



# LetkoBrosseau

**Letko Brosseau RSP Bond Fund**

**Letko Brosseau Fonds RER d'obligations**

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## **ANNUAL FINANCIAL STATEMENTS**

DECEMBER 31, 2019 AND 2018

(Expressed in Canadian Dollars)



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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, 2019 and 2018, 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, 2019 and 2018, 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 audit 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 audit 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.



	2019 \$	2018 \$
<b>Current assets</b>		
Cash	11,819	140,190
Investments	72,824,391	69,383,073
Interest and other receivables	332,496	320,669
	<u>73,168,706</u>	<u>69,843,932</u>
<b>Current liabilities</b>		
Amounts payable on redemptions of redeemable units	600	2,000
Accrued expenses	25,463	24,424
	<u>26,063</u>	<u>26,424</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>73,142,643</u>	<u>69,817,508</u>

**Supplementary information**

<b>Number of redeemable units in circulation (note 5)</b>	7,671,834	7,328,463
<b>Net assets per unit attributable to holders of redeemable units (note 6)</b>	\$ 9.5339	\$ 9.5269

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.



	2019 \$	2018 \$
<b>Net assets attributable to holders of redeemable units, beginning of year</b>	69,817,508	49,037,366
<b>Change in net assets attributable to holders of redeemable units</b>	2,525,294	1,322,399
<b>Redeemable unit transactions</b>		
Proceeds from issuance	36,321,194	31,815,416
Reinvestment of distributions	2,489,574	2,029,865
Redemptions	(35,521,353)	(12,357,673)
	3,289,415	21,487,608
<b>Distributions to holders of redeemable units (note 6)</b>		
Net investment income	(2,489,574)	(2,029,865)
<b>Net assets attributable to holders of redeemable units, end of year</b>	73,142,643	69,817,508

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



	2019	2018
	\$	\$
<b>Investment income</b>		
Interest income for distribution purposes	2,518,052	2,070,430
Net securities lending income (note 8)	16,088	11,133
Net realized gain (loss) on sale of investments	(475,481)	(177,089)
Net changes in unrealized appreciation (depreciation) of investments	512,435	(539,489)
	<u>2,571,094</u>	<u>1,364,985</u>
<b>Expenses</b>		
Trustee fees (note 9)	24,942	18,767
Professional fees	12,388	16,725
Filing fees	8,470	7,094
	<u>45,800</u>	<u>42,586</u>
<b>Change in net assets attributable to holders of redeemable units</b>	<u>2,525,294</u>	<u>1,322,399</u>
<b>Change in net assets per unit attributable to holders of redeemable units (note 3)</b>	<u>0.2794</u>	<u>0.1805</u>

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



	2019	2018
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Change in net assets attributable to holders of redeemable units	2,525,294	1,322,399
Adjustments or variations for :		
Net realized (gain) loss on sale of investments	475,481	177,089
Net changes in unrealized (appreciation) depreciation of investments	(512,435)	539,489
Proceeds from sale or maturity of investments	86,621,043	56,487,308
Investments purchased	(90,025,407)	(77,845,744)
Interest and other receivables	(11,827)	(76,404)
Amounts payable on redemptions of redeemable units	(1,400)	1,000
Accrued expenses	1,039	8,979
	(928,212)	(19,385,884)
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issuance of redeemable units	36,321,194	31,815,416
Amounts paid on redemptions of redeemable units	(35,521,353)	(12,357,673)
	799,841	19,457,743
<b>Change in cash</b>	(128,371)	71,859
Cash, beginning of year	140,190	68,331
<b>Cash, end of year</b>	11,819	140,190
<b>Supplementary information</b>		
Interest received	\$ 2,505,609	\$ 1,994,642
Interest paid	\$ 2	\$ 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			
3.800%, 2021-06-15	305,000	349,070	313,780
2.650%, 2022-03-15	325,000	350,504	330,879
2.350%, 2023-09-15	1,000,000	1,001,190	1,015,120
2.900%, 2024-06-15	1,000,000	1,036,730	1,039,803
		2,737,494	2,699,582
<b>Provincial Governments and Crown Corporations</b>			
Alberta Capital Finance Authority			
4.450%, 2025-12-15	575,000	639,497	643,790
CPPIB Capital			
1.400%, 2020-06-04	1,000,000	991,298	998,473
Hydro-Quebec			
11.000%, 2020-08-15	510,000	788,453	538,539
9.625%, 2022-07-15	90,000	134,253	107,225
New Brunswick F-M Project Co.			
6.470%, 2027-11-30	20,213	23,202	23,459
Newfoundland & Labrador Hydro			
stripped, 2020-08-27	250,000	247,232	246,609
Ontario Hydro Energy			
10.750%, 2021-08-06	50,000	76,345	56,901
10.125%, 2021-10-15	145,000	206,790	165,745
8.900%, 2022-08-18	575,000	735,451	676,265
8.500%, 2025-05-26	245,000	328,472	322,859
8.250%, 2026-06-22	375,000	518,027	508,727
Province of Alberta			
1.350%, 2021-09-01	2,100,000	2,076,591	2,083,918
1.600%, 2022-09-01	500,000	497,572	496,238
3.100%, 2024-06-01	195,000	202,021	203,619
Province of British Columbia			
9.950%, 2021-05-15	225,000	336,519	249,527
4.800%, 2021-06-15	315,000	376,638	328,365
7.875%, 2023-11-30	475,000	647,446	573,773
Province of Manitoba			
4.150%, 2020-06-03	675,000	735,750	681,594
1.600%, 2020-09-05	500,000	497,255	499,357
1.550%, 2021-09-05	1,875,000	1,865,344	1,866,630
3.850%, 2021-12-01	115,000	125,810	119,281
2.550%, 2023-06-02	1,800,000	1,826,684	1,835,772
7.750%, 2025-12-22	680,000	898,327	890,169

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 New Brunswick			
4.500%, 2020-06-02	2,485,000	2,625,869	2,512,553
3.350%, 2021-12-03	675,000	697,558	693,687
1.550%, 2022-05-04	200,000	198,260	198,436
2.850%, 2023-06-02	3,195,000	3,254,169	3,287,135
3.650%, 2024-06-03	170,000	180,442	181,264
2.350%, 2027-08-14	310,000	301,648	310,123
Province of Newfoundland and Labrador			
10.950%, 2021-04-15	45,000	63,607	50,090
stripped, 2021-04-17	320,000	312,228	311,925
1.950%, 2022-06-02	1,900,000	1,900,448	1,900,333
floating rate, 2023-02-27	2,000,000	2,000,000	2,004,043
9.150%, 2025-07-07	50,000	75,575	67,669
Province of Nova Scotia			
4.100%, 2021-06-01	2,010,000	2,185,853	2,073,484
4.450%, 2021-10-24	170,000	180,267	177,805
9.600%, 2022-01-30	200,000	282,136	230,700
floating rate, 2022-11-09	900,000	902,997	903,915
floating rate, 2024-11-09	1,975,000	1,979,997	1,991,195
2.150%, 2025-06-01	350,000	343,865	350,971
Province of Ontario			
4.200%, 2020-06-02	2,050,000	2,122,782	2,070,387
floating rate, 2021-10-27	1,600,000	1,615,360	1,611,847
1.350%, 2022-03-08	3,430,000	3,328,088	3,393,077
3.150%, 2022-06-02	2,045,000	2,098,503	2,106,256
2.850%, 2023-06-02	2,000,000	2,040,800	2,060,288
2.600%, 2025-06-02	1,195,000	1,252,085	1,226,115
Province of Quebec			
3.500%, 2022-12-01	2,910,000	3,039,862	3,042,797
Province of Saskatchewan			
3.200%, 2024-06-03	475,000	501,885	498,391
PSP Capital			
3.030%, 2020-10-22	1,750,000	1,779,010	1,767,064
1.340%, 2021-08-18	465,000	453,881	461,541
1.730%, 2022-06-21	1,250,000	1,213,000	1,245,986
2.090%, 2023-11-22	590,000	579,910	592,802
		52,285,062	51,438,714
<b>Municipalities and Parapublic Institutions</b>			
City of Hamilton			
2.500%, 2020-10-01	105,000	104,917	105,365
City of Ottawa			
3.250%, 2020-10-19	400,000	420,488	403,668

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>			
City of Toronto			
3.500%, 2021-12-06	75,000	82,017	77,240
3.400%, 2024-05-21	400,000	417,208	420,987
2.400%, 2026-06-24	200,000	195,708	201,264
City of Vancouver			
3.050%, 2024-10-16	250,000	257,248	260,392
Municipal Finance Authority of British Columbia			
4.450%, 2020-06-01	200,000	223,251	202,180
1.650%, 2021-04-19	800,000	797,184	798,329
4.150%, 2021-06-01	225,000	235,233	232,244
3.350%, 2022-06-01	240,000	248,420	248,118
2.150%, 2024-06-03	100,000	99,849	100,342
2.950%, 2024-10-14	250,000	256,558	259,780
Ontario School Boards Financing Corporation			
7.200%, 2025-06-09	19,430	22,305	22,120
Regional Municipality of Peel			
3.500%, 2021-12-01	395,000	396,483	407,040
2.300%, 2026-11-02	125,000	121,208	124,640
Regional Municipality of York			
4.500%, 2020-06-30	80,000	89,312	81,062
4.000%, 2021-06-30	1,820,000	1,890,482	1,876,821
2.500%, 2026-06-02	150,000	147,942	151,875
		6,005,813	5,973,467
<b>Total Canadian Government Bonds</b>		61,028,369	60,111,763
<b>Corporate Bonds</b>			
Bank of Montreal			
2.840%, 2020-06-04	500,000	504,840	501,862
1.880%, 2021-03-31	250,000	247,308	249,521
4.609%, 2025-09-10	45,000	49,928	50,446
Bank of Nova Scotia			
2.130%, 2020-06-15	600,000	598,600	600,491
3.270%, 2021-01-11	185,000	199,225	187,318
2.360%, 2022-11-08	280,000	274,167	281,402
Bell Canada			
4.950%, 2021-05-19	90,000	94,434	93,338
2.000%, 2021-10-01	850,000	847,602	847,404
3.000%, 2022-10-03	300,000	302,118	305,346
2.700%, 2024-02-27	65,000	63,902	65,371
3.550%, 2026-03-02	195,000	197,709	202,776
Canadian Imperial Bank of Commerce			
floating rate, 2020-12-08	1,075,000	1,076,760	1,077,249
2.970%, 2023-07-11	100,000	101,244	102,518
Canadian Natural Resources			
3.550%, 2024-06-03	200,000	203,062	206,157

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



	Par Value	Cost \$	Fair Value \$
<b>Corporate Bonds (continued)</b>			
Canadian Tire Corporation 2.646%, 2020-07-06	1,000,000	1,004,400	1,002,245
Capital Power Corporation 5.276%, 2020-11-16	925,000	934,668	948,384
4.986%, 2026-01-23	30,000	30,568	32,149
Cominar Real Estate Investment Trust 4.941%, 2020-07-27	405,000	415,907	410,522
Enbridge 3.940%, 2023-06-30	95,000	98,200	99,178
First Capital Realty 5.600%, 2020-04-30	410,000	416,671	414,340
3.950%, 2022-12-05	100,000	102,647	103,647
4.790%, 2024-08-30	30,000	34,002	32,253
4.323%, 2025-07-31	305,000	319,562	321,691
Greater Toronto Airports Authority 6.450%, 2029-07-30	4,798	5,247	5,758
Pembina Pipeline Corporation 4.890%, 2021-03-29	355,000	368,711	366,134
Rogers Communications 5.340%, 2021-03-22	45,000	47,430	46,692
4.000%, 2024-03-13	335,000	352,496	353,793
Royal Bank of Canada 1.920%, 2020-07-17	605,000	605,462	604,881
2.030%, 2021-03-15	65,000	64,544	64,992
2.360%, 2022-12-05	600,000	592,530	603,234
4.930%, 2025-07-16	45,000	50,704	51,102
Saputo 2.827%, 2023-11-21	175,000	173,063	176,244
Telus Corporation 3.600%, 2021-01-26	300,000	319,264	304,523
2.350%, 2022-03-28	455,000	451,562	455,986
3.350%, 2023-03-15	50,000	50,749	51,354
3.350%, 2024-04-01	35,000	36,456	36,046
3.750%, 2025-01-17	75,000	77,294	78,590
Thomson Reuters Corporation 3.309%, 2021-11-12	350,000	367,213	357,386
Toronto-Dominion Bank 1.693%, 2020-04-02	100,000	100,390	99,942
1.909%, 2023-07-18	50,000	48,571	49,527
University Health Network 5.640%, 2022-12-08	18,223	19,297	19,100
<b>Total Corporate Bonds</b>		<b>11,848,507</b>	<b>11,860,892</b>
<b>Total Bonds</b>		<b>72,876,876</b>	<b>71,972,655</b>

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



	<b>Par Value</b>	<b>Cost \$</b>	<b>Fair Value \$</b>
<b>Money Market Securities</b>			
Nova Scotia Treasury Bills 2020-01-23	50,000	49,944	49,944
Ontario Treasury Bills 2020-03-25	170,000	169,046	169,046
Province of Alberta, notes 2020-03-03	635,000	632,746	632,746
<b>Total Money Market Securities</b>		<b>851,736</b>	<b>851,736</b>
<b>Total Investments</b>		<b>73,728,612</b>	<b>72,824,391</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, Canada. 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 20, 2020.

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**

### **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.

#### **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.



### 3. Significant accounting policies (continued)

#### Financial instruments (continued)

##### 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.

#### 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, 2020 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.

	2019	2018
<b>Number of redeemable units in circulation, beginning of year</b>	7,328,463	5,094,311
<b>Number of redeemable units issued and redeemed during the year</b>		
Issued for cash and other consideration	3,791,476	3,319,479
Issued on reinvestment of distributions	259,665	212,845
Redeemed	(3,707,770)	(1,298,172)
<b>Number of redeemable units in circulation, end of year</b>	<b>7,671,834</b>	<b>7,328,463</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

The Fund takes part in 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.

	2019 \$	2018 \$
Total fair value of securities on loan	14,791,798	23,310,593
Total collateral held	15,087,733	23,776,852

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:

	2019 \$	2018 \$
Gross securities lending income	27,954	22,050
Securities lending charges	(11,866)	(10,917)
Net securities lending income	16,088	11,133
Securities lending charges as a % of the gross securities lending income	42.4%	49.5%

## 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, 2019, the Fund had capital losses in the amount of approximately \$673,000 (2018: \$198,000) which are available to carry-forward indefinitely and 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.



## II. Risks associated with financial instruments

### Analysis of risk management

In accordance with its investment policy, 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.

### 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	2019 % of net assets	2018 % of net assets
AAA	16.34	13.65
AA	18.65	25.38
A	53.41	45.94
BBB	9.44	6.35
BB	0.56	0.63

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 consists 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.



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

### 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 herein and differences could be material.

### Price risk

Given the uncertainty regarding the investments' future prices, the Fund is exposed to the inherent risk associated with fluctuations in the market. 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 %	2019 Impact \$	2018 Impact \$
FTSE Canada 91 Day TBill Total Return Index	0.25	2,000	13,000
FTSE Canada Universe Bond Total Return Index	1.00	720,000	641,000

### Currency risk

The Fund is not exposed to 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	2019 \$	2018 \$
Less than 1 year	15,766,767	12,963,110
1 to 5 years	50,619,596	45,965,201
5 to 10 years	5,586,292	5,259,306
10 years and more	-	6,096
Total	71,972,655	64,193,713

An increase or decrease of 1% in interest rates, with all other variables being equal, would have resulted in a downward or upward variation of the Fund's investments and net assets in the amount of \$1,463,000 (2018: \$1,373,000). 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	Level 3	Total
2019	\$	\$	\$	\$
Bonds	54,138,296	17,834,359	-	71,972,655
Money market securities	851,736	-	-	851,736
	54,990,032	17,834,359	-	72,824,391

  

	Level 1	Level 2	Level 3	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

No investments were transferred within the levels during the years ended December 31, 2019 and 2018.

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. Subsequent event

The COVID-19 outbreak during the first quarter of 2020 has caused persistent volatility in the global economy and the financial markets. However, as at the issuance date of these financial statements, the fair value of the Fund's investments and the net assets attributable to holders of redeemable units have not been adversely affected.

## 14. 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.