Fund Review

Butterfield Asset Management Limited

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Select Invest Fund: Balanced Class

Quarter 3 2020

Objective

To offer a convenient vehicle for investing in an international portfolio of mutual funds or exchange traded funds, which are anticipated to provide the best opportunities for long-term capital growth and accumulated income across a range of risk tolerance classes.

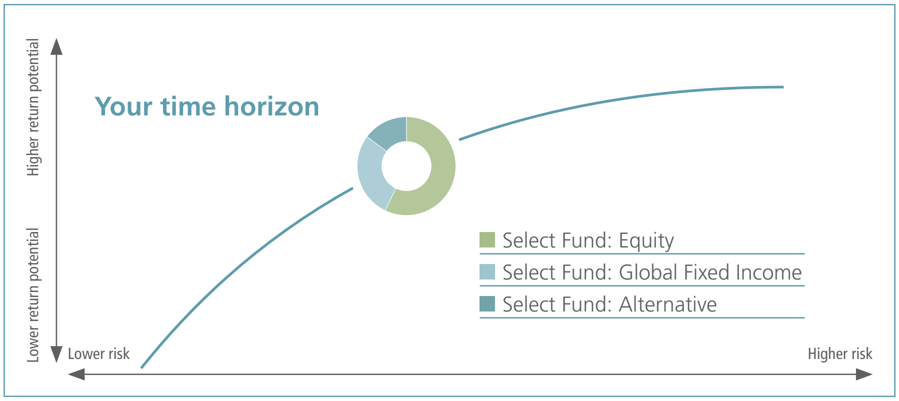
Investment policy

The Fund seeks to invest in various weightings of three broad asset classes; Equities, Fixed Income and Alternatives. The Fund achieves this by allocating its assets to either the Butterfield Select Fund's Share Classes or mutual funds and ETF's that invest in Equities, Fixed Income and Alternatives. Investments will be made on long-term strategic basis and allow for a short to medium term tactical shifts in keeping with the overall objective of each class.

Key facts as at 30 September 2020

Currency	USD
Valuation	Weekly
Dealings	Thursday
Front end fee	None
Units available	Accumulation
Identifier	BSIFIBA BH
Fiscal year end	30 June
Minimum investment	USD 1,000
Total expense ratio	0.55%
Size of fund (millions)	USD 11.06
NAV per share	USD 15.02

Risk profile



Positioning

	Underweight	Neutral	Overweight
Equity		■	
Bonds	■		
Alternative			■

Average annual compound returns

	Quarter	Year to date	1 year	3 years	5 years
Total returns	5.40%	2.81%	7.67%	4.85%	5.65%
Index returns	4.87%	4.43%	9.36%	6.59%	7.57%

Fund review

Select Equity: The fund produced a return of 8.78% in the third quarter of 2020, which was ahead of the MSCI World benchmark return of 7.93%. Despite a pull back from all-time highs in September, global equity markets finished markedly higher for a second consecutive quarter. Markets have grappled with the contrasting forces of better economic data, more resilient than expected company earnings together with rising virus cases in Europe and fading fiscal policy support.

As has been the case for much of the year, the Technology and Consumer Discretionary sectors performed well, while the interest rate sensitive sectors, such as Financials, underperformed. A cyclical recovery and rotation of sorts occurred in the quarter; however the pace of recovery has been – and will continue to be – very bumpy across, and even within, sectors. The energy transition away from fossil fuels towards cleaner forms of energy is an increasingly important

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topic in equity markets. 10 years ago the Energy sector comprised 10% of global equity market capitalisation, but fast forward to 2020 and the Energy sector comprises only 3% of global equity market capitalisation. While the sector is only relatively small, the energy transition is a theme that touches on a number of other sectors such as Industrials, Materials, Utilities and Consumer Discretionary, so this presents good opportunities for active managers.

The Growth investment style outperformed the Value style for the fourth consecutive quarter and large caps outperformed small caps. The American Century Global Growth fund and Wellington Global Opportunities fund benefited from this, together with strong stock selection. American Century did well in the Health Care sector, and Wellington had good stock selection in both Technology and Health Care. More broadly, US active managers had a difficult time outperforming their benchmarks as market leadership was concentrated in a small number of large cap technology orientated companies. This outperformance has led to a number of associated acronyms such as the "FANG stocks", "famous five" or "awesome 8". The stocks (Apple, Amazon, Facebook, Google, Microsoft, Netflix and Nvidia) have also become popular with retail investors, which has boosted valuations and caused some additional volatility.

Narrow leadership can only last so long, as it tends to correct itself, either by the leaders giving up gains or the rest of the market catching up. In September, we saw a combination of this, as some of the high flyers corrected and more cyclical areas such as Industrials and Materials performed well. One of the challenges with assessing the state of the economy at the moment is the wide dispersion between industries, however, while the virus situation may be difficult over the winter, from a markets perspective we have the monetary and fiscal policy tools to help offset the risks.

Select Fixed Income: The Global Fixed Income Class produced a return of 1.26%, net of fees in Q3 which was above the 0.68% return for the fund's benchmark. Performance for the most recent quarter was relatively subdued as the vast majority of credit spread tightening and moves in US Treasury yields took place in Q2 as a result we are actively now reducing volatility and focusing on protecting YTD gains as we approach an unpredictable and potentially very volatile final quarter.

In contrast to the sharp snapback in economic activity seen during Q2, economic growth around the world slowed this quarter as the more consumer sensitive sectors, such as tourism, remain in hibernation. This is unlikely to change until a vaccine is widely rolled out in 2021 therefore activity will remain lackluster for many months.

US economic data has continued to perform better than expected with the unemployment rate now almost below 8% and the housing market at its most buoyant since 2006, as ultra-low mortgage rates provide a tail wind however, the recovery remains split with huge segments - predominately lower earning service workers – still in recession. The Federal Reserve has been largely absent since May and have allowed their balance sheet to shrink back below US$7trn as financial markets are functioning normally and borrowing costs are low (10 year US Treasury's yield 0.69%) hence the next round of stimulus needs to come from the US Treasury preferably targeting the lagging areas of the economy.

COVID-19 continues to dominate with global cases officially reaching 34 million, but likely much higher in reality due to inadequate testing at the start of the year. The caution we exhibited towards the end of Q2 due to rising US cases was in hindsight unwarranted, although case numbers rose rapidly during July hospitals were never close to capacity and fatalities were much lower than what was witnessed in New York during March/April. As a result risk assets remained resilient, bond yields did drift lower but this was driven by the expectation that base rates will be on hold for a much longer period and therefore real yields declined further as inflation expectations increased to pre-COVID levels with 10 year inflation breakevens ending the quarter at 1.56%.

Portfolio positioning remains largely risk on with a continued preference for investment grade corporate bonds, inflation protection, emerging market debt and US high yield debt exposure but we are well aware that current valuations leave little room for error. The long end of the US Treasury curve is extremely vulnerable depending on who leads the US next year to compound this. A COVID-19 vaccine is likely to be rolled out early 2021 which would unleash pent up consumer and corporate spending, this would result in higher bond yields and large capital losses for investors - one of the main reasons we remain underweight duration even though we are faced with a mountain of uncertainty. The low level of government bond yields also leave little value as a hedge if another volatility event rocks the markets hence cash is valuable on a risk adjusted basis and we are raising liquidity as we head into November.

Select Alternative: The Alternative Class returned +3.28% in Q3 of 2020 which outperformed the HFRX Global Hedge Fund Index return of +2.74%. The overall market backdrop across all strategies was positive in the third quarter of the year driven by the policy shift of the Fed for inflation targeting, as well as, relatively positive economic data releases such as US housing, composite and manufacturing PMI figures and employment numbers.

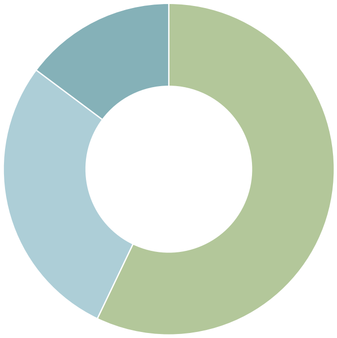
All strategies contributed positively over the quarter with the majority of the gains driven by equities. Relative value and macro strategies also contributed notably to returns. Themes that continue to be drivers of performance are positive company-specific events and fixed income trading. Sector

Benchmark composition

35% B of A Merrill Lynch 5-10 Yr US Gov/ Corp AAA-A Rated, 55% MSCI World (Free), 10% HFRX Global Hedge Fund.

exposure came from varying industries such as engineering services, e-commerce, healthcare, energy and corporate services. Investment grade credit exposure also posted gains during the quarter. Macro managers continued their positive contribution to returns for the year with gains derived from long and short fixed income positions in developed markets. Quantitative strategies had muted performance over the quarter as non-directional strategies were impacted by correlation breakdowns and market volatility.

Asset allocation



Select Fund: Equity	57%
Select Fund: Global Fixed Income	28%
Select: Alternative	15%

Top 10 holdings

1	American Century Global Growth Equity Fund	5.27%
2	BNY Mellon Long-Term Global Eq Fund	4.94%
3	Wellington Global Opps Equity Fund	4.76%
4	Lazard US Equity Concentrated Fund	4.35%
5	MFS Meridian - Global Equity Fund	3.31%
6	TSY INFL IX N/B 0.125% 01/15/30	3.10%
7	Wellington Blended Opps EM Debt Fund	2.58%
8	Artisan Value Fund Institutional	2.34%
9	US TREASURY N/B 1.750% 11/15/29	2.30%
10	US TREASURY N/B 1.500% 02/15/30	2.26%

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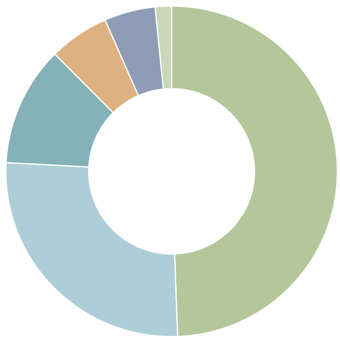
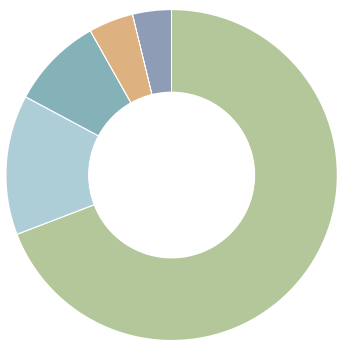
Fixed income allocation



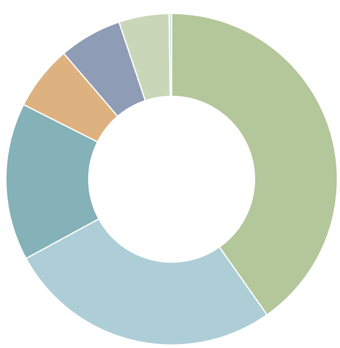
Corporate	49%
US Government	26%
Securitised/Collateralised	12%
SAS	6%
Emerging Markets	5%
Cash	1.6%

Equity sector allocation



North America	68.7%
Europe developed	13.6%
Asia/Pacific	9.0%
UK	4.3%
Emerging markets	3.8%

Alternative strategy allocation



Equities	40.3%
Relative value	26.8%
Macro	15.4%
Credit	6.3%
Quantitative	6.1%
Cash	4.9%
Other	0.2%

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