

**The Church Society of the  
Diocese of Quebec  
Funds Under Management: Pooled Funds**

Financial Statements  
**December 31, 2019**

**DRAFT**

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
NOT TO BE FURTHER COMMUNICATED**

## *Independent auditor's report*

To the members of  
The Church Society of the Diocese of Quebec and  
the Unitholders of the Funds Under Management : Pooled Funds

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Funds Under Management : Pooled Funds (the Fund) as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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

The Fund's financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to holders of redeemable units for the year then ended;
- the statement of cash flows for the year then ended;
- the schedule of investment portfolio as at December 31, 2019; and
- the notes to financial statements, which include a summary of significant accounting policies.

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.  
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## *Responsibilities of management and those charged with governance for the financial statements*

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Québec, Quebec  
April 28, 2020

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. Axxxxxx

# The Church Society of the Diocese of Quebec

## Funds Under Management: Pooled Funds

Statement of Financial Position

As at December 31, 2019

|  | 2019<br>\$ | 2018<br>\$ |
|--|------------|------------|
| <b>Assets</b>  |            |            |
| <b>Current assets</b>  |            |            |
| Investments  | 18,147,127 | 16,262,537 |
| Cash and cash equivalents  | 241,352    | 290,024    |
| Accrued investment interest revenue                                    | 30,754     | 23,509     |
|  | 18,419,233 | 16,576,070 |
| <b>Liabilities</b>   |            |            |
| <b>Current liabilities</b>   |            |            |
| Distributions payable to parishes                                      | -          | 73         |
| Due to The Church Society of the Diocese of Quebec                     | -          | 78,135     |
|  | -          | 78,208     |
| <b>Net assets attributable to holders of redeemable units</b>          | 18,419,233 | 16,497,862 |
| <b>Net assets attributable to holders of redeemable units per unit</b> | 15.78      | 14.25      |
| <b>Subsequent event</b> (note 11)                                      |            |            |

**Approved by the Board of Directors**

\_\_\_\_\_ Director \_\_\_\_\_ Director

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

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT**

**NOT TO BE FURTHER COMMUNICATED**

**The Church Society of the Diocese of Quebec**  
**Funds Under Management: Pooled Funds**  
Statement of Comprehensive Income  
For the year ended December 31, 2019

|   | 2019<br>\$       | 2018<br>\$         |
|---|------------------|--------------------|
| <b>Income</b>   |                  |                    |
| Dividends   | 518,951          | 456,863            |
| Interest for distribution purposes  | 127,007          | 161,941            |
| Foreign exchange gain (loss) on cash and cash equivalents   |                  |                    |
| Exchange gain (loss) on cash and cash equivalents   | (6,517)          | 3,495              |
| Exchange gain (loss) on unrealized value of cash and cash equivalents                                   | (4,138)          | 10,552             |
| Foreign exchange gain (loss) on investments   |                  |                    |
| Exchange gain on sale of investments  | 62,826           | 76,855             |
| Exchange gain (loss) on unrealized increase in value of investments                                     | (415,802)        | 722,284            |
| Other changes in fair value of investments  |                  |                    |
| Net realized gain on sale of investments  | 331,088          | 467,744            |
| Net change in unrealized increase (decrease) in value of investments                                    | 2,502,578        | (2,585,497)        |
| <b>Total income (loss)</b>  | <u>3,115,993</u> | <u>(685,763)</u>   |
| <b>Expenses</b>   |                  |                    |
| Management fees (note 8)  | 322,043          | 321,421            |
| Transaction costs   | 34,341           | 41,407             |
| Bank fees   | -                | 540                |
| <b>Total expenses</b>   | <u>356,384</u>   | <u>363,368</u>     |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units (note 10)</b>          | <u>2,759,609</u> | <u>(1,049,131)</u> |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units per unit (note 10)</b> | <u>2.36</u>      | <u>(0.91)</u>      |

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# The Church Society of the Diocese of Quebec

## Funds Under Management: Pooled Funds

Statement of Changes in Net Assets Attributable to Holders of Redeemable Units

For the year ended December 31, 2019

|   | 2019<br>\$ | 2018<br>\$  |
|---|------------|-------------|
| <b>Net assets attributable to holders of redeemable units at beginning of year</b>        | 16,497,862 | 18,248,512  |
| <b>Increase (decrease) in net assets attributable to holders of redeemable units</b>      | 2,759,609  | (1,049,131) |
| <b>Less: Distribution to holders of redeemable units (note 9)</b>                         |            |             |
| Parochial Funds   |            |             |
| Endowments  | 289,898    | 282,247     |
| Trust   | 120,464    | 108,484     |
| Restricted donations  | 7,133      | 7,133       |
| Cemetery Funds  |            |             |
| Endowments  | 59,076     | 58,028      |
| Trust   | 32,616     | 36,212      |
| Restricted donations  | 1,059      | 1,059       |
| Sundry Funds  |            |             |
| Endowments  | 86,505     | 86,365      |
| Trust   | 190,776    | 198,372     |
| Restricted donations  | 8,957      | 9,607       |
| Internally designated   | 10,976     | 10,976      |
| Distribution to unitholders of funds owned by The Church Society of the Diocese of Quebec |            |             |
| Parochial endowments  | 3,474      | 3,474       |
| Parochial trust   | 11,168     | 2,109       |
| Cemetery endowments   | 648        | 648         |
| Sundry endowments   | 141,244    | 141,244     |
| Sundry internally designated  | 17,700     | 17,700      |
|   | 981,694    | 963,658     |
| <b>Redeemable unit transactions</b>   |            |             |
| Proceeds for issue from redeemable units  | 851,065    | 432,301     |
| Reinvestment of distributions to holders of redeemable units                              | 11,802     | 10,805      |
| Redemption of redeemable units  | (719,411)  | (180,967)   |
| <b>Net increase from redeemable unit transactions</b>                                     | 143,456    | 262,139     |
| <b>Net assets attributable to holders of redeemable units at end of year</b>              | 18,419,233 | 16,497,862  |

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**NOT TO BE FURTHER COMMUNICATED**

# The Church Society of the Diocese of Quebec

## Funds Under Management: Pooled Funds

### Statement of Cash Flows

For the year ended December 31, 2019

|   | 2019<br>\$       | 2018<br>\$       |
|---|------------------|------------------|
| <b>Cash flows from</b>  |                  |                  |
| <b>Operating activities</b>   |                  |                  |
| Increase (decrease) in net assets attributable to holders of redeemable units             | 2,759,609        | (1,049,131)      |
| Adjustments for:  |                  |                  |
| Foreign exchange loss (gain) on cash and cash equivalents                                 | 6,517            | (3,495)          |
| Foreign exchange loss (gain) on unrealized increase in value of cash and cash equivalents | 4,138            | (10,552)         |
| Foreign exchange gain on sale of investments  | (62,826)         | (76,855)         |
| Foreign exchange loss (gain) on unrealized increase in value of investments               | 415,802          | (722,284)        |
| Net realized gain on sale of investments  | (331,088)        | (467,744)        |
| Net change in unrealized decrease (increase) in value of investments                      | (2,502,578)      | 2,585,497        |
| Purchase of investments   | (1,838,725)      | (2,955,638)      |
| Proceeds from sale and maturity of investments  | 2,434,825        | 3,176,967        |
| Decrease in due from a parish   | -                | 28               |
| Change in due to The Church Society of the Diocese of Quebec                              | (78,135)         | 78,135           |
| Increase in accrued investment interest revenue   | (7,245)          | (3,616)          |
|   | <u>800,294</u>   | <u>551,312</u>   |
| <b>Financing activities</b>   |                  |                  |
| Distributions paid to holders of redeemable units, net of reinvested distributions        | (969,965)        | (952,780)        |
| Proceeds from issue of redeemable units   | 851,065          | 432,301          |
| Amounts paid on redemption of redeemable units  | (719,411)        | (180,967)        |
|   | <u>(838,311)</u> | <u>(701,446)</u> |
| Decrease in cash and cash equivalents during the year                                     | (38,017)         | (150,134)        |
| Foreign exchange gain (loss) on cash and cash equivalents                                 | (6,517)          | 3,495            |
| Foreign exchange loss (gain) on unrealized increase in value of cash and cash equivalents | (4,138)          | 10,552           |
| <b>Cash and cash equivalents – Beginning of year</b>                                      | <u>290,024</u>   | <u>426,111</u>   |
| <b>Cash and cash equivalents – End of year</b>  | <u>241,352</u>   | <u>290,024</u>   |
| <b>Supplementary information</b>  |                  |                  |
| Interest received   | 119,762          | 158,325          |
| Dividends received  | 518,951          | 456,863          |

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# The Church Society of the Diocese of Quebec

## Funds Under Management: Pooled Funds

### Schedule of Investment Portfolio

As at December 31, 2019

|                                    | Rate<br>% | Maturity<br>date | Par value<br>\$  | Cost<br>\$       | Carrying<br>value<br>\$ | Net assets<br>attributable<br>to holders<br>of<br>redeemable<br>units<br>% |
|------------------------------------|-----------|------------------|------------------|------------------|-------------------------|--|
| <b>SHORT-TERM INVESTMENTS</b>      |           |                  |                  |                  |                         |  |
| Capital Desjardins Series G        | 5.187     | 05/05/2020       | 101,100          | 101,100          | 100,977                 |  |
| Loblaws Companies Ltd. Ser 2-B Mtn | 5.220     | 18/06/2020       | 103,458          | 103,458          | 101,281                 |  |
|                                    |           |                  | <u>204,558</u>   | <u>204,558</u>   | <u>202,258</u>          | 1.10   |
| <b>FIXED INCOME</b>                |           |                  |                  |                  |                         |  |
| Bank of Nova Scotia                | 2.580     | 03/30/2027       | 250,000          | 241,250          | 250,784                 |  |
| Capital Desjardins Series J        | 4.954     | 15/12/2026       | 150,000          | 152,925          | 157,255                 |  |
| Manulife GLBL Fixed Income         | -         | -                | 165,588          | 1,798,197        | 1,717,312               |  |
| Templeton Global Bond Fund         | -         | -                | 79,952           | 1,031,506        | 921,800                 |  |
| Toronto Dominion Bank              | 4.859     | 03/04/2031       | 250,000          | 272,125          | 276,915                 |  |
| TMX Group                          | 4.461     | 10/03/2023       | 150,000          | 159,000          | 160,538                 |  |
|                                    |           |                  | <u>1,045,540</u> | <u>3,655,003</u> | <u>3,484,604</u>        | 18.92  |

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# The Church Society of the Diocese of Quebec

## Funds Under Management: Pooled Funds

Schedule of Investment Portfolio... (continued)

As at December 31, 2019

|                                 | Number of<br>shares or<br>units | Cost<br>\$       | Carrying<br>value<br>\$ | Net assets<br>attributable<br>to holders<br>of<br>redeemable<br>units<br>% |
|---------------------------------|---------------------------------|------------------|-------------------------|--|
| <b>CANADIAN EQUITIES</b>        |                                 |                  |                         |  |
| Algonquin Power & utilities     | 16,000                          | 199,917          | 293,920                 |  |
| Bank of Montreal                | 3,500                           | 56,931           | 352,240                 |  |
| Bank of Nova Scotia             | 4,000                           | 32,532           | 293,400                 |  |
| BCE Inc.                        | 5,400                           | 167,649          | 324,864                 |  |
| BMO Converted Call Canadian     | 17,000                          | 318,297          | 313,310                 |  |
| Boralex Inc                     | 11,500                          | 203,567          | 281,290                 |  |
| Canadian National Railway       | 2,000                           | 80,103           | 234,940                 |  |
| Fortis Inc                      | 4,700                           | 172,010          | 253,236                 |  |
| Intact Financial Corp           | 2,500                           | 153,980          | 351,050                 |  |
| Manulife Financial Corp         | 11,300                          | 191,337          | 297,868                 |  |
| Power Corp of Canada            | 7,500                           | 225,697          | 250,875                 |  |
| Royal Bank of Canada            | 4,000                           | 60,894           | 411,000                 |  |
| Toronto Dominion Bank           | 5,200                           | 18,970           | 378,716                 |  |
|                                 |                                 | <u>1,881,884</u> | <u>4,036,709</u>        | <u>21.92</u>   |
| <b>INVESTMENT TRUST</b>         |                                 |                  |                         |  |
| Brookfield Property Partners LP | 8,170                           | 251,058          | 193,874                 |  |
| Chartwell Retirement Residences | 13,500                          | 201,278          | 187,650                 |  |
| Canadian Apartment PPTYS        | 4,430                           | 207,028          | 234,834                 |  |
| H&R Real Estate                 | 9,000                           | 202,648          | 189,900                 |  |
|                                 |                                 | <u>862,012</u>   | <u>806,258</u>          | <u>4.38</u>  |
| <b>PREFERRED SHARES</b>         |                                 |                  |                         |  |
| Ishares US Preferred Stock      | 15,000                          | 690,867          | 732,159                 | 3.97   |

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# The Church Society of the Diocese of Quebec

## Funds Under Management: Pooled Funds

Schedule of Investment Portfolio... (continued)

As at December 31, 2019

|  | Number of<br>shares or<br>units | Cost<br>\$        | Carrying<br>value<br>\$ | Net assets<br>attributable<br>to holders<br>of<br>redeemable<br>units<br>% |
|--|---------------------------------|-------------------|-------------------------|--|
| <b>US and INTERNATIONAL EQUITIES</b>         |                                 |                   |                         |  |
| ABB LTD                                      | 8,900                           | 284,945           | 278,400                 |  |
| Alphabet inc                                 | 225                             | 144,380           | 390,627                 |  |
| Astrazeneca PLC                              | 3,900                           | 188,916           | 252,499                 |  |
| AT & T                                       | 4,900                           | 242,865           | 248,652                 |  |
| Banco Santander S A                          | 30,000                          | 238,919           | 161,274                 |  |
| Bank of America Corp                         | 9,100                           | 118,229           | 416,172                 |  |
| Brookfield Infrastructure Partners L P Units | 6,600                           | 253,914           | 428,419                 |  |
| Bristol Myers Squibb Co                      | 2,500                           | 189,376           | 208,377                 |  |
| Capital one Financial Corp                   | 2,020                           | 248,510           | 269,930                 |  |
| Capital Group Emergin Mkts                   | 17,010                          | 192,323           | 188,276                 |  |
| Caterpillar Inc                              | 1,400                           | 242,170           | 268,467                 |  |
| Citigroup Inc                                | 2,730                           | 222,463           | 283,202                 |  |
| Costco                                       | 745                             | 162,439           | 284,333                 |  |
| Coca Cola Company                            | 4,300                           | 242,936           | 309,049                 |  |
| DEERE & Co                                   | 1,000                           | 192,751           | 224,978                 |  |
| Ebay   | 4,600                           | 248,352           | 215,689                 |  |
| FEDEX Corp                                   | 690                             | 200,300           | 135,479                 |  |
| Ford Motor Co                                | 17,400                          | 322,337           | 210,123                 |  |
| General Motors inc                           | 6,410                           | 249,354           | 304,636                 |  |
| Glaxosmithkline PLC                          | 5,335                           | 242,581           | 325,523                 |  |
| Honeywell INTL                               | 950                             | 191,588           | 218,343                 |  |
| Intel Corp                                   | 4,000                           | 186,719           | 310,861                 |  |
| International Business Machines Corp         | 1,250                           | 249,023           | 217,564                 |  |
| JP Morgan Chase & Co.                        | 2,000                           | 81,575            | 362,022                 |  |
| Mastercard inc                               | 1,000                           | 148,801           | 387,719                 |  |
| Morgan Stanley                               | 2,500                           | 169,630           | 165,948                 |  |
| Oracle Corp                                  | 4,000                           | 81,800            | 275,178                 |  |
| Pepsico Inc.                                 | 1,137                           | 75,958            | 201,779                 |  |
| Union Pacific Corp                           | 1,415                           | 166,488           | 332,179                 |  |
| Vodafone Group                               | 6,025                           | 242,866           | 151,228                 |  |
|  |                                 | <u>6,022,508</u>  | <u>8,026,926</u>        | <u>43.58</u>   |
| <b>INTERNATIONAL FUNDS</b>                   |                                 |                   |                         |  |
| Brandes International Equity Fund            | 30,793                          | 420,946           | 432,889                 |  |
| Brandes Emerging Markets Equity Fund         | 18,940                          | 400,483           | 425,324                 |  |
|  |                                 | <u>821,429</u>    | <u>858,213</u>          | <u>4.66</u>  |
| <b>Total investments</b>                     |                                 | <u>14,138,261</u> | <u>18,147,127</u>       |  |
| <b>Other net assets</b>                      |                                 |                   | <u>272,106</u>          | <u>1.47</u>  |
| <b>Net assets</b>                            |                                 |                   | <u>18,419,233</u>       | <u>100.00</u>  |

**FOR DISCUSSION WITH MANAGEMENT ONLY – SUBJECT TO AMENDMENT  
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**The Church Society of the Diocese of Quebec****Funds Under Management: Pooled Funds**

Notes to Financial Statements

December 31, 2019

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**1 General**

The Church Society of the Diocese of Quebec – Funds Under Management: Pooled Funds (the Fund) is a unitized balanced fund created in 1968 by the resolution of the Central Board of The Church Society of the Diocese of Quebec under statute law of the Province of Quebec, Chapter 149, 1967. The Fund has a designated beneficiary.

The address of the Fund's registered office is 31 Jardins Street, Québec, Quebec. The financial statements are presented in Canadian dollars. These financial statements were authorized for issue by the Central Board on \_\_\_\_\_, 2020.

**2 Basis of presentation**

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB).

**3 Summary of significant accounting policies****Financial instruments**

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Regular way purchases and sale of financial assets are recognized at their settlement date. The Fund's investments and liabilities are measured at fair value through profit or loss (FVTPL). The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and financial liabilities are measured at amortized cost. Under this method, financial assets and financial liabilities reflect the amount required to be received or paid. The Fund's accounting policies for measuring the fair value of its investments are identical to those used in measuring their net asset value (NAV) for transactions with unitholders.

Interest for distribution purposes in fixed income investments, including short-term investments, is recognized at the contractual interest rate on an accrued basis. Dividends are recognized as income on the ex-dividend date. The cost of investments is determined using the average cost method.

**Fair value measurement**

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. The fair value of the financial assets and financial liabilities traded in active markets (such as market securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

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**The Church Society of the Diocese of Quebec****Funds Under Management: Pooled Funds**

Notes to Financial Statements

December 31, 2019

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**Foreign currency translation**

The Fund's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash are presented as exchange gain (loss) on cash and cash equivalents and exchange gain (loss) on unrealized value of cash and cash equivalents and those relating to other financial assets and financial liabilities are presented within exchange gain on sale of investments and exchange gain (loss) on unrealized increase in value of investments in the statement of comprehensive income.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash and highly liquid investments that are readily convertible to determinable amounts of cash and have maturities of three months or less from the date of acquisition.

**Increase in net assets attributable to holders of redeemable units per unit**

The increase in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase in net assets attributable to holders of redeemable units by the weighted average number of units outstanding during the year. Refer to note 10 for the calculations.

**Transaction costs**

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities by the Fund, are expensed in the statement of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and security exchanges, as well as transfer taxes and duties.

**Income taxes**

Under the Canadian Income Tax Act and the Quebec Taxation Act, the Fund qualifies as mutual fund trust. Accordingly, it is not subject to taxes on its distributed income, including net realized capital gains, which are paid or payable to its unitholders. It is the intention of the Fund to pay all of its income and sufficient net realized capital gains so that it will not be subject to income taxes. Consequently, no amount has been included in the provision for income taxes.

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# The Church Society of the Diocese of Quebec

## Funds Under Management: Pooled Funds

Notes to Financial Statements

December 31, 2019

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### 4 Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and in making estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

#### **Fair value measurement of derivatives not quoted in an active market**

The Fund may hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the manager, independent of the party that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to note 5 for further information about the fair value measurement of the Fund's financial instruments.

#### **Classification and measurement of investments and application of the fair value option**

In classifying and measuring financial instruments held by the Fund, the manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IFRS 9. The most significant judgments made include the determination that certain investments are held-for-trading and that the fair value option can be applied to those which are not.

### 5 Risk associated with financial instruments

The Fund's activities expose it to a variety of risks associated with financial instruments, as follows: credit risk, liquidity risk, market risk (including currency risk, interest rate risk and other price risk) and concentration risk. The Fund's overall capital risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments result in a risk of loss of capital.

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### Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the credit risk to which the Fund is exposed arises from its investments in debt securities. The Fund's policy to manage credit risk is to invest in debt securities that have a minimum credit rating of BBB designated by Dominion Bond Rating Services (DBRS), with no limit for investments with a BBB or higher rating. The unrated investments include diversified portfolios that are managed funds which carry minimum risk and are exempt of this rating by the Fund's policy. The analysis below summarizes the credit quality of the Fund's debt portfolio as at December 31, 2019:

| Credit rating | Percentage of total debt securities |           |
|---------------|-------------------------------------|-----------|
|               | 2019<br>%                           | 2018<br>% |
| AA            | -                                   | 7.26      |
| A             | 14.51                               | 18.53     |
| BBB           | 9.55                                | 2.88      |
| Unrated       | 75.94                               | 71.33     |
|               | 100.00                              | 100.00    |

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The credit risk related to the associated receivables is considered limited, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. However, there are risks involved in dealing with custodians or prime brokers who settle trades, and in rare circumstances the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

The Fund indirectly bears the credit risk exposure of the underlying fund. Through its investment in the underlying fund, the Fund may be exposed to credit risk to the extent that the underlying fund was invested in fixed income securities, preferred securities and derivatives.

### Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to quarterly cash redemptions. The Fund maintains sufficient cash on hand to fund anticipated redemptions.

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The Fund may invest in derivatives that are not traded in an active market. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at amounts which approximate their fair values, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In accordance with the Fund's policy, the manager monitors the Fund's liquidity position on a quarterly basis. The tables below analyze the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the tables are the contractual undiscounted cash flows as at December 31, 2019:

|                              |                  |                |                               | <b>2019</b>  |
|------------------------------|------------------|----------------|-------------------------------|--------------|
|                              | <b>On demand</b> | <b>Endowed</b> | <b>Less than<br/>3 months</b> | <b>Total</b> |
|                              | \$               | \$             | \$                            | \$           |
| <b>Financial liabilities</b> |                  |                |                               |              |
| Redeemable units             | 6,584,433        | 11,834,800     | -                             | 18,419,233   |
|                              |                  |                |                               | <b>2018</b>  |
|                              | <b>On demand</b> | <b>Endowed</b> | <b>Less than<br/>3 months</b> | <b>Total</b> |
|                              | \$               | \$             | \$                            | \$           |
| <b>Financial liabilities</b> |                  |                |                               |              |
| Redeemable units             | 5,965,012        | 10,532,850     | -                             | 16,497,862   |

Redeemable units 417,276 units are redeemable on demand at the holder's option. However, the manager does not expect that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

Endowed units 750,008 units are units where the holder can only benefit from the income generated by the Fund.

### Market risks

The Fund's investments are subject to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The following includes sensitivity analyses that show how the net assets attributable to holders of redeemable units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

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(a) Currency risk

The Fund invests in monetary assets denominated in currencies other than Canadian dollars. These investments result in currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The tables below indicate the foreign currencies to which the Fund had significant exposure in Canadian dollars terms. The tables also illustrate the potential impact on net assets attributable to holders of redeemable units if the Canadian dollars had strengthened or weakened by 5% in relation to each of the other currencies, with all other variables held constant:

|  |          |              |           |  |              | 2019    |
|--|----------|--------------|-----------|--|--------------|---------|
| Currency   | Exposure |              |           | Impact on net assets attributable to holders of redeemable units |              |         |
|  | Monetary | Non-monetary | Total     | Monetary   | Non-monetary | Total   |
| USD  | 222,751  | 9,680,886    | 9,903,637 | 11,138   | 484,044      | 495,182 |
| % Net assets attributable to holders of redeemable units | 1.21     | 52.56        | 53.77     | 0.06   | 2.63         | 2.69    |
|  |          |              |           |  |              | 2018    |
| Currency   | Exposure |              |           | Impact on net assets attributable to holders of redeemable units |              |         |
|  | Monetary | Non-monetary | Total     | Monetary   | Non-monetary | Total   |
| USD  | 98,799   | 8,457,509    | 8,556,308 | 4,940  | 422,875      | 427,815 |
| % Net assets attributable to holders of redeemable units | 0.60     | 51.26        | 51.86     | 0.03   | 2.56         | 2.59    |

The Fund indirectly bears the currency risk exposure of the underlying fund. Through its investment in the underlying fund, the Fund may be exposed to currency risk to the extent that the underlying fund was exposed to foreign currencies.

(b) 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 holds securities with fixed interest rates that expose it to fair value interest rate risk. The Fund's policy requires the manager to manage this risk by calculating and monitoring the average effective duration of the portfolio of these securities. The Fund also holds a limited amount of cash subject to variable interest rates which exposes the Fund to cash flow interest rate risk.

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The Fund's policy is to hold no more than 50% of its net assets attributable to holders of redeemable units in interest-bearing assets. The Fund's policy also limits individual fixed income holdings securities to no more than 5% of net assets attributable to holders of redeemable units. The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity. The table also illustrates the potential impact on net assets attributable to holders of redeemable units if the prevailing levels of market interest rates changed by 0.25%, assuming a parallel shift in the yield curve with all other variables held constant.

| Term to maturity   | 2019<br>\$ | 2018<br>\$ |
|--|------------|------------|
| Less than a year   | 202,258    | -          |
| 1 – 5 years  | 160,538    | 364,010    |
| 5 – 10 years   | 408,039    | 400,855    |
| 10+ years  | 276,915    | 264,475    |
| Non-interest bearing   | 2,639,112  | 2,561,456  |
|  | 3,686,862  | 3,590,796  |
| Impact on net assets attributable to holders of redeemable units     | 2,500      | 2,688      |
| Impact on net assets attributable to holders of redeemable units (%) | 0.014%     | 0.016%     |

The Fund indirectly bears the interest rate risk exposure of the underlying fund. Through its investment in the underlying fund, the Fund may be exposed to interest rate risk to the extent that the underlying fund was invested in fixed income securities.

(c) Other price risk

The Fund is exposed to other price risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk). The Fund's investments are subject to the risk of changes in the prices of equity securities. The Fund's policy is to manage price risk through diversification and selection of investments within specified limits established by the investment policy. A maximum of 70% of net assets attributable to holders of redeemable units can be invested in equity securities. The Fund's policy also limits individual equity securities to no more than 5% of net assets attributable to holders of redeemable units. The majority of the Fund's equity investments are publicly traded and are included in the TSX Composite Index as well as the S&P 500 Index.

As at December 31, 2019, if relevant benchmark indexes had increased or decreased by 5%, with all other variables held constant, net assets attributable to holders of redeemable units of the Fund would have increased or decreased by approximately \$723,013 (\$633,587 in 2018) representing 3.93% of net assets attributable to holders of redeemable units (3.84% in 2018).

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The Fund indirectly bears the price risk exposure of the underlying fund. Through its investment in the underlying fund, the Fund may be exposed to price risk to the extent that the underlying fund's holdings were sensitive to changes in general economic conditions across the world.

### Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

| Market segment     | 2019<br>%     | 2018<br>%     |
|--------------------|---------------|---------------|
| Communications     | 0.83          | 0.97          |
| Consumer goods     | 8.13          | 9.20          |
| Diversified        | 24.34         | 27.61         |
| Finance            | 31.10         | 32.57         |
| Healthcare         | 4.33          | 2.95          |
| Industrial         | 1.48          | -             |
| Real estate        | 4.44          | 4.59          |
| Technology         | 7.15          | 5.70          |
| Telecommunications | 5.31          | 3.75          |
| Transportation     | 5.96          | 6.42          |
| Utilities          | 6.93          | 6.24          |
| <b>Total</b>       | <b>100.00</b> | <b>100.00</b> |

### Capital risk management

Units issued and outstanding are considered to be the capital of the Fund. The Fund has specific capital requirements on the subscription and redemption of units. Unitholders of non-endowed funds are entitled to require payment of the NAV per unit of these funds on all or any of the units that are held in trust by giving written notice to the manager. The written notice can be received at any time and shall be redeemed within a 60-day period. The units are redeemable for cash equal to the Fund's NAV of the previous month from the date of withdrawal.

### Fair value measurement

The Fund classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy are:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

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Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly; and

Level 3: Inputs that are unobservable for the assets or liabilities.

If inputs of different levels are used to measure an asset's or a liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following tables illustrate the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2019:

|                        |               |               |               | 2019        |
|------------------------|---------------|---------------|---------------|-------------|
|                        | Level 1<br>\$ | Level 2<br>\$ | Level 3<br>\$ | Total<br>\$ |
| Equities               | 14,460,265    | -             | -             | 14,460,265  |
| Fixed income           | -             | 3,484,604     | -             | 3,484,604   |
| Short-term investments | -             | 202,258       | -             | 202,258     |
|                        |               |               |               | 2018        |
|                        | Level 1<br>\$ | Level 2<br>\$ | Level 3<br>\$ | Total<br>\$ |
| Equities               | 12,671,741    | -             | -             | 12,671,741  |
| Fixed income           | -             | 3,590,796     | -             | 3,590,796   |

All fair value measurements above are recurring. The carrying values of cash and cash equivalents, accrued investment interest revenue, distributions payable to parishes, due to The Church Society of the Diocese of Quebec and the Fund's obligation for net assets attributable to holders of redeemable units approximate their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2.

(a) Equities

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. Certain of the Fund's equities do not trade frequently, and therefore observable prices may not be available. In such cases, fair value is determined using observable market data, and the security is classified as Level 2.

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(b) Fixed income and short-term investments

Fixed income and short-term investments consist of corporate bonds and income funds, which are valued using models with inputs including interest rate curves, credit spreads and volatilities. The inputs that are significant to valuation are generally observable, and therefore the Fund's fixed income and short-term investments have been classified as Level 2.

## 6 Financial instruments by category

The following tables present the carrying amounts of the Fund's financial instruments by category. All of the Fund's financial liabilities, other than its net assets attributable to holders of redeemable units as at December 31, 2019, were carried at amortized cost.

|  | <b>2019</b>                                     |  |                     |
|--|---|--|---------------------|
|  | <b>Financial<br/>assets at<br/>FVTPL<br/>\$</b> | <b>Financial<br/>assets at<br/>amortized<br/>cost<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Assets</b>                                      |   |  |                     |
| Investments  | 18,147,127                                      | -  | 18,147,127          |
| Cash and cash equivalents                          | -   | 241,352  | 241,352             |
| Accrued investment interest revenue                | -   | 30,754   | 30,754              |
|  | <b>18,147,127</b>                               | <b>272,106</b>   | <b>18,419,233</b>   |
| <b>Liabilities</b>                                 |   |  |                     |
| Distributions payable to parishes                  | -   | -  | -                   |
| Due to The Church Society of the Diocese of Quebec | -   | -  | -                   |
|  | <b>-</b>  | <b>-</b>   | <b>-</b>            |
|  |   |  | <b>2018</b>         |
|  | <b>Financial<br/>assets at<br/>FVTPL<br/>\$</b> | <b>Financial<br/>assets at<br/>amortized<br/>cost<br/>\$</b> | <b>Total<br/>\$</b> |
| <b>Assets</b>                                      |   |  |                     |
| Investments  | 16,262,537                                      | -  | 16,262,537          |
| Cash and cash equivalents                          | -   | 290,024  | 290,024             |
| Accrued investment interest revenue                | -   | 23,509   | 23,509              |
|  | <b>16,262,537</b>                               | <b>313,533</b>   | <b>16,576,070</b>   |
| <b>Liabilities</b>                                 |   |  |                     |
| Distributions payable to parishes                  | -   | 73   | 73                  |
| Due to The Church Society of the Diocese of Quebec | -   | 78,135   | 78,135              |
|  | <b>-</b>  | <b>78,208</b>  | <b>78,208</b>       |

The Fund recorded a net gain on financial instruments at FVTPL of \$2,480,690 in 2019 (loss of \$1,318,614 in 2018).

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### 7 Redeemable units

The number of units issued, redeemed and outstanding was as follows:

|  | 2019             | 2018             |
|--|------------------|------------------|
| <b>Units outstanding as at January 1</b>   | 1,157,452        | 1,140,447        |
| Redeemable units issued                    | 55,757           | 27,851           |
| Redeemable units issued on reinvestments   | 769              | 697              |
| Redeemable units redeemed                  | (46,694)         | (11,543)         |
| <b>Units outstanding as at December 31</b> | <u>1,167,284</u> | <u>1,157,452</u> |

### 8 Related party transactions

(a) Management fees

The management fees of the Fund's manager, The Church Society of the Diocese of Quebec, were calculated and paid monthly based on the Fund's net asset value for transaction purposes at the end of the previous month, at an annual rate of 1.8% for an amount of \$322,043 in 2019 (\$321,421 in 2018).

(b) Fund holdings

As at December 31, 2019, The Church Society of the Diocese of Quebec owns 217,360 units in the Fund (196,637 in 2018). The Church Society of the Diocese of Quebec also holds in trust for other unitholders, mainly parishes, 452,120 units in the Fund (456,494 in 2018).

### 9 Nature of distribution

|                                    | 2019<br>\$     | 2018<br>\$     |
|------------------------------------|----------------|----------------|
| Excess of revenue over expenditure | 323,915        | 297,383        |
| Return on capital                  | 657,779        | 666,275        |
|                                    | <u>981,694</u> | <u>963,658</u> |

The distribution per unit realized in 2019 amounts to \$0.84 (\$0.84 in 2018).

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### 10 Change in assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated as follows:

|  | 2019        | 2018          |
|--|-------------|---------------|
| Increase (decrease) in net assets attributable to holders of redeemable units          | \$2,759,609 | (\$1,049,131) |
| Weighted average number of units outstanding during the year                           | 1,168,443   | 1,148,220     |
|  | <hr/>       | <hr/>         |
| Increase (decrease) in net assets attributable to holders of redeemable units per unit | \$2.36      | (\$0.91)      |
|  | <hr/>       | <hr/>         |

### 11 Subsequent event

The Fund is monitoring the recent outbreak of the novel coronavirus (COVID-19) and its potential impact on the Fund. The outbreak of COVID-19 has increased volatility in financial markets and in the activities of the Fund. While the extent and duration of the impact of COVID-19 on global and local economies, financial markets, and sectors and issuers in which the Fund invests is uncertain at this point, the outbreak has the potential to adversely affect the value of the Fund's investments.

The impact of COVID-19 is considered to be a non-adjusting event at the statement of financial position date.

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