

**SCOTIA US EQUITY FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2023**

**SCOTIA US EQUITY FUND**

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**DECEMBER 31, 2023**

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## Independent auditor's report

To the Board of Directors of Scotia US Equity 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 Scotia US Equity Fund (the Fund) as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

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

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2023;
- the statement of comprehensive 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, comprising material accounting policy information and other explanatory information.

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

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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.
  - In addition to determining materiality, we also assessed, amongst other factors, the following in designing our audit:
    - the risk of material misstatement in the financial statements
    - significant accounting estimates
    - the risk of management override of internal controls
  - Valuation and existence of investments
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### Audit scope

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

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

### 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>Overall materiality</b>	USD 602,000
<b>How we determined it</b>	1% of net assets attributable to holders of redeemable participating shares of the Fund.
<b>Rationale for the materiality benchmark applied</b>	We chose net assets attributable to holders of redeemable participating shares of the Fund as the benchmark because, in our view, it is the benchmark against which the performance of the Fund is most commonly measured by users, and is a generally accepted benchmark. We chose 1% which is within a range of acceptable benchmark thresholds.

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We agreed with those charged with governance that we would report to them misstatements identified during our audit above \$60,200, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### **Key audit matters**

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

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><i>Valuation and existence of investments</i></p> <p>Refer to notes 3 and 8 to the financial statements for disclosures of related accounting policies and balances.</p> <p>The investment portfolio at December 31, 2023 is comprised of equity securities totalling USD 60.1m.</p> <p>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>Our approach to addressing the matter involved the following procedures, amongst others:</p> <p><b>Valuation</b></p> <ul style="list-style-type: none"><li>• compared the prices used by the Fund to prices reported by the applicable exchange;</li></ul> <p><b>Existence</b></p> <ul style="list-style-type: none"><li>• agreed the holdings to a custodian confirmation from State Street Bank and Trust Company;</li></ul> <p>No material misstatements were identified as a result of the procedures performed.</p>

### **Other information**

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

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

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

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

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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 IFRS Accounting 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 judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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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 Richard Pooley.

*PricewaterhouseCoopers*

18 Forum Lane, Camana Bay, P.O. Box 258, Grand Cayman, KY1- 1104, Cayman Islands  
March 27, 2024

**SCOTIA US EQUITY FUND**

**STATEMENT OF FINANCIAL POSITION**

**AT DECEMBER 31, 2023**

(Expressed in United States dollars)

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 229,787	\$ 285,357
Financial assets at fair value through profit or loss (Cost: \$49,389,677; 2022: \$52,084,278) (Notes 3, 7 and 8)	60,105,374	55,739,488
Subscriptions receivable	12,016	5,596
Dividends receivable	5,911	-
Receivable from Manager	2,561	7
Total assets	<u>60,355,649</u>	<u>56,030,448</u>
<b>LIABILITIES</b>		
Management fees (Note 4)	63,251	59,932
Accrued expenses	60,581	55,241
Tax withholding liability	1,773	-
Redemptions payable	<u>-</u>	<u>21,476</u>
Liabilities (excluding net assets attributable to holders of redeemable participating shares)	<u>125,605</u>	<u>136,649</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>	<u>\$ 60,229,044</u>	<u>\$ 55,892,799</u>
Net asset value per redeemable participating share (Note 6)		
Class A \$46,891,407/2,097,699 shares (2022: \$42,972,167/2,186,252 shares)	<u>\$ 22.35</u>	<u>\$ 19.66</u>
Class NU \$526,257/23,931 shares (2022: \$464,850/23,931 shares)	<u>\$ 21.99</u>	<u>\$ 19.42</u>
Class IU \$12,809,007/483,238 shares (2022: \$12,454,910/542,906 shares)	<u>\$ 26.51</u>	<u>\$ 22.94</u>
Class AC CDN3,133/105 shares (2022: CDN000/000 shares)	<u>CDN 29.84</u>	<u>CDN -</u>
Class IJ JMC000/000 shares (2022: JMC132,354/558 shares)	<u>JMC -</u>	<u>JMC 237.19</u>

Approved for issuance on behalf of Scotia US Equity Fund's  
Board of Directors

Farried Sulliman

Farried Sulliman

Director

Sarah Hobbs

Sarah Hobbs

Director

Date : March 27, 2024

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



**SCOTIA US EQUITY FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**

**YEAR ENDED DECEMBER 31, 2023**

(Expressed in United States dollars)

	<u>2023</u>	<u>2022</u>
<b>Income</b>		
Dividend income	\$ 1,052,196	\$ 1,103,936
Other income	-	1,041
Net realized gain on financial assets at fair value through profit or loss and foreign currencies	699,532	137,963
Net change in unrealized appreciation (depreciation) on financial assets at fair value through profit or loss and foreign currencies	<u>7,060,527</u>	<u>(9,427,610)</u>
 Total net income (loss)	 <u>8,812,255</u>	 <u>(8,184,670)</u>
 <b>Expenses</b>		
Management fees (Note 4)	710,558	731,243
Custodian and administration fees	75,319	73,734
Other expenses	71,695	82,291
Professional fees	<u>37,196</u>	<u>17,448</u>
 Total operating expenses	 <u>894,768</u>	 <u>904,716</u>
 Less: expenses reimbursed (Note 4)	 <u>(2,561)</u>	 <u>(1,088)</u>
 Net operating expenses	 <u>892,207</u>	 <u>903,628</u>
 <b>Operating income (loss)</b>	 <u>7,920,048</u>	 <u>(9,088,298)</u>
 Withholding taxes on dividend income	 <u>(315,659)</u>	 <u>(331,181)</u>
 <b>Increase (decrease) in net assets from operations attributable to holders of redeemable participating shares</b>	 <u>\$ 7,604,389</u>	 <u>\$ (9,419,479)</u>

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

**SCOTIA US EQUITY FUND**

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

**YEAR ENDED DECEMBER 31, 2023**

(Expressed in United States dollars)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>(Decrease) increase in net assets from operations attributable to holders of redeemable participating shares</u>	<u>Total net assets attributable to holders of redeemable participating shares (at redemption value)</u>
Balance as at December 31, 2021	\$ 27,005	\$ 27,363,963	\$ 36,460,254	\$ 63,851,222
Issue of redeemable participating shares	4,228	8,771,992	-	8,776,220
Redemption of redeemable participating shares	(3,697)	(7,311,467)	-	(7,315,164)
Decrease in net assets from operations attributable to holders of redeemable participating shares	<u>-</u>	<u>-</u>	<u>(9,419,479)</u>	<u>(9,419,479)</u>
Balance as at December 31, 2022	\$ 27,536	\$ 28,824,488	\$ 27,040,775	\$ 55,892,799
Issue of redeemable participating shares	1,916	3,906,095	-	3,908,011
Redemption of redeemable participating shares	(3,403)	(7,172,752)	-	(7,176,155)
Increase in net assets from operations attributable to holders of redeemable participating shares	<u>-</u>	<u>-</u>	<u>7,604,389</u>	<u>7,604,389</u>
Balance as at December 31, 2023	\$ <u>26,049</u>	\$ <u>25,557,831</u>	\$ <u>34,645,164</u>	\$ <u>60,229,044</u>

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

**SCOTIA US EQUITY FUND**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2023**

(Expressed in United States dollars)

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities</b>		
Dividend received (net of withholding taxes)	\$ 732,399	\$ 772,755
Other income received	-	1,041
Operating expenses paid	(886,109)	(895,963)
Reimbursements received from Manager	7	1,081
Purchase of financial assets at fair value through profit or loss	(1,334,676)	(6,179,843)
Proceeds from sale of financial assets at fair value through profit or loss	<u>4,728,849</u>	<u>3,927,629</u>
Net cash provided by (used in) operating activities	<u>3,240,470</u>	<u>(2,373,300)</u>
<b>Cash flows from financing activities</b>		
Proceeds from subscriptions of redeemable participating shares	3,901,591	8,934,668
Payments for redemptions of redeemable participating shares	<u>(7,197,631)</u>	<u>(7,297,450)</u>
Net cash (used in) provided by financing activities	<u>(3,296,040)</u>	<u>1,637,218</u>
<b>Net change in cash and cash equivalents</b>	(55,570)	(736,082)
<b>Cash and cash equivalents at beginning of year</b>	<u>285,357</u>	<u>1,021,439</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 229,787</u>	<u>\$ 285,357</u>
<b>Supplementary information on cash flows from operating activities</b>		
Tax withheld	<u>\$ 313,886</u>	<u>\$ 331,181</u>

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

## **SCOTIA US EQUITY FUND**

### **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023**

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

Scotia US Equity Fund (the “Company”) was incorporated in the Cayman Islands on October 27, 1999 and is registered under The Mutual Funds Act (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 18 Forum Lane, 2<sup>nd</sup> Floor, Camana Bay, Grand Cayman, P.O. Box 501, KY1-1106. The Company’s redeemable participating shares are listed on the Cayman Islands Stock Exchange and are registered for distribution in Trinidad and Tobago and in Jamaica.

The Company’s investment objective is to achieve long term growth through capital appreciation by investing primarily in the equity securities of U.S. companies. The Company may also invest in United States Dollar denominated corporate paper and money market instruments. The Company may use or invest in derivative instruments subject to certain restrictions.

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 as issued by the International Accounting Standards Board (“IFRS Accounting Standards”). 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 Accounting Standards 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 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.

## SCOTIA US EQUITY FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023

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

(a) Standards and amendments to existing standards effective January 1, 2023

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on January 1, 2023 that have a material effect on the financial statements of the Company.

(b) New standards, amendments and interpretations effective after January 1, 2023 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2023, 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 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 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 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:** Financial assets 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.

**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 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 shareholders 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.

## SCOTIA US EQUITY FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023

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

**Dividend income:** Dividends are recorded as income on the ex-dividend date and are included on the Statement of Comprehensive Income. Withholding taxes on dividend income are shown as a separated item in the Statement of Comprehensive Income.

**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 Company are allocated to each class of shares according to their proportionate interest in the Company.

**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 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.

**Cash and cash equivalents:** For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash and fixed term deposits 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 the 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, 2023 and 2022 the financial assets comprised the following securities:

	<u>2023</u>		<u>2022</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Equity Securities	\$ <u>49,389,677</u>	\$ <u>60,105,374</u>	\$ <u>52,084,278</u>	\$ <u>55,739,488</u>

**SCOTIA US EQUITY FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2023**

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

As at December 31, 2023, the portfolio consists of 8 positions (2022: 8) with no one position or issuer accounting for more than 17.41% (2022: 17.76%) of the portfolio value. All of the Company's financial assets are denominated in USD.

The investment portfolio of the Company comprises a diverse portfolio of exchange traded equity securities as at December 31, 2023 and 2022. The following summarizes the investment portfolio segregated by country of issuer:

<u>Financial assets at fair value</u>	<u>2023</u>		<u>2022</u>	
	<u>Fair Value</u>	<u>% of total portfolio</u>	<u>Fair Value</u>	<u>% of total portfolio</u>
United States	\$ 60,105,374	100.00%	\$ 55,739,488	100.00%
Total financial assets at fair value through profit or loss	<u>\$ 60,105,374</u>	<u>100.00%</u>	<u>\$ 55,739,488</u>	<u>100.00%</u>

The following is a summary of the financial assets segregated by the industry sectors:

<u>Financial assets at fair value</u>	<u>2023</u>		<u>2022</u>	
	<u>Fair Value</u>	<u>% of total portfolio</u>	<u>Fair Value</u>	<u>% of total portfolio</u>
Mutual Funds	\$ 60,105,374	100.00%	\$ 55,739,488	100.00%
Total financial assets at fair value through profit and loss	<u>\$ 60,105,374</u>	<u>100.00%</u>	<u>\$ 55,739,488</u>	<u>100.00%</u>

At December 31, 2023 and 2022, the Company invested in the following exchange traded mutual funds:

<u>Financial assets at fair value</u>	<u>2023</u>		<u>2022</u>	
	<u>Fair Value</u>	<u>% of total portfolio</u>	<u>Fair Value</u>	<u>% of total portfolio</u>
Invesco S&P 500 Quality ETF	\$ 9,000,534	14.97%	\$ 8,338,880	14.96%
iShares Core Dividend Growth ETF	10,461,532	17.41%	9,900,000	17.76%
iShares Core S&P SmallCap ETF	6,220,045	10.35%	5,386,909	9.67%
iShares Edge MSCI Minimum Volatility USA ETF	5,872,538	9.77%	5,558,910	9.97%
iShares Edge MSCI USA Momentum Factor ETF	6,079,488	10.12%	5,488,427	9.85%
iShares Edge MSCI USA Quality Factor ETF	9,012,325	14.99%	8,411,388	15.09%
SPDR S&P Dividend ETF	4,476,425	7.45%	4,159,908	7.46%
WisdomTree U.S. Quality Dividend Growth Fund	8,982,487	14.94%	8,495,066	15.24%
Total financial assets at fair value through profit and loss	<u>\$ 60,105,374</u>	<u>100.00%</u>	<u>\$ 55,739,488</u>	<u>100.00%</u>

At December 31, 2023 and 2022, there are no assets and liabilities subject to offsetting enforceable under a master netting arrangement.

## SCOTIA US EQUITY FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023

#### 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 paid by the Company is paid out of the assets of the Company and are 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	1.59% (2022: 1.59%)
NU	2.04% (2022: 2.04%)
IU	NIL (2022: NIL)
AC	1.59% (2022: NIL)
IJ	NIL (2022: NIL)

No management fees are charged on Class IU and IJ shares. Instead, Class IU and 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. Audit fees for the year ended December 31, 2023 totalled \$24,720 (2022: \$24,720). Other fees paid to the auditor (and related network firms) for non-assurance services totalled \$NIL (2022: \$NIL). The Manager may at its sole discretion choose to absorb any of these expenses, at any time.

For the year ended December 31, 2023, the Manager voluntarily applied an expense ratio cap of 2.03% for Class A shares (2022: 2.03%), 2.53% for Class NU shares (2022: 2.53%), 2.03% for AC shares (2022: NIL), 0.50% for Class IU shares (2022: 0.50%), and 0.50% for Class IJ shares (2022: 0.50%). As a result of the expense ratio cap, total operating expenses reimbursed by the Manager for the year ending December 31, 2023 was \$2,561 (2022: \$1,088) recorded as expenses reimbursed in the Statement of Comprehensive Income of which \$2,561 (2022: \$7) 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 November 1, 1999, 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 and Class AC shares. No initial subscription charge is levied against Class NU, Class IU and Class IJ subscribers.



**SCOTIA US EQUITY FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2023**

**6. Share Capital**

	<u>2023</u>	<u>2022</u>
<b>Authorized:</b>		
1,000 Management Shares of \$1.00 par value each	\$ 1,000	\$ 1,000
100,000,000 Redeemable Participating Shares of \$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>

**Issued:**

Total units issued or redeemed during the year and the corresponding share capital and share premium dollar amounts:

	<u>2023</u>		<u>2022</u>	
	<u>Units</u>	<u>\$</u>	<u>Units</u>	<u>\$</u>
<b>Management Shares</b>				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-
<b>Redeemable Participating Shares</b>				
<b>Class A</b>				
Shares issued during the year	191,588	3,905,809	419,425	8,702,592
Shares redeemed during the year	(280,141)	(5,745,156)	(332,543)	(6,505,164)
<b>Class NU</b>				
Shares issued during the year	-	-	3,392	73,628
Shares redeemed during the year	-	-	(517)	(10,000)
<b>Class IU</b>				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	(59,668)	(1,430,000)	(36,579)	(800,000)
<b>Class AC*</b>				
Shares issued during the year	105	2,202	-	-
Shares redeemed during the year	-	-	-	-
<b>Class IJ**</b>				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	(558)	(999)	-	-

\*Class offered in CDN

\*\*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, 2023 (2022: \$NIL).

## **SCOTIA US EQUITY FUND**

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

**DECEMBER 31, 2023**

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

Each of the classes is denominated in USD, except for Classes AC which is denominated in Canadian Dollars (“CDN”) and IJ which is 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 USD Net Asset Value per Share to the CDN or JMC equivalent using the 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.

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 listed securities where necessary.

At December 31, 2023, Scotia Trinidad & Tobago Growth and Income Fund, held 74,740 units of class IU shares (2022: 74,740 units) valued at \$1,981,112 (2022: \$1,714,639). This fund is managed by Scotia Investments Trinidad and Tobago Limited, a related party to the Manager, and shares the same service providers as the Company.

As of December 31, 2023, 13% (2022: 17%) of the Company’s capital was attributable to one (2022: one investor) investor. The actions of this investor may have a material impact on the Company.

#### **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 within specified limits. The Company’s overall market positions are monitored on a daily basis by the Investment Advisor. The Company’s equity securities are susceptible to market price risk arising from uncertainties about future prices of the financial assets. Maximum risk resulting from financial assets is determined by the fair value of the financial assets.

The Investment Advisor uses the S&P 500 TR Index (USD) as a reference point in making investment decisions. However, the Investment Advisor does not manage the Company’s investment strategy to track S&P 500 TR Index (USD) or any other index or external benchmark. The sensitivity analysis presented is based upon the portfolio composition as at December 31, 2023 and 2022, and the historical correlation of the securities comprising the portfolio to the respective indices. The composition of the Company’s investment portfolio is expected to change over time. Accordingly, the sensitivity analysis prepared as of December 31, 2023 and 2022 is not necessarily indicative of the effect on the Company’s net assets attributed to Redeemable Participating Shares of future movements in the level of S&P 500 TR Index (USD).

## SCOTIA US EQUITY FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023

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

##### Price risk (continued):

At December 31, 2023 and 2022, the Company's market risk is affected by one main component, the change in actual market prices. If the S&P 500 TR Index (USD) at December 31, 2023 had increased by 10% with all other variables held constant, this would have increased net assets attributable to holders of Redeemable Participating Shares by approximately \$5,421,505 (2022: \$4,949,667), ignoring the effects of any management fees. Conversely, if the S&P 500 TR Index (USD) at December 31, 2023 had decreased by 10%, this would have decreased net assets attributable to holders of Redeemable Participating Shares by approximately \$5,421,505 (2022: \$4,949,667), ignoring the effect of any management fees.

Currency risk: All of the Company's financial assets and liabilities 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.

Interest rate risk: 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 results of operations and cash flows.

All of the Company's financial assets are in equities, therefore, the direct impact of changes in interest rates on the market values the investments is significantly mitigated. Accordingly, the Investment Advisor considers that the Company's direct exposure to interest rate risk is not significant.

Credit and concentration risk: Financial assets which potentially expose the Company to credit risk consist primarily of cash and cash equivalents. 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 mitigates this risk by holding cash balances only in highly reputable financial institutions.

The largest concentration by market and strategy 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, 2023 had a credit rating from S&P of AA- (2022: AA-). The Company is subject to credit risk and possible losses should the Custodian be unable to fulfill its obligations to the Company. At December 31, 2023 and 2022, substantially all cash and cash equivalent balances and financial assets at fair value through profit or loss are either held with or placed in custody with the Custodian.

The Company may enter into securities lending transactions with counterparties whereby the Company temporarily exchanges securities for collateral with a commitment by the counterparty to deliver the same securities on a future date. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient, approved credit rating and the fair value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned as at the end of each trading day.

## SCOTIA US EQUITY FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2023

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

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

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, 2023 and 2022, subscriptions receivable 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. The Company is permitted to invest only a limited proportion 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, 2023 and 2022, 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 Accounting Standards 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).
- 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.

**SCOTIA US EQUITY FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2023**

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

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 tables analyse within the fair value hierarchy the Company’s financial assets (by class) measured at fair value:

**At December 31, 2023**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
<u>Financial assets at fair value through profit and loss</u>				
Equity Securities	\$ 60,105,374	\$ -	\$ -	\$ 60,105,374
Total financial assets at fair value through profit or loss	<u>\$ 60,105,374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,105,374</u>

**At December 31, 2022**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
<u>Financial assets at fair value through profit and loss</u>				
Equity Securities	\$ 55,739,488	\$ -	\$ -	\$ 55,739,488
Total financial assets at fair value through profit or loss	<u>\$ 55,739,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,739,488</u>

In relation to the above table, further details of the country and industry 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.

## **SCOTIA US EQUITY FUND**

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

**DECEMBER 31, 2023**

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

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 most commercial paper, U.S. treasury bills, 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 investments 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 Levels 2 and 3 as of December 31, 2023 and 2022.

There were no transfers between Levels during the years ended December 31, 2023 and 2022.

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 withholding taxes.

As at December 31, 2023, the Company has measured tax expenses with respect to withholding taxes on dividend income for \$315,659 (2022: \$331,181), of which \$1,773 (2022: \$Nil) is payable at the end of the year.

#### **10. Subsequent events**

From January 1, 2024 to March 27, 2024, the Company received subscriptions of \$1,504,345 and redemptions of \$4,716,106.

There are no other subsequent events.