CARIBBEAN COURT OF JUSTICE TRUST FUND

# 2015

# ANNUAL REPORT

Caribbean Court of Justice Trust Fund ANNUAL REPORT 2015

GROWTH

STABILITY

PROTECTION

LONGEVITY

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# REPORT OF THE BOARD OF TRUSTEES

The Board of Trustees is comprised of nominees from the following institutions as defined in the "Revised Agreement Establishing the Caribbean Court of Justice Trust Fund." The composition is as follows:

| INSTITUTION | REPRESENTATIVE TRUSTEE | BOARD AND COMMITTEE POSITION |
|---|---|---|
| Caribbean Congress of Labour | Dr. Linton A. Lewis | Chairman |
| University of the West Indies | Mrs. Christine Sahadeo | Vice Chairman; Chairman Finance and Investment Committee |
| Organisation of Commonwealth Caribbean Bar Associations | Mr. Wilfred Abrahams | Member – Audit Committee |
| Caribbean Association of Banks Inc. | Mr. Farid Antar | Member – Finance and Investment Committee |
| Conference of Heads of the Judiciary of Member States of the Caribbean Community | Chief Justice Ivor Archie | Trustee |
| CARICOM Secretariat | Mr. Oswald Barnes | Chairman – Audit Committee |
| Institute of Chartered Accountants of the Caribbean | Mrs. Jasmine Davis | Member – Audit Committee |
| Caribbean Association of Industry and Commerce | Mr. Ramesh Dookhoo | Trustee |
| Insurance Association of the Caribbean | Mr. M. Musa Ibrahim | Member – Finance and Investment Committee |

# REPORT OF THE BOARD OF TRUSTEES







Top: **Dr. Linton Lewis,** Chairman.

Middle Row (l-r): **Mrs. Christine Sahadeo,** Vice Chairman; Chairman – Finance and Investment Committee; **Mr. Wilfred Abrahams,** Member – Audit Committee; **Mr. Farid Antar,** Member – Finance and Investment Committee; **Chief Justice Ivor Archie,** Trustee.

Bottom Row (l-r): **Mr. Oswald Barnes,** Chairman – Audit Committee; **Mrs. Jasmine Davis,** Member – Audit Committee; **Mr. Ramesh Dookhoo,** Trustee; **Mr. M. Musa Ibrahim,** Member – Finance and Investment Committee.

# REPORT OF THE BOARD OF TRUSTEES

The calendar year 2015 began with lingering uncertainty around the fate of Greece in the Eurozone, as Greek banks closed their doors to depositors and the Government struggled to reach an agreement with creditors, and the ambiguity around the timing of the US Federal Reserve's interest rate decision, which hung over markets for most of the year. 2015 was further defined by the equity market selloff prompted by the unexpected devaluation of the Chinese Yuan in August, a second, more pronounced, decline in oil prices in the latter half of the year, an increase in geopolitical risk through China, Russia and broader Europe, and the heightened risk of terrorism. Despite these challenges, I am pleased to report, on behalf of the Board of Trustees, on the performance of the Caribbean Court of Justice Trust Fund for the year ended December 31, 2015.

## Background

The Caribbean Court of Justice Trust Fund ("the Trust Fund") was endowed with its initial capital in April 2005 with the mandate to provide the financial resources necessary to fund the Caribbean Court of Justice ("the Court") and the Regional Judicial Legal Services Commission ("the Commission") in perpetuity. The Board of Trustees manages the resources of the Trust Fund in accordance with the following philosophy:

*"The fund will be invested prudently with a long-term investment horizon in a wide range of tax-efficient international instruments so as to produce an optimal gross rate of return with reasonable security of its capital."*

Accordingly, the Board has developed Investment Guidelines for the Trust Fund, which were approved by the CARICOM Heads of Government. In order to have a reasonable likelihood of satisfying the funding requirements of the Court and the Commission over the long term, these approved Guidelines permit a significant exposure to growth assets, such as public and private equity, within a diversified portfolio complemented by allocations to risk-reducing and inflation protection assets.

The Board of Trustees continues to uphold its fiduciary responsibility to manage the assets of the Trust Fund prudently to fulfill its long-term objective. During the course of the year, the Board met four times, and the Finance & Investment Committee and the Audit Committee met three times and twice respectively.

Since inception the Trust Fund produced annual rates of return of +10.4%, +9.2%, -19.5%, +15.9%, +10.3%, -1.8%, +10.1%, +12.2% and +1.6% for the complete calendar years 2006 to 2014 respectively. All returns in this report are stated net of investment management expenses, consistent with industry standards.

## Overview of Performance

The balance of the fund as at December 31, 2014 was US$97,660,448. During the financial year to December 31, 2015, the Trust Fund disbursed (US$6,099,329) to cover the funding requests of the Court and the Commission, and received net remittances pertaining to pensions of US$186,312 from the Court. The balance of the fund at the end of the financial year 2015 was US$87,767,220, after disbursements to and from the Court and the Commission, of which the portfolio was US$87,718,728. This net movement in market value reflected an annual return of -3.4% for 2015, bringing the annualised and cumulative net returns since inception (April 2005) to +4.2% p.a. and +54.4% respectively. The net balance of the fund at the end of the financial year 2015, excluding amounts due to the Court with respect to non-judicial staff pensions, was US$85,867,220.

## The Markets in 2015

The first half of 2015 was dominated by new tensions in the Middle East and ongoing negotiations between Greece and the EU. The US Federal Reserve continued to maintain its stance that interest rate increases would only commence when the economy exhibited stronger signs of sustainable recovery. While the first quarter saw weaker than expected US economic data, there was a reversal in the second quarter of 2015 as data indicated a strengthening US economy. The US dollar rally that began in June 2014 extended into the first quarter 2015, while a surplus in supply continued to weigh on commodity markets. Despite political risks, including the impact of a possible Greek exit from the Eurozone, coupled with the strong US dollar, non-US developed and emerging market equities outperformed US equities in the first half of the year. Market volatility, as measured by the VIX[1], remained relatively steady within the half year, opening the period at 19.20, reaching a half year high of 22.39 in mid-January, before ultimately ending with a closing value of 18.23 on June 30, 2015.

Financial markets suffered in the latter half of the year. Global equities fell sharply in the third quarter as uncertainty over slowing economic growth in China and the timing of the US Fed's interest rate increases, coupled with the impact of the continued strong dollar on commodities, exacerbated investors' concerns over the

[1] Chicago Board Options Exchange Volatility Index

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global economy. Market volatility exhibited wild swings within the third quarter with the VIX moving in the space of five weeks from a low of 11.95 for the year on July 17, 2015 to a high of 40.74 on August 24, 2015, following the reaction of global financial markets to the unexpected devaluation in the Chinese Yuan. On December 16, 2015, the US Fed increased its policy rate by 0.25% to a range of 0.25% - 0.50%, the first such rate increase since 2006. Developed equity markets recovered moderately in the last quarter of the year, enjoying a temporary rally following the rate increase, but quickly succumbed to pressure over growth concerns in China, a further slide in oil prices and the increased geopolitical risks following terror attacks in Paris, France. Chart 1 below, which shows the movement in the VIX, the MSCI ACWI index and crude oil prices for the calendar year 2015, provides a visual representation of the effects on financial markets of the global events described above.

Globally, equity markets ended the year with slightly mixed, but mainly negative returns. Table 1 below highlights the quarterly and annual returns on major indices for 2015. In US equity markets, the broad DJ US Total Stock Market Index and the S&P 500 posted gains of +0.4% and +1.4% respectively for the year 2015. Non-US developed market and emerging market equities erased gains earned in the first half of the year with the benchmark indices, MSCI EAFE and MSCI EM respectively, ending the year with returns of -0.8% and -14.9% respectively. Natural resources also provided investors with negative returns in the face of a strong US dollar and continuing conditions of oversupply relative to demand, with the benchmark S&P Natural Resources index posting a loss of -24.3% in 2015. Global fixed income also came under pressure throughout the year, posting three quarterly losses and providing investors with a -3.6% return, as measured by the Citi WGBI.

**Chart 1: Movements in the VIX, the MSCI ACWI (MXWD) index, and crude oil price (CLA) for the year 2015**


Source: Bloomberg

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**Table 1: Major Indices - Quarterly and Annual Returns 2015**

| Index | Q1 2015 | Q2 2015 | Q3 2015 | Q4 2015 | 2015 |
|---|---|---|---|---|---|
| **MSCI ACWI** | + 2.3% | + 0.3% | - 9.5% | + 5.0% | - 2.4% |
| **DJ US Total** | + 1.8% | 0.0% | - 7.3% | + 6.3% | + 0.4% |
| **S&P 500** | + 1.0% | + 0.3% | - 6.4% | + 7.0% | + 1.4% |
| **MSCI EAFE** | + 4.9% | + 0.6% | - 10.2% | + 4.7% | - 0.8% |
| **MSCI Emerging Markets** | + 2.2% | + 0.7% | - 17.9% | + 0.7% | - 14.9% |
| **Citi WGBI** | - 2.5% | - 1.5% | + 1.7% | - 1.2% | - 3.6% |
| **S&P Natural Resources** | - 1.5% | - 2.7% | - 19.6% | - 1.8% | - 24.3% |

Source: Mercer Hammond Monthly Market Summaries 2015

### Management of the Portfolio

The Trust Fund is an institutional endowment fund that, assisted through the services provided by its investment advisor, Mercer Investment Consulting, manages the portfolio with the long-term focus necessary to achieve the mandate of funding the Court and the Commission in perpetuity. The portfolio has been structured to attain its target rate of return over the long-term, within acceptable risk parameters, and is diversified across a selection of growth, risk-reducing and inflation-protection asset classes. The benefits of maintaining a diversified strategic long-term asset allocation have been proven throughout the varying market conditions experienced since inception.

The continuing commitment to the long-term allocation has rewarded the Trust Fund with positive returns in seven of the ten full calendar years of existence (2006 to 2015), with greater than 9% positive returns experienced in six of the seven positive years.

In a year in which most major indices produced negative returns, some in double digits, as highlighted in the index returns provided in Table 1 above, the continuing commitment to its diversified long-term strategic asset allocation has mitigated the effects on the Trust Fund with a return of -3.4% in 2015. The total rates of return earned by the portfolio for the complete calendar years since inception are shown in Table 2.

# REPORT OF THE BOARD OF TRUSTEES

**Table 2: Historical Fund Returns**

| January 1 to December 31 | Period Return | Annualised Rate from Inception |
|---|---|---|
| **2006** | + 10.4% | + 9.3% |
| **2007** | + 9.2% | + 9.3% |
| **2008** | - 19.5% | + 0.7% |
| **2009** | + 15.9% | + 3.5% |
| **2010** | + 10.3% | + 4.7% |
| **2011** | - 1.8% | + 3.7% |
| **2012** | + 10.1% | + 4.5% |
| **2013** | + 12.2% | + 5.4% |
| **2014** | + 1.6% | + 5.0% |
| **2015** | - 3.4% | + 4.2% |

The portfolio allocation as at December 31, 2015 is provided in Chart 2:

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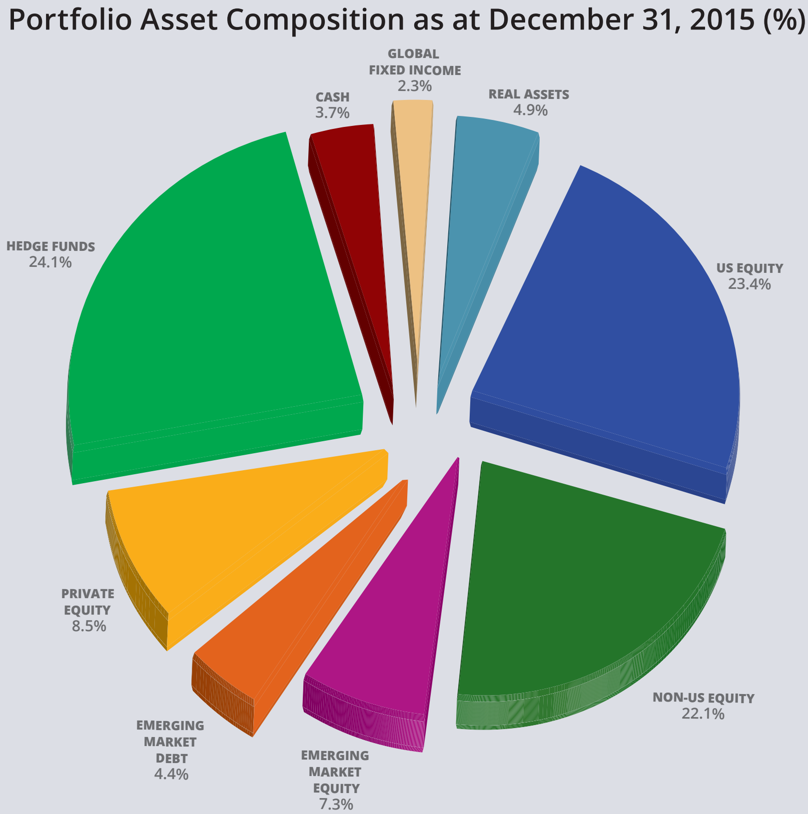
**Chart 2: Portfolio Asset Composition as at December 31, 2015 (%)**




Hedge fund of funds investments are expected to continue to fulfil a vital role in risk reduction without significantly sacrificing return in the long run, and can create value through active management across different sectors. Hedge fund of funds investments continue to be preferred compared to other risk-reducing assets (cash, fixed income) because, amongst other factors, the return outlook for the latter remains comparatively low. The Trust Fund's holdings in hedge funds of funds increased as a percentage of the overall portfolio in 2015 as compared to 2014, as a result of positive performance relative to other segments of the portfolio.

Equities, made up of US, non-US developed markets, and emerging markets, comprise the majority of the portfolio. While rebalancing actions were undertaken in 2015 which benefitted the portfolio as profits were realised and reinvested, these growth assets continue to be maintained at a level consistent with the long-term strategic asset allocation of the portfolio, which was structured to achieve the long-term target rate of return within risk constraints.

The Trust Fund has consistently adopted a disciplined approach to rebalancing the portfolio in scenarios of increasing asset prices, while maintaining the long-term focus of the Fund. This disciplined approach will continue to provide the benefit of crystallising unrealised gains, whilst potentially reducing volatility in the Fund's returns. Correspondingly, by reinvesting proceeds in underperforming asset classes, which are attractively valued for future performance, the Trust Fund may be able to enhance its long-term return potential.

The phased investment in private equity continued as planned into 2015. This sector is expected to continue to contribute positively to return, as the target of a diversified portfolio of private equity fund of funds investments is built to its full allocation.

Real assets, which include commodities, are viewed as an inflation protection hedge. While a slowdown in China's growth in 2015 had an adverse effect on commodity exporting economies, continued growth in the US, the continuation of loose monetary policy in the EU, and the expectation for improving economic data in the Eurozone support the continued allocation to inflation protection assets.

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**Movement in Fund Balance**

The Fund experienced a net decrease in market value after disbursements from US$97,660,448 at the start of the year to end 2015 at US$87,767,220, producing a net return of -3.4% for the period.

**Table 3: Statement of Movement in Fund Balance – 2015, 2014 and From Inception (April 2005)**

| | 2015 | 2014 | April 2005 to December 2015 |
|---|---|---|---|
| **Opening Fund Balance** | **97,660,448** | **100,449,670** | **100,946,142** |
| Additional Contributions | 0 | 1,017,778 | 13,121,518 |
| | 97,660,448 | 101,467,446 | 114,067,660 |
| Interest & Dividends[2] | 998,579 | 1,374,116 | 19,010,091 |
| Realised Gains/(Losses) | 2,253,223 | 1,382,124 | 18,871,064 |
| Net Gain/(Loss) in Fair Value on Investments | (6,214,143) | (1,108,212) | 2,827,711 |
| Investment Income | (2,962,341) | 1,648,028 | 40,708,866 |
| Investment Management Expenses | (360,500) | (375,065) | (3,918,942) |
| Net Investment Income | (3,322,841) | 1,272,963 | 36,789,924 |
| Trust Fund Administrative Expenses[3] | (657,370) | (631,676) | (7,012,397) |
| **Net Gain/(Loss) in Fund Before Disbursements** | **(3,980,211)** | **641,287** | **29,777,527** |
| Disbursements to Court & Commission | (6,099,329) | (5,447,171) | (58,619,589) |
| Net Receipts from Court & Commission | 186,312 | 998,886 | 2,541,622 |
| Net Change in Fund Balance (excluding Additional Contributions) | (9,893,228) | (3,806,998) | (26,300,440) |
| **Fund Balance @ December 31** | **87,767,220** | **97,660,448** | **87,767,220** |
| Due to Court re non-judicial staff pensions | (1,900,000) | (1,676,000) | (1,900,000) |
| **Closing Net Fund Balance** | **85,867,220** | **95,984,448** | **85,867,220** |

Realised Gains of US$2,253,223 were recorded within the financial year 2015, arising from trading and rebalancing actions, which crystallised mark to market gains on assets for which there had been a significant increase in market value.

Investment management expenses decreased by US$14,565 (-4%), largely due to falling asset values during the latter half of the year. The Trust Fund continued its trend of prudent management of administrative expenses, showing a minor increase of U$25,694 (+4%) in expenditure in the current financial year. The ratio of investment management expenses plus administrative expenses of the Trust Fund expressed as a percentage of the average fund balance was 1.1%, in line with the

[2]Including Net Foreign Exchange Gains/(Losses)
[3]Including Depreciation

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average maintained in all previous years since inception of the portfolio in 2005, and consistent with expense ratios for international endowment funds.

The Fund recorded a Net Loss in the Fund before Disbursements of (US$3,980,211) for the financial year. This brought the cumulative Net Gain in the Fund before Disbursements since inception to US$29,777,527. Disbursements to fund the expenses of the Court and the Commission amounted to US$6,099,329 in the financial year ended December 31, 2015, bringing cumulative disbursements since inception to US$58,619,589. The Trust Fund received US$186,312 from the Court during the financial year which comprised net remittances pertaining to judges' and non-judicial staff pensions. The Fund experienced a net change in 2015, after disbursements and total expenses, of (US$9,893,228).

The fund balance, after disbursements to and receipts from the Court and the Commission of US$6,099,329 and US$186,312 respectively, investment income of (US$2,960,341) and total expenses of the Trust Fund (including investment management expenses) of US$1,017,870 in 2015, amounted to US$87,767,220 at the end of the financial year.

**Outlook for 2016**

The major themes emerging for 2016 are:

- Geopolitical risks
- Diverging monetary policies
- A strong US dollar
- Pressure on emerging markets

Global economic growth in 2016 is likely to be similar to that seen in 2015. Global economic recovery is expected to continue in 2016, with the US economy expected to expand by 2.5% in 2016, according to Bloomberg analysts, the same as forecasted growth in 2015. US Presidential elections will take place in 2016, and there could be cause for further concerns if financial markets react adversely to the election result. The Eurozone is expected to grow by 1.7% in 2016, up from forecasted growth of 1.5% in 2015, in the face of support from monetary policy makers, despite rising social and economic pressures from the Syrian migrant crisis, among other factors. Discussions at the February 2016 meeting of EU leaders were dominated by a deal which strengthens Britain's special status in the EU and the ongoing migration and refugee crisis. The deal with the UK addressed all of Prime Minister Cameron's concerns without compromising EU fundamental values, a beneficial outcome which would go a long way towards alleviating British opposition to EU membership. The new agreement will be put to a referendum in Britain on 23 June 2016. Growth prospects for emerging market economies are mixed, due to continued pressures from a strong US dollar and the rising US interest rate environment.

The US Federal Reserve Chairman previously committed to a rising interest rate environment when economic indicators pointed to sustainable growth and the first such rate increase since 2006 took place on December 16, 2015. This marked the first divergence in international monetary policies among the world's major central banks in the last seven years. Concern around potential policy errors in the timing and pace of interest rate increases will be a factor in financial market performance going forward.

The potential problems arising from continued US dollar strength and a rising interest rate environment within the US could have the most significant impact on emerging market economies dependent on cheap foreign capital to fund growth. Economies which have taken steps to reform their economies away from such dependence, such as India, Mexico, and Indonesia, are better placed to outperform those that still retain relatively high current account deficits, such as Brazil, Argentina, and Russia. Brazil is expected to enter its second year of negative GDP growth in 2016. China, the world's second largest economy, expects GDP growth of 6.5% in 2016 according to Bloomberg's consensus forecasts, continuing its downward trend over the last 3 years. China continues to reform its economy toward domestic consumption drivers with some evidence of success, but policy missteps were prevalent in China in 2015, ranging from controversial government intervention in stock markets, to a yuan devaluation that had global impact, and devastating fiscal reforms that had to be eased. On the positive side, Chinese policy makers have proven themselves quick to respond and correct policy missteps.

Commodity prices are defined in US dollars, and a strong dollar typically results in lower demand, as buyers scale back purchases in the face of higher prices. The strong US dollar in 2015 exacerbated the problem of excess supply in oil markets, resulting in further downward pressure on oil prices. Continued low oil prices will provide a boost to the developed world economies and major emerging market energy importers such as India and China, but oil-exporting economies, such as Russia and Venezuela, will be under pressure, raising geopolitical risk. Oil supply and demand are traditionally inelastic in the short run. OPEC's reluctance thus far to continue its previous practice of raising and lowering output levels to stabilise short-term supply and demand imbalances, and by extension price levels, in the face of competition from shale oil producers,

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will continue to exert downward pressure on oil prices. OPEC's production is likely to remain elevated in 2016, as Iran reintroduces supply and Saudi Arabia continues to sell crude oil below break-even prices in an attempt to recapture market share, unless some agreement among global producers can be reached.

Fears of a further slowdown in China's growth, coupled with a lack of confidence in the official data, continue to drag on commodity markets. While expectations for GDP growth in developing economies, particularly the commodity-demand economies, are likely to be beneficial to the commodity markets, current expectations are that conditions of excess supply versus demand will continue into 2016, exerting further downward pressure on prices in the near term. Continued growth in the US, the continuation of loose monetary policy in the EU, and the expectation for improving economic data in the Eurozone support an outlook for somewhat higher inflation in developed markets in the medium term.

The potential risks in 2016 seem relatively high at the onset, including diverging monetary policies across major economies, political and terrorism risks, pressure on already fragile oil-producing economies such as Russia and Venezuela, and the uncertainty of the timing and magnitude of US interest rate increases and their consequent potential effect on emerging market economies.

The Trust Fund's portfolio is managed prudently with a long-term focus, with a strategic asset allocation designed to weather normal market cycles whilst seeking to protect existing capital. Despite this strategic positioning, the benefits of which have been proven in periods of market uncertainty, the portfolio is not immune to the impact of short-term market conditions, and negative fluctuations in value and return may occur.

**Summary**

The Trustees continue to manage the assets of the Trust Fund in keeping with its stated investment philosophy and the long-term objective of funding the Court and the Commission in perpetuity. In 2015, the Trustees repositioned the portfolio appropriately, whilst remaining cognizant of the long-term goal.

Contributions received from the participating Member Governments and the Government of the Commonwealth of the Bahamas have amounted to US$114,067,660 since inception. After total net disbursements to the Court and the Commission of US$56,077,967 and total expenses of the Trust Fund of US$10,931,339 since inception, the balance of the Fund as at December 31, 2015 is US$87,767,220.

The Trust Fund recorded a return of -3.4% for 2015, which brought the annualised and cumulative net returns since inception (April 2005) to +4.2% p.a. and +54.4% respectively.

The importance of maintaining a diversified long-term strategic asset allocation has been proven throughout the varying market conditions experienced since the Trust Fund's inception in 2005. The Trust Fund's portfolio is appropriately spread across different asset classes, and the resultant diversification effect reduces the inherent risk of the portfolio. The Board of Trustees remains confident that the strategic asset allocation of the portfolio will enable the achievement of the Trust Fund's long-term objectives, despite potential variability in annual returns.

**Appreciation**

I would like to thank the Board of Trustees, and its various Committees, for continuing to employ a prudent and proactive approach in guiding the Trust Fund along the path of fulfilling its long-term objective. The Board would like to record appreciation for the continued contribution of our independent investment adviser, Mercer Investment Consulting. The Board would also like to extend appreciation to the Management Team for their continued diligence and professional commitment throughout the year.

**Dr. Linton Lewis**
**Chairman**

# INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEES OF CARIBBEAN COURT OF JUSTICE TRUST FUND

We have audited the accompanying financial statements of Caribbean Court of Justice Trust Fund (the "Trust Fund") which comprise the statement of financial position as at 31 December 2015, and the statements of comprehensive income, changes in fund balance and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

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

Ernst & Young

**Port of Spain,**
**TRINIDAD:**
**25 July, 2016**

# STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

| | Notes | 2015 US$ | 2014 US$ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 4 | **2,489,121** | 5,691,068 |
| Accounts receivable | | **6,296** | 12,779 |
| Investments at fair value through profit or loss | 6 | **85,187,120** | 91,818,212 |
| Interest receivable | | **42,504** | 53,870 |
| Other assets | | **11,621** | 6,043 |
| Fixed assets | 8 | **101,387** | 145,797 |
| Total assets | | **87,838,049** | 97,727,769 |
| **Liabilities** | | | |
| Accounts payable and accrued expenses | | **70,829** | 67,321 |
| Due to Court - non-judicial staff pensions | 16 | **1,900,000** | 1,676,000 |
| Total liabilities | | **1,970,829** | 1,743,321 |
| **Total net assets** | | **85,867,220** | 95,984,448 |
| **Fund balance** | | | |
| Capital contributions | 9 | **114,067,660** | 114,067,660 |
| Retained deficit | | **(28,200,440)** | (18,083,212) |
| **Total fund balance** | | **85,867,220** | 95,984,448 |

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

These financial statements were approved by the Board of Trustees and authorised for issue on 25 July 2016 and are signed on their behalf by:

Trustee:

Trustee:

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015 US$ | 2014 US$ |
|---|---|---|---|
| **Income** | | | |
| Interest and other income | | **217,398** | 328,115 |
| Dividends | | **793,195** | 977,693 |
| Realised gains on investments | | **2,253,100** | 1,382,124 |
| Gain on sale/disposal of fixed assets | | **123** | – |
| Net loss in fair value on investments at fair value through profit or loss | 2.5.c | **(6,214,143)** | (1,108,212) |
| | | **(2,950,327)** | 1,579,720 |
| **Expenditure** | | | |
| Investment management expenses | | **360,500** | 375,065 |
| Professional fees | | **28,238** | 25,475 |
| Staff costs | 10 | **365,129** | 353,163 |
| Board expenses | 10 | **75,402** | 63,700 |
| Property related expenses | | **87,307** | 84,512 |
| General administrative expenses | | **69,560** | 75,827 |
| Depreciation | 8 | **31,734** | 28,999 |
| | | **1,017,870** | 1,006,741 |
| **Net operating (loss)/income** | | **(3,968,197)** | 572,979 |
| Net foreign exchange (loss)/gain | | **(12,014)** | 68,308 |
| **Net (loss)/income for the year** | | **(3,980,211)** | 641,287 |
| **Other comprehensive income** | | **–** | – |
| **Total comprehensive (loss)/income for the year** | | **(3,980,211)** | 641,287 |

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

# STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 31 DECEMBER 2015

| | Capital contributions US$ | Retained deficit US$ | Fund balance US$ |
|---|---|---|---|
| Balance at 1 January 2014 | 113,049,884 | (13,745,215) | 99,304,669 |
| Third party contributions (Note 9) | 1,017,776 | – | 1,017,776 |
| Total comprehensive income for the year | – | 641,287 | 641,287 |
| Change in accumulated value due to Court (Note 16) | – | (227,057) | (227,057) |
| Transfers to the Court (Note 17) | – | (5,447,171) | (5,447,171) |
| Transfers from the Court (Note 17) | – | 694,944 | 694,944 |
| **Balance at 31 December 2014** | 114,067,660 | (18,083,212) | 95,984,448 |
| Balance at 1 January 2015 | **114,067,660** | **(18,083,212)** | **95,984,448** |
| Total comprehensive income for the year | **–** | **(3,980,211)** | **(3,980,211)** |
| Change in accumulated value due to Court (Note 16) | – | **(37,688)** | **(37,688)** |
| Transfers to the Court (Note 17) | – | **(6,099,329)** | **(6,099,329)** |
| Transfers from the Court (Note 17) | – | – | – |
| **Balance at 31 December 2015** | **114,067,660** | **(28,200,440)** | **85,867,220** |

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

# STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015 US$ | 2014 US$ |
|---|---|---|---|
| **Operating activities** | | | |
| Net (loss)/income for the year | | **(3,980,211)** | 641,287 |
| Adjustments to reconcile net income to net cash flows: | | | |
| Depreciation | 8 | **31,734** | 28,999 |
| Gain on sale of fixed asset | | **(123)** | – |
| Interest income | | **(217,398)** | (328,115) |
| Dividend income | | **(793,195)** | (977,693) |
| Net foreign exchange differences | | **23,847** | (47,216) |
| Decrease in accounts receivable and other assets | | **905** | 14,363 |
| Increase/(decrease) in accounts payable and accrued expenses | | **3,508** | (41,278) |
| Other movements included in net income | | **(4,189)** | 2,228 |
| Purchase of investments | | **(12,621,144)** | (15,302,553) |
| Redemption of investments | | **15,278,799** | 17,998,023 |
| Realised and unrealised loss/(gains) on investments | | **3,961,043** | (273,911) |
| | | **1,683,576** | 1,714,134 |
| Interest received | | **220,796** | 338,580 |
| Dividends received | | **793,195** | 977,693 |
| **Net cash flows generated from operating activities** | | **2,697,567** | 3,030,407 |
| **Investing activities** | | | |
| Purchase of fixed assets | 8 | **(2,811)** | (60,581) |
| Proceeds from disposal of fixed assets | | **16,314** | – |
| **Net cash flows generated from/(used in) investing activities** | | **13,503** | (60,581) |
| **Financing activities** | | | |
| Third party contributions | 9 | **–** | 1,017,776 |
| Funds received from the Court-non-judicial staff pensions | 16 | **186,312** | 303,943 |
| Transfers to the Court | 17 | **(6,099,329)** | (5,447,171) |
| Transfers from the Court | 17 | **–** | 694,944 |
| **Net cash flows used in financing activities** | | **(5,913,017)** | (3,430,508) |
| **Net decrease in cash and cash equivalents** | | **(3,201,947)** | (460,682) |
| **Cash and cash equivalents at beginning of the year** | | **5,691,068** | 6,151,750 |
| **Cash and cash equivalents at end of the year** | | **2,489,121** | 5,691,068 |

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

## 1. General information and principal activities

The Caribbean Court of Justice Trust Fund (the Trust Fund) was established by the CARICOM Heads of Government (the Members) in accordance with the "Revised Agreement establishing the Caribbean Court of Justice Trust Fund" (the Agreement) effective 27 January 2004. The Board of Trustees was inaugurated at its first Meeting on 22 August 2003, and operations commenced on 1 May 2004.

The Trust Fund operates as a legal entity under the Agreement which is registered in accordance with the provisions of Article 102 of the Charter of the United Nations. The Trust Fund is not amenable to the jurisdiction of any one sovereign state. It is domiciled in the Republic of Trinidad and Tobago, and its registered office is at 22 Cornelio Street, Woodbrook, Port of Spain, Trinidad and Tobago. The Trust Fund currently employs six (6) members of staff.

The Agreement establishes certain privileges and immunities to enable the Trust Fund and its Officers to discharge its duties and responsibilities. In accordance with Article XII of the Agreement, the Trust Fund, its assets, property, income and its operations and transactions are exempt, in its country of domicile, from all taxation, all customs duties on goods imported for its official use and all other imports. The privileges and immunities are encompassed in the Headquarters Agreement established with the Government of Trinidad and Tobago.

The purpose of the Trust Fund is to provide the resources necessary to finance the capital and operating budget of the Caribbean Court of Justice (the Court) and the Regional Judicial and Legal Services Commission (the Commission) in perpetuity. Its principal activity is the management of an endowment fund. The investment objective is to seek medium to long-term capital growth through investment in a diversified portfolio of tax-efficient international instruments, including equity and equity-related instruments, alternative investment securities and fixed income, in order to produce an optimal net long-term rate of return with reasonable security of capital.

The Trust Fund has engaged Mercer Hammond Investment Consulting Inc. as independent Investment Adviser. The Trust Fund's Custodian is State Street Bank and Trust Company.

The Trust Fund enters into direct agreements with asset managers and also makes direct purchases of appropriate mutual funds and other approved financial instruments. Each asset manager invests and reinvests the securities, cash and/or other investments held, in accordance with the Trust Fund's investment objectives. Investments may be made in, but are not limited to, securities of any kind, including stocks, warrants, options, rights, corporate or government bonds or notes issued by United States (US) or foreign issuers, and shares of money market mutual funds.

## 2. Significant accounting policies

### 2.1 Basis of preparation

These financial statements are presented in US dollars (US$), the Trust Fund's functional and presentation currency, and have been prepared in accordance with International Financial Reporting Standards (IFRS) on a historical cost basis, except for financial assets measured at fair value through profit or loss.

### 2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the financial statements are set out below and have been consistently applied to the years presented, unless otherwise stated.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**2. Significant accounting policies** (continued)

**2.2 Changes in accounting policies** (continued)

**New standards and amendments/revisions to published standards and interpretations effective in 2015.**

The following amendments/revisions to published standards are mandatory for accounting periods beginning on or after 1 January 2015:

**a) Annual Improvements Process (AIP) IFRS 13 – Fair Value Measurement – Scope of paragraph 52 (Portfolio exception)**

The amendment clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

The amendment must be applied prospectively.

**2.3 New standards and amendments/revisions to published standards and interpretations effective in 2015 but not applicable to the Trust Fund**

The following new and revised IFRSs which have been issued do not apply to the activities of the Trust Fund:

- IAS 19 – Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 (Effective 1 July 2014)
- Annual Improvements Process (AIP) 2010-2012 cycle (Effective 1 July 2014)
  - IFRS 2 – Shared Based Payment – Definitions of Vesting Conditions
  - IFRS 3 – Business Combinations – Accounting for Contingent Consideration in a Business Combination
  - IFRS 8 – Operating Segments – Aggregation of Operating Segments
  - IFRS 8 – Operating Segments – Reconciliation of the total of the Reportable Segments' Assets to the Entity's Assets
  - IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation method – Proportionate Restatement of Accumulated Depreciation/Amortisation
  - IAS 24 – Related Party Disclosures – Key Management Personnel
- Annual Improvements Process (AIP) 2011-2013 cycle (Effective 1 July 2014)
  - IFRS 3 – Business Combinations – Scope exceptions for joint ventures
  - IFRS 40 – Investment Property – Interrelationship between IFRS 3 and IAS 40 (Ancillary services)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**2. Significant accounting policies** (continued)

**2.4 New interpretations and revised/amended standards that are not yet effective and have not been early adopted by the Trust Fund**

These standards are not yet effective for annual periods beginning on or after 1 January 2015. These changes are currently being evaluated by Management.

- IFRS 10, IFRS 12 and IAS 28 – Amendments – Investment Entities: Applying the Consolidation exception (Effective 1 January 2016).
- IFRS 10 and IAS 28 – Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28
- IFRS 11 – Amendments – Accounting for acquisitions of interests in joint operations (Effective 1 January 2016)
- IFRS 14 – Regulatory Deferral Accounts (Effective 1 January 2016)
- IAS 1 – Amendments – Disclosure Initiative (Effective 1 January 2016)
- IAS 16 and IAS 38 – Amendments – Clarification of acceptable methods of depreciation and amortisation (Effective 1 January 2016)
- IAS 16 and IAS 41 – Amendments – Agriculture: Bearer Plants (Effective 1 January 2016)
- IAS 27 – Amendments – Equity method in separate financial statements (Effective 1 January 2016)
- Annual Improvements Process (AIP) (Effective 1 January 2016)
  - IFRS 5 – Non-current assets held for sale and Discontinued Operations – Changes in methods of disposal
  - IFRS 7 – Financial Instruments: Disclosures – Servicing contracts
  - IFRS 7 – Financial Instruments: Disclosures – Applicability of the offsetting disclosures to condensed interim financial statements
  - IAS 19 – Employee Benefits – Discount rate: Regional market issue
  - IAS 34 – Interim Financial Reporting – Disclosure of information ‘elsewhere in the interim financial report’
- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018)
- IFRS 16 Leases (Effective 1 January 2019)

**2.5 Summary of significant accounting policies**

**a) Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less and are carried at cost, which approximates fair value.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**2. Significant accounting policies** (continued)

**2.5 Summary of significant accounting policies** (continued)

**b) Financial instruments**

The Trust Fund's financial instruments (financial assets and financial liabilities) are recognised in its statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular purchases and sales of investments are recognized on the trade date, the date on which the Trust Fund commits to purchase or sell the asset.

A financial asset is derecognized when the rights to receive the cash flows from the asset have expired or where all the risks and rewards of ownership of the asset have been transferred.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

IFRS 9: Financial Instruments (as issued in July 2014)

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Early application of previous versions of IFRS 9 (2009, 2010 and 2012) is permitted if the date of initial application is before 1 February, 2015.

In 2012 the Trust Fund elected to early adopt IFRS 9: Financial Instruments: Classification and Measurement (2010) in advance of the then mandatory date of 1 January 2015. The Trust Fund upon adoption elected to apply the exemption given in the transitional provision for early adoption and hence did not restate comparative information in the year of initial application.

In July 2014, the IASB issued the final version of IFRS 9: Financial Instruments (IFRS 9) which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) and all previous versions of IFRS 9. IFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting.

**c) Financial assets**

The Trust Fund's financial assets include investment securities, cash and cash equivalents (cash, money market accounts and income funds), interest receivable and other current assets.

IFRS 9 requires all financial assets, on initial recognition, to be classified as measured at either amortised cost or fair value, depending on the business model (refer to Note 6) for managing the financial assets and the contractual cash flows.

In accordance with its business model, the Trust Fund's financial assets are classified as at fair value through profit or loss.

Initial recognition and subsequent measurement

The Trust Fund's financial assets are initially measured at fair value. All recognised financial assets are subsequently measured at either amortised cost or fair value depending on their classification.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**2. Significant accounting policies** (continued)

**2.5 Summary of significant accounting policies** (continued)

**c) Financial assets** (continued)

Initial recognition and subsequent measurement (continued)

Transaction costs that are directly attributable to the acquisition of financial assets classified at fair value through profit or loss are recognised immediately in profit or loss.

If the asset is not subsequently measured at fair value through profit or loss, then the initial measurement is at fair value plus transaction costs that are directly attributable to the acquisition of the asset.

Reclassification

If the Trust Fund's business model for managing its financial assets changes, those assets must be reclassified. Such reclassification shall be applied prospectively from the reclassification date, and any previously recorded gains, losses or interest shall not be restated.

For financial assets measured at fair value which are reclassified, the fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recorded in profit or loss.

For financial assets measured at amortised cost which are reclassified, the fair value at the reclassification date becomes its new carrying value.

Financial assets at amortised cost

In accordance with IFRS 9, only debt instruments are measured at amortised cost. All other financial assets are measured at fair value.

The Trust Fund may irrevocably elect at initial recognition to designate a debt instrument that meets the amortised cost criteria as at fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch had the debt instrument been measured at amortised cost.

Only debt instruments measured at amortised cost are tested for impairment. Debt instruments are measured at amortised cost, less impairment loss if applicable, if both of the following criteria are met:

(i) the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows; and

(ii) the contractual terms of the instrument represent solely payments of principal and interest on the principal amount outstanding. If either of the two amortised cost criteria is not met, debt instruments are to be classified as at fair value through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

2. **Significant accounting policies** (continued)

2.5 **Summary of significant accounting policies** (continued)

c) **Financial assets** (continued)

Financial assets at amortised cost (continued)

Subsequent to initial recognition, should the objective of the business model change such that the amortised cost criteria are no longer met, the Trust Fund is required to reclassify the debt instruments from amortised cost to fair value through profit or loss. Reclassification of debt instruments that are designated as at fair value through profit or loss on initial recognition is not allowed.

Interest is recognized on an effective interest basis for debt instruments measured at amortised cost. Interest income is recognized in profit or loss and is included in the line item captioned "Interest income".

Financial assets at fair value through profit or loss

Financial assets other than those classified as financial assets at amortised cost are classified as at fair value through profit or loss (FVTPL), and subsequently measured at fair value, with any gains or losses arising on re-measurement of fair value recognised in profit or loss, and reflected in the line item captioned "Net gain/(loss) in fair value on investments at fair value through profit or loss".

Debt instruments that do not meet the amortised cost criteria described above, or that meet the criteria, but the Trust Fund has chosen to designate as at fair value through profit or loss at initial recognition, are measured at FVTPL. Interest income on debt instruments at FVTPL is recognised in profit or loss under the line item captioned "Interest income".

Investments in equity instruments are mandatorily classified and measured at FVTPL. Equity investments that are held for trading must be measured at FVTPL. A financial asset is held for trading if:

(i) it has been acquired principally for the purpose of selling it in the near term, or

(ii) on initial recognition, it is part of a portfolio of identified financial instruments that the Trust fund manages together and has evidence of a recent actual pattern of short-term profit taking.

For equity investments that are not held for trading, the Trust Fund may elect on initial recognition to designate those investments as at fair value through other comprehensive income (FVTOCI) and to present gains and losses on those instruments in other comprehensive income.

Dividend income on investments in equity instruments at FVTPL is recognised in profit or loss under the line item captioned "Dividends".

Financial assets at fair value through other comprehensive income

Designation as at fair value through other comprehensive income (FVTOCI) is not permitted if an equity instrument is held for trading.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

2. **Significant accounting policies** (continued)

2.5 **Summary of significant accounting policies** (continued)

c) **Financial assets** (continued)

Financial assets at fair value through other comprehensive income (continued)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value, with fair value unrealised and realised gains and losses recognised in other comprehensive income and accumulated in revaluation reserves.

For equity instruments that are not held for trading, the Trust Fund may make an irrevocable election at initial recognition, on an instrument-by-instrument basis, to designate them as at FVTOCI, with fair value unrealised and realised gains and losses presented through other comprehensive income.

Gains or losses on equity instruments measured at FVTOCI can never subsequently be reclassified to profit or loss, and no impairments are recognised in profit or loss. When the asset is disposed of, the cumulative gain or loss previously accumulated in revaluation reserves is reclassified to retained earnings, and not to profit or loss.

Dividends earned for such investments are recognised in profit or loss and are included in the line item captioned “Dividends”.

d) **Financial liabilities**

The Trust Fund’s financial liabilities include accounts payables, accrued liabilities and amounts due to the Court.

Initial recognition and subsequent measurement

The Trust Fund’s financial liabilities are initially measured at fair value and are subsequently measured at either FVTPL or at amortised cost. Transaction costs that are directly attributable to the issue of financial liabilities that are not at FVTPL, are deducted from the fair value of the financial liability.

For changes in fair value of a financial liability designated at FVTPL which are attributable to changes in the credit risk of that liability, that part of a fair value change due to the Trust Fund’s own credit risk will be recorded in other comprehensive income rather than in the income statement, unless this creates an accounting mismatch.

e) **Fair value measurement**

The Trust Fund measures its investments in financial instruments at fair value at each reporting date. Fair value related disclosures for financial instruments that are measured at fair value are reflected in Note 7.

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

## 2. Significant accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### e) Fair value measurement (continued)

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in organized financial markets is based on their quoted market prices for those instruments at the reporting date. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, and the instrument is not actively traded on recognized exchanges, fair value is determined using valuation techniques (e.g. discounted cash flow analysis or industry accepted valuation models) that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Where discounted cash flow techniques are used, future cash flows are based on best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

For financial reporting purposes, fair value measurements are categorised within the fair value hierarchy into Level1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety (Refer to Note 7), which are summarised as follows:

- Level 1 inputs are quoted market prices (unadjusted) in active markets for identical instruments that can be accessed at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the date of the event or change in circumstances during the reporting period.

#### f) Fixed assets

Fixed assets are stated at cost net of accumulated depreciation. Depreciation is provided for at rates expected to write off the cost of the assets over their estimated useful lives. Leasehold improvements are depreciated over the period of the lease.

Depreciation on all classes of fixed assets is computed as follows:

| | Rate | Basis |
|---|---|---|
| Motor vehicles | 25% | Reducing balance |
| Equipment, furniture and fittings | 12 ½% - 50% | Straight line |
| Leasehold improvements | 33 ⅓% | Straight line |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**2. Significant accounting policies** (continued)

**2.5 Summary of significant accounting policies** (continued)

**f) Fixed assets** (continued)

Gains and losses on disposal of fixed assets are determined by reference to their carrying amounts and are taken into account in determining net income. Costs of repairs are charged to the statement of profit or loss and comprehensive income when the expenditure is incurred.

**g) Operating lease**

Operating leases are leases that do not transfer substantially all the risks and rewards of ownership to the lessee. Payments made under operating leases are recognized as an expense in the statement of profit or loss and comprehensive income on a straight-line basis over the period of the lease.

The Trust Fund has entered into a one year operating lease for the occupation of its registered office (refer to Note 18). Either party has the option to terminate the agreement by serving notice in writing.

**h) Capital contributions**

Members' contributions are accounted for on an accruals basis. Third party contributions are received from the Government of the Commonwealth of the Bahamas which is not a participant in the Court. As described in Note 9, it was agreed amongst the Members that the Government of the Commonwealth of the Bahamas will make such contributions in accordance with Article IV of the "Revised Agreement Establishing the Caribbean Court of Justice Trust Fund".

**i) Court and Commission Staff pensions**

Non-Judicial Staff pensions

The Court provides its non-judicial staff and staff of the Commission with a defined contribution pension plan. Under this plan, the employees of the Court and the Commission make contributions which are deducted from their salaries and are matched with employer contributions from the Court and the Commission.

These contributions are remitted to the Trust Fund by the Court periodically and upon receipt the Trust Fund records a liability under the heading 'Due to Court - Non-judicial staff pensions' (refer to Note 16).

Balances accumulated under this plan are calculated by an independent third party administrator on behalf of the Court and the Commission, in accordance with an agreed formula between the Court and the Commission and their employees. The administrator advises the Court and the Commission of the accumulated amounts at the end of each financial year.

Based on the administrator's report, the Trust Fund records any resulting change in accumulated values against the amount shown as 'Due to Court - Non-judicial staff pensions'.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

## 2. Significant accounting policies (continued)

### 2.5 Summary of significant accounting policies (continued)

#### i) Court and Commission Staff pensions (continued)

When a staff member reaches retirement, the Court's actuary will determine the pension entitlement for that employee based on their accumulated balance using appropriate actuarial assumptions. The Trust Fund will, at the request of the Court, provide to the Court the funds necessary to pay the pension for each employee on this basis. These amounts are treated as distributions from the heading 'Due to Court - Non-judicial staff pensions' and are accounted for when disbursements are made.

Judges' pensions

The Court provides its judges with a defined benefit pension plan. An actuarial valuation is obtained by the Court at the end of each financial year in respect of the pension arrangements for its judges (refer to Note 16). The Trust Fund pays the pension obligations of the Court for judges as they fall due. These amounts are not recorded as a liability of the Trust Fund, and are treated as distributions out of the fund balance and accounted for when disbursements are made.

#### j) Transfers to/from the Court

The Court submits biennial budgets in relation to the expenditure requirements of the Court and the Commission. These projections are considered by the Board of Trustees and, after consultation, the necessary financing is remitted to the Court upon request.

Disbursement requests made by the Court include pension payments for judges. These amounts are treated as distributions out of the fund balance and are accounted for when disbursement requests by the Court are made, after approval by the Board of Trustees.

Funds surplus to the Court's requirements in any year may be returned to the Trust Fund. These funds are treated as credits to the fund balance, and accounted for when remitted by the Court (refer to Note 17).

#### k) Revenue and expenditure

Income and expenditure are accounted for on the accruals basis. Interest income includes coupons earned on fixed income investments, as well as accrued discounts on treasury bills and other discounted investments. Dividend income is recognised when the right to receive the income is established, usually the ex-dividend date.

#### l) Foreign currency translation

Transactions in foreign currencies are translated at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the closing rate at the reporting date and any gains or losses arising are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rates at the date the fair value was determined. Foreign exchange gains or losses thus arising are recognised consistently with the fair value gains or losses, directly in the fund balance or the statement of profit or loss and comprehensive income as appropriate.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**2. Significant accounting policies** (continued)

**2.5 Summary of significant accounting policies** (continued)

**m) Taxation**

The Trust Fund is exempt from all forms of taxation in Trinidad and Tobago, its country of domicile, including taxes on interest income, dividends and capital gains, as well as withholding taxes. Dividend income in some jurisdictions is subject to withholding taxes which are deducted at the source of the income. Dividend income is reflected net of the withholding taxes where applicable.

**3. Significant accounting judgements and estimates**

The preparation of financial statements in conformity with IFRS requires Management to make certain significant estimates, assumptions and judgements that affect amounts reported in the financial statements and accompanying disclosures. Actual results could differ from these estimates. Management has made the following judgements in the application of accounting policies which may have the most significant effect on the amounts reported in the financial statements.

Fair value of financial instruments

For financial instruments that trade infrequently and have little price transparency, fair value requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value of the financial instruments is determined using a variety of valuation techniques that included the use of valuation models. The inputs for these models are taken from observable markets where possible, but where this is not feasible, estimation is required to establish fair values. These estimates included considerations of liquidity, credit risk and volatility.

Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy. Information about the valuation techniques and inputs used in determining the fair values are disclosed in Note 7.

Classification of investments

Management evaluates at the time of acquisition of its financial instruments whether they should be classified as at amortised cost, FVTPL or FVTOCI. Management has considered the detailed criteria for determination of such classification, including its business model (Refer to Note 6), and is satisfied that its investments are properly classified as at FVTPL.

| **4. Cash and cash equivalents** | **2015 US$** | **2014 US$** |
|---|---|---|
| Cash at bank | **187,835** | 1,172,557 |
| Money market accounts | **73,152** | 286,496 |
| Income funds | **2,228,134** | 4,232,015 |
| | **2,489,121** | 5,691,068 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**5. Fair values of financial instruments**

The Trust Fund determines the fair value of all financial assets and liabilities at the reporting date and separately discloses this information where these fair values are different from carrying amounts. The fair value of the Trust Fund's financial assets is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

For financial assets and liabilities that are liquid or have a maturity of less than three months, the carrying value is deemed to approximate their fair values due to the short-term maturities of those instruments. These include cash and cash equivalents, interest receivable and other current assets, accounts payable and other current liabilities.

The carrying values of the financial instruments in the financial statements equate the fair value.

**6. Investments at fair value through profit or loss**

In accordance with its business model, the Trust Fund's investments are classified as at FVTPL.

Business model

The Trust Fund's investments are traded in organized financial markets. Transactions are recorded on a trade date basis and interest is recognized when earned. Private Equity Funds of Funds and Hedge Funds of Funds investments are valued at year-end based on net asset values (NAVs).

The Trust Fund's business model has been determined based on the way in which the investment portfolio is managed, as well as the way in which the information is provided to the Board. Factors considered include the policies and objectives outlined in the Investment Guidelines and the application thereof, the basis for disposal of investments, the process utilized by Management in monitoring and assessing the performance of the portfolio, and the basis upon which the Board evaluates the performance of the portfolio.

The Trust Fund's financial instruments are not acquired with the explicit intention to hold over the long term to maturity or in perpetuity, although some assets may be held to maturity.

While the portfolio's focus and objective are long-term in nature, each asset is individually assessed on an ongoing basis and may be disposed of prior to maturity for the following reasons, among others:

- to realise capital gains,
- if liquidity is required and
- desired changes to the asset allocation.

The Trust Fund has therefore designated all of its financial instruments as at FVTPL since those assets are managed, evaluated and reported internally on a fair value basis and are not expected to be held for the medium to long-term for strategic purposes.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

## 6. Investments at fair value through profit or loss (continued)

Business model (continued)

Set out below are the Trust Fund's financial instruments, excluding those with carrying amounts which are reasonable approximations of fair value (refer to Note 5):

| | **2015 US$** | **2014 US$** |
|---|---|---|
| Fixed income securities | **1,938,156** | 2,601,595 |
| Equities | **49,787,810** | 55,290,651 |
| Private equity funds of funds | **7,565,795** | 7,788,778 |
| Hedge funds of funds | **21,099,931** | 21,465,217 |
| Money market funds | **773,999** | 444,540 |
| Debt fund | **4,021,429** | 4,227,431 |
| | **85,187,120** | 91,818,212 |

## 7. Financial instruments - fair value

IFRS 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy.

Fair value hierarchy

The Trust Fund measures fair values using the following hierarchy which reflects the significance of the inputs used in making the measurements:

- Level 1: derived from inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: derived from inputs other than quoted prices, that are observable for the asset, either directly (i.e. as prices), or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: derived from inputs that are unobservable. This category includes all instruments for which the valuation techniques include inputs for the instrument which are not based on observable market data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Trust Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances during the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**7. Financial instruments - fair value** (continued)

For the purpose of fair value disclosures, the Trust Fund has determined classes of instruments on the basis of the nature, characteristics and risks of the instrument, and the level of the fair value hierarchy.

The following table analyses the Trust Fund's financial instruments recognized at fair value at the reporting date, by the level in the fair value hierarchy.

**Recurring fair value measurement of financial instruments**

| | Level 1 US$ | Level 2 US$ | Level 3 US$ | Total US$ |
|---|---|---|---|---|
| **2015** | | | | |
| Fixed income securities | – | **1,938,156** | – | **1,938,156** |
| Equities | **21,802,659** | **27,985,151** | – | **49,787,810** |
| Private equity funds of funds | – | – | **7,565,795** | **7,565,795** |
| Hedge funds of funds | – | – | **21,099,931** | **21,099,931** |
| Money market funds | **773,999** | – | – | **773,999** |
| Debt fund | – | **4,021,429** | – | **4,021,429** |
| | **22,576,658** | **33,944,736** | **28,665,726** | **85,187,120** |
| **2014** | | | | |
| Fixed income securities | – | 2,601,595 | – | 2,601,595 |
| Equities | 24,958,002 | 30,332,649 | – | 55,290,651 |
| Private equity funds of funds | – | – | 7,788,778 | 7,788,778 |
| Hedge funds of funds | – | – | 21,465,217 | 21,465,217 |
| Money market funds | 444,540 | – | – | 444,540 |
| Debt fund | – | 4,227,431 | – | 4,227,431 |
| | 25,402,542 | 37,161,675 | 29,253,995 | 91,818,212 |

**Transfers between Levels**

There were no transfers amongst the three Levels during the reporting period.

- Financial instruments are transferred from Level 1 to Level 2 if they cease to be traded in an active market during the year and quoted prices in active markets are no longer available for those instruments.
- Financial instruments are transferred from Level 2 to Level 1 where certain equities and funds are listed on a stock exchange during the reporting period for the first time and are considered to be traded in an active market. Fair values for these financial instruments at the reporting date are based on quoted market prices.
- Transfers to or from Level 3 are dependent on the existence of unobservable pricing inputs. Financial instruments are transferred to Level 3 where a previously active market or pricing based on such market ceases or becomes unobservable.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**7. Financial instruments - fair value** (continued)

**Valuation techniques**

Level 1 instruments

When fair values of publicly traded equities, equity-related securities and managed funds are based on quoted market prices in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy. The Trust Fund values these investments at quoted market price at the close of trading on the reporting date.

Fair values at the reporting date are obtained using valuation techniques based on observable data. Observable data is considered to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by an independent source which is actively involved in the relevant market.

The Trust Fund categorises these investments as Level 1.

Level 2 instruments

The Trust Fund invests in fixed income securities, treasury bills and mutual funds. In the absence of a quoted price in an active market, these instruments are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers, discounted cash flows based on yield curves, and quoted prices of the underlying securities. Adjustments are made to the valuations if necessary to recognise differences in the instrument's terms.

To the extent that the significant inputs are observable, the Trust Fund categorises these investments as Level 2.

Level 3 instruments

The Trust Fund invests in managed funds (Private Equity Funds of Funds and Hedge Funds of Funds) which are not quoted in active markets and which may be subject to restrictions on redemptions such as lock up periods, redemption gates and side pockets. Investments in those funds are valued based on the NAV per unit published by the administrator of those funds. Such a NAV is adjusted by the individual fund managers when necessary to reflect liquidity risk, limitations on redemptions, and other factors.

The Trust Fund, as part of its due diligence prior to investing, considers the valuation techniques and inputs used by the individual fund managers in valuing the Private Equity Funds of Funds and Hedge Funds of Funds investments, to ensure that they are reasonable and appropriate.

The objective of these valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset in an orderly transaction, i.e. not a forced sale, between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, market approach and comparison with similar instruments for which market observable prices exist, as well as mathematical models such as Black-Scholes and polynomial option pricing models.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices, as well as expected price volatilities and asset correlations. Fair value is determined by each Funds of Funds manager using the various valuation techniques and relevant valuation models.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**7. Financial instruments - fair value** (continued)

**Valuation techniques** (continued)

Level 3 instruments (continued)

In the case of Private Equity investments, the predominant methodology adopted by the fund managers in determining the NAV is a market approach, which takes market multiples using a specified financial measure (e.g. EBITDA), recent public market and private transactions and other available measures for valuing comparable companies. The Trust Fund classifies investments in Private Equity Funds of Funds as Level 3.

In the case of Hedge Funds of Funds, valuation techniques employed by the fund managers include a combination of quoted market prices available in active markets, values derived from observable inputs, such as quotations received from counterparties, dealers or brokers, whenever available and considered reliable, as well as other mathematical models and valuation techniques as stated above. In the instances where these models are used, the value depends on the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs, such as market prices for reference securities, yield curves, credit curves, volatility, prepayment rates and the correlations of such inputs. Investments in Hedge Funds of Funds are typically classified as Level 3.

**Sensitivity analysis to significant changes in unobservable inputs within Level 3**

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 31 December 2015 are shown below:

| | **Input used** | **Sensitivity used +/-%** | **Effect on fair value US$** |
|---|---|---|---|
| Hedge Funds of Funds | NAV | 5 | 1,054,997 |
| | NAV | 10 | 2,109,993 |
| | NAV | 15 | 3,164,990 |
| Private Equity Funds of Funds | NAV | 5 | 378,290 |
| | NAV | 10 | 756,580 |
| | NAV | 15 | 1,134,869 |

Significant decreases in the NAVs would result in a significantly lower fair value measurement.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

## 7. Financial instruments - fair value (continued)

### Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of financial instruments categorized within Level 3 between the beginning and end of the reporting period.

| | Private equity funds of funds US$ | Hedge funds of funds US$ | Total US$ |
|---|---|---|---|
| **2015** | | | |
| Balance at 1 January 2015 | **7,788,778** | **21,465,217** | **29,253,995** |
| Total realised gains | **395,772** | **58,421** | **454,193** |
| Subscriptions | **–** | **2,032,204** | **2,032,204** |
| Redemptions | **–** | **(2,460,923)** | **(2,460,923)** |
| Capital calls | **1,169,800** | **–** | **1,169,800** |
| Distributions | **(1,865,854)** | **–** | **(1,865,854)** |
| Transfers into or out of Level 3 | **–** | **–** | – |
| Unrealised gains included in comprehensive income | **77,299** | **5,012** | **82,311** |
| **Balance at 31 December 2015** | **7,565,795** | **21,099,931** | **28,665,726** |
| **2014** | | | |
| Balance at 1 January 2014 | 7,567,496 | 18,993,286 | 26,560,782 |
| Total realised gains/(losses) | 511,064 | 38,324 | 549,388 |
| Subscriptions | – | 2,549,417 | 2,549,417 |
| Redemptions | – | (1,021,688) | (1,021,688) |
| Capital calls | 1,598,235 | – | 1,598,235 |
| Distributions | (1,840,298) | – | (1,840,298) |
| Transfers into or out of Level 3 | – | – | – |
| Unrealised (losses)/gains included in comprehensive income | (47,719) | 905,878 | 858,159 |
| **Balance at 31 December 2014** | 7,788,778 | 21,465,217 | 29,253,995 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

## 8. Fixed Assets

| | Motor vehicles US$ | Equipment & furniture US$ | Leasehold improvements US$ | Total US$ |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 31 December 2014 | 207,581 | 135,912 | 13,150 | 356,643 |
| Additions at cost | – | 3,220 | – | 3,220 |
| Exchange adjustments | 1,002 | 658 | 63 | 1,723 |
| Disposals | (57,013) | (2,082) | – | (59,095) |
| **Balance at 31 December 2015** | **151,570** | **137,708** | **13,213** | **302,491** |
| **Accumulated depreciation** | | | | |
| Balance at 31 December 2014 | (81,351) | (116,519) | (12,976) | (210,846) |
| Charge for the year | (26,687) | (4,873) | (174) | (31,734) |
| Exchange adjustments | (393) | (563) | (63) | (1,019) |
| Disposals | 40,822 | 1,673 | – | 42,495 |
| **Balance at 31 December 2015** | **(67,609)** | **(120,282)** | **(13,213)** | **(201,104)** |
| **Net book value at 31 December 2015** | **83,961** | **17,426** | **–** | **101,387** |
| Net book value at 31 December 2014 | 126,230 | 19,393 | 174 | 145,797 |

## 9. Capital contributions

| | 2015 US$ | 2014 US$ |
|---|---|---|
| At beginning of year | **114,067,660** | 113,049,884 |
| Third party contributions | **–** | 1,017,776 |
| At end of year | **114,067,660** | 114,067,660 |
| Represented by: | | |
| Members' contributions and escrow | **104,907,660** | 104,907,660 |
| Third party contributions | **9,160,000** | 9,160,000 |
| At end of year | **114,067,660** | 114,067,660 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**9. Capital contributions** (continued)

The initial capital totalling US$99,500,000 was raised by the Caribbean Development Bank on behalf of the Members on 16 July 2004 and remitted to the Trust Fund on 7 April 2005 along with escrow interest earned of US$1,446,142. Additional contributions amounting to US$3,961,518 were received from Members in 2006.

**Third party contributions**

The Members accepted a third party contribution of US$9,160,000 from the Government of the Commonwealth of the Bahamas, payable over a period of nine years in the sum of US$1,017,778 per annum commencing July 2006 until July 2014. This contribution is premised on the key condition that any such amounts paid shall be converted into membership contributions should the Government of the Commonwealth of the Bahamas become a Member of the Court.

**10. Related parties**

Parties are considered to be related if (a) one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions or (b) the party is a member of key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the organization or have the power to participate in the financial and operating policy decisions of the Trust Fund.

No commercial transactions are entered into by the Trust Fund with related parties in the normal course of business. Short-term benefits for key management total US$293,105 (2014: US$280,476). Honoraria payments to Trustees total US$16,383 for the year (2014: US$15,400).

**11. Capital management**

The primary objective of the Trust Fund's capital management is to achieve capital growth in order to provide the resources necessary to finance the capital and operating budget of the Court and the Commission in perpetuity.

The capital structure of the Trust Fund consists of capital contributions from Members, approved third parties, and retained deficits after distributions to the Court. These resources are invested in a diversified portfolio of tax-efficient instruments, including fixed income and equity securities, in order to produce an optimal net long-term rate of return with reasonable security of capital.

Assets are invested and managed by considering the purpose, terms, distribution requirements and other circumstances of the Trust Fund. Investment and management decisions in respect of individual assets are evaluated in the context of the portfolio as a whole and as a part of an overall investment strategy, reflecting risk and return objectives reasonably suited to the Trust Fund.

Management reviews the adequacy of its capital available to fulfil its objective on an ongoing basis. A formal assessment is conducted biennially and the Board submits a report on the adequacy of the resources to the Members for consideration.

No externally imposed capital requirements apply to the Trust Fund.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

## 12. Financial risk management

The Trust Fund is exposed to a variety of financial risks through the financial instruments it holds. Financial risk includes liquidity risk, credit risk and market risk. Market risk arises through the effects of changes in interest rates, foreign currency and debt and equity prices.

Risks inherent in the Trust Fund's investment activities are managed through a process of ongoing identification, measurement and monitoring within the framework of investment limits and other controls. The Board is responsible for the overall risk management approach and for approving the investment principles and strategies as detailed in the Investment Guidelines. The Board, through the Finance and Investment Committee, is responsible for the development of the risk strategy, as well as the approval and monitoring of the relevant risk decisions.

The effects of these risks are disclosed in Notes 13 to 15 and enable users to evaluate the nature and extent of risks arising from the financial instruments. These disclosures have no quantitative impact on the financial statements.

## 13. Liquidity risk

Liquidity risk arises from fluctuations in cash flows. Liquidity risk management ensures that the Trust Fund is able to honour all of its financial commitments as they fall due.

The Trust Fund manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and liabilities, as well as by ensuring that sufficient cash and marketable instruments are available to meet short-term requirements.

At the start of each year the Trust Fund sets aside in liquid assets the amount required to meet the annual financial requirements of the Court, the Commission and the Trust Fund. Except for Private Equity Funds of Funds and Hedge Funds of Funds holdings, the balance of the portfolio is invested widely in marketable assets which are traded in active and liquid markets, and can therefore be liquidated in the event of an unforeseen interruption of cash flow. All investments can be disposed of during the course of any financial year.

Funds of Funds assets exhibit unique liquidity characteristics, with the actual underlying assets typically being more illiquid in nature than direct equity holdings. These Funds of Funds may include an initial minimum holding (lock-up) period, contractual terms for redemption frequency, as well as the right of the Funds of Funds manager to suspend redemptions. Redemption suspensions may occur to protect the interests of redeeming and continuing investors when there is a significant decrease in liquidity.

Amounts due to the Court as described in Note 2.5.i are due on demand. Other financial liabilities, namely accounts payable and accrued liabilities, are due within one year.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**13. Liquidity risk** (continued)

The table below summarizes the financial instruments at their carrying amounts categorized by the earlier of contractual re-pricing or maturity dates.

| | Up to 1 year US$ | 1 to 5 years US$ | Over 5 years US$ | Non-interest bearing US$ | Total US$ |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Fixed income securities | **81,394** | **1,276,777** | **579,985** | **–** | **1,938,156** |
| Equities | **–** | **–** | **–** | **49,787,810** | **49,787,810** |
| Private equity funds of funds | **–** | **–** | **–** | **7,565,795** | **7,565,795** |
| Hedge funds of funds | **–** | **–** | **–** | **21,099,931** | **21,099,931** |
| Money market funds | **773,999** | **–** | **–** | **–** | **773,999** |
| Debt fund | **–** | **–** | **–** | **4,021,429** | **4,021,429** |
| | **855,393** | **1,276,777** | **579,985** | **82,474,965** | **85,187,120** |

| | Up to 1 year US$ | 1 to 5 years US$ | Over 5 years US$ | Non-interest bearing US$ | Total US$ |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Fixed income securities | 995,278 | 1,606,317 | – | – | 2,601,595 |
| Equities | – | – | – | 55,290,651 | 55,290,651 |
| Private equity funds of funds | – | – | – | 7,788,778 | 7,788,778 |
| Hedge funds of funds | – | – | – | 21,465,217 | 21,465,217 |
| Money market funds | 444,540 | – | – | – | 444,540 |
| Debt fund | – | – | – | 4,227,431 | 4,227,431 |
| | 1,439,818 | 1,606,317 | – | 88,772,077 | 91,818,212 |

**14. Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge a contractual obligation.

The Board of Trustees has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults, and has established guidelines for investment in institutions which meet certain minimum criteria.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**14. Credit risk** (continued)

All cash and cash equivalent instruments are placed with financial institutions which have a minimum investment rating or financial profile as established by the Board. The credit risk on non-regional liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

All transactions in listed securities are paid for or settled after trade, using asset managers or brokers approved by the Board. The risk of default is considered minimal as payment is made on a purchase once the securities have been received by the asset manager or broker. Delivery of securities sold is only made upon receipt of payment by the asset manager or broker.

Selected approved asset managers are authorized to purchase suitable securities on a discretionary basis based on an analysis by the asset manager of the companies' prospectuses and due diligence procedures. Asset managers who participate in the fixed income space are limited to investment grade securities. With respect to investments purchased regionally, the Trustees consider analyses presented by Management to ensure that the securities satisfy standards established by the Board.

Investments in Private Equity Funds of Funds and Hedge Funds of Funds are effected through asset managers who themselves invest in a diversified range of funds that select the underlying investments. At each stage of the process, due diligence is conducted to identify appropriate and suitable investments. The purpose of investing in Funds of Funds is for potential increased diversification and reduction of overall market risk of the portfolio.

The carrying amount of financial instruments recorded in the financial statements represents the Trust Fund's maximum exposure to credit risk.

**Credit quality of financial instruments**

The Trust Fund's credit risk exposure on fixed income securities is analyzed by the following S&P credit risk ratings:

| | **2015 US$** | **2014 US$** |
|---|---|---|
| A to AA+ | **327,656** | 473,785 |
| BBB to BBB+ | **1,610,500** | 2,127,810 |
| | **1,938,156** | 2,601,595 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**14. Credit risk** (continued)

**Risk concentrations of financial instruments by geographical distribution**

The Trust Fund's investments are analyzed by the following asset classes and geographical regions:

| | Regional US$ | Non-Regional US$ | Total US$ |
|---|---|---|---|
| **2015** | | | |
| Fixed income securities | | | |
| Government agency bonds | **327,656** | **–** | **327,656** |
| Corporate bonds | **1,610,500** | **–** | **1,610,500** |
| | **1,938,156** | **–** | **1,938,156** |
| Equities | **–** | **49,787,810** | **49,787,810** |
| Private equity funds of funds | **–** | **7,565,795** | **7,565,795** |
| Hedge funds of funds | **–** | **21,099,931** | **21,099,931** |
| Money market funds | **–** | **773,999** | **773,999** |
| Debt fund | **–** | **4,021,429** | **4,021,429** |
| | **1,938,156** | **83,248,964** | **85,187,120** |
| **2014** | | | |
| Fixed income securities | | | |
| Government agency bonds | 473,785 | – | 473,785 |
| Corporate bonds | 2,127,810 | – | 2,127,810 |
| | 2,601,595 | – | 2,601,595 |
| Equities | – | 55,290,651 | 55,290,651 |
| Private equity funds of funds | – | 7,788,778 | 7,788,778 |
| Hedge funds of funds | – | 21,465,217 | 21,465,217 |
| Money market funds | – | 444,540 | 444,540 |
| Debt fund | – | 4,227,431 | 4,227,431 |
| | 2,601,595 | 89,216,617 | 91,818,212 |

**15. Market risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk comprises three types of risk: foreign currency risk, interest rate risk and equity price risk.

The Trust Fund's investments are susceptible to market price risk arising from fluctuations in market prices. Management, in conjunction with the Trust Fund's Investment Adviser, closely monitors the exposure of the Trust Fund's investment portfolio to changes in market prices and is therefore able to minimise the risk resulting from such fluctuations.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**15. Market risk** (continued)

**a) Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Trust Fund has no significant foreign exchange exposure since liabilities are funded by assets in the same currency. The Trust Fund's liability to meet the expenses of the Court and Commission in perpetuity arises primarily in US$. The Trust Fund's administrative expenses arise in US$ as well as Trinidad and Tobago dollars (TT$). The Trust Fund matches its liabilities by investing in US$ and TT$.

**b) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Trust Fund is exposed to risks associated with the effects of fluctuations in prevailing market interest rates on the market value of its fixed rate financial instruments and the impact on the fund balance.

Management of interest rate risk includes maintaining a diversified portfolio of cash, equities and bonds and adjusting the average duration of fixed income securities as interest rates change.

**Interest rate sensitivity**

The sensitivity of the fund balance is analyzed by maturity of the asset and is calculated by revaluing fixed rate financial instruments for the effects of the assumed changes in interest rates.

The following table demonstrates Management's best estimate of the sensitivity to reasonable possible changes in interest rates prevailing as at 31 December (with all other variables held constant), and the impact on market value and net assets/fund balance based on the exposure at that date.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**15. Market risk** (continued)

**b) Interest rate sensitivity** (continued)

| | Increase/ (decrease) in basis points | Change in fund balance Up to 5 years US$ | Over 5 years US$ | Total US$ |
|---|---|---|---|---|
| **2015** | | | | |
| Fixed income securities | **+50** | **(11,857)** | **(16,732)** | **(28,589)** |
| | **+100** | **(23,562)** | **(32,903)** | **(56,465)** |
| | **+150** | **(35,120)** | **(48,533)** | **(83,653)** |
| | **–50** | **12,009** | **17,314** | **29,323** |
| | **–100** | **24,174** | **35,234** | **59,408** |
| | **–150** | **36,496** | **53,781** | **90,277** |
| **2014** | | | | |
| Fixed income securities | +50 | (23,504) | – | (23,504) |
| | +100 | (46,650) | – | (46,650) |
| | +150 | (69,446) | – | (69,446) |
| | –50 | 23,871 | – | 23,871 |
| | –100 | 45,770 | – | 45,770 |
| | –150 | 65,106 | – | 65,106 |

**c) Equity price risk**

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The Trust Fund's equity and equity-related investments are susceptible to equity price risk arising from fluctuations in equity indices.

The Trust Fund's investments in equity and equity-related securities may be held for the medium to long term for strategic purposes, and are not held for short-term trading purposes. Management, in conjunction with the Trust Fund's Investment Adviser, closely monitors the exposure of the Trust Fund's investment portfolio to changes in equity indices and is therefore able to minimise the risk resulting from such fluctuations.

The following table indicates Management's best estimate of reasonable possible changes in the fair value of equity and equity-related instruments, with all other variables held constant, and the effect on net assets/fund balance as at 31 December:

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**15. Market risk** (continued)

**c) Equity price risk** (continued)

| | Change in equity price 2015 +/-% | Effect on net assets and fund balance 2015 US$ | Change in equity price 2014 +/-% | Effect on net assets and fund balance 2014 US$ |
|---|---|---|---|---|
| U.S. equities | **5** | **1,024,631** | 5 | 1,064,229 |
| | **10** | **2,049,261** | 10 | 2,128,458 |
| | **15** | **3,073,892** | 15 | 3,192,687 |
| Non U.S. equities | **5** | **971,444** | 5 | 1,083,555 |
| | **10** | **1,942,888** | 10 | 2,167,111 |
| | **15** | **2,914,332** | 15 | 3,250,666 |
| Emerging markets | **5** | **320,682** | 5 | 381,662 |
| | **10** | **641,365** | 10 | 763,325 |
| | **15** | **962,047** | 15 | 1,144,987 |
| Debt fund | **5** | **201,071** | 5 | 211,372 |
| | **10** | **402,143** | 10 | 422,743 |
| | **15** | **603,214** | 15 | 634,115 |
| Real assets | **5** | **172,633** | 5 | 235,086 |
| | **10** | **345,267** | 10 | 470,171 |
| | **15** | **517,900** | 15 | 705,257 |

**16. Due to Court - Non-judicial Staff Pensions**

| | 2015 US$ | 2014 US$ |
|---|---|---|
| At beginning of year | **1,676,000** | 1,145,000 |
| Funds received | **186,312** | 303,943 |
| Change in accumulated value | **37,688** | 227,057 |
| At end of year | **1,900,000** | 1,676,000 |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

**16. Due to Court - Non-judicial Staff Pensions** (continued)

Non-Judicial Staff pensions

The Court provides its non-judicial staff and staff of the Commission with a defined contribution pension plan (refer to Note 2.5.i).

Judges' pensions

The Court provides its judges with a defined benefit pension plan and obtains an actuarial valuation at the end of each financial year in respect of that obligation (refer to Note 2.5.i).

The Court's defined benefit obligation amounted to US$6,520,000 at 31 December 2015 (2014: US$6,083,000).

| **17. Transfers to/from the Court** | **2015 US$** | **2014 US$** |
|---|---|---|
| Transfers to the Court (refer to Note 2.5.j) | | |
| At beginning of year | **52,520,260** | 47,073,089 |
| During the year | **6,099,329** | 5,447,171 |
| At end of year | **58,619,589** | 52,520,260 |
| Transfers from the Court (refer to Note 2.5.j) | | |
| At beginning of year | **874,767** | 179,823 |
| During the year | **–** | 694,944 |
| At end of year | **874,767** | 874,767 |

**18. Commitment and contingencies**

Operating lease commitments

The Trust Fund has entered into an arrangement for the lease of a property for a one (1) year period. Lease commitments are as follows:

| | **2015 US$** | **2014 US$** |
|---|---|---|
| Within one year | **27,415** | 31,976 |

Lease rental expense included in property related expenses amounted to US$63,447 (2014: US$59,868) for the year. The lease commitments presented above represent the commitments under the current lease period which ends in May 2016.

*Contingencies*

There are no contingencies at year end (2014: $Nil).

# NOTES

**REGISTERED OFFICE**
22 Cornelio Street
Woodbrook
Port of Spain
Trinidad and Tobago

**MANAGEMENT TEAM**
Glenn Cheong, Executive Officer
Anne-Marie James, Senior Manager, Finance; Board Secretary
Tisha Teelucksingh, Portfolio Manager

**AUDITORS**
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