

**LIQUID FUND UNIT TRUST SCHEME
(LIQUID FUND)**

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

LIQUID FUND UNIT TRUST SCHEME

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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LIQUID FUND UNIT TRUST SCHEME

General Information

The Board of Directors of the Fund Manager

The Directors holding office during the period and as at the date of this report are as follows;

Name	Position	Date of appointment
Mr. Casmir Sumba Kyuki	Chairman	Appointed on 11 July 2018
Dr. Suleiman Rashid Mohamed	Member	Appointed on 15 April 2019
Mr. Ramadhani Sampa Hamisi	Member	Appointed on 15 April 2019
Mr. Juma Alli Muhimbi	Member	Appointed on 15 April 2019
Mr. Francis Mtete Chachah	Member	Appointed on 15 April 2019
Mr. Simon Migangala	Managing Director	Appointed on 05 March 2018

Fund Manager

UTT Asset Management and Investor Services Plc.
2nd Floor, Sukari House
Sokoine Drive/Ohio Street
P. O. Box 14825
Dar es Salaam

Custodian

CRDB Bank Plc
Office Accommodation Scheme Building
Azikiwe Street
P. O. Box 268
Dar es Salaam

Auditor

KPMG
2nd Floor, The Luminary
Haile Selassie Road, Masaki
P. O. Box 1160
Dar es Salaam, Tanzania

Advocates

Abenry & Company
NIC Life House
Sokoine/Ohio Street
P. O.Box 3167
Dar es Salaam

LIQUID FUND UNIT TRUST SCHEME

REPORT OF THE BOARD OF DIRECTORS OF THE FUND MANAGER FOR THE YEAR ENDED 30 JUNE 2020

The Board of Directors of UTT Asset Management and Investor Services Plc, hereinafter also referred to as the “Fund Manager”, presents the report of Liquid Fund Unit Trust Scheme (hereinafter also the “Fund” or “Scheme”) together with the audited financial statements for the year ended 30 June 2020, which disclose the financial performance for the year and the state of affairs of the Fund as at that date.

1. Establishment and management for the Fund

Liquid Fund Unit Trust Scheme, also known as “Liquid Fund”, is the fifth collective investment scheme to be established by the Unit Trust of Tanzania (UTT), a government sponsored institution that was incorporated on 19 June 2003 under the Trustees Incorporation Act. The main objectives of UTT include establishing, launching and management of collective investment schemes.

Liquid Fund was established in Tanzania under the Deed of Trust of the Liquid Fund Unit Trust Scheme, on 1 March 2013 and is regulated by Capital Markets and Securities (Collective Investment Schemes) Regulations 1997, prescribed under the Capital Markets and Securities Act, 1994.

The Fund is currently managed by UTT Asset Management and Investor Services Plc (UTT AMIS). As Fund Manager, UTT has set up a management structure to carry out day to day operations of the Fund.

The Custodian of the Fund is CRDB Bank Plc, a commercial bank licensed to carry out banking business under the Banking and Financial Institutions Act, 2006. The duties of the Fund Manager and the Trustee / Custodian are specified in Section 4.0 and 2.2 of the Offer Document respectively. The Offer Document sets forth concisely, the information about the scheme that a prospective investor ought to know about the Fund. It also contains information about the rights and obligations of the Fund Manager and Trustee/Custodian to the Fund.

2. Principal activities and investment objectives

The principal activity of the Fund is to invest the pooled fund into a balanced portfolio that enables both high- and low-income investors to diversify risk and obtain competitive returns over the medium and long term through capital growth.

The main objective of the Fund is to provide alternative investment opportunity to investors who wish to park their surplus/idle funds for a short to medium term duration, at competitive rates. Low risk coupled with high level of liquidity remains the hallmark of this Fund.

3. Financial performance during the year

The financial performance of the Fund for the year is set out on page 9 of these financial statements.

4. Sale and re-purchase of units of the Fund

From 1 March 2013, the Fund commenced the sale and re-purchase of units. The sale price is based on the Net Asset Value (NAV) per unit of the next working day and re-purchase price is based on the Net Asset Value (NAV) per unit of the next working day.

5. Risk warning

An investment in unit trust should be regarded as medium to long term investment. Investors should note that investments in the Fund are subject to market risks and the Net Asset Value (NAV) of the Fund may go up or down depending upon the factors and forces affecting the securities market. Past performance is not a guide to future performance.

LIQUID FUND UNIT TRUST SCHEME

REPORT OF THE BOARD OF DIRECTORS OF THE FUND MANAGER FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

6. Solvency

The Fund's state of affairs as at 30 June 2020 is set out on page 10 of the financial statements. The Fund Manager considers the Fund to be solvent.

On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organization, and most governments are currently taking restrictive measures to contain its further spread affecting free movement of people and goods. Currently the spread of COVID-19 does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern.

7. Historical performance of the Fund

The table below shows historical performance of the Fund for the last three years.

	30 June 2020	30 June 2019	30 June 2018
Net assets attributable to Unit holders (TZS'000)	111,289,045	47,310,420	31,742,938
Number of units	459,598,758	221,375,248	156,562,721
Net Asset Value (TZS)	242.14	213.71	202.75
Published Net Asset Value (TZS)	244.44	212.22	190.34

The table below shows the highest issue price and the lowest redemption price of the units for the last seven years the Fund has been in existence.

	2020 TZS	2019 TZS	2018 TZS	2017 TZS	2016 TZS	2015 TZS	2014 TZS
Highest issue price	244.44	212.22	190.34	167.28	145.93	131.38	114.36
Lowest redemption price	232.20	203.39	182.43	159.22	139.07	122.95	100.00

8. Related party transactions

Details of transactions with related parties are disclosed in Note 14 to the financial statements.

9. The Board of Directors of the Fund Manager

Details of Directors of the Fund Manager who held office during the year and up to the date of this report are found on page 1 of this report.

10. Auditor

KPMG have indicated their willingness to continue in office. A resolution proposing the reappointment of KPMG as the external auditor of the Fund shall be put to the Annual General Meeting of Unit Holders.

By order of the Board

Casmir Sumba Kyuki
Chairman

.....
Date

Juma Alli Muhimbi
Director

LIQUID FUND UNIT TRUST SCHEME

**STATEMENT OF THE DIRECTORS OF THE FUND MANAGER’S RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2020**

The Fund’s Directors are responsible for the preparation of financial statements that give a true and fair view of Liquid Fund Unit Trust Scheme comprising the statement of financial position as at 30 June 2020, and the statements of profit or loss and other comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards and in the manner required by the Capital Markets and Securities (Collective Investment Schemes) Regulations, 1997.

The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Fund to continue as a going concern and have no reason to believe the Fund will not be a going concern in the year ahead from the date of financial statements.

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The financial statements of Liquid Fund Unit Trust, as identified in the first paragraph, were approved by the Board of Directors on and signed by:

Casmir Sumba Kyuki
Chairman

Juma Alli Muhimbi
Director

LIQUID FUND UNIT TRUST SCHEME

**DECLARATION OF THE HEAD OF FINANCE OF THE FUND MANAGER
FOR THE YEAR ENDED 30 JUNE 2020**

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements.

Full legal responsibility for the preparation of financial statements rests with the Board of Directors as under Statement of the Directors of the Fund Manager’s Responsibilities on an earlier page.

I, **Joan Msofe** being the Head of Finance of UTT AMIS hereby acknowledge my responsibility of ensuring that financial statements for the year ended 30 June 2020 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements of Liquid Fund Unit Trust Scheme (Liquid Fund) comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by:

Position: Director of Corporate Services

NBAA Membership No.: ACPA1675

Date:

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF LIQUID FUND UNIT TRUST SCHEME

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Liquid Fund Unit Trust Scheme, set out on pages 9 to 31 which comprise the statement of financial position as at 30 June 2020, the statements of profit or loss and other comprehensive income, changes in net assets attributable to unit holders and cash flows for the year then ended, and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Liquid Fund Unit Trust Scheme as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Capital Markets and Securities (Collective Investment Schemes) Regulations, 1997.

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 and the Fund Manager in accordance with International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. We have determined that there are no key audit matters to communicate in our report.

Other Information

The Directors of the Fund manager are responsible for the other information. The other information comprises the information included in the *Report and Financial Statements*, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF LIQUID FUND UNIT TRUST SCHEME (CONTUNUED)

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Directors of the Fund Manager for the Financial Statements

The Directors of the Fund Manager are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Capital Markets and Securities (Collective Investment Funds) Regulations, 1997, and for such internal control as the Directors of the Fund Manager determine 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 Directors of the Fund Manager are 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 Directors of the Fund Manager either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

The Directors of the Fund Manager are responsible for overseeing the 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 the Directors of the Fund Manager.
- Conclude on the appropriateness of the Directors of the Fund Manager'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.

INDEPENDENT AUDITOR'S REPORT TO THE UNIT HOLDERS OF LIQUID FUND UNIT TRUST SCHEME (CONTUNUED)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

We communicate with the Directors of the Fund Manager 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.

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 Capital Markets and Securities (Collective Investment Funds) Regulations, 1997, we report to you, based on our audit that:

- in our opinion, the financial statements of the Liquid Fund Unit Trust Scheme has been properly prepared in accordance with the requirements of the regulation;
- all persons involved with the conduct and operation of the Scheme have acted properly and in accordance with the requirements of the regulation;
- proper books and records have been kept by the Scheme and the accounts are in agreement with the accounting records of the Scheme; and
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

KPMG

Certified Public Accountants (T)

Signed by: CPA Vincent Onjala (TACPA 2722)

Dar es Salaam

Date

LIQUID FUND UNIT TRUST SCHEME

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

	Notes	2020 TZS'000	2019 TZS'000
Interest income	5	9,268,942	4,954,704
Other income	6	<u>829,089</u>	<u>749</u>
Total income		10,098,031	4,955,453
Management fees		(1,036,803)	(569,257)
Custodian fees		(68,885)	(37,945)
Agent commission		(310,998)	(94,468)
Audit fees		(46,614)	(27,749)
Brokerage fees		(36,802)	(7,780)
Other charges	7	<u>(154,727)</u>	<u>(92,950)</u>
Income before tax		8,443,202	4,125,304
Tax expense	8	<u>(15,975)</u>	<u>(27,083)</u>
Change in net assets attributable to unit holders		<u>8,427,227</u>	<u>4,098,221</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Change in net assets attributable to unit holders		<u>8,427,227</u>	<u>4,098,221</u>

Notes and related statements forming part of these financial statements appear on pages 13 to 31.

Report of the Auditor – pages 6-8

LIQUID FUND UNIT TRUST SCHEME

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Notes	2020 TZS'000	2019 TZS'000
Assets			
Cash and cash equivalents	9	4,830,304	1,897,058
Term deposits with banks	10	290,787	580,953
Government securities	11	<u>107,314,529</u>	<u>45,186,622</u>
Total assets		<u>112,435,620</u>	<u>47,664,633</u>
Liabilities			
Other liabilities	12	<u>(1,146,575)</u>	<u>(354,213)</u>
Total liabilities		<u>(1,146,575)</u>	<u>(354,213)</u>
Net assets attributable to unit holders		<u>111,289,045</u>	<u>47,310,420</u>
Represented by:			
Net assets attributable to unit holders		<u>111,289,045</u>	<u>47,310,420</u>
Net Asset Value per unit based on 459,598,758 units Outstanding (2019 – 221,375,248 units)		<u>242.14</u>	<u>213.71</u>

The financial statements on pages 9 to 31 were approved for issue by the Board of Directors on and signed on its behalf by:

Casmir Sumba Kyuki
Chairman

Juma Alli Muhimbi
Director

Notes and related statements forming part of these financial statements appear on pages 13 to 31.

Report of the Auditor – pages 6-8

LIQUID FUND UNIT TRUST SCHEME

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS AS AT 30 JUNE 2020

	Notes	2020 TZS'000	2019 TZS'000
Opening balance of net assets attributable to unit holders		47,310,420	30,179,888
Increase in net values attributable to unit holders		<u>8,427,227</u>	<u>4,098,221</u>
		<u>55,737,647</u>	<u>34,278,109</u>
Transactions with unit holders during the year			
Sales of units during the year	13	99,450,707	33,639,878
Repurchase of units during the year	13	<u>(43,899,309)</u>	<u>(20,607,567)</u>
Net transaction with unit holders during the year		<u>55,551,398</u>	<u>13,032,311</u>
Closing balance of net assets attributable to unit holders		<u>111,289,045</u>	<u>47,310,420</u>

Notes and related statements forming part of these financial statements appear on pages 13 to 31.

Report of the Auditor – pages 6-8

LIQUID FUND UNIT TRUST SCHEME

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2020 TZS'000	2019 TZS'000
Cash flows from operating expenses			
Income after tax		8,427,227	4,098,221
Adjustment for:			
Tax expense	8	<u>15,975</u>	<u>27,083</u>
		8,443,202	4,125,304
Changes in:			
Term deposits with banks		290,166	3,321,511
Government securities		(62,127,907)	(20,739,924)
Other liabilities		792,362	103,664
Other receivables		<u>-</u>	<u>50,871</u>
Cash used in operations		(52,602,177)	(13,138,574)
Withholding tax paid	8	<u>(15,975)</u>	<u>(27,083)</u>
Net cash used in operating activities		(52,618,152)	(13,165,657)
Cash flows from financing activities			
Sales of units	13	99,450,707	33,639,878
Repurchase of units	13	<u>(43,899,309)</u>	<u>(20,607,567)</u>
Net cash inflow from financing activities		55,551,398	13,032,311
Net increase/ (decrease) in cash and cash equivalents		2,933,246	(133,346)
Cash and cash equivalents at the beginning of the year		1,897,058	2,030,404
Cash and cash equivalents at the end of the year		4,830,304	1,897,058

Notes and related statements forming part of these financial statements appear on pages 13 to 31.

Report of the Auditor – pages 6-8

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

1. REPORTING ENTITY

Liquid Fund Unit Trust Scheme (Liquid Fund) was established on 1 March 2013 and is regulated by Capital Markets and Securities (Collective Investment Schemes) Regulations 1997, prescribed under Capital Markets and Securities Act 1994. The address of the Fund's registered office is 2nd Floor, Sukari House, Sokoine/Ohio Street, P.O Box 14825 Dar es Salaam.

Liquid Fund Unit Trust Scheme is managed by UTT Asset Management Investor Service (UTT AMIS), who has set up a management structure to carry out day to day operations of the Fund. The duties of the Fund Manager and the Trustee/Custodian and the Fund Manager are specified on Section 4.0 and 2.2 of the Offer Document respectively. The address of the Fund manager's registered office is 2nd Floor, Sukari House, Sokoine/Ohio Street, P.O Box 14825, Dar es Salaam.

The Fund is an open-ended investment fund primarily involved in investing in a diversified portfolio of debt securities issued by corporates and government and fixed deposits with the objective of providing unit holders with competitive returns over a short to medium period of time.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Fund for the year ended 30 June 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and in the manner required by the Capital Markets and Securities (Collective Investment Schemes) Regulations, 1997.

(b) Basis of measurements

The financial statements have been prepared on the historical cost basis unless where fair value has been applied in line with the respective accounting policies.

(c) Functional and presentation currency

These financial statements are presented in Tanzanian shillings (TZS), which is the Fund's functional and presentation currency. All amounts have been rounded to the nearest thousands ('000'); except when otherwise indicated.

Functional currency is the currency of the primary economic environment in which the Fund operates. The Fund's investment and transactions are denominated in Tanzanian shillings. Investor subscriptions and redemptions are determined based on the net asset value and received and paid in Tanzanian shillings. The expenses (including management fees, custodian fees and other charges) are denominated and paid for in Tanzanian shillings. Accordingly, management has determined that the functional currency of the Fund is Tanzanian shillings.

(d) Going Concern

The financial statements have been prepared on going concern basis. This basis presumes that fund manager will be providing funds to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business for the next 12 months' as they fall due. In view of this, the Directors of the Fund Manager consider it appropriate to prepare the financial statements on the going concern basis.

On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organization, and most governments are currently taking restrictive measures to contain its further spread affecting free movement of people and goods. Currently the spread of COVID-19 does not result in a material uncertainty related to such events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Change in accounting policies

A number of new standards including IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments* are effective from 1 July 2019, but they do not have a material effect on the Fund's financial statements.

The accounting standards set out below have been applied consistently to all periods in presenting these financial statements.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Fund at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

(c) Interest income

Interest income presented in the statement of profit or loss and other comprehensive income comprise interest on financial assets measured at amortised cost calculated on an effective interest basis.

The 'effective interest rate' is calculated on initial recognition of a financial instrument as the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset.

In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. Interest income is recognised on a gross basis, including withholding tax, if any.

(d) Expenses

Expenses to the Fund would be charged in accordance with Section 24.0 of the Offer Document which states;

- i. Management fee will be charged at 1.5% of NAV;
- ii. Custodian fee at 0.1% of NAV with the minimum of TZS 5 million per annum; and
- iii. Other charges at 0.65% of NAV. Other charges include the commonly rated charges such as bank charges, marketing, selling expenses, legal fees and audit fees.

Management fee and other charges would be restricted to 2.25% of the NAV. Any additional amount would be borne by the Fund Manager.

(e) Taxation

Under Section 86 of the Income Tax Act, 2004, the Fund is exempt from paying taxes on income, profits or capital.

Interest income received by the Fund is subject to withholding tax as final tax on the same basis as for individuals. Investment income is recorded gross of such taxes and the withholding tax is included under tax charge for the period.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Redeemable units

All redeemable units issued by the Fund provide the investors with the right to require redemption for cash at the value proportionate to the investor's units in the Fund's net assets at the redemption date. In accordance with IFRS 9 such instruments give rise to financial liability for the present value of the redemption amount. In accordance with the Offer Document, the Fund is contractually obliged to redeem units based on the Net Asset Value of the next working day.

Units applied for repurchase and approved but not settled as at year end are presented as repurchase payables and classified as other liabilities.

(g) Cash and cash equivalents

Cash and cash equivalents include cash and call deposits with banks with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Fund in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(h) Financial instruments

i. Recognition and initial measurement

The Fund initially recognises regular-way transactions in financial assets and financial liabilities at Fair Value Through Profit and Loss (FVTPL) on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification and subsequent measurement

On initial recognition, the Fund classifies financial assets as measured at amortised cost or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are Solely Payments of Principal and Interest (SPPI).

All other financial assets of the Fund are measured at FVTPL.

Business model assessment

In making an assessment of the objective of the business model in which a financial asset is held, the Fund considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (Continued)

ii. Classification and subsequent measurement (Continued)

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets. The Fund has determined that it has one business model which is:

- Held-to-collect business model: this includes government securities, term deposits with banks, cash and cash equivalents and other receivables. These financial assets are held to collect contractual cash flow.

Assessment whether contractual cash flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are SPPI, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Fund considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension features;
- terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse features); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition unless the Fund were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

Subsequent measurement of financial assets

Financial assets at amortised cost:	These assets are subsequently measured at amortised cost using the effective interest method. Interest income is calculated using effective interest method and recognised in profit or loss.
Financial assets at FVTPL:	These assets are subsequently measured at fair value. Net gains and losses are recognised in profit or loss.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (Continued)

ii. Classification and subsequent measurement (Continued)

Financial liabilities

Other liabilities are classified as other liabilities and are carried at amortised cost.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when and only when the Fund has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards or gains and losses arising from a group of similar transactions such as in the Fund's trading activity.

iii. Impairment

The Fund recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following which are measured at 12-month ECLs;

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Fund considers a financial asset to be in default when;

- the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12-month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Financial instruments (Continued)

iii. Impairment (Continued)

Measurement of ECLs

ECLs are probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive).

ECLs are discounted at the effective interest of the financial asset.

Credit-impaired financial assets

At each reporting date, the Fund assesses whether the financial assets carried at amortised cost are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flow of the financial assets have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data;

- i. significant financial difficulty of the borrower or issuer;
- ii. a breach of contract such as default or being more than 90 days past due; or
- iii. it is possible that the borrower will enter bankruptcy or other financial reorganisation.

Presentation of allowance for ECLs in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write off

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

iv. Derecognition

The Fund derecognises regular-way sales financial assets using trade date accounting. A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or the Fund transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such is transferred assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Fees and commission expenses

Fees and commission expenses are recognised in profit or loss as the related services are rendered.

(j) Provisions

A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Contingent liabilities

The Fund recognises a contingent liability where, it has a possible obligation from past events, the existence of which will be confirmed only by the occurrence of one or more uncertain events not wholly within the control of the Fund, or it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(l) New relevant standards and amendments to standards in issue but not yet effective and not early adopted by the Fund

A number of new standards are effective for annual periods beginning after 1 July 2019 and earlier application is permitted; however, the Fund has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Fund's financial statements.

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- Definition of Material (Amendments to IAS 1 and IAS 8)
- IFRS 17 Insurance Contracts.
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

4. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Fund has exposure to the following risks from its use of financial instruments:

- (a) Credit risk;
- (b) Liquidity risk;
- (c) Market risk; and
- (d) Operational risk

This Note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk management framework

The Fund maintains positions in a variety of non-derivative financial instruments in accordance with its investment management strategy.

The Fund's investment portfolio comprises of Government securities and Term deposits.

Asset purchases and sales are determined by the Fund Manager, who has been given discretionary authority to manage the distribution of the assets to achieve the Fund's investment objectives.

Compliance with the target asset allocations and the composition of the portfolio is monitored by the Board of Directors on a quarterly basis. In instances where the portfolio has diverged from target asset allocations, the Fund's Manager is obliged to take actions to rebalance the portfolio in line with the established targets, within prescribed time limits.

(a) Credit risk

Credit risk is the risk that counterparty to a financial instrument will fail to discharge obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from Government securities held, term deposits with banks and cash and cash equivalents.

For risk management reporting purposes, the Fund considers and consolidates all elements of credit risk exposures (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Fund's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out in the Fund's prospectus.

Credit risk is monitored on a daily basis by the Fund Manager in accordance with policies and procedures in place.

The Fund's credit risks are monitored on a quarterly basis by the Board of Directors. Where the credit risks are not in accordance with the investment policy or guidelines of the Fund, the Fund Manager is obliged to rebalance the portfolio upon determination that the portfolio is not in compliance with the stated investment parameters.

Credit risk is mitigated by investing in issuers with known credibility and it is monitored on an ongoing basis by the Fund Manager.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

The table below provides details of exposure to credit risk for the financial assets as defined by IFRS 9, analysing the carrying amounts – similar to their fair values at the reporting date and showing maximum exposure to credit risk, if different from carrying amount.

	30 June 2020		30 June 2019	
	Financial assets TZS '000	Exposure to credit risk TZS '000	Financial assets TZS '000	Exposure to credit risk TZS '000
Cash and cash equivalent	4,830,304	4,830,304	1,897,058	1,897,058
Term deposits with banks	290,787	290,787	580,953	580,953
Government securities	107,314,529	107,314,529	45,186,622	45,186,622
	112,435,620	112,435,620	47,664,633	47,664,633

Concentration of credit

The Fund Manager, reviews credit concentration of debt securities held with counterparties and industries. As at the reporting date, the Fund's debt securities exposures were concentrated in the following sectors.

	30 June 2020		30 June 2019	
	TZS '000	%	TZS '000	%
Financial services sector	5,121,091	5	2,478,011	5
Government sector	107,314,529	95	45,186,622	95
	112,435,620	100	47,664,633	100

As at the reporting date, the Fund's value of investment holding as a percentage of net asset value.

	30 June 2020		30 June 2019	
	TZS '000	%	TZS '000	%
Cash and cash equivalent*	1,143,068	1.03	1,738,408	3.67
Term deposits with banks	290,787	0.26	580,953	1.23
Government securities	107,314,529	96.43	45,186,622	95.51
	108,748,384	97.72	47,505,983	100.41

*Includes call deposits only.

Settlement risk

The Fund's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. For the vast majority of transactions, the Fund mitigates this risk by conducting settlements through a custodian to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes described earlier.

Past due and impaired assets

No financial assets carried at amortised cost were past due or impaired as at 30 June 2020.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulties in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

Management of liquidity risk

The Fund's policy to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units, as and when due, without incurring undue losses or risking damage to the Fund's reputation.

The Fund's Offer Document provides for the creation and cancellation of units on daily basis and it is therefore exposed to the liquidity risk of meeting unit holders' redemptions on a daily basis. The Fund's liquidity risk is managed on a daily basis by the Fund manager in accordance with policies and procedures in place. The Fund's overall liquidity risks are monitored on a quarterly basis by the Board of Directors. The Fund's redemption policy allows for daily redemption of units. It is the Fund's policy to have liquid assets comprising cash and cash equivalents and investments in both money market and debt instruments for which there are active and liquid market to cater for anticipated redemptions of units.

Money market instruments are securities with tenure not exceeding one year while debt instruments include fixed income securities such as treasury bills, treasury bonds, listed corporate bonds, bank placements and repurchase agreements. In addition, the Fund manager is empowered to defer to next dealing day repurchase of units if 10% of the units are re purchased within one dealing day. Liquidity risk can also occur if an institutional investor redeems a significant proportion of their units in the Fund.

Maturity profile of financial liabilities based on the contractual cash flows, "undiscounted" including interest and excluding impact of netting is as follows:

	Carrying amount TZS '000	Contractual cash flows TZS '000	Within 1 year TZS '000	1 year and above TZS '000
At 30 June 2020				
Financial liabilities				
Other liabilities*	(1,146,575)	(1,146,575)	(1,146,575)	-
Net assets attributable to unit holders	<u>(111,289,045)</u>	<u>(111,289,045)</u>	<u>(111,289,045)</u>	<u>-</u>
	<u>(112,435,620)</u>	<u>(112,435,620)</u>	<u>(112,435,620)</u>	<u>-</u>
At 30 June 2019				
Financial liabilities				
Other liabilities*	(354,029)	(354,029)	(354,029)	-
Net assets attributable to unit holders	<u>(47,310,420)</u>	<u>(47,310,420)</u>	<u>(47,310,420)</u>	<u>-</u>
	<u>(47,664,449)</u>	<u>(47,664,449)</u>	<u>(47,664,449)</u>	<u>-</u>

*Does not include tax related liabilities.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

Market risk is potential for both loss and gain to investor resulting from decreases and increases in the unit price of the Fund. The main causes of unit price changes are price changes in the underlying instruments caused by movements in securities prices, changes in the credit rating of instrument issuers, changes in the prevailing level of interest rates and currency movement relative to Tanzanian Shilling.

The Fund's strategy on the management of risk is driven by the Fund's investment objective to empower Tanzanians through wide ownership of its units and encourage a culture of savings in financial assets. The Fund market risk is managed on a daily basis by the Fund manager in accordance with policies and procedures in place. The Fund's market positions are monitored on a quarterly basis by Board of Directors.

Return is the desired reward for assuming market risk. Market risk is managed by the Fund manager with reference to the Fund's investment mandate, the objective being to produce the highest possible return for a given level of risk.

Interest rate risk

The Fund is exposed to cash flow interest rate risk which is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. Fair value interest rate risk is another interest rate risk to the Fund; it is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates. The Fund takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both, the value and cash flow risks.

The table below summarises the exposure to interest rate risk in TZS millions. Assets and liabilities are categorised by the earlier of contractual re-pricing or maturity dates.

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
At 30 June 2020							
<i>In TZS' millions</i>							
ASSETS							
Cash and cash equivalents	1,143	-	-	-	-	3,687	4,830
Term deposits with banks	-	-	78	213	-	-	291
Government securities	208	-	-	2,159	104,948	-	107,315
	<u>1,351</u>	<u>-</u>	<u>78</u>	<u>2,372</u>	<u>104,948</u>	<u>3,687</u>	<u>112,436</u>
LIABILITIES							
Other liabilities	-	-	-	-	-	(1,147)	(1,147)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(111,289,045)</u>	<u>(111,289,04)</u>
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(111,290,192)</u>	<u>(111,290,19)</u>

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (Continued)

Interest rate risk (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
At 30 June 2019							
<i>In TZS' millions</i>							
ASSETS							
Cash and cash equivalents	1,738	-	-	-	-	159	1,897
Term deposits with banks	-	-	436	145	-	-	581
Government securities	-	-	-	1,797	43,390	-	45,187
	<u>1,738</u>	<u>-</u>	<u>436</u>	<u>1,942</u>	<u>43,390</u>	<u>159</u>	<u>47,665</u>
LIABILITIES							
Other liabilities	-	-	-	-	-	(354)	(354)
Net assets attributable to unit holders	-	-	-	-	-	(47,310,420)	(47,310,420)
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(47,310,774)</u>	<u>(47,310,774)</u>

Interest risk sensitivity

The table below sets out the effect on the Fund's net assets attributable to holders of units of a reasonably possible increase of 100 basis points in interest rates as at 30 June 2020. A reduction in interest rates of the same amount would have resulted in an equal but opposite effect to the amounts shown. The impact of such an increase or reduction has been estimated by calculating the fair value changes of the fixed-interest debt securities and other fixed-interest-bearing assets, less liabilities. The impact is primarily from the decrease in the fair value of fixed income securities. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2020 TZS'000	2019 TZS'000
Increase in net assets attributable to holders of unit holders	10,874,900	4,924,400
Decrease in net assets attributable to holders of unit holders	(10,874,900)	(4,924,400)

Currency risk

The Company is exposed to currency risk on transaction that are denominated in a currency other than the respective functional currency of the Company, the Tanzanian Shillings (TZS). The currencies in which these transactions primarily are denominated is Tanzanian Shillings (TZS), which is a functional currency.

The Company strategy towards managing its foreign currency exposure is through transacting mainly using its functional currency.

The Fund's transactions are denominated in its functional currency, the Tanzanian shillings (TZS). Currency risk is not therefore attached to the Fund.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (Continued)

Exposure to other price risks

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the market. Price risk is managed by the Fund Managers by diversifying the portfolio. The internal procedures require the Fund Manager to manage price risk on a daily basis.

The Fund's procedures require price risks to be monitored on a quarterly basis by the Board of Directors. Where the price risks are not in accordance with the investment policy or guidelines of the Fund, the Fund Manager is required to rebalance the portfolio within the prescribed time limits.

(d) Operational Risk

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the process, technology and infrastructure supporting the Fund's activities with the financial instruments, either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investments management behaviour.

The Fund's objective is to manage operational risks so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objectives of generation returns to investors.

The primary responsibility for the development and implementation of controls over operational risks rests with the Board of Directors. The responsibility is supported by the development of overall standard for the management of operational risks, which encompasses the controls and the processes at the service providers and the establishment of the service levels with the service providers, in the following areas:

- Documentation of controls and procedures;
- Requirements for:
 - Appropriate segregation of duties between various functions, roles and responsibilities
 - Reconciliations and monitoring of transactions and
 - Periodic assessment of operational risks faced
- The adequacy of controls and procedures to address the risk identified;
- Compliance with regulatory and other legal requirements;
- Development of contingency plans
- Training and professional development
- Ethical and business standards and
- Risk mitigation including insurance if this is effective.

Capital management

The Fund has no equity. The redeemable units issued by the Fund provide an investor with the right to require redemption for cash at a value proportionate to the investor's unit in the Fund's net assets.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Operational risk (Continued)

Capital management

The Fund's objectives in managing the redeemable units are to ensure a stable base to maximise returns to all investors, and to manage liquidity risk arising from redemptions. The Fund's management of the liquidity risk arising from redeemable units is discussed in Note 4(b). The Fund is not subject to any externally imposed capital requirements.

5. INTEREST INCOME

	2020	2019
	TZS '000	TZS '000
Deposits with banks	186,616	254,531
Treasury bonds	9,082,326	4,700,173
	<u>9,268,942</u>	<u>4,954,704</u>

6. OTHER INCOME

	2020	2019
	TZS '000	TZS '000
Gain on valuation of financial instruments	729,045	-
Sundry income	-	749
Manager's support on payment of custodian fees	100,044	-
	<u>829,089</u>	<u>749</u>

7. OTHER CHARGES

	2020	2019
	TZS '000	TZS '000
Communication expenses	87,973	36,621
Promotion expenses	50,231	47,830
Other expenses	16,523	8,499
	<u>154,727</u>	<u>92,950</u>

8. TAX EXPENSE

Income tax charge is withholding tax withheld at source for interest incomes received during the year and provision made in respect of investments held as at period end. Interest income received by the Fund is subject to withholding tax as final tax at the rate of 10%.

	2020	2019
	TZS '000	TZS '000
Tax charged on income from term deposits	15,975	27,083
	<u>15,975</u>	<u>27,083</u>

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020****9. CASH AND CASH EQUIVALENTS**

	2020	2019
	TZS '000	TZS '000
Bank Balance – Collection account	3,687,236	158,650
Bank balance – Call account	1,143,068	1,738,408
	<u>4,830,304</u>	<u>1,897,058</u>

10. TERM DEPOSITS WITH BANKS

	2020	2019
	TZS '000	TZS '000
Term deposits with banks	290,787	580,953
	<u>290,787</u>	<u>580,953</u>

11. GOVERNMENT SECURITIES

	2020	2019
	TZS '000	TZS '000
Treasury Bonds - Twenty Years	50,867,080	5,259,624
Treasury Bonds - Fifteen Years	38,236,218	23,320,764
Treasury Bonds - Ten Years	12,189,811	9,480,134
Treasury Bonds - Seven Years	2,035,475	3,268,557
Treasury Bonds - Five Years	193,613	1,576,850
Accrued income on Treasury Bonds	3,792,332	2,280,693
	<u>107,314,529</u>	<u>45,186,622</u>

12. OTHER LIABILITIES

	2020	2019
	TZS '000	TZS '000
Management fees payable	128,868	56,587
Repurchases payables	389,972	161,922
Provision for income tax on Treasury Bills	-	184
Inter trust payables	329,000	133,740
Deposits received - Un-allotted unit subscription	13,155	-
Sundry creditor	285,580	1,780
	<u>1,146,575</u>	<u>354,213</u>

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

13. UNIT HOLDERS' FUNDS

The movement in unit holders' funds during the year is as follows:

	2020	2019
	Number of	Number of
	units	units
Opening balance	221,375,248	156,562,721
Units sold during the year	430,630,006	173,373,493
Units repurchased during the year	<u>(192,406,496)</u>	<u>(108,560,966)</u>
Units outstanding at the end of the year	<u>459,598,758</u>	<u>221,375,248</u>
Net Asset Value (NAV)	<u>242.14</u>	<u>213.71</u>
Published Net Asset Value per unit	244.44	212.22
	2020	2019
	TZS '000	TZS '000
Proceeds from sale of units	99,450,707	33 639 878
Repurchases of units	<u>(43,899,309)</u>	<u>(20,607,567)</u>
Net proceed from sales of units	<u>55,551,398</u>	<u>13,032,311</u>

14. RELATED PARTY TRANSACTIONS

Sponsor and Manager

UTT AMIS, the Fund Manager, is a Government sponsored institution that was established to implement the investment strategy as specified in the Offer Document and to provide administrative services. As per the Offer Document, the Fund manager charges the Fund an investment management/advisory fee of 1.5% of NAV. Other charges are 0.65% of NAV. However, the investment management fees and other charges as per above are limited to 2.25% of NAV, the transactions done during the year are shown in table below.

(a) Management fees

Management fees transactions that were made during the year and the balance outstanding as at the yearend are summarized below;

	2020	2019
	TZS '000	TZS '000
Balance as at 1 July	56,587	35,419
Charge for the year	1,036,803	569,257
Payment made during the year	<u>(964,522)</u>	<u>(548,089)</u>
Balance as at 30 June	<u>128,868</u>	<u>56,587</u>

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

14. RELATED PARTY TRANSACTIONS

(b) Unit holdings by key management personnel

	2020 TZS'000	2019 TZS'000
Senior employees of the Fund manager	<u>78,200</u>	<u>-</u>

(c) Inter trust payable

	2020 TZS'000	2019 TZS'000
UTT AMIS	329,000	157,740
Wekeza Maisha	<u>-</u>	<u>(24,000)</u>
	<u><u>329,000</u></u>	<u><u>133,740</u></u>

15. DETERMINATION OF FAIR VALUES

(a) Valuation models

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- **Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other factors used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity indices, EBITDA multiples and revenue multiples and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. The Fund uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter (OTC) derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

15. DETERMINATION OF FAIR VALUES (CONTINUED)

(b) Valuation framework

The Fund has an established control framework with respect to the measurement of fair values. This framework includes a portfolio valuation function, which is independent of front office management and reports to the board of directors, who have overall responsibility for fair value measurements. Specific controls include:

- verification of observable pricing inputs;
- re-performance of model valuations;
- a review and approval process for new models and changes to such models;
- calibration and back-testing of models against observed market transactions;
- analysis and investigation of significant daily valuation movements; and
- Review of unobservable inputs and valuation adjustments.

When third party information, such as broker quotes or pricing services, is used to measure fair value, then the portfolio valuation function assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Fund for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- if a number of quotes for the same financial instrument have been obtained, then how fair value has been determined using those quotes.

(c) Financial instruments not measured at fair value

The financial instruments not measured at fair value through profit and loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value, because of their short-term nature and, for the financial assets, high credit quality of counterparties. Government securities are long term and are carried at amortised cost. Fair values of the government securities are different from their amortised costs.

Cash and cash equivalents and term deposits are short-term financial assets and their carrying amounts approximate fair value because of their short-term nature and the high credit quality of counterparties.

Net assets attributable to unit holders: The Fund routinely redeems and issues the redeemable units at the amount equal to the proportionate share of net assets of the Fund at the redemption, calculated on a basis consistent with that used in these financial statements. Accordingly, the carrying amount of net assets attributable to holders of redeemable units approximately their fair value. The shares are categorised into Level 2 of the fair value hierarchy.

LIQUID FUND UNIT TRUST SCHEME (LIQUID FUND)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

15. DETERMINATION OF FAIR VALUES (CONTINUED)

(c) Financial instruments not measured at fair value (Continued)

The following table sets out the fair values of financial instruments not measured at fair value and analyses it by the level in the fair value hierarchy into which each fair value measurement is categorised. The table contains Government securities and net assets attributable to unit holders and they are all classified under Level 2 in the fair value hierarchy.

	Level 1 TZS'000	Level 2 TZS'000	Level 3 TZS'000	Total Carrying amount TZS'000
30 June 2020				
Assets				
Government securities	-	112,790,626	-	107,314,529
Total	-	112,790,626	-	107,314,529
Liabilities				
Net assets attributable to unit holders	-	(111,289,045)	-	(111,289,045)
	-	(111,289,045)	-	(111,289,045)
30 June 2019				
Assets				
Government securities	-	44,622,688	-	45,186,622
	-	44,622,688	-	45,186,622
Liabilities				
Net assets attributable to unit holders	-	(47,310,420)	-	(47,310,420)
	-	(47,310,420)	-	(47,310,420)

16. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Directors of the Fund Manager confirm that there are no capital commitment or contingent liabilities against the Fund as at 30 June 2020.

17. SUBSEQUENT EVENTS

The Directors of the Fund Manager confirm that there were no events subsequent to the year-end up to the date of this report that require either a disclosure or an adjustment in the financial statements.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these financial statements the effect of which are considered material.