



VALUE  
PARTNERS  
INVESTMENTS

# VPI VALUE POOL

## **ANNUAL FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2018 AND 2017

## **MANAGER**

VALUE PARTNERS INVESTMENTS INC.

## **PORTFOLIO MANAGER**

PATIENT CAPITAL MANAGEMENT INC.

## MANAGEMENT REPORT

### Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the management of Value Partners Investments Inc. (Value Partners), the Manager of the Value Partners Pools (the Pools), and approved by the Board of Directors of Value Partners.

Management is responsible for the information and representations contained in these financial statements. The Board of Directors of Value Partners is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit Committee comprised of two independent Directors is appointed by the Board of Directors to review the financial statements, the adequacy of internal controls, the audit process and financial reporting with management and the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited financial statements.

Value Partners maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies which management believes are appropriate for the Pools, are described in note 3 of the financial statements.

KPMG LLP are the external auditors of the Pools. The external auditors have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out below.

On behalf of Value Partners Investments Inc.  
Manager of the Pools



Paul Lawton  
Chief Operating Officer and Secretary



Dean Bjarnarson  
Chief Financial Officer

---

## INDEPENDENT AUDITORS' REPORT

To the Unitholders of VPI Value Pool

### **Opinion**

We have audited the financial statements of VPI Value Pool (the Entity), which comprise the:

- statements of financial position as at December 31, 2018 and December 31, 2017
- statements of comprehensive loss for the years then ended
- statements of changes in financial position for the years then ended
- statements of cash flows for the years then ended
- notes to the financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***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 “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ report.

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

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

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- Management Report of Fund Performance filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management Report of Financial Performance to be filed with the relevant Canadian Securities Commissions as at the date of this auditors’ report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors’ report.

We have nothing to report in this regard.

### ***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 Entity’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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### ***Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature, there is a horizontal line that starts under the "K" and extends to the right, ending under the "P".

Chartered Professional Accountants

Winnipeg, Canada

March 18, 2019

# VPI VALUE POOL

## Statements of Financial Position

(In thousands of dollars and units, except for per unit amounts)

As at	December 31, 2018	December 31, 2017
<b>Assets</b>		
Financial assets at fair value through profit or loss	\$ 121,209	\$ 185,889
Cash and cash equivalents	2,629	1,980
Accrued dividends receivable	455	418
Due from Manager (note 5)	—	1
Subscriptions receivable	4	134
	<b>\$ 124,297</b>	<b>\$ 188,422</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 107	\$ 92
Redemptions payable	12	248
Management fees payable (notes 4 and 5)	183	259
	<b>302</b>	<b>599</b>
<b>Net assets attributable to holders of redeemable units</b>	<b>\$ 123,995</b>	<b>\$ 187,823</b>
<b>Net assets attributable to holders of redeemable units per series:</b>		
Series A	\$ 91,514	\$ 138,250
Series B	5,204	10,728
Series F	25,413	38,060
Series O	1,864	785
<b>Net assets attributable to holders of redeemable units per unit:</b>		
Series A	\$ 8.43	\$ 9.60
Series B	8.15	9.33
Series F	9.04	10.22
Series O	9.36	10.47
<b>Number of redeemable units outstanding:</b>		
Series A	10,860	14,394
Series B	639	1,150
Series F	2,811	3,724
Series O	199	75

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

# VPI VALUE POOL

## Statements of Comprehensive Loss

(In thousands of dollars, except for per unit amounts)

Years ended December 31, 2018 and 2017

	2018	2017
Income:		
Interest income for distribution purposes	\$ 1,039	\$ 844
Dividend income	2,240	2,076
Foreign exchange gain (loss) on cash	59	(22)
Other changes in fair value on financial assets and financial liabilities at fair value through profit or loss:		
Net realized gain on sale of investments	798	1,525
Change in unrealized depreciation in value of investments	(18,980)	(14,627)
	(14,844)	(10,204)
Expenses:		
Administration	133	117
Audit fees	16	17
Independent review committee fees	7	7
Security holder reporting costs	124	126
Custodian fees	7	8
Filing fees	19	23
Legal fees	3	4
Management fees (notes 4 and 5)	2,768	3,455
Registered plan fees	5	5
Trustee fees	5	5
Withholding taxes	60	56
Transaction costs	7	2
	3,154	3,825
Absorbed expenses (notes 4 and 5)	(4)	—
	3,150	3,825
Decrease in net assets attributable to holders of redeemable units	\$ (17,994)	\$ (14,029)
Increase (decrease) in net assets attributable to holders of redeemable units per series:		
Series A	\$ (13,415)	\$ (10,638)
Series B	(843)	(1,060)
Series F	(3,507)	(2,333)
Series O	(229)	2
Increase (decrease) in net assets attributable to holders of redeemable units per unit:		
Series A	\$ (1.06)	\$ (0.70)
Series B	(0.95)	(0.76)
Series F	(1.06)	(0.63)
Series O	(1.13)	0.29

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

# VPI VALUE POOL

Statements of Changes in Financial Position  
(In thousands of dollars and units)

Years ended December 31, 2018 and 2017

	Series A		Series B		Series F		Series O		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net assets attributable to holders of redeemable units, beginning of year	\$ 138,250	\$ 158,171	\$ 10,728	\$ 16,601	\$ 38,060	\$ 30,505	\$ 785	\$ —	\$ 187,823	\$ 205,277
Increase (decrease) in net assets attributable to holders of redeemable units	(13,415)	(10,638)	(843)	(1,060)	(3,507)	(2,333)	(229)	2	(17,994)	(14,029)
Redeemable unit transactions:										
Proceeds from redeemable units issued	8,450	27,915	144	221	5,161	19,732	1,944	783	15,699	48,651
Reinvestment of distributions to holders of redeemable units	771	425	33	—	185	61	12	—	1,001	486
Redemption of redeemable units	(42,147)	(37,623)	(4,825)	(5,034)	(14,342)	(9,905)	(636)	—	(61,950)	(52,562)
	(32,926)	(9,283)	(4,648)	(4,813)	(8,996)	9,888	1,320	783	(45,250)	(3,425)
Distributions to holders of redeemable shares:										
Net realized gain on investments	(395)	—	(33)	—	(144)	—	(12)	—	(584)	—
Total distributions paid to holders of redeemable units	(395)	—	(33)	—	(144)	—	(12)	—	(584)	—
Net increase (decrease) in net assets attributable to holders of redeemable units	(46,736)	(19,921)	(5,524)	(5,873)	(12,647)	7,555	1,079	785	(63,828)	(17,454)
Net assets attributable to holders of redeemable units, end of year	\$ 91,514	\$ 138,250	\$ 5,204	\$ 10,728	\$ 25,413	\$ 38,060	\$ 1,864	\$ 785	\$ 123,995	\$ 187,823
Increase (decrease) in redeemable units outstanding:										
Beginning of year	14,394	15,391	1,150	1,659	3,724	2,816	75	—	19,343	19,866
Issued	905	2,843	16	23	517	1,879	184	75	1,622	4,820
Issued on reinvestment of distributions	87	44	4	—	20	6	1	—	112	50
Redeemed	(4,526)	(3,884)	(531)	(532)	(1,450)	(977)	(61)	—	(6,568)	(5,393)
Redeemable units outstanding, end of year	10,860	14,394	639	1,150	2,811	3,724	199	75	14,509	19,343
Weighted average units outstanding, during the year	12,714	15,277	885	1,401	3,307	3,719	203	7		

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

# VPI VALUE POOL

Statements of Cash Flows  
(In thousands of dollars)

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from (used in) operating activities:		
Decrease in net assets attributable to holders of redeemable units	\$ (17,994)	\$ (14,029)
Adjustments for:		
Foreign exchange loss (gain) on cash	(59)	22
Net realized gain on sale of investments	(798)	(1,525)
Transaction costs	7	2
Change in unrealized depreciation in value of investments	18,980	14,627
Purchase of investments	(393,395)	(651,182)
Proceeds from sale of investments	439,886	655,898
Dividends receivable	(37)	(26)
Due from manager	1	(1)
Management fees payable	(76)	(47)
Other payables and accrued expenses	15	16
Net cash from operating activities	46,530	3,755
Cash flows from (used in) financing activities:		
Distributions paid to holders of redeemable units, net of reinvested distributions	417	485
Proceeds from redeemable units issued	11,001	43,762
Redemption of redeemable units	(57,358)	(47,454)
Net cash used in financing activities	(45,940)	(3,207)
Foreign exchange gain (loss) on cash	59	(22)
Net increase in cash and cash equivalents	649	526
Cash and cash equivalents, beginning of year	1,980	1,454
Cash and cash equivalents, end of year	\$ 2,629	\$ 1,980
Supplementary information:		
Dividends received, net of withholding tax	\$ 2,143	\$ 1,994
Interest received	1,039	844

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



# VPI VALUE POOL

## Schedule of Investments

(In thousands of dollars, except for unit amounts)

December 31, 2018

Number of units, shares or par value	Description	Maturity date	Coupon rate	Average cost	Fair value	% of net assets
<b>Short-term investments:</b>						
56,406,000	Canada Treasury Bill	10-Jan-19		\$ 56,225	\$ 56,380	
Total short-term investments				56,225	56,380	45.47
<b>Equities:</b>						
<b>Automobiles &amp; Components:</b>						
42,615	Honda Motor Co. Ltd.			1,557	1,539	
140,835	Linamar Corp.			7,032	6,380	
				8,589	7,919	6.39
<b>Banks:</b>						
82,955	Bank of Nova Scotia			4,640	5,645	
58,170	Canadian Imperial Bank of Commerce			5,495	5,915	
				10,135	11,560	9.32
<b>Consumer Services:</b>						
305,696	Speedway Motorsports Inc.			4,719	6,793	5.48
<b>Energy:</b>						
313,000	Canadian Natural Resources Ltd.			8,579	10,311	
661,160	Cenovus Energy Inc.			13,179	6,347	
659,146	Encana Corp.			12,506	5,194	
1,359,183	Ensign Energy Services Inc.			13,148	6,510	
				47,412	28,362	22.87
<b>Media:</b>						
83,345	WPP PLC			6,031	6,238	5.03
<b>Retailing:</b>						
194,489	Bed Bath & Beyond Inc.			11,948	3,007	2.43
<b>Utilities:</b>						
30,340	Canadian Utilities Ltd.			917	950	0.77
Total equities				89,751	64,829	52.29
Transaction costs				(75)		
Total financial assets at FVTPL				145,901	121,209	97.76
<b>Cash:</b>						
Domestic				1,759	1,759	
Foreign				830	870	
Total cash				2,589	2,629	2.12
Other assets less liabilities					157	0.12
Total net assets attributable to holders of redeemable units					\$ 123,995	100.00

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

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

## 1. Reporting entity:

- (a) VPI Value Pool (the Pool) is an open-ended mutual fund trust, established on September 19, 2007 by declaration of trust under the laws of the Province of Ontario. As of March 2017, the registered office of the Pool is located at 300-175 Hargrave St., Winnipeg, Manitoba. The trustee of the Pool is RBC Investor Services Trust and the Manager of the Pool is Value Partners Investments Inc. (VPI or the Manager).

The Pool commenced operations on October 1, 2007 with three series of units: Series A, Series B and Series F. On July 5, 2017, the Pool began offering Series O units.

The Pool's objective is to provide unitholders with long-term growth while preserving capital. VPI Value Pool invests in North American and international-based equity securities.

- (b) Redeemable units issued and outstanding are considered to be capital of the Pool. The Pool's authorized capital consists of an unlimited number of units and series without par value. The number of outstanding units of each series is disclosed in the statements of financial position.

Series A units are subject to a negotiated sales commission payable by the investor at the time of purchase. Series B units are subject to a fixed sales commission payable by the Manager at the time of purchase. The investor is subject to a redemption fee if units are redeemed within three years of purchase. Series F units are only available to investors that have a fee-based account with a dealer that has signed a Series F agreement with the Manager. Series O units are available for investors who have, or whose dealer has, entered into an agreement directly with the Manager to purchase Series O units or if investors open discretionary investment management accounts with the Manager. Series O units have no sales charge.

Except for Series O units, each series of units pays its proportionate share of common expenses of the Pool, in addition to expenses that are unique to that series. Proportionate fund expenses for Series O, both common fund expenses, as well as expenses unique to Series O, are paid by the Manager. Distributions of each series may vary due to the differences in expenses between the series.

- (c) Unitholders may redeem all or part of their units by delivering a written request to do so to the Manager or Trustee or to an investment dealer, securities dealer or mutual fund dealer for delivery to the Manager or Trustee. Units will be redeemed at the net asset value per unit as determined on the next valuation date. Requests for redemption received after 4:00 p.m., Toronto time, on any day are deemed to be received on the first business day following the date of the actual receipt.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

## 2. Basis of preparation:

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) applicable to the preparation of annual financial statements.

The financial statements were authorized for issue by the Manager on behalf of the board of directors on March 18, 2019.

### (a) Basis of measurement:

The financial statements have been prepared on an historical cost basis except for investments at fair value through profit or loss, which are measured at fair value.

### (b) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Pool's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

### (c) Use of estimates and judgments:

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant judgments made by the Manager in preparing these financial statements is in determining the fair value of financial instruments not traded in an active market, if any, under IFRS 13 - *Fair Value Measurement* (IFRS 13).

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

### 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### (a) Financial instruments:

Effective January 1, 2018, the Pool adopted IFRS 9 *Financial Instruments* (IFRS 9). The new standard requires financial assets to be carried at amortized cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI) based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Assessment and decision on the business model approach used is an accounting judgement.

The classification and measurement of financial liabilities remains generally unchanged with the exception of liabilities recorded at FVTPL. For these liabilities, fair value changes attributable to changes in the entity's own credit risk are to be presented in other comprehensive income unless they affect amounts recorded in income.

Upon transition to IFRS 9, the Pool's financial assets and financial liabilities previously classified as FVTPL under IAS 39, *Financial Instruments: recognition and measurement* (IAS 39), being its investments in securities designated at fair value through profit or loss, continue to be categorized as FVTPL. Other financial assets, being cash, accrued dividends receivable, due from Manager, subscriptions receivable, and due from broker, were previously classified as loans and receivables under IAS 39 and are now classified under amortized cost. Financial liabilities, being accounts payable and accrued liabilities, redemptions payable and management fees payable, were previously classified as other financial liabilities under IAS 39 and are now classified as amortized cost. There were no changes in the measurement attributes for any of the financial assets and financial liabilities upon transition to IFRS 9.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

### 3. Significant accounting policies (continued):

(i) Classification and measurement:

Financial assets are required to be classified into one of the following categories: FVTPL, amortized cost or FVOCI based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is derivative or it is designated as such on initial recognition.

All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL, in which case transaction costs are expensed as incurred.

Financial instruments at FVTPL are recognized initially on the trade date, which is the date on which the Pool becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognized on the date on which they are originated. The Pool derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position only when the Pool has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. At December 31, 2018 and 2017, no amounts have been offset in the statements of financial position.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

## 3. Significant accounting policies (continued):

### (ii) FVTPL:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statements of comprehensive income in the period in which they occur. The Pool has classified its investments in securities, derivative financial assets and derivative financial liabilities as FVTPL.

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 financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Pool uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that 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 Pool'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.

The fair value of financial assets and liabilities that are not traded in an active market, including derivative instruments, is determined using valuation techniques. Valuation techniques also include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and others commonly used by market participants and which make the maximum use of observable inputs. Should the value of the financial asset or liability, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value is estimated on the basis of the most recently reported information of a similar financial asset or liability.

The Pool's accounting policies for measuring the fair value of investments are consistent with those used for measuring its net asset value for transactions with unitholders.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

## 3. Significant accounting policies (continued):

### (iii) Amortized cost:

Financial instruments classified under amortized cost include financial assets that are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest and financial liabilities not classified as FVTPL. Such financial assets and liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement of these financial assets and financial liabilities is at amortized cost using the effective interest method, less any impairment losses. Interest income is recognized by applying the effective interest rate. The Pool classifies cash, accrued dividends receivable, due from Manager, subscriptions receivable, due from broker, accounts payable and accrued liabilities, redemptions payable and management fees payable as amortized cost. Cash includes cash on deposit with the custodian.

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

### (iv) Impairment:

For financial assets measured at amortized cost, the Pool uses an expected credit loss (ECL) impairment model. The ECL model uses an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

The Pool measures the loss allowance at an amount equal to lifetime ECL for trade and other receivables. Lifetime ECL's are the ECL's that result from all possible default events over the expected life of the trade and other receivables. ECL's are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (that being the difference between the cash flows due to the Pool in accordance with the contract and the cash flows that the Pool expects to receive). ECL's are discounted at the effective interest rate of the financial asset.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

## 3. Significant accounting policies (continued):

### (b) Redeemable units:

The Pool classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Pool has multiple classes of redeemable units that do not have identical features and therefore, does not qualify as equity under International Accounting Standard (IAS) 32, *Financial Instruments - presentation* (IAS 32). The redeemable units, which are measured at the redemption amounts and are considered a residual amount of the net assets attributable to holders of redeemable units provide investors with the right to require redemption, subject to available liquidity, for cash at a unit price based on the Pool's valuation policies at each redemption date.

### (c) Foreign currency:

The Pool's subscriptions and redemptions are denominated in Canadian dollars, which is also its functional and presentation currency. Foreign denominated investments and other foreign denominated assets and liabilities are translated into Canadian dollars using the exchange rates prevailing on each valuation date. Purchases and sales of investments, as well as *income* and expense transactions denominated in foreign currencies, are translated using exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses relating to cash are presented as 'Foreign exchange gain (loss) on cash' and those relating to other financial assets and liabilities are presented within 'Net realized gain' and 'Change in unrealized appreciation (depreciation)' in the statements of comprehensive income.

### (d) Investment transactions and revenue recognition:

Interest income for distribution purposes from investments in bonds and short-term investments represents the coupon interest received by the Pool accounted for on an accrual basis. The Pool does not use the effective interest method to amortize premiums paid or discounts received on the purchase of fixed-income securities. Dividend income is recognized on the date that the right to receive payment is established, which for quoted equity *securities* is usually the ex-dividend date. Portfolio transactions are recorded on the trade date. Realized gains and losses arising from the sale of investments are determined on the average cost basis of the respective investments.

### (e) Increase (decrease) in net assets attributable to holders of redeemable units, per unit:

Increase (decrease) in net assets attributable to holders of redeemable units, per unit in the statements of *comprehensive* loss represents the net increase (decrease) in the net assets from operations for each series for the period divided by the weighted average units outstanding for each series for the period.



# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

## 3. Significant accounting policies (continued):

### (f) Income taxes:

The Pool qualifies as a Mutual Fund Trust as defined in the *Income Tax Act* (Canada). Pursuant to the terms of the Declaration of Trust establishing the Pool, it is considered to distribute annually to the unitholders all of the net taxable income, including net realized gains on sale of investments, and such distributions are immediately reinvested in units of the Pool.

In general, the Pool is subject to income tax, however no income tax is payable on net income and/or net realized capital gains which are distributed to unitholders. In addition, income taxes payable on net realized capital gains is refundable on a formula basis when units of the Pool are redeemed.

Capital losses are available to be carried forward indefinitely and applied against future capital gains. Any non-capital losses that are realized in the taxation year 2006 and after may be carried forward for 20 years and applied against future income and capital gains.

## 4. Management fees and expenses:

Except for Series O units, the Manager of the Pool is entitled to a monthly management fee from each series of units based on a percentage of the net asset value of each series of units as of the close of business on each business day calculated at the following annual rates:

---

Series A	1.80%
Series B	2.00%
Series F	0.90%

---

No management fee is charged to the Pool with respect to Series O units. Instead, each investor negotiates a separate fee that is paid directly to the Manager.

Except for Series O units, in addition to the management fee, each series of units pays its proportionate share of common operating expenses of the Pool, in addition to expenses that are unique to that series. These expenses include, but are not limited to audit, legal and filing fees, custodial, recordkeeping and trustee fees, transfer agent fees, investor servicing costs, taxes, compensation and expenses of the Independent Review Committee, and costs of unitholder reports, financial reporting, prospectuses, regulatory filings, and other communications. Brokerage commissions and transaction costs for buying and selling investments for the Pool's portfolio are also paid by the Pool, as well as the costs and expenses related to holding any meeting convened by unitholders.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

## 4. Management fees and expenses (continued):

Proportionate fund expenses for Series O units, both common fund expenses, as well as expenses unique to Series O, are paid by the Manager.

The Manager absorbed a portion of the operating expenses (note 5) of the Pool during the years ended December 31, 2018 and 2017.

## 5. Related party transactions:

Related party balances of the Pool as at December 31, 2018 and 2017 are as follows:

	2018	2017
Management fees payable	\$ 183	\$ 259
Due from Manager	—	1

Related party transactions of the Pool for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Management fees	\$ 2,768	\$ 3,455
Absorbed expenses	(4)	—

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

As of December 31, 2018 and 2017, the Manager or parent company of the Manager held the following number of units in the Pool:

	2018	2017
Series F	40,622	40,224
Series O	—	1

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

## **6. Brokerage commissions:**

Commissions paid to brokers for portfolio transactions for the years ended December 31, 2018 and 2017 are disclosed in the statements of comprehensive loss.

There were no soft dollar commissions paid during the years ended December 31, 2018 and 2017.

## **7. Income taxes:**

As of December 31, 2018 and 2017, there are no capital or non-capital losses available for carry forward.

## **8. Financial risk management:**

The investment activities of the Pool expose it to various types of financial risks. The Manager seeks to minimize potential adverse effects of these risks on the Pool by contracting a professional, experienced portfolio manager, by monitoring the Pool and market events on a daily basis, and by diversifying the investment portfolio within the parameters of the investment objective and strategy. The most significant risks include market risk (other price risk, interest rate risk and currency risk), credit risk and liquidity risk. These risks and related risk management practices employed by the Pool are discussed below:

### **(i) Other price risk:**

Other price risk is the risk that the value of financial instruments 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, its issuer, or all factors affecting all instruments traded in a market or market segment. The maximum risk resulting from financial instruments held by the Pool is determined by the fair value of the financial instruments. The portfolio manager moderates this risk through a careful selection of securities within specified parameters established for the Pool.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

## 8. Financial risk management (continued):

### (i) Other price risk (continued):

For the Pool, the most significant exposure to other price risk arises from investments in equity securities. The following table shows the exposure of the Pool to equity securities and indicates the impact on net assets if the prices of the equity securities on the respective stock exchanges increased or decreased by 5 percent, with all other variables held constant.

	Fair value of equities (\$)	% of net assets	Impact on net assets (\$)	Impact on net assets (%)
As at December 31, 2018	\$ 64,829	52.29%	\$ 3,241	2.61%
As at December 31, 2017	68,117	36.27%	3,406	1.81%

### (ii) Interest rate risk:

Interest rate risk arises on interest-bearing financial instruments such as bonds. The majority of the Pool's financial assets and liabilities are non-interest bearing. As a result, the Pool is not subject to a significant amount of interest rate risk due to fluctuations in the prevailing level of market interest rates.

### (iii) Credit risk:

Credit risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pool. The Pool's greatest concentration of credit risk is in debt securities such as Canada Treasury Bills. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of investments represents the maximum credit risk exposure as at December 31, 2018 and 2017.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, 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.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

## 8. Financial risk management (continued):

### (iii) Credit risk (continued):

Debt securities in the Pool by credit rating are as follows:

	% of debt securities	% of net assets
As at December 31, 2018		
AAA	100.00%	45.47%
As at December 31, 2017		
AAA	100.00%	62.70%

### (iv) Liquidity risk:

The Pool is exposed to liquidity risk to the extent that it is subject to daily cash redemptions of redeemable units. Therefore, the Pool invests the majority of its assets in investments that are traded in an active market and can be readily disposed. In addition, the Pool retains sufficient cash positions to maintain liquidity.

### (v) Currency risk:

The Pool uses the Canadian dollar as its functional and reporting currency. Currency risk is the risk that the value of monetary assets and liabilities denominated in currencies other than the Canadian dollar (the functional currency of the Pool) will fluctuate due to changes in exchange rates.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

## 8. Financial risk management (continued):

The only foreign currency to which the Pool was exposed to at December 31, 2018 and 2017 was the US dollar. The following tables illustrate the potential impact to the Pool's net assets, all other variables held constant, as a result of a 5 percent change in this currency relative to the Canadian dollar.

As at December 31, 2018	Foreign currencies (\$)	Impact on net assets (\$)	Impact on net assets (%)
Financial assets at FVTPL	\$ 17,577	\$ 879	0.71%
Cash	870	44	0.04%
Other assets less liabilities	37	2	0.00%
	\$ 18,484	\$ 925	0.75%

As at December 31, 2017	Foreign currencies (\$)	Impact on net assets (\$)	Impact on net assets (%)
Financial assets at FVTPL	\$ 12,586	\$ 629	0.33%
Cash	466	23	0.01%
Other assets less liabilities	32	2	0.00%
	\$ 13,084	\$ 654	0.34%

### (vi) 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 market segments are represented as a percentage of financial assets at FVTPL. The following is a summary of the Pool's concentration risk:

Market segment	December 31, 2018	December 31, 2017
Long	%	%
Automobiles & components	6.54	—
Banks	9.53	6.67
Consumer services	5.61	3.89
Energy	23.39	23.21
Retailing	2.49	2.88
Media	5.15	—
Utilities	0.78	—
Short-term investments	46.51	63.35
	100.00	100.00

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

---

## 9. Fair value disclosure:

### (i) Valuation models:

The Pool's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy. The fair value of a financial instrument 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 Pool's financial instruments are recorded at fair value or at amounts that approximate fair value in the financial statements. The Pool 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 the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Manager has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Changes in valuation methods may result in transfers into, or out of, a financial instrument's assigned level.

# VPI VALUE POOL

Notes to Financial Statements

(In thousands of dollars, except for unit amounts)

Years ended December 31, 2018 and 2017

## 9. Fair value disclosure (continued):

(ii) Fair value hierarchy - financial instruments measured at fair value:

The following tables present information about the Pool's assets which are recorded at fair value on a recurring basis as of December 31, 2018 and 2017.

Financial assets at fair value as at December 31, 2018:

		Level 1		Level 2		Level 3		Total
Equities - long	\$	64,829	\$	—	\$	—	\$	64,829
Short-term investments		—		56,380		—		56,380
	\$	64,829	\$	56,380	\$	—	\$	121,209

Financial assets at fair value as at December 31, 2017:

		Level 1		Level 2		Level 3		Total
Equities - long	\$	68,117	\$	—	\$	—	\$	68,117
Short-term investments		—		117,772		—		117,772
	\$	68,117	\$	117,772	\$	—	\$	185,889

At December 31, 2018 and 2017, there were no transfers between levels. The financial instruments not measured at FVTPL are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.