



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

**R E P O R T
O F T H E
A U D I T O R G E N E R A L**

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

FOR THE YEAR ENDED

31 December, 2019



**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 - TT DOLLAR INCOME FUND FOR THE YEAR ENDED 31 DECEMBER, 2019

OPINION

The financial statements of the Trinidad and Tobago Unit Trust Corporation – TT Dollar Income Fund (the Fund) for the year ended 31 December 2019 have been audited. The statements as set out on pages 1 to 20 comprise a Statement of Financial Position as at 31 December, 2019, and the Statement of Profit or Loss, 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 11, 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 – TT Dollar Income Fund as at 31 December, 2019 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. The Unit Trust Corporation Chap. 83:03 paragraph 12 (1) states that:

“The Board shall meet not less than six times a year and at least once every two months and shall observe such rules of procedure in the transaction of business at its meetings as may be made by the Board.”

11.1 During the financial period, the Board of Directors did not meet at least six times a year and at least once every two months as required by the Unit Trust Corporation Act Chap. 83:03 because of the non-appointment of a Chairman on expiration of the office holder's term of office. A Chairman of the Board of Directors was appointed in March 2020.



**27TH MARCH, 2020
PORT OF SPAIN**


**LORELLY PUJADAS
AUDITOR GENERAL**

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

Financial Statements
(Expressed in Trinidad and Tobago Dollars)

31 December 2019

Trinidad & Tobago Unit Trust Corporation

TT Dollar Income Fund

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

As at 31 December, 2019

Expressed in Trinidad and Tobago Dollars

| | Notes | 31-Dec-19 \$'000 | 31-Dec-18 \$'000 |
|-------------------------------------|-------|---------------------|---------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | 3 | 1,468,134 | 625,539 |
| Receivables | 4 | 206,446 | 250,043 |
| Investment Securities | 5 | 9,914,017 | 10,337,897 |
| Total Assets | | 11,588,597 | 11,213,479 |
| LIABILITIES | | | |
| Payables | 6 | 33,986 | 36,826 |
| Total Liabilities | | 33,986 | 36,826 |
| EQUITY | | | |
| Unitholders' Capital | 8 | 11,225,426 | 10,996,875 |
| Retained Earnings | | 251,793 | 103,997 |
| Fund Reserves | | 77,392 | 75,781 |
| Total Equity | | 11,554,611 | 11,176,653 |
| TOTAL LIABILITIES AND EQUITY | | 11,588,597 | 11,213,479 |
| Net Asset Value Per Unit | | \$20.60 | \$20.06 |



Chairman




Executive Director

Trinidad and Tobago Unit Trust Corporation
TT DOLLAR INCOME FUND
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December, 2019
Expressed in Trinidad and Tobago Dollars

| | Notes | 31-Dec-19 \$ '000 | 31-Dec-18 \$'000 |
|---|-------|----------------------|---------------------|
| INCOME | | | |
| Interest Income | | 344,367 | 326,206 |
| Net Change in Fair Value of Investment Securities | | 100,711 | (70,857) |
| Foreign Exchange Gain | | 334 | 921 |
| Other Income | | 526 | 1,264 |
| Total Income | | 445,938 | 257,534 |
| EXPENSES | | | |
| Management Charge | 10 | (131,972) | (176,202) |
| Commissions | | (9,689) | (9,819) |
| Other Expenses | | (555) | (487) |
| Bank & Custody Charges | | (174) | (314) |
| Total Expenses | | (142,390) | (186,822) |
| Net Income for the year | | 303,548 | 70,712 |

Trinidad and Tobago Unit Trust Corporation
TT DOLLAR INCOME FUND
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December, 2019
Expressed in Trinidad and Tobago Dollars

| | Unitholders' Capital \$'000 | Retained Earnings \$'000 | Fund Reserve \$'000 | Total \$'000 |
|---|-----------------------------------|--------------------------------|---------------------------|-------------------|
| Balance as at 1 January, 2019 | 10,996,875 | 103,997 | 75,781 | 11,176,653 |
| Net Income for the year | - | 303,548 | - | 303,548 |
| Subscriptions from Unitholders | 1,921,045 | - | - | 1,921,045 |
| Redemptions by Unitholders | (1,692,494) | - | - | (1,692,494) |
| Distributions to Unitholders | - | (155,052) | - | (155,052) |
| Increase in Fund Reserves | - | - | 911 | 911 |
| Net Allocation to Reserves | - | (700) | 700 | - |
| Balance as at 31 December, 2019 | 11,225,426 | 251,793 | 77,392 | 11,554,611 |
| Balance as at 1 January, 2018 | 10,704,784 | 172,853 | 72,173 | 10,949,810 |
| Net Income for the year | - | 70,712 | - | 70,712 |
| Subscriptions from Unitholders | 1,908,412 | - | - | 1,908,412 |
| Redemptions by Unitholders | (1,616,321) | - | - | (1,616,321) |
| Distributions to Unitholders | - | (135,960) | - | (135,960) |
| Allocation of Interest to Fund Reserves | - | (808) | 808 | - |
| Net Allocation to Reserves | - | (2,800) | 2,800 | - |
| Balance as at 31 December, 2018 | 10,996,875 | 103,997 | 75,781 | 11,176,653 |

Trinidad and Tobago Unit Trust Corporation
TT DOLLAR INCOME FUND
STATEMENT OF CASH FLOWS
For the year ended 31 December, 2019
Expressed in Trinidad and Tobago Dollars

| | 31-Dec-19 \$'000 | 31-Dec-18 \$'000 |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Net Income for the year | 303,548 | 70,712 |
| <i>Adjustment to Reconcile Net Income to Net Cash and Cash Equivalents From Operating Activities:</i> | | |
| Interest Income | (344,367) | (326,206) |
| Net Change in Fair Value of Investment Securities | (100,711) | 70,857 |
| | (141,530) | (184,637) |
| <i>Movements in Net Current Assets</i> | | |
| Increase in Receivables | (1,940) | (2,167) |
| (Decrease)/ Increase in Payables | (5,140) | 453 |
| | (148,610) | (186,351) |
| Interest Received | 323,092 | 292,339 |
| Net Cash Flow From Operating Activities | 174,482 | 105,988 |
| INVESTING ACTIVITIES | | |
| Purchase of Investment Securities | (7,312,058) | (6,938,054) |
| Disposal of Investment Securities | 7,872,900 | 5,669,124 |
| Net Cash Flow From/ (Used In) Investing Activities | 560,842 | (1,268,930) |
| FINANCING ACTIVITIES | | |
| Subscriptions from Unitholders | 1,799,765 | 1,754,508 |
| Redemptions by Unitholders | (1,692,494) | (1,616,321) |
| Net Cash Flow From Financing Activities | 107,271 | 138,187 |
| Net Increase/ (Decrease) in Cash and Cash Equivalents | 842,595 | (1,024,755) |
| Cash and Cash Equivalents at beginning of the year | 625,539 | 1,650,294 |
| Cash and Cash Equivalents at the end of the year | 1,468,134 | 625,539 |

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

Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)

Notes to the Financial Statements
For the year ended 31 December 2019

(Expressed in Trinidad and Tobago Dollars)

1) General Information

The TT Dollar Income Fund (the Fund) is a fixed income mutual fund denominated in Trinidad and Tobago dollars that was launched on 1 September 1989. The Custodian of the Fund is the Central Bank of Trinidad and Tobago and Citibank New York. The Fund invests in accordance with its Investment Policy Statement and guidelines approved by the Board of the Trinidad and Tobago Unit Trust Corporation (The Corporation). The Corporation 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 Corporation's registered office is located at UTC Financial Centre, 82 Independence Square, Port of Spain.

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 the net asset value and other benefits of the Fund

Subscriptions

The price of a unit is fixed at TT\$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 \$100.00.

Redemptions

Units may be redeemed at a fixed price per unit of TT\$20. Redemption of units is executed via an original Redemption Form in accordance with the policies of the Corporation. Proceeds on redemption are paid in TT dollars.

Reinvestments

Income is earned and compounded daily but is credited to unitholders' accounts on a quarterly basis. The Fund's distribution dates are 28 February, 31 May, 31 August and 30 November. 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 fixed income securities issued by the Government of Trinidad and Tobago, local and international corporations and international sovereigns.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago 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 financial assets measured at fair value through profit or loss (FVPL). The methods used to fair value the Fund's financial assets are provided at Note 5.
- iii. The Financial Statements are presented in Trinidad and Tobago dollars, which is the functional currency of the Fund.
- 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(c)).

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

b) Standards and amendments to existing standards effective 1 January 2019

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2019 that have a material effect on the financial statements of the Fund.

c) New standards, amendments and interpretations effective after 1 January 2019 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

d) Financial Assets

The Fund's financial assets consist of:

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

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

d) Financial Assets (continued)

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 measurement of financial assets

The Fund classifies its financial assets based on the business model of the portfolio within which the contractual cash flows of the financial asset is managed

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 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.

e) 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.

f) 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 Valuation Committee on a quarterly basis.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

f) Fair Value Estimation – Investment Securities (continued)

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 2018 and 2019.
- **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 judgement 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.

Traded local and foreign bonds

Traded bonds are valued using indicative quotations at the reporting date from a reputable pricing service. The quotations do not necessarily reflect the price at which a 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 bonds can be traded, the bonds are categorized as Level 1.

Unquoted local bonds

The Fund uses an internally developed model to value its unquoted local bonds. Management reviews the model regularly to incorporate enhancements in line with established best practice. Effective 1 January 2019, the Fund's Valuation Committee approved the following improvements to the model.

- Application of bootstrapping methodology to construct a zero-coupon yield curve; previously the Fund used par yield curves.
- Use of an extrapolation function to estimate the short end of the yield curve.
- Incorporation of industry specific spreads and credit ratings. The Fund now uses the Global Industry Classification Standard (GICS) to estimate the spread desirable for each bond.

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.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago Dollars)

2) Significant Accounting Policies (continued)

f) Fair Value Estimation – Investment Securities (continued)

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, which are of a short-term nature, are assumed to approximate their fair values.

g) Foreign Currency Translation

The Fund's functional and presentation currency is Trinidad and Tobago dollars (TT\$). Foreign currency transactions are translated into the functional currency using the mid-rate for the currency, quoted by the Central Bank of Trinidad and Tobago, on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the Statement of Comprehensive Income.

h) Cash and Cash Equivalents

Cash and cash equivalents 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.

i) Revenue Recognition

Interest income is recognized in the Statement of Comprehensive Income using the effective interest method. Realized and unrealized investment gains and losses are recognized as income in the Statement of Comprehensive Income.

j) Taxation

The Fund is exempt from Corporation Tax. 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 and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago Dollars)

3) Cash And Cash Equivalents

| | 31-Dec-19 | 31-Dec-18 |
|--------------------------------------|------------------|------------------|
| | \$'000 | \$'000 |
| Cash and cash equivalents at brokers | 6,910 | 67,307 |
| Cash at bank | 1,461,224 | 558,232 |
| Total | 1,468,134 | 625,539 |

4) Receivables

| | 31-Dec-19 | 31-Dec-18 |
|--|------------------|------------------|
| | \$'000 | \$'000 |
| Amounts due from the Corporation (see Note 10) | 69,362 | 100,835 |
| Interest receivable | 57,272 | 72,247 |
| Due from brokers | 79,812 | 76,961 |
| Total | 206,446 | 250,043 |

5) Investment Securities

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

| | 31-Dec-19 | 31-Dec-18 |
|---|------------------|-------------------|
| | \$'000 | \$'000 |
| <u>Investment securities carried at fair value</u> | | |
| Bonds | 5,738,523 | 5,416,150 |
| Structured bonds | 59,982 | 72,675 |
| Short-term investments | 4,115,512 | 4,849,072 |
| Total | 9,914,017 | 10,337,897 |
| | | |
| Investment securities summarized by classification | 31-Dec-19 | 31-Dec-18 |
| | \$'000 | \$'000 |
| - at fair value through profit or loss – mandatory (FVPL – M) | 5,798,505 | 5,488,825 |
| | 5,798,505 | 5,488,825 |

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago 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 Fair Value Estimation). The Fund's Investments at December 2019 are analyzed by their fair value hierarchy below:

Fair Value Hierarchy for Investment Securities December 2019

| 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 | 269,163 | - | 5,469,360 | 5,738,523 |
| Structured bonds | - | - | 59,982 | 59,982 |
| Short-term investments | 4,115,512 | - | - | 4,115,512 |
| Total Investment Securities | 4,384,675 | - | 5,529,342 | 9,914,017 |

The Fund's Investments at 31 December 2018 are analyzed by the fair value hierarchy 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 | 272,070 | - | 5,144,080 | 5,416,150 |
| Structured bonds | - | - | 72,675 | 72,675 |
| Short-term investments | 4,849,072 | - | - | 4,849,072 |
| Total Investment Securities | 5,121,142 | - | 5,216,755 | 10,337,897 |

b) Transfers between Fair Value Hierarchy Levels

There were no transfers between the Fair Value Hierarchy Levels during either 2019 or 2018.

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago Dollars)

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 2019

| Investment securities carried at fair value through profit or loss - mandatory | Level 3 fair value 2019 \$'M | Valuation Technique used | Significant unobservable inputs | Possible shift in inputs +/- | Change in valuation +/- \$'M |
|--|---------------------------------|------------------------------------|---------------------------------|------------------------------|---------------------------------|
| Bonds | 5,469 | Valuation model, Trading prices | Interest rates, spreads | +1% | 55 |
| Structured bonds | 60 | Trading prices | Interest rates, spreads | +1% | 1 |
| TOTAL | 5,529 | | | | 56 |

| Fair value through profit or loss - mandatory | Carrying Value Level 3 Securities 1/1/2019 \$'M | Purchases/ Capitalized Interest \$'M | Sales/ Repayments/ Maturities \$'M | Net Gains/ (Losses) recognized in Profit or Loss \$'M | Carrying Values Level 3 Securities 31/12/2019 \$'M | Fair Values \$'M |
|---|--|---|---------------------------------------|--|---|---------------------|
| Bonds | 5,144 | 1,458 | (1,232) | 99 | 5,469 | 5,469 |
| Structured bonds | 73 | - | (14) | 1 | 60 | 60 |
| TOTAL | 5,217 | 1,458 | (1,246) | 100 | 5,529 | 5,529 |

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago 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 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 | 5,144 | Valuation model, Trading prices | Interest rates, spreads | + 1% | 51 |
| Structured bonds | 73 | Trading prices | Interest rates, spreads | + 1% | 1 |
| TOTAL | 5,217 | | | | 52 |

| Investment securities carried at 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 | Carrying Values Level 3 Securities 31/12/2018 \$'M | Fair Values \$'M |
|--|---|--|---|--|--|---------------------|
| Bonds | 5,220 | 1,848 | (1,850) | (74) | 5,144 | 5,144 |
| Structured bonds | 73 | - | - | - | 73 | 73 |
| TOTAL | 5,293 | 1,848 | (1,850) | (74) | 5,217 | 5,217 |

d) The Fund's exposure to market, credit and liquidity risk on its investments is provided in Note 9.

6) Payables

| | 31-Dec-19 \$'000 | 31-Dec-18 \$'000 |
|--|---------------------|---------------------|
| Amounts due to the Corporation (see Note 10) | 18,765 | 24,029 |
| Distribution payable | 13,869 | 11,567 |
| Other payables | 1,352 | 1,230 |
| Total | 33,986 | 36,826 |

7) Distribution To Unitholders

Distributions allocated to Unitholders for the year ended 31 December 2019 was \$155,052,612 (Dec 2018: \$135,961,367). The next distribution period is December 2019 to February 2020.

Trinidad and Tobago Unit Trust Corporation
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Notes to the Financial Statements (Continued)
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8) Unitholders' Capital

This represents the capital value of units issued by the Fund. The Fund is responsible for redemption of its units. The movement in the balance of Redeemable units is summarized below.

| | 2019 | 2018 |
|--|-------------------|-------------------|
| | \$'000 | \$'000 |
| Opening balance Unitholders' Capital 1 January | 10,996,875 | 10,704,784 |
| Add: Sales | 3,497,659 | 3,563,396 |
| Less: Repurchases | (3,269,108) | (3,271,305) |
| Net Sales | 228,551 | 292,091 |
| Closing Balance 31 December | 11,225,426 | 10,996,875 |

9) Financial Risk Management

Financial Risk Exposures

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

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

Market Risk

Market risk is the risk that changes in market prices for example, bond prices, 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.

Bond Price Risk

Bond price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment or its issuer or factors affecting all instruments traded in the market.

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 rate risk exposure arises primarily on fixed rate debt securities held.

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

Trinidad and Tobago Unit Trust Corporation
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Notes to the Financial Statements (Continued)
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9) Financial Risk Management (continued)

Interest Rate Risk (continued)

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 2019 | Change in basis points | Sensitivity of interest income Increase/decrease \$'000 | Sensitivity of changes in fair value of investments \$'000 |
|-------------------------|-------------------------------|--|---|
| US interest rates | 100 | 16 | 7,199 |
| LIBOR | 100 | 96 | - |
| T&T interest rates | 100 | 265 | 34,538 |

| 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 | 17 | 13,140 |
| LIBOR | 100 | 6 | - |
| T&T interest rates | 100 | 177 | 27,275 |

The Fund's exposure to interest rate risk as at 31 December, 2019 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 2019 | | | | |
| Assets | | | | |
| Cash & cash equivalents | 1,468,134 | - | - | 1,468,134 |
| Short-term investments | 4,811,324 | - | - | 4,811,324 |
| Bonds measured at fair value through profit or loss | 1,195,721 | 3,203,571 | 1,282,524 | 5,681,816 |
| Liabilities | | | | |
| Payables | (33,986) | - | - | (33,986) |
| Total Interest Rate Gap | 7,441,193 | 3,203,571 | 1,282,524 | 11,927,288 |

**Trinidad and Tobago Unit Trust Corporation
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For the year 31 December 2019**

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9) Financial Risk Management (continued)

Interest Rate Risk (continued)

The Fund's exposure to interest rate risk as at 31 December, 2018 is summarized below.

| | 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 | 625,539 | - | - | 625,539 |
| Short-term investments | 4,849,072 | - | - | 4,849,072 |
| Bonds measured at fair value through profit or loss | 742,914 | 3,609,005 | 1,408,175 | 5,760,094 |
| Liabilities | | | | |
| Payables | (36,826) | - | - | (36,826) |
| Total Interest Rate Gap | 11,029,771 | 3,609,005 | 1,408,175 | 11,197,879 |

Currency Risk

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Since the Fund contains investments denominated in US\$, the Fund can be impacted by movements in the US\$/TT\$ exchange rate.

The foreign currency assets and liabilities of the Fund at 31 December are summarized below.

| | At 31 December, 2019 | | At 31 December, 2018 | |
|---|---------------------------------------|--|---------------------------------------|---------------------------------------|
| | US\$ (Presented in TT\$) \$'000 | Other Foreign Currencies \$'000 | US\$ (Presented in TT\$) \$'000 | Other Foreign Currencies \$'000 |
| Assets | | | | |
| Cash & cash equivalents | 28,572 | - | 105,518 | - |
| Short-term investments | 1,027,858 | - | 363,308 | - |
| Bonds measured at fair value through profit or loss | 1,084,979 | - | 1,429,995 | - |
| Total | 2,141,409 | - | 1,898,821 | - |

**Trinidad and Tobago Unit Trust Corporation
TT Dollar Income Fund (Second Unit Scheme)**

**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

(Expressed in Trinidad and Tobago Dollars)

9) Financial Risk Management (continued)

Currency Risk (continued)

The following analysis shows how the effect of a 1% change in the TT dollar relative to the US dollar would have changed the net assets of the Fund at 31 December 2019 with all other variables held constant.

| | 2019 | 2018 |
|---|----------------------|---------------|
| | \$'000 | \$'000 |
| Approximate change in US\$ | <u>21,414</u> | <u>18,988</u> |
| Concentration of foreign currency exposure | | |
| % of total equity | | |
| US dollars | 18.53 | 16.93 |

Credit Risk

Credit risk is the risk that the counterparty 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.

The Fund is exposed to credit risk primarily on debt securities, short-term investments and bank balances. The carrying value of these assets represents the Fund's maximum exposure to credit risk on financial instruments on the respective reporting dates.

Credit risk is managed by:

- i. subjecting counterparties 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 counterparties' credit ratings.

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**Notes to the Financial Statements (Continued)
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9) Financial Risk Management (continued)

Credit Risk (continued)

The quality of the Fund's debt securities, money market fund and bank balances is analyzed 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's.

| | 2019 | 2018 |
|--|-------------------|-------------------|
| | \$'000 | \$'000 |
| Securities rated by S&P as AAA to BBB-, are considered high credit quality instruments | | |
| - Debt securities | 4,833,897 | 5,234,907 |
| - Short-term instruments | 4,115,512 | 4,849,072 |
| - Bank balances | 1,468,134 | 625,539 |
| Securities rated by S&P as BB+ to B-, are considered medium credit quality instruments | | |
| - Debt securities | 935,017 | 245,126 |
| Securities rated by S&P as CCC+ and below, are considered low quality instruments | | |
| - Debt securities | 29,591 | 8,792 |
| Total | 11,382,151 | 10,963,436 |

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Notes to the Financial Statements (Continued)
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9) 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 by holding adequate cash, cash equivalents and short-term investments. In addition, substantial portions of the investments held by the portfolios are tradable.

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 2019 | |
| Other payables | 20,117 |
| Distribution payable | 13,869 |
| Total | 20,117 |
| | |
| | Less than 1 year \$'000 |
| At 31 December 2018 | |
| Other payables | 25,258 |
| Distribution payable | 11,567 |
| Total | 36,825 |

Capital Management

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

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

**Trinidad and Tobago Unit Trust Corporation
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**Notes to the Financial Statements (Continued)
For the year 31 December 2019**

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10) Related Party Transactions

Parties are considered 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 Fund is managed by the Corporation. Under the terms of the investment management agreement dated 1 September 1989, the Corporation may charge an annual management fee of up to 2% of the net asset value of the Fund.

Total management fees for the year amounted to \$131.97 million or 1.18% of the average Fund size (2018: \$176.20 million or 1.63% of the average Fund size). The outstanding management fees due to the Corporation at 31 December 2019 amounted to TT\$10.71 million (December 2018: TT\$20.13 million).

There is an amount of \$ 69,362,157 receivable from the Corporation at the end of the reporting period. (see Note 4).

The Corporation also has an investment in the Fund as at 31 December 2019. The value of the holding is \$337,416.

11) Approval of the Financial Statements

These Financial Statements were approved by the Board of Directors and authorized for issue on 24 March 2020.