

**ROYAL FIDELITY BAHAMAS INTERNATIONAL
INVESTMENT FUND LIMITED – UMBRELLA FUND**

**Financial Statements
30 June 2021**

ROYAL FIDELITY BAHAMAS INTERNATIONAL INVESTMENT FUND LIMITED

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Independent auditors' report

To the Shareholders of Royal Fidelity Bahamas International Investment Fund Limited

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Equities Sub Fund, High Yield Income Sub Fund, and Alternative Strategies Sub Fund (each the "Fund") (each a sub fund of Royal Fidelity Bahamas International Investment Fund Limited) as at 30 June 2021, and each of their financial performance and each of their cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at 30 June 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets attributable to holders of redeemable participating shares for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



- Overall materiality: Approximately 1% of net assets attributable to holders of redeemable participating shares of the Fund.
 - Equities Sub Fund - \$127,200
 - High Yield Income Sub Fund - \$139,600
 - Alternative Strategies Sub Fund - \$46,300
 - In addition to determining materiality, we also assessed, amongst other factors, the following in designing our audit:
 - the risk of material misstatement in the financial statements
 - significant accounting estimates
 - the risk of management override of internal controls
 - Valuation of financial assets at fair value through profit or loss
-

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Fund, the accounting processes and controls, and the industry in which the Fund operates.

The Fund's accounting is delegated to an administrator who maintains their own accounting records and controls and reports to management.

As part of our risk assessment, we assessed the control environment and applied professional judgment to determine the extent of testing required over each in-scope balance in the financial statements including relevant controls on which we intended to take reliance and the level of substantive testing.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.



Overall materiality	Equities Sub Fund - \$127,200 High Yield Income Sub Fund - \$139,600 Alternative Strategies Sub Fund - \$46,300
How we determined it	Approximately 1% of net assets attributable to holders of redeemable participating shares of the Fund.
Rationale for the materiality benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment fund audits, as net assets represent the key performance indicator by which the Fund is evaluated. It encompasses the income earned and capital appreciation of the Fund as well as the value by which the subscriptions and redemptions are processed. We chose approximately 1% which is within a range of acceptable benchmark thresholds.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above \$12,700 for the Equities Sub Fund, \$14,000 for the High Yield Income Sub Fund and \$4,600 for the Alternative Strategies Sub Fund, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of financial assets at fair value through profit or loss</i></p> <p><i>Refer to notes 2(e), 3 and 8 to the financial statements for disclosures of related accounting policies and balances.</i></p> <p>The Fund’s investment portfolio as at 30 June 2021 is comprised of Level 2 financial assets at fair value through profit or loss which represents investments in underlying funds.</p> <p>The amounts presented on the statement of financial position as fair value through profit or loss are as follows:</p> <ul style="list-style-type: none"> Equities Sub Fund - \$15,198,349 	<p>Our approach to addressing the matter involved the following procedures, amongst others:</p> <ul style="list-style-type: none"> Tested the operating effectiveness of the net asset value (NAV) control through inspection of evidence of approval, source documents supporting the balances and performance of the NAV calculation. Tested, on a sample basis, subscriptions and redemptions to validate that transactions are appropriately authorised and settled at the calculated net asset value per share.



Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none">• High Yield Income Sub Fund - \$14,043,881• Alternative Strategies Sub Fund - \$4,678,452 <p>We focused on the valuation of the Fund's investment funds due to the estimation uncertainty inherent in certain investment valuations and because the balance represents the principal element of the net asset value as disclosed in the statement of financial position.</p>	<p>and settled at the calculated net asset value per share.</p> <ul style="list-style-type: none">• Tested the valuation of the underlying securities held by the Fund by comparing the net asset value per share with the audited financial statements of the underlying funds, for which we are also the appointed auditors. <p>No material misstatements were identified as a result of the audit procedures performed.</p>

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Carlton A. Cartwright Jr.

PricewaterhouseCoopers
Chartered Accountants
Nassau, Bahamas

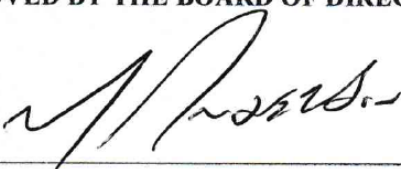
11 April 2022

Royal Fidelity Bahamas International Investment Fund Limited
(Incorporated under the laws of the Commonwealth of The Bahamas)


Statement of Financial Position
As of 30 June 2021
(Expressed in Bahamian dollars)

	2021		
	Equities Sub Fund \$	High Yield Income Sub Fund \$	Alternative Strategies Sub Fund \$
ASSETS			
Cash at bank [Note 5(d)]	-	548	-
Financial assets at fair value through profit or loss [Note 3]	15,198,349	14,043,881	4,678,452
Other Assets	2,704	-	-
Total assets	15,201,053	14,044,429	4,678,452
LIABILITIES			
Margin credit facility [Note 5(d)]	2,632,753	67,034	35,428
Management fee payable	4,728	5,821	1,933
Subscriptions received in advance	1,125	-	-
Custody fee payable	1,060	1,165	417
Accrued expenses and other liabilities	11,414	6,985	5,883
Total liabilities (excluding net assets attributable to holders redeemable participating shares)	2,651,080	81,005	43,661
Net assets attributable to holders of redeemable participating shares [Note 4]	12,549,973	13,963,424	4,634,791

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



Director



Director

11 April 2022

Royal Fidelity Bahamas International Investment Fund Limited
(Incorporated under the laws of the Commonwealth of The Bahamas)

Statement of Financial Position (Continued)
As of 30 June 2021
(Expressed in Bahamian dollars)

	2020		
	Equities Sub Fund \$	High Yield Income Sub Fund \$	Alternative Strategies Sub Fund \$
ASSETS			
Cash at bank [Note 5(d)]	-	89	7,663
Financial assets at fair value through profit or loss [Note 3]	11,159,100	14,322,303	4,639,976
Other assets	2,279	-	-
Total assets	11,161,379	14,322,392	4,647,639
LIABILITIES			
Margin credit facility [Note 5(d)]	23,867	23,124	7,699
Management fee payable	5,298	6,663	2,160
Subscriptions received in advance	1,237	-	-
Custody fee payable	1,037	1,332	467
Accrued expenses and other liabilities	22,514	22,071	12,000
Total liabilities (excluding net assets attributable to holders redeemable participating shares)	53,953	53,190	22,326
Net assets attributable to holders of redeemable participating shares [Note 4]	11,107,426	14,269,202	4,625,313

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

Royal Fidelity Bahamas International Investment Fund Limited

Statement of Comprehensive Income For the Year Ended 30 June 2021 (Expressed in Bahamian dollars)

	2021		
	Equities Sub Fund \$	High Yield Income Sub Fund \$	Alternative Strategies Sub Fund \$
INVESTMENT INCOME			
Net change in unrealized appreciation of financial assets at fair value through profit or loss	4,039,249	(49,543)	69,732
Net realized gain on financial assets at fair value through profit and loss	-	88,892	1,596
Total investment income	4,039,249	39,349	71,328
EXPENSES			
Management fee [Note 5(a) and 5(b)]	65,224	71,826	23,198
Custody fee	14,213	15,770	5,600
Reversal of over accrued professional fees	(2,526)	(10,225)	(154)
Government fees	6,909	8,083	3,336
Interest [Note 5(d)]	44,648	-	1,393
Other	3,333	3,333	3,333
Total expenses	131,801	88,787	36,706
Increase in net assets attributable to holders of redeemable participating shares	3,907,448	(49,438)	34,622
Increase in net assets per redeemable participating share [Note 6]	4.25	(0.04)	0.08

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

Royal Fidelity Bahamas International Investment Fund Limited

Statement of Comprehensive Income (Continued) For the Year Ended 30 June 2021 (Expressed in Bahamian dollars)

	2020		
	Equities Sub Fund \$	High Yield Income Sub Fund \$	Alternative Strategies Sub Fund \$
INVESTMENT INCOME			
Net change in unrealized appreciation of financial assets at fair value through profit or loss	373,240	802,033	(58,349)
Net realized gain on financial assets at fair value through profit and loss	5,043	310	369
Total investment income	378,283	802,343	(57,980)
EXPENSES			
Management fee [Note 5(a) and 5(b)]	60,891	76,287	24,205
Custody fee	12,177	15,258	5,600
Professional fees	18,000	15,000	7,929
Government fees	4,543	6,824	18,027
Interest [Note 5(d)]	770	-	252
Other	1,751	3,653	12,990
Total expenses	98,132	117,022	69,003
Increase in net assets attributable to holders of redeemable participating shares	280,151	685,321	(126,983)
Increase in net assets per redeemable participating share [Note 6]	0.29	0.63	(0.31)

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

Royal Fidelity Bahamas International Investment Fund Limited

Statement of Changes in Net Assets Attributable to Holders of Redeemable Participating Shares For the Year Ended 30 June 2021 (Expressed in Bahamian dollars)

	2021					
	Equities Sub Fund (Class A)		High Yield Income Sub Fund (Class C)		Alternative Strategies Sub Fund (Class D)	
	Number of Shares	\$	Number of Shares	\$	Number of Shares	\$
Balance as of the beginning of the year	963,007	11,107,426	1,117,601	14,269,202	448,494	4,625,313
Subscriptions	1,019	13,545	-	-	-	-
Redemptions	(168,164)	(2,478,446)	(20,009)	(256,340)	(2,469)	(25,144)
Increase in net assets attributable to holders of redeemable participating shares		<u>3,907,448</u>		<u>(49,438)</u>		<u>34,622</u>
Balance as of the end of the year	<u>795,862</u>	<u>12,549,973</u>	<u>1,097,592</u>	<u>13,963,424</u>	<u>446,025</u>	<u>4,634,791</u>
Net asset value per share		\$15.77		\$12.72		\$10.39

	2020					
	Equities Sub Fund (Class A)		High Yield Income Sub Fund (Class C)		Alternative Strategies Sub Fund (Class D)	
	Number of Shares	\$	Number of Shares	\$	Number of Shares	\$
Balance as of the beginning of the year	948,458	10,665,598	1,093,423	13,273,890	312,580	3,302,296
Subscriptions	46,940	533,275	47,444	597,380	135,914	1,450,000
Redemptions	(32,391)	(371,598)	(23,266)	(287,389)	-	-
Increase in net assets attributable to holders of redeemable participating shares		<u>280,151</u>		<u>685,321</u>		<u>(126,983)</u>
Balance as of the end of the year	<u>963,007</u>	<u>11,107,426</u>	<u>1,117,601</u>	<u>14,269,202</u>	<u>448,494</u>	<u>4,625,313</u>
Net asset value per share		\$11.53		\$12.77		\$10.31

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

Royal Fidelity Bahamas International Investment Fund Limited

Statement of Cash Flows For the Year Ended 30 June 2021 (Expressed in Bahamian dollars)

	2021		
	Equities Sub Fund	High Yield Income Sub Fund	Alternative Strategies Sub Fund
	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Purchases of financial assets at fair value through profit or loss	-	(93,000)	-
Proceeds from sales of financial assets at fair value through profit or loss	-	410,770	32,853
Interest paid	(44,648)	-	(1,393)
Payment of expenses	(98,800)	(104,881)	(41,708)
Net cash (used in) /from operating activities	(143,448)	212,889	(10,248)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of redeemable participating shares	13,433	-	-
Payments for redemptions of redeemable participating shares	(2,478,871)	(256,340)	(25,144)
Net cash (used in)/from financing activities	(2,465,438)	(256,340)	(25,144)
Net (decrease)/increase in cash and cash equivalents	(2,608,886)	(43,451)	(35,392)
Cash and cash equivalents as of the beginning of the year	(23,867)	(23,035)	(36)
Cash and cash equivalents as of the end of the year	(2,632,753)	(66,486)	(35,428)
CASH AND CASH EQUIVALENTS			
Cash at bank	-	548	-
Margin credit facility	(2,632,753)	(67,034)	(35,428)
	(2,632,753)	(66,486)	(35,428)

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

Royal Fidelity Bahamas International Investment Fund Limited

Statement of Cash Flows (Continued) For the Year Ended 30 June 2021 (Expressed in Bahamian dollars)

	2020		
	Equities Sub Fund \$	High Yield Income Sub Fund \$	Alternative Strategies Sub Fund \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Purchases of financial assets at fair value through profit or loss	(129,414)	(217,690)	(1,380,352)
Proceeds from sales of financial assets at fair value through profit or loss	13,825	1,690	7,663
Interest paid	(770)	-	(252)
Payment of expenses	(94,769)	(109,393)	(68,129)
Net cash (used in)/from operating activities	(211,128)	(325,393)	(1,441,070)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subscriptions of redeemable participating shares	531,000	597,380	1,000,000
Payments for redemptions of redeemable participating shares	(371,598)	(287,389)	-
Net cash from financing activities	159,402	309,991	1,000,000
Net increase/(decrease) in cash and cash equivalents	(51,726)	(15,402)	(441,070)
Cash and cash equivalents as of the beginning of the year	27,859	(7,633)	441,034
Cash and cash equivalents as of the end of the year	(23,867)	(23,035)	(36)
CASH AND CASH EQUIVALENTS			
Cash at bank	-	89	7,663
Margin credit facility	(23,867)	(23,124)	(7,699)
	(23,867)	(23,035)	(36)

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

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

30 June 2021

(Expressed in Bahamian dollars)

1. General Information

Royal Fidelity Bahamas International Investment Fund Limited (the Umbrella Fund) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas) and is licensed under the Investment Funds Act, 2003. The Umbrella Fund includes three sub-funds, Equities Sub Fund, High Yield Income Fund and Alternative Strategies Fund (collectively “the Funds”).

Equities Sub Fund (ESF) is an open-end investment vehicle, which issues Class A redeemable participating shares and provides Bahamian residents with an opportunity to invest in international financial markets. The investment objective of ESF is to earn a high rate of return through long term capital appreciation, which it achieves by investing in Royal Fidelity International Investment Fund Limited - International Opportunities Sub Fund, an investment fund incorporated under the International Business Companies Act, 2000 of The Bahamas, that invests in a diversified portfolio of investment funds, and equity and other securities issued by public and private international companies. ESF raises capital in Bahamian dollars but invests principally in securities denominated in United States dollars pursuant to approval received from the Central Bank of The Bahamas.

High Yield Income Fund (HYIF) is an open-end investment vehicle, which issues Class C redeemable participating shares and provides Bahamian residents with an opportunity to invest in international financial markets. The investment objectives of HYIF are to earn a high rate of income together with long term preservation of capital, which it achieves by investing in Royal Fidelity International Investment Fund Limited - Targeted Income Sub Fund, an investment fund incorporated under the International Business Companies Act, 2000 of The Bahamas, that invests in a diversified portfolio of investment funds, and fixed income securities issued by international governments, and public and private international companies. HYIF raises capital in Bahamian dollars but invests principally in securities denominated in United States dollars pursuant to approval received from the Central Bank of The Bahamas.

Alternative Strategies Sub Fund (ASSF) is an open-end investment vehicle, which issues Class D redeemable participating shares and provides Bahamian residents with an opportunity to invest in international financial markets. The investment objective of ASSF is to provide investors with equity-like growth potential with substantially less volatility than the S&P 500 Index, which it achieves by investing in Royal Fidelity International Investment Fund Limited - Hedge Strategies Sub Fund, an investment fund incorporated under the International Business Companies Act, 2000 of The Bahamas, that invests in a portfolio of institutional alternative investment managers, largely pursuing a long-short equity investment strategy. ASSF raises capital in Bahamian dollars but invests principally in securities denominated in United States dollars pursuant to approval received from the Central Bank of The Bahamas.

The Funds’ Class A, C and D redeemable participating shares are listed on the Bahamas International Securities Exchange (BISX), and the registered office of the Umbrella Fund is located at Providence House, East Hill Street, Nassau, The Bahamas. The Funds’ activities are managed entirely by service providers [Note 5].

Notes to the Financial Statements
30 June 2021
(Continued)
(Expressed in Bahamian dollars)

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

i) *Compliance with IFRS*

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

ii) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities that are measured at fair value.

iii) *Critical estimates and judgments*

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 Funds' 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).

iv) *New and amended standards adopted by the Funds*

There are no standards, interpretations, and amendments to published standards that are effective for annual periods beginning on 1 July 2020 that have a material effect on the financial statements of the Funds.

v) *New and amended standards not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods and have not been early adopted by the Funds. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(b) Investment entity

The Funds meet the definition of an investment entity, as 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 recognize investments in subsidiaries and associates at fair value through profit or loss.

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

30 June 2021

(Continued) (Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(b) Investment entity (continued)

Management has determined that the Funds meet 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 Funds effects multiple investments through its holdings in Royal Fidelity International Investment Fund Limited - International Opportunities Sub Fund, Targeted Income Sub Fund and Hedge Strategies Sub Fund.

Accordingly, investments in subsidiaries and associates are recognized as financial assets at fair value through profit or loss and measured in accordance with the accounting policies disclosed in Note 2(e).

(c) Foreign currency translation

The financial statements are presented in Bahamian dollars (\$), which is the Funds' 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 recognized 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 (3) months or less and drawn-down margin credit facilities provided by banks.

(e) Financial assets and financial liabilities

Financial assets

Initial recognition and measurement

The Funds classify financial assets, at initial recognition, in the following measurement categories: at amortized cost, and fair value through profit or loss (FVTPL). The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the business model for managing them. The Funds initially measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs.

In order for a financial asset to be classified and measured at amortized cost, it needs to give rise to cash flows that represent 'solely payments of principal and interest' (SPPI). This assessment is referred to as the SPPI test and is performed at an instrument level.

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

30 June 2021

(Continued)

(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (Continued)

Classification (continued)

The Funds' business models for managing financial assets refers to how they manage their financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular-way trades) are recognized on the trade date, which is the date that the Funds commit to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in:

- Financial assets at Amortized Cost
- Financial assets at FVTPL

Financial assets at amortized cost

The financial assets at amortized cost includes cash at bank and other assets.

Financial assets are measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized as part of net income in the statement of comprehensive income when the asset is derecognized, modified, or impaired by comparing proceeds from the sale of the asset or collateral to the carrying amount.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in net income in the statement of comprehensive income.

Notes to the Financial Statements
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(Continued)
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2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (Continued)

Financial assets at FVTPL (Continued)

This category includes investments in investment funds, which the Funds have not irrevocably elected to classify at fair value through other comprehensive income. Dividends on listed equity investments are also recognized as other income in net income in the statement of comprehensive income when the right of payment has been established.

Write offs

The Funds write off financial assets, in whole or in part, when they have exhausted all practical recovery efforts and have concluded there is no reasonable expectation of recovery. The write offs represent a derecognition event. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Funds' recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Funds have transferred their rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Funds have transferred substantially all the risks and rewards of the asset, or (b) the Funds have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Funds have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, they evaluate if, and to what extent, they have retained the risks and rewards of ownership. When they have neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Funds continue to recognize the transferred asset to the extent of their continuing involvement. In that case, the Funds also recognize an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Trading Companies and the Funds have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Funds could be required to repay.

Notes to the Financial Statements
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(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets and liabilities (Continued)

Impairment of financial assets

The Funds assess on a forward-looking basis, the expected credit loss (ECL) for debt instruments measured at amortized cost for the exposures arising from cash at bank and other assets. The Funds measure ECL and recognizes credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at amortized cost are presented in the statement of financial position, net of the allowance for ECL.

The Funds apply a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 Months ECL”). If the Funds identify a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”).

Financial liabilities

Financial liabilities are classified and subsequently measured at amortized cost. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

Derecognition

Financial liabilities are derecognized when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, or expired).

(f) Redeemable participating shares

The Funds issue 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 Funds at any time for cash equal to a proportionate share of the Funds’ net asset value. The redeemable participating shares are carried at the redemption amount that would be payable at the date of the statement of financial position if the holders were to exercise the right to put the shares back to the Funds.

Redeemable participating shares are issued and redeemed at the holder’s option at prices based on the Funds’ net asset value per share at the time of issue or redemption, less a redemption fee for shares redeemed. The Funds’ 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.

Notes to the Financial Statements
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(Continued)
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2. Summary of Significant Accounting Policies (Continued)

(g) Income and expense recognition

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortized 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 Funds estimate 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 recognized when the right to receive payment has been established.

Other income and expenses are recognized on the accrual basis.

(h) Taxation

The Umbrella Fund is incorporated under the laws of The Bahamas and is therefore not subject to income, capital gains or other corporate taxes. The Funds' operations do not subject them to taxation in any other jurisdiction.

3. Financial Assets at Fair Value Through Profit or Loss

Financial assets are ranked 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 (2) 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 categorized 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 Funds. The Funds consider observable data to be 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 Bahamas International Investment Fund Limited

Notes to the Financial Statements

30 June 2021

(Continued)

(Expressed in Bahamian dollars)

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.

	2021		
	Equities Sub Fund	High Yield Income Sub Fund	Alternative Strategies Sub Fund
<i>Level 2</i>			
Investment funds	15,198,349	14,043,881	4,678,452
Total	15,198,349	14,043,881	4,678,452
Cost	6,971,698	11,038,979	4,344,963
	2020 (Restated: Note 12)		
	Equities Sub Fund	High Yield Income Sub Fund	Alternative Strategies Sub Fund
<i>Level 2</i>			
Investment funds	11,159,100	14,322,303	4,639,976
Total	11,159,100	14,322,303	4,639,976
Cost	6,971,698	11,267,857	4,376,220

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

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(Continued)

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

ESF invests in Class A, Series 3 redeemable participating shares of Royal Fidelity International Investment Fund Limited – International Opportunities Sub Fund (the Opportunities Fund). As of 30 June 2021, ESF owned 615,328 (2020: 615,328) Class A, Series 3 redeemable participating shares of the Opportunities Fund, representing 66.60% (2020: 66.84%) of net assets attributable to Class A, Series 3 redeemable participating shares and 46.11% (2020: 46.54%) of total net assets attributable to Class A redeemable participating shares of the Opportunities Fund. As at 30 June 2021 and 2020, there are no pending subscriptions to shares of the Opportunities Fund.

HYIF invests in Class C, Series 3 redeemable participating shares of Royal Fidelity International Investment Fund Limited – Targeted Income Sub Fund (the Targeted Income Fund). As of 30 June 2021, HYIF owned 1,050,441 (2020: 1,074,143) Class C, Series 3 redeemable participating shares of the Targeted Income Fund, representing 66.63% (2020: 65.70%) of the net assets attributable to Class C, Series 3 shares and 42.87% (2020: 43.61%) of total net assets attributable to Class C redeemable participating shares of the Targeted Income Fund. As at 30 June 2021 and 2020, there are no pending subscriptions to shares of the Targeted Income Fund.

ASSF invests in Class D, Series 3 redeemable participating shares of Royal Fidelity International Investment Fund Limited – Hedge Strategies Sub Fund (the Hedge Fund). As of 30 June 2021, ASSF owned 398,522 (2020: 401,389) Class D, Series 3 redeemable participating shares of the Hedge Fund, representing 66.79% (2020: 66.95%) of the net assets attributable to Class D, Series 3 redeemable participating shares and 60.70% (2020: 60.87%) of total net assets attributable to Class D redeemable participating shares of the Hedge Fund. As at 30 June 2021 and 2020, there are no pending subscriptions to shares of the Hedge Fund.

4. Share Capital

The authorized share capital of the Umbrella Fund is \$100,000, divided into 1,000 voting non-redeemable non-participating Class M shares of no par value (management shares) and 100,000,000 non-voting redeemable participating shares with a par value of \$0.001 per share further divided into various classes of shares. The Funds' authorized share capital for each classes (Class A, C, and D) are 2,000,000 non-voting redeemable participating shares with a par value of \$0.001 per share. Management shares carry full voting rights but are not entitled to participate in the profits of the Funds. All management shares have been issued by the Umbrella Fund and are owned by the Investment Manager and its subsidiary [Note 5].

Redeemable participating shares carry no voting rights but are entitled to fully participate in the profits and losses of the Funds. Redeemable participating shares of the Funds were initially issued at \$10.00 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), net of sales commission of up to 2.00% for Class A, Class D and 1.00% for Class C. The minimum initial investment is \$2,000, with a minimum subsequent investment of \$500.

Class A 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 \$0.10 per share (minimum of \$50). Partial redemptions are permitted provided that the remaining investment of the shareholder is not less than the minimum initial investment, otherwise the Fund can require full redemption.

Class C and D 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% based on the length of time the shares are outstanding, with the higher fee for the shorter the outstanding year. Partial redemptions are permitted provided that the remaining investment of the shareholder is not less than the minimum initial investment, otherwise the Fund can require full redemption.

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

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(Continued)

(Expressed in Bahamian dollars)

4. Share Capital (Continued)

As of 30 June 2021, related parties of ESF owned 106,659 (2020: 106,659) Class A redeemable participating shares. As at 30 June 2021 and 2020, there are no subscriptions received in advance from related parties for Class A redeemable participating shares.

As of 30 June 2021, related parties of HYIF owned 793,468 (2020: 813,478) Class C redeemable participating shares. As at 30 June 2021 and 2020, there are no subscriptions received in advance from related parties for Class C redeemable participating shares.

As of 30 June 2020, related parties of ASSF owned 196,319 (2020: 196,319) Class D redeemable participating shares. As at 30 June 2021 and 2020, there are no subscriptions received in advance from related parties for Class D redeemable participating shares.

5. Related Party Balances and Transactions

The Funds do not have employees and their 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 Funds 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 9 November 2007, RF Bank & Trust (Bahamas) Limited (the Investment Manager) (formerly Royal Fidelity Merchant Bank & Trust Limited), a bank incorporated and licensed in The Bahamas, serves as the Funds' investment manager. The Investment Manager is responsible for the implementation of the Funds' investment strategy and has sole responsibility for the investing and reinvesting of the Funds' assets. The Investment Manager is entitled to a management fee of 0.50% per annum of the NAV of the Funds, plus applicable taxes, payable monthly in arrears. The management fee covers administration and registrar and transfer agent fees; accordingly, such fees are included in management fee in the statement of comprehensive income.

The Investment Manager is also entitled to receive an incentive fee if the performance of ESF 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 prior valuation date in the last twelve (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 20.00% of the excess return. For the purposes of calculating the incentive fee, NAV per share is the amount calculated after deducting management, administration and registrar and transfer agency fees and before incentive fee. For the years ended 30 June 2021 and 2020, the benchmark rate was based on the return of the MSCI All Country World Index and the Investment Manager earned incentive fees of \$Nil (2020: \$Nil).

The management expenses during the year are:

	2021	2020
	\$	\$
Equities Sub Fund	65,224	60,891
High Yield Income Sub Fund	71,826	76,287
Alternative Strategies Sub Fund	23,198	24,205

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

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(Continued)

(Expressed in Bahamian dollars)

5. Related Party Balances and Transactions (Continued)

(b) Administration

Pursuant to an agreement with the Umbrella Fund dated 9 November 2007, RF Bank & Trust (Bahamas) Limited serves as the Funds' administrator and is entitled to an administration fee, which is paid out of the management fee.

(c) Directors and officers

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

(d) Cash at bank and margin credit facility

The Funds have demand deposit accounts with the Investment Manager, which do not earn interest. As of 30 June, the balances totaled:

	Cash at bank	
	2021	2020
	\$	\$
Equities Sub Fund	-	-
High Yield Income Fund	548	89
Alternative Strategies Sub Fund	-	7,663

The Funds have a line of credit with the Investment Manager up to 50.00% of the fair value of their financial assets, which incurs interest at a rate of 6.75% per annum. The Funds have pledged their financial assets in support of these facilities. As of 30 June, the balance and interest expenses incurred on the facilities totaled:

	Margin credit facility		Interest expense	
	2021	2020	2021	2020
	\$	\$	\$	\$
Equities Sub Fund	2,632,753	23,867	44,648	770
High Yield Income Sub Fund	67,034	23,124	-	-
Alternative Strategies Sub Fund	35,428	7,699	1,393	252

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

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(Continued)

(Expressed in Bahamian dollars)

5. Related Party Balances and Transactions (Continued)

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

As of 30 June 2021, the Funds have investments in securities of related parties classified as financial assets at fair value through profit or loss, which comprise:

	Financial assets at fair value through profit or loss		
	International Opportunities Sub Fund- Series	Targeted Income Sub Fund- Series	Hedge Strategies Sub Fund- Series
2021	A3	C3	D3
	\$	\$	\$
Equities Sub Fund	15,198,349	-	-
High Yield Income Sub Fund	-	14,043,881	-
Alternative Strategies Sub Fund	-	-	4,678,452
	<u>15,198,349</u>	<u>14,043,881</u>	<u>4,678,452</u>

	Financial assets at fair value through profit or loss		
	International Opportunities Sub Fund- Series	Targeted Income Sub Fund- Series	Hedge Strategies Sub Fund- Series
2020	A3	C3	D3
	\$	\$	\$
Equities Sub Fund	11,159,100	-	-
High Yield Income Sub Fund	-	14,322,303	-
Alternative Strategies Sub Fund	-	-	4,639,976
	<u>11,159,100</u>	<u>14,322,303</u>	<u>4,639,976</u>

The investee funds above are managed by the administrator and investment manager of the funds which is RF Bank & Trust (Bahamas) Limited, and the investee funds compensate the respective related party for its services.

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

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(Continued)

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6. Increase in Net Assets per Redeemable Participating Share

The following table summarizes the increase in net assets per redeemable participating shares, weighted average number of shares, and increase in net assets per redeemable participating shares.

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.

2021	Equities Sub Fund \$	High Yield Income Sub Fund \$	Alternative Strategies Sub Fund \$
Increase in net assets attributable to:			
Class A redeemable participating shares	3,907,448	-	-
Class C redeemable participating shares	-	(49,438)	-
Class D redeemable participating shares	-	-	34,622
	<u>3,907,448</u>	<u>(49,438)</u>	<u>34,622</u>
Weighted average number of shares:			
Class A redeemable participating shares	919,152	-	-
Class C redeemable participating shares	-	1,102,655	-
Class D redeemable participating shares	-	-	446,728
Increase in net assets per redeemable participating share:			
Class A redeemable participating shares	4.25	-	-
Class C redeemable participating shares	-	(0.04)	-
Class D redeemable participating shares	-	-	0.08
2020	Equities Sub Fund \$	High Yield Income Sub Fund \$	Alternative Strategies Sub Fund \$
Increase in net assets attributable to:			
Class A redeemable participating shares	280,151	-	-
Class C redeemable participating shares	-	685,321	-
Class D redeemable participating shares	-	-	(126,983)
	<u>280,151</u>	<u>685,321</u>	<u>(126,983)</u>
Weighted average number of shares:			
Class A redeemable participating shares	955,606	-	-
Class C redeemable participating shares	-	1,093,430	-
Class D redeemable participating shares	-	-	409,335
Increase in net assets per redeemable participating share:			
Class A redeemable participating shares	0.29	-	-
Class C redeemable participating shares	-	0.63	-
Class D redeemable participating shares	-	-	(0.31)

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

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(Expressed in Bahamian dollars)

7. Financial Risk Management

The Funds engage in transactions that expose them to market risk (which includes price, currency and interest rate risks), credit risk and liquidity risk in the normal course of operations. The Funds' financial performance is affected by their abilities to understand and effectively manage these risks.

The 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 Funds.

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 Funds operate. In addition, the Funds monitor and measure the overall level of risk in relation to the aggregate risk exposure across all risk types and activities.

The Funds invest solely in the Trading Companies that have investment objective that are consistent with those of the Funds, which results in the Funds being indirectly exposed to market, credit, and liquidity risks of the Trading Companies.

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 currency risk arises when the Funds have a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that are historically positively correlated. 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.

To mitigate excessive concentration of risk, the Funds' 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 realized on sales of financial instruments may fluctuate significantly as a result of changes in market prices. Price risk arises from the Funds' investments in investment funds and is managed through diversification of the investment portfolio of the Opportunities Fund, Targeted Income Fund, and Hedge Fund. The asset allocation guidelines of the Fund and the Hedge Fund are recommended by the Investment Manager and approved by the Directors.

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

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(Continued)

(Expressed in Bahamian dollars)

7. Financial Risk Management (Continued)

(a) Market risk (continued)

Price risk (Continued)

The Fund's investee funds would experience the following increases/decreases in fair value based on historical performance and reasonable expected future performance of the respective funds.

	<u>Price Change</u>		<u>Increase/Decrease in Fair Value</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	%	%	\$	\$
Royal Fidelity International Investment Fund Limited – International Opportunities Sub Fund	20.00	20.00	3,039,670	2,231,820
Royal Fidelity International Investment Fund Limited – Targeted Income Sub Fund	5.00	5.00	702,194	716,115
Royal Fidelity International Investment Fund Limited – Hedge Strategies Sub Fund	20.00	20.00	<u>935,690</u>	<u>927,995</u>
			<u>4,677,554</u>	<u>3,875,930</u>

Currency risk

Currency risk is the risk that the fair values and/or amounts realized on sales of financial instruments or the settlement of financial liabilities may fluctuate due to change in foreign exchange rates. The Funds are directly exposed to currency risk through its financial instruments denominated in US\$. However, this risk is currently mitigated because the \$:US\$ exchange rate is fixed at 1:1.

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 Funds are indirectly exposed to interest rate risks through its investment in the Opportunities Fund, Targeted Income Fund, and Hedge 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 Funds. The Funds are exposed to credit risk both indirectly through its investment in the Opportunities Fund, Targeted Income Fund, and Hedge Fund, and directly through cash balances and securities held in custody, which are placed with financial institutions in good standing with the Central Bank of The Bahamas and/or the Securities Commission of The Bahamas.

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(Continued)
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7. Financial Risk Management (Continued)

(b) Credit risk (continued)

The Funds measure credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward-looking information

in determining any expected credit loss. At 30 June 2021 and 30 June 2020, cash at bank are held with financial institutions in good standing with the Central Bank of The Bahamas and/or the Securities Commission of The Bahamas. Management considers the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Funds.

(c) Liquidity risk

Liquidity risk is the risk that the Funds are unable to meet its payment obligations associated with its financial liabilities when they come due. The Funds are exposed to monthly redemptions of participating shares. The Funds have the ability to redeem its positions in the Opportunities Fund, Targeted Income Fund and Hedge Fund on a monthly basis to meet payment obligations, subject to the liquidity risk of the Opportunities Fund, Targeted Income Fund and Hedge Fund. Further, the Funds have 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 the Fund 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 (1) month.

8. Fair Value of Financial Instruments

Financial instruments utilized by the Funds comprise the recorded financial assets and liabilities disclosed in the financial statements. Financial instruments, for which the fair value hierarchy is not disclosed, are principally Level 2 in the fair value hierarchy.

Royal Fidelity Bahamas International Investment Fund Limited

Notes to the Financial Statements

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(Continued)

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9. Capital Management

The capital of the Funds are represented by the net assets attributable to the holders of the Funds' redeemable participating shares. The amount of net assets attributable to these shareholders can change significantly on a monthly basis, as the Funds are subject to monthly subscriptions and redemptions at the discretion of the shareholders. The Funds' objective when managing capital is to safeguard the Funds' 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 Funds.

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

- monitors the level of monthly subscriptions and redemptions relative to financial assets they expect to be able to liquidate within one (1) month.
- issues new shares and redeems existing shares in accordance with the constitutional documents of the Funds, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

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

10. COVID-19

In December 2019, a novel strain of coronavirus, ("COVID-19"), surfaced in Wuhan, China. This virus continues to spread around the world, resulting in business and social disruption. COVID-19 was declared a global pandemic by the World Health Organization on 11 March 2020. The operations and business results of the Funds could be materially adversely affected. As the COVID-19 pandemic is ongoing and the near term worldwide economic outlook remains uncertain, we cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact our financial statements.

Management continues to monitor the performance of the assets held within the Trading Companies, including assessing for credit risk factors. In addition, management monitors investments in the hospitality and transportation, given the heightened risk associated with those industries. Based on those evaluations, which included review of portfolio valuations subsequent to year-end, management does not believe the Trading Companies will experience a significant loss in value at this time.

Management does not believe there is any risk to the Trading Companies' and the Fund's ability to continue as a going concern for the foreseeable future from the reporting date linked to COVID-19 pandemic.

11. Subsequent events

We have evaluated all significant activities through to the date these financial statements were available to be issued and concluded that no additional subsequent events occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

12. Restatement of Prior Year Comparative Figures

Restatements to the leveling were made in the prior year to reflect management's reassessment of their leveling policy as presented in the current year. Investments funds as at 31 December 2020 of \$11,159,100, \$14,322,303 and \$4,639,976 for ESF, HYIF and ASSF have been restated from Level 3 to Level 2 securities as their valuation is based on observable net asset values with subscriptions and redemptions available on a monthly basis.