



LetkoBrosseau

Letko Brosseau Emerging Markets Equity Fund
Letko Brosseau Fonds d'actions de marchés émergents

ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017



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INDEPENDENT AUDITORS' REPORT

To the Unitholders of
LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND
LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS

Opinion

We have audited the financial statements of **LETKO BROUSSEAU EMERGING MARKETS EQUITY FUND / LETKO BROUSSEAU FONDS D' ACTIONS DE MARCHÉS ÉMERGENTS** (the "Fund"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of changes in net assets attributable to holders of redeemable units, statements of comprehensive income and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Fund Manager and Those Charged with Governance for the Financial Statements

The Fund Manager 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 the Fund Manager 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, the Fund Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Fund Manager 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.

Auditors' 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 auditors' 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 Canadian generally accepted auditing standards 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with Canadian generally accepted auditing standards we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

Partnership of Chartered Professional Accountants

Montreal, March 22, 2019

¹ By CPA auditor, CA, public accountancy permit No. A122335



	2018 \$	2017 \$
Current assets		
Cash	19,900,551	722,264
Investments	1,281,248,747	1,347,489,630
Receivable for investments sold	-	1,258,524
Interest, dividends and other receivables	6,028,116	4,774,561
	1,307,177,414	1,354,244,979
Current liabilities		
Amounts payable on redemptions of redeemable units	142,856	482,757
Amounts payable for investments purchased	303,771	1,022,024
Accrued expenses	380,558	203,017
	827,185	1,707,798
Net assets attributable to holders of redeemable units	1,306,350,229	1,352,537,181

Supplementary information

Number of redeemable units in circulation (note 5)	116,943,875	110,189,867
Net assets per unit attributable to holders of redeemable units (note 6)	\$ 11.1707	\$ 12.2746

Approved by the Board of Directors of Letko, Brosseau & Associates Inc., Fund Manager

Daniel Brosseau, Director

Peter Letko, Director

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



	2018 \$	2017 \$
Net assets attributable to holders of redeemable units, beginning of year	1,352,537,181	1,013,208,111
Change in net assets attributable to holders of redeemable units	(57,699,506)	258,389,513
Redeemable unit transactions		
Proceeds from issuance	177,306,583	154,555,102
Reinvestment of distributions	69,758,119	96,521,776
Redemptions	(165,688,565)	(73,523,376)
	81,376,137	177,553,502
Distributions to holders of redeemable units (note 6)		
Net investment income	(43,716,358)	(36,070,590)
Net realized gain on sale of investments	(26,147,225)	(60,543,355)
	(69,863,583)	(96,613,945)
Net assets attributable to holders of redeemable units, end of year	1,306,350,229	1,352,537,181

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



	2018 \$	2017 \$
Investment income		
Interest income for distribution purposes	219,439	83,709
Dividend income	51,159,375	43,807,351
Foreign exchange gain (loss) on cash	(1,031,404)	(915,814)
Net realized gain (loss) on sale of investments	34,980,485	85,415,361
Net changes in unrealized appreciation (depreciation) of investments	(136,291,060)	136,977,712
	<u>(50,963,165)</u>	<u>265,368,319</u>
Expenses		
Trustee fees (note 9)	2,107,121	1,642,153
Professional fees	16,068	12,483
Filing fees (recovered)	(14,587)	40,851
Consulting fees	-	19,689
Withholding taxes	3,559,766	4,118,425
Portfolio transaction costs	1,067,973	1,145,205
	<u>6,736,341</u>	<u>6,978,806</u>
Change in net assets attributable to holders of redeemable units	<u>(57,699,506)</u>	<u>258,389,513</u>
Change in net assets per unit attributable to holders of redeemable units (note 3)	<u>(0.5036)</u>	<u>2.5695</u>

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



	2018	2017
	\$	\$
Cash flows from (used in) operating activities		
Change in net assets attributable to holders of redeemable units	(57,699,506)	258,389,513
Adjustments or variations for :		
Foreign exchange (gain) loss on cash	1,031,404	915,814
Net realized (gain) loss on sale of investments	(34,980,485)	(85,415,361)
Net changes in unrealized (appreciation) depreciation of investments	136,291,060	(136,977,712)
Proceeds from sale or maturity of investments	447,368,557	425,962,812
Investments purchased	(483,776,211)	(550,433,234)
Interest, dividends and other receivables	(1,253,555)	(2,716,737)
Receivable for investments sold	1,258,524	(1,258,524)
Amounts payable on redemptions of redeemable units	(339,901)	(2,755,421)
Amounts payable for investments purchased	(718,253)	421,670
Accrued expenses	177,541	(24,635)
	<u>7,359,175</u>	<u>(93,891,815)</u>
Cash flows from (used in) financing activities		
Proceeds from issuance of redeemable units	177,306,583	154,555,102
Amounts paid on redemptions of redeemable units	(165,688,565)	(73,523,376)
Distributions paid in cash to holders of redeemable units	(105,464)	(92,169)
	<u>11,512,554</u>	<u>80,939,557</u>
Change in cash	18,871,729	(12,952,258)
Cash, beginning of year	722,264	13,844,125
Effect of exchange rate changes on foreign cash	306,558	(169,603)
Cash, end of year	<u>19,900,551</u>	<u>722,264</u>

Supplementary information

Interest received	\$ 230,131	\$ 71,452
Dividends received, net of withholding taxes	\$ 46,370,141	\$ 37,418,622
Interest paid	\$ 11,608	\$ 3,517

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



	Quantity	Cost	Fair Value
		\$	\$
Equities			
Energy			
CNOOC	16,450,000	28,750,423	34,722,683
Gazprom, ADR	799,700	7,794,210	4,827,668
PTT Exploration & Production	6,851,000	26,102,073	32,617,706
Reliance Industries	752,935	14,801,438	32,753,295
TMK OAO	325,000	3,955,678	1,429,313
		81,403,822	106,350,665
Materials			
China Lumena New Materials Corporation	12,780,000	3,666,663	2
Ivanhoe Mines, Class A	4,030,900	5,193,947	9,553,233
Lucara Diamond Corporation	2,500,600	5,416,331	3,700,888
MMC Norilsk Nickel PJSC, ADR	1,240,338	23,390,610	31,780,517
Nine Dragons Paper Holdings	19,531,000	30,818,255	24,701,566
PT Semen Gresik (Persero) Tbk	26,738,000	27,679,906	29,204,915
Suzano Papel e Celulose SA	665,000	3,247,219	8,923,815
		99,412,931	107,864,936
Industrial Products			
Air Arabia PJSC	35,085,665	15,058,796	13,306,975
Air China	12,297,000	11,785,971	14,630,041
Alfa S.A.B. de C.V.	12,640,000	21,604,698	20,495,160
Aramex PJSC	1,892,000	1,458,670	3,018,060
Beijing Capital International Airport	4,019,275	2,782,064	5,826,540
Bidvest Group	516,231	12,540,488	10,138,591
Companhia de Concessoes Rodoviaras	9,133,200	50,891,824	36,047,320
Copa Holdings SA	50,000	5,156,975	5,375,118
DP World	820,000	23,687,690	19,151,290
Enka Insaat ve Sanayi	4,120,481	7,336,959	4,845,048
Ferreycorp SAA	24,466,000	18,758,027	25,122,346
Global Ports Investments, Class S, GDR	1,178,377	13,827,178	3,733,880
Globaltrans Investment	956,800	12,766,489	11,839,611
GMR Infrastructure	55,000,000	19,667,525	17,645,983
J Kumar Infraprojects	1,449,988	7,528,244	3,771,309
Sinotrans	27,950,000	16,980,585	16,577,641
Wizz Air Holdings	147,300	4,047,013	7,179,491
		245,879,196	218,704,404
Consumer Discretionary			
Cox and Kings	3,235,040	16,109,161	10,524,736
Geely Automobile Holdings	3,550,000	1,261,024	8,546,129
Minth Group	1,806,900	3,344,397	7,958,982
Yamaha Motor Co.	400,000	4,846,207	10,750,650
		25,560,789	37,780,497

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



	Quantity	Cost	Fair Value
		\$	\$
Equities (continued)			
Consumer Staples			
Clover Industries	11,058,505	20,630,887	19,098,846
Kernel Holding	926,700	11,378,492	16,491,782
MHP	952,591	11,732,638	13,465,885
		43,742,017	49,056,513
Health Care			
Fleury	400,000	1,420,075	2,788,164
MicroPort Scientific Corporation	6,309,000	4,158,334	8,474,484
Shandong Weigao Group Medical Polymer Co.	33,866,000	29,650,973	37,455,462
Sinopharm Group Co., Class H	6,192,400	22,902,109	35,539,957
		58,131,491	84,258,067
Financial Services			
Axis Bank	373,395	7,950,196	22,872,783
Cox & Kings Financial Service	1,078,346	-	1,373,341
Credicorp	44,000	9,697,986	13,321,332
DBS Group Holdings	1,075,000	19,568,135	25,519,064
Eurobank Ergasias SA	4,302,500	6,737,952	3,627,514
First Pacific Company	44,461,902	38,774,561	23,423,780
ICICI Bank, ADR	1,500,000	11,057,746	21,081,170
Sberbank, ADR	776,000	9,133,328	11,616,100
Turkiye Garanti Bankasi	3,068,475	12,342,126	6,270,763
Warsaw Stock Exchange	988,000	12,550,862	13,164,569
		127,812,892	142,270,416
Real Estate			
Aliansce Shopping Centers	3,228,300	20,832,977	21,751,728
Atrium European Real Estate	4,083,776	18,659,351	20,594,861
Concentradora Fibra Danhos SA de CV	14,911,000	30,138,510	23,949,975
Emaar Properties PJSC	8,075,000	17,312,243	12,400,581
		86,943,081	78,697,145
Technology			
FIH Mobile	13,000,000	5,723,405	1,859,599
HCL Technologies	1,506,922	22,681,836	28,429,209
Infosys, ADR	2,001,974	15,294,902	25,807,754
Kingboard Laminates Holdings	18,336,500	14,978,262	20,663,837
MediaTek	850,000	8,304,102	8,668,185
Pegatron Corporation	2,700,000	5,356,293	6,166,709
Persistent Systems	875,188	11,107,948	10,660,674
Samsung Electronics Corporation	28,600	20,924,759	33,925,228
		104,371,507	136,181,195

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



	Quantity	Cost \$	Fair Value \$
Equities (continued)			
Communication Services			
China Mobile, ADR	725,650	42,054,102	47,572,558
Global Mediacom	415,594,200	29,475,148	9,552,434
Ooredoo	148,518	4,295,955	4,178,098
Singapore Telecommunications	1,355,000	3,180,642	3,978,306
		79,005,847	65,281,396
Utilities			
Aygaz	1,268,625	6,060,527	3,690,179
Beijing Enterprises Holdings	5,919,400	42,700,435	42,853,646
China Water Affairs Group	22,223,000	7,263,134	32,486,932
Companhia de Gas de Sao Paulo, A Shares	994,437	21,346,688	20,588,141
Companhia de Saneamento Básico do Estado de São Paulo, ADR	3,003,500	32,443,585	33,104,668
Companhia Paranaense de Energia - COPEL, Class P, ADR	3,825,350	45,918,720	40,909,202
EDP - Energias de Portugal SA	397,100	1,597,626	1,890,391
Manila Water Company	48,811,400	31,795,740	35,815,078
Power Grid Corporation of India	8,026,213	25,992,984	31,191,666
		215,119,439	242,529,903
Closed-end Investment Funds			
Morgan Stanley India Investment Fund	330,265	5,538,541	9,021,539
		5,538,541	9,021,539
Total Equities		1,172,921,553	1,277,996,676
	Par Value	Cost \$	Fair Value \$
Money Market Securities			
Canada Treasury Bills 2019-01-10	3,255,000	3,252,071	3,252,071
Total Money Market Securities		3,252,071	3,252,071
Portfolio Transaction Costs Included in the Securities' Cost		(2,728,219)	
Total Investments		1,173,445,405	1,281,248,747

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



1. Establishment of the fund

The Letko Brosseau Emerging Markets Equity Fund / Letko Brosseau Fonds d'actions de marchés émergents (the "Fund") is a private unit investment trust created under a trust agreement established on November 30, 2004 under the laws of the province of Ontario. The registered office is located at 155 Wellington Street West, Toronto, Ontario, Canada, M5V 3L3.

The trust agreement designates RBC Investor Services Trust as the trustee, custodian and accountant of the Fund (the "Trustee") and Letko, Brosseau & Associates Inc. as the manager of the Fund (the "Manager").

2. Basis of presentation

These financial statements, for which the functional and presentation currency is the Canadian dollar, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board ("IASB") and comply with the requirements of the Canadian Securities Administrators ("CSA").

The financial statements were authorized for issue by the Manager's Board of Directors on March 22, 2019.

These financial statements have been prepared on a historical cost basis with the exception of cash and investments which are measured at fair value.

3. Significant accounting policies

Newly adopted accounting standards

Effective January 1, 2018, the Fund adopted IFRS 9 Financial Instruments ("IFRS 9"). IFRS 9 establishes the requirements for the classification and measurement of financial assets and liabilities and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 largely retains the previous requirements in IAS 39 for the classification and measurement of financial liabilities; however, it eliminates the previous IAS 39 categories for financial assets: held to maturity, available for sale and loans and receivables.

The adoption of IFRS 9 has been applied retrospectively without restatement of the prior year. The application of IFRS 9 did not result in a change to the classification and measurement of the financial instruments held by the Fund. The Fund holds investments of \$1,281,248,747 (2017: \$1,347,489,630) which had previously been designated at fair value through profit or loss and on adoption of IFRS 9, these investments continue to be classified as fair value through profit or loss. All other financial assets and financial liabilities which had been previously classified at amortized cost continue to be classified at amortized cost with no change to their carrying amounts.

Financial instruments

Classification

The Fund classifies its financial assets based on both the Fund's business model for managing those financial assets and the associated contractual cash flow characteristics. Based on the Fund's objective of achieving long-term capital appreciation and the management and evaluation of the portfolio's performance on a fair value basis, the Fund applies the business model which requires that its portfolio, which includes cash and investments, be classified at fair value through profit or loss. All other financial assets and liabilities, with the exception of the Fund's obligation for net assets attributable to holders of redeemable units, are classified at amortized cost. The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount as described in note 6.



3. Significant accounting policies (continued)

Financial instruments (continued)

Recognition and measurement

The Fund recognizes financial instruments at fair value upon initial recognition. Purchases and sales of financial assets are recognized on the trade date. Subsequent to initial recognition, cash and investments are measured at fair value and gains and losses arising from changes in the fair value are recognized in the statements of comprehensive income. All other financial assets and financial liabilities are subsequently measured at amortized cost.

Portfolio transaction costs incurred by the Fund for the sale and purchase of investments are expensed as incurred.

Fair value

The fair value of the Fund's investments traded in active markets is determined using the quoted market prices at the close of trading on the date of the financial statements. The closing market price is either obtained from an accredited stock exchange where the security has the highest trading volume or from independent and renowned brokerage houses. In the event where the last closing market price does not fall within the bid-ask spread on the date of the financial statements, the Manager and the Trustee determine the point within the bid-ask spread that is most representative of fair value based on the facts and circumstances. Investment fund units held for trading that are not traded in active markets are measured at fair value based on their net asset value as determined by their trustee.

The Fund's accounting policies for measuring the fair value of its investments are consistent with those used to determine the net asset value for transactions with unitholders.

Information on the reliability of the fair value measurement of financial assets is disclosed in note 12. The transfer of a financial asset from one fair value hierarchy level to another is performed at the date of the event or change in circumstances which would justify a change in level.

Revenue recognition

Investment income is accounted for using the accrual method of accounting. Interest income for distribution purposes is recognized when it is earned. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities, except for zero coupon bonds which are amortized using the effective interest rate method. Dividends are recognized on the ex-dividend date and distributions on investment fund units are recorded at the ex-distribution date. Realized gains and losses upon disposition of investments are recognized on the trade date and are calculated using the average cost method.

Foreign currency translation

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates the transactions occur. Assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the exchange rate prevailing at the date of the financial statements. Foreign exchange gains and losses are presented in the statements of comprehensive income.

Change in net assets per unit attributable to holders of redeemable units

This change, presented in the statements of comprehensive income, represents the variation in net assets per unit attributable to holders of redeemable units based on the average number of redeemable units that were in circulation during the year.



3. Significant accounting policies (continued)

Use of estimates, judgments and assumptions

The preparation of these financial statements in accordance with IFRS requires the Manager to make judgments in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Manager has made in preparing the financial statements.

Investment entity

The Manager has determined that the Fund meets the definition of an investment entity in accordance with IFRS 10 Consolidated Financial Statements. As a result, in the event the Fund holds an investment in a subsidiary, the Fund would account for this investment at fair value through profit or loss.

4. Future accounting standards

There are currently no new accounting standards, amendments to current standards or new interpretations that are effective for annual periods beginning on or after January 1, 2019 which would have a material effect on the Fund's financial statements.

5. Redeemable units in circulation

The Fund is authorized to issue an unlimited number of series of units each of which can contain an unlimited number of units, without par value. All units are voting, participating and redeemable by the unitholders at the net asset value.

Since its inception, the Fund has issued only one series of redeemable units.

	2018	2017
Number of redeemable units in circulation, beginning of year	110,189,867	95,702,039
Number of redeemable units issued and redeemed during the year		
Issued for cash and other consideration	14,704,617	12,638,418
Issued on reinvestment of distributions	6,103,609	8,020,635
Redeemed	(14,054,218)	(6,171,225)
Number of redeemable units in circulation, end of year	116,943,875	110,189,867

6. Valuation of redeemable units and distributions

The net asset value per unit, which represents the redemption amount, is determined by dividing the Fund's net assets at fair value by the number of redeemable units in circulation at the end of each valuation date.

Income from dividends and interest, net of expenses of the Fund, is accounted for in the net assets attributable to holders of redeemable units. At the end of each month, income received, net of expenses paid, is distributed and reinvested as additional redeemable units or, at the discretion of the unitholders, is paid in cash. Realized gains and losses resulting from investment transactions are accounted for in the net assets attributable to holders of redeemable units and net realized gains on investment transactions are distributed and reinvested at the end of the fiscal year as additional redeemable units or, at the discretion of the unitholders, are paid in cash.

7. Capital management

The capital of the Fund is represented by redeemable units issued and in circulation. According to its mission, substantially all of the Fund's capital is invested in securities. Information about the Fund's objectives, policies and procedures for managing its capital is disclosed in note 11. The Fund is not subject to any particular external requirement for managing its capital.



8. Related party transactions

The following table presents a summary of the transactions during the year between the Fund and related parties. Related parties are represented by the Manager, directors of the Manager, corporations controlled by the directors of the Manager, family members of the directors and a deferred profit sharing plan for the benefit of the Manager's employees.

2018	Manager \$	Other related parties \$
Redeemable units issued and redeemed		
Issued for cash and other consideration	-	54,641,807
Issued on reinvestment of distributions	1,947,815	23,558,105
Redeemed	-	(19,870,696)
	1,947,815	58,329,216

2017	Manager \$	Other related parties \$
Redeemable units issued and redeemed		
Issued for cash and other consideration	-	37,949,386
Issued on reinvestment of distributions	2,817,620	31,318,081
Redeemed	(6,111,572)	(3,499,809)
	(3,293,952)	65,767,658

These transactions took place in the normal course of operations and are measured at the net asset value at the date of the transactions.

As at December 31, related parties held units of the Fund with an aggregate fair market value of the following:

	2018 \$	2017 \$
Manager	36,897,974	38,451,825
Other related parties	110,708,918	105,372,503
	147,606,892	143,824,328

9. Fees

Trustee fees are calculated according to an agreement between the Manager and the Trustee.

Management fees of the Manager are invoiced directly to the unitholders.

10. Income taxes

In accordance with provisions of the Income Tax Act (Canada) and the Quebec Taxation Act, the Fund qualifies as a mutual fund and has elected to choose a December 15th taxation year-end. The Fund is taxed on its income received and not distributed to unitholders. The Fund distributes to unitholders the total income from dividends and interest, net of expenses and a sufficient portion of net realized taxable capital gains to eliminate the income taxes.



II. Risks associated with financial instruments

Analysis of risk management

In accordance with its “Policy and Guidelines”, the Fund’s investment objective is to optimize returns by building a well-diversified international portfolio comprised primarily of publicly traded companies exposed to more rapidly growing developing economies. In order to minimize the risks associated with financial instruments, the Manager applies a strategy of diversification across economic regions and industrial sectors.

When the Fund invests in other investment funds, it may be indirectly exposed to risks related to the financial instruments held by these funds, according to their investment objectives and the type of securities they hold.

Credit risk

The credit risk associated with the Fund’s investments in money market securities is insignificant given their short-term maturities.

The risk of default on transactions with counterparties related to investments is considered minimal since the transaction would fail if either party did not fulfill its obligation.

Liquidity risk

The Fund’s units are redeemable at the option of the holder thereby exposing the Fund to liquidity risk. Although the Fund is exposed to redemptions of units, liquidity risk is mitigated by the fact that the majority of its assets consist of investments traded on a stock exchange or an organized market, which can be readily liquidated. In addition, at the Manager’s discretion, the Fund may pay the redemptions in securities instead of cash.

Market risks

For the disclosure of market risks, IFRS requires that a sensitivity analysis be presented showing the effects of reasonable possible changes in relevant risk variables on the value of net assets attributable to holders of redeemable units.

The Manager considers that this sensitivity analysis, showing the impact on the value of financial instruments from changes in the market, is based on a highly unlikely assumption that all other variables remain constant. Moreover, considering the many interrelationships between the various components of market risk, the Manager is of the opinion that it is not possible to quantify the impact of market fluctuations due to the interdependence of these components. Consequently, in practice, actual results may differ from the sensitivity analyses presented below and differences could be material.

Price risk

Given the investments held, the Fund is exposed to the inherent risk associated with fluctuations in the market due to the uncertainty regarding the investments’ future price. Consequently, the maximum risk to which the Fund is exposed corresponds to the fair value of its investments.

The Manager’s best estimate of the upward or downward impact on the Fund’s investments and net assets as a result of reasonable probable changes in benchmark indices, with all other variables being equal, is as follows:

Benchmark indices	Changes in %	2018 Impact \$	2017 Impact \$
Deutsche Bank Fed Funds Effective Rate Total Return Index	0.25	56,000	67,000
MSCI Emerging Markets Total Return Net Index	3.00	37,761,000	39,616,000



II. Risks associated with financial instruments (continued)

Market risks (continued)

Currency risk

The Fund holds securities of foreign issuers in its investment portfolio. The value of these securities is dependent on fluctuations in currency rates. These fluctuations may increase the short-term volatility of foreign securities in the markets and affect the short-term performance of the Fund.

The Fund holds assets denominated in foreign currencies for which the distribution is as follows:

	2018 % of net assets	2017 % of net assets
Foreign currencies		
U.S. dollars	28.81	27.92
Hong Kong dollars	24.20	23.54
Brazilian real	6.90	7.00
Indian rupee	10.00	10.96
Other currencies representing less than 5% individually	28.55	28.73

As at December 31, 2018, an increase or decrease of 3% in the value of Canadian currency compared to foreign currencies, with all other variables being equal, would have resulted in an upward or downward variation of the Fund's investments and net assets of \$38,593,000 (2017: \$39,822,000).

Interest rate risk

Interest rate fluctuations have an insignificant impact on money market securities given their short-term maturities.

Given that the Fund does not hold investments in bonds, it is not directly exposed to an interest rate risk on debt securities. The value of bonds held by the Fund through its holdings in other investment funds is not significant. Consequently, the interest rate risk associated with these investments is not significant.

The Fund's investments in equities are exposed to interest rate risk. This is due to the fact that their value is dependent on the rate used in discounting future dividends and to the general effect from changes in interest rates on the economy as a whole, the availability of credit and the profitability of companies. The Manager believes that it is not possible to quantify the impact of the variations taking into account the interdependence of these components.

12. Information on fair value of financial instruments

The financial instruments measured at fair value are classified according to a hierarchy which includes three levels, reflecting the reliability of the inputs involved in the fair value determination:

- Level 1: financial instruments for which the fair value is determined using quoted prices in active markets;
- Level 2: financial instruments for which the fair value is determined using pricing models based on market observable inputs;
- Level 3: financial instruments for which the fair value is determined using pricing models based on market unobservable inputs.

As at December 31, the investments held by the Fund and measured at fair value are all classified in Level 1.

During the years ended December 31, 2018 and 2017, there were no transfers between the levels.

The financial instruments not measured at fair value through profit or loss are short term financial assets and liabilities whose carrying amounts approximate fair value.



13. Filing exemption for financial statements

The Fund has advised the CSA that it is exempt under section 2.11 of NI 81-106 from annual filing requirements to the Canadian regulation authorities since all the requirements have been met.