



# LetkoBrosseau

**Letko Brosseau Bond Fund**  
**Letko Brosseau Fonds d'obligations**

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## **ANNUAL FINANCIAL STATEMENTS**

DECEMBER 31, 2020 AND 2019  
(Expressed in Canadian Dollars)



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## INDEPENDENT AUDITORS' REPORT

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

### *Opinion*

We have audited the financial statements of **LETKO BROUSSEAU BOND FUND / LETKO BROUSSEAU FONDS D'OBLIGATIONS** (the "Fund"), which comprise the statements of financial position as at December 31, 2020 and 2019, 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, 2020 and 2019, 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.



	2020	2019
	\$	\$
<b>Current assets</b>		
Cash	30,622	45,330
Investments	18,740,243	23,133,383
Interest, dividends and other receivables	60,601	77,756
	<u>18,831,466</u>	<u>23,256,469</u>
<b>Current liabilities</b>		
Amounts payable on redemptions of redeemable units	750	23,378
Accrued expenses	14,807	16,643
	<u>15,557</u>	<u>40,021</u>
<b>Net assets attributable to holders of redeemable units</b>	<u>18,815,909</u>	<u>23,216,448</u>

**Supplementary information**

<b>Number of redeemable units in circulation (note 5)</b>	1,928,519	2,411,715
<b>Net assets per unit attributable to holders of redeemable units (note 6)</b>	\$ 9.7567	\$ 9.6265

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.

LETKO BROSSEAU BOND FUND  
LETKO BROSSEAU FONDS D'OBLIGATIONS

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in Canadian Dollars)



	2020	2019
	\$	\$
<b>Net assets attributable to holders of redeemable units, beginning of year</b>	23,216,448	13,889,853
<b>Change in net assets attributable to holders of redeemable units</b>	698,046	450,902
<b>Redeemable unit transactions</b>		
Proceeds from issuance	7,321,658	12,040,345
Reinvestment of distributions	374,122	377,050
Redemptions	(12,412,342)	(3,143,016)
	(4,716,562)	9,274,379
<b>Distributions to holders of redeemable units (note 6)</b>		
Net investment income	(382,023)	(398,686)
<b>Net assets attributable to holders of redeemable units, end of year</b>	18,815,909	23,216,448

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



	2020	2019
	\$	\$
<b>Investment income</b>		
Interest income for distribution purposes	390,426	405,667
Dividend income	8,454	10,141
Net securities lending income (note 9)	2,732	3,290
Foreign exchange gain (loss) on cash	-	(6,400)
Net realized gain (loss) on sale of investments	2,464	(13,843)
Net changes in unrealized appreciation (depreciation) of investments	313,383	73,027
	<u>717,459</u>	<u>471,882</u>
<b>Expenses</b>		
Trustee fees (note 10)	6,096	6,403
Professional fees	12,002	12,272
Filing fees	1,315	2,286
Withholding taxes	-	19
	<u>19,413</u>	<u>20,980</u>
<b>Change in net assets attributable to holders of redeemable units</b>	<u>698,046</u>	<u>450,902</u>
<b>Change in net assets per unit attributable to holders of redeemable units (note 3)</b>	<u>0.3079</u>	<u>0.2165</u>

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



	2020	2019
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Change in net assets attributable to holders of redeemable units	698,046	450,902
Adjustments or variations for:		
Foreign exchange (gain) loss on cash	-	6,400
Net realized (gain) loss on sale of investments	(2,464)	13,843
Net changes in unrealized (appreciation) depreciation of investments	(313,383)	(73,027)
Proceeds from sale or maturity of investments	29,912,664	30,578,632
Investments purchased	(25,203,677)	(39,833,172)
Interest, dividends and other receivables	17,155	(29,496)
Amounts payable on redemptions of redeemable units	(22,628)	23,378
Accrued expenses	(1,836)	1,577
	<b>5,083,877</b>	<b>(8,860,963)</b>
<b>Cash flows from (used in) financing activities</b>		
Proceeds from issuance of redeemable units	7,321,658	12,040,345
Amounts paid on redemptions of redeemable units	(12,412,342)	(3,143,016)
Distributions paid in cash to holders of redeemable units	(7,901)	(21,636)
	<b>(5,098,585)</b>	<b>8,875,693</b>
<b>Change in cash</b>	<b>(14,708)</b>	<b>14,730</b>
Cash, beginning of year	45,330	30,600
<b>Cash, end of year</b>	<b>30,622</b>	<b>45,330</b>

**Supplementary information**

**Cash flows relating to operating activities:**

Interest received	\$	407,404	\$	376,102
Dividends received	\$	8,632	\$	10,141
Interest paid	\$	1	\$	-

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



	Quantity	Cost \$	Fair Value \$
<b>Equities</b>			
<b>Communication Services</b>			
BCE			
Series AA, preferred, 3.610%	5,000	119,750	73,800
Series AJ, preferred, floating dividend	5,700	132,525	79,800
<b>Total Equities</b>		<b>252,275</b>	<b>153,600</b>
	Par Value	Cost \$	Fair Value \$
<b>Canadian Government Bonds</b>			
<b>Provincial Governments and Crown Corporations</b>			
Canada Housing Trust			
1.150%, 2021-12-15	700,000	670,781	706,555
1.800%, 2024-12-15	700,000	697,977	735,573
Ontario Hydro Energy			
stripped, 2021-08-06	500,000	494,887	499,163
Province of Alberta			
1.350%, 2021-09-01	900,000	886,439	907,074
1.600%, 2022-09-01	125,000	124,290	127,768
2.650%, 2023-09-01	250,000	256,125	264,794
Province of Manitoba			
1.550%, 2021-09-05	1,020,000	1,002,053	1,029,463
2.550%, 2023-06-02	800,000	814,888	841,730
2.450%, 2025-06-02	75,000	78,052	80,797
Province of New Brunswick			
1.550%, 2022-05-04	500,000	495,650	508,678
1.800%, 2025-08-14	275,000	287,301	288,598
Province of Newfoundland and Labrador			
stripped, 2021-04-17	500,000	497,273	499,635
1.950%, 2022-06-02	1,200,000	1,198,947	1,228,213
floating rate, 2023-02-27	100,000	100,000	100,426
Province of Nova Scotia			
floating rate, 2022-11-09	150,000	150,717	150,762
1.000%, 2023-04-17	50,000	49,981	50,725
floating rate, 2024-11-09	335,000	335,848	338,367
Province of Ontario			
4.000%, 2021-06-02	50,000	51,475	50,788
1.350%, 2022-03-08	1,050,000	1,044,647	1,064,263
3.150%, 2022-06-02	380,000	378,077	395,560
1.950%, 2023-01-27	50,000	49,706	51,688
2.300%, 2024-09-08	300,000	302,637	319,181
PSP Capital			
1.340%, 2021-08-18	950,000	926,738	957,024
1.730%, 2022-06-21	200,000	194,080	204,338
		<b>11,088,569</b>	<b>11,401,163</b>

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</b>			
City of Toronto			
2.450%, 2025-02-06	50,000	49,196	53,564
Municipal Finance Authority of British Columbia			
1.650%, 2021-04-19	300,000	298,944	301,359
2.150%, 2024-06-03	100,000	99,849	105,502
Regional Municipality of York			
2.500%, 2026-06-02	200,000	203,870	217,262
Toronto Hydro Corporation			
2.910%, 2023-04-10	200,000	202,140	209,589
		853,999	887,276
<b>Total Canadian Government Bonds</b>		11,942,568	12,288,439
<b>Corporate Bonds</b>			
Bank of Montreal			
2.120%, 2022-03-16	200,000	196,754	204,184
2.270%, 2022-07-11	225,000	229,658	231,325
2.700%, 2026-12-09	240,000	263,400	263,889
Bell Canada			
1.650%, 2027-08-16	100,000	99,980	101,321
Canadian Imperial Bank of Commerce			
2.040%, 2022-03-21	200,000	199,210	204,059
Enbridge			
2.760%, 2021-06-02	100,000	100,930	100,780
Epcor Utilities			
1.299%, 2023-05-19	100,000	100,000	101,843
Morguard Corporation			
4.085%, 2021-05-14	100,000	100,000	100,471
4.333%, 2022-09-15	300,000	301,233	304,796
Pembina Pipeline Corporation			
4.890%, 2021-03-29	130,000	130,000	131,316
2.560%, 2023-06-01	250,000	249,975	260,141
Rogers Communications			
5.340%, 2021-03-22	50,000	50,880	50,512
Royal Bank of Canada			
1.968%, 2022-03-02	375,000	369,291	381,993
SmartCentres Real Estate Investment Trust			
3.192%, 2027-06-11	100,000	102,758	107,271
Suncor Energy			
3.100%, 2021-11-26	85,000	83,300	86,683

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



	Par Value	Cost \$	Fair Value \$
<b>Corporate Bonds (continued)</b>			
Telus Corporation			
2.350%, 2022-03-28	400,000	399,249	408,303
2.750%, 2026-07-08	200,000	199,268	215,206
2.350%, 2028-01-27	100,000	99,725	105,197
Toronto-Dominion Bank			
2.045%, 2021-03-08	150,000	148,787	150,476
<b>Total Corporate Bonds</b>		3,424,398	3,509,766
<b>Total Bonds</b>		15,366,966	15,798,205
<b>Money Market Securities</b>			
Alberta Treasury Bills			
2021-01-05	775,000	774,852	774,852
2021-02-02	50,000	49,989	49,989
Canada Treasury Bills			
2021-01-14	160,000	159,971	159,971
Ontario Treasury Bills			
2021-01-06	10,000	9,998	9,998
Province of British Columbia, notes			
2021-06-25	1,310,000	1,308,926	1,308,926
Quebec Treasury Bills			
2021-02-05	100,000	99,971	99,971
2021-04-16	385,000	384,731	384,731
<b>Total Money Market Securities</b>		2,788,438	2,788,438
<b>Portfolio Transaction Costs Included in the Securities' Cost</b>		(285)	
<b>Total Investments</b>		18,407,394	18,740,243

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



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

The Letko Brosseau Bond Fund / Letko Brosseau Fonds 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 19, 2021.

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 13. 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 sale 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, 2021 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.

	2020	2019
<b>Number of redeemable units in circulation, beginning of year</b>	2,411,715	1,449,052
<b>Number of redeemable units issued and redeemed during the year</b>		
Issued for cash and other consideration	751,545	1,250,105
Issued on reinvestment of distributions	38,423	39,128
Redeemed	(1,273,164)	(326,570)
<b>Number of redeemable units in circulation, end of year</b>	<b>1,928,519</b>	<b>2,411,715</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 dividends, 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 the sale of investments are accounted for in the net assets attributable to holders of redeemable units and net realized gains 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 12. 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 and the investment funds it manages, 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.

2020	Manager \$	Other related parties \$
<b>Redeemable units issued and redeemed</b>		
Issued for cash and other consideration	-	-
Issued on reinvestment of distributions	-	246
Redeemed	-	-
	-	246

2019	Manager \$	Other related parties \$
<b>Redeemable units issued and redeemed</b>		
Issued for cash and other consideration	-	-
Issued on reinvestment of distributions	-	270
Redeemed	-	-
	-	270

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:

	2020 \$	2019 \$
Manager	-	-
Other related parties	14,248	13,815
	14,248	13,815



## 9. 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 statements of financial position.

	2020 \$	2019 \$
Total fair value of securities on loan	3,674,745	7,103,262
Total collateral held	3,748,243	7,245,366

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:

	2020 \$	2019 \$
Gross securities lending income	4,553	5,695
Securities lending charges	(1,821)	(2,405)
Net securities lending income	2,732	3,290
Securities lending charges as a % of the gross securities lending income	40.0%	42.2%

## 10. 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.

## 11. 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 dividends, interest and securities lending, net of expenses and its net realized taxable capital gains.

As at December 31, 2020, the Fund had capital losses in the amount of approximately \$20,000 (2019: \$24,000) 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.



## 12. 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, dividends 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	2020 % of net assets	2019 % of net assets
AAA	16.00	18.49
AA	12.39	9.53
A	45.64	38.93
BBB	9.94	7.75

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.



## 12. 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 %	2020 Impact \$	2019 Impact \$
FTSE Canada 91 Day TBill Total Return Index	0.25	7,000	14,000
FTSE Canada Universe Bond Total Return Index	1.00	159,000	175,000

#### 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	2020 \$	2019 \$
Less than 1 year	5,571,303	4,161,920
1 to 5 years	9,216,758	12,653,148
5 to 10 years	1,010,145	528,759
Total	15,798,206	17,343,827

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 \$262,000 (2019: \$335,000). Interest rate fluctuations have an insignificant impact on money market securities given their short-term maturities.

The Fund's investments in equities are also 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.



### 13. 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
2020	\$	\$	\$	\$
Equities	153,600	-	-	153,600
Bonds	11,401,163	4,397,042	-	15,798,205
Money market securities	2,788,438	-	-	2,788,438
	14,343,201	4,397,042	-	18,740,243

  

	Level 1	Level 2	Level 3	Total
2019	\$	\$	\$	\$
Equities	166,662	-	-	166,662
Bonds	12,276,822	5,067,005	-	17,343,827
Money market securities	5,622,894	-	-	5,622,894
	18,066,378	5,067,005	-	23,133,383

No investments were transferred within the levels during the years ended December 31, 2020 and 2019.

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.

### 14. COVID-19

The Coronavirus ("COVID-19"), which was declared a pandemic by the World Health Organization during the first quarter of the fiscal year has negatively impacted the global financial markets and has had an adverse effect on the Fund's capital. The Manager is continuing to assess and monitor the market risks and financial impact of the COVID-19 pandemic should its duration, spread or intensity further develop. It is not possible to predict with certainty the duration and the scope of the economic impact of COVID-19 both in the short and long term and the potential effect on the Fund's future financial position and performance. The Fund Manager continues to monitor the Fund's risk exposures from its portfolio holdings in order to fulfill on the Fund's investment objective of optimizing returns for unit holders.

### 15. 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.