

Financial Statements of

**HERITAGE INTERNATIONAL
SCHOLARSHIP TRUST PLAN -
FUND D**

(Expressed in U.S. Dollars)

For the years ended December 31, 2020 and December 31, 2019



Independent auditor's report

To the Subscribers, Beneficiaries and Trustee of Heritage International Scholarship Trust Plan – Fund D

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Heritage International Scholarship Trust Plan - Fund D (the Plan) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Plan's financial statements comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of comprehensive income for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in net assets attributable to subscribers and beneficiaries for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to



the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 30, 2021

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

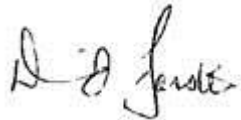
Statements of Financial Position

As at December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

	2020	2019
Assets		
Cash	\$ 2,440,812	\$ 940,855
Due from Heritage International Scholarship Trust Foundation (note 10)	2,794,762	1,376,971
Investments, at fair value (note 5)	109,492,422	102,266,997
Restricted investments, at fair value (note 6)	33,549,267	32,559,204
Accrued interest and dividends	559,897	698,503
Total Assets	\$ 148,837,160	\$ 137,842,530
Liabilities		
Accounts payable	27,118	19,300
Restricted fees due to Heritage International Scholarship Trust Foundation (note 10)	564,901	606,058
Membership fee obligation (note 11)	10,625	10,625
Total Liabilities	602,644	635,983
Net assets attributable to subscribers and beneficiaries (note 9)	\$ 148,234,516	\$ 137,206,547

Approved on behalf of the Board of the Heritage International Scholarship Trust Foundation:



Director



Director

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

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Statements of Comprehensive Income

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

	2020	2019
Income		
Interest	\$ 2,202,052	\$ 2,761,799
Dividends	434,539	448,618
Other changes in fair value of instruments		
Net realized gains (losses) on investments	4,790,203	1,412,594
Net change in unrealized gains (losses) on investments	3,779,586	7,853,032
	\$ 11,206,380	\$ 12,476,043
Expenses		
Administration fees (note 10)	1,016,036	991,051
Portfolio management fees (note 14)	90,282	80,335
Bank fees	88,239	100,022
Transaction fees	1,099	71,719
	\$ 1,195,656	\$ 1,243,127
Increase in net assets attributable to subscribers and beneficiaries	\$ 10,010,724	\$ 11,232,916

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

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Statements of Cash Flows

As at December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

Cash provided by (used in)	2020	2019
Operating activities		
Increase (decrease) in net assets attributable to subscribers and beneficiaries from operations	\$ 10,010,724	\$ 11,232,916
Adjusted for:		
Changes in unrealized losses (gains), net	(3,779,586)	(7,853,032)
Realized losses (gains), net	(4,790,203)	(1,412,594)
Amortization of bond premiums/discounts	136,397	(102,084)
Changes in non-cash working capital:		
Increase in accrued interest and dividends	138,606	(24,822)
Decrease in membership fee obligation	-	(5,000)
Increase in due from Heritage International Scholarship Trust Foundation	(1,417,791)	(477,283)
Increase in accounts payable	7,818	1,300
Decrease in amount payable in respect of predecessor fund of the Plan	-	(1,571,571)
Increase (decrease) in restricted fees due to Heritage International Scholarship Trust Foundation	(41,157)	(67,646)
Purchase of investments	(170,793,322)	(152,771,945)
Proceeds from sale of investments	171,011,225	148,739,422
Net Cash Provided by (Used In) Operating Activities	\$ 482,711	\$ (4,312,339)
Financing activities		
Subscribers' contributions	17,002,600	17,922,741
Return of subscribers' contributions	(12,850,763)	(11,163,450)
Payment of educational Assistance Payments, interest and refund of membership fees to subscribers and beneficiaries and interest received	(3,134,591)	(2,283,050)
Net Cash (Used In) Provided by Financing Activities	\$ 1,017,246	\$ 4,476,241
Net (decrease) increase in cash during the year	1,499,957	163,902
Cash, beginning of year	940,855	776,953
Cash, end of year	\$ 2,440,812	\$ 940,855
Supplemental Disclosure of Cash Flow Information		
Interest received	\$ 2,062,347	\$ 2,786,621
Dividends received	434,539	448,618

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

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Statements of Changes in Net Assets Attributable to Subscribers and Beneficiaries

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

	2020	2019
Net assets attributable to subscribers and beneficiaries, beginning of year	\$ 137,206,547	\$ 114,595,456
Subscribers' contributions		
Contributions	17,002,600	17,922,741
Return of Contributions	(12,850,763)	(11,163,450)
	\$ 4,151,837	\$ 6,759,291
Reclassification of subscribers' contributions (note 9)	-	6,901,934
	\$ 4,151,837	\$ 13,661,225
Increase (decrease) in net assets attributable to subscribers and beneficiaries	10,010,724	11,232,916
Educational assistance payments		
Group plan	(2,862,853)	(3,308,126)
Self determined option	(129,578)	(197,410)
Membership fees recovered	-	22,165
Contributed interest and bank interest income	34,520	38,954
Contributions from Fund A	-	1,571,571
Inactive principal paid to subscribers	(375,800)	(410,204)
Contributions to enhancement fund	199,119	-
	\$ 6,876,132	\$ 8,949,866
Net assets attributable to subscribers and beneficiaries, end of year	\$ 148,234,516	\$ 137,206,547

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

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Schedule of Educational Assistance Payments

For the year ended December 31, 2020

(Expressed in U.S. Dollars)

	Year of Eligibility				
	2020	2019	2018	2017	2016 >
Plan A					
Number of units:					
First scholarship	40	8	-	-	-
Second scholarship	-	18	19	-	-
Third scholarship	-	-	83	-	28
Amount of scholarship per unit:					
First scholarship	\$ 110	\$ 110	\$ -	\$ -	\$ -
Second scholarship	-	110	110	-	-
Third scholarship	-	-	110	-	180
	\$ 4,400	\$ 2,860	\$ 11,220	\$ -	\$ 4,831
Plan E					
Number of units:					
First scholarship	5,807	1,303	20	-	-
Second scholarship	-	5,004	683	51	27
Third scholarship	-	-	4,924	630	247
Amount of scholarship per unit:					
First scholarship	\$ 150	\$ 145	\$ 200	\$ -	\$ -
Second scholarship	-	150	150	210	261
Third scholarship	-	-	150	155	279
	\$ 871,121	\$ 939,487	\$ 844,913	\$ 108,438	\$ 75,583
Total	\$ 875,521	\$ 942,347	\$ 856,133	\$ 108,438	\$ 80,414
Total EAPs under the Group Plans paid in 2020					\$ 2,862,853

The accompanying notes are an integral part of these financial statements

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Notes to Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

1 General Information

The Heritage International Scholarship Trust Plan - Fund D (the "Plan") was established by the Heritage International Scholarship Trust Foundation (the "Foundation"). The Foundation was organized on May 16, 1983, as a not-for-profit corporation, incorporated under the laws of Canada without share capital. The Plan was established on September 1, 1988 under the laws of Canada and Butterfield Trust (Bermuda) Limited was appointed as trustee pursuant to the trust agreement of February 3, 1988.

The Plan represents funds, in United States dollars, administered as per the prospectus dated September 8, 2020 for subscribers in Bermuda and British Virgin Islands, the prospectus dated July 31, 2019 for subscribers in Bahamas and the prospectus dated September 8, 2020 for subscribers in Jamaica (together with prospectuses of prior years, collectively the "Prospectuses"). Balances and investments applicable to subscribers based in The Bahamas are denominated in Bahamian dollars. The Plan comprises units issued up to 1996, called Plan A and units issued post-1996, called Plan E. The Plan provides a savings vehicle for parents, grandparents and others ("Subscriber" or "Subscribers") to accumulate funds for children under the age of 14 and who reside outside of Canada, with the goal of providing funds for their post-secondary education.

The Subscriber enters into a Scholarship Agreement with the Foundation pursuant to which the Subscriber obtains units of the Plan. Subscriber contributions are invested in: (a) guaranteed investment certificates of federal, state, provincial or municipal licensed trust or loan companies of, or guaranteed by, United States and/or Canadian chartered banks; (b) debentures, bonds or other securities of, or guaranteed by, the Government of the United States or the Government of Canada or any state, province or municipality (including variable rate securities); and/or (c) corporate debt securities with an approved credit rating. Income earned on principal may be invested in: (a) Equities listed on a stock exchange in Canada or United States; (b) Index participation units of a Canadian or American mutual fund; (c) corporate bonds issued in Canada and the United States; and/or (d) Derivatives, for hedging and liquidity purposes.

The Plan is administered by the Foundation, which is responsible for the coordination of functions provided by the depository, trustee and portfolio advisers. The distribution and administration of the Plan has been contracted by the Foundation to Heritage Education Funds International Inc. (formerly, Heritage Education Funds International LLC, a limited liability company, which was continued under the Canada Business Corporation Act on December 29, 2017 under the name Heritage Education Funds International Inc. ("Heritage International")). Heritage International has also been appointed to offer enrollment in the Plan to subscribers.

Heritage International was controlled by Heritage Financial Group Limited until January 2, 2018. During the year ended December 31, 2017, the Foundation and the Heritage International were under common management as the beneficial shareholders of the Heritage International constituted the board members of the Foundation.

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Notes to Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

On September 30, 2019 (“Amalgamation Date”), Heritage Education Funds International Inc. and Knowledge First International were also amalgamated. Heritage Education Funds International Inc. (the “Company”) continued as the amalgamated company. The Company also continues to be the investment fund manager and distributor of the HIST Plan – Fund D.

Knowledge First Foundation's wholly owned subsidiary, Knowledge First Financial Inc. (“Knowledge First Financial”) is the investment fund manager and distributor of the KF Plans. Subsequent to the date of amalgamation of HEFI and Knowledge First Financial on August 28, 2018, depository services are provided by Knowledge First Financial.

The address of the Plan's registered office is 50 Burnhamthorpe Street West, Suite 1000, Mississauga, Ontario L5B 4A5, Canada.

The Board of Directors of the Foundation authorized the financial statements for issue on March 24, 2021.

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2 Basis of Accounting

The financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”). The Plan has consistently applied the accounting policies used in the preparation of its financial statements.

3 Summary of significant accounting policies

The significant accounting policies followed by the Plan are as follows.

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Notes to Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

Financial instruments

The Plan recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments not measured at FVTPL. Regular purchases and sales of financial assets are recognized at their trade date. The Plan's investments are classified at FVTPL, including its investments in equities, Exchange Traded Funds and debt securities. All other financial assets and liabilities, including accrued interest and dividends receivable, amounts receivable for investments sold, amounts payable for securities purchased and accounts payable are measured at amortized cost. The Plan's obligation for net assets attributable to subscribers and beneficiaries is presented at the distribution amount, which is the residual amount of assets of the Plan after deducting all its liabilities.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. For equities & exchange traded funds, the Plan uses the last traded market price where the last traded price falls between that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, The Plan determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. For bonds, the Plan uses mid prices provided by independent security pricing vendors. The Plan's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer. The fair value of financial assets and liabilities that are not quoted in an active market is determined using valuation techniques. The use of valuation techniques for financial instruments that are not quoted in an active market requires the Plan to make assumptions that are based on market conditions existing as at the date of the financial statements. Changes in these assumptions as a result of changes in market conditions could affect the reported fair value of financial instruments.

Offsetting

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

IFRS 9 requires that an entity recognize a loss allowance for expected credit losses on financial assets which are measured at amortized cost. With respect to financial assets at amortized cost, the Plan considers both historical analysis and forward-looking information in determining any expected credit loss. As at the financial statement dates, all receivables are due to be settled within the short term. The Plan considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligation in the near term. Given the limited exposure of the Plan to credit risk, no loss allowance has been recognized as any such impairment will not have a significant impact on the financial statements.

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Notes to Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

Investment transactions and income recognition

Subsequent to initial recognition, all financial instruments measured at FVTPL are measured at fair value. Gains and losses arising from changes in the fair value of the financial instruments at FVTPL are presented in the statement of comprehensive income within either realised gain/loss on investments or change in unrealized gains/losses in the period in which they arise. Interest and investment income are recorded on an accrual basis and includes amortization of any premiums or discounts on the purchase of the investments using the effective interest method. Dividends are recognized as income on the ex-dividend date. The cost of the investment is determined using the average cost method. Average cost includes amortization of premiums and discounts on the Plan' debt securities.

Subscribers' contributions

Subscribers' contributions reflect all amounts received from the Subscribers and do not include any amounts receivable on subscribed units. Contributions to the Plan are made over a maximum period of 18 years.

Fees and insurance premiums

Membership fees, depository fees and insurance premiums are deducted from the initial Subscribers' contributions and subsequent contributions in accordance with the Prospectuses. Administration fees are deducted from investment income in accordance with the Prospectuses. (Note 10).

Surplus funds

Surplus funds represent the cumulative difference between the fair value of the Plan's investments versus the amortized cost of investments, cumulative realized gains and losses on sale of investments net of the membership fee obligation and other adjustments, including transfers to the Enhancement Fund.

Cash

Cash is comprised of demand deposits with Royal Bank of Canada. Northern Trust is the custodian for the Plan's unrestricted investments. Butterfield Trust (Bermuda) Limited is the trustee of the Plan.

Taxation

Bermuda at present imposes no taxes on profit, income, capital gains or appreciations in value of the Plan. There are also currently no taxes imposed in Bermuda by withholding or otherwise on the Subscribers on profit, income, capital gains or appreciations in respect of their units nor any taxes on the Subscribers in estate duty, inheritance or capital transfer tax.

The Foreign Account Tax Compliance Act (FATCA) imposes a withholding tax of thirty per cent onto certain U.S. sourced amounts paid to Foreign Financial Institutions (FFI) unless various information reporting requirements are satisfied. The withholding obligation arises unless the FFI enters directly into a contract with the U.S. Internal Revenue Service and reports

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Notes to Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

to the relevant tax authority. Amounts include gross U.S.-sourced dividend and interest income, gross proceeds from the sale of property that produces dividend or interest income from sources within the U.S. Knowledge First Financial assists with the administration of the plan and is responsible for FACTA compliance in Canada.

The Plan will use reasonable efforts to avoid the imposition of a withholding tax on EAP payments to beneficiaries under FACTA. As a result, subscribers will be required to provide identification attesting whether the subscriber is a U.S. citizen, resident or taxpayer to avoid imposition of such withholding tax. In failure of this provision, the Plan is authorized to withhold amounts from EAP payments otherwise distributable and has the right to cancel the contract and disqualify beneficiary from receiving further EAPs.

The Plan is required to collect certain information for each calendar year from subscribers and report such information to the Minister of Finance.

Interests in unconsolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not dominant factors in deciding who controls the entity, or when voting rights relate to administrative tasks only and the relevant activities are directed by means of a contractual arrangement. The Plan invests in exchange traded funds (“ETFs”) and the Plan has determined that these investments are unconsolidated structured entities. The Plan accounts for its investments in unconsolidated structured entities at FVTPL. The ETFs finance their operations by issuing redeemable shares, which are puttable at the holder’s option and entitle the holder to a proportional stake in the ETF’s net asset value. The ETFs are domiciled in the United States of America and listed on the New York Stock Exchange. The Plan’s maximum exposure to loss from its interest in these securities is equal to the total fair value of its investments.

4 Critical accounting estimates and judgments

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

Investment entity status

A significant judgment made in preparing the Plan’s financial statements relates to the determination that the Plan meets the definition of an investment entity as described in IFRS 10, Consolidated financial statements. The Plan’s objective is to invest subscribers’ contributions to maximize investment returns over the long term, for the purpose of generating investment income. Fair value is the primary measurement used to evaluate the performance of substantially all investments.

Classification and measurement of financial instruments

In classifying and measuring financial instruments held by the Plan, the Plan is required to make significant judgments in determining the most appropriate classification in accordance with IFRS 9. In making this judgment, the Plan has assessed the Plan’s business model for managing the

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Notes to Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

portfolio and the contractual cash flow characteristics and determined the investments are managed on a fair value basis, and that fair value is used to assess performance and make investment decisions. The contractual cash flows of the Plan's debt securities are solely principal and interest; however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Plan's business model's objective. Consequently, all investments are measured at FVTPL.

Measurement of restricted investments

Although the Plan believes its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. The Plan holds a portion of its restricted investments in a private placement, non-traded bond issued by Bahamas Electricity Corporation ("BEC Bond"), which is a government corporation. Management's valuation technique involves discounting the face value and semi-annual coupon payments based on the Bahamas Central Bank Prime Rate plus the Bahamas Government Registered Stock rate to determine the present value of the BEC Bond as at December 31, 2020.

5 Investments

The Plan's investments are classified at FVTPL, including its investments in equities, ETFs and debt securities. Interests in Unconsolidated Structured Entities. A structured entity is an entity that has been designed so that voting or similar rights are not dominant factors in deciding who controls the entity, or when voting rights relate to administrative tasks only and the relevant activities are directed by means of a contractual arrangement. The Plan invests in exchange traded funds ("ETFs") and the Plan has determined that these investments are unconsolidated structured entities. The Plan accounts for its investments in unconsolidated structured entities at FVTPL. The ETFs finance their operations by issuing redeemable shares, which are puttable at the holder's option and entitle the holder to a proportional stake in the ETF's net asset value. The ETFs are domiciled in the United States of America and listed on the New York Stock Exchange. The Plan's maximum exposure to loss from its interest in these securities is equal to the total fair value of its investments.

Fair Value Measurement

The Plan measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the assets that are based on unobservable market data.

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Notes to Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

Total Investments (Restricted and Unrestricted)

December 31, 2020	Level 1	Level 2	Level 3	Total
Unrestricted investments				
Government guaranteed instruments				
Federal	\$ -	\$ 38,499,274	\$ -	\$ 38,499,274
Provincial		1,324,324		1,324,324
Corporate debt	-	39,405,828	-	39,405,828
ETFs	30,262,996	-	-	30,262,996
	\$ 30,262,996	\$ 79,229,426	-	\$ 109,492,422
Restricted investments				
GICs	-	31,449,201	-	31,449,201
BEC bond	-	-	2,100,066	2,100,066
	\$ -	\$ 31,449,201	\$ 2,100,066	\$ 33,549,267
	-	-	-	-
Investments at fair value	\$ 30,262,996	\$ 110,678,627	\$ 2,100,066	\$ 143,041,689

December 31, 2019	Level 1	Level 2	Level 3	Total
Unrestricted investments				
Government guaranteed instruments	\$ -	\$ 3,423,596	\$ -	\$ 3,423,596
Federal	-	39,093,902	-	39,093,902
Corporate debt	-	33,531,433	-	33,531,433
ETFs	26,218,066	-	-	26,218,066
	\$ 26,218,066	\$ 76,048,931	-	\$ 102,266,997
Restricted investments				
GICs	-	30,496,959	-	30,496,959
BEC bond	-	-	2,065,245	2,065,245
	\$ -	\$ 30,496,959	\$ 2,065,245	\$ 32,559,204
Investments at fair value	\$ 26,218,066	\$ 106,542,890	\$ 2,065,245	\$ 134,826,201

All fair value measurements above are recurring. The carrying values of receivable for investments sold, accrued interest and dividend receivable, payable for investments purchased and accounts payable, membership fee obligations and restricted fees due to the Foundation approximate their fair value due to their short-term nature.

The face value, cost/amortized cost and fair value of unrestricted investments by contractual maturity are as follows:

2020	Cost	Fair Value
Equity ETF:		
Vanguard FTSE	\$ 8,690,156	\$ 10,332,757
Vanguard S&P 500 ETF	12,726,506	19,930,239
	\$ 21,416,662	\$ 30,262,996

HERITAGE INTERNATIONAL SCHOLARSHIP TRUST PLAN – FUND D

Notes to Financial Statements

For the years ended December 31, 2020 and December 31, 2019

(Expressed in U.S. Dollars)

	Face value	Amortized Cost	Fair Value
Fixed Income Securities and Term to Maturity:			
Government Guaranteed Instruments			
Federal			
Due < 1 year	\$ 8,150,000	\$ 8,085,432	\$ 8,270,340
Due in 1-5 years	7,203,000	7,172,389	7,179,754
Due > 5 years	17,765,000	23,284,198	23,049,180
	\$ 33,118,000	\$ 38,542,019	\$ 38,499,274
Provincial			
Due > 5 years	1,157,000	1,175,074	1,324,324
	\$ 1,157,000	\$ 1,175,074	\$ 1,324,324
Corporate			
Due 1-5 years	\$ 5,859,000	\$ 5,958,132	\$ 6,281,434
Due > 5 years	29,322,000	30,703,510	33,124,394
	\$35,181,000	\$ 36,661,642	\$ 39,405,828
	\$ 69,456,000	\$ 76,378,735	\$ 79,229,426
Total			\$ 109,492,422

The face value, cost/amortized cost and fair value of unrestricted investments by contractual maturity are as follows:

2019	Cost	Fair Value
Equity ETF:		
Vanguard FTSE	\$ 8,490,766	\$ 9,449,460
Vanguard S&P 500 ETF	12,295,013	16,768,606
	\$ 20,785,779	\$ 26,218,066

	Face Value	Amortized Cost	Fair Value
Fixed Income Securities and Term to Maturity:			
US Government Treasury Securities and Federally Guaranteed Bonds			
Due < 1 year	\$ 7,740,000	\$ 7,727,304	\$ 7,747,757
Due in 1-5 years	19,682,000	19,741,331	19,901,035
Due > 5 years	10,648,700	10,532,193	11,445,610
	\$ 38,070,700	\$ 38,000,828	\$ 39,093,902
US Corporate Bonds			
Due < 1 year	\$ 1,000,000	\$ 1,023,758	\$ 1,034,144
Due in 1-5 years	4,867,000	4,879,875	5,073,992
Due > 5 years	17,440,000	17,606,062	18,391,166
	\$ 23,307,000	\$ 23,509,695	\$ 24,499,302

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	Face Value	Amortized Cost	Fair Value
Canadian Corporate Bonds			
Due 1-5 years	\$ 2,610,000	\$ 2,678,241	\$ 2,717,263
Due > 5 years	5,898,000	5,916,701	6,314,868
	\$ 8,508,000	\$ 8,594,942	\$ 9,032,131
Short-Term Investments	\$ 3,440,000	\$ 3,423,823	\$ 3,423,596
	\$ 73,325,700	\$ 73,529,288	\$ 76,048,931
Total			\$ 102,266,997

6 Restricted Investments

The restricted investments at December 31, 2020 and 2019 are as follows:

2020				
	Maturity date	Interest rate	Cost / amortized cost	Fair value
RBC Finco GIC	January 29, 2021	0.35%	\$6,890,462	\$6,890,463
RBC Finco GIC	January 12, 2021	0.35%	537,361	537,361
RBC Finco GIC	February 16, 2021	0.35%	1,731,826	1,731,826
RBC Finco GIC	March 11, 2021	0.35%	9,708,496	9,708,496
RBC Finco GIC	January 14, 2021	0.35%	1,362,407	1,362,407
RBC Finco GIC	March 29, 2021	0.35%	8,741,013	8,741,013
RBC Finco GIC	February 2, 2021	0.35%	2,277,635	2,277,635
RBC Bahamas	January 5, 2021	0.00%	200,000	200,000
Bahamas Electricity Corporation Bond	December 22, 2021	6.41%	2,004,688	2,100,066
Total			\$ 33,453,888	\$ 33,549,267

2019				
	Maturity date	Interest rate	Cost / amortized cost	Fair value
RBC Finco Term deposit	June 11, 2020	1.75%	\$ 9,034,065	\$ 9,034,065
RBC Finco Term deposit	June 29, 2020	1.75%	8,575,457	8,575,457
RBC Finco Term deposit	May 2, 2020	0.75%	2,256,676	2,256,676
RBC Finco Term deposit	October 14, 2020	0.75%	1,352,259	1,352,259
RBC Finco Term deposit	October 29, 2020	0.75%	6,839,144	6,839,144
RBC Finco Term deposit	February 22, 2020	1.50%	1,701,942	1,701,942
RBC Finco Term deposit	April 12, 2020	0.55%	534,416	534,416
RBC Bahamas	January 10, 2020	0.00%	200,000	200,000
Bahamas Electricity Corporation Bond	December 22, 2021	6.41%	2,004,355	2,065,245
Total			\$ 32,498,314	\$ 32,559,204

Restricted investments relate to interests held in the Plan by Bahamian Subscribers, as contributions from Bahamian Subscribers can only be invested in the Bahamas, as per the agreement with the Central Bank of the Bahamas dated February 5, 1992. All restricted

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investments are denominated in Bahamian dollars and reported in the above tables in the equivalent United States dollars.

Since 2006, the Plan has held a portion of its restricted investments in a private placement, non-traded bond issued by Bahamas Electricity Corporation (“BEC Bond”), which is a government corporation. Quoted prices for the BEC Bond in active markets are not available. There were no purchases and sales of this investment during the year. Management used unobservable inputs to measure the estimated fair value of this security. Management applies judgment in determining unobservable inputs to calculate the BEC Bond’s fair value as a Level 3 financial instrument of \$2,100,066 as at December 31, 2020 (2019 - \$2,065,246). Management’s valuation technique involves discounting the face value and semi-annual coupon payments based on the Bahamas Central Bank Prime Rate plus the Bahamas Government Registered Stock rate to determine the present value of the bond as at December 31, 2020. This valuation technique has been consistently applied since inception of the investment. If the discount rate was to increase or decrease by 1% with all other variables remaining constant, the net assets of the Plan would have decreased or increased respectively by about \$19,500 (2019 - \$38,530). Actual results may differ from this sensitivity analysis and those differences could be material. Management reviews the Plan’s exposure to Level 3 financial instruments on a regular basis.

The reconciliation of the Plan’s restricted investment’s financial instruments, consisting of the BEC Bond, measured at fair value using unobservable inputs (level 3) is presented as follows:

BEC Bond Fair Value Calculation		
	2020	2019
Balance, beginning of year	\$ 2,065,246	\$ 2,093,281
Change in unrealized gains (losses)	34,820	(28,035)
Balance, end of year	\$ 2,100,066	\$ 2,065,246

7 Enhancement Fund

The Enhancement Fund pertaining to the Plan consists of: (a) interest earned on the scholarship fund used to pay Educational Assistance Payments from the maturity date to the date that the funds are distributed to qualified beneficiaries; (b) interest earned on the income forfeited when a Subscriber’s plan is terminated prior to the maturity date; and (c) principal payments to Subscribers on maturity that have not cleared the bank after six months from the date of payment.

The Enhancement Fund is directed by the Foundation in accordance with the not-for-profit nature of the Foundation. Interest income earned on matured and terminated plans is recorded in the Enhancement Fund on an accrual basis. The Enhancement Fund is for the benefit of all Subscribers and the Foundation will use a component, at its discretion, to supplement the Education Assistance Payments. Such discretionary payment is determined on an annual basis by the Foundation and the objective is to distribute an amount that is equal to the membership fee paid by the Subscriber. Issued cheques that become unclaimed after an extended period get transferred to the enhancement fund as a contribution. There is no assurance that the Enhancement Fund will have a sufficient balance to achieve this objective and maintain a sustainable balance for remaining Subscribers (note 8).

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Receipts and disbursements in the Enhancement Fund are as follows:

	2020	2019
Receipts:		
Investment and other income	\$ –	\$ 111,900
Membership fees recovered	–	17,165
Transfer from predecessor fund of the plan	–	1,571,571
Contribution to the Enhancement Fund	199,539	–
Transfer from Surplus Funds (note 8)	1,675,306	254,289
	\$ 1,874,845	\$ 1,954,925
Disbursements:		
Investment expenses	203,786	-
Paid to the Foundation to settle:		
Educational Assistance Payments	1,295,258	1,544,721
Inactive plans subscribers' contributions refund	375,800	410,204
	1,874,845	1,954,925
Balance, end of year	\$ –	\$ –

8 Surplus Funds

The Surplus Funds consist of: (a) realized gains (losses) on investments (b) unrealized gains (losses) on investments (c) any deficit/surplus from the Enhancement Fund is transferred to/from the Surplus Funds.

	2020	2019
Balance, beginning of year	\$ 11,740,129	\$ 2,736,825
Realized (losses) gains, net	4,790,203	1,412,594
Unrealized (losses) gains, net	3,779,586	7,853,032
Decrease in membership fee obligation (note 11)	-	5,000
Transfer to Enhancement Fund (note 7)	(1,675,306)	(254,289)
Allocation of gains to Self Determined Option customers	(5,701)	(13,033)
	6,888,782	9,003,304
Balance, end of year	\$ 18,628,911	\$ 11,740,129

9 Net assets attributable to subscribers and beneficiaries

Net assets attributable to subscribers and beneficiaries comprise the following:

	2020	2019
Subscribers' contributions, net of returns	\$115,295,350	\$ 111,143,513
Accumulated income	14,310,255	14,322,905
Surplus funds (note 8)	18,628,911	11,740,129
Balance – End of year	\$ 148,234,516	\$ 137,206,547

The changes in the Subscribers' contributions to the Plan are as follows:

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Subscribers' Contributions

	2020	2019
Amount Contributed by Members	\$ 19,372,194	\$ 20,970,234
Membership fees	(1,680,327)	(2,333,375)
Principal Withdrawals on terminations	(822,620)	(529,786)
Principal on maturing scholarship plans	(12,028,142)	(10,633,664)
Insurance premiums	(80,529)	(99,335)
Depository fees	(608,739)	(614,783)
Net increase in subscribers' contributions	\$ 4,151,837	\$ 6,759,291
Reclassification of subscribers' contributions Inactive Plans	-	6,901,934
	\$ 4,151,837	\$ 13,661,225
Balance, beginning of year	111,143,513	97,482,288
Balance, end of year	\$ 115,295,350	\$ 111,143,513

10 Related party transactions

The transactions were measured at cost, which are the amounts of consideration established and agreed to by the related parties.

Transactions with the Foundation

Administration fees are paid to the Foundation and subsequently paid to Heritage International as described below.

Amounts payable by the Plan to the Foundation are interest-free and have no fixed terms of repayment. At December 31, 2020, the amount payable by the Plan to the Foundation was \$564,901 (2019 - \$606,058) and represents the administration, depository and membership fees earned by Knowledge First Financial and Heritage International in respect of the Bahamas, which are restricted and require the approval of the Central Bank of the Bahamas prior to being remitted to the Foundation for subsequent payment to Knowledge First Financial and Heritage International as applicable.

At December 31, 2020, there is an amount due from the Foundation to the Plan of \$2,794,762 (2019 - \$1,376,971) which mainly represents contributions received from Subscribers to the Plan that are initially held by the Foundation prior to transfer to the Plan.

Transactions with the Heritage International

The administration fees are initially collected from the Plan by the Foundation and are calculated based on 0.75% of the subscriber principal and interest and dividends earned thereon. The foundation collected \$1,016,036 (2019 - \$991,051) from the Plan for reimbursement to Heritage International for the administration of the Plan.

At December 31, 2020, the amount payable to Heritage International was \$Nil (2019 - \$Nil).

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Notes to Financial Statements

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Transactions with predecessor fund of the Plan

In 2009, the Foundation integrated the portfolio of investments of that predecessor fund into the Plan for efficient management of the investment portfolio. All disbursements, including redemptions and EAPs relating to the predecessor fund are now being disbursed from the Plan and are offset against the balance payable in respect of that fund.

The Plan had recorded a liability representing amounts payable by the Plan in respect of a predecessor fund of the Plan known as Fund A. The amount \$1,571,571 was transferred in 2019 as it is no longer considered payable to the subscribers of Fund A.

11 Membership fee obligation

Subscribers who enrolled in the Plan A prior to November 1996 will receive an amount equal to the membership fee paid at the time the Subscribers' interest in the Plan reaches maturity. Subscribers who have entered the Plan after October 1996 will not receive any reimbursement

of these amounts. Membership fees repaid to Subscribers have been historically funded by the Enhancement Fund (note 7).

At December 31, 2020, the membership fee obligation was calculated by using the number of active plan units and multiplying by the membership fee per Subscriber unit to be returned.

2020			
Year of maturity	Number of units	Membership fee per unit	Membership fee obligation
2013	49.00	125.00	\$ 6,125
2014	36.00	125.00	4,500
			\$ 10,625

2019			
Year of maturity	Number of units	Membership fee per unit	Membership fee obligation
2013	49.00	125.00	\$ 6,125
2014	36.00	125.00	4,500
			\$ 10,625

12 Risk management

The investment objective of the Plan is to preserve capital while maximizing the long-term rate of return for Subscribers. The Plan is affected by changes in economic environments and capital markets and, as a result, the Plan faces various risk factors in the course of its normal investment activities. These risk factors are primarily credit risk, liquidity risk and market risk. In order to proactively address these risks, management has engaged third-party portfolio managers to assist in investing the Subscribers' contributions and the investment income earned thereon. Management and the portfolio managers perform periodic reviews of the investment portfolio to comply with the stated investment objectives.

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Credit risk

Credit risk is the risk of financial loss to the Plan if the issuer of a debt fails to meet its contractual obligations. This risk is mitigated by the Plan's investment strategy of investing in those debt securities with an approved credit rating. A greater part of the investments made are with issuers based in the United States and Canada. The maximum credit risk exposure of the Plan is detailed in notes 5 and 6. The majority of the unrestricted fixed income investment portfolio, excluding holdings for which no independent credit ratings are available ("NR"), is of investment grade with most rated as "AAA", "AA", "AA-", "A", or "A-" by Standard and Poor's Limited and the minimum rating is "BBB."

Unrestricted investments percentage of fixed income securities by credit rating		
	2020	2019*
AAA	48.6 %	55.9 %
AA	1.6 %	3.5 %
A	18.5 %	23.2 %
BBB	31.3 %	17.4 %
	100.0 %	100.0 %

* Please note PY weightings have been updated to conform with current year methodology

The credit rating of RBC where the restricted term deposits are held with RBC Finco and RBC Bahamas is AA- (as per S&P Ratings). The BEC Bond is not actively traded in the Bahamas stock exchange and does not have a credit rating.

The Plan's maximum credit risk exposure as at the reporting dates is represented by the respective carrying amounts of the financial assets in the statement of financial position.

The Plan's activities may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of an entity to honor its obligations to deliver cash, securities or other assets as contractually agreed. For the majority of transactions, the Plan mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

The Plan's cash is held in the bank RBC, while unrestricted investments are held with Northern Trust Company. These assets belong to the Plan and are held by Northern Trust, as custodian, in a segregated trust account.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Plan has current exposure to the Subscribers' contributions as Subscribers can cancel or terminate their agreement at any time at which point the full balance would become immediately payable to the Subscribers. The Plan is also exposed to agreement maturities and obligations with respect to EAPs and the accumulated income account. Therefore, the Plan invests the majority of its assets in investments that are traded in an active market and can be easily liquidated. In addition, the Plan endeavours to retain adequate cash positions to maintain adequate liquidity.

EAPs (accumulated income) are paid over three years upon submission of required documentation by beneficiaries to the Foundation. Subscriber's principal is paid upon maturity of a respective

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agreement; see the table below for details of the expected maturity profile with respect to subscribers' total principal balances. If a Subscriber cancels an agreement, the Subscriber's principal is due upon demand. The income on Subscriber's principal will remain in accumulated income. All other liabilities of the Plan are due within three months.

The maturity analysis for Subscribers' contributions as at December 31, 2020 is as follows:

Due within one year	560,379
Due between one and five years	46,026,226
Due over five years	68,708,745
	\$ 115,295,350

The maturity analysis for Subscribers' contributions as at December 31, 2019 is as follows:

Due within one year	310,475
Due between one and five years	44,483,711
Due over five years	66,349,327
	\$ 111,143,513

Concentration risk

The table below summarizes the Plan's concentration risk as a percentage of its total investments (unrestricted and restricted) as at December 31, 2020 and 2019:

Concentration (%)	2020	2019
Fixed Income		
Federal	26.9 %	29.0 %
Provincial	0.9 %	- %
Corporate	27.5 %	24.9 %
Short-term investments	- %	2.5 %
Total Fixed Income	55.3 %	56.4 %
Equity ETFs	21.2 %	19.5 %
Bahamian Restricted Investments		
GICs	22.0 %	22.6 %
BEC Bond	1.5 %	1.5 %
Total Bahamian Restricted Investments	23.5 %	24.1 %
Total	100.0 %	100.0 %

Market risk

Changes in market prices could affect the Plan's income or the value of its investment holdings. The Plan's portfolio managers attempt to mitigate this risk by periodically reviewing market conditions and the performance of the portfolio and make necessary changes to the portfolio in accordance with the investment objective. Management has identified interest rate risk as a major factor related to the fixed income portfolio.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Plan holds securities which expose the Plan to interest rate risk. At December 31, 2020, had prevailing interest rates increased or

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decreased by 25 basis points, assuming a parallel shift in the yield curve, with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by \$1,471,687 (approximately 1.3% of the total unrestricted investment portfolio) (December 31, 2019 - \$1,192,300, approximately 1.2% of the total unrestricted investment portfolio). In practice, actual results may differ from this analysis and the difference could be material. The Plan manages interest rate risk through its portfolio managers by diversifying investments, as well as through the oversight of the Foundation's Board of Director's investment committee.

Other price risk

The Plan is exposed to other price risk, which is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Financial instruments held by the Plan are susceptible to market price risk arising from uncertainties about future prices of those instruments. The Plan's exposure to other price risk arises primarily from its investments in equity securities. As at December 31, 2020, if the investments in equities had increased or decreased by 5% with all other variables held constant, the net assets attributable to Subscribers and beneficiaries would have increased or decreased by \$1,513,150 (December 31, 2019 - \$1,313,903). The Plan manages other price risk through their experienced investment managers who, on behalf of the Plan, invest in well-diversified equity holdings.

Currency risk

The Plan is not exposed to any material currency risk as the Plan's assets and liabilities are denominated in United States dollars or Bahamian Dollars, which, as at December 31, 2020 and December 31, 2019, were at par with the United States dollar which is the functional currency of the Plan.

13 Capital management

The capital of the Plan is represented by the net assets attributable to subscribers and beneficiaries. The capital of the Plan can change on a daily basis as the Plan is subject to ongoing contributions and cancellations. In addition, EAPs and maturities occur at specified times during the year. The Plan is not subject to externally imposed capital requirements. However, the investments with respect to customers located in the Bahamas are restricted (note 6). The Plan's objective, when managing capital risk, is to safeguard subscribers' contributions received and to earn income on those amounts in order to pay EAPs to qualified beneficiaries. The Plan endeavours to invest subscribers' contributions and income earned thereon in appropriate investments, while maintaining sufficient liquidity to meet maturities, EAPs, cancellations and expenses in accordance with its investment objectives and risk management policies as described above. In order to manage the Plan's capital, the Plan's policy is to perform the following:

- Monitor the level of daily Subscriber contributions and withdrawals relative to the liquid assets and adjust the amount of cash invested accordingly;
- Monitor the level of expected future payments for maturities and EAPs based on maturity and student applications received, and historical beneficiary qualification rates, and adjust the investment portfolio accordingly; and

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- Invest in securities which are traded in an active market and can be easily liquidated.

There has been no change with respect to the overall capital risk management strategy during the year.

14 Portfolio management fees

Portfolio management fees, which are paid to the Plan's third-party investment managers, are calculated as a percentage of the total fair value of the Plan's investment portfolio. Portfolio management fees paid for the year ended December 31, 2020 was 0.073% (period ended December 31, 2019 amounted to 0.06%) of the total fair market value of the investment portfolio in the Plan.

15 Subsequent events

In 2020, the Board of Directors of Knowledge First Foundation initiated a process to divest Heritage International and the Foundation. In connection with the divestiture, the Foundation has received a signed letter of intent from a purchaser. The Knowledge First Foundation expects to execute a purchase and sale agreement and subsequently close the transaction, following regulatory approval, by June 30, 2021.