



**REPUBLIC OF TRINIDAD AND TOBAGO
AUDITOR GENERAL'S DEPARTMENT**

**REPORT
OF THE
AUDITOR GENERAL**

**ON THE FINANCIAL STATEMENTS OF THE
TRINIDAD AND TOBAGO UNIT TRUST CORPORATION –
US DOLLAR INCOME FUND**

FOR THE YEAR ENDED

31 December, 2018



**TO: THE BOARD OF DIRECTORS
TRINIDAD AND TOBAGO UNIT TRUST CORPORATION**

REPORT OF THE AUDITOR GENERAL OF THE REPUBLIC OF TRINIDAD AND TOBAGO ON THE FINANCIAL STATEMENTS OF THE TRINIDAD AND TOBAGO UNIT TRUST CORPORATION – US DOLLAR INCOME FUND FOR THE YEAR ENDED 31 DECEMBER, 2018

OPINION

The financial statements of the Trinidad and Tobago Unit Trust Corporation – US Dollar Income Fund (the Fund) for the year ended 31 December, 2018 have been audited. The statements as set out on pages 1 to 25 comprise a Statement of Financial Position as at 31 December, 2018, and a Statement of Comprehensive Income, a Statement of Changes in Equity and a Statement of Cash Flows for the year then ended, and Notes to the Financial Statements numbered 1 to 12, including a summary of significant accounting policies.

2. In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trinidad and Tobago Unit Trust Corporation – US Dollar Income Fund as at 31 December, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

BASIS FOR OPINION

3. The audit was conducted in accordance with accepted auditing standards. The Auditor General's responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. The Auditor General is independent of the Fund in accordance with the ethical requirements that are relevant to the audit of the financial statements and other ethical responsibilities have been fulfilled in accordance with these requirements. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the above audit opinion.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

4. Management of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS 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.

5. In preparing the financial statements, management is responsible for assessing the ability of the Fund 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.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

7. The Auditor General's responsibility is to express an opinion on these financial statements based on the audit and to report thereon in accordance with section 30 (4) of the Unit Trust Corporation of Trinidad and Tobago Act, Chapter 83:03.

8. The Auditor General's 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 audit report that includes his opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

9. As part of an audit in accordance with accepted auditing standards, the Auditor General exercises professional judgment and maintains professional skepticism throughout the audit. The Auditor General also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for an 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.
- Obtains 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 internal control of the Fund.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concludes 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 ability of the Fund to continue as a going concern. If the Auditor General concludes that a material uncertainty exists, the Auditor General is required to draw attention in his audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify his opinion. The Auditor General's conclusions are based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluates 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.

10. The Auditor General communicates 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 were identified during the audit

20TH MARCH, 2019
PORT OF SPAIN



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AUDITOR GENERAL

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**Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund**

Financial Statements
(Expressed in United States Dollars)

31 December 2018

Trinidad and Tobago Unit Trust Corporation

US Dollar Income Fund

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Trinidad and Tobago Unit Trust Corporation
US DOLLAR INCOME FUND
STATEMENT OF FINANCIAL POSITION

As at 31 December, 2018

Expressed in United States Dollars

	Notes	31-Dec-18 \$ '000	31-Dec-17 \$ '000
ASSETS			
Cash and Cash Equivalents	3	50,011	80,302
Receivables	4	20,013	19,218
Investment Securities	5	536,787	521,770
Total Assets		606,811	621,290
LIABILITIES			
Payables	6	4,829	5,538
Total Liabilities		4,829	5,538
EQUITY			
Unitholders' Capital	9	598,804	601,622
Fair Value Reserve		-	1,190
Retained (Loss)/Earnings		(10,761)	857
Fund Reserves		13,939	12,083
Total Equity		601,982	615,752
TOTAL LIABILITIES AND EQUITY		606,811	621,290
Net Asset Value Per Unit		\$19.54	\$20.05



R.F. Nelson

[Signature]

Chairman

Executive Director

Trinidad and Tobago Unit Trust Corporation
US DOLLAR INCOME FUND
STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December, 2018

Expressed in United States Dollars

	Notes	31-Dec-18 \$ '000	31-Dec-17 \$ '000
INCOME			
Interest Income	7	17,483	16,714
Net Change in Fair Value of Investment Securities		(14,906)	3,959
Other Income		1	8
Total Income		2,578	20,681
EXPENSES			
Management Charge	11	(9,031)	(7,617)
Impairment		-	(1,126)
Commissions		(216)	(250)
Other Expenses		(18)	(129)
Bank Charges		(70)	(4)
Total Expenses		(9,335)	(9,126)
Net (Loss)/ Income for the year		(6,757)	11,555
Other Comprehensive Income:			
<i>Items that may be reclassified subsequently to Profit or Loss:</i>			
Movement in Fair Value - Available for Sale Assets		-	5,819
Transfer of Fair Value Gains to Current Period Profit or Loss		-	(3,959)
Impairment Loss Transferred to Income		-	(1,126)
Other Comprehensive Income for the year		-	734
Total Comprehensive (Loss) Income for the year		(6,757)	12,289

Trinidad and Tobago Unit Trust Corporation
US DOLLAR INCOME FUND
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December, 2018

Expressed in United States Dollars

	Unitholders' Capital \$ '000	Fair Value Reserve \$ '000	Retained (Loss)/ Earnings \$ '000	Fund Reserves \$ '000	Total \$ '000
Balance as at 1 January, 2018	601,622	1,190	857	12,083	615,752
Change in initial application of IFRS 9		(1,190)	1,190		
Adjusted balance as at 1 January 2018	601,622	-	2,047	12,083	615,752
Net Loss for the year	-	-	(6,757)	-	(6,757)
Subscriptions from Unitholders	96,574	-	-	-	96,574
Redemptions by Unitholders	(99,392)	-	-	-	(99,392)
Distribution to Unitholders	-	-	(4,195)	-	(4,195)
Allocation of Interest to Fund Reserves	-	-	(107)	107	-
Net Allocation to Reserves	-	-	(1,749)	1,749	-
Balance as at 31 December, 2018	598,804	-	(10,761)	13,939	601,982
Balance as at 1 January, 2017	619,232	456	(3,615)	9,921	625,994
Net Income for the year	-	-	11,555	-	11,555
Subscriptions from Unitholders	68,863	-	-	-	68,863
Redemptions by Unitholders	(86,473)	-	-	-	(86,473)
Distribution to Unitholders	-	-	(4,921)	-	(4,921)
Allocation of Interest to Fund Reserves	-	-	(56)	56	-
Net Allocation to Reserves	-	-	(2,106)	2,106	-
Other Comprehensive Income for the year	-	734	-	-	734
Balance as at 31 December, 2017	601,622	1,190	857	12,083	615,752

Trinidad and Tobago Unit Trust Corporation
US DOLLAR INCOME FUND
STATEMENT OF CASH FLOWS
For the year ended 31 December, 2018
Expressed in United States Dollars

	31-Dec-18 \$ '000	31-Dec-17 \$ '000
OPERATING ACTIVITIES		
Net (Loss)/ Income	(6,757)	11,555
<i>Adjustment to Reconcile Net Income to Net Cash and Cash Equivalents From Operating Activities:</i>		
Interest Income	(17,483)	(16,714)
Net Change in Fair Value of Investment Securities	14,906	(3,959)
Impairment	-	1,126
	<u>(9,334)</u>	<u>(7,992)</u>
<i>Movements in Net Current Assets</i>		
(Increase)/Decrease in Receivables	(909)	1,725
Increase/ (Decrease) in Payables	144	(10,910)
	<u>(10,099)</u>	<u>(17,177)</u>
Interest Received	19,486	20,960
Net Cash Flow From Operating Activities	<u>9,387</u>	<u>3,783</u>
INVESTING ACTIVITIES		
Purchase of Investment Securities	(207,119)	(71,075)
Disposal of Investment Securities	175,375	90,972
Net Cash (Used In)/ Flow From Investing Activities	<u>(31,744)</u>	<u>19,897</u>
FINANCING ACTIVITIES		
Subscriptions from Unitholders	91,458	64,586
Redemptions by Unitholders	(99,392)	(86,473)
Net Cash Used In Financing Activities	<u>(7,934)</u>	<u>(21,887)</u>
Net (Decrease)/ Increase in Cash and Cash Equivalents	<u>(30,291)</u>	<u>1,793</u>
Cash and Cash Equivalents at beginning of year	80,302	78,509
Cash and Cash Equivalents at end of year	<u>50,011</u>	<u>80,302</u>

Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund

Notes To The Financial Statements
31 December 2018

(Expressed in United States Dollars)

1) General Information

The US Dollar Income Fund is a fixed income fund that was established in accordance with the Trinidad and Tobago Unit Trust Corporation Act. The Fund was launched in April 2000 and is denominated in US dollars. The custodians of the Fund are the Central Bank of Trinidad and Tobago and Citibank New York. The Trinidad and Tobago Unit Trust Corporation (The Corporation) whose registered office is located at UTC Financial Centre, 82 Independence Square, Port of Spain, is the Sponsor, Manager, Trustee and Investment Advisor of the Fund. Responsibility for management of the business affairs of the Fund is vested in the Board of Directors of the Corporation which approves all significant agreements of the Fund.

The US Dollar Income Fund investments are guided by the investment guidelines and policies as approved by the Board of Directors.

Participation by investors in the Fund is represented by units which are equivalent to a proportion of the Fund's Net Asset Value. There is no limit to the number of units that may be issued. Each unit attracts an equal share in income to be distributed, capital gains are reflected in unit prices and other benefits arising from participation in the Fund.

Subscriptions

The price of a unit is fixed at US\$20.00 per unit and may be purchased through the Corporation's distribution channels including the Corporation's authorized agents. The minimum initial investment is US\$100.00

Redemptions

Units may be redeemed at a fixed price per unit of US\$20.00 per unit.

Reinvestments

Income is earned and compounded daily but is credited to unitholders' accounts on a quarterly basis. The Fund's distribution dates are 31 March, 30 June, 30 September and 31 December. Income earned during any distribution period is reinvested in unitholders' accounts unless the unitholder requests otherwise.

Management Charge

The Corporation may charge an annual Management Charge of up to 2% of the market value of the investments held by the Fund.

Investment Objective

The Fund seeks to provide investors with income by investing its capital primarily in US\$ fixed income securities issued by the Government of Trinidad and Tobago, local and international corporations and international sovereigns.

Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in United States Dollars)

2) Significant Accounting Policies

The significant accounting policies applied in the preparation of these Financial Statements (the Financial Statements) are set out below. These policies have been consistently applied to all years presented, except as described in Note 2) b).

a) Basis of Preparation

- i. The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS).
- ii. The Financial Statements are prepared under the historical cost convention as modified by the financial assets held at fair value through profit or loss (FVPL). The methods used to fair value the Fund's financial assets are provided at Note 5(c).
- iii. The Financial Statements are presented in United States dollars, which is the functional currency of the Corporation.
- iv. The preparation of the Financial Statements in accordance with IFRS requires management to make judgements, estimates and assumptions. Management reviews these judgements, estimates and underlying assumptions on a regular basis.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are those used in estimating the fair value of financial assets categorized as Level 3 (see Notes 5 and 10)

Management has also exercised significant judgement in determining the business model of the investment portfolios.

b) New published standards applicable to the Fund effective 1 January 2018

➤ **IFRS 9 – *Financial Instruments***

IFRS 9 replaced IAS 39 - *Financial Instruments: Recognition and Measurement* and brings together three aspects of the accounting for financial instruments:

- i. Classification and measurement;
- ii. Impairment; and
- iii. Hedge accounting

A summary of the requirements of IFRS 9 is provided below.

**Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

b) New published standards applicable to the Fund effective 1 January 2018 (continued)

➤ **IFRS 9 – Financial Instruments (continued)**

Classification and measurement of financial assets and liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that is based upon the business model in which assets are managed and the contractual cash flow characteristics of the asset.

Under IFRS 9 entities initially measure a financial asset at its fair value plus, in the case of financial assets not at fair value through profit or loss, transaction cost. Embedded derivatives in contracts, where the host is a financial asset, are never separated. The hybrid financial instrument as a whole is assessed for classification.

Debt instruments are subsequently measured at either FVPL, amortized cost (AC) or fair value through other comprehensive income (FVOCI).

IFRS 9 also contains requirements for the classification and measurement of financial liabilities, many of which are identical to the IAS 39 requirements. However, for financial liabilities designated at FVPL, the change in fair value that is attributable to changes in credit risk is presented in OCI and the balance of the fair value is presented in profit or loss. If the presentation in OCI would create or enlarge an accounting mismatch in profit or loss, an entity is required to present all gains and losses in profit or loss.

Impairment

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments measured at FVOCI, most loan commitments, financial guarantee contracts and lease receivables.

Entities are required to recognize expected credit losses for twelve months:

- i. on initial recognition of the financial instrument (or the date on which the commitment or guarantee was entered into); and
- ii. as long as there is no significant increase in credit risk subsequent to initial recognition of the asset.

**Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

b) New published standards applicable to the Fund effective 1 January 2018 (continued)

➤ **IFRS 9 – *Financial Instruments* (continued)**

Where there has been a significant increase in credit risk - either on an individual financial asset or on a group of financial assets - entities are required to recognize the lifetime expected credit loss associated with the financial asset or group of financial assets.

Lifetime expected credit losses include all the possible default events over the expected life of the financial asset, whereas twelve month expected losses are the credit losses that are possible within the twelve months after the reporting date.

In the case of trade receivables, a simplified approach, whereby the lifetime expected credit loss is recognized on initial recognition, is permitted.

Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39, that is, fair value hedges, cash flow hedges and net investment hedges. However greater flexibility has been introduced with respect to the types of transactions eligible for hedge accounting. In particular:

- i. the types of instruments that qualify as hedging instruments; and
- ii. the types of risk components of non-financial items that are eligible,

are broader in scope.

In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship' and retrospective assessment of hedge effectiveness is no longer required.

Impact of the initial application of IFRS 9 on the financial statements

- In accordance with the requirements of IFRS 9, the Fund classified the financial assets as FVPL, as the Fund is managed - and the Fund's performance is evaluated - on a fair value basis. The resulting changes to the Fund's classification of financial assets are shown below.

**Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

b) New published standards applicable to the Fund (continued)

New published standards effective from 1 January 2018 (continued)

> IFRS 9 – Financial Instruments (continued)

Financial Asset	Measurement Category		Carrying Amount 1 January 2018		Change \$'000
	IAS 39	IFRS 9	IAS 39 \$'000	IFRS 9 \$'000	
Bonds	Available-for-sale	Fair value through profit or loss - mandatory	410,404	410,404	-
Structured Instruments	Available-for-sale	Fair value through profit or loss - mandatory	79,035	79,035	-
Short-term Instruments	Available-for-sale	Fair value through profit or loss - mandatory	32,331	32,331	-
Sub-total Investment securities			521,770	521,770	-
Receivables	Loans & Receivables	Fair value through profit or loss - mandatory	19,218	19,218	-
Cash and Cash Equivalents	Loans & Receivables	Fair value through profit or loss - mandatory	80,302	80,302	-
Sub-total Other financial assets			99,520	99,520	-
Total Financial Assets			621,290	621,290	-

- There was no cumulative retrospective impact on the Fund's equity position as a result of the initial application of IFRS 9.
- The impairment requirements of IFRS 9 were not applicable as none of the Fund's financial assets are classified as AC or FVOCI.
- There were no changes to the classification of financial liabilities.
- The hedge accounting requirements are not applicable to the Fund.
- As permitted by the transitional provisions of IFRS 9, the Fund did not restate comparative amounts.
- The changes in accounting policy on adoption of IFRS 9 are described in Note 2 (c) below.

Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

c) Financial Assets

The Fund's financial assets consist of:

- i. Investment securities;
- ii. Cash and cash equivalents; and
- iii. Receivables

The Fund recognizes a financial asset when it becomes party to the contractual obligations of the financial asset.

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expires or where the Fund has transferred substantially all the risks and rewards of ownership of the financial asset to another party.

Classification and subsequent measurement of financial assets - Policy from 1 January 2018

On 1 January 2018 the Fund adopted IFRS 9 Financial Instruments. The Fund classifies its financial assets based on the business model of the portfolio within which the financial asset is managed and the contractual cash flow characteristics of the financial asset.

In assessing the objective of a portfolio's business model, the Fund considers:

- i. The way in which the assets within the portfolio are managed and information provided to management;
- ii. The stated policies and objectives of the portfolio;
- iii. The operation of the portfolio's stated policies in practice;
- iv. The method of evaluating the performance of the portfolio; and
- v. The risks that affect the performance of the portfolio and how those risks are managed.

The Fund's investment securities are held in portfolios which are managed and evaluated on a fair value basis. The receipt of contractual cash flows or, the receipt of contractual cash flows and the purchase and sale of the financial assets in the portfolio, are incidental to the objectives of the portfolios. Accordingly, the assets in the Fund's portfolios have been classified and measured at FVPL – mandatory.

**Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

c) Financial Assets (continued)

Classification and subsequent measurement of financial assets - Policy prior to 1 January 2018

The Fund classified its financial assets on initial recognition into the following three (3) categories: available-for-sale, held-to-maturity and loans and receivables. The classification depended on the purpose for which the financial assets were acquired. In particular:

- i. Investment securities intended to be held for an indefinite period of time, but which might be sold in response to liquidity requirements or market conditions, were classified as available-for-sale. Available-for-sale investments were carried at fair value. Unrealized gains and losses from changes in the fair value of investments classified as available-for-sale were recognized in Other Comprehensive Income (OCI). When available-for-sale financial assets were disposed of, or were impaired, the related accumulated fair value adjustments were re-classified from OCI to the Statement of Profit or Loss.
- ii. Investment Securities with fixed maturities and that which management had the intent and ability to hold to maturity, were classified as held-to-maturity. Held-to-maturity investments were carried at amortized cost, less adjustments for impairment.
- iii. Non-derivative investment securities with fixed and determinable payments, which were not quoted in an active market and were not designated as available-for-sale, were classified as loans and receivables. Loans and receivables were carried at amortized cost, using the effective interest method.

Impairment of financial assets - Policy from 1 January 2018

The impairment requirements of IFRS 9 were not applicable as none of the Fund's financial assets are classified as AC or FVOCI.

Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

c) Financial Assets

Impairment of financial assets - policy prior to 1 January 2018

Assets classified as available-for-sale - bonds

At the end of each reporting period the Fund assessed whether there was objective evidence that a bond, or a Fund of bonds classified as available-for-sale, was impaired. A bond or Fund of bonds classified as available-for-sale was considered impaired and impairment losses were recognized if and only if:

- i. there was objective evidence of impairment as a result of one or more events that occurred subsequent to initial recognition of the asset (a 'loss event'); and
- ii. the impact on the future cash flows as a result of the loss event could be reliably estimated.

The criteria used by the Fund to determine whether there had been a loss event included evidence that:

- (a) the issuer, or obligor, was in significant financial difficulty;
- (b) there had been a breach of contract, such as a default or delinquency in interest payments or principal re-payment by the issuer or obligor;
- (c) the issuer's lender, for economic or legal reasons relating to the issuer's financial difficulty, has granted to the issuer a concession that the lender would not otherwise consider;
- (d) it was probable that the borrower will enter bankruptcy or other financial re-organization;
- (e) an active market for the financial asset had disappeared because of financial difficulties; or
- (f) there was a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease could not yet be identified with the individual financial asset in the portfolio, including:
 - i. adverse changes in the payment status of borrowers in the portfolio; and
 - ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

Where there was objective evidence of impairment to bonds classified as available-for-sale, the Fund transferred the cumulative unrealized loss previously recorded in OCI, to the Statement of Profit or Loss.

Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

c) Financial Assets (continued)

Impairment of financial assets - policy prior to 1 January 2018 (continued)

Assets classified as available-for-sale – bonds (continued)

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of an appropriate portion of the previously recognized impairment loss was recognized in the Statement of Profit or Loss.

Assets classified as available-for-sale – equity

In the case of equity investments classified as available-for-sale, in addition to the impairment criteria for available-for-sale bonds outlined above, the Fund assessed whether there has been either a significant or a prolonged decline in the fair value of the security below cost. If there had been either a significant or a prolonged decline in the value of the investment below cost, it was regarded as evidence that the asset was impaired. If any such evidence existed for available-for-sale equity investments, the cumulative un-realized loss was re-classified from equity and recognized in the Statement of Profit or Loss as an impairment expense.

The Fund considers a decline for a period of twelve or more months as prolonged and a 30% decline in value below cost, as significant.

d) Financial Liabilities

The Fund recognizes a financial liability when it becomes party to the contractual obligations of the financial instrument. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

e) Fair Value Estimation – Investment Securities

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date.

Valuation framework

The Fund has established a control framework for the measurement of fair values. The framework includes a valuation team that is independent of the front office management. The valuation team reports to a Valuation Committee comprising the Vice Presidents of the Finance, Trust Services and Risk Departments. Valuations are reviewed by the Audit and Compliance Committee on a quarterly basis.

Fair value hierarchy

Fair value measurements of securities are categorized into three levels based on the degree to which the fair value measurement inputs are observable. The three levels are:

- **Level 1.** Level 1 valuation inputs are unadjusted quoted prices for identical assets and liabilities in active markets that the entity can access at the measurement date.
- **Level 2.** Level 2 valuation inputs exclude Level 1 inputs but are inputs that are observable for the asset or liability either directly or indirectly. There were no assets classified as Level 2 during the years 2017 and 2018.
- **Level 3.** Level 3 uses significant inputs that are unobservable in the valuation of the asset.

The level within the fair value hierarchy to which fair value measurements are assigned is determined by the lowest level input that is significant to the fair value measurement in its entirety. Thus, where a fair value measurement requires significant judgment with respect to an input, it is classified as Level 3.

The Fund considers observable data to be 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.

Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

e) Fair Value Estimation – Investment Securities (continued)

Traded local and foreign Bonds

Traded bonds are valued using the average of indicative quotations received from brokers at the reporting date. The quotations do not necessarily reflect the price at which the broker would be willing to execute a transaction and the valuations have been categorized as Level 3. Where the Fund is in receipt of prices at which dealers are prepared to trade, the bonds are categorized as Level 1.

Illiquid local Bonds

The Fund uses an *internally* developed model to value its illiquid local bonds. Management reviews the model regularly. The output of any valuation model is an estimate of a value that cannot be determined with certainty. As such the valuation may vary significantly from the value that would be realized in an actual transaction. Valuations based on the model are categorized as Level 3.

Categorization of Short-term Investments

The Fund's short-term investments are assumed to be encashable/tradeable at their carrying value and are categorized as Level 1.

Receivables, payables and short-term liabilities

The carrying value of receivables and payables are assumed to approximate their fair values.

f) Foreign Currency Translation

The Fund's functional and presentation currency is United States dollars. All of the Fund's transactions are undertaken in United States dollars.

g) Cash and Cash Equivalents

Cash and cash equivalents represent balances held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. It includes cash in hand, deposits held at call with banks, cash balances at brokers, and other short-term instruments with original maturities of ninety days or less.

h) Revenue Recognition

Interest income is recognized in the Statement of Comprehensive Income using the effective interest method.

i) Taxation

Withholding tax is payable on interest earned in foreign jurisdictions based on the jurisdiction's tax laws and double taxation treaties where applicable.

Taxes are recognised as an expense in the period in which they occur.

**Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

2) Significant Accounting Policies (continued)

j) Comparative Information

In addition to the changes from the initial application of IFRS 9 - Financial Instruments (see note 2 (b)), certain minor changes have been made in these Financial Statements to conform to presentation in the current year. These changes had no effect on the operating results or net income of the Fund.

3) Cash and Cash Equivalents

	31-Dec-18	31-Dec-17
	\$'000	\$'000
Cash at bank	38,213	80,078
Cash and cash equivalents at brokers	11,798	224
Total	50,011	80,302

4) Receivables

	31-Dec-18	31-Dec-17
	\$'000	\$'000
Interest receivable	4,121	4,411
Other receivables	15,892	14,807
Total	20,013	19,218

5) Investment Securities

Summaries of the Investment securities held by the Fund are provided by year, investment type and classification below.

	31-Dec-18	31-Dec-17
	\$'000	\$'000
Investment securities carried at fair value		
Bonds	371,595	410,404
Structured bonds	78,104	79,035
Short-term investments	87,088	32,331
	536,787	521,770
Investment securities summarized by classification		
	31-Dec-18	31-Dec-17
	\$'000	\$'000
- at fair value through profit or loss – mandatory (FVPL – M)	449,699	-
- available for sale at fair value through other comprehensive income (AFS)	-	489,439
	449,699	489,439

**Trinidad & Tobago Unit Trust Corporation
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**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

5) Investment Securities (continued)

a) The Fair Value Hierarchy for Investment Securities

The Fund uses a valuation hierarchy to rank the fair value of its Investments (see Note 2 (e) Fair Value Hierarchy). The Fund's Investments at December 2018 are analysed by their fair valuation categorization below:

Fair Value Hierarchy for Investment Securities December 2018

Recurring fair value measurements	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investment securities carried at fair value through profit or loss - mandatory				
Bonds	-	-	371,595	371,595
Structured bonds	-	-	78,104	78,104
Short-term Investments	87,088	-	-	87,088
Total Investment Securities	87,088	-	449,699	536,787

The Fund's Investment at 31 December 2017 are analysed by the fair valuation hierarchy below:

Fair Value Hierarchy for Investment Securities December 2017

Recurring fair value measurements	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Available-for-sale assets carried at fair value:				
Bonds	-	-	410,404	410,404
Structured bonds	-	-	79,035	79,035
Short-term Investments	32,331	-	-	32,331
Total Investment Securities	32,331	-	489,439	521,770

b) Transfers between Fair Value Hierarchy Levels

There were no transfers between the Fair Value Hierarchy Levels during either 2018 or 2017.

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**Notes To The Financial Statements (Continued)
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5) Investment Securities (continued)

c) Valuation Techniques used to derive Level 3 Fair Values

The valuation techniques used by the Fund to arrive at the fair value of Level 3 investments are set out in Note 2. The Tables below summarize the valuation techniques used in estimating the fair value of Level 3 securities, the significant unobservable inputs, the relationship of the unobservable inputs to fair value and the impact that an increase or decrease in the unobservable inputs would have had on the valuation results.

Values in the following four (4) Tables are expressed in millions of dollars.

Summary of Techniques used to value Level 3 Financial Assets in 2018

Investment securities carried at fair value through profit or loss - mandatory	Level 3 fair value 2018 \$'M	Valuation Technique used	Significant unobservable inputs	Possible shift in inputs +/-	Change in valuation +/- \$'M
Bonds	372	Valuation model, Trading prices	Interest Rates	+ 1%	4
Structured bonds	78	Trading prices	Interest Rates	+ 1%	1
TOTAL	450				5

Fair value through profit or loss - mandatory	Carrying Value Level 3 Securities 1/1/2018 \$'M	Purchases/ Capitalized Interest \$'M	Sales/ Repayments/Maturities \$'M	Net Gains/ (Losses) recognized in Profit or Loss \$'M	Unrealized Gains/ Losses recognized in OCI \$'M	Carrying Values Level 3 Securities 31/12/2018 \$'M	Fair Values \$'M
Bonds	410	31	(54)	-	(15)	372	372
Structured bonds	79	-	-	-	(1)	78	78
TOTAL	489	31	(54)	-	(16)	450	450

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**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

5) Investment Securities (continued)

c) Valuation Techniques used to derive Level 3 Fair Values (continued)

Summary of Techniques used to value Level 3 Financial Assets in 2017					
Available-for-sale investments carried at fair value	Level 3 fair value 2017 \$'M	Valuation Technique used	Significant unobservable inputs	Possible shift in inputs +/-	Change in valuation +/- \$'M
Bonds	410	Valuation model, Trading prices	Interest rates	+ 1%	4
Structured bonds	79	Trading prices	Interest rates	+ 1%	1
TOTAL	489				5

Available-for-sale assets carried at fair value	Carrying Value Level 3 Securities 1/1/2017 \$'M	Purchases/ Capitalized Interest \$'M	Sales/ Repayments/ Maturities \$'M	Net Gains/ (Losses) recognized in Profit or Loss \$'M	Unrealized Gains/ Losses recognized in OCI \$'M	Carrying Values Level 3 Securities 31/12/2017 \$'M	Fair Values \$'M
Bonds	453	43	(86)	4	(4)	410	410
Structured bonds	79	-	-	-	-	79	79
TOTAL	532	43	(86)	4	(4)	489	489

d) The Fund's exposure to market, credit and liquidity risk on its investments is provided at Note 10.

6) Accounts Payables and Other Liabilities

	31-Dec-18 \$'000	31-Dec-17 \$'000
Amount due to the TTUTC	3,175	2,982
Other Liabilities	369	417
Accrual for distribution	1,285	2,139
Total	4,829	5,538

Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund

Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in United States Dollars)

7) Interest Income		31-Dec-18	31-Dec-17
		\$'000	\$'000
	Interest Income	19,304	20,295
	Amortization of premium and discounts	(1,821)	(3,581)
	Total	<u>17,483</u>	<u>16,714</u>

8) Distribution To Unitholders

Distributions for the year ended 31 December 2018 amounted to \$ 5,109,656 (2017: \$ 4,920,936).

9) Unitholders' Capital

This represents the capital value of units issued by the Fund. The units issued by the Fund may be redeemed by unitholders of the Fund at any time. The Fund is primarily responsible for redemption of its units. The movement in the balance of Redeemable units is summarized below.

	2018	2017
	\$'000	\$'000
Opening balance Unitholders' Capital 1 January	601,622	619,232
Add: Sales	102,387	92,199
Less: Repurchases	(105,205)	(109,809)
Net Sales	(2,818)	(17,610)
Closing balance 31 December	<u>598,804</u>	<u>601,622</u>

10) Financial Risk Management

Financial Risk Exposures

The primary financial risks to which the Fund is exposed are:

- i. market risk – which comprises of interest rate risk
- ii. credit risk; and
- iii. liquidity risk

Market Risk

Market risk is the risk that changes in market prices bond price risk, foreign exchange rates, and interest rates, will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

**Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund**

**Notes To The Financial Statements (Continued)
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(Expressed in United States Dollars)

10) Financial Risk Management (continued)

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest risk exposure arises primarily on fixed rate debt securities held, which expose the Fund to fair value interest rate risk and to cash flow interest rate risk.

The Fund manages the overall interest rate risk by making judicious adjustments of the overall weighted average term to maturity (duration) of its portfolios.

The following Tables demonstrate the sensitivity of the Fund's profit or loss for the year to a reasonable possible change in interest rates, with all other variables held constant. The sensitivity of the profit or loss for the year is the effect of the assumed change in interest rates on:

- i. The interest income for one year, based on the floating rate assets held at the end of the reporting period; and
- ii. Changes in the fair value for the year, based on revaluing fixed rate financial assets at the end of the reporting period.

31 December 2018	Change in basis points	Sensitivity of interest income Increase/decrease \$'000	Sensitivity of changes in fair value of investments \$'000
US interest rates	100	19	3,517
LIBOR	100	6	98

31 December 2017	Change in Basis points	Sensitivity of interest income Increase/decrease \$'000	Sensitivity of changes in fair value of investments \$'000
US interest rates	100	20	3,846
LIBOR	100	5	152

Trinidad & Tobago Unit Trust Corporation
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Notes To The Financial Statements (Continued)
31 December 2018

(Expressed in United States Dollars)

10) Financial Risk Management (continued)

Interest Rate Risk (continued)

The Fund's exposure to interest rate risk as at 31 December, 2018 is summarized below. The Fund's assets and liabilities are included at their carrying amount and categorized by the earlier of contractual re-pricing or maturity dates.

	Less than 1 year \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Total \$'000
At 31 December, 2018				
Assets				
Cash & Cash				
Equivalents	50,011	-	-	50,011
Short-term Investments	87,088	-	-	87,088
Fixed Income Securities measured at fair value through profit or loss	158,115	366,558	52,412	577,085
Liabilities				
Net Assets Attributable to Unitholders	601,982	-	-	601,982
Rate Re-pricing Position	(306,768)	366,558	52,412	112,202

The Fund's exposure to interest rate risk as at 31 December, 2017 is summarized below.

	Less than 1 year \$'000	Between 1 and 5 years \$'000	Over 5 years \$'000	Total \$'000
At 31 December, 2017				
Assets				
Cash & Cash				
Equivalents	80,302	-	-	80,302
Short-term Investments	32,331	-	-	32,331
Fixed Income Securities	83,580	333,941	98,080	515,601
Liabilities				
Net Assets Attributable to Unitholders	615,752	-	-	615,752
Rate Re-pricing Position	(419,539)	333,941	98,080	12,482

**Trinidad & Tobago Unit Trust Corporation
US Dollar Income Fund**

**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

10) Financial Risk Management (continued)

Credit Risk

Credit risk is the risk that the counter-party to a financial instrument will default on its financial obligations that is, it fails to make full and timely payments of scheduled interest and/or principal sums due.

It is the Fund's policy to enter into financial instruments with reputable counterparties.

The Fund is exposed to credit risk primarily on debt securities, short-term investments and bank balances. These classes of financial assets are not subject to IFRS 9's impairment requirements as they are measured at FVPL. The carrying value of these assets represents the Fund's maximum exposure to credit risk on financial instruments not subject to IFRS 9 impairment requirements on the respective reporting dates. Hence no separate maximum exposure to credit risk disclosure is provided for these instruments.

Credit risk is managed by:

- i. subjecting counter-parties to robust credit risk assessments prior to initial acquisition;
- ii. limiting the acquisition or retention of debt instruments to certain credit ratings; and
- iii. regular review, measurement and monitoring of counter-parties' credit ratings.

The quality of the Fund's debt securities, money market fund and bank balances is analysed in the Table below into high, moderate and low using ratings primarily from international rating agencies and local rating agencies for either the instrument, the issuer, the sponsor in the case of Bond ETFs or the sovereign in the case of State owned entities. In those few instances where instruments were rated internally, the ratings were mapped to the international credit quality grades used by Standard and Poor.

	2018	2017
	\$'000	\$'000
Securities rated by S&P as AAA to BBB-, are considered high credit quality instruments		
- Debt securities	424,593	447,982
- Short-term instruments	87,088	32,331
- Bank balances	50,011	80,302
Securities rated by S&P as BB+ to B-, are considered medium credit quality instruments		
- Debt securities	22,638	35,747
Securities rated by S&P as CCC+ and below, are considered low quality instruments		
- Debt securities	2,468	5,710
Total	586,797	602,072

**Trinidad & Tobago Unit Trust Corporation
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**Notes To The Financial Statements (Continued)
31 December 2018**

(Expressed in United States Dollars)

10) Financial Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset as they become due.

The units of the Fund, are redeemable on demand. The risk is mitigated in each portfolio by holding adequate cash, cash equivalents and short-term investments. In addition, substantial portions of the investments held by the portfolios are tradable. The risk is therefore deemed insignificant.

The financial liabilities of the Fund are summarized by their due dates and shown below. The amounts disclosed are the contractual undiscounted cash flows. The Fund had no financial liabilities over one (1) year.

	Less than 1 year \$'000
At 31 December, 2018	
Accounts payable and short-term liabilities	3,544
Distribution payable	1,285
Net assets attributable to Unitholders	<u>601,982</u>
Total	<u>606,811</u>
	Less than 1 year \$'000
At 31 December, 2017	
Accounts payable and short-term liabilities	3,399
Distribution payable	2,139
Net assets attributable to Unitholders	<u>615,752</u>
Total	<u>621,290</u>

Capital Management

The Fund's capital consists of Reserves and Retained Earnings. The Fund's objectives when managing capital are:

- i. To comply with the capital requirements stipulated by the regulators of the markets where the Fund operates;
- ii. To safeguard the Fund's ability to continue as a going concern; and
- iii. To provide attractive risk adjusted returns

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Notes To The Financial Statements (Continued)
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11) Related Party Transaction

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The US Dollar Income Fund is managed by the Corporation, an investment management company created by statute in Trinidad and Tobago. Under the terms of management agreement dated April 2000, the Corporation receives a fee of up to 2% of the net asset value of the fund. Total management fees for the year amounted to \$ 9.03 million or 1.50% of average fund size (December 2017: \$7.6 million or 1.24% of average fund size). The outstanding accrued management fees due to the Corporation at the year-end amounted to \$2.47 million (2017: \$2.28 million).

As at 31 December 2017, the sum of \$653,382 was outstanding as an intercompany balance.

12) Approval of the Financial Statements

These Financial Statements were approved by the Board of Directors and authorized for issue on 22 February 2019.