



MELVILLE DOUGLAS

# Melville Douglas Income Fund Limited

September 2016

**Annual Report and Audited Financial Statements**

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## Administration

### Directors

Graham Baillie  
Michael Farrow  
Helen Holmes  
Oliver Sonnichler

### Registered Office

Standard Bank House  
47 – 49 La Motte Street  
St. Helier  
Jersey JE2 4SZ  
Channel Islands

### Manager and Secretary

STANLIB Fund Managers Jersey Limited  
Standard Bank House  
47 – 49 La Motte Street  
St. Helier  
Jersey JE2 4SZ  
Channel Islands

### Investment Manager

Standard Bank International Investments Limited  
Standard Bank House  
47 – 49 La Motte Street  
St. Helier  
Jersey JE2 4SZ  
Channel Islands

### Custodian

Capita Trust Company (Jersey) Limited  
12 Castle Street  
St. Helier  
Jersey JE2 3RT  
Channel Islands

### Sub-Custodian and Banker

The Bank of New York Mellon SA/NV London Branch  
The Bank of New York Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA  
United Kingdom

### Administrator

BNY Mellon Fund Services (Ireland) Designated  
Activity Company  
Guild House, Guild Street  
International Financial Services Centre  
Dublin 1  
Ireland

### Independent Auditors

PricewaterhouseCoopers  
One Spencer Dock  
North Wall Quay  
Dublin 1  
Ireland

### Legal Adviser

Ogier  
Ogier House  
The Esplanade  
St. Helier  
Jersey JE4 9WG  
Channel Islands

## Report of the Directors

The directors submit their annual audited report and financial statements for the year ended 30 September 2016.

### **Incorporation**

Melville Douglas Income Fund Limited (the “Company”) is an open-ended investment company incorporated by way of a continuance in Jersey on 31 March 2003 with limited liability under the provisions of the Companies (Jersey) Law 1991 and regulated by the Jersey Financial Services Commission (JFSC). It was initially incorporated in the British Virgin Islands under the Mutual Funds Act 1996. The Company is a public company within the meaning of Article 16 of the Companies (Jersey) Law 1991. Participating shares may be issued and redeemed at prices based upon each class’s underlying net asset value.

### **Structure**

The Company offers investors a choice of classes (each such class being referred to as a “Class Fund”) and the opportunity to switch from one Class Fund to another. Currently there are two Class Funds (the US\$ Income Class and the Sterling Income Class). A separate Class Fund is established for each class of participating shares and each Class Fund is managed separately and independently.

The assets, liabilities, income and expenses attributable to each class of participating share are applied to the Class Fund established for that class. If they are not attributable to any particular class of participating shares, they are allocated between all the Class Funds in such manner as the directors deem to be equitable. The Company is a single legal entity. As a result, although the assets, income, earnings, liabilities and expenses attributable to each Class Fund will be segregated and kept separate from those attributable to other Class Funds, in the event of the Company not being able to meet its liabilities attributable to any particular Class Fund out of the assets of such Class Funds, the excess liabilities may have to be met out of the assets attributable to other Class Funds.

### **Objective and investment policy**

The objectives of the Class Funds is to provide a return in excess of cash deposits in US Dollars and Sterling respectively, whilst maintaining a high degree of capital preservation, by investing primarily in quality fixed interest securities, selected collective debt vehicles, money market instruments and cash. The Class Funds may also invest in collective investment schemes investing in real estate and make other investments that meet with the Class Funds investment guidelines.

### **Results and dividends**

The Company does not intend to distribute income and capital gains realised by the Company on its investments by way of dividend. Accordingly, income on investments and increases in the capital value of the investments of the Company will be reflected in the value of the Participating Shares. The results for the year are disclosed in the Statements of Comprehensive Income.

### **Directors**

The directors of the Company are set out on page 3.

Graham Baillie is also director of Standard Bank International Investments Limited and Chairman of Melville Douglas Investment Management (Proprietary) Limited. Helen Holmes is also director of Standard Bank International Investments Limited, Oliver Sonnichler is an executive of Melville Douglas Investment Management (Proprietary) Limited and Michael Farrow is an independent Non-Executive Director.

No director has a service contract with the Company or holds any interest in the capital of the Company.

## **Report of the Directors (continued)**

### **Statement of Directors' Responsibilities**

The directors are responsible for preparing the financial statements in accordance with applicable Jersey law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard" applicable in the UK and Republic of Ireland (FRS102).

The Companies (Jersey) Law, 1991 requires the directors to prepare the financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the results of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue in operation.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991 and FRS 102. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of error, fraud and non-compliance with law or regulations.

So far as each person who is a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of the information.

### **Independent Auditors**

PricewaterhouseCoopers Ireland have indicated their willingness to continue in office. A resolution to reappoint PricewaterhouseCoopers Ireland as independent auditors of the Company will be proposed at the annual general meeting. A copy of the Notice of the Annual Form of Proxy General Meeting is attached and form part of these financial statements.

### **Secretary**

The Secretary of the Company during the year ended 30 September 2016 was STANLIB Fund Managers Jersey Limited.

### **By order of the board**

**STANLIB Fund Managers Jersey Limited**

**Secretary**

**11 January 2017**

## Report of the Custodian

To the members of Melville Douglas Income Fund Limited.

The Custodian is responsible for the safekeeping of all the property of the Company which is entrusted to it, as prescribed in the Custodian Agreement.

Under the principles of the Guide to open-ended unclassified collective investment funds offered to the general public (the "OCIF Guide"), issued by the Jersey Financial Services Commission, the Custodian has a duty to take reasonable care to ensure that the methods adopted by the Company's Manager in respect to the pricing of, and dealing in, shares in the Company are compliant with the Company's principal documents.

It is the opinion of Capita Trust Company (Jersey) Limited in respect of the year ended 30 September 2016 that to the best of our information, knowledge and belief, that in all material respects, the Manager managed the Class Fund in that year:

- a) in accordance with the limitations imposed on the investment and borrowing powers of the Company by the Articles and Prospectus and;
- b) otherwise in accordance with the provisions of the Management and Custodian Agreements.

**Capita Trust Company (Jersey) Limited**  
**Custodian**  
**11 January 2017**

## Investment Manager's Report

For the year ended 30 September 2016

### US\$ Income Class Fund (the "Class Fund")

#### Investment objective

To provide a return in excess of cash deposits in US Dollars, whilst maintaining a high degree of capital preservation by investing primarily in quality fixed interest securities, selected collective debt vehicles, money market instruments and cash in order to maximise investment returns in US Dollars.

#### Quantitative analysis

The Class Fund's performance for the period was 1.19% versus the Class Fund's benchmark (US Dollar cash) return of 0.39%.

#### Commentary

During the period under review, the Federal Reserve have sanctioned only one interest rate hike against earlier expectations of a more modest tightening cycle. Whilst short-dated (two-year) US government bond yields have edged higher over the past twelve months, longer-dated (ten-year) yields have fallen modestly allowing the Class Fund to outperform its cash benchmark where returns remain at depressed levels.

We expect the Federal Reserve to tighten monetary policy again in the fourth quarter of 2016 and continue to hike gradually in 2017 although the pace will continue to be dictated by the strength of both the domestic US and wider global economy. One theme that is becoming clear is that ongoing ultra-low rates and QE are not only losing their effectiveness but more worryingly, continue to play their part in prolonging yields at artificially low levels. Without doubt, US economic data is not robust but does continue to grow at a pace that is not consistent with interest rates in the 0.25% to 0.50% bound, hence our outlook for tighter monetary policy in the period ahead. Having spent much of 2015 hovering around 0%, headline inflation, now at 1.1%, appears to be on an upward trajectory and importantly, the negative base effects of a strong US Dollar and falling oil price are slowly dropping out of the equation. Job growth remains solid, buoyed by the service sector, and is arguably at or close to the full employment level consistent with ongoing wage growth, albeit at levels lower than historic norms.

On a trade-weighted basis, the US Dollar has been broadly flat during the period but we retain a positive outlook over the short-term and the Class Fund remains at a fully invested 100% weight. The long awaited second US policy hike should become a reality in December, further benefitting the already positive interest rate differential versus other majors such as the Euro, Yen and Sterling. However, over the longer haul we have reservations that the currency can continue to rally at the pace experienced since 2011. Arguably, much of the positive news has been factored in and unless the future pace of hikes proves to be more aggressive than anticipated, the currency may fall prey to some profit taking over a longer term horizon despite higher interest rates and yields. A Trump victory in November also carries concerns as populist policies such as tax cuts would both stoke inflationary pressures, lowering real returns and widen the US's budget deficit. Much remains speculation of course but for now, the US Federal Reserve remains in tightening mode whilst all others continue to ease.

From a global perspective, our view on government bonds remains unchanged. Low, and often negative, interest rates combined with massive quantitative easing experiments have instilled a false sense of security in the debt markets that central banks will forever step in and save the day. Essentially, this safety net needs to remain firmly in place for yields to continue to languish at these low levels. To understand this connection is vital, as we are starting to see signs emerging that central banks are at their limits and the mere hint of less ultra-easy accommodation, in whatever form, should provoke a lift in yields, something we have already witnessed with yields rising sharply in the third quarter. Historically, a jump in yields would be cushioned by a much higher coupon return but with about 70% of global government bonds yielding less than 1%, the outlook is somewhat less comfortable. The Class Fund remains defensively positioned with a short-duration strategy until such time as yields rise to levels that we view as attractive over a medium to long-term horizon. A continuation of this strategy should not only provide a reasonable return versus comparable cash yields but will defend capital as yields continue to normalise.

## **Investment Manager's Report (continued)**

For the year ended 30 September 2016

### **Sterling Income Class Fund (the "Class Fund")**

#### **Investment objective**

To provide a return in excess of cash deposits in Sterling, whilst maintaining a high degree of capital preservation by investing primarily in quality fixed interest securities, selected collective debt vehicles, money market instruments and cash in order to maximise investment returns in Sterling.

#### **Quantitative analysis**

The Class Fund's performance for the period was 3.82% versus the Class Fund's benchmark (Sterling cash) return of 0.30%.

#### **Commentary**

During the period under review, the Bank of England's Monetary Policy Committee have sanctioned one interest rate cut against earlier 'pre-Brexit' expectations of a modest tightening cycle. Both short-dated (two-year) and longer-dated (ten-year) UK government bond yields have moved sharply lower over the past twelve months, allowing the Class Fund to materially outperform its cash benchmark as interest rates remain at severely depressed levels.

In the UK, the ongoing uncertainties surrounding Brexit continue to dominate sentiment. Whilst the immediate economic consequences have not been anywhere near as bad as expected, monetary policy must be forward looking, or pre-emptive, and swift actions were taken post-Brexit. The Bank of England (BoE) cut interest rates a further 0.25% and upped their quantitative easing (QE) programme whilst removing much of political uncertainty with the swift appointment of new Prime Minister May and Chancellor Hammond. The probability of another cut in interest rates remains high, however, BoE Governor Carneys' reticence to adopt negative rates may mean a smaller cut than usual, possibly 0.125%. What is clear is that the effectiveness of zero or negative rates and ongoing quantitative easing are coming into question on the international stage. It is becoming increasingly evident that central banks wish to pass on the stimulus baton to governments and their ability to simulate growth via fiscal easing. Domestically, Chancellor Hammond has all but agreed to rip up the austerity book and deliver some fiscal stimulus but it is possible his bark is worse than his bite.

We expected that the sharp post-Brexit sell-off in Sterling was likely to be followed by a brief period of consolidation whereby the currency would partially regain some lost ground. This scenario transpired in early July and allowed us to increase our US Dollar weighting in the Class Fund to approximately 11%, this foreign currency exposure continues to add significant absolute value. Looking forward, we expect Sterling to remain under pressure, particularly against the US Dollar as the Federal Reserve edge closer to tightening monetary policy in December.

From a global perspective, our view on government bonds remains unchanged. Low, and often negative, interest rates combined with massive quantitative easing experiments have instilled a false sense of security in the debt markets that central banks will forever step in and save the day. Essentially, this safety net needs to remain firmly in place for yields to continue to languish at these low levels. To understand this connection is vital, as we are starting to see signs emerging that central banks are at their limits and the mere hint of less ultra-easy accommodation, in whatever form, should provoke a lift in yields, something we have already witnessed with yields rising sharply in the third quarter. Historically, a jump in yields would be cushioned by a much higher coupon return but with about 70% of global government bonds yielding less than 1%, the outlook is somewhat less comfortable. The Class Fund remains defensively positioned with a short-duration strategy until such time as yields rise to levels that we view as attractive over a medium to long-term horizon. A continuation of this strategy should not only provide a reasonable return versus comparable cash yields but will defend capital as yields continue to normalise.

## **Standard Bank International Investments Limited**

### **Investment Manager**

**14 November 2016**

# Independent Auditors' Report to the Members of Melville Douglas Income Fund Limited

## Report on the financial statements

### Our opinion

In our opinion Melville Douglas Income Fund Limited's financial statements ("the financial statements");

- give a true and fair view of the state of the company's affairs as at 30 September 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland"; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

### What we have audited

The financial statements comprise:

- the Statements of Financial Position as at 30 September 2016;
- the Statements of Comprehensive Income for the year then ended;
- the Statements of Changes in Equity for the year then ended;
- The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Generally Accepted Accounting Practice, including FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland".

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### Opinion on other matter

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Other matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose.

We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with International standards on Auditing (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Declan Murphy**  
**for and on behalf of PricewaterhouseCoopers**  
**Chartered Accountants**  
**Dublin**  
**11 January 2017**

## Statement of Financial Position

As at 30 September 2016 (Comparatives as at 30 September 2015)

	Notes	US\$ Income Class Fund 30 September 2016 USD	US\$ Income Class Fund 30 September 2015 USD	Sterling Income Class Fund 30 September 2016 USD	Sterling Income Class Fund 30 September 2015 USD
<b>Assets</b>					
Financial assets at fair value through profit or loss	2(b), 8.4	56,640,399	40,254,655	4,130,745	3,119,472
Term deposits	2(c)	–	1,500,455	–	153,365
Cash and cash equivalents	2(c)	3,309,540	146,347	254,647	78,880
Receivable for shares sold		337,452	412,950	–	–
Income receivable		281,717	222,607	46,617	38,321
Other receivables		–	–	–	653
<b>Total assets</b>		<b>60,569,108</b>	<b>42,537,014</b>	<b>4,432,009</b>	<b>3,390,691</b>
<b>Liabilities</b>					
Management fees payable	2(g)	22,059	14,883	1,628	1,183
Administration fees payable	2(g)	8,824	5,953	651	473
Custodian fees payable	2(g)	1,964	1,389	309	291
Sub-Custodian fee payable	2(g)	38	876	150	594
Director fees payable	2(g)	5,306	4,913	3,066	4,603
Audit fees payable	2(g)	3,646	4,720	2,269	3,227
Other payables		2,099	1,401	901	88
<b>Total liabilities</b>		<b>43,936</b>	<b>34,135</b>	<b>8,974</b>	<b>10,459</b>
Net assets attributable to holders of redeemable shares		60,525,172	42,502,879	4,423,035	3,380,232
<b>Net asset value per share</b>					
Class A Shares		165.53	163.53	120.59	116.09

The financial statements were approved by the Board on 11 January 2017 and signed on its behalf by:

### Director

The notes on pages 14 to 25 form an integral part of these financial statements.

## Statement of Comprehensive Income

For the year 1 October 2015 to 30 September 2016  
(Comparatives are for the year 1 October 2014 to 30 September 2015)

	Notes	US\$ Income Class Fund 30 September 2016 USD	US\$ Income Class Fund 30 September 2015 USD	Sterling Income Class Fund 30 September 2016 GBP	Sterling Income Class Fund 30 September 2015 GBP
<b>Income</b>					
Dividend income	2(d)	137,955	130,866	10,975	11,093
Interest income	2(d)	525,438	371,077	45,780	36,279
Deposit interest	2(d)	4,086	19,922	437	6,668
Net gain on financial assets at fair value through profit or loss	2(h), 3	367,234	100,052	133,710	9,609
<b>Total net gain</b>		<b>1,034,713</b>	<b>621,917</b>	<b>190,902</b>	<b>63,649</b>
<b>Expenses</b>					
Management fees	2(g)	204,919	168,451	14,144	14,075
Custodian fees	2(g)	18,452	15,723	3,137	3,128
Sub-Custodian fees	2(g)	8,112	6,289	732	780
Administration fees	2(g)	81,968	67,381	5,658	5,630
Directors' fees	2(g)	18,910	16,778	9,982	10,334
Audit fees	2(g)	3,774	4,561	2,385	2,736
Sundry expenses		9,499	10,880	5,602	3,781
<b>Total operating expenses</b>		<b>345,634</b>	<b>290,063</b>	<b>41,640</b>	<b>40,464</b>
<b>Net income before finance costs</b>		<b>689,079</b>	<b>331,854</b>	<b>149,262</b>	<b>23,185</b>
<b>Finance Costs:</b>					
Bank overdraft interest		–	–	–	(6)
<b>Total Finance Costs</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>(6)</b>
Taxation	5	–	632	(1)	–
Increase in net assets attributable to holders of redeemable shares from operations		<b>689,079</b>	<b>332,486</b>	<b>149,261</b>	<b>23,179</b>

All of the above results are from continuing operations. There are no recognised gains or losses for the year other than those set out in the Statements of Comprehensive Income. There are no differences between the results above and those under historical cost.

The notes on pages 14 to 25 form an integral part of these financial statements.

## Statement of Changes in Equity

For the year 1 October 2015 to 30 September 2016

(Comparatives are for the year 1 October 2014 to 30 September 2015)

	<b>Notes</b>	<b>US\$ Income Class Fund 30 September 2016 USD</b>	<b>US\$ Income Class Fund 30 September 2015 USD</b>	<b>Sterling Income Class Fund 30 September 2016 GBP</b>	<b>Sterling Income Class Fund 30 September 2015 GBP</b>
Net assets attributable to holders of redeemable shares at the beginning of the year		42,502,879	45,496,949	3,380,232	4,379,848
Proceeds from the issue of shares	6	38,820,915	6,231,453	1,119,577	283,350
Payments on the redemption of shares	6	(21,487,701)	(9,558,009)	(226,035)	(1,306,145)
Increase in net assets attributable to holders of redeemable shares from investment activities		689,079	332,486	149,261	23,179
Net assets attributable to holders of redeemable shares at the end of the year		<u>60,525,172</u>	<u>42,502,879</u>	<u>4,423,035</u>	<u>3,380,232</u>

The notes on pages 14 to 25 form an integral part of these financial statements.

# Melville Douglas Income Fund Limited

## Notes to the financial statements

### 1. Incorporation

The Company was originally incorporated in the British Virgin Islands on 19 November 1998 and was incorporated in Jersey, Channel Islands by way of a continuance on 31 March 2003.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented. These financial statements have been prepared on a going concern basis under the historical cost convention as modified by the measurement at fair value of investments in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard" applicable in the UK and Republic of Ireland ("FRS 102"). The Company is regulated by the Jersey Financial Services Commission (JFSC) as an unclassified fund. A summary of the more important accounting policies is set out below.

### 2. Accounting Policies

#### a. Basis of Accounting

These audited annual financial statements for the year ended 30 September 2016 have been prepared in accordance with FRS102: the Financial Reporting Standard applicable in the UK and Republic of Ireland as issued by the Financial Reporting Council.

The Directors of the Company have applied Financial Reporting Standards 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" for its annual and interim financial statements effective 1 October 2014.

The information required by FRS 102, to be included in the Statement of Total Recognised Gains and Losses and Reconciliation of Movements in Shareholders' Funds is, in the opinion of the directors, contained in the Statement of Comprehensive Income and Statement of Changes in Equity on pages 12 and 13. In arriving at the results for the year, all amounts in the Statement of Comprehensive Income on page 12 relate to continuing activities.

The Company has availed of the exemption available to open-ended investment funds under Section 7 "Statement of Cash Flows" of FRS 102 (Section 7.1a (c)), not to prepare a cash flow statement on the basis that substantially all of the Company's investments are highly liquid and carried at fair value, and the Company provides Statement of Changes in Equity.

#### b. Investments

Investments are recognised on the Statement of Financial Position at the date on which the Company becomes party to contractual provisions of the instruments. Investments are initially recognised at cost which is the fair value at date of recognition. Subsequently investments are re-measured at fair value being the mid-market price at the Statement of Financial Position date. Gains or losses arising from revaluation are recognised in the Statement of Comprehensive Income.

On disposal of investments, gains and losses on sale of investments are calculated on an average cost basis and are taken to the Statement of Comprehensive Income in the year in which they arise.

On initial application of FRS 102, in accounting for all of its financial instruments, an entity is required to apply either (a) the full requirements of Sections 11 "Basic Financial Instruments" and Section 12 "Other Financial Instruments Issues" of FRS 102, (b) the recognition and measurement provisions of International Accounting Standards ("IAS") 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") as adopted for use in the European Union and the disclosure requirements of Sections 11 and 12, or (c) the recognition and measurement provisions of International Financial Reporting Standards ("IFRS") 9 "Financial Instruments" ("IFRS 9") and the disclosure requirements of Sections 11 and 12. The Company has applied FRS 102 from the year ended 30 September 2015 and has elected to apply the full requirements of Sections 11 and Section 12 of FRS 102.

## **Notes to the financial statements (continued)**

### **2. Accounting Policies (continued)**

#### **c. Cash and cash equivalents and term deposits**

Cash is valued at cost, which approximates fair value.

Cash is held in accounts at The Bank of New York Mellon SA/NV London Branch which allows the Class Fund instant access to its accounts. Term deposits are deposits which may be held with various financial institutions bearing fixed or variable interest rates payable at maturity.

#### **d. Income**

Interest income is accounted for on an accruals basis using the effective yield basis. Dividend income is accounted for on the ex-dividend date. Dividend income is reported gross of withholding tax deducted at source and the related withholding tax is disclosed separately as a tax charge in the Statement of Comprehensive Income. Interest on deposit accounts is included on an accruals basis.

#### **e. Foreign currencies**

Transactions in foreign currencies are translated into the reporting currency of the Class Funds at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the currency of the Class Funds at the rates of exchange ruling at the Statements of Financial Position date. The functional and reporting currencies of the Class Funds are US Dollars for the US\$ Income Class Fund and Sterling for the Sterling Income Class Fund.

Differences arising on translation are included in the Statements of Comprehensive Income within income or expenses in the year in which they arise.

#### **f. Share issues and redemptions**

Shares in the Company may be issued at the issue price and redeemed at the redemption price on subscription days at the prices calculated in accordance with the Articles of Association and based on the value of the underlying investments held in the relevant Class Fund. The directors' present policy is that:

- i) On the issue of shares, the amount received is credited to the share capital account.
- ii) On redemption, the amount paid is debited to the share capital account. Should that account be fully utilised, the amount payable on redemption is debited to realised reserves.

#### **g. Expenses**

The Company is responsible for the payment of management, custodian, sub-custodian and administration fees, which are accrued for on each subscription day (see Note 7). The Company is also responsible for the payment of auditor's and directors' remuneration together with reporting expenses and operational costs in accordance with the prospectus. All expenses are accounted for on an accruals basis.

#### **h. Net gains/(losses) on financial assets at fair value through profit or loss**

This item includes changes in the fair value of financial assets held for trading and excludes interest and dividend income and expenses. Unrealised gains and losses comprise changes in the fair value of financial instruments for the year. Realised gains and losses on disposals are calculated using the average cost method and are reflected as net gains or losses on investments in the Statement of Comprehensive Income.

#### **i. Withholding taxes**

In some jurisdictions investment income is subject to withholding tax deducted at the source of the income. Withholding tax is a generic term used for the amount of withholding tax deducted at the source of the income and is not significant for the Portfolio. Withholding tax is disclosed separately as a tax charge from the gross investment income in the Statement of Comprehensive Income.

#### **j. Distribution policy**

The Company's policy is to not distribute any income on its participating shares.

**Notes to the financial statements (continued)****3. Gains and losses on financial assets at fair value through profit or loss**

	<b>US\$ Income Class Fund 30 September 2016 USD</b>	<b>US\$ Income Class Fund 30 September 2015 USD</b>	<b>Sterling Income Class Fund 30 September 2016 GBP</b>	<b>Sterling Income Class Fund 30 September 2015 GBP</b>
Non-derivative securities:				
Net realised loss on investments	(65,910)	(103,621)	(12,351)	(22,745)
Net movement in unrealised investment schemes	433,144	203,673	146,025	32,596
	<u>367,234</u>	<u>100,052</u>	<u>133,674</u>	<u>9,851</u>
Derivative securities:				
Net realised gain on foreign currency contracts	-	-	-	-
Net realised gain on foreign currency currency	-	-	36	(242)
	<u>-</u>	<u>-</u>	<u>36</u>	<u>(242)</u>
<b>Net gain on financial assets at fair value through profit or loss</b>	<u>367,234</u>	<u>100,052</u>	<u>133,710</u>	<u>9,609</u>

**4. Investment Purchases, Investment Sales and Commissions**

<b>US\$ Income Class Fund</b>	<b>30 September 2016 USD</b>	<b>30 September 2015 USD</b>
Purchases in year before transaction costs	30,032,942	6,391,203
Commissions	9,250	1,200
Gross purchases total	<u>30,042,192</u>	<u>6,392,403</u>
Sales in year before transaction costs	15,221,179	7,854,857
Commissions	(1,600)	(400)
Net sales total	<u>15,219,579</u>	<u>7,854,457</u>
<b>Sterling Income Class Fund</b>	<b>30 September 2016 GBP</b>	<b>30 September 2015 GBP</b>
Purchases in year before transaction costs	1,910,462	1,306,577
Commissions	743	862
Gross purchases total	<u>1,911,205</u>	<u>1,307,439</u>
Sales in year before transaction costs	1,148,152	2,167,386
Commissions	(207)	(895)
Net sales total	<u>1,147,945</u>	<u>2,166,491</u>

**5. Taxation**

For the purposes of Jersey taxation, the Company will fall under Article 123C of the Income Tax (Jersey) Law 1961, as amended, as a Jersey resident Company which is neither a "utility company" nor a "financial services company" and as such will be charged to Jersey income tax at a rate of 0% on its income (other than on any rental income or property development profits arising in respect of Jersey situs real property or land). The Company will not be subject to tax in Jersey on any capital arising to it.

Under applicable foreign tax laws, withholding taxes may be deducted from interest, dividends and capital gains attributable to the Company, at various rates. The Company pays withholding tax on dividends, which is deducted at source. This is shown separately as a taxation charge in the Statements of Comprehensive Income.

**Notes to the Financial Statements (continued)**

	<b>30 September 2016 USD</b>	<b>30 September 2015 USD</b>
<b>US\$ Income Class Fund</b>		
Overseas tax – withholding tax on dividend income	–	(632)
	<b>30 September 2016 USD</b>	<b>30 September 2015 USD</b>
<b>Sterling Income Class Fund</b>		
Overseas tax – withholding tax on dividend income	1	–

**6. Share capital**

The Company is authorised to issue 100 management shares of USD1.00 each and an unlimited number of participating shares of no par value.

The management shares exist solely to comply with Jersey Law, which requires that participating redeemable preference shares (“participating shares”) must have a preference over another class of capital. The holders of the management shares are entitled to receive notice of general meetings of the Company and to attend and vote thereat. On a poll a holder of management shares is entitled to one vote for each management share held by him. Management shares carry no right to a dividend and are not redeemable. In a winding up, they rank only for a return of paid up nominal capital out of the assets of the Company (before the return of nominal capital paid up on participating shares).

Participating shares carry the right to a proportionate share in the assets of the relevant Class Fund and to any dividends that may be declared. Holders of the shares are entitled to receive notice of all general meetings of the Company and to attend and vote thereat. The holder of each share is entitled to one vote for each share of which he is a holder. Shares are redeemable by shareholders at prices based on the value of the net assets of the relevant Class Fund as determined in accordance with its Articles of Association.

**Management shares**

The management shares have been issued to the Manager at par and the proceeds of the issue are represented by a separate management fund. Details of the management fund at the Statements of Financial Position date are as follows:

	<b>30 September 2016 USD</b>	<b>30 September 2015 USD</b>
Current account	100	100
Management shares of USD1.00 each		
Authorised, issued and fully paid	100	100

The management fund is not reflected in the Statements of Financial Position.

**Movements of participating shares**

The following table shows the movement in participating shares during the year ended 30 September 2016.

**Movements of participating shares**

The following table shows the movement in participating shares during the year ended 30 September 2016.

	<b>Number of shares at 30 September 2015</b>	<b>Issued during the year</b>	<b>Redeemed during the year</b>	<b>Number of shares at 30 September 2016</b>
US\$ Income Class Fund – Class A Shares	259,915	236,005	(130,286)	365,634
Sterling Income Class Fund – Class A Shares	29,1181	9,483	(1,923)	36,678

**Notes to the Financial Statements (continued)**

The following table shows the movement in participating shares during the year ended 30 September 2015.

	<b>Number of shares at 30 September 2014</b>	<b>Issued during the year</b>	<b>Redeemed during the year</b>	<b>Number of shares at 30 September 2016</b>
US\$ Income Class Fund – Class A Shares	280,287	38,205	(58,577)	259,915
Sterling Income Class Fund – Class A Shares	37,901	2,429	11,212	29,118

**7. Related Party Transactions and Other Expenses**

The following disclosures are made in accordance with the requirements of Section 33 “Related Party Disclosures” of FRS 102.

STANLIB Fund Managers Jersey Limited (the “Manager”), Standard Bank International Investments Limited (the “Investment Manager”) and all directors of the Company are related parties of the Company.

The Manager is considered a related party by virtue of its contractual arrangements. The Investment Manager and the directors are considered related parties to the Company as they make key operating decisions for the Company.

The Manager has the primary responsibility for the management and administration of the Company. The Manager has appointed the Investment Manager to provide it with investment management services in relation to the Company. The fees of the Investment Manager are paid by the Manager out of its fees.

The annual management fee payable to the Manager monthly in arrears is calculated as 0.375% of the net asset value of each Class Fund. The Manager remits the above fee in full to the Investment Manager as an investment management fee.

The Manager is also entitled to an annual administration fee of 0.15% of the net asset value of the Class Funds out of which the Administrator will be paid. The above amounts accrue on each subscription day and are payable to the Manager by monthly payments in arrears.

The Custodian has agreed with the Company that it will be paid a fee at the following rates, subject to an overall minimum fee in respect of each Class Fund of USD5,000 per annum.

On amounts less than USD50 million 0.035%

On amounts of more than USD50 million, but less than USD100 million 0.025%

On amounts of more than USD100 million, but less than USD500 million 0.010%

On amounts over USD500 million 0.005%

Such fees shall accrue daily and shall be payable to the Custodian by monthly payments in arrears becoming due on the first business day of each month in respect of the preceding month.

The Custodian is also entitled to be reimbursed out of the Class Funds for charges and transaction fees levied on it by the Sub-Custodian and other sub-custodians which shall be at rates which have been negotiated on an arm’s length basis or are otherwise on commercial terms.

Michael Farrow is entitled to receive GBP4,000 per annum from the Company as director fees. Helen Holmes, Graham Baillie and Oliver Sonnichler are entitled to USD10,000 per director per annum from the Company.

For the US\$ Income Class Fund directors fees incurred during the year ended 30 September 2016 amounted to USD18,910 (30 September 2015: USD16,778) with USD5,306 (30 September 2015: USD4,913) outstanding at the year end.

For the Sterling Income Class Fund directors fees incurred during the year ended 30 September 2016 amounted to GBP9,982 (30 September 2015: GBP10,334) with GBP3,066 (30 September 2015: GBP4,603) outstanding at the year end.

**All transactions with the above related parties are at arm’s length.**

The fees incurred during the year ended 30 September 2016 and 30 September 2015 are as disclosed in the Statements of Comprehensive Income with the amounts outstanding at the year end disclosed in the Statements of Financial Position.

## Notes to the Financial Statements (continued)

### 8. Financial risk management

Consistent with the investment objectives, as noted in the Report of the Directors, the Company's financial instruments comprise quoted securities. In addition, the Company holds cash and liquid assets and various items such as debtors and creditors that arise directly from its operations.

The main risks arising from the Company's financial instruments are market risk (comprising market price risk, interest rate risk and currency risk), credit risk and liquidity risk. The Board reviews and agrees with the Manager and Investment Manager policies for managing each of these risks and they are summarised below.

#### 8.1. Market risk

Market risk is the risk that the fair value of, or future cash flows arising from, financial instruments will fluctuate because of the changes in market variables. Market risk comprises three types of risks: market price risk, interest rate risk and currency risk.

##### Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Class Funds' business. It represents the potential loss the Company may suffer due to price movements in securities prices.

Market price risk is mainly reduced through diversification. Investment restrictions are in place to ensure that the impact of market price risk is minimised. In particular, the following restrictions/guidelines are applicable to all Class Funds:

- Not more than 10% of the net asset value of any Class Fund shall be invested in the securities of any one issuer.
- Not more than 10% of the securities of any one class of any one issuer shall be held in any Class Fund.
- The value of securities held in any Class Fund not listed or quoted on a recognised market shall not exceed 10% of the net asset value of the Class Fund. Listed securities must be traded on exchanges, which have been granted full membership by the World Federation of Exchanges.
- The value of all derivative transactions entered into by the Class Fund, shall not exceed 25% of the net asset value of the Class Fund. Within this limit, the Company, on account of the Class Fund, shall not invest in warrants or options, the aggregate value of which is more than 15% of the net asset value of the Class Fund.

Full details of the investment restrictions are set out in the Prospectus.

##### Sensitivity analysis

The table below summarises the sensitivity of the Class Funds' net assets attributable to holders of redeemable shares to market price movements. It shows the increase/(decrease) in the net assets attributable to holders of redeemable shares for the Class Funds' given a 5% movement in the underlying investment prices at year end; all other variables remaining constant (5% is considered to be a reasonable possible change in price):

	<b>30 September 2016</b>	<b>30 September 2015</b>
	<b>USD</b>	<b>USD</b>
US\$ Income Class Fund	2,832,020	2,012,733
Sterling Income Class Fund	206,537	155,974

##### Interest rate risk

Interest rate risk is the risk that fair value of, or future cash flows arising from, the financial instruments will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk, as the instruments held comprise short and long term fixed and floating rate interest investments. Market forces (in terms of a general increase or decrease in interest rates in a particular currency) may therefore have a detrimental or positive effect on the carrying value of its financial instruments and income generated thereon, depending upon the average maturity of the portfolio held.

**Notes to the Financial Statements (continued)****8. Financial risk management (continued)****8.1. Market risk (continued)****Interest rate risk (continued)**

In accordance with the Class Funds' policy, the Investment Manager and Board of directors monitor the Class Funds' overall interest sensitivity on a regular basis.

The breakdown of the Class Funds' assets as at 30 September 2016 is detailed in the Portfolio Statements.

The below tables indicate the weighted average interest received on fixed rate financial assets and the weighted average period for which the rate is fixed:

<b>30 September 2016</b>		
<b>Programme</b>	<b>Fixed rate financial assets Weighted average interest rate</b>	<b>Fixed rate financial assets weighted average period for which rate is fixed</b>
US\$ Income Class Fund	1.70%	2 years 2 months

<b>30 September 2015</b>		
<b>Programme</b>	<b>Fixed rate financial assets Weighted average interest rate</b>	<b>Fixed rate financial assets weighted average period for which rate is fixed</b>
US\$ Income Class Fund	2.00%	2 years 3 months

<b>30 September 2016</b>		
<b>Programme</b>	<b>Fixed rate financial assets Weighted average interest rate</b>	<b>Fixed rate financial assets weighted average period for which rate is fixed</b>
Sterling Income Class Fund	2.57%	2 years 9 months

<b>30 September 2015</b>		
<b>Programme</b>	<b>Fixed rate financial assets Weighted average interest rate</b>	<b>Fixed rate financial assets weighted average period for which rate is fixed</b>
Sterling Income Class Fund	2.64%	2 years 1 month

**US\$ Income Class Fund 30 September 2016**

	<b>Fixed rate financial assets</b>	<b>Floating rate financial assets</b>	<b>Net assets not carrying interest</b>	<b>Total</b>
<b>USD</b>	52,012,753	–	8,512,419	60,525,172
	<u>52,012,753</u>	<u>–</u>	<u>8,512,419</u>	<u>60,525,172</u>

**USD Income Class Fund 30 September 2015**

<b>USD</b>	38,579,132	–	3,923,747	42,502,879
	<u>38,579,132</u>	<u>–</u>	<u>3,923,747</u>	<u>42,502,879</u>

**Sterling Income Class Fund 30 September 2015**

<b>GBP</b>	3,768,302	–	654,733	4,423,035
	<u>3,768,302</u>	<u>–</u>	<u>654,733</u>	<u>4,423,035</u>

**Sterling Income Class Fund 30 September 2016**

<b>GBP</b>	2,992,961	–	387,271	3,380,232
	<u>2,992,961</u>	<u>–</u>	<u>387,271</u>	<u>3,380,232</u>

**Notes to the Financial Statements (continued)****8. Financial risk management (continued)****8.1. Market risk (continued)****Currency risk**

Currency risk is the risk that the fair value of, or future cash flows from, financial instruments will fluctuate because of changes in foreign exchange rates.

The Class Funds' assets and liabilities may be denominated in currencies other than the reporting currency of the Class Fund. Therefore the value of such assets and liabilities may be affected favourably or unfavourably by fluctuations in currency rates.

The Company may enter into derivative transactions for the purposes of hedging against currency risk on behalf of the Class Funds, subject to various maximum exposure limits.

The following tables show the currency exposure of each Class Fund as at year ended 30 September 2016 and year ended 30 September 2015.

**US\$ Income Class Fund**

<b>Exposure currency 30 September 2016</b>	<b>Investments USD</b>	<b>Cash USD</b>	<b>Other net assets USD</b>	<b>Total net assets USD</b>	<b>% of net assets</b>
USD	56,640,399	3,309,540	575,233	60,525,172	100.00
	<u>56,640,399</u>	<u>3,309,540</u>	<u>575,233</u>	<u>60,525,172</u>	<u>100.00</u>

**US\$ Income Class Fund**

<b>Exposure currency 30 September 2015</b>	<b>Investments USD</b>	<b>Cash USD</b>	<b>Other net assets USD</b>	<b>Total net assets USD</b>	<b>% of net assets</b>
EUR	–	43	–	43	0.00
USD	41,755,110	146,304	601,422	42,502,836	100.00
	<u>41,755,110</u>	<u>146,347</u>	<u>601,422</u>	<u>42,502,879</u>	<u>100.00</u>

**Sterling Income Class Fund**

<b>Exposure currency 30 September 2016</b>	<b>Investments GBP</b>	<b>Cash GBP</b>	<b>Other net assets GBP</b>	<b>Total net assets GBP</b>	<b>% of net assets</b>
GBP	3,655,504	252,785	35,904	3,944,193	89.17
USD	475,241	1,862	1,739	478,842	10.83
	<u>4,130,745</u>	<u>254,647</u>	<u>37,643</u>	<u>4,423,035</u>	<u>100.00</u>

**Sterling Income Class Fund**

<b>Exposure currency 30 September 2015</b>	<b>Investments GBP</b>	<b>Cash GBP</b>	<b>Other net assets GBP</b>	<b>Total net assets GBP</b>	<b>% of net assets</b>
EUR	–	17	–	17	0.00
GBP	2,906,045	78,863	27,210	3,012,118	89.11
USD	366,792	–	1,305	368,097	10.89
	<u>3,272,837</u>	<u>78,880</u>	<u>28,515</u>	<u>3,380,232</u>	<u>100.00</u>

The following sensitivity analysis shows the change in the net assets of a Class Fund given a 5% increase or decrease in the value of a foreign currency relative to the Class Funds' reporting currency for all significant foreign currency positions of the Class Fund.

**Notes to the Financial Statements (continued)****8. Financial risk management (continued)****8.1. Market risk (continued)****Currency risk (continued)**

		<b>Change in net assets 30 September 2016</b>	<b>Change in net assets 30 September 2015</b>
<b>US\$ Income Class Fund</b>		<b>USD</b>	<b>USD</b>
EUR	+/-5%	–	2
<b>Sterling Income Class Fund</b>		<b>GBP</b>	<b>GBP</b>
EUR	+/-5%	–	1
USD	+/-5%	23,942	18,405

**8.2. Liquidity risk**

Liquidity risk is the risk that the Company may not be able to meet its liabilities as they fall due. This also relates to the risk that the Company may not be able to realise its investments at current market values in time to meet its obligations.

Shareholders have the right to redeem their shares in each Class Fund in accordance with the procedures detailed in its prospectus. Shareholders may redeem all or part of their holding on any subscription day and the redemption proceeds are payable within seven business days of the relevant subscription day.

In order to meet its obligations the Company may be required to sell the investments held. The risk is that the Company might not be able to fully repay amounts demanded by its shareholders.

The Company is not required to redeem more than one eighth of the Participating Shares in issue or deemed to be in issue or more than one eighth of the Participating Shares of any Class Fund in issue or deemed to be in issue on any particular redemption day.

**8.3. Credit risk**

Credit risk is the risk that counterparties will be unable or unwilling to meet commitments they have entered into with the Class Funds under the contractual or agreed terms. The Class Funds' main credit risk derives from its investments in bonds, term deposits and cash and cash equivalents. The risk mainly arises from the possibility of default from the institutions in paying interest and capital when due and also the inability by the custodians of cash and cash equivalents to make available the cash to the Class Funds on demand.

In addition to the restrictions already mentioned above, the investment restrictions also limit:

- Not less than 90% of the interest-bearing instruments included in any Class Fund must have a credit rating of Investment Grade by Moody's, S&P, or Fitch. For the purpose of this paragraph "Investment Grade" in relation to interest-bearing instruments means a long-term rating of at least BBB and a short-term rating of at least A-2 by S&P or an equivalent rating by Moody's or Fitch. Any cash or near cash comprised in the assets of the Class Fund shall not be placed or deposited with any bank or deposit-taking institution rated below Investment Grade. Up to 100% of the Net Asset Value of the Class Fund may be held on deposit. However, not more than 20% of the Net Asset Value of the Class Fund, or US\$1,000,000, or the equivalent in the Base Currency of the Class Fund, whichever is the greater, shall in aggregate be held on deposit with any one person and its Associates, unless that person or any of its associates is an Approved Bank, in which case the maximum may be 25% of the Net Asset Value of the Class Fund provided that such restriction shall not apply to amounts held on deposit for temporary periods of three months or less.

Full details of the investment restrictions are set out in the Prospectus and individual Class Fund rules.

The risk arising from debtors is considered minimal and therefore not actively managed. Significant debtors arise from outstanding sales receipts. This is controlled by ensuring that securities are not transferred before settlement. Debtors arising from dividends and interest received are not considered material for the purpose of credit risk exposure.

## **Notes to the Financial Statements (continued)**

### **8. Financial risk management (continued)**

#### **8.3. Market risk (continued)**

The credit ratings of the investments are disclosed in Portfolio Statements.

The Custodian, Capita Trust Company (Jersey) Limited is not rated with Standard & Poor's, Moody's and Fitch.

For the year ended 30 September 2016 the Sub-Custodian and Banker, The Bank of New York Mellon SA/NV London Branch has a credit rating of AA- (2015 : AA-) with Standard & Poor's, Aa1 (2015 : Aa2) with Moody's and AA- (2015 : AA-) with Fitch.

#### **8.4. Fair value hierarchy**

The Financial Reporting Council ("FRC") has issued "Amendments to FRS 102 - Fair value hierarchy disclosures", effective for accounting periods beginning on or after 1 January 2017, with early adoption permitted. FRED 62 proposes to amend paragraphs 34.22 and 34.42 of FRS 102 to require disclosure of financial instruments held at fair value on the basis of a fair value hierarchy consistent with EU-adopted IFRS based on Level 1, 2 and 3 classification. The Company has availed of early adoption and the financial statements have been prepared in accordance with these amendments and fair value measurement is categorised based on Level 1, 2 and 3. These amendments did not have any impact on the Funds' financial position or performance.

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted mid-market prices on the year end date.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an 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.

FRS 102 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The fair value hierarchy has the following levels:

- Listed prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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 judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company 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.

**Notes to the Financial Statements (continued)****8. Financial risk management (continued)****8.4. Fair value hierarchy (continued)**

The following tables analyse within the fair value hierarchy the Companies financial assets measured at fair value at 30 September 2016 and 30 September 2015 in accordance with FRS 102. The comparative figures have been reclassified to conform to current year presentation.

**30 September 2016**

<b>US\$ Income Class Fund</b>	<b>Level 1 USD</b>	<b>Level 2 USD</b>	<b>Level 3 USD</b>	<b>Total USD</b>
Investment Companies	4,627,646	–	–	4,627,646
Corporate Bonds	–	36,498,849	–	36,498,849
Government Bonds	–	15,513,904	–	15,513,904
<b>Total Assets</b>	<b>4,627,646</b>	<b>52,012,753</b>	<b>–</b>	<b>56,640,399</b>

**30 September 2015**

<b>US\$ Income Class Fund</b>	<b>Level 1 USD</b>	<b>Level 2 USD</b>	<b>Level 3 USD</b>	<b>Total USD</b>
Investment Companies	3,175,978	–	–	3,175,978
Corporate Bonds	–	24,488,052	–	24,488,052
Government Bonds	–	12,590,625	–	12,590,625
<b>Total Assets</b>	<b>3,175,978</b>	<b>37,078,677</b>	<b>–</b>	<b>40,254,655</b>

**30 September 2016**

<b>Sterling Income Class Fund</b>	<b>Level 1 GBP</b>	<b>Level 2 GBP</b>	<b>Level 3 GBP</b>	<b>Total GBP</b>
Investment Companies	362,443	–	–	362,443
Corporate Bonds	–	2,535,715	–	2,535,715
Government Bonds	–	1,232,587	–	1,232,587
<b>Total Assets</b>	<b>362,443</b>	<b>3,768,302</b>	<b>–</b>	<b>4,130,745</b>

**30 September 2015**

<b>Sterling Income Class Fund</b>	<b>Level 1 GBP</b>	<b>Level 2 GBP</b>	<b>Level 3 GBP</b>	<b>Total GBP</b>
Investment Companies	279,876	–	–	279,876
Corporate Bonds	–	2,013,040	–	2,013,040
Government Bonds	–	826,556	–	826,556
<b>Total Assets</b>	<b>279,876</b>	<b>2,839,596</b>	<b>–</b>	<b>3,119,472</b>

**Notes to the Financial Statements (continued)****9. Reconciliation of net asset value**

The following tables reconcile the difference between the Class Funds' net assets for financial reporting purposes and its net assets for shareholder dealing purposes for the year ended 30 September 2016 and year ended 30 September 2015.

	<b>US\$ Income Class Fund 30 September 2016 USD</b>	<b>US\$ Income Class Fund 30 September 2015 USD</b>	<b>Sterling Income Class Fund 30 September 2016 GBP</b>	<b>Sterling Income Class Fund 30 September 2015 GBP</b>
Net asset value per financial statements	60,525,172	42,502,879	4,423,035	3,380,232
Pricing differences <sup>1</sup>	–	14,855	–	1,423
Net asset value for shareholder dealing	60,525,172	42,517,734	4,423,035	3,381,655
Net asset value per share for reporting purposes	165.53	163.53	120.59	116.09
Net asset value per share for shareholder dealing purposes	165.53	163.58	120.59	116.14

<sup>1</sup> The adjustment is the difference between the mid value of investments on the valuation date and the bid value of investments on the final trading day of the fiscal period. Investments are valued at mid-price where available for the purpose of shareholder dealing valuation in accordance with the prospectus.

**10. Exchange rates**

The following exchange rates at 30 September 2016 and 30 September 2015 were used to translate foreign currency assets and liabilities.

<b>US\$ Income Class Fund</b>	<b>30 September 2016</b>	<b>30 September 2015</b>
EUR/USD	0.88983	0.89586
GBP/USD	0.76982	0.66017
<b>Sterling Income Class Fund</b>	<b>30 September 2016</b>	<b>30 September 2015</b>
EUR/GBP	1.15945	1.35700
USD/GBP	1.29670	1.51475

**11. Significant events during the year**

There were no significant events during the year that require disclosure in the financial statements.

**12. Post statement of financial position events**

There were no significant post statement of financial position events that require that require disclosure in these financial statements.

**13. Approval of Financial Statements**

The financial statements were approved by the Directors on 11 January 2017.

## Fund Statistics (Unaudited)

<b>US\$ Income Class Fund – Class A Shares</b>	<b>Net asset value USD</b>	<b>Net asset value per share USD</b>	<b>% change in year</b>	<b>Number of shares in issue</b>	<b>Highest Price* USD</b>	<b>Lowest Price* USD</b>
30 September 2005	65,743,734	143.16	3.87	459,218	151.04	137.66
29 September 2006	71,766,123	149.62	4.51	479,646	157.87	143.22
28 September 2007	81,571,623	155.20	3.73	525,574	163.81	149.85
26 September 2008	98,564,907	160.24	3.25	615,089	168.62	155.52
30 September 2009	71,358,146	160.03	(0.13)	445,918	160.43	157.19
30 September 2010	64,947,357	161.71	1.05	401,620	161.74	160.28
30 September 2011	54,499,755	161.29	(0.26)	337,889	162.50	161.63
30 September 2012	47,144,365	162.10	0.50	290,828	162.59	161.42
30 September 2013	53,445,275	162.17	0.04	329,555	162.46	161.25
30 September 2014	45,496,949	162.32	0.09	280,287	163.05	161.83
30 September 2015	42,502,879	163.53	0.75	259,915	163.83	162.30
30 September 2016	60,525,172	165.53	1.22	365,634	165.79	162.95

  

<b>Sterling Income Class Fund – Class A Shares</b>	<b>GBP</b>	<b>GBP</b>			<b>GBP</b>	<b>GBP</b>
30 September 2005	21,472,212	108.15	5.00	198,532	114.11	103.08
29 September 2006	28,874,318	112.27	3.81	257,188	118.46	108.25
28 September 2007	36,573,190	116.19	3.49	314,773	123.71	112.31
26 September 2008	24,579,655	118.35	1.86	207,686	125.82	116.90
30 September 2009	16,287,966	116.19	(1.83)	140,179	118.73	114.22
30 September 2010	10,997,350	118.20	1.73	93,037	118.23	116.42
30 September 2011	8,605,906	118.94	0.63	72,356	119.15	118.02
30 September 2012	5,906,035	117.51	(1.20)	50,259	119.65	117.25
30 September 2013	5,590,371	115.88	(1.39)	48,241	117.60	115.86
30 September 2014	4,379,848	115.56	(0.28)	37,901	116.09	114.48
30 September 2015	3,380,232	116.09	0.46	29,118	117.86	115.78
30 September 2016	4,423,035	120.59	3.88	36,678	120.87	115.83

\* Prior to 30 September 2016 the highest price/lowest price was based on the reported net asset value for shareholder dealing which may be different from the financial statements.

The performance data in this table covers the year from incorporation by way of a continuance in Jersey, to date. Performance data for previous periods can be found in the fact sheets issued by the Investment Manager.

### Total Expense Ratios (Unaudited)

The Total Expense Ratio ("TER") is calculated and disclosed as per the guidelines issued by the Investment Management Association. The ratio expresses the sum of all costs charged on an ongoing basis to the Class Funds taken retrospectively as a percentage of the Class Fund's average net assets. For clarity, when the Class Fund is investing in other funds, the ongoing cost of these funds is not incorporated in the calculation of the TER.

<b>US\$ Income Class Fund</b>	<b>30 September 2016</b>	<b>30 September 2015</b>
Total Expense Ratio	0.63%	0.65%

  

<b>Sterling Income Class Fund</b>	<b>30 September 2016</b>	<b>30 September 2015</b>
Total Expense Ratio	1.10%	1.08%

## Portfolio Statement

<b>US\$ Income Class Fund</b> As at 30 September 2016	<b>Nominal holding</b>	<b>Cost USD</b>	<b>Fair Value USD</b>	<b>% of Net Assets</b>	<b>Credit Rating</b>
<b>Transferable Securities Admitted to An Official Stock Exchange Listing or Dealt in on Another Regulated Market</b>					
<b>Investment Companies</b>					
<b>Ireland</b>					
Smith & Williamson Short Dated Corporate Bond Fund	4,994,761	4,681,547	4,627,646	7.65	<b>NR</b>
<b>Total Investment Companies</b>			<b>4,627,646</b>	<b>7.65</b>	
<b>Corporate Bonds</b>					
<b>France</b>					
LVMH Moet Hennessy Louis Vuitton SE 1.625% 29/06/2017	638,000	640,257	639,709	1.06	<b>A1</b>
<b>Germany</b>					
KFW 1.250% 05/10/2016	5,270,000	5,270,388	5,268,000	8.70	<b>Aaa</b>
<b>International</b>					
European Investment Bank 2.500% 15/10/2024	5,380,000	5,512,511	5,693,234	9.41	<b>Aaa</b>
International Bank for Reconstruction & Development 0.875% 17/04/2017	5,495,000	5,498,269	5,495,338	9.08	<b>Aaa</b>
			11,188,572	18.49	
<b>United Kingdom</b>					
BAT International Finance Plc 3.250% 07/06/2022	672,000	674,087	713,961	1.18	<b>A3</b>
Diageo Capital Plc 1.125% 29/04/2018	768,000	762,673	766,385	1.27	<b>A3</b>
Reckitt Benckiser Treasury Services Plc 2.125% 21/09/2018	550,000	552,360	552,697	0.91	<b>A1</b>
			2,033,043	3.36	
<b>United States</b>					
Amazon.com Inc 1.200% 29/11/2017	1,100,000	1,100,342	1,101,398	1.82	<b>Baa1</b>
Anheuser-Busch InBev Finance Inc 2.150% 01/02/2019	565,000	569,254	574,575	0.95	<b>A3</b>
Apple Inc 1.000% 03/05/2018	1,100,000	1,096,039	1,098,828	1.81	<b>Aa1</b>
Coca-Cola Co 1.150% 01/04/2018	1,100,000	1,100,197	1,101,163	1.82	<b>Aa3</b>
eBay Inc 1.350% 15/07/2017	1,100,000	1,101,353	1,101,070	1.82	<b>Baa1</b>
International Business Machines Corp 1.250% 08/02/2018	715,000	714,762	716,059	1.18	<b>Aa3</b>
Intel Corp 1.350% 15/12/2017	898,000	901,542	901,045	1.49	<b>A1</b>
Johnson & Johnson 5.150% 15/07/2018	570,000	608,182	611,720	1.01	<b>Aaa</b>
McDonald's Corp 5.350% 01/03/2018	1,071,000	1,129,184	1,131,310	1.87	<b>Baa1</b>
Microsoft Corp 3.000% 01/10/2020	1,071,000	1,128,549	1,138,771	1.88	<b>Aaa</b>
Nestle Holdings Inc 1.375% 24/07/2018	1,100,000	1,101,898	1,104,812	1.83	<b>Aa2</b>
PepsiCo Inc 1.250% 13/08/2017	1,100,000	1,102,752	1,102,959	1.82	<b>A1</b>
Roche Holdings Inc 2.000% 13/03/2020	1,100,000	1,112,700	1,119,210	1.85	<b>A1</b>
SABMiller Holdings Inc 2.200% 01/08/2018	550,000	554,687	557,576	0.92	<b>A3</b>
Unilever Capital Corp 2.100% 30/07/2020	1,215,000	1,240,449	1,247,903	2.06	<b>A1</b>
Wal-Mart Stores Inc 1.950% 15/12/2018	855,000	864,043	870,930	1.44	<b>Aa2</b>

**Portfolio Statement (continued)**

<b>US\$ Income Class Fund (continued)</b> As at 30 September 2016	<b>Nominal holding</b>	<b>Cost USD</b>	<b>Fair Value USD</b>	<b>% of Net Assets</b>	<b>Credit Rating</b>
<b>Transferable Securities Admitted to An Official Stock Exchange Listing or Dealt in on Another Regulated Market (continued)</b>					
<b>Corporate Bonds (continued)</b>					
<b>United States (continued)</b>					
Walt Disney Co 1.850% 30/05/2019	1,102,000	1,113,656	1,121,067	1.85	<b>A2</b>
Wells Fargo & Co 1.500% 16/01/2018	768,000	767,921	769,129	1.27	<b>A2</b>
			17,369,525	28.69	
<b>Total Corporate Bonds</b>			<b>36,498,849</b>	<b>60.30</b>	
<b>Government Bonds</b>					
<b>United States</b>					
United States Treasury Inflation Indexed Bonds 2.375% 15/01/2017	4,176,795	3,835,529	4,213,402	6.96	<b>Aaa</b>
United States Treasury Note/Bond 1.750% 31/12/2020	1,740,000	1,776,444	1,786,673	2.95	<b>Aaa</b>
United States Treasury Note/Bond 1.750% 31/12/2020	1,960,000	1,986,158	2,012,575	3.33	<b>Aaa</b>
United States Treasury Note/Bond 0.875% 30/04/2017	7,487,000	7,488,303	7,501,254	12.39	<b>Aaa</b>
			15,513,904	25.63	
<b>Total Government Bonds</b>			<b>15,513,904</b>	<b>25.63</b>	
<b>Total Investments</b>	<b>55,986,036</b>		<b>56,640,399</b>	<b>93.58</b>	
<b>Total Transferable Securities Admitted to An Official Stock Exchange Listing or Dealt in on Another Regulated Market</b>			<b>56,640,399</b>	<b>93.58</b>	
Total Investments			56,640,399	93.58	
Net current assets			3,884,773	6.42	
<b>Total net assets</b>			<b>60,525,172</b>	<b>100.00</b>	

**Portfolio Statement (continued)**

<b>Sterling Income Class Fund</b> As at 30 September 2016	<b>Nominal holding</b>	<b>Cost GBP</b>	<b>Fair Value GBP</b>	<b>% of Net Assets</b>	<b>Credit Rating</b>
<b>Transferable Securities Admitted to An Official Stock Exchange Listing or Dealt in on Another Regulated Market</b>					
<b>Investment Companies</b>					
<b>Ireland</b>					
Smith & Williamson Short Dated Corporate Bond Fund	372,577	372,094	362,443	8.19	<b>NR</b>
<b>Total Investment Companies</b>			<b>362,443</b>	<b>8.19</b>	
<b>Corporate Bonds</b>					
<b>Belgium</b>					
Anheuser-Busch InBev SA 6.500% 23/06/2017	100,000	103,384	104,030	2.35	<b>A3</b>
<b>Germany</b>					
KFW 1.625% 05/06/2020	375,000	381,807	392,514	8.88	<b>Aaa</b>
<b>International</b>					
European Investment Bank 1.125% 15/12/2016	430,000	279,840	331,228	7.49	<b>Aaa</b>
International Bank for Reconstruction and Development 1.250% 02/10/2017	365,000	366,625	368,194	8.32	<b>Aaa</b>
			699,422	15.81	
<b>Luxembourg</b>					
Nestle Finance International Ltd 2.250% 30/11/2023	100,000	103,027	110,104	2.49	<b>Aa2</b>
<b>Netherlands</b>					
Roche Finance Europe BV 5.375% 29/08/2023	100,000	126,261	129,664	2.93	<b>A1</b>
<b>United Kingdom</b>					
BAT International Finance Plc 1.750% 05/07/2021	100,000	100,953	103,604	2.34	<b>A3</b>
BP Capital Markets Plc 4.325% 10/12/2018	100,000	104,482	107,772	2.44	<b>A2</b>
Experian Finance Plc 4.750% 23/11/2018	100,000	104,837	108,080	2.44	<b>Baa1</b>
GlaxoSmithKline Capital Plc 3.375% 20/12/2027	100,000	104,542	118,937	2.69	<b>A2</b>
Next Plc 5.375% 26/10/2021	100,000	114,461	117,841	2.67	<b>Baa2</b>
Unilever Plc 4.750% 16/06/2017	100,000	102,422	103,014	2.33	<b>A1</b>
Vodafone Group Plc 5.375% 05/12/2017	100,000	103,828	105,299	2.38	<b>Baa1</b>
			764,547	17.29	
<b>United States</b>					
International Business Machines Corp 2.750% 21/12/2020	100,000	104,028	108,545	2.45	<b>Aa3</b>
McDonald's Corp 6.375% 03/02/2020	100,000	114,758	117,822	2.66	<b>Baa1</b>

**Portfolio Statement (continued)**

<b>Sterling Income Class Fund (continued)</b> As at 30 September 2016	<b>Nominal holding</b>	<b>Cost GBP</b>	<b>Fair Value GBP</b>	<b>% of Net Assets</b>	<b>Credit Rating</b>
<b>Transferable Securities Admitted to an Official Stock Exchange Listing or Dealt in on Another Regulated Market (continued)</b>					
<b>Corporate Bonds (continued)</b>					
<b>United States (continued)</b>					
PepsiCo Inc 2.500% 01/11/2022	100,000	96,617	109,067	2.47	<b>A1</b>
			335,434	7.58	
<b>Total Corporate Bonds</b>			<b>2,535,715</b>	<b>57.33</b>	
<b>Government Bonds</b>					
<b>United Kingdom</b>					
United Kingdom Gilt Inflation Linked 2.500% 16/04/2020	100,000	370,104	370,470	8.37	<b>Aa1</b>
United Kingdom Gilt 1.750% 22/01/2017	470,000	471,660	472,303	10.68	<b>Aaa</b>
United Kingdom Gilt 2.000% 22/07/2020	230,000	240,643	245,801	5.56	<b>Aa1</b>
			1,088,574	24.61	
<b>United States</b>					
United States Treasury Note/Bond 1.375% 31/05/2021	185,000	140,683	144,013	3.26	<b>Aaa</b>
<b>Total Government Bonds</b>			<b>1,232,587</b>	<b>27.87</b>	
<b>Total Investments</b>		<b>4,007,056</b>	<b>4,130,745</b>	<b>93.39</b>	
<b>Total Transferable Securities Admitted to an Official Stock Exchange Listing or Dealt in on Another Regulated Market</b>			<b>4,130,745</b>	<b>93.39</b>	
Total Investments			4,130,745	93.39	
Net current assets			292,290	6.61	
<b>Total net assets</b>			<b>4,423,035</b>	<b>100.00</b>	

## Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN pursuant to the Articles of Association of Melville Douglas Income Fund Limited (the "Company") that the Annual General Meeting of the Company will take place on 1 February 2017 at Standard Bank House, 47-49 La Motte Street, St. Helier, Jersey, Channel Islands at 11.00 a.m. for the purpose of considering and, if thought fit, passing the following Resolutions:

### Ordinary resolution

1. That the financial statements for the year ended 30 September 2016 be approved and adopted.
2. That directors fees in the sum of USD30,000 and GBP4,000 for the year ended 30 September 2016 be approved.
3. That PricewaterhouseCoopers Ireland, be reappointed auditors of the Company to hold office until the conclusion of the next general meeting at which the accounts are laid before the Company and that their remuneration be fixed by the directors.

### By order of the board

**STANLIB Fund Managers Jersey Limited**

**Secretary**

**11 January 2017**

### Notes

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote in his stead a proxy need not be a member of the Company.
2. To be valid this proxy form must be completed and deposited at the registered office of the Company not less than 48 hours before the time fixed for the meeting.
3. If the shareholder is a corporation the form must be executed either under its common seal or under the hand of an officer or attorney so authorised.
4. In the case of joint holders, the signature of any one joint holder will be sufficient, but the names of all joint holders should be stated.

**The Secretary  
Melville Douglas Income Fund Limited  
Standard Bank House  
47 – 49 La Motte Street  
St Helier  
JERSEY  
JE2 4SZ**

**Melville Douglas Income Fund Limited (the “Company”)**

*Please complete in  
block capitals*

**Form of Proxy**

I/We .....

*Complete only if  
Special proxy desired.  
(See Note a. below)*

being a holder(s) of.....Participating shares in the capital of the Company hereby  
appoint the Chairman of the Meeting or failing him:

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting  
of the Company to be held on 1 February 2017 at 11:00 a.m. and at any adjournments  
thereof, in the following manner:

*Resolutions  
\*Strike out whatever  
is not desired*

Ordinary Resolution	No. 1	For/Against*
	No. 2	For/Against*
	No. 3	For/Against*

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2016

Signature \_\_\_\_\_

- a. If you desire to appoint a proxy other than indicated above, please delete the appropriate words and insert the name and address of your proxy.
- b. Unless otherwise instructed, the proxy will vote or abstain from voting as he thinks fit in relation to the resolutions referred to above.
- c. To be valid, the proxy must be lodged with the secretary of the Company 48 hours prior to the time of the meeting.
- d. A corporation should complete this form under its common seal or under the hand of a duly authorised officer or attorney.