

**ROYAL FIDELITY (BARBADOS) INVESTMENT FUND
LIMITED – PREMIUM INCOME FUND**

**Financial Statements
30 June 2016**



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

We have audited the accompanying financial statements of Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund, which comprise the statement of financial position as of 30 June 2016, and the statements of comprehensive income, changes in net assets attributable to holders of Class B redeemable participating shares and 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 about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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 Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund as of 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Ernst & Young Ltd
Chartered Accountants
Barbados
28 October 2016

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund
(Established under the laws of Barbados)


Statement of Financial Position
As of 30 June 2016
(Expressed in Barbados dollars)

	2016 \$	2015 \$
ASSETS		
Cash at bank	109,500	25,744
Financial assets at fair value through profit or loss [Note 3]	23,687,277	17,836,686
Withholding taxes receivable	276,128	298,425
Other assets	2,500	3,050
	<u>24,075,405</u>	<u>18,163,905</u>
LIABILITIES		
Redemptions payable	107,594	14,425
Management fee payable [Note 5(a)]	14,273	11,320
Accrued expenses and other liabilities	8,400	6,250
	<u>130,267</u>	<u>31,995</u>
Liabilities (excluding net assets attributable to holders of Class B redeemable participating shares)	<u>130,267</u>	<u>31,995</u>
Net assets attributable to holders of Class B redeemable participating shares [Note 4]	<u><u>23,945,138</u></u>	<u><u>18,131,910</u></u>

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



Director



Director

28 October 2016

Date

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

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Statement of Comprehensive Income For the Year Ended 30 June 2016 (Expressed in Barbados dollars)

	2016 \$	2015 \$
INVESTMENT INCOME		
Net change in unrealised appreciation/depreciation of financial assets at fair value through profit or loss	989,642	614,151
Net realised gain on financial assets at fair value through profit or loss	16,798	270,789
Interest	4	365,937
Total investment income	1,006,444	1,250,877
EXPENSES		
Management fee [Note 5(a)]	157,951	139,551
Professional fees	10,244	6,488
Interest	-	18,319
Other	12,391	6,793
Total expenses	180,586	171,151
Increase/(Decrease) in net assets attributable to holders of Class B redeemable participating shares	825,858	1,079,726
Attributable to:		
Series B1 redeemable participating shares	734,491	978,252
Series B3 redeemable participating shares	91,367	101,474
	825,858	1,079,726
Increase/(Decrease) in net assets per redeemable participating share [Note 6]		
Series B1 redeemable participating shares	0.06	0.09
Series B3 redeemable participating shares	0.06	0.09

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

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Statement of Changes in Net Assets Attributable to Holders of Class B Redeemable Participating Shares For the Year Ended 30 June 2016 (Expressed in Barbados dollars)

	2016		2015	
	Number of Shares	\$	Number of Shares	\$
Series B1 Shares				
Balance as of the beginning of the year	11,082,950	16,273,664	11,581,135	15,947,478
Subscriptions	3,064,559	4,629,123	1,986,356	2,834,518
Redemptions	(660,256)	(993,546)	(2,484,541)	(3,486,584)
Increase in net assets attributable to holders of Series B1 shares	-	734,491	-	978,252
Balance as of the end of the year	<u>13,487,253</u>	<u>20,643,732</u>	<u>11,082,950</u>	<u>16,273,664</u>
Net asset value per share: \$1.53 (2015: \$1.47)				
Series B3 shares				
Balance as of the beginning of the year	1,305,186	1,858,246	1,049,950	1,391,225
Subscriptions	937,711	1,421,926	257,517	368,781
Redemptions	(46,782)	(70,133)	(2,281)	(3,234)
Increase in net assets attributable to holders of Series B3 shares	-	91,367	-	101,474
Balance as of the end of the year	<u>2,196,115</u>	<u>3,301,406</u>	<u>1,305,186</u>	<u>1,858,246</u>
Net asset value per share: \$1.50 (2015: \$1.42)				
Balance as of the end of the year		<u>23,945,138</u>		<u>18,131,910</u>

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

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Statement of Cash Flows For the Year Ended 30 June 2016 (Expressed in Barbados dollars)

	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Purchases of financial assets at fair value through profit or loss	(5,118,860)	(17,171,835)
Proceeds from sales of financial assets at fair value through profit or loss	274,709	16,970,714
Interest received	4	634,667
Interest paid	-	(18,319)
Net (increase)/decrease in withholding taxes receivable	22,297	(9,398)
Payment of expenses	<u>(174,933)</u>	<u>(152,786)</u>
Net cash from/(used in) operating activities	<u>(4,996,783)</u>	<u>253,043</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from subscriptions of Class B redeemable participating shares	6,051,049	3,203,299
Payments for redemptions of Class B redeemable participating shares	<u>(970,510)</u>	<u>(3,475,416)</u>
Net cash from/(used in) financing activities	<u>5,080,539</u>	<u>(272,117)</u>
Net increase/(decrease) in cash and cash equivalents	83,756	(19,074)
Cash and cash equivalents as of the beginning of the year	<u>25,744</u>	<u>44,818</u>
Cash and cash equivalents as of the end of the year	<u><u>109,500</u></u>	<u><u>25,744</u></u>
CASH AND CASH EQUIVALENTS		
Cash at bank	<u><u>109,500</u></u>	<u><u>25,744</u></u>

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

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements 30 June 2016

1. General Information

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund (the Fund) is a sub fund of Royal Fidelity (Barbados) Investment Fund Limited (the Umbrella Fund), which is incorporated under the Companies Act, 1982 of Barbados and is licensed as a mutual fund under the Mutual Funds Act, 2002.

The Fund is an open-end investment vehicle, which issues Class B redeemable participating shares divided into 3 series of shares, namely Series B1, B2 and B3 [Note 4]. The investment objective of the Fund is to provide long term, above average income and capital stability with a moderate level of investment risk, which it achieves by investing in Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund, an investment holding vehicle of the Umbrella Fund, that invests in a diversified portfolio of fixed income securities of entities domiciled principally in the Caribbean, including investment funds invested in such fixed income securities.

The Fund's Class B redeemable participating shares are listed for informational purposes, but not traded, on the Barbados Stock Exchange (BSE), and the registered office of the Umbrella Fund is located at Fidelity House, 27 Pine Road, St. Michael, Barbados. The Fund's activities are managed entirely by service providers [Note 5].

Other sub funds exist under the Umbrella Fund, and individual financial statements are prepared for each sub fund that 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 the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), and under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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(f).

New standards, amendments and interpretations adopted by the Fund

Standards and amendments and interpretations to published standards that became effective for the Fund's financial year beginning on 1 July 2015 were either not relevant or not significant to the Fund's operations and accordingly did not have a material impact on the Fund's accounting policies or financial statements.

New standards, amendments and interpretations not yet adopted by the Fund

The application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Fund's accounting policies or financial statements in the financial period of initial application.

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(b) Investment entity

The Fund meets the definition of an investment entity defined in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, which provide an exception to consolidation and equity method requirements for investment entities, with investment entities required to recognise investments in subsidiaries and associates at fair value through profit or loss.

Management has determined that the Fund meets the characteristics of an investment entity, as: it obtains funds from investors for the purposes of providing investment management services; its business purpose, as set out in its offering documents, is to invest for returns from investment income and capital appreciation; and the performance of investments is measured and evaluated on a fair value basis. Further, the Fund effects multiple investments through its holdings in Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund.

Accordingly, investments in subsidiaries and associates are recognised as financial assets at fair value through profit or loss and measured in accordance with the accounting policies disclosed in Note 2(f). These financial statements are the only financial statements presented by the Fund.

(c) Foreign currency translation

The financial statements are presented in Barbados dollars (BDS\$), which is the Fund's functional and presentation currency.

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. Translation differences on financial assets measured at fair value through profit or loss are included as a part of the fair value gains and losses.

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the investment committee of the Investment Manager.

The investment committee is responsible for the Fund's entire portfolio and considers the business to have a single operating segment. The asset allocation decisions are based on a single, integrated investment strategy, and the Fund's performance is evaluated on an overall basis.

(e) 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 financial assets with original contractual maturities of three months or less and drawn-down margin credit facilities provided by banks.

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(f) Financial assets at fair value through profit or loss

The Fund classifies its investments as financial assets at fair value through profit or loss. These financial assets are classified as held for trading or designated by the Directors as at fair value through profit or loss, at inception.

Financial assets held for trading are those acquired principally for the purposes of selling in the short term. Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's financial assets at fair value through profit or loss have been designated as such by the Directors.

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Fund commits to purchase or sell the asset. Financial assets 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. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value of financial assets traded in active markets (e.g. international 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 analyses and other techniques commonly used by market participants. Investments in investment vehicles or investment funds (investee funds) are valued based on the latest available redemption price of such units for each investee fund, as determined by the investee funds' administrators. The Fund reviews the details of the reported information obtained from the investee funds and considers: the liquidity of the investee fund and its underlying investments; the value date of the net asset value provided; any restrictions on redemptions; and the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the investee funds' advisors. If necessary, the Fund makes adjustments to the net asset value of various investee funds to obtain the best estimate of fair value.

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 financial period in which they arise. Realised gains and losses are determined using the average cost method.

(g) Redeemable participating shares

The Fund issues redeemable participating shares, which are redeemable at the holder's option and are classified as financial liabilities. 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 date of the statement of financial position 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. The Fund's net asset value per share is calculated by dividing the net assets attributable to holders of redeemable participating shares with the total number of outstanding redeemable participating shares.

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(h) Income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions 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.

Dividend income is recognised when the right to receive payment has been established.

Other income and expenses are recognised on the accrual basis.

(i) Taxation

The Fund is licensed as an authorised mutual fund under the Mutual Funds Act, 2002 and is therefore not subject to corporate taxes on income derived from its investing activities, as all income is designated to be income of the redeemable participating shareholders. The Fund's operations do not subject it to taxation in any other jurisdiction.

(j) Corresponding figures

Where necessary, corresponding figures are adjusted to conform with changes in presentation in the current period.

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.

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

3. Financial Assets at Fair Value Through Profit or Loss (Continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset.

The determination of what constitutes ‘observable’ requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from the 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. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

Financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include unlisted securities that have significant unobservable components, including investment entities.

	2016 \$	2015 \$
<i>Level 3</i>		
Investment entities	<u>23,687,277</u>	<u>17,836,686</u>
Total	<u>23,687,277</u>	<u>17,836,686</u>

As of 30 June 2016, the cost of Level 3 financial assets at fair value through profit or loss is \$21,897,643 (2015: \$17,036,694).

Movements in Level 3 investment funds comprise:

	2016 \$	2015 \$
Balance as of the beginning of the year	17,836,686	502,358
Purchases	5,118,860	17,171,834
Sales	(274,709)	(644,917)
Net realised gain/(loss)	16,798	9,777
Net change in unrealised appreciation/depreciation	<u>989,642</u>	<u>797,634</u>
Balance as of the end of the year	<u>23,687,277</u>	<u>17,836,686</u>

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements

30 June 2016

(Continued)

3. Financial Assets at Fair Value Through Profit or Loss (Continued)

Investment entities comprise the investment in the shares of Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund (the Fixed Income Sub Fund). As of 30 June 2016, the Fund owned 21,455,867 (2015: 17,006,756) shares of the Fixed Income Sub Fund, representing 64.96% (2015: 58.08%) of total outstanding shares.

The financial position and performance of the Fixed Income Sub Fund are disclosed in the attached financial statements.

4. Share Capital

The authorised share capital of the Fund is unlimited, and currently comprises non-voting Class B redeemable participating shares (redeemable participating shares). Redeemable participating shares fully participate in the profits and losses of the Fund. The Class B redeemable participating shares are divided into 3 series of shares: B1, B2 and B3, and each of B1 and B3 were initially issued at \$1.36 per share. Thereafter, the Class B redeemable participating shares are issued on the first business day of each calendar month (dealing date) at the net asset value (NAV) per share as of the close of the last business day of the calendar month that precedes the dealing date (valuation date), net of a sales commission of up to 1.00%. The minimum initial investment is \$1,000 with a minimal subsequent investment of \$250.

Income and expenses (other than expenses attributable to a specific series) are allocated to each series of Class B redeemable participating shares based on their relative NAV. Class B redeemable participating shares may be redeemed at the holder's option, upon giving fifteen (15) days prior written notice, at the NAV per share as of the valuation date less a redemption fee of up to 2.00% for Series B1 and B2 (minimum of \$50); no redemption fee is applicable to Series B3. 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. Partial redemptions are permitted provided that the remaining investment of the shareholder is not less than the minimal initial investment for the applicable series, otherwise the Fund can require full redemption.

As of 30 June 2016, related parties owned 13,225,895 (2015: 10,948,018) Series B1 shares and 2,113,790 (2015: 1,250,213) Series B3 shares.

5. Related Party Balances and Transactions

The Fund does not have employees and its activities are directed and managed by the service providers of the Umbrella Fund, 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

Pursuant to an agreement with the Umbrella Fund dated 24 November 2008, Royal Fidelity Merchant Bank & Trust (Barbados) Limited (the Investment Manager), 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 0.75% per annum of the NAV of each Series, payable monthly in arrears. The management fee covers administration and custody fees; accordingly, such fees are included in management fee in the statement of comprehensive income.

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements

30 June 2016

(Continued)

5. Related Party Balances and Transactions

(a) Investment management (continued)

The Investment Manager is also entitled to receive an incentive fee if the performance of the Fund exceeds the target rate set by the 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 2016 was 4.50% (2015: 4.50% per annum).

The management fee expense during the period totaled \$140,354 and \$17,597 (2015: \$126,332 and \$13,219) for Series B1 and Series B3, respectively, including incentive fee of \$6,343 (2015: \$11,762) and \$741 (2015: \$1,281) for Series B1 and Series B3, respectively.

(b) Administration

Pursuant to an agreement with the Umbrella Fund dated 24 November 2008, Royal Fidelity Capital Markets (Barbados) Limited (the Administrator), a company incorporated and licensed in Barbados, serves as the Fund's administrator. The Administrator is entitled to an administration fee, which is paid out of the management fee.

(c) Custody

Pursuant to an agreement with the Umbrella Fund dated 24 November 2008, Royal Bank of Canada Financial Corporation (the Custodian), a bank incorporated and licensed in Barbados and an affiliate of the Investment Manager, serves as the Fund's primary custodian and escrow agent. The Custodian is entitled to a custodian fee, which is paid out of the management fee.

(d) Directors and officers

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

(e) Cash at bank and margin credit facility

The Fund has demand deposit accounts with the Investment Manager, which earn interest at a rate of 1.25% per annum for balances greater than \$10,000. As of 30 June 2016, the balances totaled \$109,500 (2015: \$25,744). Interest income earned during the year on the deposits totaled \$4 (2015: \$830).

The Fund has a line of credit of \$1,500,000 with the Investment Manager, which incurs interest at a rate of 6.00% per annum. The Fund has pledged its financial assets in support of this margin credit facility. Interest expense incurred for use of the facility during the year amounted to \$Nil (2015: \$18,319).

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements

30 June 2016

(Continued)

5. Related Party Balances and Transactions (Continued)

(f) Other

The Fund has other related party balances and transactions through its investment in the Fixed Income Sub Fund, the financial statements of which are attached.

6. Increase in Net Assets per Redeemable Participating Share

Increase in net assets per redeemable participating share is calculated by dividing the increase in net assets attributable to holders of redeemable participating shares by the weighted average number of redeemable participating shares during the year. The weighted average number of outstanding Series B1 and B3 redeemable participating shares during the year amounted to 11,871,755 and 1,531,331 (2015: 10,692,612 and 1,112,410), respectively.

7. Financial Risk Management

The Fund engages in transactions that expose it to market risk (which includes price, currency and interest rate risks), credit risk and liquidity risk in the normal course of operations. The Fund's financial performance is affected by its ability to understand and effectively manage these risks.

The Fund's Investment Manager is responsible for identifying and managing risks. The Directors monitor the Investment Manager and are ultimately responsible for the overall financial risk management of the Fund.

Monitoring and controlling risks is performed through the establishment of limits by the Directors, which reflect the business strategy, including the level of risk that the Fund is willing to accept and the market environment in which the Fund operates. In addition, the Fund monitors and measures the overall level of risk in relation to the aggregate risk exposure across all risk types and activities.

The Fund invests solely in the Fixed Income Sub Fund that has an investment objective that is consistent with that of the Fund, which results in the Fund being indirectly exposed to market, credit and liquidity risks of the Fixed Income Sub Fund. These risks are disclosed in Note 6 of the attached financial statements of the Fixed Income Sub Fund.

Concentration of risks

Concentration of risk indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location, and arises: when a significant proportion of financial instruments or contracts are entered into with the same counterparty; or where a significant proportion of counterparties are engaged in similar business activities, or activities in the same geographical 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. Concentration of liquidity risk arises from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentration of foreign exchange risk arises when the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that are historically positively correlated.

To mitigate excessive concentration of risk, the Fund's policies and procedures include specific guidelines to maintain appropriate diversification.

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

6. Financial Risk Management (Continued)

(a) Market risk

Price risk

Price risk is the risk that the fair values and/or amounts realised on sales of financial instruments may fluctuate significantly as a result of changes in market prices. The price risk of the portfolio of financial assets is managed through diversification of the investment portfolio of the Fixed Income Sub Fund. The asset allocation guidelines of the Fund and the Fixed Income Sub Fund are recommended by the Investment Manager and approved by the Directors.

Currency risk

Currency risk is the risk that the fair values and/or amounts realised on sales of financial instruments or the settlement of financial liabilities may fluctuate due to change in foreign exchange rates. The Fund is indirectly exposed to currency risk through its investment in the Fixed Income Sub Fund.

Interest rate risk

Fair value and cash flow interest rate risks are the risks that the fair values or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Fund is indirectly exposed to interest rate risk through its investment in the Fixed Income Sub Fund.

(b) 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 is exposed to credit risk both indirectly through its investment in the Fixed Income Sub Fund, and directly through cash balances and securities held in custody, which are placed with financial institutions in good standing with the relevant regulators.

(c) 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 Class B redeemable participating shares, however its financial assets are generally longer term. The Fund has the ability to redeem its positions in the Fixed Income Sub Fund on a monthly basis to meet payment obligations, subject to the liquidity risk of the Fixed Income Sub Fund. Further, the Fund has the ability to borrow in the short term using its financial assets as collateral.

All financial liabilities are due on demand, however amounts owing to Class B redeemable participating shareholders are not expected to be demanded in the short term as shareholders typically retain such shares for the medium to long term. All financial assets are current, and either due on demand or within one month.

Royal Fidelity (Barbados) Investment Fund Limited – Premium Income Fund

Notes to the Financial Statements

30 June 2016

(Continued)

8. Capital 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 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 Directors and the Investment Manager monitor capital of the Fund on the basis of the value of net assets attributable to redeemable participating shareholders.

**ROYAL FIDELITY (BARBADOS) INVESTMENT FUND
LIMITED – FIXED INCOME FUND**

**Financial Statements
30 June 2016**



Ernst & Young Ltd.
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

We have audited the accompanying financial statements of Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund, which comprise the statement of financial position as of 30 June 2016, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable participating shares and 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 about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained 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 Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund as of 30 June 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Ltd
Chartered Accountants
Barbados
28 October 2016

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund
 (Established under the laws of Barbados)

Statement of Financial Position
 As of 30 June 2016
 (Expressed in Barbados dollars)

	2016	2015
	\$	\$
ASSETS		
Cash at bank	1,549,210	876,095
Financial assets at fair value through profit or loss [Note 3]	34,817,072	29,789,785
Withholding taxes receivable	95,116	44,733
	<u>36,461,398</u>	<u>30,710,613</u>
LIABILITIES		
Accrued expenses and other liabilities	-	-
Liabilities (excluding net assets attributable to holders of redeemable participating shares)	-	-
Net assets attributable to holders of redeemable participating shares [Note 4]	<u>36,461,398</u>	<u>30,710,613</u>

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

 Director

 Director

28 October 2016

 Date

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

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Statement of Comprehensive Income For the Year Ended 30 June 2016 (Expressed in Barbados dollars)

	2016 \$	2015 \$
INVESTMENT INCOME		
Interest	1,723,418	1,200,048
Dividend	48,000	32,000
Net realised loss on financial assets at fair value through profit or loss	(12,872)	(2,695)
Net change in unrealised appreciation/depreciation of financial assets at fair value through profit or loss	<u>(79,615)</u>	<u>211,181</u>
Total investment income	<u>1,678,931</u>	<u>1,408,534</u>
EXPENSES		
Professional fees	6,767	-
Other	<u>1,621</u>	<u>-</u>
Total expenses	<u>8,388</u>	<u>-</u>
Increase in net assets attributable to holders of redeemable participating shares	<u><u>1,670,543</u></u>	<u><u>1,408,534</u></u>

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

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares For the Year Ended 30 June 2016 (Expressed in Barbados dollars)

	2016		2015	
	Number of Shares	\$	Number of Shares	\$
Balance as of the beginning of the period	29,282,188	30,710,613	-	-
Subscriptions	4,919,615	5,345,755	30,087,237	30,117,189
Redemptions	(1,174,220)	(1,265,513)	(805,049)	(815,110)
Increase in net assets attributable to holders of redeemable participating shares	-	1,670,543	-	1,408,534
Balance as of the end of the period	<u>33,027,583</u>	<u>36,461,398</u>	<u>29,282,188</u>	<u>30,710,613</u>
Net asset value per share: \$1.10 (2015: \$1.05)				

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

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Statement of Cash Flows For the Year Ended 30 June 2016 (Expressed in Barbados dollars)

	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Purchases of financial assets at fair value through profit or loss	(9,939,729)	(29,356,884)
Proceeds from sales of financial assets at fair value through profit or loss	4,840,070	248,500
Interest received	1,703,303	695,133
Dividends received	48,000	32,000
Net increase in withholding taxes receivable	(50,383)	(44,733)
Payment of expenses	(8,388)	-
Net cash used in operating activities	<u>(3,407,127)</u>	<u>(28,425,984)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from subscriptions of redeemable participating shares	5,345,755	30,117,189
Payments for redemptions of redeemable participating shares	(1,265,513)	(815,110)
Net cash from financing activities	<u>4,080,242</u>	<u>29,302,079</u>
Net increase in cash and cash equivalents	673,115	876,095
Cash and cash equivalents as of the beginning of the period	<u>876,095</u>	<u>-</u>
Cash and cash equivalents as of the end of the period	<u><u>1,549,210</u></u>	<u><u>876,095</u></u>
CASH AND CASH EQUIVALENTS		
Cash at bank	<u><u>1,549,210</u></u>	<u><u>876,095</u></u>

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

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements 30 June 2016

1. General Information

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund (the Fund) is an investment holding vehicle for Royal Fidelity (Barbados) Investment Fund Limited (the Umbrella Fund), which is incorporated under the Companies Act, 1982 of Barbados and is licensed as a mutual fund under the Mutual Funds Act, 2002.

The Fund's investment objective is to provide long term, above average income and capital stability with a moderate level of investment risk, which it achieves by investing in a diversified portfolio of fixed income securities of entities domiciled principally in the Caribbean, including investment funds invested in such fixed income securities.

The registered office of the Umbrella Fund is located at Fidelity House, 27 Pine Road, St. Michael, Barbados. The Fund's activities are managed entirely by the Umbrella Fund's service providers [Note 5].

Sub funds exist under the Umbrella Fund, and individual financial statements are prepared for each sub fund that 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 the financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), and under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Fund's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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(e).

New standards, amendments and interpretations adopted by the Fund

Standards and amendments and interpretations to published standards that became effective for the Fund's financial year beginning on 1 July 2015 were either not relevant or not significant to the Fund's operations and accordingly did not have a material impact on the Fund's accounting policies or financial statements.

New standards, amendments and interpretations not yet adopted by the Fund

The application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Fund's accounting policies or financial statements in the financial period of initial application.

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements
30 June 2016
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(b) Investment entity

The Fund meets the definition of an investment entity defined in IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, which provide an exception to consolidation and equity method requirements for investment entities, with investment entities required to recognise investments in subsidiaries and associates at fair value through profit or loss.

Management has determined that the Fund meets the characteristics of an investment entity, as: it obtains funds from investors for the purposes of providing investment management services; its business purpose, as set out in its offering documents, is to invest for returns from investment income and capital appreciation; and the performance of investments is measured and evaluated on a fair value basis. Further, the Fund effects multiple investments through its holdings in fixed income securities and investment funds.

Accordingly, investments in subsidiaries and associates are recognised as financial assets at fair value through profit or loss and measured in accordance with the accounting policies disclosed in Note 2(e). These financial statements are the only financial statements presented by the Fund.

(c) 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 principally 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences on financial assets measured at fair value through profit or loss are included as a part of the fair value gains and losses.

(d) 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 financial assets with original contractual maturities of three months or less and drawn-down margin credit facilities provided by banks.

(e) Financial assets at fair value through profit or loss

The Fund classifies its investments as financial assets at fair value through profit or loss. These financial assets are classified as held for trading or designated by the Directors as at fair value through profit or loss, at inception.

Financial assets held for trading are those acquired principally for the purposes of selling in the short term. Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's financial assets at fair value through profit or loss have been designated as such by the Directors.

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements
30 June 2016
(Continued)

2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets at fair value through profit or loss (continued)

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Fund commits to purchase or sell the asset. Financial assets 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. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The fair value of financial assets traded in active markets (e.g. international 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 analyses and other techniques commonly used by market participants. Investments in investment funds (investee funds) are valued based on the latest available redemption price of such units for each investee fund, as determined by the investee funds' administrators. The Fund reviews the details of the reported information obtained from the investee funds and considers: the liquidity of the investee fund and its underlying investments; the value date of the net asset value provided; any restrictions on redemptions; and the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the investee funds' advisors. If necessary, the Fund makes adjustments to the net asset value of various investee funds to obtain the best estimate of fair value.

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 financial period in which they arise. Realised gains and losses are determined using the average cost method.

(f) Redeemable participating shares

The Fund issues redeemable participating shares, which are redeemable at the holder's option and are classified as financial liabilities. 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 date of the statement of financial position 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. The Fund's net asset value per share is calculated by dividing the net assets attributable to holders of redeemable participating shares with the total number of outstanding redeemable participating shares.

(g) Income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions 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.

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Income and expense recognition (continued)

Dividend income is recognised when the right to receive payment has been established.

Other income and expenses are recognised on the accrual basis.

(h) Taxation

The Fund is licensed as an authorised mutual fund under the Mutual Funds Act, 2002 and is therefore not subject to corporate taxes on income derived from its investing activities, as all income is designated to be income of the redeemable participating shareholders. The Fund incurs withholding taxes imposed by certain countries on investment income and capital gains for investments domiciled in those countries. Such income and gains are recorded gross of withholding taxes in the statement of comprehensive income, and withholding taxes are shown as a separate line item.

(i) Corresponding figures

Where necessary, corresponding figures are adjusted to conform with changes in presentation in the current period. The corresponding period represents the period from 1 November 2014 (date of establishment) to 30 June 2015.

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.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset.

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

3. Financial Assets at Fair Value Through Profit or Loss (Continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from the 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. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

Financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include unlisted securities that have significant unobservable components, including investment funds.

	2016 \$	2015 \$
<i>Level 2</i>		
Corporate debt securities	18,730,765	14,064,868
Government debt securities	11,606,118	11,767,992
Equity securities	800,000	800,000
	<u>31,136,883</u>	<u>26,632,860</u>
<i>Level 3</i>		
Investment funds	<u>3,187,159</u>	<u>2,684,010</u>
Total – all levels	34,324,042	29,316,870
Accrued interest	<u>493,030</u>	<u>472,915</u>
Total	<u>34,817,072</u>	<u>29,789,785</u>

As of 30 June 2016, the cost of financial assets at fair value through profit or loss is \$34,192,476 (2015: \$29,105,689), of which \$2,968,906 (2015: \$2,618,906) represents Level 3 securities.

Movements in Level 3 investment funds comprise:

	2016 \$	2015 \$
Balance as of the beginning of the period	2,684,010	-
Purchases	350,000	2,618,906
Sales	-	-
Net realised gain/(loss)	-	-
Net change in unrealised appreciation/depreciation	<u>153,149</u>	<u>65,104</u>
Balance as of the end of the period	<u>3,187,159</u>	<u>2,684,010</u>

Investment funds comprise the investments in redeemable participating shares of related party funds [Note 5].

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements

30 June 2016

(Continued)

4. Share Capital

The authorised share capital of the Fund is unlimited, and currently comprises non-voting redeemable participating shares (redeemable participating shares). Redeemable participating shares fully participate in the profits and losses of the Fund.

The redeemable participating shares were initially issued at \$1.00 per share. Thereafter, redeemable participating shares are issued on the first business day of each calendar month (dealing date) at the net asset value (NAV) per share as of the close of the last business day of the calendar month that precedes the dealing date (valuation date). Redeemable participating shares may be redeemed at the holder's option, upon giving fifteen (15) days prior written notice, at the NAV per share as of the valuation date.

As of 30 June 2016 and 2015, all of the redeemable participating shares are owned by Premium Income Fund and Select Balanced Fund (the sub funds), which are sub funds of the Umbrella Fund.

5. Related Party Balances and Transactions

The Fund does not have employees and its activities are directed and managed by the service providers of the Umbrella Fund, 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

Pursuant to an agreement with the Umbrella Fund dated 24 November 2008, Royal Fidelity Merchant Bank & Trust (Barbados) Limited (the Investment Manager), 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 fees charged by the Investment Manager for services rendered to the Fund are borne directly by the sub funds.

(b) Administration

Pursuant to an agreement with the Umbrella Fund dated 24 November 2008, Royal Fidelity Capital Markets (Barbados) Limited (the Administrator), a company incorporated and licensed in Barbados, serves as the Fund's administrator. The Administrator is entitled to an administration fee, which is paid out of the management fee.

(c) Custody

Pursuant to an agreement with the Umbrella Fund dated 24 November 2008, Royal Bank of Canada Financial Corporation (the Custodian), a bank incorporated and licensed in Barbados and an affiliate of the Investment Manager, serves as the Fund's primary custodian and escrow agent. The Custodian is entitled to a custodian fee, which is paid out of the management fee.

(d) Directors and officers

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

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

5. Related Party Balances and Transactions (Continued)

(e) Cash at bank and margin credit facility

The Fund has demand deposit accounts with the Investment Manager, which earn interest at a rate of 1.25% per annum for balances greater than \$10,000. As of 30 June 2016, the balances totaled \$237,170 (2015: \$503,096). Interest income earned during the period on the deposits totaled \$1,134 (2015: \$1,308).

The Fund has a line of credit with the Investment Manager up to 50.00% of the fair value of its financial assets, which incurs interest at a rate of 6.00% per annum. The Fund has pledged its financial assets in support of this margin credit facility.

(f) Financial assets at fair value through profit or loss

As of 30 June 2016, the Fund has investments in securities of related parties classified as financial assets at fair value through profit or loss, which comprise:

	2016 \$	2015 \$
<i>Equity securities</i>		
Fidelity Bank (Cayman) Limited	800,000	800,000
<i>Investment funds</i>		
Royal Fidelity International Investment Fund Limited – Targeted Income Sub Fund	3,187,159	2,684,010
Balance as of the end of the period	3,987,159	3,484,010

Dividend income earned during the period on these financial assets totaled \$48,000 (2014: \$32,000).

6. Financial Risk Management

The Fund engages in transactions that expose it to market risk (which includes price, currency and interest rate risks), credit risk and liquidity risk in the normal course of operations. The Fund's financial performance is affected by its ability to understand and effectively manage these risks.

The Fund's Investment Manager is responsible for identifying and managing risks. The Directors monitor the Investment Manager and are ultimately responsible for the overall financial risk management of the Fund.

Monitoring and controlling risks is performed through the establishment of limits by the Directors, which reflect the business strategy, including the level of risk that the Fund is willing to accept and the market environment in which the Fund operates. In addition, the Fund monitors and measures the overall level of risk in relation to the aggregate risk exposure across all risk types and activities.

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

6. Financial Risk Management (Continued)

Concentration of risks

Concentration of risk indicates the relative sensitivity of the Fund's performance to developments affecting a particular industry or geographical location, and arises: when a significant proportion of financial instruments or contracts are entered into with the same counterparty; or where a significant proportion of counterparties are engaged in similar business activities, or activities in the same geographical 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. Concentration of liquidity risk arises from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentration of foreign exchange risk arises when the Fund has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that are historically positively correlated.

To mitigate excessive concentration of risk, the Fund's policies and procedures include specific guidelines to maintain appropriate diversification.

(a) Market risk

Price risk

Price risk is the risk that the fair values and/or amounts realised on sales of financial instruments may fluctuate significantly as a result of changes in market prices. Price risk arises from the Fund's investments in equity securities, debt securities and investment funds, and is managed through diversification of the portfolio, with asset allocation guidelines recommended by the Investment Manager and approved by the Directors.

The effect on the fair value of financial assets at fair value through profit or loss due to changes in market prices of 1.00%, with all other variables held constant, is as follows:

	2016	2015
	\$	\$
Equity securities	8,000	8,000
Corporate debt securities	187,308	117,680
Government debt securities	116,060	140,649
Investment funds	31,872	26,840
	<u>343,240</u>	<u>293,169</u>

The Fund has significant geographical concentration risk, with approximately 81.64% (2015: 79.37%) of the financial assets at fair value through profit or loss representing issuers of securities domiciled in Barbados, and 6.75% (2015: 8.74%) representing issuers of securities domiciled in Republic of Trinidad & Tobago. All other financial assets at fair value through profit or loss represent issuers of securities domiciled in other Caribbean countries. Further, the Fund's investments in government debt securities principally comprise debt securities issued by the Government of Barbados.

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

6. Financial Risk Management (Continued)

(a) Market risk (continued)

Currency risk

Currency risk is the risk that the fair values and/or amounts realised on sales of financial instruments or the settlement of financial liabilities may fluctuate due to change in foreign exchange rates. The Fund is directly exposed to currency risk through its investments in financial assets at fair value through profit or loss denominated in US\$. However, this risk is mitigated because the BDS\$:US\$ exchange rate is fixed at 2:1.

(Expressed in Barbados dollars)	BDS\$ \$	US\$ \$	Total \$
As of 30 June 2016			
Cash at bank	1,549,210	-	1,549,210
Financial assets at fair value through profit or loss	<u>27,005,489</u>	<u>7,811,583</u>	<u>34,817,072</u>
	<u>28,554,699</u>	<u>7,811,583</u>	<u>36,366,282</u>
As of 30 June 2015			
Cash at bank	876,095	-	876,095
Financial assets at fair value through profit or loss	<u>22,165,405</u>	<u>7,624,380</u>	<u>29,789,785</u>
	<u>23,041,500</u>	<u>7,624,380</u>	<u>30,665,880</u>

Interest rate risk

Fair value and cash flow interest rate risks are the risks that the fair values or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Fund takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its fair value risk through its cash at bank and financial assets at fair value through profit or loss, which earn interest at fixed rates. The Fund has elected not to hedge its exposure to fair value interest rate risk, and considers it to be minimal, as it maintains cash solely for liquidity purposes and as intends to hold its financial assets at fair value through profit or loss to maturity, where applicable, unless it is required to liquidate positions to meet obligations.

The Fund's corporate debt securities earn interest at fixed rates ranging from 4.34% to 9.75% (2015: 4.34% to 9.75%) per annum, and its government debt securities earn interest at fixed rates ranging from 4.38% to 8.50% (2015: 4.38% to 8.50%) per annum. Further, the Fund's equity securities comprise preference shares and other similar fixed income securities, which earn interest/coupons at fixed rates of 6.00% (2015: 6.00%) per annum.

(b) 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 significant credit risk, as its financial assets are primarily fixed income securities with fixed maturity dates. The Fund seeks to minimise its exposure to credit risk through investing principally in fixed income securities of government entities and reputable public and private companies.

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements 30 June 2016 (Continued)

6. Financial Risk Management (Continued)

(b) Credit risk (continued)

Further, cash balances and securities held in custody are placed with financial institutions in good standing with the relevant regulators.

(c) 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 financial assets are generally longer term. The Fund has the ability to liquidate/redeem its debt securities positions on relatively short notice, subject to concentration risk, and on a monthly basis for non-exchange traded investment funds to meet payment obligations, as financial assets are principally considered to be marketable and can be sold/redeemed in response to liquidity needs. Further, the Fund has the ability to borrow in the short term using its financial assets as collateral.

All financial 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 shares for the medium to long term. The maturity profile of financial assets with fixed maturity dates is disclosed below, and all other financial assets are due on demand or have no fixed maturity dates.

	≤1 year \$	>1 year, ≤5 years \$	>5 years \$	Total \$
As of 30 June 2016				
Corporate debt securities	3,423,169	10,307,596	5,000,000	18,730,765
Government debt securities	<u>1,067,668</u>	<u>8,804,440</u>	<u>1,734,010</u>	<u>11,606,118</u>
	<u>4,490,837</u>	<u>19,112,036</u>	<u>6,734,010</u>	<u>30,336,883</u>
As of 30 June 2015				
Government debt securities	1,320,288	8,329,597	2,118,107	11,767,992
Corporate debt securities	<u>225,274</u>	<u>6,116,409</u>	<u>7,723,185</u>	<u>14,064,868</u>
	<u>1,545,562</u>	<u>14,446,006</u>	<u>9,841,292</u>	<u>25,832,860</u>

7. Capital 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 to maintain a strong capital base to support the development of the investment activities of the Fund.

Royal Fidelity (Barbados) Investment Fund Limited – Fixed Income Fund

Notes to the Financial Statements

30 June 2016

(Continued)

7. Capital Management (Continued)

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