31 December 2015

Fund Review

Butterfield

INTERNATIONAL BALANCED FUND: USD CLASS

OBJECTIVE

To achieve long-term capital growth whilst exposing the investor to a moderate level of risk.

INVESTMENT POLICY

To hold a global portfolio of money market instruments, Euro- bonds, domestic government bonds and international equities. This combination of investment and geographical spread provides the Fund with the necessary diversification to reduce risk and maximise returns for the US Dollar based investor.

INVESTMENT PROCESS

Benchmarked against a portfolio of 60% International Equities and 40% US Dollar fixed income. The primary consideration for our fixed income strategy is liquidity and safety of principal. The duration will move to facilitate this capital preservation objective. The equity process is to focus on large capitalisation companies with market leadership positions and a history of consistent earnings growth.

FUND REVIEW

2015 has been a year of limited returns from high grade, international bond markets. The most recent quarter has seen bond markets in the US and UK give up a few basis points, whilst European bond markets have moved higher by a similar magnitude. Overall, this has left investors in major bond markets in a similar position to where they had started the year. Benchmark Government Bond Indices just about pushed into positive territory, but a widening of credit spreads negated the change in underlying interest rate expectations. The year marked a divergence in Central Bank policies from the major economies, with the US raising interest rates for the first time, the UK standing still, while the ECB continued its quantitative easing program and cut interest rates below the zero bound. It is therefore interesting to see that nominal returns in base currency across US Dollar, Sterling and Euro-denominated bonds are largely the same. However, the movement in currencies over the period is an entirely different story.

From an economic perspective, the Federal Reserve have been sufficiently confident in the outlook to finally end the “will they/won’t they?” debate, by increasing interest rates at their December FOMC meeting. After an aborted attempt to raise rates in September, markets gained sufficient composure such that the December announcement was met with muted reaction. However, this may largely be to do with the accompanying statements that suggested that any further monetary tightening would be data dependent and very gradual in nature. For calendar year 2015, the global stock market, as measured by the benchmark MSCI World index, declined by 0.87%. For the most part, 2015 can be viewed as a tale of two halves. There was steady if uncertain progression during the first five months, with the benchmark hitting a new high during May, despite increasing levels of volatility. Thereafter, the market began to sputter, price reversals became more significant and concerns around a Chinese slowdown resurfaced. This reached a crescendo in August and September, with a decline from the May peak of almost 15%, midway between a classic “correction” (-10%) and a more concerning and potentially prolonged “bear market” (-20%). Rate rises were put on hold once more and as falling energy prices were portrayed as a boon to consumers, markets duly took note and rebounded, although the recovery has not been particularly convincing. Looking forward we see no reason to change our “cautiously optimistic” view. Future equity market returns are likely to be muted by historical standards, but this is a similar story for returns from all other asset classes, including cash. Companies with dominant positions that have been through these cycles before will continue to prosper, whilst dividend yields remain reasonably attractive despite the increase in stock prices during the last few years. By investing in those companies with strong balance sheets we reduce (although do not eliminate) a degree of risk. Adding those factors together makes us comfortable that even though 2016 may witness more than its fair share of unpredictability, in the longer term it is right to remain neutrally weighted to equity.

BENCHMARK COMPOSITION

40% Merrill Lynch US Corporates and Governments, 1 to 5 years, A Rated and above. 60%S&P Global 100

All benchmark components are calculated on a total return basis i.e., dividends included and net appropriate withholding taxes.

Note: As at 1 April 2006 the benchmark changed from: 40% Merrill Lynch US Corporates and Governments, 1 - 5 years, A Rated and above, 60% MSCI World, to: 40% Merrill Lynch US Corporates and Governments, 1 - 5 years, A Rated and above, 60% S&P Global 100

The new benchmark has been applied retroactively as we believe it to be a better representation of the investment strategy of the Fund.

TOP 10 EQUITY HOLDINGS

1.	FRESENIUS SE & CO KGAA	Health Care	4.7%
2.	MICROSOFT CORP	Technology	4.2%
3.	NOVARTIS AG	Health Care	4.1%
4.	ORACLE CORP	Technology	3.3%
5.	PEPSICO INC	Consumer Staples	3.3%
6.	CISCO SYS INC	Technology	3.0%
7.	CHEVRON CORPORATION	Energy	2.8%
8.	MONDELEZ INTERNATIONAL	Consumer Staples	2.7%
9.	NESTLE SA	Consumer Staples	2.7%
10.	PROCTER & GAMBLE CO	Consumer Staples	2.6%

Note: Index tracking products have been excluded.

TOP 5 EQUITY SECTORS

	Sector	Equity	S&P 100(%)
1.	Technology	22.3%	22.6%
2.	Health Care	17.2%	14.8%
3	Financial	15.2%	15.7%
4.	Consumer Staples	14.7%	14.6%
5.	Energy	10.9%	9.2%

Note: Index tracking products are excluded for the purposes of comparison to the benchmark.

★★★ Morningstar Rating™

Contact Information
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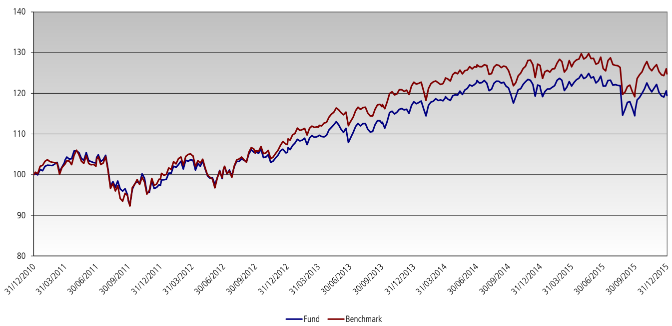
Butterfield

FUND VERSUS BENCHMARK



AVERAGE ANNUAL COMPOUND RETURNS

	1 Year	3 Years	5 Years	10 Years	Inception
BIBF	-1.41%	4.24%	3.62%	2.92%	4.59%
Benchmark	-1.26%	5.13%	4.53%	4.15%	N/A

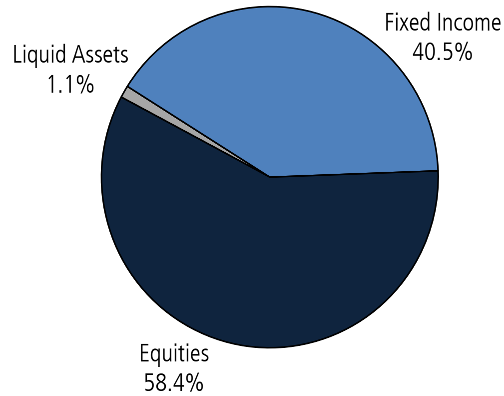
AVERAGE DURATION AND CREDIT RATING

Duration	2.4 years
Credit Rating	S&P AA-
Yield to Maturity	1.58%

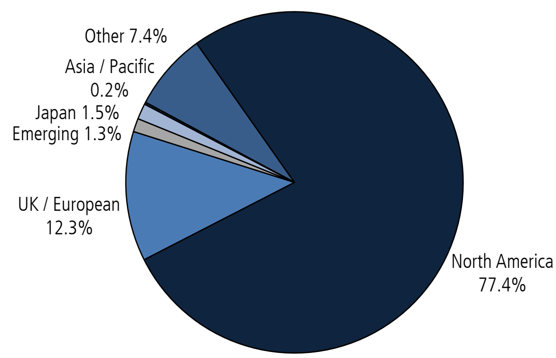
GENERAL INFORMATION

Currency: USD	Fiscal Year End: 30 June
Valuation: Tuesday	Min. Investment: USD 5,000
Dealings: Wednesday	Total Expense Ratio: 1.3%
Front End Fee: None	Size of Fund (millions): USD 25.2
Units Available: Accumulation	NAV per share (31.12.2015): USD 24.00
Identifier:	BUTIBLI KY

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION



EQUITY SECTOR ALLOCATION