

# Royal Fidelity (Barbados) Investment Fund Limited - Strategic Growth Fund

Financial Statements

For the year ended 30 June 2015  
(Expressed in Barbados Dollars)

Ernst & Young





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## **INDEPENDENT AUDITORS' REPORT**

### **To the Shareholders of Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund**

We have audited the accompanying financial statements of Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund (the Fund), which comprise the statement of financial position as of 30 June 2015, and the statement of comprehensive income, statement of changes in net assets attributable to holders of redeemable participating shares and statement of cash flows 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 International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of 30 June 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

CHARTERED ACCOUNTANTS

Barbados


22 October 2015

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

**Statement of Financial Position**  
**As of 30 June 2015**  
**(Expressed in Barbados dollars)**

	2015	2014
	\$	\$
<b>ASSETS</b>		
Cash at bank [Note 5(e)]	9,730	25,780
Financial assets at fair value through profit or loss [Note 3]	1,641,408	1,646,238
Dividends receivable	-	1,341
Other assets	<u>3,050</u>	<u>3,050</u>
<b>Total assets</b>	<b><u>1,654,188</u></b>	<b><u>1,676,409</u></b>
<b>LIABILITIES</b>		
Redemptions payable	8,068	2,093
Management fee payable	1,661	1,777
Accrued expenses and other liabilities	<u>6,000</u>	<u>5,657</u>
<b>Total liabilities (excluding net assets attributable to shareholders)</b>	<b>15,729</b>	<b>9,527</b>
<b>Net assets attributable to shareholders [Note 4]</b>	<b><u>1,638,459</u></b>	<b><u>1,666,882</u></b>
<b>Total liabilities and equity</b>	<b><u>1,654,188</u></b>	<b><u>1,676,409</u></b>

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF BY:

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Director

22 October 2015  
 \_\_\_\_\_  
 Date

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Statement of Comprehensive Income For the Year Ended 30 June 2015 (Expressed in Barbados dollars)

	<b>2015</b>	<b>2014</b>
	\$	\$
<b>INCOME</b>		
Dividends	3,680	46,009
Interest income	92	1,157
Net gain /(loss) on financial assets at fair value through profit and loss	<u>20,129</u>	<u>(42,671)</u>
<b>Total income</b>	<b><u>23,901</u></b>	<b><u>4,495</u></b>
<b>EXPENSES</b>		
Management fee [Notes 5(a)]	20,310	25,432
Professional fees	6,772	6,078
Interest expense	68	-
Other expenses	<u>6,310</u>	<u>6,362</u>
<b>Total expenses</b>	<b><u>33,460</u></b>	<b><u>37,872</u></b>
<b>Total comprehensive (loss)/income and (decrease)/increase in net assets attributable to shareholders from operations</b>	<b><u>(9,559)</u></b>	<b><u>33,377</u></b>

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

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Statement of Changes in Net Assets Attributable to Shareholders For the Year Ended 30 June 2015 (Expressed in Barbados dollars)

	2015		2014	
	Number of shares	Net assets attributable to shareholders \$	Number of shares	Net assets attributable to shareholders \$
<b>Class C Shares</b>				
Balance as of the beginning of year	-	-	2,051,108	1,757,213
Issuance of shares	-	-	271,317	238,660
Redemption of shares	-	-	(29,760)	(26,253)
Total comprehensive income and increase in net assets attributable to shareholders from operations	-	-	-	65,023
Transfer of shares to Series C1 & C2	-	-	(2,292,665)	(2,034,643)
<b>Balance as of the end of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net asset value per share</b>		<b>-</b>		<b>-</b>

	2015		2014	
	Number of shares	Net assets attributable to shareholders \$	Number of shares	Net assets attributable to shareholders \$
<b>Series C1 Shares</b>				
Balance as of the beginning of year	1,177,488	987,829	-	-
Transfer of Class C shares to Series C1	-	-	2,229,842	1,978,888
Issuance of shares	92,223	76,868	32,440	27,743
Redemption of shares	(367,965)	(306,367)	(1,084,794)	(947,443)
Total comprehensive loss and decrease in net assets attributable to shareholders from operations	-	(8,085)	-	(71,359)
<b>Balance as of the end of year</b>	<b>901,746</b>	<b>750,245</b>	<b>1,177,488</b>	<b>987,829</b>
<b>Net asset value per share</b>		<b>0.83</b>		<b>0.84</b>

	2015		2014	
	Number of shares	Net assets attributable to shareholders \$	Number of shares	Net assets attributable to shareholders \$
<b>Series C3 Shares</b>				
Balance as of the beginning of year	806,683	679,053	-	-
Transfer of Class C shares to Series C3	-	-	62,823	55,755
Issuance of shares	374,167	313,252	743,860	650,339
Redemption of shares	(122,093)	(102,617)	-	-
Total comprehensive loss and decrease in net assets attributable to shareholders from operations	-	(1,474)	-	(27,041)
<b>Balance as of the end of year</b>	<b>1,058,757</b>	<b>888,214</b>	<b>806,683</b>	<b>679,053</b>
<b>Net asset value per share</b>		<b>0.84</b>		<b>0.84</b>

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

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Statement of Cash Flows For the Year Ended 30 June 2015 (Expressed in Barbados dollars)

	2015 \$	2014 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Purchase of financial assets at fair value through profit or loss	(1,772,941)	-
Proceeds from sale of financial assets at fair value through profit and loss	1,797,900	-
Dividends received	5,021	46,009
Interest received	92	1,157
Interest paid	(68)	-
Increase in other assets	-	(5)
Payment of expenses	(33,165)	(38,822)
<b>Net cash (used in)/ from operating activities</b>	<b>(3,161)</b>	<b>8,339</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of redeemable participating shares	390,120	890,245
Payments for redemptions of redeemable participating shares	(403,009)	(954,226)
<b>Net cash used in financing activities</b>	<b>(12,889)</b>	<b>(63,981)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(16,050)</b>	<b>(55,642)</b>
Cash and cash equivalents as of the beginning of year	25,780	81,422
<b>Cash and cash equivalents as of the end of year</b>	<b>9,730</b>	<b>25,780</b>

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

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 1. General Information

The Royal Fidelity (Barbados) Investment Fund Limited (“the Umbrella Fund”) was incorporated in Barbados on 11 August 1986 under the Companies Act of Barbados, Cap. 308 of the Laws of Barbados and licensed as a mutual fund under the Mutual Funds Act, Cap. 320B of the Laws of Barbados.

The registered office is located at Fidelity House, 27 Pine Road, St. Michael.

During December 2008, the Royal Fidelity Strategic Growth Fund (“the Fund”) was launched and was designated by Class C shares. The Royal Fidelity Strategic Growth Fund is a sub-fund of the Umbrella Fund and it seeks to provide a high total return through a combination of income and capital appreciation by investing in a diversified portfolio of primarily regional equities.

In January 2014, three of the Sub-funds of the Umbrella Fund were divided into 3 Series of shares including the Royal Fidelity Select Balanced Fund, the Royal Fidelity Strategic Growth Fund and the Royal Fidelity Premium Income Fund. The Fund’s Class C shares have been divided as series, namely Series C1, Series C2 and Series C3 [Note 4].

During November 2014, Royal Fidelity Fixed Income Fund and Royal Fidelity Equity Fund were launched and the Strategic Growth Fund’s Class C shares were designated to the Royal Fidelity Equity Fund. The Royal Fidelity Fixed Income Fund is a fixed income mutual fund that invests in fixed income securities to provide long-term, above average income and capital stability with a moderate level of investment risk. The Royal Fidelity Equity Fund seeks to provide a high total return through a combination of income and capital appreciation by investing in a diversified portfolio of primarily regional equities.

The Fund’s affairs are managed entirely by service providers [Note 5]. The Fund’s shares are redeemable at the shareholder’s option and the NAV is reported on the Barbados Stock Exchange (BSE). The reporting is for informational purposes. The shares cannot be traded on the stock exchange.

Other sub-funds launched under the Umbrella Fund are:

Royal Fidelity Select Balanced Fund  
 Royal Fidelity Premium Income Fund  
 Royal Fidelity Fixed Income Fund  
 Royal Fidelity Equity Fund  
 Royal Fidelity TIGRS Fund – Series A2  
 Royal Fidelity TIGRS Fund – Series A3

Individual financial statements have been prepared for each sub-fund and can be obtained from the registered office of the Umbrella Fund.

#### 2. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these financial statements are set out below.

##### (a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

IFRS comprises standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards and Standard Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 2. Summary of Significant Accounting Policies (continued)

##### (a) Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires management to exercise judgment in the process of applying the Fund's accounting policies. It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(d).

##### *Standards, amendments and interpretations effective for 2015*

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 July 2014.

The amendments below did not have a significant impact on the financial statements:

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.
- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

##### *Standards, amendments and interpretations effective but not relevant to the Group*

- IAS 19 - Employee benefits
  - IAS 27 - Separate Financial Statements
  - IAS 28 - Investments in Associates and Joint Ventures
  - IFRS 2 - Share based Payments (effective 1 July 2014)
  - IFRS 3 - Business Combinations (effective 1 July 2014)
  - IFRS 8 - Operating Segments (effective 1 July 2014)
  - IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments) (effective 1 January 2014)
  - IFRIC 21- Levies
  - IAS 32 - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
  - IAS 36 - Impairment of Assets (effective 1 January 2014)
  - IAS 40 - Investment Property
  - IAS 39 - Financial Instruments; Recognition and Measurement –Amendments for Novation of Derivatives (effective 1 January 2014)
- Improvement to International Financial Reporting Standards 2009-2011 Cycle



## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 2. Summary of Significant Accounting Policies (continued)

##### (a) Basis of preparation (continued)

*New standards, amendments and interpretations issued but not yet effective for the financial year beginning July 1, 2014 and not early adopted*

- IAS 16 - Property, Plant & Equipment effective (1 January 2016)
- IAS 38- Intangible Assets( 1 January 2016)
- IFRS 9 - Financial Instruments; Recognition and Measurement
- IFRS 11 - Joint arrangements ( 1 January 2016)
- IFRS 14 - Regulatory Deferral Accounts ( 1 January 2016)
- IFRS 15 - Revenue from Contracts with Customers (1 January 2018)

##### (b) Foreign currency translation

The financial statements are presented in Barbados dollars (BDS\$), which is the Fund's functional and presentation currency. The Fund's investment activities are conducted primarily in BDS\$ and United States dollars (US\$).

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing as of the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation differences on financial assets measured at fair value through profit or loss are included as a part of net gain or loss on financial assets at fair value through profit and loss in the statement of comprehensive income.

##### (c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise demand deposits with banks, other short-term highly liquid investments with original contractual maturities of three months or less and drawn-down margin credit facilities provided by banks.

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 2. Summary of Significant Accounting Policies (continued)

##### (d) Financial assets at fair value through profit or loss (FVTPL)

The Fund has irrevocably elected at initial recognition to classify its debt instruments that meet the amortised cost criteria as at FVTPL.

Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

Investments in equity instruments are classified as at FVTPL, unless the Fund designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition. All equity securities and derivatives are designated as FVTPL.

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the asset. Investments are initially recognised at fair value, and transaction costs for all financial assets carried at fair value through profit or loss are expensed as incurred

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. The fair value of financial assets traded in active markets (e.g. securities exchange) is based on quoted prices as of the last business day of the financial reporting period. The fair value of restricted and other securities that are not traded in active markets is determined using valuation techniques, including comparable recent arm's length transactions, discounted cash flow analysis and other techniques commonly used by market participants.

Investments are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Gains and losses arising from sales and changes in the fair value of financial assets at fair value through profit or loss are included in the statement of comprehensive income in the period in which they arise. Realised gains and losses are determined using the average cost method.

##### (e) Redeemable participating shares

The Fund issues redeemable participating shares, are redeemable at the holder's option. The Fund's redeemable participating shares have all the features and meet all the conditions for classification as financial liabilities during the entire reporting periods presented. Redeemable participating shares can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value. The redeemable participating shares are carried at the redemption amount that would be payable as of the statement of financial position date if the holders were to exercise the right to put the shares back to the Fund.

Redeemable participating shares are issued and redeemed at the holder's option at prices based on the Fund's net asset value per share at the time of issue or redemption, less a redemption fee for shares redeemed. The Fund's net asset value per share is calculated by dividing the net assets attributable to the holders of the redeemable participating shares by the total number of outstanding redeemable participating shares.

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 2. Summary of Significant Accounting Policies (continued)

##### (f) Income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. Dividend income is recognised when the right to receive payment is established. Other income and expenses are recognised on the accrual basis.

##### (g) Taxation

The Umbrella Fund is licensed as an authorised mutual fund under the Mutual Funds Act, 2002-22 of Barbados. As a result, the Fund will not be subject to corporation tax on income derived from its investing activities provided that all income arising in an income year is designated to be income of the redeemable participating shareholders.

#### 3. Financial Assets at Fair Value through Profit or Loss

The Fund ranks its financial assets based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Fund's market assumptions. These two types of inputs lead to the following fair value hierarchy:

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

*Level 3* – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This hierarchy requires the use of observable market data when available. The Fund considers relevant and observable market prices in its valuations where possible.

	<b>2015</b>	<b>2014</b>
	\$	\$
<i>Level 1</i>		
Equity securities	<u>-</u>	<u>817,764</u>
<i>Level 3</i>		
Managed funds	<u>1,641,408</u>	<u>828,474</u>
<b>Total</b>	<b><u>1,641,408</u></b>	<b><u>1,648,238</u></b>

There were no level 2 investments held by the fund during the current or prior year.

When fair values of listed equity at the reporting date are based on quoted market prices, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy. For all other financial instruments, fair value is determined using valuation techniques.

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 3. Financial Assets at Fair Value through Profit or Loss (continued)

The Fund invests in managed funds which are not quoted in an active market. Transactions in the shares of such funds do not occur on a regular basis. Investments in those funds are valued based on the Net Asset Value (NAV) per share published by the administrator of those funds. Depending on the fair value level of an underlying fund's assets and liabilities and on the adjustments needed to the NAV per share published by that fund, the Fund classifies the fair value of that investment as either Level 2 or Level 3.

During the year, movements in Level 3 securities comprise:

	<b>Managed funds \$</b>
<b>Balance as of 30 June 2014</b>	828,474
Purchase	1,772,941
Sales	(942,457)
Total loss included in the statement in comprehensive income	<u>(17,551)</u>
<b>Balance as of 30 June 2015</b>	<b><u>1,641,408</u></b>
	<b>Managed funds \$</b>
<b>Balance as of 30 June 2013</b>	761,604
Total gain included in the statement in comprehensive income	<u>66,870</u>
<b>Balance as of 30 June 2014</b>	<b><u>828,474</u></b>

As of 30 June 2015, the cost of financial assets at fair value through profit or loss was \$1,608,809 (2014: \$1,783,206).

#### 4. Redeemable Participating Shares

The authorised capital of the Fund is unlimited and includes Class C, Series C1 and Series C3 redeemable shares issued by the Fund.

Each share issued confers upon the shareholder an equal interest in the Fund, and is of equal value. A share does not confer any interest in any particular asset or investment of the Fund. The redeemable participating shares carry no voting rights, but are entitled to fully participate in the profits of the Fund. The redeemable participating shares are issued on the last day of each calendar month (dealing date) at the NAV per share as of the close of the last valuation date. Redeemable participating shares may be redeemed at the holder's option, at the NAV per share as of the valuation date less a redemption fee of up to 2% per share for Series C1 and C2 (minimum of \$50); no redemption fee is applicable to Series C3. The redemption fee is determined based on the length of time the shares are outstanding, with a higher fee for the shorter the outstanding period.

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 4. Redeemable Participating Shares (continued)

Income and expenses (other than expenses attributable to a specific series) are allocated to each series of Class C redeemable participating shares based on their relative NAV. An increase or decrease in net assets per redeemable participating share is calculated by dividing the increase or decrease in net assets attributable to holders of redeemable participating shares by the weighted average number of redeemable participating shares. The weighted average number of redeemable participating shares during the year amounted to 1,925,624 with 990,156 attributable to Series C1 and 935,468 attributable to Series C3.

As of 30 June 2015, related parties owned 1,925,168 redeemable participating shares in the Strategic Growth Fund.

#### 5. Agreements and Transactions with Related Parties

The Fund does not have employees and retains the services of certain entities to manage its affairs, all of which are related parties. Related parties include those entities and individuals that have the ability to control or exercise significant influence over the Fund in making financial or operational decisions, and entities that are controlled, jointly controlled or significantly influenced by them.

##### (a) Investment management agreement

Pursuant to an agreement with the Umbrella Fund, Royal Fidelity Merchant Bank & Trust, a bank incorporated and licensed in Barbados, serves as the Fund's investment manager. The Investment Manager is responsible for the implementation of the Fund's investment strategy and has sole responsibility for the investing and reinvesting of the Fund's assets.

The Investment Manager is entitled to a management fee of 1.5% for C1 and 1% for C3 per annum of the NAV of the Fund payable monthly in arrears. The Investment Manager earned fees of \$20.310 (2014:\$25,432)

The Investment Manager is also entitled to receive an incentive fee if the performance of the Fund exceeds the target rate set by the Board of Directors from time to time (the benchmark rate). Should the NAV per share on a valuation date exceed the highest NAV per share on a previous valuation date in the last 12 months plus the cumulative benchmark rate for each of the months since that point in time, the Investment Manager is entitled to an incentive fee equal to twenty percent (20%) of the excess return. For the purposes of calculating the incentive fee, NAV per share is the amount calculated after deducting management fees and before incentive fee. The benchmark rate for the year ended 30 June 2015 was 6.5% (2014: 6.5% per annum) and since the Fund's inception the Investment Manager has not earned incentive fees.

##### (b) Administration agreement

Pursuant to an agreement with the Umbrella Fund, Royal Fidelity Capital Markets (Barbados) Limited serves as the Fund's administrator. Administration fees are paid by the Investment Manager.

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 5. Agreements and Transactions with Related Parties (continued)

##### (c) Custody agreement

Pursuant to an agreement with the Umbrella Fund, Royal Bank of Canada Financial Corporation, a bank incorporated and licensed in Barbados, serves as the Fund's primary custodian and escrow agent. Custodian fees are paid by the Investment Manager. The custodian fee has been waived for 2015 and 2014.

##### (d) Directors and officers

Certain directors of the Fund are also directors or officers of the Investment Manager and its subsidiaries and of the Custodian.

##### (e) Cash at bank

The Fund has demand deposit accounts with the Investment Manager, which earns interest at an annual rate of 1.25% per annum for balances greater than \$10,000. As of 30 June 2015 and 30 June 2014, all cash at bank held was deposited with the Investment Manager.

##### (f) Inter-fund relationships

The Royal Fidelity Strategic Growth Fund holds investments in the following sub funds and related funds:

	2015	2014
	\$	\$
Royal Fidelity TIGRS Fund – Series A	-	73,485
Royal Fidelity TIGRS Fund – Series A2	-	511,615
Royal Fidelity TIGRS Fund – Series A3	-	185,188
Royal Fidelity Bahamas International Opportunities Fund Limited – Series 1	-	58,186
Royal Fidelity Equity Fund	<u>1,641,408</u>	<u>-</u>
<b>Total</b>	<b><u>1,641,408</u></b>	<b><u>828,474</u></b>

#### 6. Taxation

The Fund is licensed as an authorized mutual fund under the Mutual Funds Act, 2002-22 of Barbados. As a result, it was not subject to corporation tax on income derived from its investing activities as all income arising in the year was designated to be income of the redeemable participating shareholders.

#### 7. Financial Risk Management

The Fund's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Fund's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risks limits and other controls. The process of risk management is critical to the Fund's continuing profitability. The Fund is exposed to market risk (which includes foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds. The Fund's financial performance is affected by its capability to understand and effectively manage these risks.

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 7. Financial Risk Management (continued)

The Fund's Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management of the Fund.

Monitoring and controlling risks is primarily set up to be performed based on limits established by the Board of Directors. These limits reflect the business strategy including the risk that the Fund is willing to accept and the market environment of the Fund. In addition, the Fund monitors and measures the overall risk in relation to the aggregate risk exposure across all risks type and activities.

#### Excessive risk concentration

Concentration indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or that have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

The Fund has concentrated risk based on counterparties by geographic distribution. Within its investment Fund, 50% of the financial assets at fair value through profit or loss are held within Barbados, and 47% by counterparties in Bahamas. All other financial assets and liabilities are held within Trinidad.

In order to avoid excessive concentrations of risk, the Fund's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Fund's diversification is managed through the the Equity Fund.

#### Market risk

##### (a) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. The price risk of the portfolio of financial assets is managed through diversification of the Royal Fidelity Investment Equity Fund, with asset allocation guidelines recommended by the Investment Manager and approved by the Directors. The Fund's financial instruments are susceptible to market price risk arising from uncertainties about future prices of financial instruments.

The table below shows the effect on the portfolio due to a (1%) change in market prices with all other variables held constant:

	2015 \$	2014 \$
Equity securities	-	8,178
Managed funds	16,414	8,285
	<u>16,414</u>	<u>16,463</u>

## Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund

### Notes to the Financial Statements For the year ended 30 June 2015

#### 7. Financial Risk Management (continued)

##### (b) Foreign currency risk

Foreign currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates. The Fund is directly exposed to foreign currency risk through its investments in financial assets at fair value through profit or loss denominated in US\$. However this risk is currently mitigated because the BDS\$: US\$ exchange rate is fixed at 2:1.

All interest receivable and other financial assets are denominated in Barbados Dollars. There are no financial liabilities denoted in United States Dollars.

	<b>BDS</b> \$	<b>USD</b> \$	<b>2015</b> <b>Total</b> \$
Financial assets at fair value through profit and loss	1,641,408	-	1,641,408
	<u><b>1,641,408</b></u>	<u><b>-</b></u>	<u><b>1,641,408</b></u>

	<b>BDS</b> \$	<b>USD</b> \$	<b>2014</b> <b>Total</b> \$
Financial assets at fair value through profit and loss	1,588,052	58,196	1,646,238
	<u><b>1,588,052</b></u>	<u><b>58,196</b></u>	<u><b>1,646,238</b></u>

##### (c) Credit risk

Credit risk is the risk that a counterparty will be unable or unwilling to meet a commitment that is entered into with the Fund. The Fund's investment strategy exposes it to credit risk.

The risk of default on sales or purchase transactions is considered minimal, as delivery of securities sold is only made once the Investment Manager has received payment. Payment is made on a purchase once the securities have been received by the Investment Manager. The trade will fail if either party fails to meet its obligation.

The risk of default on principal and interest payments is also considered minimal. It is the Fund's policy to enter into financial instruments with reputable counterparties and financial institutions in good standing with regulatory bodies. The Investment Manager performs due diligence on all investments prior to their acquisition.



## **Royal Fidelity (Barbados) Investment Fund Limited – Strategic Growth Fund**

### **Notes to the Financial Statements For the year ended 30 June 2015**

#### **7. Financial Risk Management (continued)**

##### **(d) Liquidity risk**

Liquidity risk is the risk that the Fund is unable to meet its payment obligations associated with its financial liabilities when they come due. The Fund is exposed to monthly redemptions of redeemable participating shares, however its investments are generally considered longer term. The Fund has the ability to liquidate its positions to meet payment obligations, as financial assets are principally considered to be marketable and can be sold in response to liquidity needs. Further, the Fund has the ability to borrow in the short term using its investments as collateral.

All financial assets and liabilities are due on demand; however amounts owing to redeemable participating shareholders are not expected to be demanded in the short term as shareholders typically retain such for the medium to long term.

#### **8. Capital Risk Management**

The capital of the Fund is represented by the net assets attributable to the holders of redeemable participating shares. The amount of net assets attributable to these shareholders can change significantly on a monthly basis, as the Fund is subject to monthly subscriptions and redemptions at the discretion of the shareholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

In order to maintain or adjust the capital structure, the Fund:

- Monitors the level of monthly subscriptions and redemptions relative to financial assets it expects to be able to liquidate within one month.
- Issues new shares and redeems existing shares in accordance with the constitutional documents of the Fund, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Board of Directors and Investment Manager monitor capital on the basis of the value of net assets attributable to redeemable participating shareholders.