



# LetkoBrosseau

Letko Brosseau RSP Bond Fund

Letko Brosseau Fonds RER d'obligations

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## ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017



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## INDEPENDENT AUDITORS' REPORT

To the Unitholders of  
**LETKO BROUSSEAU RSP BOND FUND**  
**LETKO BROUSSEAU FONDS RER D'OBLIGATIONS**

### *Opinion*

We have audited the financial statements of **LETKO BROUSSEAU RSP BOND FUND / LETKO BROUSSEAU FONDS RER D'OBLIGATIONS** (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



	2018 \$	2017 \$
<b>Current assets</b>		
Cash	140,190	68,331
Investments	69,383,073	48,741,215
Interest and other receivables	320,669	244,265
	<u>69,843,932</u>	<u>49,053,811</u>
<b>Current liabilities</b>		
Amounts payable on redemptions of redeemable units	2,000	1,000
Accrued expenses	24,424	15,445
	<u>26,424</u>	<u>16,445</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>69,817,508</u>	<u>49,037,366</u>

**Supplementary information**

<b>Number of redeemable units in circulation (note 5)</b>	<u>7,328,463</u>	<u>5,094,311</u>
<b>Net assets per unit attributable to holders of redeemable units (note 6)</b>	<u>\$ 9.5269</u>	<u>\$ 9.6259</u>

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 \$
<b>Net assets attributable to holders of redeemable units, beginning of year</b>	49,037,366	52,262,743
<b>Change in net assets attributable to holders of redeemable units</b>	1,322,399	448,138
<b>Redeemable unit transactions</b>		
Proceeds from issuance	31,815,416	5,027,079
Reinvestment of distributions	2,029,865	1,504,904
Redemptions	(12,357,673)	(8,700,594)
	21,487,608	(2,168,611)
<b>Distributions to holders of redeemable units (note 6)</b>		
Net investment income	(2,029,865)	(1,504,904)
<b>Net assets attributable to holders of redeemable units, end of year</b>	69,817,508	49,037,366

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



	2018	2017
	\$	\$
<b>Investment income</b>		
Interest income for distribution purposes	2,070,430	1,527,912
Net securities lending income (note 8)	11,133	115
Net realized gain (loss) on sale of investments	(177,089)	(20,455)
Net changes in unrealized appreciation (depreciation) of investments	(539,489)	(1,026,269)
	<b>1,364,985</b>	<b>481,303</b>
<b>Expenses</b>		
Trustee fees (note 9)	18,767	22,298
Professional fees	16,725	9,722
Filing fees	7,094	1,145
	<b>42,586</b>	<b>33,165</b>
<b>Change in net assets attributable to holders of redeemable units</b>	<b>1,322,399</b>	<b>448,138</b>
<b>Change in net assets per unit attributable to holders of redeemable units (note 3)</b>	<b>0.1805</b>	<b>0.0868</b>

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



	2018	2017
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Change in net assets attributable to holders of redeemable units	1,322,399	448,138
Adjustments or variations for :		
Net realized (gain) loss on sale of investments	177,089	20,455
Net changes in unrealized (appreciation) depreciation of investments	539,489	1,026,269
Proceeds from sale or maturity of investments	56,487,308	19,995,038
Investments purchased	(77,845,744)	(17,748,356)
Interest and other receivables	(76,404)	4,219
Amounts payable on redemptions of redeemable units	1,000	800
Accrued expenses	8,979	(1,697)
	<u>(19,385,884)</u>	<u>3,744,866</u>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issuance of redeemable units	31,815,416	5,027,079
Amounts paid on redemptions of redeemable units	(12,357,673)	(8,700,594)
	<u>19,457,743</u>	<u>(3,673,515)</u>
<b>Change in cash</b>	71,859	71,351
Cash, beginning of year	68,331	(3,020)
<b>Cash, end of year</b>	<u>140,190</u>	<u>68,331</u>
<b>Supplementary information</b>		
Interest received	\$ 1,994,642	\$ 1,532,131
Interest paid	\$ 3	-

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



	Par Value	Cost \$	Fair Value \$
<b>Canadian Government Bonds</b>			
<b>Federal Government</b>			
Canada Housing Trust			
3.750%, 2020-03-15	155,000	174,007	158,389
1.200%, 2020-06-15	800,000	799,914	791,866
3.350%, 2020-12-15	445,000	495,217	456,623
3.800%, 2021-06-15	305,000	349,070	317,742
2.650%, 2022-03-15	325,000	350,504	330,141
2.350%, 2023-09-15	1,000,000	1,001,190	1,002,920
		3,169,902	3,057,681
<b>Provincial Governments and Crown Corporations</b>			
CPPIB Capital			
1.400%, 2020-06-04	1,000,000	991,298	991,170
Financement-Québec			
floating rate, 2019-05-29	1,140,000	1,140,758	1,142,967
2.450%, 2019-12-01	275,000	273,320	276,216
Hydro-Québec			
11.000%, 2020-08-15	510,000	788,453	582,210
9.625%, 2022-07-15	90,000	134,253	112,196
Newfoundland & Labrador Hydro			
stripped, 2020-08-27	250,000	243,006	240,229
Ontario Hydro Energy			
10.750%, 2021-08-06	50,000	76,345	60,603
10.125%, 2021-10-15	145,000	206,790	175,428
8.900%, 2022-08-18	175,000	246,967	214,040
8.250%, 2026-06-22	25,000	38,188	34,047
Province of Alberta			
1.250%, 2020-06-01	1,395,000	1,371,984	1,379,969
1.350%, 2021-09-01	1,100,000	1,093,091	1,075,589
1.600%, 2022-09-01	200,000	199,522	194,607
2.550%, 2022-12-15	1,465,000	1,501,820	1,472,361
Province of British Columbia			
9.950%, 2021-05-15	225,000	336,519	265,152
4.800%, 2021-06-15	315,000	376,638	334,745
7.875%, 2023-11-30	400,000	554,660	496,319
Province of Manitoba			
4.150%, 2020-06-03	675,000	735,750	694,840
1.600%, 2020-09-05	500,000	497,255	496,210
3.850%, 2021-12-01	115,000	125,810	120,129
2.550%, 2023-06-02	500,000	499,500	501,616
Province of New Brunswick			
4.400%, 2019-06-03	260,000	274,352	262,728
floating rate, 2019-08-01	840,000	840,068	841,855
4.500%, 2020-06-02	560,000	638,980	579,022
2.850%, 2023-06-02	2,500,000	2,543,480	2,536,749
Province of Newfoundland and Labrador			
1.125%, 2019-01-30	400,000	398,320	399,772
10.950%, 2021-04-15	45,000	63,607	53,594
1.950%, 2022-06-02	200,000	199,700	197,046
floating rate, 2023-02-27	2,000,000	2,000,000	1,991,710
9.150%, 2025-07-07	50,000	75,575	68,743

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



	Par Value	Cost \$	Fair Value \$
<b>Canadian Government Bonds (continued)</b>			
<b>Provincial Governments and Crown Corporations (continued)</b>			
Province of Nova Scotia			
4.150%, 2019-11-25	1,400,000	1,455,012	1,426,981
stripped, 2019-12-01	200,000	197,439	196,191
4.100%, 2021-06-01	2,010,000	2,185,853	2,100,168
9.600%, 2022-01-30	200,000	282,136	242,209
floating rate, 2024-11-09	1,975,000	1,979,997	1,974,724
Province of Ontario			
4.400%, 2019-06-02	1,790,000	1,975,932	1,808,794
floating rate, 2019-08-26	2,000,000	2,003,884	2,005,309
4.200%, 2020-06-02	125,000	142,631	128,755
floating rate, 2021-10-27	2,500,000	2,524,000	2,517,397
1.350%, 2022-03-08	2,930,000	2,834,263	2,846,099
3.150%, 2022-06-02	1,895,000	1,943,781	1,945,558
2.850%, 2023-06-02	2,000,000	2,040,800	2,032,828
2.600%, 2025-06-02	1,195,000	1,252,085	1,192,836
Province of Prince Edward Island			
4.250%, 2019-09-24	450,000	471,375	457,754
Province of Québec			
floating rate, 2019-08-21	190,000	190,000	190,594
4.500%, 2020-12-01	1,400,000	1,487,920	1,463,691
3.500%, 2022-12-01	2,910,000	3,039,862	3,034,534
3.750%, 2024-09-01	1,000,000	1,150,130	1,064,276
Province of Saskatchewan			
1.950%, 2019-03-01	300,000	304,914	300,152
3.200%, 2024-06-03	475,000	501,885	490,376
PSP Capital			
1.34%, 2021-08-18	1,250,000	1,211,000	1,222,957
1.73%, 2022-06-21	1,250,000	1,213,000	1,225,360
2.09%, 2023-11-22	300,000	292,650	294,690
		49,146,558	47,954,095
<b>Municipalities and Parapublic Institutions</b>			
City of Hamilton			
2.500%, 2020-10-01	105,000	104,917	105,250
City of Ottawa			
3.250%, 2020-10-19	400,000	420,488	406,660
City of Toronto			
4.500%, 2019-12-02	1,030,000	1,037,956	1,052,674
3.500%, 2021-12-06	75,000	82,017	77,392
City of Vancouver			
4.900%, 2019-12-02	465,000	464,423	477,174
Municipal Finance Authority of British Columbia			
2.050%, 2019-06-02	225,000	230,275	225,153
4.450%, 2020-06-01	200,000	223,251	206,567

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



	Par Value	Cost \$	Fair Value \$
<b>Canadian Government Bonds (continued)</b>			
<b>Municipalities and Parapublic Institutions (continued)</b>			
Regional Municipality of Peel 3.500%, 2021-12-01	315,000	313,652	325,151
Regional Municipality of York 5.000%, 2019-04-29	250,000	249,398	252,512
4.500%, 2020-06-30	80,000	89,312	82,769
4.000%, 2021-06-30	85,000	94,556	88,546
		3,310,245	3,299,848
<b>Total Canadian Government Bonds</b>		55,626,705	54,311,624
<b>Corporate Bonds</b>			
Alimentation Couche-Tard 3.319%, 2019-11-01	230,000	232,443	231,240
Bank of Montreal 2.840%, 2020-06-04	500,000	504,840	502,102
1.880%, 2021-03-31	250,000	247,308	245,661
Bank of Nova Scotia 2.130%, 2020-06-15	600,000	598,600	596,372
3.270%, 2021-01-11	185,000	199,225	187,128
2.360%, 2022-11-08	250,000	244,440	245,149
Bell Canada 2.000%, 2021-10-01	150,000	149,642	145,871
3.000%, 2022-10-03	300,000	302,118	297,454
Canadian Imperial Bank of Commerce floating rate, 2020-12-08	1,075,000	1,076,760	1,073,637
Canadian Natural Resources 3.550%, 2024-06-03	25,000	26,094	24,797
Canadian Utilities 6.800%, 2019-08-13	504,000	531,901	517,785
Capital Power Corporation 4.850%, 2019-02-21	20,000	20,467	20,056
5.276%, 2020-11-16	750,000	753,396	775,886
Cominar Real Estate Investment Trust 4.230%, 2019-12-04	80,000	82,342	80,479
4.941%, 2020-07-27	355,000	365,086	360,669
First Capital Realty 5.480%, 2019-07-30	385,000	383,549	391,391
5.600%, 2020-04-30	330,000	333,971	341,528
4.790%, 2024-08-30	30,000	34,002	31,427
4.323%, 2025-07-31	50,000	54,538	50,867
Greater Toronto Airports Authority 1.510%, 2021-02-16	300,000	293,220	293,747
6.450%, 2029-07-30	5,133	5,613	6,096
Pembina Pipeline Corporation 4.890%, 2021-03-29	265,000	275,022	274,805

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



	Par Value	Cost \$	Fair Value \$
<b>Corporate Bonds (continued)</b>			
Rogers Communications			
2.800%, 2019-03-13	350,000	352,135	350,334
4.700%, 2020-09-29	320,000	338,175	329,783
4.000%, 2024-03-13	285,000	300,362	292,373
Royal Bank of Canada			
1.920%, 2020-07-17	605,000	605,457	599,260
2.360%, 2022-12-05	600,000	592,530	588,918
Saputo			
2.654%, 2019-11-26	55,000	56,443	54,998
TELUS Corporation			
5.050%, 2020-07-23	175,000	200,662	181,007
3.600%, 2021-01-26	300,000	319,264	303,924
3.350%, 2024-04-01	35,000	36,456	34,839
Thomson Reuters Corporation			
3.309%, 2021-11-12	350,000	367,213	353,475
Toronto-Dominion Bank			
1.693%, 2020-04-02	100,000	100,390	99,031
<b>Total Corporate Bonds</b>		<b>9,983,664</b>	<b>9,882,089</b>
<b>Total Bonds</b>		<b>65,610,369</b>	<b>64,193,713</b>
<b>Money Market Securities</b>			
Canada Treasury Bills			
2019-01-24	20,000	19,921	19,921
2019-02-21	50,000	49,816	49,816
Province of Québec, notes			
2019-01-07	1,445,000	1,441,113	1,441,113
2019-02-04	1,725,000	1,719,601	1,719,601
2019-02-19	1,965,000	1,958,909	1,958,909
<b>Total Money Market Securities</b>		<b>5,189,360</b>	<b>5,189,360</b>
<b>Total Investments</b>		<b>70,799,729</b>	<b>69,383,073</b>

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



## **1. Establishment of the fund**

The Letko Brosseau RSP Bond Fund / Letko Brosseau Fonds RER d'obligations (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 \$69,383,073 (2017: \$48,741,215) 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. Income from securities lending is recorded when earned. 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
<b>Number of redeemable units in circulation, beginning of year</b>	5,094,311	5,313,953
<b>Number of redeemable units issued and redeemed during the year</b>		
Issued for cash and other consideration	3,319,479	515,393
Issued on reinvestment of distributions	212,845	154,397
Redeemed	(1,298,172)	(889,432)
<b>Number of redeemable units in circulation, end of year</b>	<b>7,328,463</b>	<b>5,094,311</b>

### 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 interest and securities lending, 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. Net securities lending income

In September 2017, the Fund entered into a securities lending program with the Trustee. Securities lending transactions involve the temporary exchange of securities for collateral with a commitment to return the same securities to the Fund on a future date. In accordance with the terms of the program, the Fund receives collateral of at least 102% of the fair value of the securities on loan. The collateral consists primarily of debt securities with high credit ratings. The fair value of the securities loaned is determined in accordance with standard market practices and additional collateral is requested if necessary.

The table below presents the aggregate fair value of the securities on loan and collateral held under securities lending transactions as at December 31. The securities on loan continue to be included in the schedule of investment portfolio.

	2018 \$	2017 \$
Total fair value of securities on loan	23,310,593	6,973,802
Total collateral held	23,776,852	7,147,053

Securities lending income reported in the statements of comprehensive income is net of securities lending charges which the Fund's Trustee is entitled to receive as per the terms of the program. For the years ended December 31, securities lending income was as follows:

	2018 \$	2017 \$
Gross securities lending income	22,050	230
Securities lending charges	(10,917)	(115)
Net securities lending income	11,133	115
Securities lending charges as a % of the gross securities lending income	49.5%	50.0%

## 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 unit trust and is taxed on its income received and not distributed to unitholders. The Fund distributes to unitholders the total income from interest and securities lending, net of expenses and its net realized taxable capital gains.

As at December 31, 2018, the Fund had capital losses in the amount of approximately \$198,000 (2017: \$20,000) available to carry-forward indefinitely, which can be used to offset future taxable capital gains that are allocated to unitholders. No asset related to these losses has been recognized in the financial statements.

## 11. 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 bond portfolio, without taking undue risk of loss or impairment. The portfolio consists generally of Canadian bonds and money market securities, but can also include, on a lesser scale, equities, foreign bonds and foreign pay bonds. In order to minimize the risks associated with financial instruments, the Manager applies a strategy of diversification across issuers, economic regions and industrial sectors.



## II. Risks associated with financial instruments (continued)

### Credit risk

The Fund's maximum exposure to credit risk is the fair value of debt securities included in investments, as well as interest and other receivables presented on the statements of financial position.

The majority of the credit risk to which the Fund is exposed to arises from its investments in debt securities. The Manager is of the opinion that the credit risk associated with these investments in debt securities is limited given that the Fund invests in issuers with high credit ratings. The Fund holds bonds for which the credit rating breakdown is as follows:

Bonds by credit rating	2018 % of net assets	2017 % of net assets
AAA	13.65	13.49
AA	25.38	30.31
A	45.94	41.77
BBB	6.35	8.93
BB	0.63	0.91

Credit ratings attributed to money market securities are not presented above since the related credit risk is insignificant given their short-term maturities.

The credit risk associated with securities lending transactions is considered minimal given the nature and the value of the collateral held by the Fund in connection with these transactions.

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.



## II. Risks associated with financial instruments (continued)

### Market risks (continued)

#### 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 \$
FTSE Canada 91 Day TBill Total Return Index	0.25	13,000	5,000
FTSE Canada Universe Bond Total Return Index	1.00	641,000	468,000

#### Currency risk

The Fund is not exposed to a significant currency risk given the small proportion of its investments in foreign securities.

#### Interest rate risk

The Fund is exposed to interest rate risk primarily on its bonds with maturity dates as follows:

Bonds by maturity date	2018 \$	2017 \$
Less than 1 year	12,963,110	10,401,300
1 to 5 years	45,965,201	32,531,103
5 to 10 years	5,259,306	3,846,412
10 years and more	6,096	6,635
Total	64,193,713	46,785,450

An increase or decrease of 1% in interest rates, with all other variables being equal, would have resulted in an upward or downward variation of the Fund's investments and net assets in the amount of \$1,373,000 (2017: \$1,019,000). Interest rate fluctuations have an insignificant impact on money market securities given their short-term maturities.



## 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.

The investments held by the Fund and measured at fair value are classified as follows:

	Level 1	Level 2	Total
	\$	\$	\$
2018			
Bonds	51,011,776	13,181,937	64,193,713
Money market securities	5,189,360	-	5,189,360
	56,201,136	13,181,937	69,383,073
2017			
Bonds	34,784,674	12,000,776	46,785,450
Money market securities	1,955,765	-	1,955,765
	36,740,439	12,000,776	48,741,215

As at December 31, the Fund did not hold any Level 3 investments.

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.