

**SCOTIABANK US DOLLAR BOND FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**SCOTIABANK US DOLLAR BOND FUND**

**INDEX TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

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## *Independent auditor's report*

To the Board of Directors of Scotiabank US Dollar Bond Fund

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank US Dollar Bond Fund (the "Fund") as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **What we have audited**

Scotiabank US Dollar Bond Fund's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive (loss) income for the year then ended;
- the statement of changes in net assets attributable to holders of redeemable participating shares 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.

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#### *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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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## *Our audit approach*

### **Overview**

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- Overall materiality was determined based on the net assets attributable to holders of redeemable participating shares of the Fund.
  - The Fund is an open-ended investment company and has appointed Scotiabank & Trust (Cayman) Ltd. (the “Manager”) to manage its affairs and investments subject to the overall supervision and control of the Fund’s Board of Directors.
  - Valuation and existence of investments
- 

### **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.

### **How we tailored the audit scope**

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 types of investments within the Fund, the involvement of the Manager and administrator, the accounting processes and controls, and the industry in which the Fund operates.

The Fund’s accounting is delegated to the administrator who maintain their own accounting records and controls and report to management.

As part of our risk assessment, we assessed the control environment to the extent relevant to our audit. This assessment of the operating and accounting structure included obtaining and reading the relevant control reports issued by the independent auditor of the administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the administrator on which we could place reliance to provide audit evidence. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the administrator was not required because additional substantive testing was performed.



## **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

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<b><i>Overall materiality</i></b>	USD 447,000
<b><i>How we determined it</i></b>	1% of net assets attributable to holders of redeemable participating shares of the Fund
<b><i>Rationale for the materiality benchmark applied</i></b>	We have applied this benchmark, a generally accepted auditing practice for investment fund audits, in the absence of indicators that an alternative benchmark would be more appropriate and we believe this provides an appropriate and consistent year-on-year basis for our audit.

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## **Key audit matters**

Key audit matters are those matters that, in our professional judgement, 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 data-bbox="147 394 613 426"><i>Valuation and existence of investments</i></p> <p data-bbox="147 478 589 541">Refer to notes 3 and 8 to the financial statements.</p> <p data-bbox="147 594 699 720">The investment portfolio at December 31, 2018 is comprised of government and agency bonds and notes (USD 26.4m) and corporate bonds and notes (USD 17.2m).</p> <p data-bbox="147 772 699 930">We focused on the valuation and existence of investments 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 data-bbox="727 394 1360 457">We tested the valuation of the investment portfolio as follows:</p> <ul data-bbox="727 478 1442 604" style="list-style-type: none"><li data-bbox="727 478 1442 604">• for government and agency bonds and notes and corporate bonds and notes we compared the prices used by the Fund to prices provided by third party data vendors;</li></ul> <p data-bbox="727 615 1239 646">No material misstatements were identified.</p> <p data-bbox="727 699 1360 762">We tested the existence of the investment portfolio as follows:</p> <ul data-bbox="727 783 1458 909" style="list-style-type: none"><li data-bbox="727 783 1458 909">• for government and agency bonds and notes and corporate bonds and notes we agreed the holdings to a custodian confirmation from State Street Bank and Trust Company;</li></ul> <p data-bbox="727 919 1239 951">No material misstatements were identified.</p>

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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.



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### *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 judgement and maintain professional scepticism throughout the audit. We also:

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

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.



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*Other Matter*

This report, including the opinion, has been prepared for and only for the Fund in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

*PricewaterhouseCoopers*

March 28, 2019



**SCOTIABANK US DOLLAR BOND FUND**

**STATEMENT OF FINANCIAL POSITION**

**AT DECEMBER 31, 2018**

(Expressed in United States dollars)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 923,205	\$ 750,884
Financial assets at fair value through profit or loss (Cost: \$43,963,629; 2017: \$67,933,000) (Notes 3, 7 and 8)	43,593,411	67,932,777
Interest receivable	255,306	598,572
Subscriptions receivable	496	496
Receivable from the Manager (Note 4)	<u>156</u>	<u>-</u>
Total assets	<u>44,772,574</u>	<u>69,282,729</u>
<b>LIABILITIES</b>		
Management fees (Note 4)	41,631	51,495
Accrued expenses	27,279	39,256
Redemptions payable	<u>11,500</u>	<u>8,035</u>
Liabilities (excluding net assets attributable to holders of redeemable participating shares)	<u>80,410</u>	<u>98,786</u>
Management shares	<u>1,000</u>	<u>1,000</u>
<b>Net assets attributable to holders of redeemable participating shares (Notes 6 and 7)</b>	<b><u>\$ 44,691,164</u></b>	<b><u>\$ 69,182,943</u></b>
Net asset value per redeemable participating share (Note 6)		
Class A \$38,087,223/14,538,390 shares (2017: \$47,647,119/17,894,742 shares)	<u>\$ 2.62</u>	<u>\$ 2.66</u>
Class NU \$1,911,373/765,867 shares (2017: \$2,176,684/853,852 shares)	<u>\$ 2.50</u>	<u>\$ 2.55</u>
Class IU \$4,692,044/1,650,771 shares (2017: \$19,358,615/6,781,875 shares)	<u>\$ 2.84</u>	<u>\$ 2.85</u>
Class IJ JMC66,860/558 shares (2017: JMC65,488/558 shares)	JMC <u>119.82</u>	JMC <u>117.31</u>

Approved for issuance on behalf of Scotiabank US Dollar Bond Fund's  
Board of Directors by:

Farried Sulliman

Farried Sulliman  
Director

Dwight Burrows

Dwight Burrows  
Director

Date : March 28, 2019

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

**SCOTIABANK US DOLLAR BOND FUND**

**STATEMENT OF COMPREHENSIVE (LOSS) INCOME**

**YEAR ENDED DECEMBER 31, 2018**

(Expressed in United States dollars)

	<u>2018</u>	<u>2017</u>
<b>Income</b>		
Interest income	\$ 1,584,722	\$ 1,334,185
Net realized loss on financial assets at fair value through profit or loss	(1,793,388)	(476,111)
Net change in unrealized (depreciation) appreciation on financial assets at fair value through profit or loss	<u>(369,995)</u>	<u>1,336,828</u>
Total net (loss) income	<u>(578,661)</u>	<u>2,194,902</u>
<b>Expenses</b>		
Management fees (Note 4)	543,598	616,600
Custodian and administration fees	70,678	70,094
Other expenses	65,952	67,010
Professional fees	<u>28,188</u>	<u>23,177</u>
Total operating expenses	<u>708,416</u>	<u>776,881</u>
Less: expenses reimbursed (Note 4)	<u>(156)</u>	<u>-</u>
Net operating expenses	<u>708,260</u>	<u>776,881</u>
<b>Operating (loss) profit</b>	<u>(1,286,921)</u>	<u>1,418,021</u>
<b>(Decrease) increase in net assets from operations attributable to holders of redeemable participating shares</b>	<u>\$ (1,286,921)</u>	<u>\$ 1,418,021</u>

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

**SCOTIABANK US DOLLAR BOND FUND**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE  
TO HOLDERS OF REDEEMABLE PARTICIPATING SHARES**

**YEAR ENDED DECEMBER 31, 2018**

(Expressed in United States dollars)

	Share Capital	Share Premium	Increase (Decrease) in net assets from operations attributable to redeemable participating shareholders	Total net assets attributable to redeemable participating shareholders (at redemption value)
Balance as at December 31, 2016	\$ 279,335	\$ 65,945,725	\$ 8,041,937	\$ 74,266,997
Issue of redeemable participating shares	24,323	6,494,609	-	6,518,932
Redemption of redeemable participating shares	(48,348)	(12,972,659)	-	(13,021,007)
Increase in net assets from operations attributable to holders of redeemable participating shares	<u>-</u>	<u>-</u>	<u>1,418,021</u>	<u>1,418,021</u>
Balance as at December 31, 2017	\$ 255,310	\$ 59,467,675	\$ 9,459,958	\$ 69,182,943
Issue of redeemable participating shares	14,108	3,702,271	-	3,716,379
Redemption of redeemable participating shares	(99,862)	(26,821,375)	-	(26,921,237)
Decrease in net assets from operations attributable to holders of redeemable participating shares	<u>-</u>	<u>-</u>	<u>(1,286,921)</u>	<u>(1,286,921)</u>
Balance as at December 31, 2018	<u>\$ 169,556</u>	<u>\$ 36,348,571</u>	<u>\$ 8,173,037</u>	<u>\$ 44,691,164</u>

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

**SCOTIABANK US DOLLAR BOND FUND**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2018**

(Expressed in United States dollars)

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Interest received	\$ 1,962,510	\$ 1,726,931
Operating expenses paid	(730,257)	(795,467)
Purchase of financial assets at fair value through profit or loss	(94,180,927)	(51,406,534)
Proceeds from sale and maturity of financial assets at fair value through profit or loss	<u>116,322,388</u>	<u>57,520,819</u>
Net cash provided by operating activities	<u>23,373,714</u>	<u>7,045,749</u>
<b>Cash flows from financing activities</b>		
Proceeds from subscriptions of redeemable participating shares	3,716,379	6,519,244
Payments for redemption of redeemable participating shares	<u>(26,917,772)</u>	<u>(13,043,029)</u>
Net cash used in financing activities	<u>(23,201,393)</u>	<u>(6,523,785)</u>
<b>Net change in cash and cash equivalents</b>	172,321	521,964
<b>Cash and cash equivalents at beginning of year</b>	<u>750,884</u>	<u>228,920</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 923,205</u>	<u>\$ 750,884</u>

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

## **SCOTIABANK US DOLLAR BOND FUND**

### **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

#### **1. Incorporation and Principal Activities**

Scotiabank US Dollar Bond Fund (the “Company”) was incorporated in the Cayman Islands on December 21, 1992 and is registered under The Mutual Funds Law (revised) of the Cayman Islands. The Company is an open-ended investment company which may issue and redeem its shares at a price based on the underlying net asset value. The address of the registered office is Scotia Centre, 6 Cardinal Avenue, P.O. Box 501, Grand Cayman KY1-1106. The Company’s redeemable participating shares are listed on the Cayman Islands Stock Exchange, the Dutch Caribbean Stock Exchange, and are registered for distribution in Trinidad and Tobago and in Jamaica.

The Company invests primarily in fixed income securities, issued or guaranteed by governments and companies, to achieve modest capital appreciation over the medium to long term.

It is not the intention of the Company to pay dividends and any earnings and profits will be reinvested.

On July 23, 2007, Scotiabank & Trust (Cayman) Ltd. (the “Manager”) appointed State Street Cayman Trust Company, Ltd. as sub-administrator, (the “Sub-Administrator”) and State Street Bank and Trust Company as custodian (the “Custodian”).

1832 Asset Management L.P. (formerly Scotia Cassels Investment Counsel Limited) acts as the Company’s Investment Advisor (the “Investment Advisor”). The Investment Advisor is a related party to the Manager.

#### **2. 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.

Basis of preparation:

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 8.

All references to net assets throughout this document refer to net assets attributable to holders of Redeemable Participating Shares unless otherwise stated. Net assets per share information as disclosed in the Statement of Financial Position for each class of participating shares as disclosed in Note 6 has been determined as total assets less total liabilities (excluding net assets attributable to holders of Redeemable Participating Shares) divided by the number of outstanding shares of each class of Redeemable Participating Shares.

## SCOTIABANK US DOLLAR BOND FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

#### **2. Significant Accounting Policies (continued)**

(a) Standards and amendments to existing standards effective 1 January 2018

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39.

Classification and measurement of debt assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

IFRS 9 has been applied retrospectively by the Company and did not result in a change to the classification or measurement of financial instruments. The Company's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2018 that have a material effect on the financial statements of the Company.

(b) New standards, amendments and interpretations effective after 1 January 2018 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

**Valuation of financial assets at fair value through profit or loss:** The Company classifies its investments based on both the Company'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 Company is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Company has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Company'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 Company's business model's objective. Consequently, all investments are measured at fair value through profit or loss. Financial assets and financial liabilities at fair value through profit or loss are initially recognized at fair value, which is considered the cost basis of the financial assets. The Company records security transactions on a trade date basis, recognizing the cost or sales proceeds of financial assets sold or purchased on an average cost basis. Financial assets are valued on the valuation date at fair value, using data provided by one or more reputable third party pricing vendors which is in turn based upon (1) last traded price on the exchange

## **SCOTIABANK US DOLLAR BOND FUND**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

#### **2. Significant Accounting Policies (continued)**

##### **Valuation of financial assets at fair value through profit or loss (continued)**

upon which such financial assets are traded, (2) valuation models using observable market inputs, or (3) prices quoted by the principal market makers for non-exchange traded financial assets. Management evaluates the reliability of the pricing data received at each report date. All related realized gains and losses are recognized in the Statement of Comprehensive (Loss) Income as income or loss as they occur.

**Functional and presentation currency:** The United States Dollar (“USD”) is the currency in which the Company measures its performance and reports its results, as well as the currency in which the Company receives the majority of its subscriptions from its investors (the “functional currency”). The Company has adopted USD as its presentation currency.

**Accounting for investments and investment income:** Security transactions are accounted for on a trade date basis. Realized gains and losses on sales of financial assets are calculated on an average cost basis. Interest is recognized in the Statement of Comprehensive (Loss) Income using the effective yield method and includes discount accreted and premium amortized over the remaining period to maturity of individual assets.

**Redeemable participating shares and management shares:** Redeemable participating shares (the “Redeemable Participating Shares”) are redeemable at the shareholder’s option and are classified as financial liabilities. Any distribution on such Redeemable Participating Shares is recognized in the Statement of Comprehensive (Loss) Income as finance costs. The Redeemable Participating Shares can be put back to the Company by the holder at any dealing day for cash equal to a proportionate share of the respective Company’s net assets. The Redeemable Participating Shares are carried at the redemption amount that would be payable at the dealing day if the shareholder exercised its right to put the share back to the Company. Management shares (the “Management Shares”) are not redeemable, and do not participate in the net income or dividends of the Company as per the Company’s articles of association.

**Interest income:** Interest income on financial assets is accrued on a daily basis. Interest income on financial assets includes interest and discount earned (net of premium), which is the difference between the face value and the original cost, including original issue discount, amortized using the effective yield method over the term of the financial assets.

**Expenses:** Expenses directly attributable to the Company are recorded on an accrual basis.

**Allocation of gains and losses:** Other than the different fee rates discussed in Note 4, profits and losses of the Fund are allocated to each class of shares according to their proportionate interest in the Fund.

**Translation of foreign currency amounts:** Assets and liabilities denominated in currencies other than the USD (“foreign currencies”) are translated at the rates prevailing on the date of valuation and exchange differences are reflected in the Statement of Comprehensive (Loss) Income in the period in which they arise. Transactions in foreign currencies are translated at prevailing exchange rates at the date of the transaction. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on financial assets from the fluctuations arising from changes in market prices of financial assets held. Such fluctuations are included with the net realized gain or loss and net change in unrealized appreciation (depreciation) on financial assets at fair value through profit or loss.

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**2. Significant Accounting Policies (continued)**

**Cash and cash equivalents:** For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash, fixed term deposits, and short term bonds with original maturity of less than 90 days.

**Capital risk management:** The capital of the Company is represented by the net assets attributable to holders of Redeemable Participating Shares. The amount of net assets attributable to holders of Redeemable Participating Shares can change significantly on a daily basis as the Company is subject to daily subscriptions and redemptions at the discretion of shareholders. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Company. In order to maintain or adjust the capital structure, the Company's policy is to perform the following:

- Monitor the level of daily subscriptions and redemptions relative to the liquid assets and adjusts the amount of distributions the Company pays to redeemable shareholders.
- Redeem and issue new shares in accordance with the constitutional documents of the Company, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Board of Directors and Investment Advisor monitor capital on the basis of the value of net assets attributable to Redeemable Participating Shares.

**3. Financial Assets at Fair Value through Profit or Loss**

At December 31, 2018 and 2017 the financial assets comprised the following debt securities:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Government and Agency				
Bonds and Notes	\$ 26,266,368	\$ 26,356,878	\$ 37,468,652	\$ 37,363,143
Corporate Bonds and Notes	<u>17,697,261</u>	<u>17,236,533</u>	<u>30,464,348</u>	<u>30,569,634</u>
	<u>\$ 43,963,629</u>	<u>\$ 43,593,411</u>	<u>\$ 67,933,000</u>	<u>\$ 67,932,777</u>



**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**3. Financial Assets at Fair Value through Profit or Loss (continued)**

The following summarize the investment portfolio segregated by country of issuer:

<u>Financial Assets at fair value</u>	<u>2018</u>		<u>2017</u>	
	<u>Fair Value</u>	<u>% of total portfolio</u>	<u>Fair Value</u>	<u>% of total portfolio</u>
Canada	\$ 3,102,121	7.12%	\$ 1,023,467	1.51%
France	33,504	0.08%	3,210,801	4.73%
Jersey	981,391	2.25%	-	-
Netherlands	-	0.00%	1,543,041	2.27%
United States	<u>39,476,395</u>	<u>90.55%</u>	<u>62,155,468</u>	<u>91.49%</u>
Total financial assets at fair value through profit and loss	<u>\$43,593,411</u>	<u>100.00%</u>	<u>\$67,932,777</u>	<u>100.00%</u>

As at December 31, 2018 the portfolio consists of 29 positions (2017: 26 positions), primarily located in North America. The single largest concentration is in US Treasury Notes and Bonds (2017: US Treasury Notes and Bonds) which comprise 56.98% (2017: 55.00%) of the portfolio and is made up of 8 (2017: 6) positions. The contractual interest rates range from 1.13% to 4.88% (2017: 1.25% to 4.50%) and maturity dates range from 2019 to 2048 (2017: 2018 to 2046). The current year yields range from 1.14% to 4.72% (2017: 1.26 to 4.19%).

At December 31, 2018, there are no assets and liabilities subject to offsetting enforceable under a master netting arrangement.

**4. Management Agreement**

Under the terms of the management agreement dated November 1, 1999 (amended by agreement dated April 9, 2014), the Company appointed the Manager to manage the affairs and investments of the Company subject to the overall supervision and control of the Board of Directors of the Company.

The Manager has responsibility for the general administration of the Company, but has delegated the performance of most tasks to third parties.

The Manager is entitled to a fee (the “management fee”) at rates disclosed in the table below. The management fee is paid out of the assets of the Company and is accrued daily and paid quarterly in arrears. Out of this fee, the Manager is required to pay the fees of the Investment Advisor and any other person to whom functions are delegated by the Manager, along with all investment related direct expenses. The Manager may also pay trailing commissions to sub-distributors out of the management fee. The Manager may choose from time to time to absorb any portion of the annual management fees on any class of shares of the Company.

The Manager is entitled to a management fee from the classes of Redeemable Investment Shares as listed below:

<u>Class</u>	<u>Management fee per annum</u>
A	1.20%
NU	1.70%
IU	NIL
IJ	NIL

## SCOTIABANK US DOLLAR BOND FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

#### 4. Management Agreement (continued)

No management fees are charged on Class IU and Class IJ shares. Instead, Class IU and Class IJ investors negotiate a separate fee that is paid directly to the Manager.

The Company also incurs certain operating expenses. Such expenses may include, but are not limited to, administrative costs, interest on borrowed funds, auditing expenses, legal expenses, insurance, licensing, accounting, fees and disbursement of transfer agents, registrars, custodians, sub-custodians and escrow agents and the annual registration fee payable in the Cayman Islands. The Manager may at its sole discretion choose to absorb any of these expenses, at any time.

For the year ended December 31, 2018, the Manager voluntarily applied an expense ratio cap of 1.50% for Class A shares (2017: 1.50%), 2.00% for Class NU shares (2017: 2.00%), 0.50% for Class IU shares (2017: 0.50%) and 0.50% for Class IJ shares (2017: 0.50%). As a result of the expense ratio cap, total operating expenses reimbursed by the Manager for the year ending December 31, 2018 was \$156 (2017: \$NIL) which is recorded in the Statement of Comprehensive (Loss) Income, of which \$156 (2017: \$NIL) is receivable at the end of the year. The Manager may decide to change or cease the expense ratio cap at any time.

#### 5. Other Related Party Transactions

Under the terms of the distributorship agreement dated March 19, 1996, the Manager, Scotiabank & Trust (Cayman) Ltd. (the "Distributor") is responsible for the distribution of Redeemable Participating Shares of the Company in accordance with the terms of the Prospectus. The Distributor is entitled to all initial subscription charges levied against subscribers. The subscription charge is levied solely at the discretion of the Manager at up to 5% of the total amount paid by the subscriber for Class A shares. No initial subscription charge is levied against Class NU, Class IU, and Class IJ subscribers.

#### 6. Share Capital

	<u>2018</u>	<u>2017</u>
<b>Authorized:</b>		
1,000 Management Shares of U.S. \$1.00 par value each	\$ 1,000	\$ 1,000
100,000,000 Redeemable Participating Shares of U.S. \$0.01 par value each	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$1,001,000</u>	<u>\$1,001,000</u>

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**6. Share Capital (continued)**

**Issued:**

Total units issued or redeemed during the year and the corresponding share capital and share premium dollar amounts can be summarized as follows:

**Management Shares**

	<u>2018</u>		<u>2017</u>	
	<u>Units</u>	<u>\$</u>	<u>Units</u>	<u>\$</u>
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-

**Redeemable Participating Shares**

**Class A**

Shares issued during the year	1,045,700	2,718,706	1,906,858	5,056,866
Shares redeemed during the year	(4,402,052)	(11,459,330)	(3,026,413)	(8,010,055)

**Class NU**

Shares issued during the year	77,705	192,159	109,802	278,285
Shares redeemed during the year	(165,690)	(412,025)	(240,621)	(610,952)

**Class IU**

Shares issued during the year	287,383	805,514	415,668	1,183,781
Shares redeemed during the year	(5,418,489)	(15,049,882)	(1,567,733)	(4,400,000)

**Class IJ\***

Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-

\*Class offered in JMC

The Management Shares are held exclusively by the Manager, who holds all the voting power of the Company but is entitled only to a return of capital in the event of liquidation.

Shares that are redeemed within 90 days of purchase may be subject to a redemption fee up to 2% of the redemption amount. No redemption fees were levied during the year ended December 31, 2018 (2017: \$NIL).

Each of the classes are denominated in USD, except for Classes IJ which are denominated in Jamaican Dollars (“JMC”).

For the classes of shares denominated in currencies other than the functional currency of the Company, the Net Asset Values are calculated by converting the US dollar Net Asset Value per Share to the JMC equivalent using the then current rate of exchange.

Each of the classes of Redeemable Participating Shares are issued and redeemable daily at a price equal to the net asset value per share on the valuation day on which the notification is received, as long as it is received before the Company’s close of business. The net asset value per share for any valuation date is determined by dividing the value of the assets of the respective share class less its liabilities at the close of business on such valuation day by the number of Redeemable Participating Shares outstanding of the share class on that date.

## **SCOTIABANK US DOLLAR BOND FUND**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

#### **6. Share Capital (continued)**

The Redeemable Participating Shares confer no voting rights and no entitlement to receive notice of, or attend at, general meetings of the Company. The Redeemable Participating Shares carry the right to participate in dividends and all other distributions of the Company.

The Company's capital is primarily represented by these Redeemable Participating Shares. In accordance with the objectives outlined in Note 1 and the risk management policies in Note 7, the Company endeavours to invest the subscriptions received from redeemable participating shareholders into appropriate investments while maintaining sufficient liquidity to meet redemptions, being augmented by disposal of fixed income securities where necessary.

As of December 31, 2018, 10% of the Fund's capital was attributable to one investor. The actions of this investor may have a material impact on the Fund.

#### **7. Financial Risk Management**

The Company's investment activities expose it to various types of risk which are associated with the financial assets and markets in which it invests.

**Price risk:** All financial assets present a risk of loss of capital. The Investment Advisor moderates this risk through a careful selection of the financial assets. Maximum risk resulting from financial assets is determined by the fair value of the financial assets. The Company's overall positions are monitored on a daily basis by the Portfolio Manager. As the Company's objective is to invest in fixed income securities none of its holdings are susceptible to any significant market fluctuations other than those described in interest rate risk and credit risk below.

**Currency risk:** Currency risk is the risk that movements in foreign currency rates relative to USD will have an unfavourable impact on the fair value of the financial instrument's foreign currency denominated assets and liabilities.

Changes in exchange rates between currencies or the conversion from one currency to another may cause the value of the financial assets to diminish or increase. Currency exchange rates may fluctuate over short periods of time and are generally determined by supply and demand in the currency exchange markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors. Currency exchange rates can be affected unpredictably by intervention (or the failure to intervene) by government or central banks, or by currency controls or political developments.

In accordance with the Company's policy, the Investment Advisor monitors the financial assets and liabilities exposure to currency risk. As at December 31, 2018 and 2017, all of the Company's financial assets are denominated in USD, therefore the Company is not exposed to currency risk. However, when an investor invests into a class which is denominated in a different currency to the functional currency of the Company, the currency risk of the investor will be different to the currency risk of the Company.

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**7. Financial Risk Management (continued)**

Interest rate risk: The market values of the financial assets and liabilities in which the Company invests are sensitive to changes in interest rates. Substantially all of the Company's financial assets are in fixed rate securities and, therefore, are exposed to the effect on market values of changes in interest rates.

The Company's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarizes the Company's exposure to interest rate risks. It includes the Company's assets and liabilities, categorized by the earlier of contractual re-pricing or maturity dates:

**At December 31, 2018**

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>Over 10 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	-	-	-	-	923,205	923,205
Financial assets at fair value through profit or loss	5,813,690	13,228,255	15,536,910	9,014,556	-	43,593,411
Other assets	-	-	-	-	255,958	255,958
<b>Total assets</b>	<b>5,813,690</b>	<b>13,228,255</b>	<b>15,536,910</b>	<b>9,014,556</b>	<b>1,179,163</b>	<b>44,772,574</b>
<b>Liabilities</b>						
Other liabilities	-	-	-	-	80,410	80,410
Redeemable participating shares	-	-	-	-	44,691,164	44,691,164
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,771,574</b>	<b>44,771,574</b>
<b>Interest sensitivity gap</b>	<b>5,813,690</b>	<b>13,228,255</b>	<b>15,536,910</b>	<b>9,014,556</b>		

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**7. Financial Risk Management (continued)**

Interest rate risk (continued):

**At December 31, 2017**

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>Over 10 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	-	-	-	-	750,884	750,884
Financial assets at fair value through profit or loss	2,537,798	28,494,026	23,339,455	13,561,498	-	67,932,777
Other assets	-	-	-	-	599,068	599,068
<b>Total assets</b>	<b>2,537,798</b>	<b>28,494,026</b>	<b>23,339,455</b>	<b>13,561,498</b>	<b>1,349,952</b>	<b>69,282,729</b>
<b>Liabilities</b>						
Other liabilities	-	-	-	-	98,786	98,786
Redeemable participating shares	-	-	-	-	69,182,943	69,182,943
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>69,281,729</b>	<b>69,281,729</b>
<b>Interest sensitivity gap</b>	<b>2,537,798</b>	<b>28,494,026</b>	<b>23,339,455</b>	<b>13,561,498</b>		

At December 31, 2018, should interest rates have lowered by 25 basis points with all other variables remaining constant and ignoring the effects of any management fees, the increase in net assets attributable to holders of Redeemable Participating Shares for the year would amount to approximately \$731,485 (2017: \$1,027,467 higher), arising substantially from the increase in market values of debt securities. If interest rates had risen by 25 basis points with all other variables remaining constant and ignoring the effects of any management fees, the decrease in net assets attributable to holders of Redeemable Participating Shares would amount to approximately \$731,485 (2017: \$996,375), arising substantially from the decrease in market values of debt securities.

Credit and concentration risk: Financial assets which potentially expose the Company to credit risk consist primarily of cash and cash equivalents and investments in debt securities. Investment in debt securities exposes the Company to the risk that an issuer will default on the payment of interest, principal or both. The extent of the Company's exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Company's Statement of Financial Position.

The Company seeks to mitigate its exposure to credit risk by adhering to investment guidelines which specify the types, credit ratings, maturities and concentrations of investments in which the Company can invest. The largest single issuer is disclosed in Note 3.

Transactions of financial assets undertaken by the Company are cleared through and held in custody by a reputable custodian. The Company's cash is held by this same custodian. The clearing and depository operations for the Company's security transactions are mainly concentrated with one custodian. The Custodian is a member of a major securities exchange and at December 31, 2018 had a credit rating from S&P of AA- (2017: AA-). The Company is

## SCOTIABANK US DOLLAR BOND FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

#### **7. Financial Risk Management (continued)**

##### Credit and Concentration risk (continued):

subject to credit risk and possible losses should the Custodian be unable to fulfill its obligations to the Company. At December 31, 2018 and 2017, substantially all cash and cash equivalents balances and financial assets at fair value through profit or loss are either held with or placed in custody with the Custodian. The Company invests in debt securities, all of which have an investment grade as rated by a well-known rating agency.

<b>S &amp; P Rating</b>	<b>2018</b>	<b>2017</b>
AAA to A-	81.45%	86.97%
BBB+ to BBB-	18.55%	13.03%
Total	<u>100.00%</u>	<u>100.00%</u>

The Company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At December 31, 2018 and 2017, interest receivable, subscriptions receivable, receivable from the Manager and cash and cash equivalents are held with counterparties with a credit rating of AA- or higher and are due to be settled within 1 week. 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 Company.

Liquidity risk: Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial instrument quickly close to its fair value. All liabilities are due on demand or within one year.

The Company is exposed to daily cash redemptions of Redeemable Participating Shares. It therefore invests predominantly in financial assets that are traded in an active market and can be readily disposed of; it is permitted to invest only a limited proportion (assuming immaterial) of its financial assets in investments that are not actively traded in a secondary market.

Under certain circumstances the Directors of the Company have the ability to suspend the determination of the net assets attributable to holders of Redeemable Participating Shares if it is considered in the best interest of the shareholder group as a whole. During the suspension of the net assets attributable to holders of Redeemable Participating Shares, the subscription and redemption of shares would also be suspended.

Fair values: At December 31, 2018 and 2017, investments are carried at fair value and the carrying amounts of all other assets and liabilities on the Statement of Financial Position approximated their fair values.

#### **8. Fair Value Disclosure**

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**8. Fair Value Disclosure (continued)**

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes ‘observable’ requires significant judgment by the Investment Advisor. The Investment Advisor considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Company’s financial assets (by class) measured at fair value:

**As at December 31, 2018**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
<u>Financial assets at fair value</u> <u>through profit or loss</u>				
Government and Agency Bonds and Notes	\$ -	\$ 26,356,878	\$ -	\$ 26,356,878
Corporate Bonds and Notes	-	17,236,533	-	17,236,533
Total financial assets at fair value through profit or loss	<u>\$ -</u>	<u>\$ 43,593,411</u>	<u>\$ -</u>	<u>\$ 43,593,411</u>

**As at December 31, 2017**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
<u>Financial assets at fair value</u> <u>through profit or loss</u>				
Government and Agency Bonds and Notes	\$ -	\$ 37,363,143	\$ -	\$ 37,363,143
Corporate Bonds and Notes	-	30,569,634	-	30,569,634
Total financial assets at fair value through profit or loss	<u>\$ -</u>	<u>\$ 67,932,777</u>	<u>\$ -</u>	<u>\$ 67,932,777</u>



**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**8. Fair Value Disclosure (continued)**

In relation to the above table, further details of the country classifications are disclosed in Note 3.

Financial assets at fair value through profit and loss (“investments”) whose values are based on quoted market prices in active markets, and therefore classified within Level 1, would include active listed equities and most exchange traded derivatives. The Company does not adjust the quoted price for these investments.

Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs would be classified within Level 2.

These include commercial paper, U.S. treasury bills, most investment-grade corporate bonds, investments in other funds where redemption is not restricted, certain non-U.S. sovereign obligations, thinly traded listed equities and some over-the-counter derivatives. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 financial instruments would include private equity, certain restricted investments in other funds, and certain corporate debt securities. As observable prices are not available for these investments, if any such investments were held, the Company would use valuation techniques to derive the fair value.

The Company does not hold any investments classified within Level 1 and Level 3 as of December 31, 2018 and 2017.

There were no transfers between Levels during the years ended December 31, 2018 and 2017.

For other assets and liabilities carried at amortized cost, their carrying values are a reasonable approximation of fair value, and are classified as Level 2. Redeemable investment share values are based on the amount payable on demand and are classified as Level 2.

**9. Taxation**

The Company is not subject to any income, withholding or capital gains taxes in the Cayman Islands. Generally, the Company intends to conduct its affairs so as not to be liable to taxation in any other jurisdiction’ however, it may invest in securities whose income is subject to non-refundable foreign withholding taxes.

**10. Subsequent events**

From January 1, 2019 to March 28, 2019 the Company received subscriptions of \$355,665 and redemptions of \$844,008.

There are no other subsequent events.