

**Objective**

To offer a convenient vehicle for investing in an international portfolio of fixed income mutual funds, which are anticipated to provide the best opportunities for income and capital growth.

**Investment Policy**

To invest in a diverse range of top performing offshore fixed income mutual funds as well as a number of top quality individual securities in order to control overall costs.

**Investment Process**

A quantitative analysis of fund performance is undertaken relative to peer groups to ensure the consistency of performance. This is followed with a qualitative analysis to understand the manager's philosophy, process and style.

**Fund Review**

The net asset value (NAV) per share of the Fund decreased from \$15.13 to \$14.84 over the quarter, a decrease of 1.92% while the index climbed 2.43%

The fixed income markets saw a continued flight to quality over the third quarter with 10 year Treasury yields dropping to 3.78%, 5 years to 2.95% and 3 month Treasury yields at less than 1%. The credit markets were so disturbed in the month of September that Treasury Bills – perceived as the least risky asset – were trading at a zero percent yield. This was indicative of a period where investors were more worried about the return of their capital than the return to their capital and gives some sense of the fear the gripped the bond markets.

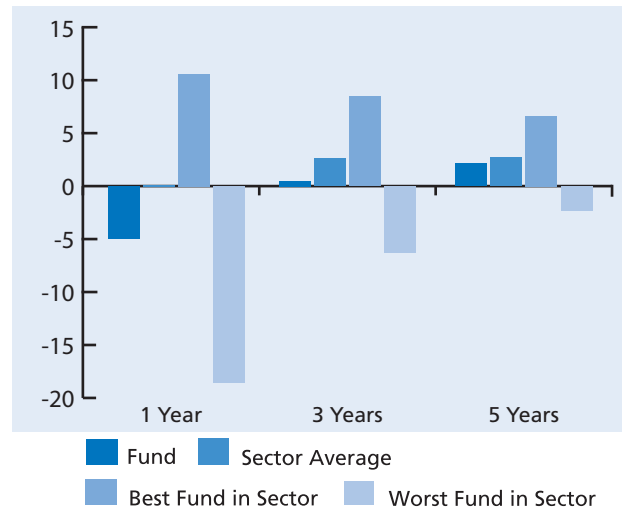
The strong return of Treasuries came at the expensive of lower credit assets with high yield (junk) bond yields widening to near record levels translating to an 8% drop in the Merrill Lynch High Yield Bond Index. Investment grade corporate bonds fared little better losing 6% in value. Emerging market bonds, which had been little affected by recent events up until June, dropped about 4.5%.

Government agency and Mortgage Backed Securities (MBS) had a good quarter as the US Treasury placed both Fannie Mae and Freddie Mac into government control, buying an 80% position in each company. This renewed investor confidence in the debt leading to a strong rally.

Asset Backed Securities (ABS) continued to be shunned by investors. Commercial Mortgage Backed Securities came under pressure this quarter and the Funds' holdings were not immune to market price pressures. However, we remain very confident in the securities we hold, which are performing as expected.

During the quarter we added positions in a Treasury Inflation Protected Security, at what we consider very attractive prices, and added to our corporate bond holdings. We further reduced our exposure to structured products to lower the overall level of risk in the Fund. In current market conditions we consider that investment grade corporate bonds, the highest quality ABS and Government MBS offer the best value and most attractive returns for our shareholders. We are hesitant to invest in Treasuries at their current yields and remain cautious on investing in high yield where we expect a dramatic increase in defaults.

**Comparative Performance**



**Average Annual Compound Returns**

1 Year	3 Years	5 Years	7 Years	10 Years
-4.99%	0.48%	2.17%	3.92%	n/a

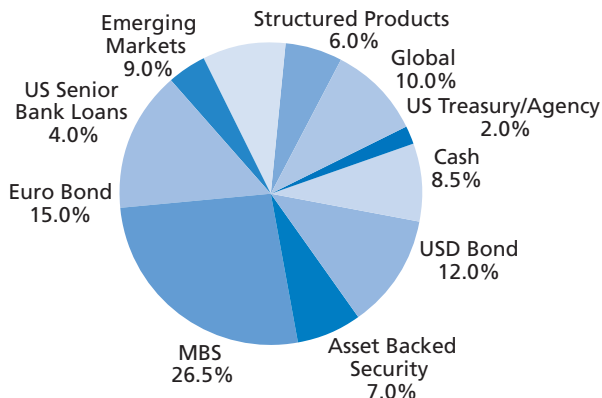
**Asset Breakdown**

- Global**  
PIMCO Total Return
- US Dollar Bond**  
Butterfield Capital Appreciation Bond Fund  
Butterfield USD Bond Fund
- Asset Backed Security**  
HEL - Equity One  
HEL - Residential Asset Mortgage  
HEL - GRMT  
ABS - ARG Funding  
ABS - Hertz
- Euro Bond**  
Vanguard Euro Investment Grade Bond Index
- US Senior Bank Loans**  
CypressTree Leveraged Alternative Income Fund
- Emerging Markets**  
Ashmore Emerging Market Liquid Investment Portfolio
- Structured Products**  
Argent Classic Convertible - Class C
- Liquid Assets**  
Butterfield Money Market Fund  
Butterfield Liquid Reserve Fund
- Mortgage Backed Security**  
Vanguard US MBS Index Fund  
Freddie Mac
- Commercial Mortgage Backed Securities**  
GE Capital  
Wachovia  
JPMorgan Chase  
UBS  
DLJ
- US/Treasury/Agency**  
Fannie Mae  
US Treasury Inflation Protected Security

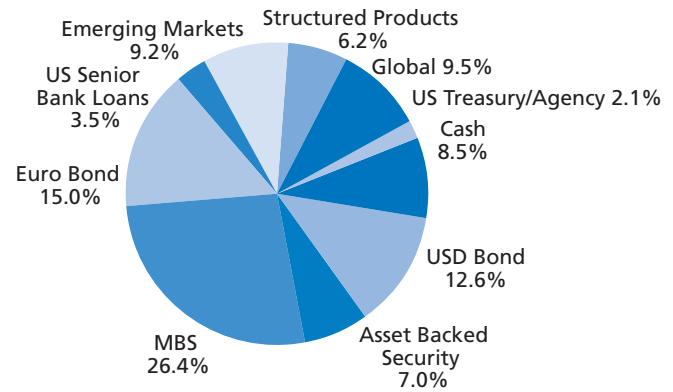
**Benchmark Composition**

80% JP Morgan Govt Bd - Local Currency US  
20% JP Morgan Hedged USA Dollar GBI Ex USA

**Asset Breakdown Target**



**Asset Breakdown Actual**



**General Information**

Currency: USD  
Units Available: Accumulation  
Size of Fund (millions): USD 93.1

Fiscal Year End: September 30<sup>th</sup>  
Min. Investment: USD 10,000  
Valuation: Thursday

Dealings: Friday  
Total Expense Ratio: 1.16%  
NAV per share (30.09.2008): USD 14.84

Front End Fee: None  
Identifier: BUTSLFX BH