

**SCOTIABANK MONEY MARKET FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**SCOTIABANK MONEY MARKET FUND**

**INDEX TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

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## ***Independent auditor's report***

To the Board of Directors of Scotiabank Money Market Fund

### ***Report on the audit of the financial statements***

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#### ***Our opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank Money Market Fund (the “Fund”) as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Scotiabank Money Market Fund's financial statements comprise:

- the statement of financial position as at December 31, 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to holders of redeemable participating shares for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

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#### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## Our audit approach

### Overview



- Overall materiality was determined based on the net assets attributable to holders of redeemable participating shares of the Fund.
- The Fund is an open-ended investment company and has appointed Scotiabank & Trust (Cayman) Ltd. (the “Manager”) to manage its affairs and investments subject to the overall supervision and control of the Fund’s Board of Directors.
- Valuation and existence of investments

### Audit scope

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

### How we tailored the audit scope

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

The Fund’s accounting is delegated to the administrator who maintain their own accounting records and controls and report to management.

As part of our risk assessment, we assessed the control environment to the extent relevant to our audit. This assessment of the operating and accounting structure included obtaining and reading the relevant control reports issued by the independent auditor of the administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the administrator on which we could place reliance to provide audit evidence. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the administrator was not required because additional substantive testing was performed.

## **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<b>Overall materiality</b>	USD 733,000
<b>How we determined it</b>	0.5% of net assets attributable to holders of redeemable participating shares of the Fund
<b>Rationale for the materiality benchmark applied</b>	We have applied this benchmark, a generally accepted auditing practice for investment fund audits, in the absence of indicators that an alternative benchmark would be more appropriate and we believe this provides an appropriate and consistent year-on-year basis for our audit.

## **Key audit matters**

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

Key audit matter	How our audit addressed the Key audit matter
<p><i>Valuation and existence of investments</i></p>	<p>We tested the valuation of the investment portfolio as follows:</p>
<p>Refer to notes 3 and 8 to the financial statements.</p>	<ul style="list-style-type: none"> <li>• for government and agency bonds and notes and corporate bonds and notes we compared the prices used by the Fund to prices provided by third party data vendors;</li> </ul>
<p>The investment portfolio at December 31, 2018 is comprised of government and agency bonds and notes (USD 47.8m) and corporate bonds and notes (USD 92.3m).</p>	<ul style="list-style-type: none"> <li>• for government and agency bonds and notes and corporate bonds and notes where prices were not available from third party data vendors we compared the prices used by the Fund to prices derived utilizing independent market data and generally accepted industry valuation models.</li> </ul>
<p>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed in the statement of financial position in the financial statements.</p>	<p>No material misstatements were identified.</p>
	<p>We tested the existence of the investment portfolio as follows:</p> <ul style="list-style-type: none"> <li>• for government and agency bonds and notes and corporate bonds and notes we agreed the holdings to a custodian confirmation from State Street Bank and Trust Company;</li> </ul> <p>No material misstatements were identified.</p>

### *Responsibilities of management and those charged with governance for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

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### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

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



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### ***Other Matter***

This report, including the opinion, has been prepared for and only for the Fund in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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The engagement partner on the audit resulting in this independent auditor's report is Brian Rando.

*PricewaterhouseCoopers*

March 28, 2019

**SCOTIABANK MONEY MARKET FUND**

**STATEMENT OF FINANCIAL POSITION**

**AT DECEMBER 31, 2018**

(Expressed in United States dollars)

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,438,887	\$ 2,376,941
Financial assets at fair value through profit and loss (Cost: \$140,102,606; 2017: \$110,797,216) (Notes 3, 7 and 8)	140,102,606	110,781,753
Subscriptions receivable	1,813,623	993,153
Interest receivable	405,394	315,484
Receivable from Manager	20	-
<b>Total assets</b>	<b>146,760,530</b>	<b>114,467,331</b>
<b>LIABILITIES</b>		
Redemptions payable	96,066	7,808
Management fees (Note 4)	72,545	64,836
Accrued expenses	31,354	41,676
Liabilities (excluding net assets attributable to holders of redeemable participating shares)	199,965	114,320
Management shares	1,000	1,000
<b>Net assets attributable to holders of redeemable participating shares (Notes 6 and 7)</b>	<b>\$ 146,559,565</b>	<b>\$ 114,352,011</b>
Net asset value per redeemable participating share (Note 6) Class A \$146,558,523/11,002,352 shares (2017: \$114,350,990/8,700,849 shares)	\$ 13.32	\$ 13.14
Class IU \$1,042/100 shares (2017: \$1,021/100 shares)	\$ 10.42	\$ 10.21

Approved for issuance on behalf of Scotiabank Money Market Fund's  
Board of Directors

Farried Sulliman

Farried Sulliman  
Director

Dwight Burrows

Dwight Burrows  
Director

Date : March 28, 2019

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

**SCOTIABANK MONEY MARKET FUND**

**STATEMENT OF COMPREHENSIVE INCOME**

**YEAR ENDED DECEMBER 31, 2018**

(Expressed in United States dollars)

	<u>2018</u>	<u>2017</u>
<b>Income</b>		
Interest income	\$ 2,466,963	\$ 1,742,909
Net realized (loss) gain on financial assets at fair value through profit or loss	(6,831)	8,116
Net change in unrealized appreciation (depreciation) on financial assets at fair value through profit or loss and foreign currencies	<u>15,463</u>	<u>(15,463)</u>
Total net income	<u>2,475,595</u>	<u>1,735,562</u>
 <b>Expenses</b>		
Management fees (Note 4)	703,647	847,429
Custodian and administration fees	83,044	101,987
Other expenses	72,960	70,148
Professional fees	<u>27,465</u>	<u>22,452</u>
Total operating expenses	<u>887,116</u>	<u>1,042,016</u>
Less: expenses reimbursed (Note 4)	<u>(6,561)</u>	<u>(15,013)</u>
Net operating expenses	<u>880,555</u>	<u>1,027,003</u>
 <b>Operating profit</b>	<u>1,595,040</u>	<u>708,559</u>
 <b>Increase in net assets from operations attributable to holders of redeemable participating shares</b>	<u>\$ 1,595,040</u>	<u>\$ 708,559</u>

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

**SCOTIABANK MONEY MARKET FUND**

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

**YEAR ENDED DECEMBER 31, 2018**

(Expressed in United States dollars)

	Share Capital	Share Premium	Increase in net assets from operations attributable to holders of redeemable participating shares	Total net assets attributable to holders of redeemable participating shares (at redemption value)
Balance as at December 31, 2016	\$ 132,436	\$ 152,383,699	\$ 17,538,279	\$ 170,054,414
Issue of redeemable participating shares	53,062	69,437,445	-	69,490,507
Redemption of redeemable participating shares	(98,488)	(125,802,981)	-	(125,901,469)
Increase in net assets from operations attributable to holders of redeemable participating shares	-	-	708,559	708,559
Balance as at December 31, 2017	87,010	96,018,163	18,246,838	114,352,011
Issue of redeemable participating shares	89,353	118,194,651	-	118,284,004
Redemption of redeemable participating shares	(66,338)	(87,605,152)	-	(87,671,490)
Increase in net assets from operations attributable to holders of redeemable participating shares	-	-	1,595,040	1,595,040
Balance as at December 31, 2018	\$ 110,025	\$ 126,607,662	\$ 19,841,878	\$ 146,559,565

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

**SCOTIABANK MONEY MARKET FUND**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2018**

(Expressed in United States dollars)

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>		
Interest received	\$ 1,886,016	\$ 1,953,220
Operating expenses paid	(889,729)	(1,081,807)
Reimbursements received from manager	6,541	15,013
Purchase of financial assets at fair value through profit and loss	(629,745,277)	(473,981,941)
Proceeds from sale and maturity of financial assets at fair value through profit and loss	<u>600,924,093</u>	<u>528,979,684</u>
Net cash (used in) provided by operating activities	<u>(27,818,356)</u>	<u>55,884,169</u>
<b>Cash flows from financing activities</b>		
Proceeds from subscriptions of redeemable participating shares	117,463,534	68,970,151
Payments for redemption of redeemable participating shares	<u>(87,583,232)</u>	<u>(125,929,109)</u>
Net cash provided by (used in) financing activities	<u>29,880,302</u>	<u>(56,958,958)</u>
<b>Net change in cash and cash equivalents</b>	<b>2,061,946</b>	<b>(1,074,789)</b>
<b>Cash and cash equivalents at beginning of year</b>	<u>2,376,941</u>	<u>3,451,730</u>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 4,438,887</b>	<b>\$ 2,376,941</b>

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

## **SCOTIABANK MONEY MARKET FUND**

### **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

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

Scotiabank Money Market Fund (the “Company”) was incorporated in the Cayman Islands on October 27, 1999 and is registered under The Mutual Funds Law (revised) of the Cayman Islands. The Company is an open-ended investment company which may issue and redeem its shares at a price based on the underlying net asset value. The address of the registered office is Scotia Centre, 6 Cardinal Avenue, P.O. Box 501, Grand Cayman KY1-1106. The Company’s redeemable participating shares are listed on the Cayman Islands Stock Exchange, the Dutch Caribbean Stock Exchange, and are registered for distribution in Trinidad and Tobago and in Jamaica.

The Company is designed to invest primarily in high quality U.S. dollar denominated debt securities, obligations and money market instruments to provide shareholders with liquidity and preservation of capital.

It is not the intention of the Company to pay dividends and any earnings and profits will be reinvested.

On July 23, 2007, Scotiabank & Trust (Cayman) Ltd. (the “Manager”) appointed State Street Cayman Trust Company, Ltd. as sub-administrator (the “Sub-Administrator”) and State Street Bank and Trust Company as custodian (the “Custodian”).

1832 Asset Management L.P. (formerly Scotia Cassels Investment Counsel Limited) acts as the Company’s Investment Advisor (the “Investment Advisor”). The Investment Advisor is a related party to the Manager.

#### **2. Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation:

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 8.

All references to net assets throughout this document refer to net assets attributable to holders of redeemable participating shares unless otherwise stated. Net assets per share information as disclosed in the Statement of Financial Position for participating shares as disclosed in Note 6 has been determined as total assets less total liabilities (excluding net assets attributable to holders of redeemable participating shares) divided by the number of outstanding shares of each class of Redeemable Participating Shares.

**SCOTIABANK MONEY MARKET FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

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

(a) Standards and amendments to existing standards effective 1 January 2018

IFRS 9 ‘Financial Instruments’ became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39.

Classification and measurement of debt assets is driven by the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

IFRS 9 has been applied retrospectively by the Company and did not result in a change to the classification or measurement of financial instruments. The Company’s investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2018 that have a material effect on the financial statements of the Company.

(b) New standards, amendments and interpretations effective after 1 January 2018 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

**Valuation of financial assets at fair value through profit or loss:** The Company classifies its investments based on both the Company’s business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Company is primarily focused on fair value information and uses that information to assess the assets’ performance and to make decisions. The Company has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. Consequently, all investments are measured at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value, which is considered the cost basis of the financial assets. The Company records security transactions on a trade date basis, recognizing the cost or sales proceeds of financial assets sold or purchased on an average cost basis. Financial assets

## **SCOTIABANK MONEY MARKET FUND**

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

**DECEMBER 31, 2018**

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

##### **Valuation of financial assets at fair value through profit or loss (continued)**

are valued on the valuation date at fair value, using data provided by one or more reputable third, party pricing vendors which is in turn based upon (1) last traded price on the exchange upon which such financial assets are traded (2) valuation models using observable market inputs, or (3) prices quoted by the principal market makers for non-exchange traded financial assets. Management evaluates the reliability of the pricing data received at each report date. All related realized gains and losses are recognized in the Statement of Comprehensive Income as income as they occur.

**Functional and presentation currency:** Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the United States Dollar ("USD"), which reflects the Company's primary activity of investing in USD denominated term deposits and commercial paper issued by corporations in North America. The Company has adopted the USD as its presentation currency.

**Accounting for investments and investment income:** Security transactions are accounted for on a trade date basis. Realized gains and losses on sales of financial assets are calculated on an average cost basis. Interest is recognized in the Statement of Comprehensive Income using the effective yield method and includes discount accreted and premium amortized over the remaining period to maturity of individual assets.

**Redeemable participating shares and management shares:** Redeemable participating shares (the "Redeemable Participating Shares") are redeemable at the shareholder's option and are classified as financial liabilities. Any distribution on such Redeemable Participating Shares is recognized in the Statement of Comprehensive Income as finance costs. The Redeemable Participating Shares can be put back to the Company by the holder at any dealing day for cash equal to a proportionate share of the respective Company's net assets. The Redeemable Participating Shares are carried at the redemption amount that would be payable at the dealing date if the shareholder exercised its right to put the share back to the Company. Management shares (the "Management Shares") are not redeemable, and do not participate in the net income or dividends of the Company as per the Company's articles of association.

**Interest income:** Interest income on financial assets is accrued on a daily basis. Interest income on financial assets includes interest and discount earned (net of premium), which is the difference between the face value and the original cost, including original issue discount, amortized using the effective yield method over the term of the financial assets.

**Expenses:** Expenses directly attributable to the Company are recorded on an accrual basis.

**Allocation of gains and losses:** Other than the different fee rates discussed in Note 4, profits and losses of the Fund are allocated to each class of shares according to their proportionate interest in the Fund.

**Translation of foreign currency amounts:** Assets and liabilities denominated in currencies other than the USD ("foreign currencies") are translated at the rates prevailing on the valuation date and exchange differences are reflected in the Statement of Comprehensive Income in the period in which they arise. Transactions in foreign currencies are translated at prevailing exchange rates at the date of the transaction. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of financial assets held. Such fluctuations are included with the net realized gain or loss and net change in unrealized appreciation (depreciation) on financial assets at fair value through profit and loss.

## **SCOTIABANK MONEY MARKET FUND**

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

**DECEMBER 31, 2018**

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

**Cash and cash equivalents:** For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash and fixed term deposits with original maturity of less than 90 days.

**Capital risk management:** The capital of the Company is represented by the net assets attributable to holders of Redeemable Participating Shares. The amount of net asset attributable to holders of Redeemable Participating Shares can change significantly on a daily basis as the Company is subject to daily subscriptions and redemptions at the discretion of shareholders. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Company. In order to maintain or adjust the capital structure, the Company's policy is to perform the following:

- Monitor the level of daily subscriptions and redemptions relative to the liquid assets and adjusts the amount of distributions the Company pays to redeemable shareholders.
- Redeem and issue new shares in accordance with the constitutional documents of the Company, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Board of Directors and Investment Advisor monitor capital on the basis of the value of net assets attributable to Redeemable Participating Shares.

#### **3. Financial Assets at Fair Value through Profit or Loss**

At December 31, 2018 and 2017 the financial assets comprised the following debt securities:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Corporate Bonds and Notes	\$ 92,281,069	\$ 92,281,069	\$ 86,759,530	\$ 86,754,025
Government and Agency Bonds and Notes	<u>47,821,537</u>	<u>47,821,537</u>	<u>24,037,686</u>	<u>24,027,728</u>
	<u>\$ 140,102,606</u>	<u>\$ 140,102,606</u>	<u>\$ 110,797,216</u>	<u>\$ 110,781,753</u>

The following summarizes the investment portfolio segregated by country of issuer.

<u>Financial Assets at fair value</u>	2018		2017	
	<u>Fair Value</u>	<u>% of total portfolio</u>	<u>Fair Value</u>	<u>% of total portfolio</u>
Australia	\$ 3,014,113	2.15%	\$ 1,842,914	1.66%
Canada	98,334,884	70.19%	72,637,472	65.57%
Netherlands	3,332,776	2.38%	-	0.00%
United States	<u>35,420,833</u>	<u>25.28%</u>	<u>36,301,367</u>	<u>32.77%</u>
Total financial assets at fair value through profit or loss	<u>\$ 140,102,606</u>	<u>100.00%</u>	<u>\$ 110,781,753</u>	<u>100.00%</u>

## **SCOTIABANK MONEY MARKET FUND**

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

**DECEMBER 31, 2018**

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

At December 31, 2018, the portfolio consisted of 65 positions (2017: 48) in Government and Agency Bonds and Notes and Corporate Bonds and Notes. The current coupon rates on these Bonds and Notes ranged from 0.01% to 6.3% (2017: 1.2% to 5.35%). The weighted average maturity of the portfolio using the next reset yield date as maturity date on Floating Rate Holdings is 58 days (2017: 49 days). The most significant issuer was the Province of British Columbia (2017: Province of Ontario Canada). No one position or issuer accounts for more than 13.26% (2017: 11.46%) of the portfolio value. All investments are denominated in USD.

At December 31, 2018 and 2017, there are no assets and liabilities subject to offsetting enforceable under a master netting arrangement.

#### **4. Management Agreement**

Under the terms of the management agreement dated November 1, 1999 (amended by agreement dated April 9, 2014), the Company appointed the Manager to manage the affairs and investments of the Company subject to the overall supervision and control of the Board of Directors of the Company.

The Manager has responsibility for the general administration of the Company, but has delegated the performance of most tasks to third parties.

The Manager is entitled to a fee (the “management fee”) at rates disclosed in the table below. The management fee paid by the Company is paid out of the assets of the Company and are accrued daily and paid quarterly in arrears. Out of this fee, the Manager is required to pay the fees of the Investment Advisor and any other person to whom functions are delegated by the Manager, along with all investment related direct expenses. The Manager may also pay trailing commissions to sub-distributors out of the management fee. The Manager may choose from time to time to absorb any portion of the annual management fees on any class of shares of the Company.

The Manager is entitled to a management fee from the classes of Redeemable Investment Shares as listed below:

<b><u>Class</u></b>	<b><u>Management fee per annum</u></b>
A	up to 0.60%
IU	NIL

The Manager has voluntarily reduced management fee rate for Class A as money market yields have remained low during the period. The average management fee rate for year ending December 31, 2018 is 0.55% (2017: 0.55%).

No management fees are charged on Class IU. Instead, Class IU investors negotiate a separate fee that is paid directly to the Manager.

The Company also incurs certain operating expenses. Such expenses may include, but are not limited to, administrative costs, interest on borrowed funds, auditing expenses, legal expenses, insurance, licensing, accounting, fees and disbursement of transfer agents, registrars, custodians, sub-custodians and escrow agents and the annual registration fee payable in the Cayman Islands. The Manager may at its sole discretion choose to absorb any of these expenses, at any time.

## **SCOTIABANK MONEY MARKET FUND**

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

**DECEMBER 31, 2018**

#### **4. Management Agreement (continued)**

For the year ended December 31, 2018, the Manager voluntarily applied an expense ratio cap of 0.75% for Class A shares (2017: 0.75%) and 0.50% for Class IU shares (2017: 0.50%). As a result of the expense ratio cap, total operating expenses reimbursed by the Manager for the year ending December 31, 2018 was \$6,561 (2017: \$15,013) which is recorded in the Statement of Comprehensive Income, of which \$20 (2017: \$Nil) is receivable at the end of the year. The manager may decide to change or cease the expense ratio cap at any time.

#### **5. Other Related Party Transactions**

Under the terms of the distributorship agreement dated November 1, 1999, the Manager, Scotiabank & Trust (Cayman) Ltd. (the “Distributor”) is responsible for the distribution of Redeemable Participating Shares of the Company in accordance with the terms of the Prospectus. No initial subscription charges are levied against subscribers.

#### **6. Share Capital**

	<u>2018</u>	<u>2017</u>
<b>Authorized:</b>		
1,000 Management Shares of \$1.00 par value each	\$ 1,000	\$ 1,000
100,000,000 Redeemable Participating Shares of \$0.01 par value each	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
	<u>\$ 1,001,000</u>	<u>\$ 1,001,000</u>

Total units issued or redeemed during the year and the corresponding share capital and share premium amounts can be summarized as follows:

	<u>2018</u>		<u>2017</u>	
	<u>Units</u>	<u>\$</u>	<u>Units</u>	<u>\$</u>
<b>Management Shares</b>				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-
<b>Redeemable Participating Shares</b>				
<b>Class A</b>				
Shares issued during the year	8,935,345	118,284,004	5,306,167	69,490,507
Shares redeemed during the year	(6,633,842)	(87,671,490)	(8,805,368)	(115,353,200)
<b>Class IU</b>				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	(1,043,471)	(10,548,269)

The Management Shares are held exclusively by the Manager, who holds all the voting power of the Company but is entitled only to a return of capital in the event of liquidation.

Shares that are redeemed within 90 days of purchase may be subject to a redemption fee up to 2% of the redemption amount. No redemption fees were levied during the year ended December 31, 2018 (2017: \$NIL).

## **SCOTIABANK MONEY MARKET FUND**

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

**DECEMBER 31, 2018**

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

The initial subscription price of the Redeemable Participating Shares was \$10.00 per share. Thereafter the Redeemable Participating Shares are issued and redeemable daily at a price equal to the net asset value per share on the valuation day on which the notification is received, as long as it is received before the Company's close of business. The net asset value per share for any valuation date is determined by dividing the value of the assets of the respective share class less its liabilities at the close of business on such valuation day by the number of Redeemable Participating Shares outstanding of the share class on that date.

The Redeemable Participating Shares confer no voting rights and no entitlement to receive notice of, or attend at, general meetings of the Company. The Redeemable Participating Shares carry the right to participate in dividends and all other distributions of the Company.

The Company's capital is primarily represented by these Redeemable Participating Shares. In accordance with the objectives outlined in Note 1 and the risk management policies in Note 7, the Company endeavours to invest the subscriptions received from redeemable participating shareholders into appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by short-term borrowings.

#### **7. Financial Risk Management**

The Company's investment activities expose it to various types of risk which are associated with the financial assets and markets in which it invests.

**Price risk:** As the Company operates as a money market fund none of its holdings are susceptible to any significant market fluctuations other than those described in interest rate risk and credit risk below.

All financial assets present a risk of loss of capital. The Investment Advisor moderates this risk through a careful selection of the assets within specified limits. Maximum risk resulting from financial assets is determined by the fair value of the financial assets. The Company's overall positions are monitored on a daily basis by the Investment Advisor.

**Currency risk:** Currency risk is the risk that movements in foreign currency rates relative to USD will have an unfavourable impact on the fair value of the financial instrument's foreign currency denominated assets and liabilities.

Changes in exchange rates between currencies or the conversion from one currency to another may cause the value of the financial assets to diminish or increase. Currency exchange rates may fluctuate over short periods of time and are generally determined by supply and demand in the currency exchange markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors. Currency exchange rates can be affected unpredictably by intervention (or the failure to intervene) by government or central banks, or by currency controls or political developments.

In accordance with the Company's policy, the Investment Advisor monitors the financial assets and liabilities exposure to currency risk. As at December 31, 2018 and 2017, all of the Company's financial assets are denominated in USD, therefore the Company is not exposed to currency risk.

**SCOTIABANK MONEY MARKET FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

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

**Interest rate risk:** The Company's interest-bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and results of operations and cash flows.

Substantially all of the Company's financial assets are in corporate bonds and notes, commercial paper securities, and other short term financial assets, therefore, the impact of changes in interest rates on the market values of the financial assets is significantly mitigated. However, the Company does have exposure to the effect of changes in interest rates on yield of the financial assets.

The tables below summarize the Company's exposure to interest rate risk. It includes the Company's financial assets and liabilities, categorized by the earlier of contractual re-pricing or maturity dates:

**At December 31, 2018**

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	-	-	-	4,438,887	4,438,887
Financial assets at fair value through profit or loss	140,102,606	-	-	-	140,102,606
Other assets	-	-	-	2,219,037	2,219,037
<b>Total assets</b>	<b>140,102,606</b>	<b>-</b>	<b>-</b>	<b>6,657,924</b>	<b>146,760,530</b>

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non-interest Bearing</b>	<b>Total</b>
<b>Liabilities</b>					
Other liabilities	-	-	-	199,965	199,965
Redeemable participating shares	-	-	-	146,559,565	146,559,565
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>146,759,530</b>	<b>146,759,530</b>

**Interest sensitivity gap** 140,102,606 - -

**SCOTIABANK MONEY MARKET FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

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

Interest rate risk (continued):

**At December 31, 2017**

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	-	-	-	2,376,941	2,376,941
Financial assets at fair value through profit or loss	110,781,753	-	-	-	110,781,753
Other assets	-	-	-	1,308,637	1,308,637
<b>Total assets</b>	<b>110,781,753</b>	<b>-</b>	<b>-</b>	<b>3,685,578</b>	<b>114,467,331</b>
<b>Liabilities</b>					
Other liabilities	-	-	-	114,320	114,320
Redeemable participating shares	-	-	-	114,352,011	114,352,011
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114,466,331</b>	<b>114,466,331</b>
<b>Interest sensitivity gap</b>	<b>110,781,753</b>	<b>-</b>	<b>-</b>		

At December 31, 2018, should interest rates have lowered by 25 basis points with all other variables remaining constant and ignoring the effects of any management fee, the increase in net assets attributable to holders of Redeemable Participating Shares for the year would have been approximately \$255,297 (2017: \$290,985) lower than the actual results, arising substantially from the lower yields that would be obtained on fixed income securities. If interest rates had risen by 25 basis points with all other variables remaining constant and ignoring the effects of any management fees, the decrease in net assets attributable to holders of Redeemable Participating Shares would amount to approximately \$255,297 (2017: \$289,452) higher than the actual results, arising substantially from the higher yields that would be obtained on fixed income securities.

The sensitivity analysis presented is based upon the portfolio composition at December 31, 2018 and 2017. The composition of the Company's investment portfolio may change over time. Accordingly, the sensitivity analysis prepared as at December 31, 2018 and 2017 is not necessarily indicative of the effect on the Company's net assets of future movements in the level of interest rates.

**Credit and concentration risk:** Financial assets which potentially expose the Company to credit risk consist primarily of cash and cash equivalents, investments in commercial paper, government bills, corporate bonds, and asset-backed securities. Investments in commercial paper, government bills, corporate bonds, and asset-backed securities, expose the Company to the risk that an issuer will default on the payment of interest, principal or both. The extent of the Company's exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Company's Statement of Financial Position.

The Company seeks to mitigate its exposure to credit risk by adhering to investment guidelines which specify the types, maturities and concentrations of investments in which the Company can invest. Prior to entering into

**SCOTIABANK MONEY MARKET FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

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

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

investments in commercial paper or placing term deposits, the Investment Advisor evaluates the creditworthiness of the respective counterparties.

The Company invests in financial assets, issued by companies which have an investment grade as rated by a well-known rating agency.

**DBRS Rating**

	<b>2018</b>	<b>2017</b>
R-1 (high)	56.01%	36.85%
R-1 (middle)	15.34%	28.04%
R-1 (low)	13.49%	18.78%
N/A (Not rated)*	<u>15.16%</u>	<u>16.33%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

\*71% (2017: 84%) of financial assets not rated by DBRS have been rated A- or higher by S&P.

The clearing and depository operations for the Company's security transactions are mainly concentrated with one custodian. The Custodian is a member of a major securities exchange and at December 31, 2018 had a credit rating from S&P of AA- (2017:AA-). The Company is subject to credit risk and possible losses should the Custodian be unable to fulfil its obligations to the Company. At December 31, 2018 and 2017 substantially all cash and cash equivalents balances and financial assets at fair value through profit or loss are either held with or placed in custody with the Custodian.

The Company measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At December 31, 2018 and 2017, subscription receivable, interest receivable, receivable from Manager and cash and cash equivalents are held with counterparties with a credit rating of AA- or higher and are due to be settled within 1 week. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Company.

**Liquidity risk:** Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial instrument quickly close to its fair value.

All liabilities are due on demand or within one year.

The Company is exposed to daily cash redemptions of redeemable units. The majority of the Company's financial assets mature within two months.

## **SCOTIABANK MONEY MARKET FUND**

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

**DECEMBER 31, 2018**

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

##### Liquidity risk (continued):

Under certain circumstances the Directors of the Company have the ability to suspend the determination of the net assets attributable to holders of Redeemable Participating Shares if it is considered in the best interest of the shareholder group as a whole. During the suspension of the net assets attributable to holders of Redeemable Participating Shares, the subscription and redemption of shares would also be suspended.

Fair values: At December 31, 2018 and 2017, investments are carried at fair value and the carrying amounts of all other assets and liabilities on the Statement of Financial Position approximated their fair values.

#### **8. Fair Value Disclosure**

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes ‘observable’ requires significant judgment by the Investment Advisor. The Investment Advisor considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

**SCOTIABANK MONEY MARKET FUND**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018**

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

The following tables analyze within the fair value hierarchy the Company's financial instruments (by class) measured at fair value:

**At December 31, 2018**

	<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total Balance</u>
<u>Financial assets at fair value through profit and loss</u>							
Corporate Bonds and Notes	\$ -	\$ 92,281,069		\$ -	\$ 92,281,069		
Government and Agency Bonds and Notes	-	47,821,537		-	47,821,537		
Total financial assets at fair value through profit and loss	\$ -	\$ 140,102,606		\$ -	\$ 140,102,606		

**At December 31, 2017**

	<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total Balance</u>
<u>Financial assets at fair value through profit and loss</u>							
Corporate Bonds and Notes	\$ -	\$ 86,754,025		\$ -	\$ 86,754,025		
Government and Agency Bonds and Notes	-	24,027,728		-	24,027,728		
Total financial assets at fair value through profit and loss	\$ -	\$ 110,781,753		\$ -	\$ 110,781,753		

In relation to the above table, further details of the country classifications are disclosed in Note 3.

Financial assets at fair value through profit and loss ("investments") whose values are based on quoted market prices in active markets, and therefore classified within Level 1, would include active listed equities and most exchange traded derivatives. The Company does not adjust the quoted price for these investments.

Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs would be classified within Level 2. These include commercial paper, U.S. T-bills, most investment-grade corporate bonds, investments in other funds where redemption is not restricted, certain non-U.S. sovereign obligations, thinly traded listed equities and some over-the-counter derivatives. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 assets would include private equity, certain restricted investments in other funds, and certain corporate debt securities. As observable prices are not available for these investments, if any such investments were held, the Company would use valuation techniques to derive the fair value.

The Company does not hold any investments classified within Level 1 and Level 3 at December 31, 2018 and 2017.

There were no transfers between Levels during the years ended December 31, 2018 and 2017.

**SCOTIABANK MONEY MARKET FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

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

For other assets and liabilities carried at amortized cost, their carrying values are a reasonable approximation of fair value, and are classified as Level 2. Redeemable investment share values are based on the amount payable on demand and are classified as Level 2.

**9. Taxation**

The Company is not subject to any income, withholding or capital gains taxes in the Cayman Islands. Generally, the Company intends to conduct its affairs so as not to be liable to taxation in any other jurisdiction; however, it may invest in securities whose income is subject to non-refundable foreign withholding taxes.

**10. Subsequent Events**

From January 1, 2019 to March 28, 2019 the Company received subscriptions of \$34,826,535 and redemptions of \$15,619,111.

There are no other subsequent events.