

# **Bright Plan**

Audited Financial Statements and  
Management Report of Fund Performance

October 31, 2018



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### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain portions of the Management Report of Fund Performance, including but not limited to, “Results of Operations” and “Recent Developments”, may contain forward-looking statements about the Plan, including its strategy, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Plan action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Plan and economic factors. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Plan. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

It should be stressed that the above-mentioned list of important factors is not exhaustive. You are encouraged to consider these and other factors carefully before making any investment decisions and you are urged to avoid placing undue reliance on forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

# Management Report of Fund Performance

## Introduction

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statement of Bright Plan (“the Plan”). A copy of the annual financial statement can be obtained on request, and at no cost, by visiting our website at [www.cstspark.ca](http://www.cstspark.ca), SEDAR at [www.sedar.com](http://www.sedar.com), by calling our customer service team at 1-800-461-7100 or by writing to us by mail at 2235 Sheppard Avenue East, Suite 1600, Toronto, Ontario M2J 5B8.

The Canadian Scholarship Trust Foundation, as the Plan sponsor, and C.S.T. Spark Inc., as the Investment Fund Manager, view corporate governance and compliance as critical to overall corporate performance and long-term investment returns, and as such we review and support the proxy voting guidelines established by our investment managers. Each investment manager’s proxy voting policy is available on request through our customer service area or by contacting us at [info@cstspark.ca](mailto:info@cstspark.ca).

## Investment Objective and Strategy

The Plan’s fundamental investment objective is to invest subscribers’ contributions in a way to preserve capital while delivering a reasonable positive return on investments over a long-term investment horizon within prudent risk tolerances.

The Plan invests contributions, government grants and earnings, according to a proprietary GlidePath investment approach that seeks to match asset classes and investment mix with the expected length of time a beneficiary has before attending post-secondary education. Assets are managed with an investment mix that has an emphasis on equity investing in the early years, transitioning to a more conservative investment mix over time, with an emphasis on fixed income securities.

The Plan’s assets are passively managed by BlackRock Asset Management Canada Limited (“BlackRock”) according to a pre-defined GlidePath mandate using exchange-traded funds (“ETFs”).

## Risk

The risks associated with investing in the Plan remain as described in the prospectus. There were no material changes to the Plan during the reporting period that affected the overall level of risk associated with an investment in the Plan.

## Results of Operation

The Plan was made available for sale on June 11, 2018. Its net asset value as at October 31, 2018 was \$0.351 million. Annual performance data is not available as the Plan has been in existence for less than one year.

## Economic Review

According to the October 2018 World Economic Outlook (“WEO”), global economic growth decelerated in the first half of 2018 from the strong momentum registered in the second half of last year, with expansion becoming less synchronized across countries. Escalating global trade tensions and policy uncertainty contributed in part towards lowered growth rates from previous forecasts. With the exception of the United States, the majority of advanced economies modestly slowed, with notable impact to the Euro area and United Kingdom. Emerging market nations, in particular Turkey and Argentina, experienced economic instability over the period. Equity markets across the globe witnessed significant sell-offs in

October, and in many cases erasing prior gains achieved throughout the year. Core inflation modestly picked up across most advanced economies.

Economic activity in the United States increased at a solid pace over the first half of 2018 as tax reforms introduced in late 2017 and other fiscal stimulus spurred an increase in gross domestic product and strengthened the labour market. The U.S. Federal Reserve Board raised interest rates four times beginning in December 2017 and continuing through September 2018, signaling a move from an accommodative monetary policy to one of normalization. Core inflation moved slightly higher than the Federal Open Market Committee’s longer-run objective of two percent, boosted in part by a sizable increase in energy prices.

The Canadian economy grew at a moderate pace over the year with a significant contribution from exports. Trade uncertainty eased as an agreement in principle was reached regarding the United States-Mexico-Canada Agreement (“USMCA”). Despite rising global oil prices, Canadian producers sold at discounted prices due to ongoing transport limitations. The Bank of Canada increased the overnight rate three times throughout the twelve-month period ending October 2018. Consumer price index (“CPI”) inflation rose faster than anticipated reaching 2.7 percent in the third quarter of 2018.

Amidst a series of interest rate hikes, Canadian fixed income returns were mixed over the period with FTSE TMX Canada Universe Bond Index posting an annual return of -0.6%. The impact to longer term maturity bonds was more pronounced as the FTSE TMX Canada Long Term Government Bond Index fell by 1.5% over the year. Corporate bonds, including Financials, and other shorter maturity fixed income issues generally fared better with returns either marginally negative or moderately positive.

U.S. equities outperformed the majority of other capital markets over the 2018 period. Despite a pullback in October, U.S. equities, as represented by the S&P 500 (a broad index of U.S. large capitalization stocks), generated a positive annual return of 7.4% (USD). Index gains were widespread with 9 of the 11 S&P 500 sectors in positive territory. The Consumer Staples, Information Technology, and Health Care sectors led the index, all with double digit annual returns.

Non-North American equities for both developed and emerging market countries were negative over the year. The MSCI EAFE Index (representative of developed international stocks excluding the United States and Canada) was marginally positive for the majority of the year until the impact from the October sell off occurred resulting in a loss of 4.6% (CAD). Ongoing concerns regarding the United Kingdom's Brexit implications and Italy's fiscal situation contributed to the pull back. Emerging market equity losses were more widespread through the year, culminating in the MSCI Emerging Markets Index falling by 10.5% (CAD), due to the escalating trade dispute between the China and the United States, increasing debt servicing costs, and heightened economic volatility.

The S&P/TSX Composite Capped Index (a broad index of Canadian stocks) declined by 3.4% over the year with the majority of losses occurring in October. Six of the eleven sectors were negative, including the heavily weighted Financials, Energy and Materials sectors.

## Financial and Operating Highlights

The following table is intended to help you understand the key financial results for the period from May 23, 2018 to October 31, 2018 for the Plan. This information is derived from the Plan's audited annual financial statements.

<i>(\$ thousands)</i>	<b>2018</b>
<b>Statements of Financial Position</b>	
Total Assets	<b>\$351</b>
Net Assets	<b>351</b>
<b>Statements of Comprehensive Income</b>	
Net Investment Loss	<b>\$ (9)</b>
<b>Statements of Changes in Net Assets</b>	
Education Assistance Payments	<b>\$ -</b>
Government Grants Received (net of repayments)	<b>2</b>
Government Grant payments to Beneficiaries	<b>-</b>
<b>Other</b>	
Total number of Agreements	<b>20</b>

## Management Fees

A management fee of \$2 was paid to the Foundation. This fee is for operating, managing, distributing and administering the Plan including portfolio management, trustee, record-keeping, valuation, distribution and custody services. Annual management fees are paid to the Foundation at 1.5% of the total amount of principal, Government Grants and income earned thereon. The Foundation waives a portion of its management fee to absorb fees charged by ETFs.

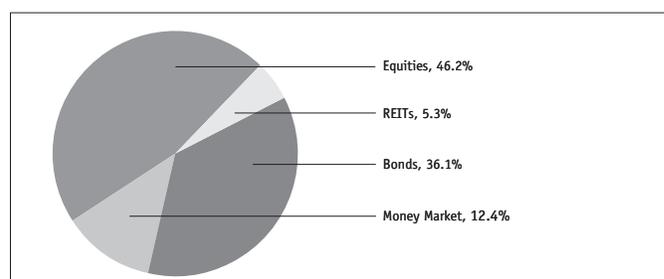
The Foundation has delegated certain management, administrative and distribution functions to its wholly-owned subsidiary, C.S.T. Spark Inc., which is registered as the Plan's Investment Fund Manager in Ontario, Quebec, Newfoundland and Labrador, and Scholarship Plan Dealer under securities legislation of each of the provinces and territories of Canada in which it operates to sell scholarship plans. C.S.T. Spark Inc. is the exclusive distributor of the Plan.

In exchange for its services, C.S.T. Spark Inc. receives an amount equal to the costs incurred plus a percentage of such costs from the Foundation. The management services agreement is renewable on an annual basis. C.S.T. Spark Inc. has retained C.S.T. Consultants Inc. (CSTC), to provide investment management, accounting and administration services.

## Summary of Plan Investment Portfolio

The following chart illustrates the Plan's Total Portfolio Assets by investment categories.

**Asset Mix as at October 31, 2018**



The following table details the top 25 long positions in the Total Portfolio Assets of the Plan\*.

Issuer	Fair Value (\$ 000's)	% of Net Asset Value
iShares Core S&P 500 Index ETF	74	21.0%
iShares Canadian Universe Bond Index ETF	48	13.6%
iShares Core MSCI EAFE IMI Index ETF	47	13.3%
iShares Premium Money Market ETF	43	12.4%
iShares Core Canadian Long Term Bond Index ETF	36	10.3%
iShares Canadian Short Term Bond Index ETF	29	8.3%
iShares Core S&P/TSX Capped Composite Index ETF	24	6.9%
iShares Global Real Estate Index ETF	19	5.3%
iShares Core MSCI Emerging Markets IMI Index ETF	17	5.0%
iShares Canadian Real Return Bond Index ETF	14	3.9%
<b>Top 25 long positions as a percentage of Total Portfolio Assets of the Plan</b>		<b>100%</b>

\* The Plan holds fewer than 25 holdings.

# Management's Responsibility for Financial Reporting

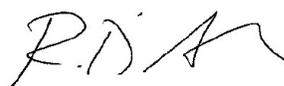
The accompanying financial statements of Bright Plan (the "Plan") are prepared by management and are approved by the Board of Directors of Canadian Scholarship Trust Foundation (the "Foundation"). Management is responsible for the information and representations contained in these financial statements. The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities.

The Foundation, through C.S.T. Spark Inc., a wholly-owned subsidiary which administers the Plan, maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. The significant accounting policies, which management believes are appropriate for the Plan, are described in Note 2 to the financial statements.

Deloitte LLP is the external auditor of the Plan. It has audited the financial statements in accordance with Canadian generally accepted auditing standards to enable it to express to the Board of Directors and Members of the Foundation its opinion on the financial statements. Its report is set out below.



**Sherry J. MacDonald, CPA, CA**  
President and Chief Executive Officer



**Richard D'Archivio, CPA, CA, CFA**  
Vice President, Chief Financial Officer

Toronto, Ontario  
December 18, 2018

## Independent Auditor's Report

To the Board of Directors and Members of the Canadian Scholarship Trust Foundation

We have audited the accompanying financial statements of Bright Plan, which comprise the statement of financial position as at October 31, 2018, and the statement of comprehensive income (loss), statement of changes in net assets attributable to subscribers and beneficiaries and statement of cash flows for the period from May 23, 2018 to October 31, 2018, 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 Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgment, 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 in our audit 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 Bright Plan as at October 31, 2018 and the results of its financial performance and its cash flows for the period from May 23, 2018 to October 31, 2018 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants  
December 18, 2018

# Statement of Financial Position

As at October 31, 2018 (in thousands of Canadian dollars)

	2018
<b>Assets</b>	
Cash and cash equivalents	\$ -
Investments, at fair value <i>(Schedule I)</i>	351
	351
<b>Liabilities</b>	
Accounts payable and accrued liabilities	-
	-
<b>Net Assets Attributable to Subscribers and Beneficiaries</b>	<b>351</b>
<b>Represented by:</b>	
Subscribers' deposits <i>(Schedule II)</i>	8
Government grants	2
Accumulated loss	(9)
Unallocated Reserve <i>(Note 3(b))</i>	350
	\$351

Approved on behalf of the Board of Canadian Scholarship Trust Foundation.



Douglas P. McPhie, FCPA, FCA, CPA (Illinois)  
Director



Sherry J. MacDonald, CPA, CA  
Director

# Statement of Comprehensive Income (Loss)

For the period from May 23, 2018 to October 31, 2018 (in thousands of Canadian dollars)

	2018
<b>Income</b>	
Net change in unrealized losses	\$(11)
Distribution from Investment Funds	4
	(7)
<b>Expenses</b>	
Management fees <i>(Note 3(a))</i>	2
<b>Decrease in Net Assets from Operations Attributable to Subscribers and Beneficiaries</b>	<b>\$ (9)</b>

# Statement of Changes in Net Assets Attributable to Subscribers and Beneficiaries

For the period from May 23, 2018 to October 31, 2018 (in thousands of Canadian dollars)

	2018
<b>Net Assets Attributable to Subscribers and Beneficiaries, Beginning of Period</b>	<b>\$ -</b>
Decrease in Net Assets from Operations Attributable to Subscribers and Beneficiaries	(9)
	(9)
<b>Receipts</b>	
Net increase in Subscribers' deposits <i>(Schedule II)</i>	8
Government grants received (net of repayments)	2
Unallocated reserve <i>(Note 3(b))</i>	350
<b>Total Receipts</b>	<b>360</b>
<b>Change in Net Assets Attributable to Subscribers and Beneficiaries</b>	<b>351</b>
<b>Net Assets Attributable to Subscribers and Beneficiaries, End of Period</b>	<b>\$351</b>

# Statement of Cash Flows

For the period from May 23, 2018 to October 31, 2018 (in thousands of Canadian dollars)

	2018
<b>Operating Activities</b>	
Decrease in Net Assets from Operations Attributable to Subscribers and Beneficiaries	\$ (9)
Net purchase of investments	(362)
Items not affecting cash	
Net change in unrealized losses	11
<b>Cash flow used in Operating Activities</b>	<b>(360)</b>
<b>Financing Activities</b>	
Unallocated reserve <i>(Note 3(b))</i>	350
Government grants received (net of repayments)	2
Net increase in Subscribers' deposits <i>(Schedule II)</i>	8
<b>Cash flow from Financing Activities</b>	<b>360</b>
<b>Net increase in Cash and cash equivalents</b>	
<b>Cash and cash equivalents, Beginning of Period</b>	
Cash	-
Cash equivalents	-
	-
<b>Cash and cash equivalents, End of Period</b>	
Cash	-
Cash equivalents	-
	\$ -
<b>Supplemental cash flow information:</b>	
Withholding Taxes	\$ -
Interest Income Received	-

# Schedule I – Statement of Investment Portfolio

As at October 31, 2018 (in thousands of Canadian dollars)

Security	Number of Securities	Fair Value (\$)	Average Cost (\$)
<b>Exchange-traded Funds – 100%</b>			
iShares Canadian Real Return Bond Index ETF	588	14	15
iShares Canadian Short Term Bond Index ETF	1,076	29	29
iShares Canadian Universe Bond Index ETF	1,606	48	49
iShares Core Canadian Long Term Bond Index ETF	1,603	36	38
iShares Core MSCI EAFE IMI Index ETF	1,630	47	51
iShares Core MSCI Emerging Markets IMI Index ETF	681	17	19
iShares Core S&P 500 Index ETF	1,651	74	73
iShares Core S&P/TSX Capped Composite Index ETF	1,011	24	26
iShares Global Real Estate Index ETF	675	19	19
iShares Premium Money Market ETF	867	43	43
		351	362

## Schedule II – Subscribers’ Deposits, Grants and Accumulated Loss

As at October 31, 2018 (in thousands of Canadian dollars)

The following table provides a summary of Bright Plan agreements, Subscribers’ Deposits, Grants and Accumulated Loss:

Opening Agreements	Inflow Agreements	Outflow Agreements	Closing Agreements	Subscribers’ Deposits	Government Grants	Accumulated Loss
–	20	–	20	\$8	\$2	\$(9)

The changes in Subscribers’ deposits are as follows:

	2018
Payments from subscribers	\$8
Return of principal	–
Net increase in Subscribers’ deposits	8
<b>Balance, End of Period</b>	<b>\$8</b>

# Notes to the Financial Statements

October 31, 2018 (in thousands of Canadian dollars)

## Note 1. Nature of Operations

Bright Plan (the “Plan”) is a scholarship plan formed on May 23, 2018. The Plan assists parents and others to save for the post-secondary education of children. The Plan is managed and distributed by C.S.T. Spark Inc., a wholly-owned subsidiary of the Canadian Scholarship Trust Foundation (the “Foundation”). The Plan’s registered place of business is 1600-2235 Sheppard Avenue East, Toronto, Ontario, Canada.

Subscribers enter into an education savings plan agreement with the Foundation (the “Agreement”) and make contributions on behalf of one or more beneficiaries. Agreements are registered as Registered Education Savings Plans under the *Income Tax Act* (Canada). The Plan collects government grants offered by the federal and provincial governments (“Government Grants”) on behalf of subscribers and invests these funds along with contributions in accordance with the Plan’s investment policies. Contributions accumulated over the term of the Agreement are returned in whole or in part at any time at the request of the subscriber, subject to fluctuations in market value. Education assistance payments (“EAPs”) are paid to qualified beneficiaries and comprise government grants and investment income earned on contributions and government grants.

## Note 2. Significant Accounting Policies

### (a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These financial statements were approved by the Board of Directors of the Foundation on December 18, 2018.

### (b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for financial instruments classified as “at fair value through profit or loss” (“FVTPL”), which are measured at fair value.

### (c) Financial Instruments

The Plan recognizes financial assets and financial liabilities when it becomes a party to a contract. Financial assets and financial liabilities, with the exception of those classified as FVTPL, are measured at fair value plus transaction costs on initial recognition. Financial assets and financial liabilities classified as FVTPL are measured at fair value on initial recognition and transaction costs are expensed when incurred. Investments, at fair value have been classified as FVTPL.

Measurement in subsequent periods depends on the classification of the financial instrument. The financial assets and financial liabilities of the Plan are classified as follows:

Financial asset or financial liability	Classification
Investments, at fair value	FVTPL <sup>i</sup>
Cash and cash equivalents	Amortized cost <sup>ii</sup>
Accrued income and other receivables	Amortized cost <sup>ii</sup>
Receivables for securities sold	Amortized cost <sup>ii</sup>
Accounts payable and accrued liabilities	Amortized cost <sup>iii</sup>
Payables for securities purchased	Amortized cost <sup>iii</sup>

<sup>i</sup> Financial assets are classified as FVTPL when acquired principally for the purpose of trading. Financial assets classified as FVTPL are measured at fair value, with changes in unrealized gains and losses recognized on the Statement of Comprehensive Income.

<sup>ii</sup> Financial assets classified as Amortized Cost are non-derivative financial assets that are held to collect contractual cash flows and are not quoted in an active market. Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method. They are considered for impairment when there is objective evidence of impairment or when their expected credit loss increases.

<sup>iii</sup> Financial liabilities classified as Amortized Cost are liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, financial liabilities are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial instrument and allocating interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all transaction costs and other premiums or discounts) through the expected life of the financial instrument to the net carrying amount on initial recognition.

### (d) Investment valuation

Investments, at fair value are comprised of Exchange-traded funds (“ETF”). ETFs are publicly traded in an active market and are measured using closing prices at the reporting date.

Note 6 provides further guidance on fair value measurements.

### (e) Investment transactions and income recognition

Investment transactions are accounted for on a trade-date basis. Interest is accounted for on an accrual basis. Dividends and distributions are accrued as of the ex-dividend date and ex-distribution date, respectively. Realized gains (losses) on the sale of investments and change in unrealized gains (losses) are calculated with reference to the average cost of the related investments and are recognized in the period that such gains (losses) occur.

### (f) Subscribers’ deposits

Subscribers’ deposits reflect amounts received from subscribers and do not include future amounts receivable on outstanding Agreements.

### (g) Income taxes

The Plan is exempt from income taxes under Section 146.1 of the *Income Tax Act* (Canada).

# Notes to the Financial Statements (continued)

October 31, 2018 (in thousands of Canadian dollars)

## Note 2. Significant Accounting Policies (continued)

### (h) Cash and cash equivalents

Cash and cash equivalents include deposit balances with banks and securities with a purchase date to maturity of 90 days or less and includes term deposits, treasury bills and bankers' acceptances.

### (i) Foreign currency

The functional and presentation currency of the Plan is the Canadian Dollar.

To the extent applicable in any period, foreign currency purchases and sales of investments and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange prevailing at the time of the transactions. Realized and unrealized foreign currency gains or losses on investments are included in the Statement of Comprehensive Income in Realized gains (losses) on sale of investments and Change in unrealized gains (losses), respectively.

### (j) Critical accounting estimates and judgments

When preparing the financial statements, management makes estimates and judgments that affect the reported amounts recognized and disclosed in the financial statements. These estimates and judgments have a direct effect on the measurement of transactions and balances recognized in the financial statements. By their nature, these estimates and judgments are subject to measurement uncertainty and actual results could differ.

## Note 3. Related Party Transactions

Related party transactions are measured at the exchange amount, which is the amount agreed between the parties.

### (a) Distribution and Management of the Plan

The Foundation, as the Plan sponsor, has appointed C.S.T. Spark Inc., as the Scholarship Plan Dealer and Investment Fund Manager to distribute and manage the Plan. The distribution and license agreement is renewable annually on May 24. Annual management fees are paid to the Foundation at 1.5% of the total amount of principal, Government Grants and income earned thereon. The Foundation waives a portion of its management fee to absorb fees charged by ETFs. C.S.T. Spark Inc. has retained C.S.T. Consultants Inc. (CSTC), to provide investment management, accounting and administration services.

For the year ended October 31, 2018, \$2 was recognized as an expense for Management fees. Management fees included in Accounts payable and accrued liabilities at October 31, 2018 was \$nil.

### (b) Unallocated reserve

The unallocated reserve represents cash received by the Plan from the Foundation to constitute and settle the Plan as a trust for the benefit of subscribers and beneficiaries.

## Note 4. Capital Risk Management

The Plan's capital consists of the components of the net assets attributable to subscribers and beneficiaries as per the Statement of Financial Position. The Plan has obligations to return subscriber contributions upon maturity or termination as well as pay EAPs of investment income, grants and income on grants. The Plan invests subscriber contributions and government grants received in appropriate investments in accordance with its stated investment objectives while maintaining sufficient liquidity to meet subscribers' obligations.

## Note 5. Risks Associated with Financial Instruments

In the normal course of business the Plan may be exposed to a variety of risks arising from financial instruments. The Plan's exposures to such risks are concentrated in its investment holdings and are related to market risk (which includes interest rate risk and other price risk), credit risk, liquidity risk and currency risk.

The Plan's risk management process includes monitoring compliance with the Plan's investment guidelines. The Plan manages the effects of these financial risks to the Plan portfolio performance by retaining and overseeing an external investment manager. The investment manager regularly monitors the Plan's permitted investments, rebalances, and manages the investment portfolio according to the investment policy and mandate.

### (a) Market risk

#### i. Interest rate risk

Interest rate risk is the risk of a change in the fair value or cash flows of the Plan's investments in interest-bearing financial instruments as a result of fluctuations in market interest rates. There is an inverse relationship between changes in interest rates and changes in the fair value of interest bearing securities. As at October 31, 2018, the Plan is exposed to indirect interest rate risk to the extent that the underlying ETFs are invested in interest bearing financial securities.

#### ii. Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate as a result of changes in market prices, other than those arising from interest rate risk. Factors specific to an individual investment, its issuer or other factors affecting all instruments traded in a market or market segment affect other price risk. The Plan has a significant indirect exposure to other price risk arising from its investment in the underlying ETFs which invest in equity securities.

Due to the fact the Plan has been in existence for less than six months, the impact on the Plan's net assets using the historical correlation between the Plan's return and a broad-based index is not disclosed because there is insufficient data and any resulting calculation could be materially misleading.

# Notes to the Financial Statements (continued)

October 31, 2018 (in thousands of Canadian dollars)

## Note 5. Risks Associated with Financial Instruments (continued)

### (b) Credit risk

Credit risk refers to the ability of the issuer of debt securities to make interest payments and repay principal. As at October 31, 2018, the Plan is exposed to indirect credit risk to the extent that the underlying ETFs are invested in debt instruments and preferred securities.

### (c) Liquidity risk

Liquidity risk is the risk that the Plan may not be able to meet its financial obligations as they come due. The Plan's exposure to liquidity risk is concentrated in principal repayments to subscribers and EAPs to beneficiaries. The Plan primarily invests in securities that are traded in active markets and can be readily sold. The Plan retains sufficient cash and cash equivalent positions to meet liquidity requirements by utilizing cash forecasting models that reflect the distribution of subscribers' deposits and accumulated income. All other financial liabilities are short term and due within one year.

### (d) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. As at October 31, 2018, the Plan is exposed to indirect currency risk to the extent that the underlying ETFs are invested in financial instruments that were denominated in a currency other than the functional currency of the Plan.

## Note 6. Fair Value Measurements and Disclosure

Estimates of fair value used for measurement and disclosure are designed to approximate amounts that would be received to sell an asset, or paid to discharge a liability, in an orderly transaction between market participants.

The carrying values of other financial instruments such as Cash and cash equivalents and Accounts payable and accrued liabilities approximate their fair values as these financial instruments are short term in nature.

The following table presents the level, in the fair value hierarchy, into which the Plan's financial instruments are categorized:

- i. Level 1 financial instruments are valued using quoted market prices.
- ii. Level 2 financial instruments are valued using directly or indirectly observable inputs.
- iii. Level 3 financial instruments are valued using unobservable inputs (including the use of assumptions based on the best information available).

Assets Measured at Fair Value as of October 31, 2018

	Level 1	Level 2	Level 3	Total
Exchange-traded funds	\$ 351	\$ -	\$ -	\$351
<b>Total Investments, at fair value</b>	<b>\$351</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$351</b>

For the period ended October 31, 2018, there were no transfers among the levels.

## **Bright Plan**

### **Sponsor**

Canadian Scholarship Trust Foundation  
2235 Sheppard Avenue East, Suite 1600  
Toronto, Ontario M2J 5B8  
1.877.333.RESP (7377)

### **Investment Fund Manager and Distributor**

C.S.T. Spark Inc.  
2235 Sheppard Avenue East, Suite 1600  
Toronto, Ontario M2J 5B8

### **Trustee**

RBC Investor Services Trust  
155 Wellington Street West, 2<sup>nd</sup> Floor  
Toronto, ON M5V 3L3

### **Auditor**

Deloitte LLP  
Bay Adelaide East  
8 Adelaide Street West, Suite 200  
Toronto, Ontario M5H 0A9

### **Bank**

Royal Bank of Canada  
Royal Bank Plaza  
South Tower  
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