

# Butterfield US\$ Bond Fund Limited

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
JUNE 30, 2019

# Butterfield US\$ Bond Fund Limited

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## To the Shareholders:

We are pleased to present the Annual Report of the Fund for the twelve months ended June 30th 2019. The net asset value per share on the Class A shares, after dividend distributions and fees, increased from \$10.371 to \$10.638 over the past year. Dividends were paid at a rate of 16.41 cents per share. The Class B shares increased from \$10.583 to \$10.855, after fees and dividends of 19.4 cents per share. Class C shares increased from \$11.018 to \$11.52 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 fees and including dividends, the Class A shares of the Fund delivered a return of 4.16% for the twelve months ended June 30th 2019. Owing to lower management fee structures, the Class B shares of the fund delivered a return of 4.4% over the same period, while Class C generated a return of 4.56%. All Classes underperformed the BofA Merrill Lynch 1-5 Year AAA-A US Corporate and Government Index which returned 5.13%. This was primarily due to the underweight interest rate risk positioning during Q4 2018. The net asset value of the Fund ended the financial year at \$124.6 million, a decrease of 3.4% over the prior 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

Over the course of the past 12 months the US rates market has seen a dramatic turnaround in what is almost the mirror image of the previous year as yields declined sharply by around -100bps across the whole yield curve. This came even as the Federal Reserve raised interest rates, for the final time this cycle, in December despite the global economy continuing to weaken and risk assets experiencing a broad based sell-off.

With a global rebound in activity proving to be elusive, and trade war rhetoric dialing up, the Federal Reserve is very likely to start cutting interest rates again possibly as early as July. However, this easing bias has already been priced within bond markets.

In credit markets the broad based decline in risk assets in Q4 provided some relative valued opportunities. One positive outcome of the volatility in Q4 was that global central banks firmly moved into an easing stance, via balance sheet maneuvers or public statements. This should be supportive in the short term of risk assets and did succeed in stabilizing markets in December.

The fund has continued to increase its allocation to lower risk securities due to monetary policy and geopolitical uncertainty. Credit risk remains in the fund but is very tightly controlled and selective where the risk/reward outlook is compelling. Rich valuations in investment grade credit has resulted in the fund adding agency Mortgage Backed Securities (MBS) as higher refinance activity has the asset class cheaper.

As of the end of the fiscal year the Fund had 7.2% of BBB-rated exposure and 68% of the Fund was rated AA-, AA or AAA with the average credit rating of the total fund at AA-. The Fund remains slightly overweight corporate issuers versus the benchmark index but continues to monitor overall credit risk as current valuations are rich vs global economic activity.

The Fund also remains underweight the short end of the curve and interest rate risk, with portfolio duration at 75% of the benchmark, but maintains a hedge via an overweight to longer bonds. The fund continues to hold a 17.64% position in floating rate notes, 36.23% in Treasury Inflation Protected securities and as mentioned above has established a 3.1% position in high quality Mortgage Backed Securities.

**Dwayne Outerbridge CFA**  
**President**  
**Butterfield US\$ Bond Fund Limited**  
**October 18, 2019**



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## Independent Auditor's Report

The Board of Directors  
Butterfield US\$ Bond Fund Limited

### Opinion

We have audited the financial statements of Butterfield US\$ Bond Fund Limited (the Fund), which comprise the statement of financial position as at June 30, 2019, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable shares and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### 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 are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Fund's financial reporting process.

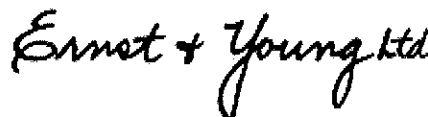
### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund 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 the Board of Directors 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.



October 18, 2019

# Butterfield US\$ Bond Fund Limited

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## **DIRECTORS**

Dwayne Outerbridge  
Jeffrey Abbott  
Nigel Garrard

## **INVESTMENT ADVISER**

Butterfield Asset Management Limited  
65 Front Street  
Hamilton HM 12  
Bermuda

## **CUSTODIAN**

The Bank of N.T. Butterfield & Son Limited  
65 Front Street  
Hamilton HM 12  
Bermuda

## **REGISTRAR, TRANSFER AGENT AND ADMINISTRATOR**

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building  
69 Pitts Bay Road  
Pembroke HM 08  
Bermuda

## **AUDITORS**

Ernst & Young Ltd.  
3 Bermudiana Road  
Hamilton HM 08  
Bermuda

# Butterfield US\$ Bond Fund Limited

## STATEMENT OF FINANCIAL POSITION

As at June 30, 2019

(Expressed in US Dollars)

	Notes	June 30, 2019 US\$	June 30, 2018 US\$
<b>ASSETS</b>			
Cash and cash equivalents	2 h)	3,530,412	2,872,525
Financial assets at fair value through profit or loss (Cost: 2019-\$118,586,183; 2018-\$128,256,292)	3, 4	118,854,279	125,988,681
Due from broker		2,994,442	-
Interest receivable		652,181	720,354
Prepaid expenses		11,974	21,578
<b>Total assets</b>		<b>126,043,288</b>	<b>129,603,138</b>
<b>LIABILITIES</b>			
Due to broker		997,831	-
Dividends payable	6	368,983	348,324
Accrued expenses	7, 8	96,608	98,529
Subscriptions received in advance		-	190,000
<b>Total liabilities</b>		<b>1,463,422</b>	<b>636,853</b>
Organisational shares	5	12,000	12,000
<b>Total liabilities and equity (including net assets attributable to holders of redeemable shares)</b>		<b>126,043,288</b>	<b>129,603,138</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b>		<b>124,567,866</b>	<b>128,954,285</b>
<b>Net assets attributable to holders of redeemable shares-Class A</b>			
Number of redeemable shares in issue-Class A	5	855,716	1,118,512
<b>Net asset value per redeemable share-Class A</b>		<b>10.638</b>	<b>10.371</b>
<b>Net assets attributable to holders of redeemable shares-Class B</b>			
Number of redeemable shares in issue-Class B	5	7,014,326	6,430,680
<b>Net asset value per redeemable share-Class B</b>		<b>10.855</b>	<b>10.583</b>
<b>Net assets attributable to holders of redeemable shares-Class C</b>			
Number of redeemable shares in issue-Class C	5	3,413,809	4,474,701
<b>Net asset value per redeemable share-Class C</b>		<b>11.520</b>	<b>11.018</b>

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

# Butterfield US\$ Bond Fund Limited

## SCHEDULE OF PORTFOLIO INVESTMENTS As at June 30, 2019

(Expressed in US Dollars)

INVESTMENTS	Nominal US\$	2019	
		Fair Value	% of Portfolio
<b>Corporate and Government Securities</b>			
Abbvie Inc 2.500% 05/14/20	2,500,000	\$ 2,499,763	2.10%
American Airlines 16-2 AA PTT 3.200% 06/15/28 SR:AA	1,754,000	1,767,506	1.49%
Bank of Nova Scotia 1.875% 09/20/21 SR:144A	400,000	398,204	0.34%
BMW US Capital LLC 3.250% 08/14/20 SR:144A	3,500,000	3,531,395	2.97%
BNP Paribas 3.375% 01/09/25 SR:144A	2,500,000	2,543,613	2.14%
Commonwealth Bank of Australia 5.000% 10/15/19 SR:REGS	2,000,000	2,015,174	1.70%
Corp Andina De Fomento 4.375% 06/15/22	1,227,000	1,291,074	1.09%
European Investment Bank FLT 10/08/21	2,500,000	2,498,323	2.10%
General Electric Capital Corporation FLT 03/28/20	2,500,000	2,494,533	2.10%
Goldman Sachs Group Inc 2.350% 11/15/21	2,500,000	2,497,508	2.10%
Goldman Sachs Group Inc FLT 11/29/23 Sr:Mtn	550,000	564,740	0.48%
ING Bank NV 2.700% 08/17/20 SR:144A	778,000	782,011	0.66%
ING Bank NV FLT 08/17/20 SR:144A	1,100,000	1,109,583	0.93%
Jackson Natl. Life Global 2.500% 06/27/22 SR:144A	3,440,000	3,453,822	2.91%
L-Bank BW Foerderbank FLT 03/15/22 SR:EMTN	2,600,000	2,602,210	2.19%
Lloyds Banking Group Place FLT 11/07/23 SR:.	3,000,000	3,004,983	2.53%
Massmutual Global Fundin 2.450% 11/23/20 SR:144A	732,000	734,686	0.62%
Met Life Global Funding I 2.500% 12/03/20 SR:144A	3,250,000	3,257,638	2.74%
New York Life Global Funding 2.000% 04/09/20 SR:144A	500,000	499,169	0.42%
Nordea Bank AB FLT 05/29/20 SR:144A	2,000,000	2,006,768	1.69%
Protective Life Global 2.615% 08/22/22 SR:144A	3,000,000	3,013,335	2.54%
Renaissancere Finance 3.450% 07/01/27	745,000	759,616	0.64%
Renre North America Holding 5.750% 03/15/20	3,510,000	3,591,488	3.02%
Royal Bank Of Canada 2.100% 10/14/20	2,230,000	2,231,061	1.88%
Societe Generale 5.200% 04/15/21 Sr:144A	2,500,000	2,613,048	2.20%
Sumitomo Mitsui Financial Group FLT 07/12/22	3,330,000	3,343,340	2.81%
Svenska Handelsbanken AB FLT 05/24/21 SR:BKNT	3,330,000	3,344,985	2.81%
SW Airlines 07-1 Trust 6.150% 08/01/22 SR:07-1	666,760	702,598	0.59%
Temasek Financial I Ltd 4.300% 10/25/19 SR:REGS	3,000,000	3,018,009	2.54%
Westpac Banking Corp 2.000% 03/03/20 SR:144A	400,000	399,276	0.34%
Westpac Banking Corp 2.300% 05/26/20	2,820,000	2,820,657	2.37%
Govt Of Bermuda 4.854% 02/06/24 Sr:Regs	3,500,000	3,788,785	3.19%
Japan Finance Organization for Municipalities 2.125% 04/13/21 SR:REGS	2,000,000	1,998,918	1.68%
Japan Finance Organization for Municipalities 2.625% 04/20/22 SR:REGS	1,020,000	1,033,400	0.87%
TSY Influx IX N/B 0.125% 04/15/22	4,203,440	4,170,472	3.51%
TSY Influx IX N/B 0.125% 07/15/26	4,264,720	4,235,583	3.56%
TSY Influx IX N/B 0.375% 01/15/27	4,265,775	4,294,906	3.61%
TSY Influx IX N/B 0.625% 04/15/23	4,115,520	4,163,988	3.50%
US Treasury N/B 1.375% 09/30/23	3,000,000	2,955,000	2.49%
US Treasury N/B 1.625% 04/30/23	3,000,000	2,988,165	2.51%
US Treasury N/B 2.000% 11/30/22	3,000,000	3,027,069	2.55%
US Treasury N/B 2.375% 03/15/22	3,000,000	3,053,436	2.57%

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

# Butterfield US\$ Bond Fund Limited

## SCHEDULE OF PORTFOLIO INVESTMENTS (Continued) As at June 30, 2019

(Expressed in US Dollars)

INVESTMENTS	Nominal US\$	2019	% of Portfolio
		Fair Value	
<b>Corporate and Government Securities (continued)</b>			
US Treasury N/B 2.500% 01/31/21	3,000,000	3,031,407	2.55%
US Treasury N/B 2.500% 02/15/22	3,000,000	3,058,944	2.57%
US Treasury N/B 2.500% 02/28/21	2,000,000	2,022,266	1.70%
US Treasury N/B 2.500% 12/31/20	3,000,000	3,029,064	2.54%
US Treasury N/B 2.750% 11/30/20	3,000,000	3,037,500	2.55%
		\$ 115,279,019	96.99%
<b>Mortgage Backed Securities</b>			
Fannie Mae 3.500% 09/01/25	166,505	171,865	0.14%
Fannie Mae 3.000% 05/01/45	515,583	523,131	0.44%
Fannie Mae 3.000% 12/01/45	476,405	482,989	0.41%
Fannie Mae 3.000% 08/01/46	220,492	224,155	0.19%
Fannie Mae 3.000% 07/01/43	719,650	732,406	0.62%
Fannie Mae 3.000% 05/01/45	494,085	501,472	0.42%
Fannie Mae 3.000% 07/01/45	487,037	494,118	0.42%
Fannie Mae 3.000% 10/01/46	217,756	220,599	0.19%
Ginnie Mae 2.500% 09/20/46	223,219	224,525	0.18%
		\$ 3,575,260	3.01%
<b>TOTAL INVESTMENTS (Cost: 2019 - \$118,586,183)</b>		<b>\$ 118,854,279</b>	<b>100.00%</b>

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



# Butterfield US\$ Bond Fund Limited

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended June 30, 2019

(Expressed in US Dollars)

	Notes	2019 US\$	2018 US\$
<b>INCOME</b>			
Net realised gain on financial assets at fair value through profit or loss		77,793	243,473
Net change in unrealised gain/(loss) on financial assets at fair value through profit or loss		2,535,707	(2,516,271)
Interest		3,377,417	3,185,423
<b>Total income</b>		<b>5,990,917</b>	<b>912,625</b>
<b>EXPENSES</b>			
Management fee	7 a)	292,109	259,777
Administration fee	8	159,392	190,938
Custodian fee	7 b)	60,384	69,441
Audit fee		22,035	19,800
Government fee		10,220	9,962
Investment services fee	7 d)	-	24,525
Miscellaneous		32,902	32,156
<b>Total expenses</b>		<b>577,042</b>	<b>606,599</b>
<b>NET INCOME</b>		<b>5,413,875</b>	<b>306,026</b>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b>			
		<b>5,413,875</b>	<b>306,026</b>

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

# Butterfield US\$ Bond Fund Limited

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES For the year ended June 30, 2019 (Expressed in US Dollars)

	Notes	2019 US\$	2018 US\$
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b>		<b>5,413,875</b>	<b>306,026</b>
<b>DISTRIBUTIONS TO INVESTORS</b>			
Dividends paid and payable	6	<b>(1,475,573)</b>	<b>(1,142,784)</b>
<b>CAPITAL STOCK TRANSACTIONS</b>			
Issue of redeemable shares		<b>77,283,960</b>	<b>25,438,175</b>
Redemption of redeemable shares		<b>(85,608,681)</b>	<b>(26,079,914)</b>
Net capital stock transactions		<b>(8,324,721)</b>	<b>(641,739)</b>
<b>NET DECREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES</b>		<b>(4,386,419)</b>	<b>(1,478,497)</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES – BEGINNING OF THE YEAR</b>		<b>128,954,285</b>	<b>130,432,782</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SHARES – END OF YEAR</b>		<b>124,567,866</b>	<b>128,954,285</b>

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

# Butterfield US\$ Bond Fund Limited

## STATEMENT OF CASH FLOWS For the year ended June 30, 2019 (Expressed in US Dollars)

	2019 US\$	2018 US\$
<b>Cash flows from operating activities</b>		
Net increase in net assets resulting from operations attributable to holders of redeemable shares	5,413,875	306,026
<i>Adjustments for:</i>		
Purchase of financial assets	(60,482,400)	(39,985,328)
Net proceeds from sale of financial assets	70,230,302	37,413,485
Net realised gain on financial assets	(77,793)	(243,473)
Net change in unrealised (gain)/loss on financial assets	(2,535,707)	2,516,271
Changes in:		
Interest receivable	68,172	(109,727)
Prepaid expenses	9,605	(12,541)
Due from broker	(2,994,442)	-
Accrued expenses	(1,921)	(24,618)
Due to broker	997,831	-
<b>Net cash provided by/(used in) operating activities</b>	<b>10,627,522</b>	<b>(139,905)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of shares	76,489,872	25,187,686
Payments from redemption of shares	(85,608,681)	(26,079,914)
Dividends paid	(850,826)	(561,990)
<b>Net cash used in financing activities</b>	<b>(9,969,635)</b>	<b>(1,454,218)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>657,887</b>	<b>(1,594,123)</b>
<b>Cash and cash equivalents – beginning of year</b>	<b>2,872,525</b>	<b>4,466,648</b>
<b>Cash and cash equivalents – end of year</b>	<b>3,530,412</b>	<b>2,872,525</b>
<b>Supplemental cash flow information:</b>		
Interest received	3,440,613	3,075,696
<b>Supplemental non-cash information:</b>		
Redeemable shares – Class A issued through dividend reinvestment	106,700	106,476
Redeemable shares – Class B issued through dividend reinvestment	497,387	327,013

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

# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2019

(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. The Bank of N. T. Butterfield & Son 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.

#### 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.

##### b) Financial instruments

###### i. Classification

In the current period the Fund has adopted IFRS 9 Financial Instruments. See Note 2 q) for an explanation of the impact. Comparative figures for the year ended June 30, 2018 have not been restated. Therefore, financial instruments in the comparative period are still accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended June 30, 2019

(Expressed in US Dollars)

### 2. BASIS OF PREPARATION (Continued)

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

#### b) Financial instruments (continued)

##### i. Classification (continued)

##### **Policy effective from July 1, 2018 (IFRS 9)**

In accordance with IFRS 9, the Fund classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- (a) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or
- (b) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking or
- (c) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument)

##### **Financial assets**

The Fund classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The entity's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

##### ***Financial assets measured at amortised cost***

A debt instrument is measured at amortised cost if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Fund includes in this category short-term non-financing receivables including cash collateral posted on derivative contracts, accrued income and other receivables.

##### ***Financial assets measured at fair value through profit or loss (FVPL)***

A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell or
- (c) At initial recognition, it is irrevocably designated as measured at FVPL when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

# Butterfield US\$ Bond Fund Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)  
For the year ended June 30, 2019

## 2. BASIS OF PREPARATION (Continued)

### Summary of significant accounting policies (continued)

#### b) Financial instruments (continued)

##### i. Classification (continued)

The Fund includes in this category:

*Debt instruments:* These include investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains.

*Instruments held for trading:* This category includes equity instruments and debt instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative contracts in an asset position.

#### Financial liabilities

##### ***Financial liabilities measured at fair value through profit or loss (FVPL)***

A financial liability is measured at FVPL if it meets the definition of held for trading.

The Fund includes in this category, derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

##### ***Financial liabilities measured at amortised cost***

This category includes all financial liabilities, other than those measured at fair value through profit or loss. The Fund includes in this category convertible bonds, debentures, and other short-term payables.

##### **Classification - Policy effective before July 1, 2018 (IAS 39)**

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 subdivided 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 investment funds, exchange traded funds, equities and other 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. The Fund's policy is not to apply hedge accounting.

*Financial instruments designated at fair value through profit or loss upon initial recognition:* these include investment funds, exchange traded funds, equities and other interest bearing investments and derivatives 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, 2018.

# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended June 30, 2019

### 2. BASIS OF PREPARATION (Continued)

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

#### b) Financial instruments (continued)

##### i. Classification (continued)

###### **Receivables and Loans**

Receivables and Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes in this category collateral on derivatives, securities borrowed and other short-term receivables.

###### **Other financial liabilities**

This category includes all financial liabilities, other than those classified at FVPL. The Fund includes in this category debentures, collateral on derivatives, securities lent and 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 FVPL are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and liabilities (other than those classified at FVPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue.

##### iv. Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified at FVPL, 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 FVPL in the statement of comprehensive income. Interest and dividends earned or paid on these instruments are recorded separately in interest revenue or expense and dividend revenue or expense in the statement of comprehensive income.

Financial liabilities, other than those classified at FVPL, 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.

The effective interest method (EIR) is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

# Butterfield US\$ Bond Fund Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)  
For the year ended June 30, 2019  
(Expressed in US Dollars)

## 2. BASIS OF PREPARATION (Continued)

### Summary of significant accounting policies (continued)

#### b) Financial instruments (continued)

##### 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 when 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 the Fund has:

(a) Transferred substantially all of the risks and rewards of the asset, or

(b) 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.

#### 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 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

##### Policy effective from July 1, 2018 (IFRS 9)

The Fund holds only trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and, as such, has chosen to apply an approach similar to the simplified approach for expected credit losses (ECL) under IFRS 9 to all its trade receivables. Therefore the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.



# Butterfield US\$ Bond Fund Limited

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NOTES TO THE FINANCIAL STATEMENTS (Continued)  
For the year ended June 30, 2019  
(Expressed in US Dollars)

## 2. BASIS OF PREPARATION (Continued)

### Summary of significant accounting policies (continued)

#### d) Impairment of financial assets (continued)

##### Policy effective from July 1, 2018 (IFRS 9) (continued)

The Fund uses the provision matrix as a practical expedient to measuring ECLs on trade receivables, based on days past due for groupings of receivables with similar loss patterns. Receivables are grouped based on their nature. The provision matrix is based on historical observed loss rates over the expected life of the receivables and is adjusted for forward-looking estimates.

##### Policy effective before July 1, 2018 (IAS 39)

The Fund assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be 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, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter 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 ECLs that have not yet been incurred) discounted using the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as credit loss expense.

Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If a previous write-off is later recovered, the recovery is credited to the credit loss expense.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### 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, 2019 and 2018, 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.

# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended June 30, 2019

(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 and IFRS. These shares do not participate in the profits of the Fund.

# Butterfield US\$ Bond Fund Limited

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**NOTES TO THE FINANCIAL STATEMENTS (Continued)**  
For the year ended June 30, 2019  
(Expressed in US Dollars)

## **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 redeemable shares with the total number of outstanding redeemable 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 on a fair value basis.

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 new accounting pronouncements**

##### **IFRS 9 – Financial Instruments**

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after January 1, 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The classification and measurement requirements of IFRS 9 may be adopted retrospectively as of the date of initial application on July 1, 2018, however, the Fund has chosen to take advantage of the option not to restate comparatives. Therefore, the 2018 figures are presented and measured under IAS 39. The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Fund's financial assets and financial liabilities as at July 1, 2018.

# Butterfield US\$ Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
For the year ended June 30, 2019  
(Expressed in US Dollars)

## 2. BASIS OF PREPARATION (Continued)

### q) Impact of new accounting pronouncements (continued)

#### IFRS 9 – Financial Instruments (continued)

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 US\$	New carrying amount under IFRS 9 US\$
<b>Financial assets</b>				
Corporate and Government				
Debt Securities	Held for trading at FVPL	FVPL	125,760,091	125,760,091
Mortgage Backed securities	Held for trading at FVPL	FVPL	228,590	228,590
Cash and cash equivalents	Loans and receivables	Amortised cost	2,872,525	2,872,525
Interest receivable	Loans and receivables	Amortised cost	720,354	720,354
Prepaid expenses	Loans and receivables	Amortised cost	21,578	21,578
<b>Total financial assets</b>			<b>129,603,138</b>	<b>129,603,138</b>

#### IFRS 15 Revenue from contracts with customers

The Fund adopted IFRS 15 Revenue from contracts with customers on its effective date of July 1, 2018. IFRS 15 replaces IAS 18 Revenue and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income have been moved from IAS 18 to IFRS 9 without significant changes to the requirements. Therefore, there was no impact of adopting IFRS 15 for the Fund.

## 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.

# Butterfield US\$ Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
For the year ended June 30, 2019  
(Expressed in US Dollars)

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### Credit Risk (continued)

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

Debt Securities by Credit Rating	% of Portfolio	
	2019	2018
AAA	6.83	6.33
AA+	5.53	27.20
AA-	18.97	30.00
AA	-	2.54
A+	14.45	10.24
A-	6.47	16.72
A/*-	2.10	3.57
A	2.20	0.68
BBB+	7.20	2.72
AA+u	36.25	-
	100.00	100.00

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, 2019, the credit ratings of the Custodian and the Bank, as provided by Standard and Poor's, were both BBB+ (2018 – 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, 2019 and 2018, 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.

### 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, 2019, had the interest rates increased or decreased by 25 basis points and assuming a direct impact to the net assets by 25 basis points, net assets would have decreased or increased by approximately \$311,420 (2018 - \$322,386). 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 shares. However, the Fund retains sufficient cash, cash equivalents and 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.

# Butterfield US\$ Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
For the year ended June 30, 2019  
(Expressed in US Dollars)

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### Liquidity Risk (continued)

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

Debt Securities by Maturity	Fair Value	
	2019	2018
Less than 1 year	\$ 19,344,837	\$ 15,195,995
1 - 3 years	54,780,955	45,911,762
3 - 5 years	27,552,003	37,462,812
Greater than 5 years	17,176,484	27,418,112
	<b>\$ 118,854,279</b>	<b>\$ 125,988,681</b>

### 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.

## 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 as follows for the years ended June 30, 2019 and 2018.

### June 30, 2019

Classification	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Financial assets</b>				
Corporate and government debt securities	-	115,279,019	-	115,279,019
Mortgage-backed securities	-	3,575,260	-	3,575,260
<b>Total financial assets</b>	-	<b>118,854,279</b>	-	<b>118,854,279</b>

### June 30, 2018

Classification	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Financial assets</b>				
Corporate and government debt securities	-	125,760,091	-	125,760,091
Mortgage-backed securities	-	228,590	-	228,590
<b>Total financial assets</b>	-	<b>125,988,681</b>	-	<b>125,988,681</b>

# Butterfield US\$ Bond Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS (Continued) For the year ended June 30, 2019 (Expressed in US Dollars)

### 4. FAIR VALUE OF FINANCIAL ASSETS (Continued)

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, 2019 and 2018. 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, 2019 and 2018. The Fund did not hold any Level 3 investments at the beginning, during, or at the end of the years ended June 30, 2019 and 2018.

### 5. SHARES ISSUED AND OUTSTANDING

As at June 30, 2019 and June 30, 2018, the authorised share capital of the Fund is \$2,512,000 divided into:

8,300,000 Class A participating, non-voting redeemable shares of a par value of \$0.10 each share,  
8,300,000 Class B participating, non-voting redeemable shares of a par value of \$0.10 each share,  
8,400,000 Class C participating, non-voting redeemable shares of a par value of \$0.10 each share,  
and 120,000 (2018 - 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, 2019 and 2018 are as follows:

Redeemable Shares	2019			2018		
	Class A	Class B	Class C	Class A	Class B	Class C
Balance - beginning of year	1,118,512	6,430,680	4,474,701	1,204,107	4,670,743	6,160,429
Issue of redeemable shares	45,635	1,331,438	5,540,833	197,129	2,183,349	-
Redemption of redeemable shares	(308,431)	(747,792)	(6,601,725)	(282,724)	(423,412)	(1,685,728)
Balance - end of year	855,716	7,014,326	3,413,809	1,118,512	6,430,680	4,474,701
<b>Organisational Shares</b>	<b>120,000</b>	-	-	120,000	-	-

Redeemable shares are allotted to subscribers at a value determined by reference to the weekly valuation of the net assets of the Fund. Redeemable 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).

The organisational shares are allocated to the Investment Adviser and its nominees. Under the By-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.

# Butterfield US\$ Bond Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended June 30, 2019

(Expressed in US Dollars)

### 6. DIVIDENDS

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

2019				2018			
Class A	Class B	Declaration date	Amount	Class A	Class B	Declaration date	Amount
0.0416	0.0490	Sep 28, 2018	\$372,355	\$0.0297	\$0.0389	Sep 29, 2017	\$223,725
0.0421	0.0496	Dec 31, 2018	377,877	\$0.0309	\$0.0401	Dec 29, 2017	262,502
0.0402	0.0477	Mar 31, 2019	356,358	\$0.0336	\$0.0422	Mar 29, 2018	308,234
0.0402	0.0477	Jun 30, 2019	368,983	\$0.0389	\$0.0474	Jun 29, 2018	348,323
<b>\$1,475,573</b>				<b>\$1,142,784</b>			

### 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% (2018 - 0.5%) per annum for the Class A shares and 0.25% (2018 - 0.25%) per annum for the Class B shares, and 0.25% (2018 - 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, in order to meet an expense cap of 0.35% related to Class C Shares. Management fee for the year was \$292,109 (2018 - \$259,777) with \$25,260 (2018 - \$26,257) 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 \$60,384 (2018 - \$69,441) with \$24,066 (2018 - \$10,646) being payable and included in accrued expenses at year end.

#### c) Credit Facility

On September 6, 2018 (2018: August 14, 2017), the Fund renewed the unsecured credit facility agreement with the Bank in the amount of \$12,000,000 (2018 - \$12,000,000). 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. 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 and the advances will be limited to 10% of the Fund's net asset value. 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, 2019 (2018: June 30, 2018).

On August 9, 2019, the Fund renewed the unsecured credit facility agreement with the Bank. The terms remain unchanged from the previous agreement. The renewed unsecured facility expires on June 30, 2020.



# Butterfield US\$ Bond Fund Limited

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## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended June 30, 2019

(Expressed in US Dollars)

### 7. RELATED PARTY TRANSACTIONS (continued)

#### d) Investment Services Fee

The investment services fee was 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, allocated to the individual funds based on their proportion of Net Asset Value. The investment services fee paid to the Bank was discontinued effective March 1, 2018, hence no fees were paid for 2019. The fee for 2018 was \$24,525, with none being payable 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 \$159,392 (2018 - \$190,938) with \$28,438 (2018 - \$40,059) 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, 2019 (2018: none).

### 11. SUBSEQUENT EVENTS

The Fund has evaluated all the events or transactions that occurred after June 30, 2019 through October 18, 2019, the date the financial statements were available to be issued. During this period, the Fund did not have any material subsequent events.

# Butterfield US\$ Bond Fund Limited

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended June 30, 2019

(Expressed in US Dollars)

### 12. FINANCIAL HIGHLIGHTS

Per Share Information	2019			2018		
	Class A	Class B	Class C	Class A	Class B	Class C
<b>Net asset value - beginning of year</b>	10.371	10.583	11.018	10.512	10.732	10.981
<b>Income from investment operations</b>						
Net investment income****	0.208	0.239	0.264	0.154	0.186	0.209
Net realised & change in unrealised gain/(loss) on investments	0.223	0.227	0.238	(0.162)	(0.166)	(0.172)
<b>Total income from investment operations</b>	<b>0.431</b>	<b>0.466</b>	<b>0.502</b>	<b>(0.008)</b>	<b>0.020</b>	<b>0.037</b>
Distributions to investors	(0.164)	(0.194)	-	(0.133)	(0.169)	-
<b>Net asset value - end of year</b>	<b>10.638</b>	<b>10.855</b>	<b>11.520</b>	<b>10.371</b>	<b>10.583</b>	<b>11.018</b>
<b>Ratios / Supplemental Data</b>						
Total net assets - end of year (in thousands)	\$9,103	\$76,139	\$39,326	\$11,600	\$68,053	\$49,301
Weighted average net assets (in thousands)*	\$10,314	\$71,841	\$41,682	\$12,167	\$60,479	\$54,408
Ratio of expenses to average net assets	0.75%	0.49%	0.35%	0.82%	0.52%	0.35%
Portfolio turnover rate**	50.22%	50.22%	50.22%	29.97%	29.97%	29.97%
Annual rate of return***	4.16%	4.40%	4.56%	(0.08)%	0.18%	0.34%

\* 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 18, 2019.