Butterfield US$ Bond Fund Limited

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2013

Ernst & Young Ltd.

ERNST & YOUNG

To the Shareholders:

We are pleased to present the Annual Report of the Fund for the twelve months ended June 30th 2013. The net asset value per share on the Class A shares, after dividends and fees, declined to $10.385 over the past year, excluding dividends paid at a rate of 13.06 cents per share. The Class B shares declined from $10.641 to $10.628, excluding dividends of 15.66 cents per share. This was the first full financial year of the Class C shares, which were launched on February 1, 2012. The Net asset value per share increased from $10.135 to $10.295 over the financial year. Unlike Classes A and B, Class C 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 1.12% for the twelve months ended June 30th 2013. Owing to a lower management fee structure, the Class B shares of the fund delivered a return of 1.35% over the same period, while Class C generated a return of 1.58**%.**

The net asset value of the Fund ended the financial year at $107.4 million from $91.4 million, representing an increase of +18% 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

Over the course of the financial year the US economy has improved, characterized by lower unemployment and a pick-up in the housing market, while Europe continued to endure a difficult economic environment. While sovereign rates in Europe were the major headline in last year's market review, it was the US rate market that created a stir in the past financial year. After only modest bouts of interest rate volatility for the vast majority of the financial year, whereby the 5 year US Treasury yield fluctuated between 0.55 – 0.89%, the 5 year yield rose to a high of 1.49% in June before ending the year at 1.39%. 10 year and 30 year yields moved in a similar fashion, while yields less than 2 years remained extremely low. The correction in rates was a result of Fed Chairman Ben Bernanke's comments that the Fed may start to "taper" asset purchases sooner than originally intended. The generalized credit spread tightening that characterized the latter part of the previous financial year continued over the July – December 2012 period. Credit tightening thereafter was led by Financial corporate, as the basis between Financials and Industrials declined a positive for the Fund owing to its overweight position in Financials. Late in the fiscal year (June 2013), however, credit spreads widened dramatically resulting in a negative absolute return for the April – June 2013 quarter. On a relative basis, the fund's underweight duration position allowed the fund to outperform the benchmark for the year, however.

This fiscal year has been a relatively smooth ride for distressed countries in Europe in comparison to the July 2011 – June 2012 period. This can be attributed to ECB President, Mario Draghi's comment in July 2012 that "*the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough.*" Since this speech, the Spanish 10 year yield fell from 7.62% to end the fiscal year at 4.77%, while the Italian 10 year yield declined from 5.86% to 3.95%. The focus has shifted in the European Union from one very much focused on austerity measures, to one focused on growth driven policies which we regard as a positive. Nonetheless, the debt and solvency positions of a number of nations remain precarious.

As of the end of the fiscal year the Fund did not have any BBB-rated exposure, highlighting the conservative, strong credit quality of the Fund. 71% of the Fund was rated AA or AAA as of the end of the year. The Fund is overweight the Supranational, Non-US Sovereign and Corporate sectors versus the benchmark and heavily underweight Treasuries. The Fund also remains underweight duration (94% of the benchmark) though up from 90% in the previous year.

Fund Outlook & Strategy

Last year at this time Quantitative Easing 3 (QE3) was merely a possibility; while the coming year could be the year the Fed "tapers" the size of its asset purchases (currently $85 billion per month). It is important to note that even if the Fed does reduce the size of its asset purchases, this does not translate into a policy tightening bias, as the Fed is still buying securities to keep interest rates artificially low and plans to keep its sizable balance sheet of assets constant. We expect the Fed to continue its accommodative stance until it is absolutely certain that the economy has sufficient strength to continue growing without the aid of extremely low interest rates. Simply put, the Fed has spent trillions of dollars over the past 5 years to foster an environment conducive to growth and the last thing it wants to do is tighten policy too early and wipe-out the economy's progress. Having said this, a statement by the Fed or series of economic indicators that the market perceives as indicating interest rates will rise sooner than we anticipate could cause interest rate volatility to rise very quickly, as seen in June 2013. Should this occur, we may look to change our duration stance to take advantage of any perceived mispricing.

Michael Neff
President
Butterfield US$ Bond Fund Limited

October 17, 2013

ERNST & YOUNG

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Directors of
Butterfield US$ Bond Fund Limited

We have audited the accompanying statement of net assets and statement of portfolio investments of Butterfield US$ Bond Fund Limited (the "Fund") as at June 30, 2013, and the related statements of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2013, and the results of its operations and the changes in its net assets for the year then ended in accordance with Canadian and Bermudian generally accepted accounting principles.

Ernst + Young Ltd.

October 17, 2013

DIRECTORS

Michael Neff (President)
Daniel Frumkin
Nigel Garrard

INVESTMENT ADVISER

Butterfield Asset Management Limited
P.O. Box HM 195
Hamilton HM AX
Bermuda

CUSTODIAN

Butterfield Trust (Bermuda) Limited
P.O. Box HM 195
Hamilton HM AX
Bermuda

REGISTRAR, TRANSFER AGENT AND ADMINISTRATOR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM 11
Bermuda

AUDITORS

Ernst & Young Ltd.
P.O. Box HM463
Hamilton HM BX
Bermuda

STATEMENT OF NET ASSETS
As at June 30, 2013
(Expressed in US Dollars)

	Notes		2013		2012
ASSETS					
Investments, at fair value					
(Cost: 2012 - $100,595,784; 2012 - $83,852,478)	3, 4	**$**	**101,179,446**	$	85,215,401
Cash and cash equivalents	2		**5,587,029**		5,809,236
Interest receivable			**904,023**		744,220
Prepaid expenses			**9,365**		10,240
Subscriptions receivable			**-**		8,630
			107,679,863		91,787,727
LIABILITIES					
Dividends payable	6		**172,270**		252,354
Accrued expenses	8		**83,538**		122,809
			255,808		375,163
			107,424,055		91,412,564
Organisational shares	5		**12,000**		12,000
FUND NET ASSETS		**$**	**107,412,055**	$	91,400,564
NET ASSETS AVAILABLE TO SHAREHOLDERS - CLASS A		**$**	**32,965,792**	$	43,213,608
Number of common shares in issue – Class A	5		**3,174,376**		4,155,391
NET ASSET VALUE PER COMMON SHARE - CLASS A		**$**	**10.385**	$	10.399
NET ASSETS AVAILABLE TO SHAREHOLDERS - CLASS B		**$**	**20,604,094**	$	9,598,535
Number of common shares in issue – Class B	5		**1,938,686**		902,035
NET ASSET VALUE PER COMMON SHARE - CLASS B		**$**	**10.628**	$	10.641
NET ASSETS AVAILABLE TO SHAREHOLDERS - CLASS C		**$**	**53,842,169**	$	38,588,421
Number of common shares in issue - Class C	5		**5,229,970**		3,807,575
NET ASSET VALUE PER COMMON SHARE - CLASS C		**$**	**10.295**	$	10.135

Signed on Behalf of the Board

DIRECTOR

DIRECTOR

The accompanying notes are an integral part of these financial statements

STATEMENT OF PORTFOLIO INVESTMENTS
As at June 30, 2013
(Expressed in US Dollars)

		2013			2012	
INVESTMENTS	**Nominal**	**Fair**	**% of**	Nominal	Fair	% of
Corporate and Government Securities		**Value**	**Portfolio**		Value	Portfolio
3M Company 4.375% 08/15/13	**1,000,000**	**$ 1,004,703**	**0.99%**	1,000,000	$ 1,044,639	1.23%
Asif Global Financing XIX 4.900% 01/17/13	**-**	**-**	**-**	1,700,000	1,715,565	2.01%
Australia & New Zealand Banking Group 2.400% 11/23/16	**2,250,000**	**2,328,525**	**2.30%**	2,000,000	2,047,822	2.40%
Bank of America Corp 7.375% 05/15/14	**2,500,000**	**2,630,213**	**2.60%**	-	-	-
Bank of Nova Scotia 2.550% 01/12/17	**1,650,000**	**1,698,205**	**1.68%**	1,650,000	1,714,340	2.01%
Barclays Bank Plc. 3.900% 04/07/15	**1,505,000**	**1,574,445**	**1.56%**	1,435,000	1,486,423	1.74%
Barclays Bank Plc. 5.000% 09/22/16	**50,000**	**55,239**	**0.05%**	50,000	54,298	0.06%
Bear Stearns Co 5.3% 30/10/2015	**2,500,000**	**2,729,320**	**2.70%**	1,800,000	1,953,295	2.29%
Berkshire Hathaway Inc. 4.850% 01/15/15	**1,000,000**	**1,064,417**	**1.05%**	1,000,000	1,100,244	1.29%
BHP Billiton Fin USA LTD 1.875% 11/21/16	**-**	**-**	**-**	1,000,000	1,024,344	1.20%
BK NederlandseGemeenten 1.375% 09/27/17	**3,000,000**	**2,964,579**	**2.93%**	-	-	-
BP Capital Markets Plc. 5.250% 11/07/13	**-**	**-**	**-**	400,000	423,842	0.50%
BP Capital Markets Plc. 1.846% 05/05/17	**2,500,000**	**2,503,055**	**2.47%**	-	-	-
CaisseD'amortDette Soc. 2.125% 04/12/17	**-**	**-**	**-**	2,000,000	2,007,700	2.36%
CaisseFrancaise De Fin 4.625% 05/30/17	**462,000**	**460,568**	**0.46%**	-	-	-
CaisseFrancaise De Fin. 5.250% 02/16/17	**2,000,000**	**2,250,186**	**2.22%**	-	-	-
Canadian Imperial Bank 2.750% 01/27/16	**-**	**-**	**-**	1,685,000	1,788,338	2.10%
CDP Financial 3.000% 11/25/14	**1,000,000**	**1,030,553**	**1.02%**	1,000,000	1,051,559	1.23%
CieFinancementFoncier 1.625% 23/7/12	**-**	**-**	**-**	25,000	25,005	0.03%
CIE FinancementFoncier 5.625% 06/19/17	**2,500,000**	**2,862,908**	**2.83%**	2,000,000	2,211,500	2.60%
Citigroup Inc. 6.375% 08/12/14	**2,500,000**	**2,638,200**	**2.61%**	-	-	-
CommonwealthBankof Australia 3.750% 10/15/14	**700,000**	**727,090**	**0.72%**	700,000	732,782	0.86%
Corp Andina De Fomento 5.750% 01/12/17	**2,750,000**	**3,042,633**	**3.01%**	1,000,000	1,123,100	1.32%
Daimler International Finance BV 1.750% 04/10/18	**2,500,000**	**2,439,770**	**2.41%**	-	-	-
Dexia Credit Local 2.75% 29/04/2014	**2,225,000**	**2,262,358**	**2.24%**	2,125,000	2,073,660	2.43%
Dexia Municipal Agency 5.250% 02/16/17	**-**	**-**	**-**	1,780,000	1,882,581	2.21%
Fannie Mae 1.625% 10/26/15	**-**	**-**	**-**	1,500,000	1,553,717	1.82%
Fannie Mae 2.375% 04/11/16	**600,000**	**627,323**	**0.62%**	600,000	637,318	0.75%
Fannie Mae 4.625% 10/15/14	**2,100,000**	**2,216,867**	**2.19%**	2,100,000	2,301,340	2.70%
Fannie Mae 5.125% 2/1/14	**-**	**-**	**-**	1,000,000	1,067,423	1.25%
Freddie Mac 3.750% 03/27/19	**-**	**-**	**-**	2,000,000	2,310,062	2.71%
Freddie Mac 5.500% 08/23/17	**3,000,000**	**3,500,445**	**3.46%**	3,000,000	3,675,072	4.31%
General Electric Capital Corporation FLT 03/20/14	**-**	**-**	**-**	1,800,000	1,783,746	2.09%
General Electric Capital Corporation 5.625% 05/01/18	**2,250,000**	**2,580,759**	**2.55%**	-	-	-
General Electric Capital Corporation Flt 06/20/14	**1,200,000**	**1,198,794**	**1.18%**	1,200,000	1,169,515	1.37%
General Electric Capital Corporation Flt 09/23/13	**-**	**-**	**-**	870,000	875,780	1.03%

STATEMENT OF PORTFOLIO INVESTMENTS (CONTINUED)
As at June 30, 2013
(Expressed in US Dollars)

INVESTMENTS (CONTINUED)	Nominal	2013 Fair Value	% of Portfolio	Nominal	2012 Fair Value	% of Portfolio
Corporate and Government Securities						
Genworth Life Inst. Fund 5.875% 05/03/13	-	$ -	-	1,835,000	$ 1,865,883	2.19%
Goldman Sachs Group Inc. 3.625% 02/07/16	**1,500,000**	**1,565,792**	**1.55%**	1,500,000	1,500,165	1.76%
HSBC Bank Plc. 3.100% 05/24/16	**2,000,000**	**2,098,356**	**2.07%**	-	-	-
HSBC Bank Plc. 2% 19/1/14	-	-	-	1,650,000	1,666,376	1.96%
HSBC Finance Corporation 6.375% 11/27/12	-	-	-	750,000	765,870	0.90%
ING Bank NV 4.000% 03/15/16	**2,500,000**	**2,637,100**	**2.61%**	-	-	-
Intl Bk Recon & Develop 0.000% 02/15/16	**1,660,000**	**1,613,161**	**1.59%**	1,660,000	1,594,550	1.87%
Ladesbank Baden-Wurttemberg 2% 15/7/13	**1,200,000**	**1,200,272**	**1.19%**	1,200,000	1,211,100	1.42%
L-Bank BwFoerderbank 2.000% 10/01/12	-	-	-	1,000,000	1,003,750	1.18%
Lloyds TSB Bank Plc. 4.375% 01/12/15	**2,500,000**	**2,611,875**	**2.58%**	-	-	-
Massmutual Global Funding 2.000% 04/05/17	**1,380,000**	**1,382,836**	**1.37%**	1,380,000	1,388,039	1.63%
Met Life Global Funding I 3.125% 01/11/16	**1,650,000**	**1,723,879**	**1.70%**	2,320,000	2,430,685	2.85%
Met Life Global Funding I 1.500% 01/10/18	**1,350,000**	**1,308,837**	**1.29%**	-	-	-
Monumental Global Funding 5.500% 04/22/13	-	-	-	1,500,000	1,552,682	1.82%
Morgan Stanley 3.450% 11/02/15	**2,500,000**	**2,579,660**	**2.55%**	-	-	-
Morgan Stanley 5.750% 08/31/12	-	-	-	750,000	754,824	0.89%
Morgan Stanley Flt 05/14/13	-	-	-	1,000,000	998,631	1.17%
National Australia Bank 2.750% 09/28/15	**3,000,000**	**3,111,600**	**3.08%**	3,000,000	3,054,111	3.58%
Network Rail Infrastructure 1.5% 13/1/14	**1,900,000**	**1,912,105**	**1.89%**	1,900,000	1,927,645	2.26%
Nord/LB Covered Fin Bank 5.375% 06/05/17	**1,752,000**	**1,954,083**	**1.93%**	-	-	-
Ontario Province 1.600% 09/21/16	-	-	-	1,000,000	1,018,019	1.19%
Rabobank Nederland 2.500% 12/12/13	**1,900,000**	**1,916,302**	**1.89%**	1,900,000	1,933,440	2.27%
Rabobank Nederland 3.2% 11/3/15	**1,600,000**	**1,659,014**	**1.64%**	1,600,000	1,647,179	1.93%
Rio Tinto Fin USA Plc. 1.625% 08/21/17	**2,500,000**	**2,451,968**	**2.42%**	-	-	-
Royal Bank of Canada 3.125% 04/14/15	**1,500,000**	**1,563,300**	**1.55%**	1,500,000	1,588,565	1.86%
Seariver Maritime 0 01/09/2012	-	-	-	1,885,000	1,874,116	2.20%
Sparebank 1 Boligkredit 1.250% 05/02/18	**1,880,000**	**1,796,528**	**1.78%**	-	-	-
SvenskaHandelsbanken AB 3.125% 07/12/16	-	-	-	1,000,000	1,033,405	1.21%
Swedish Export Credit 2.125% 07/13/16	**2,150,000**	**2,219,875**	**2.19%**	-	-	-
Swedish Export Credit 3.25% 16/9/14	-	-	-	2,000,000	2,099,865	2.46%
SwedbankHypotek AB 1.375% 03/28/18	**2,300,000**	**2,225,710**	**2.20%**	-	-	-
Temasek Financial I Ltd 4.300% 10/25/19	**3,000,000**	**3,238,257**	**3.20%**	-	-	-
Toyota Motor Credit Corp 2.800% 01/11/16	-	-	-	500,000	525,329	0.62%
Walmart Stores Inc. 3.200% 05/15/14	**1,000,000**	**1,023,914**	**1.01%**	1,000,000	1,049,645	1.23%
Wells Fargo Company 3.625% 15/4/15	**1,000,000**	**1,049,874**	**1.04%**	1,000,000	1,064,515	1.26%
Westdeutsche Landesbank 4.796% 07/15/15	**2,600,000**	**2,779,884**	**2.75%**	-	-	-
Westpack Banking Corp 1.250% 12/15/17	**2,500,000**	**2,434,000**	**2.41%**	-	-	-
		$ 96,449,335	**95.33%**		$ 76,383,398	89.66%

STATEMENT OF PORTFOLIO INVESTMENTS (CONTINUED)
As at June 30, 2013
(Expressed in US Dollars)

		2013			2012	
		Fair	**% of**		Fair	% of
INVESTMENTS (CONTINUED)	**Nominal**	**Value**	**Portfolio**	Nominal	Value	Portfolio
Mortgage Backed Securities						
Equity One ABS Inc 5.369% 25/10/34	**-**	**$ -**	**-**	276,647	$ 262,214	0.31%
Fannie Mae 3.5% 01/09/2025	**805,967**	**840,805**	**0.83%**	1,257,108	1,329,690	1.56%
Fannie Mae 4% 25/10/19	**748,924**	**37,446**	**0.04%**	1,288,916	69,279	0.08%
Fannie Mae 6% 25/6/31	**-**	**-**	**-**	37,133	4	-
Federal Home Loan Mortgage 3.5% 15/4/25	**1,432,024**	**68,021**	**0.07%**	2,426,825	154,710	0.18%
GNMA 3.76% 16/9/28	**-**	**-**	**-**	80,829	82,348	0.10%
GNMA 4.658% 16/12/30	**72,702**	**74,368**	**0.07%**	167,964	174,755	0.21%
GNMA 4.92% 16/5/34	**355,417**	**360,288**	**0.36%**	1,117,219	1,172,500	1.38%
JP Morgan Chase 12/1/43	**-**	**-**	**-**	2,135,000	2,168,801	2.55%
Wachovia Bank 5.109% 15/12/35	**2,500,000**	**2,539,528**	**2.51%**	2,500,000	2,543,455	2.98%
Wachovia Bank 5.345% 15/1/41	**750,000**	**809,655**	**0.80%**	750,000	776,618	0.91%
Wells Fargo Home Equity Trust 4.89% 25/5/34	**-**	**-**	**-**	97,372	97,629	0.11%
		$ 4,730,111	**4.67%**		$ 8,832,003	10.37%
TOTAL INVESTMENTS (Cost 2013 - $100,595,784; 2012 - $83,852,478)		**$ 101,179,446**	**100.00%**		$ 85,215,401	100.00%

The accompanying notes are an integral part of these financial statements

STATEMENT OF OPERATIONS
For the year ended June 30, 2013
(Expressed in US Dollars)

	Notes	2013	2012
INVESTMENT INCOME			
Interest		**$ 2,143,595**	$ 2,445,761
EXPENSES			
Management fee	8 a)	**226,135**	239,108
Administration fee	7	**206,168**	154,575
Custodian fee	8 b)	**63,587**	62,651
Audit fee		**14,050**	17,951
Corporate secretarial fee	8 c)	**-**	2,979
Government fee		**14,109**	11,355
Accounting fee		**32,062**	15,480
Miscellaneous		**25,541**	23,737
		581,652	527,836
NET INVESTMENT INCOME		**1,561,943**	1,917,925
NET REALISED AND CHANGE IN UNREALISED LOSS ON INVESTMENTS			
Net realised gain (loss) on investments	7	**427,837**	(331,483)
Net change in unrealised loss on investments		**(779,405)**	(33,921)
NET LOSS ON INVESTMENTS		**(351,568)**	(365,404)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		**$ 1,210,375**	$ 1,552,521

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN NET ASSETS
For the year ended June 30, 2013
(Expressed in US Dollars)

	Note	2013	2012
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS		**$ 1,210,375**	$ 1,552,521
DISTRIBUTIONS TO INVESTORS			
Dividends paid and payable	6	**(694,923)**	(1,213,504)
CAPITAL STOCK TRANSACTIONS			
Issue of shares		**32,659,147**	52,179,102
Redemption of shares		**(17,163,108)**	(16,507,363)
Net capital stock transactions		**15,496,039**	35,671,739
NET INCREASE IN NET ASSETS FOR THE YEAR		**16,011,491**	36,010,756
NET ASSETS - BEGINNING OF YEAR		**91,400,564**	55,389,808
NET ASSETS - END OF YEAR		**$ 107,412,055**	$ 91,400,564

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013
(Expressed in US Dollars)

1. ABOUT THE FUND

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"). Butterfield Asset Management Limited acts as investment adviser (the "Investment Adviser"). Butterfield Fulcrum Group (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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and Bermuda ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates and the difference could be material. The following is a summary of significant accounting policies followed by the Fund:

a) Valuation of Investments

The fair values of investments traded in active markets are based on quoted market prices at the close of trading on the period end date. The quoted market price used for investments held by the Fund is the bid price reported by the principal securities exchange on which the issue is traded. An investment is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The net change during the year between these amounts and cost is shown as net change in unrealised gain/(loss) on investments in the statement of operations.

b) Investment Transactions and Income Recognition

Investment transactions are accounted for on the trade date. Gains or losses arising from the sale of investments are determined using the average cost basis. Income from investments is recorded on the accrual basis. Interest income is recorded using the effective interest method.

c) Cash and Cash Equivalents

Cash equivalents are comprised primarily of shares in the Butterfield Money Market Fund Limited, an affiliated money market fund, denominated in US$ shares. Shares may be redeemed on 24 hours' notice. The fair value of the Fund's holding in the money market fund at June 30, 2013 was $5,381,584 (2012 - $5,834,288).

d) Financial Assets and Liabilities

In addition to the estimated fair values of investments as disclosed in the statement of portfolio investments, the estimated fair values of the Fund's other financial instruments, including cash and cash equivalents, interest receivable, subscriptions receivable, dividends payable and accrued expenses approximate their carrying values.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2013
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Translation of Foreign Currencies

Assets and liabilities that are denominated in foreign currencies are translated into United States 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 operations.

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 with the net realised and change in unrealised gains and losses from investments in the statement of operations.

f) Adoption of New Accounting Standards

Investment companies that are publicly accountable enterprises are required to adopt International Financial Reporting Standards ("IFRS") for the first time for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Fund will adopt IFRS beginning July 1, 2014 and publish its first financial statements, prepared in accordance with IFRS, for the annual period ending June 31, 2015. The 2015 annual financial statements will include 2014 comparative financial statements and an opening statement of net assets as of July 1, 2013, also prepared in accordance with IFRS.

The Investment Adviser has developed a transition plan to changeover to IFRS and meet the required timetable. As at June 30, 2013, the expected impact to the financial statements based on the Investment Adviser's assessment of the differences between GAAP and IFRS are as follows:

- IFRS 13 Fair Value Measurement permits the use of mid-market prices or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, net assets for financial reporting purposes (NAV) may be impacted and could align with the value used to price unit holder transactions (Transaction NAV), eliminating the need for a reconciliation.

- Shares of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. As a result, shareholders' equity may be required to be presented as a liability in the statements of net assets with related distributions presented as an expense in the statements of operations. Alternatively, equity presentation would require additional disclosure of the components of equity.

- IFRS requires the presentation of a statement of cash flows, including comparatives. The Fund has not previously presented this statement as permitted by GAAP.

NOTES TO THE FINANCIAL STATEMENTS
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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 counter party 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	**2013**	2012
AAA	**21.25**	18.43
AA	**39.51**	57.11
A	**28.82**	18.54
Not Rated by S&P	**10.42**	5.92
	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	**2013**	2012
Aaa	**7.67**	3.83
A1	**2.75**	2.09
	10.42	5.92

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. The Fund's transactions in a currency different from the reporting currency are 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, 2013, 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 $668,688 (2012 - $489,989). 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.

NOTES TO THE FINANCIAL STATEMENTS
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3. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity Risk

Liquidity risk is the risk that the entity 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	**2013**	2012
Less than 1 year	**$ 13,148,661**	$ 8,682,210
1 - 3 years	**35,988,548**	29,299,284
3 - 5 years	**42,460,708**	28,948,105
Greater than 5 years	**7,968,368**	14,817,137
Non-interest bearing	**1,613,161**	3,468,665
	$ 101,179,446	$ 85,215,401

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 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, 2013 and 2012.

Transfers of Assets between Level 1 and Level 2

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, 2013 and 2012. 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, 2013 and 2012.

Reconciliation of Financial Asset and Liability Movement - Level 3

The Fund did not hold any Level 3 investments at the beginning, during, or at the end of the years ended June 30, 2013 and 2012.

NOTES TO THE FINANCIAL STATEMENTS
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5. SHARES ISSUED AND OUTSTANDING

The authorised share capital of the Fund is $2,512,000 (2012 - $2,512,000) divided into:

8,300,000 (2012- 8,300,000) Class A participating, non-voting common shares of a par value of $0.10 each share,
8,300,000 (2012 - 8,300,000) Class B participating, non-voting common shares of a par value of $0.10 each share,
8,400,000 (2012 - 8,400,000) Class C participating, non-voting common shares of a par value of $0.10 each share, and
120,000 (2012 - 120,000) organisational non-participating, voting shares of a par value of $0.10 each share.

The Class A, Class B and Class C shares have different minimums set for investors to subscribe to them, and there will be differences in the management fees payable to the Investment Adviser in respect of such shares (see note 8a).

The Class C shares were created in February 2012. The Class C shares represent a subscription in kind during the year ended June 30, 2012, whereby the Fund received from the investor securities having a fair value of $38,075,754 as of the subscription date in exchange for the issuance to the investor of the Fund's Class C shares. Such subscription in-kind was approved by the Fund's board of directors.

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.

Details of number of shares issued and outstanding as of June 30, 2013 and 2012 are as follows:

		2013			2012	
Common Shares	**Class A**	**Class B**	**Class C**	Class A	Class B	Class C
Balance - beginning of year	**4,155,391**	**902,035**	**3,807,575**	4,599,706	690,562	-
Issue of common shares	**285,424**	**1,275,126**	**1,543,683**	593,036	754,043	3,807,575
Redemption of common shares	**(1,266,439)**	**(238,475)**	**(121,288)**	(1,037,351)	(542,570)	-
Balance - end of year	**3,174,376**	**1,938,686**	**5,229,970**	4,155,391	902,035	3,807,575
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.

NOTES TO THE FINANCIAL STATEMENTS
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6. DIVIDENDS

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

2013				2012			
Class A	**Class B**	**Payment Date**	**Amount**	Class A	Class B	Payment Date	Amount
$0.0338	**$0.0388**	**Oct 9, 2012**	**$ 178,499**	$0.08	$0.08	Oct 12, 2011	$ 425,399
$0.0336	**$0.0402**	**Jan 8, 2013**	**179,501**	$0.06	$0.06	Dec 30, 2011	335,990
$0.0322	**$0.0395**	**April 9, 2013**	**164,653**	$0.04	$0.04	March 30, 2012	199,761
$0.0310	**$0.0381**	**July 9, 2013**	**172,270**	$0.05	$0.06	July 9, 2012	252,354
			$ 694,923				$ 1,213,504

7. NET REALISED GAIN (LOSS) ON INVESTMENTS

The net realised gain (loss) on sale of investments was as follows:

	2013	2012
Proceeds on sale of investments	**57,436,804**	46,416,244
Less cost of investments sold:		
Investments owned at beginning of year	**83,852,478**	50,829,114
Investments purchased during the year	**73,752,273**	79,771,091
Investments owned at the end of the year	**100,595,784**	83,852,478
Investments sold during year	**57,008,967**	46,747,727
Net realised gain / (loss) on investments	**427,837**	(331,483)

8. 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% (2012 - 0.5%) per annum for the Class A shares and 0.25% (2012 - 0.25%) per annum for the Class B shares, and 0.25% (2012 - 0.25%) maximum per annum for the Class C shares. The management fee rate for Class C shares can be variable, based on other expenses accrued to the Class, and is constrained by a maximum total expense ratio of 35 basis points .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. Management fee for the year was $226,135 (2012 - $239,108) with $29,321 (2012 - $19,275) being payable and included in accrued expenses at year end.

NOTES TO THE FINANCIAL STATEMENTS
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8. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Custodian Fee

The Custodian is related to the Fund through common directorship.

In accordance with the custodian agreement, the Custodian receives a fee based on 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 $63,587 (2012 - $62,651) with $7,390 being prepaid (2012 - $30,820 being payable) and included in accrued expenses at year end.

c) Corporate Secretarial Fee

Corporate secretarial fee is charged on a time spent basis at their normal rates. In accordance with the administration agreement, effective January 2012, corporate secretarial fee was discontinued. Corporate secretarial fee for the year ended June 30, 2013 was $Nil (2012 - $2,979), with $Nil (2012 - $Nil) being payable and included in accrued expenses at year end.

d) Credit Facility

In October 2010, the Fund entered into an unsecured credit facility agreement with the Bank for $10 million, to a maximum of 10% of the Fund's net assets. The agreement bears an interest rate of 1% per annum above the higher of the LIBOR or the funding cost incurred by the Bank in making the revolving facility available on any date of drawdown with accrued interest payable monthly in arrears. In May 2012, the agreement was renewed and extended to May 31, 2013. See Note 11.

9. 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 $206,168 (2012 - $154,575) with $36,244 (2012 - $36,830) being payable and included in accrued expenses at year end.

10. 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.

NOTES TO THE FINANCIAL STATEMENTS
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11. FINANCIAL HIGHLIGHTS

	2013			2012		
Per share information	**Class A**	**Class B**	**Class C**	Class A	Class B	Class C[1]
Net asset value - beginning of year or upon issuance	**$ 10.399**	**$ 10.641**	**$ 10.135**	$ 10.441	$ 10.667	$ 10.000
Income from investment Operations						
Net investment income	**0.132**	**0.164**	**0.179**	0.265	0.295	0.127
Net realised and change in unrealised (loss)/gain on investments	**(0.015)**	**(0.020)**	**(0.019)**	(0.081)	(0.081)	0.008
Total from investment operations	**0.117**	**0.144**	**0.160**	0.184	0.214	0.135
Distributions to investors	**(0.131)**	**(0.157)**	**-**	(0.226)	(0.240)	-
Net assets - end of year	**$ 10.385**	**$ 10.628**	**$ 10.295**	$ 10.399	$ 10.641	$ 10.135
Ratios / Supplemental Data						
Total net assets - end of year (in thousands)	**$ 32,966**	**$ 20,604**	**$ 53,842**	$ 43,214	$ 9,599	$ 38,588
Weighted average net assets (in thousands)*	**$ 38,624**	**$ 14,343**	**$ 49,258**	$ 45,175	$ 10,020	$ 38,382
Ratio of expenses to average net assets	**0.84%**	**0.61%**	**0.35%**	0.87%	0.64%	0.19%
Portfolio turnover rate**	**32.07%**	**32.07%**	**32.07%**	33.48%	33.48%	33.48%
Annual rate of return***	**1.12%**	**1.35%**	**1.58%**	1.76%	2.01%	1.35%

* Weighted average net assets are calculated using net assets of each valuation date during the fiscal year.
** Portfolio turnover rate is calculated for the total of Class A, B and C 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.
[1] Issued on February 1, 2012. The ratios and rate of return for Class C shares in 2012 have not been annualised and are from the period from February 1, 2012 to June 30, 2012.

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12. SUBSEQUENT EVENTS

In July 2013, the unsecured credit facility agreement, which has a principal amount of up to $10,000,000 and bears an interest rate of 1% per annum above the higher of the LIBOR or the funding cost incurred by the Bank in making the revolving facility available on any date of drawdown with accrued interest payable monthly in arrears, was further renewed and extended to June 30, 2014.

The Fund's Administrator was acquired by Mitsubishi UFJ Trust and Banking Corporation as at September 20, 2013. The Administrator is now named Mitsubishi UFG Fund Services.

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