

**SCOTIABANK US DOLLAR BOND FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

**SCOTIABANK US DOLLAR BOND FUND**

**INDEX TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

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## **Independent auditor's report**

To the Board of Directors of Scotiabank US Dollar Bond Fund

We have audited the accompanying financial statements of Scotiabank US Dollar Bond Fund, which comprise the statement of financial position as at December 31, 2015 and the statements of comprehensive (loss) income, changes in net assets attributable to holders of redeemable participating shares and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### ***Management's responsibility for the financial statements***

Management is responsible for the preparation and fair presentation of these 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.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank US Dollar Bond Fund as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

March 30, 2016

**SCOTIABANK US DOLLAR BOND FUND**

**STATEMENT OF FINANCIAL POSITION**

**AT DECEMBER 31, 2015**

(Expressed in United States dollars)

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 632,325	\$ 38,659
Financial assets at fair value through profit or loss (Amortized cost: \$74,867,533; 2014: \$74,831,889) (Notes 3, 7 and 8)	74,917,413	76,235,622
Interest receivable	465,512	394,812
Receivables for fund shares sold	21,801	163,415
Receivable from the Manager (Note 4)	<u>-</u>	<u>36,078</u>
 Total assets	 <u>76,037,051</u>	 <u>76,868,586</u>
<b>LIABILITIES</b>		
Accrued expenses	52,962	39,899
Management fees (Note 4)	1,858	-
Redemptions payable	<u>-</u>	<u>2,111</u>
 Liabilities (excluding net assets attributable to holders of redeemable participating shares)	 <u>54,820</u>	 <u>42,010</u>
 Management shares	 <u>1,000</u>	 <u>1,000</u>
<b>Net assets attributable to holders of redeemable participating shares (Notes 6 and 7)</b>	 <b><u>\$ 75,981,231</u></b>	 <b><u>\$ 76,825,576</u></b>
 Net asset value per redeemable participating share (Note 6)		
Class A \$50,881,285/19,478,376 shares (2014: \$48,389,045/18,262,547 shares)	 <u>\$ 2.61</u>	 <u>\$ 2.65</u>
 Class NU \$3,055,682/1,209,656 shares (2014: \$5,933,081/2,305,105 shares)	 <u>\$ 2.53</u>	 <u>\$ 2.57</u>
 Class IU \$22,043,761/8,062,868 shares (2014: \$22,502,947/8,210,756 shares)	 <u>\$ 2.73</u>	 <u>\$ 2.74</u>
 Class IJ JMC60,242/558 shares (2014: JMC57,459/558)	 JMC <u>107.91</u>	 JMC <u>102.93</u>

Approved for issuance on behalf of Scotiabank US Dollar Bond Fund's  
Board of Directors by:

Sarah Hobbs

Sarah Hobbs  
Director

Sloane Muldoon

Sloane Muldoon  
Director

Date : March 23, 2016

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

**SCOTIABANK US DOLLAR BOND FUND**

**STATEMENT OF COMPREHENSIVE (LOSS) INCOME**

**YEAR ENDED DECEMBER 31, 2015**

(Expressed in United States dollars)

	<u>2015</u>	<u>2014</u>
<b>Income</b>		
Interest income	\$ 1,394,378	\$ 1,267,436
Net realized gain on financial assets at fair value through profit or loss	899	309,377
Net change in unrealized (depreciation) appreciation on financial assets at fair value through profit or loss	<u>(1,353,853)</u>	<u>3,293,165</u>
Total net income	<u>41,424</u>	<u>4,869,978</u>
<b>Expenses</b>		
Management fees (Note 4)	700,439	695,136
Custodian and administration fees	75,200	61,688
Other expenses	63,432	69,518
Professional fees	<u>23,982</u>	<u>31,448</u>
Total operating expenses	<u>863,053</u>	<u>857,790</u>
Less: expenses reimbursed (Note 4)	<u>(12,916)</u>	<u>(6,799)</u>
Net operating expenses	<u>850,137</u>	<u>850,991</u>
<b>Operating (loss) profit</b>	<u>(808,713)</u>	<u>4,018,987</u>
<b>(Decrease) increase in net assets from operations attributable to holders of redeemable participating shares</b>	<u>\$ (808,713)</u>	<u>\$ 4,018,987</u>

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

**SCOTIABANK US DOLLAR BOND FUND**

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

**YEAR ENDED DECEMBER 31, 2015**

(Expressed in United States dollars)

	<u>Share Capital</u>	<u>Share Premium</u>	(Decrease) Increase in net assets from operations attributable to redeemable participating shareholders	Total net assets attributable to redeemable participating shareholders (at redemption value)
Balance as at December 31, 2013	\$ 262,024	61,316,764	4,342,802	65,921,590
Issue of redeemable participating shares	85,864	22,264,817	-	22,350,681
Redemption of redeemable participating shares	(60,098)	(15,405,584)	-	(15,465,682)
Increase in net assets from operations attributable to holders of redeemable participating shares	<u>-</u>	<u>-</u>	<u>4,018,987</u>	<u>4,018,987</u>
Balance as at December 31, 2014	287,790	\$ 68,175,997	\$ 8,361,789	\$ 76,825,576
Issue of redeemable participating shares	68,642	18,020,352	-	18,088,994
Redemption of redeemable participating shares	(68,917)	(18,055,709)	-	(18,124,626)
Decrease in net assets from operations attributable to holders of redeemable participating shares	<u>-</u>	<u>-</u>	<u>(808,713)</u>	<u>(808,713)</u>
Balance as at December 31, 2015	<u>\$ 287,515</u>	<u>\$ 68,140,640</u>	<u>\$ 7,553,076</u>	<u>\$ 75,981,231</u>

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

**SCOTIABANK US DOLLAR BOND FUND**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2015**

(Expressed in United States dollars)

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities</b>		
Interest received	\$ 1,328,822	\$ 1,220,367
Operating expenses paid	(848,132)	(909,266)
Operating expenses paid on behalf of manager	(379,369)	(399,875)
Reimbursements received from manager	428,363	384,891
Purchase of financial assets at fair value through profit or loss	(54,729,806)	(80,721,228)
Proceeds from sale and maturity of financial assets at fair value through profit or loss	<u>54,689,917</u>	<u>73,826,685</u>
Net cash provided by (used in) operating activities	<u>489,795</u>	<u>(6,598,426)</u>
<b>Cash flows from financing activities</b>		
Proceeds from subscriptions of redeemable participating shares	18,230,608	22,214,626
Payments for redemption of redeemable participating shares	<u>(18,126,737)</u>	<u>(15,704,588)</u>
Net cash provided by financing activities	<u>103,871</u>	<u>6,510,038</u>
<b>Net change in cash and cash equivalents</b>	593,666	(88,388)
<b>Cash and cash equivalents at beginning of year</b>	<u>38,659</u>	<u>127,047</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 632,325</u>	<u>\$ 38,659</u>

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

# **SCOTIABANK US DOLLAR BOND FUND**

## **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2015**

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

Scotiabank US Dollar Bond Fund (the “Company”) was incorporated in the Cayman Islands on December 21, 1992 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 invests primarily in fixed income securities, issued or guaranteed by governments and companies, to achieve modest capital appreciation over the medium to long term.

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 each class of 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.

(a) Standards and amendments to existing standards effective January 1, 2015 that are adopted by the Company.

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning January 1, 2015 that would be expected to have a material impact on the Company.



## SCOTIABANK US DOLLAR BOND FUND

### NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2015

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

(b) New standards, amendments and interpretations effective after January 1, 2015 and have not been early adopted.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2015, and have not been applied 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's investments are considered trading securities and consequently categorized as financial assets or liabilities at fair value through profit or loss. Financial assets and financial liabilities 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 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 (Loss) Income as income or loss as they occur.

**Functional and presentation currency:** The United States Dollar ("USD") is the currency in which the Company measures its performance and reports its results, as well as the currency in which the Company receives the majority of its subscriptions from its investors (the "functional currency"). The Company has adopted 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 (Loss) 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 (Loss) 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 day 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.

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

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

**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 date of valuation and exchange differences are reflected in the Statement of Comprehensive (Loss) 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 financial assets 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 or loss.

**Cash and cash equivalents:** For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash, fixed term deposits, and short term bonds 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 assets 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, 2015 and 2014 the financial assets comprised the following debt securities:

	<u>2015</u>		<u>2014</u>	
	<u>Amortized cost</u>	<u>Fair Value</u>	<u>Amortized cost</u>	<u>Fair Value</u>
Government and Agency Bonds and Notes	\$ 49,625,494	\$ 49,877,747	\$ 48,159,535	\$ 49,528,341
Corporate Bonds and Notes	<u>25,242,039</u>	<u>25,039,666</u>	<u>26,672,354</u>	<u>26,707,281</u>
	<u>\$ 74,867,533</u>	<u>\$ 74,917,413</u>	<u>\$ 74,831,889</u>	<u>\$ 76,235,622</u>

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

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

The following summarize the investment portfolio segregated by country of issuer:

<u>Financial Assets at fair value</u>	<u>2015</u>		<u>2014</u>	
	<u>Fair Value</u>	<u>% of total portfolio</u>	<u>Fair Value</u>	<u>% of total portfolio</u>
Canada	\$ 9,252,914	12.35%	\$ 9,366,608	12.28%
Netherlands	1,477,934	1.97%	1,434,065	1.88%
France	1,437,977	1.92%	1,452,425	1.91%
Ireland	1,083,242	1.45%	-	0.00%
United States	<u>61,665,346</u>	<u>82.31%</u>	<u>63,982,524</u>	<u>83.93%</u>
Total financial assets at at fair value through profit and loss	<u>\$ 74,917,413</u>	<u>100.00%</u>	<u>\$ 76,235,622</u>	<u>100.00%</u>

As at December 31, 2015 the portfolio consists of 23 positions (2014: 24 positions), primarily located in North America. The single largest concentration is in U.S. Treasury Notes and Bonds which comprise 56% (2014: 55%) of the portfolio and is made up of 3 (2014: 4) positions. The contractual interest rates range from 0.88% to 4.50% (2014: 0.25% to 4.50%) and maturity dates range from 2016 to 2042 (2014: 2015 to 2042). The current year yields range from 0.87% to 3.82% (2013: 0.25% to 3.64%).

At December 31, 2015, 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 is paid out of the assets of the Company and is 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:

<u>Class</u>	<u>Management fee per annum</u>
A	1.20%
NU	1.70%
IU	NIL
IJ	NI

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

**4. Management Agreement (continued)**

No management fees are charged on Class IU shares. 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.

For the year ended December 31, 2015, the Manager voluntarily applied an expense ratio cap of 1.50% for Class A shares (2014: 1.50%) and 2.00% for Class NU shares (2014: 2.00%). As a result of the expense ratio cap, total operating expenses reimbursed by the Manager for the year ending December 31, 2015 was \$12,916 (2014: \$6,799) which is recorded as expenses reimbursed in the Statement of Comprehensive (Loss) Income. The Manager may decide to change or cease the expense ratio cap at any time.

**5. Other Related Party Transactions**

For the year ended December 31, 2015, the Company paid on behalf of the Manager \$73,003 (2014: \$72,456) to the Portfolio Manager and \$306,365 (2014: \$327,420) to sub-distributors, which was reimbursed during the year.

Under the terms of the distributorship agreement dated March 19, 1996, 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. The Distributor is entitled to all initial subscription charges levied against subscribers. The subscription charge is levied solely at the discretion of the Manager at up to 5% of the total amount paid by the subscriber for shares.

**6. Share Capital**

	<u>2015</u>	<u>2014</u>
<b>Authorized:</b>		
1,000 Management Shares of U.S. \$1.00 par value each	\$ 1,000	\$ 1,000
100,000,000 Redeemable Participating Shares of U.S. \$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>

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

**6. Share Capital (continued)**

**Issued:**

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

**Management Shares**

	<u>2015</u>		<u>2014</u>	
	<u>Units</u>	<u>\$</u>	<u>Units</u>	<u>\$</u>
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-
<b>Redeemable Participating Shares</b>				
<b>Class A</b>				
Shares issued during the year	6,611,297	17,400,196	4,505,114	11,611,000
Shares redeemed during the year	(5,395,468)	(14,230,009)	(4,816,480)	(12,482,335)
<b>Class NU</b>				
Shares issued during the year	57,941	148,808	224,765	562,004
Shares redeemed during the year	(1,153,389)	(2,955,524)	(1,171,696)	(2,924,847)
<b>Class IU</b>				
Shares issued during the year	194,940	539,990	3,855,902	10,177,180
Shares redeemed during the year	(342,828)	(939,093)	(21,584)	(58,500)
<b>Class IJ*</b>				
Shares issued during the year	-	JMC	558	JMC 496
Shares redeemed during the year	-	-	-	-

\*Class offered in JMC

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, 2015 (2014: \$NIL).

Each of the classes are denominated in USD, except for Classes IJ which are denominated in Jamaican Dollars (“JMC”).

For the classes of shares denominated in currencies other than the functional currency of the Company, the Net Asset Values are calculated by converting the US dollar Net Asset Value per Share to the JMC equivalent using the then current rate of exchange.

Each of the classes of 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.

## **SCOTIABANK US DOLLAR BOND FUND**

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

**DECEMBER 31, 2015**

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

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, being augmented by disposal of fixed income securities where necessary.

#### **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:** All financial assets present a risk of loss of capital. The Investment Advisor moderates this risk through a careful selection of the financial assets. 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 Portfolio Manager. As the Company's objective is to invest in fixed income securities none of its holdings are susceptible to any significant market fluctuations other than those described in interest rate risk and credit risk below.

**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, 2015 and 2014, all of the Company's financial assets are denominated in USD, therefore the Company is not exposed to currency risk. However, when an investor invests into a class which is denominated in a different currency to the functional currency of the Company, the currency risk of the investor will be different to the currency risk of the Company. Therefore, as the IJ Class is denominated JMC, the NAV per Share of these classes is also subject to the USD/JMC rate.

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

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

**Interest rate risk:** The market values of the financial assets and liabilities in which the Company invests are sensitive to changes in interest rates. Substantially all of the Company's financial assets are in fixed rate securities and, therefore, are exposed to the effect on market values of changes in interest rates.

The Company's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

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

**At December 31, 2015**

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>Over 10 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	-	-	-	-	632,325	632,325
Financial assets at fair value through profit or loss	5,783,048	7,100,181	26,255,119	35,779,065	-	74,917,413
Other assets	-	-	-	-	487,313	487,313
<b>Total assets</b>	<b>5,783,048</b>	<b>7,100,181</b>	<b>26,255,119</b>	<b>35,779,065</b>	<b>1,119,638</b>	<b>76,037,051</b>
<b>Liabilities</b>						
Other liabilities	-	-	-	-	54,820	54,820
Redeemable participating shares	-	-	-	-	75,981,231	75,981,231
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,036,051</b>	<b>76,036,051</b>
<b>Interest sensitivity gap</b>	<b>5,783,048</b>	<b>7,100,181</b>	<b>26,255,119</b>	<b>35,779,065</b>		

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

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

Interest rate risk (continued):

**At December 31, 2014**

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>5-10 years</b>	<b>Over 10 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	-	-	-	-	38,659	38,659
Financial assets at fair value through profit or loss	25,100,000	12,761,185	25,675,667	12,698,770	-	76,235,622
Other assets	-	-	-	-	594,305	594,305
<b>Total assets</b>	<b>25,100,000</b>	<b>12,761,185</b>	<b>25,675,667</b>	<b>12,698,770</b>	<b>632,964</b>	<b>76,868,586</b>
<b>Liabilities</b>						
Other liabilities	-	-	-	-	42,010	42,010
Redeemable participating shares	-	-	-	-	76,825,576	76,825,576
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,867,586</b>	<b>76,867,586</b>
<b>Interest sensitivity gap</b>	<b>25,100,000</b>	<b>12,761,185</b>	<b>25,675,667</b>	<b>12,698,770</b>		

At December 31, 2015, should interest rates have lowered by 25 basis points with all other variables remaining constant and ignoring the effects of any management fees, the increase in net assets attributable to holders of Redeemable Participating Shares for the year would amount to approximately \$1,676,309 (2014: \$1,797,070 higher), arising substantially from the increase in market values of debt 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 \$1,746,588 (2014: \$1,772,692), arising substantially from the decrease in market values of debt securities.

Credit and concentration risk: Financial assets which potentially expose the Company to credit risk consist primarily of cash and cash equivalents and investments in debt securities. Investment in debt securities exposes 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, credit ratings, maturities and concentrations of investments in which the Company can invest. The largest single issuer is disclosed in Note 3.

Transactions of financial assets undertaken by the Company are cleared through and held in custody by a reputable custodian. The Company's cash is held by this same custodian. 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, 2015 had a credit rating from S&P of AA- (2014: AA-). The Company is



**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

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

Credit and Concentration risk (continued):

subject to credit risk and possible losses should the Custodian be unable to fulfill its obligations to the Company. At December 31, 2015 and 2014, 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 invests in debt securities, all of which have an investment grade as rated by a well-known rating agency.

<b>S &amp; P Rating</b>	<b>2015</b>	<b>2014</b>
AAA to A-	97.94%	100.00%
BBB to BBB-	2.06%	0.00%
Total	<u>100.00%</u>	<u>100.00%</u>

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 Participating Shares. It therefore invests predominantly in financial assets that are traded in an active market and can be readily disposed of; it is permitted to invest only a limited proportion (assuming immaterial) of its financial assets in investments that are not actively traded in a secondary market.

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, 2015 and 2014, 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 the levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

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

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.

The following table analyses within the fair value hierarchy the Company’s financial assets (by class) measured at fair value:

**At December 31, 2015**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
<u>Financial assets at fair value</u> <u>through profit or loss</u>				
Government and Agency Bonds and Notes	\$ -	\$ 49,877,747	\$ -	\$ 49,877,747
Corporate Bonds and Notes	-	25,039,666	-	25,039,666
Total financial assets at fair value through profit or loss	<u>\$ -</u>	<u>\$ 74,917,413</u>	<u>\$ -</u>	<u>\$ 74,917,413</u>

**At December 31, 2014**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
<u>Financial assets at fair value</u> <u>through profit or loss</u>				
Government and Agency Bonds and Notes	\$ -	\$ 49,528,341	\$ -	\$ 49,528,341
Corporate Bonds and Notes	-	26,707,281	-	26,707,281
Total financial assets at fair value through profit or loss	<u>\$ -</u>	<u>\$ 76,235,622</u>	<u>\$ -</u>	<u>\$ 76,235,622</u>

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.

**SCOTIABANK US DOLLAR BOND FUND**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

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

These include commercial paper, U.S. treasury 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 financial instruments 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 as of December 31, 2015 and 2014.

There were no transfers between Levels during the years ended December 31, 2015 and 2014.

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. Reclassification of Prior Year Presentation**

Certain prior year balances on the Statement of Financial Position and Statement of Comprehensive (Loss) Income have been reclassified to conform with current year presentation. These reclassifications were done to further describe expenses incurred by the Company and had no effect on the results of the Company.

**11. Subsequent events**

From January 1, 2016 to March 23, 2016 the Company received subscriptions of \$1,738,598 and redemptions of \$1,992,223.