325	0.85%
Total quoted equities	108,426,820	4,289,444	100%

Sagicor Select Funds Limited

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Notes to the Financial Statements

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6. Financial Assets at Fair Value through Profit or Loss (Continued)

The Fund is structured to track the Financial Index, an index created by the JSE which is constituted of equity securities listed on the JSE from the financial sector. The Index will vary from time to time and the investment manager will seek to track same on an ongoing basis and shall rebalance the composition of the securities held by the fund on a monthly basis, if required, in order to track the index as closely as possible.

In 2020, the performance of the Fund was directly impacted by the economic effects of the novel Coronavirus (COVID-19) pandemic through its equities investments as the Jamaican Stock Exchange saw a significant decline across all indices resulting in unrealised fair value losses recorded on most of the positions held by the Fund. In the current year, the Jamaica Stock Exchange saw improvements in the indices relative to the previous period this resulted in a reduction in the unrealised fair value losses recorded on these instruments at the end of 2021.

7. Cash and Cash Equivalents

Cash and cash equivalents comprises:

	2021	2020
	\$'000	\$'000
Cash at bank	16,515	26,214
Securities purchased under agreements to resell (with original maturity of less than 90 days)	<u>26,263</u>	<u>43,748</u>
	<u>42,778</u>	<u>69,962</u>

The weighted average effective interest rate on the securities purchased under agreements to resell was 2.50% (2020 - 2.32%)

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8. Related Party Balances and Transactions

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

Related parties include directors, key management and companies for which the Fund and the Company are provided with management services.

The fund manager, Sagicor Investments Jamaica Limited is part of Sagicor Group Jamaica Limited and therefore related companies include Sagicor Group Jamaica Limited and its fellow subsidiaries, associated companies, related entities including funds managed by Sagicor Group Jamaica Limited and related entities. Based on the structure of the fund, all these parties would be classified as other related parties.

(a) Related party transactions

The following transactions were carried out with related parties:

(i) Income –

	2021	2020
	\$'000	\$'000
Dividend income – Sagicor Group Jamaica Limited	17,215	14,325
Interest income – Sagicor Bank Jamaica Limited	82	-
Interest income – Sagicor Investments Jamaica Limited	1,118	1,229
	<u>18,415</u>	<u>15,554</u>

(ii) Expenses –

	2021	2020
	\$'000	\$'000
(i) Sagicor Bank Jamaica Limited		
Bank charges	36	26
(ii) Sagicor Investments Jamaica Limited		
Management fee	12,711	15,732
Trade commissions	8,073	282
Interest expense	396	-
	<u>21,180</u>	<u>16,014</u>

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(expressed in Jamaican dollars unless otherwise indicated)

8. Related Party Balances and Transactions (Continued)

(a) Related party transactions (continued)

(iii) Other – Dividends paid

	2021 \$'000	2020 \$'000
Sagicor Sigma Global Funds – Sigma Equity	21,941	-
Sigma Pooled Equity Fund	1,443	-
Sagicor Sigma Global Funds – Sigma Diversified Investor	4,284	-
Sagicor Sigma Global Funds – Sigma Global Venture	1,389	-
Sagicor Equity Fund	2,474	-
Sagicor Investments Jamaica Limited	85	-
	<u>31,616</u>	<u>-</u>

The following has been charged in arriving at Net Deficit for the period.

	2021 \$'000	2020 \$'000
Directors' emoluments –		
Director Fees	1,976	1,976

(b) Year-end balances arising from operations

Year-end balances arising from transactions are as follows:

	2021 \$'000	2020 \$'000
(i) Management fee to fund manager	<u>8,855</u>	<u>-</u>
(ii) Financial assets at fair value through profit or loss (Note 6)		
Quoted equities – Sagicor Group Jamaica Limited	<u>803,135</u>	<u>845,687</u>
(iii) Cash and cash equivalents (Note 7)		
Sagicor Bank Jamaica Limited	16,515	26,214
Sagicor Investments Jamaica Limited	<u>26,263</u>	<u>43,748</u>
	<u>42,778</u>	<u>69,962</u>

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8. Related Party Balances and Transactions (Continued)

During the year, the Fund obtained a short term loan totalling \$166,521,000 (2020- \$ Nil) from Sagicor Investments Jamaica Limited. The interest rate on these loans was 2.80% (2020- Nil %) per annum. The loan was fully repaid during the year.

Net Debt Reconciliation

The table below details changes in the Fund's liabilities arising from financing activities.

	<u>Related party loans</u>	<u>Related party loans</u>
	<u>2021</u>	<u>2020</u>
	<u>\$'000</u>	<u>\$'000</u>
At 1 January		
Cash movements -		
Repayment of principal	(166,521)	-
Repayment of interest	(396)	-
Loan received	166,521	-
Non-cash movement -		
Interest charge	396	-
At 31 December	<u><u>-</u></u>	<u><u>-</u></u>

9. Share Capital

The Fund's authorised share capital is indefinite with no par value. This is issued as Class B shares, and carry equal voting rights, is entitled to dividends and are entitled to a proportionate share of the Fund's capital and reserves attributable to equity holders of the Fund. All issued shares are fully paid.

On 27 February 2019, the Fund issued 1,100,000,000 ordinary stock units with value of \$1,100,000,000.

On 17 July 2019, the Fund issued an additional 4,000,000,000 ordinary stock units with value of \$3,923,931,000. The Fund incurred transaction costs \$41,069,000 for the issue.

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10. Earnings per Stock Unit and Net Assets Value per Stock Unit

Basic earnings per stock unit is calculated by dividing the loss for the year by the weighted average number of ordinary units in issue during the year.

	2021	2020
Loss for the year (\$'000)	(148,514)	(1,582,556)
Weighted average number of ordinary stock units in issue ('000)	5,100,000	5,100,000
Earnings per stock unit – basic and diluted (\$)	(0.03)	(0.31)

Net asset value per stock unit is calculated by dividing the net asset value at the end of the year by the number of ordinary stock units in issue.

	2021	2020
Net asset value (\$'000)	4,120,411	4,355,625
Number of ordinary stock units in issue ('000)	5,100,000	5,100,000
Net asset value per stock unit (\$)	0.81	0.85

11. Dividends

Dividends paid to shareholders:

		2021	2020
		\$'000	\$'000
First interim dividend paid July 2, 2021 (per unit)	\$0.017	28,560	-
Final dividend for 2021, paid December 16, 2021(per unit)	\$0.0114	58,141	-
		<u>86,701</u>	<u>-</u>

12. Fair Values of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. As all the Fund's investments are quoted equities in an active market the investments are classified as level 1 in the fair value hierarchy.

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13. Segment Reporting

The Board of Directors makes the strategic resource allocations on behalf of the Fund. The Fund has determined the operating segments based on the reports reviewed by the Board of Directors, which are used to make strategic decisions.

The Board of Directors are responsible for the Fund's portfolio and considers the Fund to have a single operating segment. The Board of Directors' asset allocation decisions are based on a single, integrated investment strategy, and the Fund's performance is evaluated on an overall basis.

The internal reporting provided to the Board of Directors for the Fund's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS.

The Fund has no assets classified as non-current assets.

At 31 December, there was one stockholder who held more than 10% of the Financial Select Fund's net asset value. Their holding was 20.62% (2020- 20.62%) and the stockholder is a related party, Sagicor Sigma Global Funds – Sigma Equity.



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