Butterfield US$ Bond Fund Limited

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016

To the Shareholders:

The net asset value per share on the Class A shares, after dividend distributions and fees, increased from $10.486 to $10.579 over the past year. Dividends were paid at a rate of 9.17 cents per share. The Class B shares increased from $10.722 to $10.808, after fees and dividends of 12.80 cents per share. Class C shares increased from $10.659 to $10.895 over the financial year. Unlike Classes A and B, Class C is an accumulating share class and does not pay dividends.

On a total return basis after all fees and expenses and including dividends, the Class A shares of the Fund delivered a return of 1.76% for the twelve months ended 30 June, 2016. Owing to lower management fee structures, the Class B shares of the fund delivered a return of 2.00% over the same period, while Class C generated a return of 2.21%. All Classes underperformed than the Fund's Benchmark Index, the BofA Merrill Lynch 1-5 Year AAA-A US Corporate and Government Index.

The net asset value of the Fund ended the financial year at $132.6 million, increasing by 4% from the end of the previous financial year. The Fund continues to benefit from a large and diversified shareholder base.

The Fund's disciplined and conservative investment style ensured that its AA-f bond fund credit rating and S2 bond fund volatility rating were again assigned by the officially recognized rating agency, Standard and Poor's.

Fund Review

Financial markets had an eventful year between 30 June, 2015 and 30 June, 2016 as China devalued its currency twice and the Federal Reserve finally raised interest rates for the first time in nine years. Volatility in August 2015 rose to its highest level since 2011 followed by several periods of risk aversion which impacted U.S. Treasury yields and credit spreads. Elevated market volatility, lower oil prices and weaker U.S. economic data ultimately prompted policy makers to keep interest rates on hold through 30 June, 2016.

A brief period of calm remained in place until close to the end of the Fiscal year when the British people, against broad market expectations, voted to leave the European Union. This triggered a rush to safety and a downgrade of inflation and growth outlooks globally.

During the second half of calendar 2015 U.S. Treasury yields were mostly range-bound, with the 10 year ending the year only 8bps lower than at 30 June, 2015. However, risk aversion surged in January of 2016 and U.S. Treasuries fell to a new low, whilst credit spreads rose to oversold levels. We remained invested in good quality credit throughout this volatile period.

As at 30 June, 2016 the Fund had 5% BBB-rated exposure, 78% of the Fund was rated AA or AAA and the average credit rating of the total fund was AA- as of the end of the year. The Fund remains overweight supranational issuers, non-US sovereign guaranteed issuers and corporate issuers versus the benchmark index and is heavily underweight US Treasuries.

The Fund also remains underweight interest rate risk, with the portfolio at 74% of the benchmark's duration. We ended the year with a 27% position in corporate floating rate notes, which have helped to suppress fund volatility and provide additional yield as LIBOR rates increased throughout 2016.

Fund Outlook & Strategy

The Federal Reserve has remained on hold through 30 June, 2016 and markets have priced a low probability of a rate rise this calendar year. Global monetary policy has continued to affect the portfolio channel and money has continued to flow to the U.S., as investors searched for yield. This has kept longer-term U.S. interest rates low, and in turn has kept the Fund's positioning conservative. In this environment we are comfortable with our underweight interest rate risk stance, preferring instead to generate alpha by remaining allocated to corporate fixed and floating rate notes.

Michael Neff
President
Butterfield US$ Bond Fund Limited
October 6, 2016

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Independent Auditors' Report

The Board of Directors
Butterfield US$ Bond Fund Limited

We have audited the accompanying financial statements of Butterfield US$ Bond Fund Limited (the Fund), which comprise the statements of financial position as at June 30, 2016 and 2015, and the statements of comprehensive income, changes in net assets attributable to holders of common shares and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider 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 audits 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 Butterfield US$ Bond Fund Limited as at June 30, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd.

October 6, 2016

DIRECTORS

Michael Neff (President)
Daniel Frumkin
Nigel Garrard

INVESTMENT ADVISER

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CUSTODIAN

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AUDITORS

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P.O. Box HM463
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STATEMENT OF FINANCIAL POSITION
As at June 30, 2016
(Expressed in US Dollars)

	Notes	June 30, 2016 US$	June 30, 2015 US$
ASSETS			
Cash and cash equivalents	2 h)	**11,566,343**	877,365
Financial assets at fair value through profit or loss (Cost; 2016-$123,340,869; 2015-$124,289,486)	3, 4	**124,741,746**	125,068,082
Interest receivable		**651,221**	875,967
Prepaid expenses and receivable		**7,117**	9,086
Total assets		**136,966,427**	126,830,500
LIABILITIES			
Due to broker		**4,122,535**	-
Dividends payable	6	**158,715**	128,326
Accrued expenses	7, 8	**111,463**	114,513
		4,392,713	242,839
Organisational shares	5	**12,000**	12,000
Total liabilities and equity (including net assets attributable to holders of common shares)		**136,966,427**	126,830,500
NET ASSETS ATTRIBUTABLE TO HOLDERS OF COMMON SHARES		**132,561,714**	126,575,661
Net assets attributable to holders of common shares-Class A		**16,560,078**	23,996,961
Number of common shares in issue-Class A	5	**1,565,395**	2,288,544
Net asset value per common share-Class A		**10.579**	10.486
Net assets attributable to holders of common shares-Class B		**40,600,109**	27,813,728
Number of common shares in issue-Class B	5	**3,756,464**	2,594,189
Net asset value per common share-Class B		**10.808**	10.722
Net assets attributable to holders of common shares-Class C		**75,401,527**	74,764,972
Number of common shares in issue-Class C	5	**6,920,825**	7,014,125
Net asset value per common share-Class C		**10.895**	10.659

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

SCHEDULE OF PORTFOLIO INVESTMENTS
As at June 30, 2016
(Expressed in US Dollars)

	Nominal		2016 Fair Value	% of Portfolio
INVESTMENTS				
Corporate and Government Securities				
Bank of America Corp 5.700% 05/02/17	1,145,000	$	1,185,278	0.95%
Bank of America NA FLT 05/08/17	100,000		100,074	0.08%
Barclays Bank Plc. 5.000% 09/22/16	50,000		50,424	0.04%
Caisse Francaise De Fin 4.625% 05/30/17	462,000		368,605	0.30%
Caisse Francaise De Fin. 5.250% 02/16/17	2,540,000		2,607,315	2.09%
CANADIAN IMPERIAL BANK 2.250% 07/21/20	3,000,000		3,074,754	2.46%
Chevron Corp Flt 03/03/22	615,000		599,712	0.48%
Chevron Corp FLT 11/15/21	1,795,000		1,742,970	1.40%
CIE Financement Foncier 5.625% 06/19/17	3,040,000		3,177,140	2.55%
Commonwealth Bank of Australia 1.875% 12/11/18	1,000,000		1,012,811	0.81%
Commonwealth Bank of Australia 5.000% 10/15/19	2,000,000		2,214,298	1.78%
Corp Andina De Fomento 5.750% 01/12/17	2,430,000		2,487,470	1.99%
Daimler Finance NA LLC 2.450% 05/18/20	1,000,000		1,029,043	0.82%
Dexia Credit Local SA NY 2.250% 01/30/19	3,200,000		3,262,589	2.62%
Exxon Mobil Corporation 1.819% 03/15/19	1,500,000		1,528,472	1.23%
Exxon Mobil Corporation 2.397% 03/06/22	2,500,000		2,563,990	2.06%
Fannie Mae 1.875% 02/19/19	5,000,000		5,138,345	4.12%
Freddie Mac 1.250% 08/01/19	3,000,000		3,036,804	2.43%
General Electric Capital Corporation Flt 03/15/23	3,500,000		3,478,209	2.79%
General Electric Capital Corporation Flt 03/28/20	960,000		947,945	0.76%
Goldman Sachs Group Inc. Flt 11/29/23	550,000		548,825	0.44%
HSBC Bank Plc. FLT 05/15/18	4,210,000		4,192,124	3.36%
ING Bank NV FLT 08/17/20 SR:144A	1,100,000		1,091,419	0.87%
ING Bank NV FLT 10/01/19 SR:144A	1,910,000		1,882,995	1.51%
ING Bank NV FLT 10/01/19 SR:REGS	620,000		611,234	0.49%
Intl Bk Recon & Develop 0.000% 05/01/18	250,000		243,472	0.20%
Jackson Natl. Life Global 4.700% 06/01/18	50,000		53,000	0.04%
JPMorgan Chase & Co FLT 01/23/20	2,130,000		2,135,306	1.71%
Massmutual Global Funding 2.000% 04/05/17	1,680,000		1,694,703	1.36%
Massmutual Golbal Funding 2.100% 08/02/18	600,000		612,022	0.49%
Massmutual Golbal Funding 2.450% 11/23/20	732,000		756,905	0.61%
Met Life Global Funding I 2.500% 12/03/20 SR:144A	3,250,000		3,342,411	2.68%
Microsoft Corp 2.650% 11/03/22	4,000,000		4,180,572	3.35%
Morgan Stanley 4.750% 03/22/17	4,000,000		4,099,200	3.29%
National Australia Bank 2.000% 02/22/19	2,935,000		2,987,575	2.40%
Nord/LB Covered Fin Bank 5.375% 06/05/17	2,702,000		2,811,580	2.25%
Pricoa Global Funding 1 1.600% 05/29/18	400,000		402,499	0.32%
Pricoa Global Funding 1 2.200% 05/16/19	1,250,000		1,279,686	1.03%
Royal Bank of Canada Flt 2.100% 10/14/20	2,230,000		2,270,764	1.82%
Royal Bank of Canada Flt 03/15/19	2,245,000		2,238,584	1.79%
Schlumberger Investment 3.300% 09/14/21	3,150,000		3,338,099	2.68%
Shell International Fin Flt 05/11/20	4,642,000		4,581,078	3.67%
Sparebank 1 Boligkreditt 1.250% 05/02/18	2,610,000		2,602,535	2.09%
Sparebank 1 Boligkreditt 2.300% 06/30/17	2,000,000		2,016,922	1.62%
Standard Chartered Plc 1.500% 09/08/17	1,009,000		1,004,428	0.81%
Statoil ASA 2.250% 11/08/19	1,000,000		1,025,585	0.82%
Svenska Handelsbanken AB Flt 06/17/19	3,150,000		3,128,791	2.51%
SW Airlines 07-1 Trust 6.150% 08/01/22	890,163		994,757	0.80%
Swedbank Hypotek AB 1.375% 03/28/18	2,550,000		2,563,138	2.05%

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

SCHEDULE OF PORTFOLIO INVESTMENTS (Continued)
As at June 30, 2016
(Expressed in US Dollars)

	Nominal		2016 Fair Value	% of Portfolio
Corporate and Government Securities (continued)				
Temasek Financial I Ltd 4.300% 10/25/19	3,000,000		3,287,319	2.64%
Toronto Dominion Bank Flt 07/02/19 SR:BKNT	4,500,000		4,477,095	3.59%
Total Capital Intl SA 2.125% 01/10/19	600,000		612,595	0.49%
Toyota Motor Credit Corp 2.800% 07/13/22	1,630,000		1,714,328	1.37%
US Treasury N/B 1.250% 03/31/21	2,000,000		2,023,282	1.62%
US Treasury N/B 1.625% 04/30/23	3,000,000		3,067,383	2.46%
Wells Fargo Company Flt 07/22/20	3,530,000		3,539,602	2.84%
Westpac Banking Corp 2.000% 03/03/20	400,000		403,400	0.31%
Westpac Banking Corp 2.300% 05/26/20	2,820,000		2,874,818	2.30%
XLIT LTD 2.300% 12/15/18	4,000,000		4,041,192	3.24%
		$	124,337,471	99.68%
Mortgage Backed Securities				
Fannie Mae 3.5% 09/01/2025 (FN AE3813)	381,220	$	404,275	0.32%
			404,275	0.32%
TOTAL INVESTMENTS				
(Cost 2016 - $123,340,869)		$	124,741,746	100.00%

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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended June 30, 2016
(Expressed in US Dollars)

	Notes	2016 US$	2015 US$
INCOME			
Net realised gain/(loss) on financial assets at fair value through profit or loss		**329,641**	(68,338)
Net change in unrealised gain/(loss) on financial assets at fair value through profit or loss		**622,278**	(552,709)
Interest		**2,320,359**	2,409,434
Total income		**3,272,278**	1,788,387
EXPENSES			
Management fee	7 a)	**216,528**	230,219
Administration fee	8	**221,817**	214,038
Custodian fee	7 b)	**72,134**	69,874
Audit fee		**17,000**	17,000
Government fee		**11,037**	11,006
Investment services fee	7 d)	**38,294**	39,298
Miscellaneous		**28,661**	32,356
Total expenses		**605,471**	613,791
NET INCOME		**2,666,807**	1,174,596
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO HOLDERS OF COMMON SHARES		**2,666,807**	1,174,596

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

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF COMMON SHARES
For the year ended June 30, 2016
(Expressed in US Dollars)

	Notes	2016 US$	2015 US$
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO HOLDERS OF COMMON SHARES		**2,666,807**	1,174,596
DISTRIBUTIONS TO INVESTORS			
Dividends paid and payable	6	**(570,054)**	(462,760)
CAPITAL STOCK TRANSACTIONS			
Issue of redeemable shares		**16,854,723**	16,733,107
Redemption of redeemable shares		**(12,965,423)**	(14,546,603)
Net capital stock transactions		**3,889,300**	2,186,504
NET INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF COMMON SHARES		**5,986,053**	2,898,340
NET ASSETS ATTRIBUTABLE TO HOLDERS OF COMMON SHARES – BEGINNING OF THE YEAR		**126,575,661**	123,677,321
NET ASSETS ATTRIBUTABLE TO HOLDERS OF COMMON SHARES – END OF YEAR		**132,561,714**	126,575,661

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

STATEMENT OF CASH FLOWS
For the year ended June 30, 2016
(Expressed in US Dollars)

	2016 US$	2015 US$
Cash flows from operating activities		
Net increase in net assets resulting from operations attributable to holders of common shares	**2,666,807**	1,174,596
Adjustments for:		
Purchase of financial assets	**(78,611,849)**	(39,863,575)
Net proceeds from sale of financial assets	**79,890,104**	32,029,408
Net realised (gain)/ loss on financial assets	**(329,641)**	68,338
Net change in unrealised (gain)/ loss on financial assets	**(622,278)**	552,709
Changes in:		
Interest receivable	**224,746**	42,618
Prepaid expenses and receivable	**1,969**	(300)
Due from broker	**-**	2,552,125
Accrued expenses	**(3,050)**	24,399
Due to broker	**4,122,535**	(3,092,059)
Net cash provided by/(used in) operating activities	**7,339,343**	(6,511,741)
Cash flows from financing activities		
Proceeds from issuance of shares	**16,593,260**	16,449,801
Payments from redemption of shares	**(12,965,423)**	(14,546,603)
Dividends paid	**(278,202)**	(159,667)
Net cash provided by financing activities	**3,349,635**	1,743,531
Net increase/(decrease) in cash and cash equivalents	**10,688,978**	(4,768,210)
Cash and cash equivalents – beginning of year	**877,365**	5,645,575
Cash and cash equivalents – end of year	**11,566,343**	877,365
Supplemental cash flow information:		
Interest received	**2,545,105**	2,452,052
Supplemental non-cash information:		
Common shares – Class A issued through dividend reinvestment	**129,349**	146,188
Common shares – Class B issued through dividend reinvestment	**132,115**	137,118

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2016
(Expressed in US Dollars)

1. CORPORATE INFORMATION

Butterfield US$ Bond Fund Limited (the "Fund") is an open-ended investment company which was incorporated under the laws of Bermuda on May 26, 1992.

The Fund commenced operations on July 1, 1992. Butterfield Trust (Bermuda) Limited acts as custodian (the "Custodian") to the Fund. Butterfield Asset Management Limited acts as investment adviser (the "Investment Adviser"). MUFG Fund Services (Bermuda) Limited acts as registrar and transfer agent and as accountants/administrator (the "Registrar and Transfer Agent" or "Administrator") for the Fund. The Custodian and Investment Adviser are wholly owned subsidiaries of The Bank of N.T. Butterfield & Son Limited (the "Bank").

The registered address of the Fund is c/o MUFG Fund Services (Bermuda) Limited, The Belvedere Building 69 Pitts Bay Road, Pembroke HM 08, Bermuda.

The Investment Adviser, Custodian and Bank each maintains separate business units, roles and responsibilities to ensure segregation between different functions.

The investment objective of the Fund is to maximise total returns whether through income or capital gains by investing in investment grade US Dollar denominated debt securities and other investments which may include US Dollar money market instruments and funds and bank time deposits. The Fund may also lend securities and write covered options on its portfolio in order to enhance its total return.

2. BASIS OF PREPARATION

Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Statements Board ("IASB"). The financial statements have been prepared on a historical-cost basis, except for financial assets held at fair value through profit or loss.

The financial statements are presented in United States Dollars, which is the functional currency of the Fund, and all values are rounded to the nearest dollar, except when otherwise stated.

The Fund presents its statement of financial position in order of liquidity.

Summary of significant accounting policies

a) Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the Fund's management to make judgements, estimates and assumptions that affect the amounts reported and disclosures made in the financial statements, and accompanying notes. Management believes that the estimates and assumptions utilised in preparing the Fund's financial statements are reasonable and prudent. Actual results could differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
(Expressed in US Dollars)

2. BASIS OF PREPARATION (Continued)

Summary of significant accounting policies (continued)

b) Financial instruments

i. Classification

The Fund classifies its financial assets and financial liabilities at initial recognition into the following categories, in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Financial assets and liabilities at fair value through profit or loss
The category of financial assets and liabilities at fair value through profit or loss is sub-divided into:

Financial assets and liabilities held for trading: financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. This category includes interest bearing investments. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price. All derivatives and liabilities from short sales of financial instruments are classified as held for trading.

Financial instruments designated at fair value through profit or loss upon initial recognition: these include investment in debt instruments not held for trading. The Fund did not hold any financial instruments designated at fair value through profit or loss upon initial recognition as at June 30, 2016 and 2015.

Receivables
Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market.

Other financial liabilities
This category includes all financial liabilities, other than those classified as held for trading. The Fund includes in this category amounts for other short-term payables.

ii. Recognition

The Fund recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

iii. Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Receivables and financial liabilities (other than those classified as held for trading) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Fund recognises the difference in the statement of comprehensive income, unless specified otherwise.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
(Expressed in US Dollars)

2. BASIS OF PREPARATION (Continued)

Summary of significant accounting policies (continued)

b) Financial instruments (continued)

iv. Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at fair value through profit or loss. Interest and dividend earned or paid on these instruments are recorded separately in interest revenue or expense and dividend revenue or expense.

Receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

v. Derecognition

A financial asset (or, where applicable, a part of a financial asset or a part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired or the Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and either: the Fund has transferred substantially all the risks and rewards of the asset, or the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its right to receive cash flows from an asset (or has entered into a pass-through arrangement), and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund’s continuing involvement in the asset. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained. The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
(Expressed in US Dollars)

2. BASIS OF PREPARATION (Continued)

Summary of significant accounting policies (continued)

c) Fair value measurement

The fair value of an asset or a 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 active markets at the reporting date is based on their quoted price or binding dealer price quotations, without any deduction for transaction costs.

It is the policy of the Fund to value any asset quoted, listed, traded or dealt with on an exchange or market by reference to the last traded price on or prior to the relevant Valuation Day on the major exchange or market in which the assets are dealt, to the extent that such valuation is based on a price within the bid-ask spread that is most representative of fair value on valuation date. In circumstances where the last traded price is not within the bid-ask spread, the Directors will determine the point within the bid-ask spread that is most representative of fair value.

The Directors at their absolute discretion may permit some other method of valuation to that described above if they consider such valuation better reflects the fair value of any investment.

d) Impairment of financial assets

The Fund assesses at each reporting date whether a financial asset or group of financial assets is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor/counterparty or a group of debtors/counterparties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate.

e) Functional and presentation currency

The Fund's functional currency is the US Dollar (US$), which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity is managed in US Dollars. Therefore, the US$ is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The Fund's presentation currency is also the US$.

f) Offsetting and financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal 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.

Management has determined that, as at June 30, 2016 and 2015, there were no assets and liabilities offset in the statement of financial position, nor were there any assets or liabilities available for offset. The Fund does not have a legally enforceable right to offset, nor does it have master netting agreements or similar arrangements that would allow for related amounts to be set off.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
(Expressed in US Dollars)

2. BASIS OF PREPARATION (Continued)

Summary of significant accounting policies (continued)

g) Foreign currency translations

Assets and liabilities that are denominated in foreign currencies are translated into US dollars at rates of exchange on the period end date. Transactions during the period are translated at the rate in effect at the date of the transaction. Foreign currency translation gains and losses are included in the statement of comprehensive income.

The Fund does not isolate that portion of gains and losses on investments which is due to changes in foreign exchange rates from that which is due to changes in market prices of the investments. Such fluctuations are included in the net realized and change in unrealized gain/(loss) on investments in the statement of comprehensive income.

h) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with original maturities of three months or less.

i) Due from and due to broker

Amounts due from and to brokers represents cash held with brokers and receivables for securities sold and payables for securities purchased that have been contracted for but not settled or delivered on the statement of financial position date, respectively. These amounts are recognized at fair value.

j) Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income for all interest-bearing financial instruments using the effective interest method.

k) Realised and change in unrealised gains and losses

Realised and change in unrealised gains/(losses) on financial assets at fair value through profit or loss are recognised in the statement of comprehensive income. The cost of investments sold is accounted for using the average cost basis.

l) Expenses

All expenses (including management fees) are recognized in the statement of comprehensive income on an accrual basis.

m) Going concern

The Fund’s management has assessed the Fund’s ability to continue as a going concern and is satisfied that the Fund has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Fund’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

n) Share capital

The Fund’s Organisational Shares are classified as equity in accordance with the Fund’s articles of association. These shares do not participate in the profits of the Fund.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
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2. BASIS OF PREPARATION (Continued)

Summary of significant accounting policies (continued)

o) Redeemable participating shares

Redeemable participating shares are redeemable at the shareholder's option and are classified as financial liabilities. The redeemable participating shares can be put back to the Fund on any dealing day (normally the next business day following the Valuation Day, which is on Wednesday in each week) at a value equal to a proportionate share of the Fund's net asset value ("NAV"). The Fund's net asset value per share is calculated by dividing the net assets attributable to holders of common shares with the total number of outstanding common shares.

p) Investment entity

IFRS 10 defines an investment entity and requires a reporting entity that meets the definition of an investment entity not to consolidate but instead to measure its investments at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments

Management has determined that the Fund meets the definition of an investment entity and recognizes all investments at fair value through profit and loss.

q) Impact of accounting pronouncements issued but not yet effective

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Fund is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Fund is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
(Expressed in US Dollars)

3. FINANCIAL RISK MANAGEMENT

The Fund's overall risk management approach includes formal guidelines to govern the extent of exposure to various types of risk. The Investment Adviser also has various internal controls to oversee the Fund's investment activities, including monitoring compliance with the investment objective and strategies, internal guidelines and securities regulations.

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The value of such securities on the statement of portfolio investments includes consideration of the creditworthiness of the issuer, and, accordingly represents the maximum credit risk exposure of the Fund.

Credit ratings below represent ratings of debt securities provided by Standard & Poor's and are subject to change, which could be material.

	% of Portfolio	
Debt Securities by Credit Rating	**2016**	2015
AAA	**11.11**	10.03
AA+	**18.22**	21.74
AA-	**29.54**	22.06
AA	**2.66**	5.33
A+	**1.31**	2.13
A-	**5.82**	16.16
A /*+	**0.08**	-
A	**10.18**	7.76
BBB+	**4.53**	-
BBB	**0.95**	3.28
Not Rated by S&P	**15.60**	11.51
	100.00	100.00

Credit ratings below represent ratings of debt securities provided by Moody's for the debt securities not rated by Standard & Poor's and are subject to change, which could be material.

	% of Portfolio	
Debt Securities by Credit Rating	**2016**	2015
Aaa	**15.60**	9.24
Aa1	**-**	2.27
	15.60	11.51

Substantially all of the assets of the Fund are held by the Fund's Custodian and the Bank. The Fund monitors its risk by monitoring the credit quality of the Custodian and the Bank. As at June 30, 2016, the credit ratings of the Custodian and the Bank, as provided by Standard and Poor's, were both BBB (2015 – BBB).

Currency Risk

Currency risk is the risk that the value of an investment will fluctuate due to changes in foreign exchange rates. When the Fund enters into transactions which are denominated in currencies other than the Fund's reporting currency the Investment Adviser attempts to mitigate the associated currency risk which may include the use of forward currency contracts. As at June 30, 2016 and 2015, the Fund's exposure to currencies other than the Fund's reporting currency was not significant; thus, any risks associated are likewise not significant to the Fund as a whole.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
(Expressed in US Dollars)

3. FINANCIAL RISK MANAGEMENT (Continued)

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. Prices of fixed income securities generally increase when interest rates decline, and decrease when interest rates rise. The Fund is exposed to these fluctuations through their holdings of fixed income securities. As at June 30, 2016, had the interest rates increased or decreased by 25 basis points and assuming a parallel shift in the yield curve, net assets would have increased or decreased by approximately $331,404 (2015 - $316,439). This change is estimated using the weighted average duration of the fixed income portfolio. This analysis assumes that all other variables remained unchanged. In practice, actual results may differ from this analysis and the difference could be material.

Liquidity Risk
Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to liquidity risk by way of weekly cash redemptions of redeemable units. However, the Fund retains sufficient cash, cash equivalents and actively traded marketable securities to maintain adequate liquidity to address this risk. The Fund also has a credit facility in place to assist the Fund in meeting short term liquidity requirements.

The table below indicates the Fund's holdings in fixed income securities by remaining term to maturity:

	Fair Value	
Debt Securities by Maturity	**2016**	2015
Less than 1 year	**$20,598,711**	$15,412,229
1 - 3 years	**36,660,386**	35,799,905
3 - 5 years	**44,606,057**	63,782,792
Greater than 5 years	**22,633,120**	8,180,665
Non-Interest bearing (Less then 1 year)	**-**	1,654,983
Non-Interest bearing (1-3 years)	**243,472**	237,508
	$124,741,746	$125,068,082

Price/Market Risk
Price/market risk is the risk that the value of investments will fluctuate as a result of market conditions. The Fund is exposed to price/market risk on its holdings of fixed income securities as discussed in the Interest Rate Risk section above. The Investment Adviser attempts to mitigate price/market risk by selecting appropriate portfolio investments based on the Fund's strategy.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
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4. FAIR VALUE OF FINANCIAL ASSETS

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are market observable for the asset or liability, either directly or indirectly; and,
- Level 3 – inputs for the asset or liability that are not based on observable market data, including the Fund's own assumptions in determining the fair value of investments.

All of the Fund's investments are classified within Level 2 of the fair value hierarchy as the value of these investments are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for the years ended June 30, 2016 and 2015.

Financial assets and liabilities transferred from Level 1 to Level 2 are the result of the securities no longer being traded in an active market. There were no transfers of financial assets and liabilities from Level 1 to Level 2 during the years ended June 30, 2016 and 2015. Financial assets and liabilities transferred from Level 2 to Level 1 are the result of the securities now being traded in an active market. There were no transfers of financial assets and liabilities from Level 2 to Level 1 during the years ended June 30, 2016 and 2015. The Fund did not hold any Level 3 investments at the beginning, during, or at the end of the years ended June 30, 2016 and 2015.

5. SHARES ISSUED AND OUTSTANDING

The authorised share capital of the Fund is $2,512,000 (2015 - $2,512,000) divided into:

8,300,000 (2015 - 8,300,000) Class A participating, non-voting common shares of a par value of $0.10 each share,
8,300,000 (2015 - 8,300,000) Class B participating, non-voting common shares of a par value of $0.10 each share,
8,400,000 (2015 - 8,400,000) Class C participating, non-voting common shares of a par value of $0.10 each share,
and 120,000 (2015 - 120,000) organisational non-participating, voting shares of a par value of $0.10 each share.

Details of number of shares issued and outstanding as of June 30, 2016 and 2015 are as follows:

		2016			2015	
Common Shares	**Class A**	**Class B**	**Class C**	Class A	Class B	Class C
Balance - beginning of year	**2,288,544**	**2,594,189**	**7,014,125**	2,615,997	2,080,419	7,002,948
Issue of common shares	**207,794**	**1,367,550**	**-**	167,823	1,113,254	283,554
Redemption of common shares	**(930,943)**	**(205,275)**	**(93,300)**	(495,276)	(599,484)	(272,377)
Balance - end of year	**1,565,395**	**3,756,464**	**6,920,825**	2,288,544	2,594,189	7,014,125
Organisational Shares	**120,000**	**-**	**-**	120,000	-	-

Common shares are allotted to subscribers at a value determined by reference to the weekly valuation of the net assets of the Fund. Common shares may be redeemed weekly for an amount equal to the net asset value per share as at the close of business on the Valuation Day, following receipt of the properly completed request for redemption, subject to the power of the directors to deduct there from an amount sufficient in their opinion to meet sale and fiscal charges incurred in realising assets to provide funds to meet the request.

The Class A, Class B and Class C shares have different minimums set for investors to subscribe to them, and there are differences in the management fees payable to the Investment Adviser in respect of such shares (see Note 7a).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
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5. SHARES ISSUED AND OUTSTANDING (CONTINUED)

The organisational shares are allocated to the Investment Adviser and its nominees. Under the Bye-Laws the organisational shares have only nominal rights if and so long as there are any other shares of the Fund in issue.

Capital Management

As a result of the ability to issue, repurchase and resell shares, the capital of the Fund can vary depending on the demand for redemptions and subscriptions to the Fund. The Fund is not subject to externally imposed capital requirements and has no legal restrictions on the issue, repurchase or resale of redeemable shares beyond those included in the Fund's Prospectus.

6. DIVIDENDS

Dividends declared by the Fund on Class A and B shares were as follows:

2016				2015			
Class A	**Class B**	**Declaration date**	**Amount**	Class A	Class B	Declaration Date	Amount
$0.0215	$0.0305	Sep 30, 2015	**$134,080**	$0.0194	$0.0282	Sep 30, 2014	$101,653
$0.0234	$0.0325	Dec 31, 2015	**136,019**	$0.0200	$0.0288	Dec 31, 2014	117,793
$0.0234	$0.0325	Mar 31, 2016	**141,240**	$0.0200	$0.0288	Mar 30, 2015	114,988
$0.0234	$0.0325	Jun 30, 2016	**158,715**	$0.0215	$0.0305	Jun 30, 2015	128,326
			$570,054				$462,760

7. RELATED PARTY TRANSACTIONS

a) Management Fee

The Investment Adviser is related to the Fund through common directorship.

Under the terms of the investment advisory agreement, the Investment Adviser is entitled to receive a monthly fee calculated at the rate of no more than 1% per annum of the average valuation of the net assets of the Fund carried out on the Valuation Days during each month. Presently, the monthly fee is calculated at the rate of 0.5% (2015 - 0.5%) per annum for the Class A shares and 0.25% (2015 - 0.25%) per annum for the Class B shares, and 0.25% (2015 - 0.25%) maximum per annum for the Class C shares. The fee of the Investment Adviser is reduced to take account of the management fee already levied on assets held in shares of other funds managed by the Investment Adviser. The fee of the Investment Adviser is also reduced for Class C shares to take account of certain Class C expenses. Management fee for the year was $216,528 (2015 - $230,219) with $21,223 (2015 - $22,025) being payable and included in accrued expenses at year end.

b) Custodian Fee

In accordance with the custodian agreement, the Custodian receives a fee based upon the nature and extent of the services provided. Relevant out-of-pocket expenses may also be charged to the Fund by the Custodian. The Custodian fee for the year was $72,134 (2015 - $69,874) with $18,259 (2015 - $16,938) being payable and included in accrued expenses at year end.

c) Credit Facility

On July 4, 2014, the Fund renewed the unsecured credit facility agreement with the Bank in the amount of $12,000,000 (2014 - $10,000,000). The agreement bears an interest rate of 1% per annum above the higher of the LIBOR or the funding costs incurred by the Bank in making the revolving credit facility available on any date of drawdown with accrued interest payable monthly in arrears.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
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7. RELATED PARTY TRANSACTIONS (CONTINUED)

c) Credit Facility (continued)

On June 26, 2015, the Fund renewed the unsecured credit facility agreement with the Bank. The terms remain unchanged from the previous agreement, as outlined above, with the exception of the repayment terms. The renewed agreement states that the full amount of any amount advanced under the revolving facility, together with the accrued interest and other amounts payable by the Fund to the Bank, is payable on the earlier of seven days following the utilization date or the expiry date, unless extended at the Bank's sole discretion. If any payment falls due and payable on a day which is not a business day the payment shall be made on the next following business day. The renewed unsecured facility expired on June 30, 2016.

On July 12, 2016 the Bank extended the credit facility limits from the June 26, 2016 renewed agreement to August 15, 2016 in order to allow sufficient time to issue new facility letters.

On August 30, 2016, the Fund renewed the unsecured credit facility agreement with the Bank. The terms remain unchanged from the previous agreement, as outlined above. The renewed unsecured facility expires on June 30, 2017.

d) Investment Services Fee

The investment services fee is paid to the Bank for additional registrar and transfer agent services provided to the Fund which had been previously provided by the Administrator. The investment services fee is a set fee for the Butterfield group of funds, allocated to the individual funds based on their proportion of Net Asset Value. The fee for 2016 was $38,294 (2015: $39,298), with $- (2015: $586) being payable and included in accrued expenses at year end.

8. ADMINISTRATION FEE

In accordance with the administration agreement, the Administrator receives a fee based upon the nature and extent of the services provided. Administration fee for the year was $221,817 (2015 - $214,038) with $54,116 (2015 - $54,257) being payable and included in accrued expenses at the year end.

9. TAXATION

Under current Bermuda law, the Fund is not obligated to pay taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda, pursuant to the provisions of the exempted undertaking Tax Protection Act, 1966 which exempts the Fund from any such Bermuda taxes until March 28, 2016.

In March 2011, the Bermuda Government enacted the Exempted Undertakings Tax Protection Amendment Act 2011 allowing the Minister of Finance to grant assurance up to March 31, 2035. On January 29, 2015 the Minister of Finance granted assurance to the Fund up to that date.

10. COMMITMENTS AND CONTINGENCIES

Management has determined that the Fund had no commitments or contingencies as at June 30, 2016 (2015: none).

11. SUBSEQUENT EVENTS

The Fund has evaluated all the events or transactions that occurred after June 30, 2016 through October 6, 2016, the date the financial statements were available to be issued. During this period, the Fund did not have any material subsequent events.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended June 30, 2016
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12. FINANCIAL HIGHLIGHTS

	2016			2015		
Per Share Information	**Class A**	**Class B**	**Class C**	Class A	Class B	Class C
Net asset value - beginning of year	**$10.486**	**$10.722**	**$10.659**	$10.500	$10.744	$10.546
Income from investment operations						
Net investment income****	**0.108**	**0.135**	**0.156**	0.120	0.148	0.166
Net realised & change in unrealised gain/(loss) on investments	**0.077**	**0.079**	**0.080**	(0.053)	(0.054)	(0.053)
Total income from investment operations	**0.185**	**0.214**	**0.236**	0.067	0.094	0.113
Distributions to investors	**(0.092)**	**(0.128)**	**-**	(0.081)	(0.116)	-
Net asset value - end of year	**$10.579**	**$10.808**	**$10.895**	$10.486	$10.722	$10.659
Ratios / Supplemental Data						
Total net assets - end of year (in thousands)	**$16,560**	**$40,600**	**$75,402**	$23,997	$27,814	$74,765
Weighted average net assets (in thousands)*	**$19,506**	**$32,889**	**$74,941**	$25,122	$24,840	$75,320
Ratio of expenses to average net assets	**0.86%**	**0.53%**	**0.35%**	0.80%	0.55%	0.35%
Portfolio turnover rate**	**66.11%**	**66.11%**	**66.11%**	25.66%	25.66%	25.66%
Annual rate of return***	**1.76%**	**2.00%**	**2.21%**	0.64%	0.88%	1.07%

* Weighted average net assets are calculated using net assets on the last valuation date of each month.
** Portfolio turnover rate is calculated using the lesser of purchases or sales of investments for the year divided by the weighted average value of investments, calculated using the last valuation date of each month.
*** Annual rate of return for shareholders who reinvested dividends is calculated by comparing the end of year net asset value per share plus any dividend per share amounts to the beginning of year net asset value per share.
****Net investment income represents interest income net of expenses.

13. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on October 6, 2016.