



Melville Douglas Income Fund Limited

Annual Report and Audited Financial Statements

Year ended 30 September 2018

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Administration

Directors

Graham Baillie (South African/British)
Michael Farrow* (British)
Helen Holmes (British)
Oliver Sonnichler (South African/Austrian)

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

Melville Douglas Investment
Management (Proprietary) Limited
30 Baker Street
Rosebank
Johannesburg, 2196
South Africa

Custodian

Link Corporate Services (Jersey) Limited¹
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
One Dockland Central, 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

* Independent Non-Executive Director.

¹ Please see Note 11.

Report of the Directors

The directors submit their annual audited report and financial statements for the year 30 September 2018.

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 holds a fund certificate issued pursuant to the Collective Investment Funds (Jersey) Law 1988 and is 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. As at 30 September 2018 there are two Class Funds (the US Dollar 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 objective of the Class Funds is to provide a return in excess of its benchmark in US Dollars and Sterling respectively, whilst seeking to maintain a high degree of capital preservation, by investing primarily in quality global fixed interest securities, and, where in the opinion of the Investment Manager, direct investment in fixed interest securities will not achieve sufficient diversification to achieve the Class Fund's objective, in other collective investment schemes, money market instruments and cash that will maximise total returns in Base Currency. For the avoidance of doubt the Class Fund may also invest in collective investment schemes investing in real estate (including buildings) or interests in real estate (including options or rights in respect of real estate) and make other investments which are not prohibited by the investment restrictions set out in the prospectus.

Results and dividends

The Company currently 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 during the year and subsequently 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)

Registered Offices

The registered office is as disclosed on page 3.

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 "UK GAAP"), including Financial Reporting Standard ("FRS") 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102").

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 profit and loss of the Company for that year. In preparing those financial statements, the directors should:

- 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 presume that the Company will continue in operation.

The directors confirm that they have complied with all 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Connected Persons

The directors are satisfied that there are arrangements in place to ensure that transactions with connected persons entered into during the year were carried out as if negotiated at arm's length and were in the best interests of shareholders.

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 forms part of these financial statements.

Secretary

The Secretary of the Company during the year ended 30 September 2018 and subsequently was STANLIB Fund Managers Jersey Limited.

By order of the board
STANLIB Fund Managers Jersey Limited

Company Secretary
9 January 2019

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 Link Corporate Services (Jersey) Limited in respect of the year ended 30 September 2018 that to the best of our information, knowledge and belief, that in all material respects, the Manager managed the Class Funds in that year:

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

Link Corporate Services (Jersey) Limited
Custodian
9 January 2019

Investment Manager's Report

For the year ended 30 September 2018.

US Dollar Income Class (the "Class Fund")

Fund Review

The objective of the Class Fund is to provide a return in excess of its benchmark in US Dollars, whilst seeking to maintain a high degree of capital preservation, by investing primarily in quality global fixed interest securities, and, where in the opinion of the Investment Manager, direct investment in fixed interest securities will not achieve sufficient diversification to achieve the Class Fund's objective, in other collective schemes, money market instruments and cash that will maximise total returns in US Dollars.

The Fund's performance for the rolling twelve-month period under review was -1.44% versus the Fund's benchmark return of -1.22%.

Market Overview

One of the main features over the past twelve-months has been the de-synchronisation of global economic growth conditions. On aggregate, the global economy remains sufficiently healthy for major central banks to continue to step away from the ultra-easy monetary conditions that have dominated since the credit crisis. However, it is clear that the US economy continues to lead the pack with a widening 'growth' margin over and above most of its developed market peers, particularly the Eurozone, as US consumers continue to benefit from both a robust employment market and the positive effects of the Trump administration's tax cuts. A stronger US Dollar, tighter liquidity conditions and uncertainty over the outcome of ongoing trade talks are likely to create barriers for the ongoing rally in risk assets in the months ahead but we are not convinced that global government bond yields will fall sharply if this comes to fruition given the ongoing interest rate normalisation process. In the Eurozone, we attribute the recent deceleration in growth conditions to the lagged effects of a strong Euro in 2017 and negative sentiment from trade war talks. However, overall conditions remain healthy, and sufficiently so for the European Central Bank (ECB) to halt quantitative easing at the end of the year with the view to start raising interest rates at some stage in 2019. The Bank of England have raised interest rates twice to 0.75% during the period under review but we see little economic evidence that warrants another hike until well into 2019, particularly as the twists and turns of BREXIT continue to weigh on sentiment.

Ultimately, most major global central banks continue to step away from the ultra-easy monetary policies of the 'post-crisis' years, albeit at varying degrees. As monetary policies normalise, so should bond markets and whilst yields have already started to rise, particularly in the US, we still believe they remain too low – we remain cautious.

Looking Ahead

Economic growth in the US remains above trend and many indicators suggest the economic expansion, whilst mature, still has room to run. Second quarter Gross Domestic Product at 4.2% can only be described as robust and although the pace will moderate in the third and fourth quarters, we still expect full year growth in the region of 3%. Inflation at target and a strong employment market, notably with wage increases now at levels last seen at the end of the recession in 2009, have proved sufficient enough for the US Federal Reserve to maintain their tightening cycle. Interest rates were raised for a third time this year in late September to 2.25% and we concur with 12 of the 16 Fed officials who expect another hike in December. Geo-political noise, trade war spats and weakness in emerging markets were enough to keep a ceiling on US government bond yields for much of the third quarter, however, ten-year yields breached 3% again in September and we expect further normalisation in the coming months. Given our ongoing bearish outlook for the fixed income market and with almost no extra yield compensation for assuming more duration risk, our only conclusion can be to keep the Fund defensively positioned until yields reach levels that appear attractive from a long-term perspective.

The Fund has retained its overweight US Dollar strategy throughout the period with a 100% weighting. The currency has recovered strongly from its lows in February and in broad value terms, is now higher by over 3% year-to-date. Favourable growth, interest rate and yield differentials continue to provide support for the currency although the longer-term negative ramifications of President Trump's tax cuts and fiscal spending plans cannot be ignored. Over the short-term, the uncertain outcome of ongoing trade war negotiations should continue to lend support to the US Dollar which appears to have regained its safe haven status. In addition, as the Federal Reserve push on with their interest rate hikes at a quarterly pace, Sterling and the Euro remain very far down the list for those seeking positive risk free rates of return. We continue to monitor the US Dollar closely and when we consider it appropriate, may allocate to the Euro as a longer-term investment although we remain mindful of low to negative yield returns on Euro denominated debt.

Investment Manager's Report (continued)

For the year ended 30 September 2018.

US Dollar Income Class (the "Class Fund")

Looking Ahead (continued)

The Fund's strategy remains committed to limiting downside in an environment where we forecast further yield normalisation. The duration strategy remains appropriately defensive but we are mindful that US government bond yields have been rising since mid-2016 and may soon be approaching levels that look attractive from a long-term perspective. Our intention remains to gradually increase the maturity profile of the Fund as yields rise towards more attractive levels.

Sterling Income Class (the "Class Fund")

Fund Review

The objective of the Class Fund is to provide a return in excess of its benchmark in Sterling, whilst seeking to maintain a high degree of capital preservation, by investing primarily in quality global fixed interest securities, and, where in the opinion of the Investment Manager, direct investment in fixed interest securities will not achieve sufficient diversification to achieve the Class Fund's objective, in other collective schemes, money market instruments and cash that will maximise total returns in Sterling.

The Fund's performance for the rolling twelve-month period under review was -0.93% versus the Fund's benchmark return of -0.05%.

Market Overview

One of the main features over the past twelve-months has been the de-synchronisation of global economic growth conditions. On aggregate, the global economy remains sufficiently healthy for major central banks to continue to step away from the ultra-easy monetary conditions that have dominated since the credit crisis. However, it is clear that the US economy continues to lead the pack with a widening 'growth' margin over and above most of its developed market peers, particularly the Eurozone, as US consumers continue to benefit from both a robust employment market and the positive effects of the Trump administration's tax cuts. A stronger US Dollar, tighter liquidity conditions and uncertainty over the outcome of ongoing trade talks are likely to create barriers for the ongoing rally in risk assets in the months ahead but we are not convinced that global government bond yields will fall sharply if this comes to fruition given the ongoing interest rate normalisation process. In the Eurozone, we attribute the recent deceleration in growth conditions to the lagged effects of a strong Euro in 2017 and negative sentiment from trade war talks. However, overall conditions remain healthy, and sufficiently so for the European Central Bank (ECB) to halt quantitative easing at the end of the year with the view to start raising interest rates at some stage in 2019. The Bank of England have raised interest rates twice to 0.75% during the period under review but we see little economic evidence that warrants another hike until well into 2019, particularly as the twists and turns of BREXIT continue to weigh on sentiment.

Ultimately, most major global central banks continue to step away from the ultra-easy monetary policies of the 'post-crisis' years, albeit at varying degrees. As monetary policies normalise, so should bond markets and whilst yields have already started to rise, particularly in the US, we still believe they remain too low – we remain cautious.

Looking Ahead

As widely anticipated, the Bank of England raised interest rates by 0.25% to 0.75% in August, but we believe that savers waiting for the next tightening will have to be patient, potentially well into 2019. More recently, some UK economic indicators have beaten expectations but overall growth conditions remain sanguine, particularly when compared to peers. BREXIT news flow is both relentless and unpredictable and therefore acting as a barrier to new investment – at least until a definitive outcome can be pinpointed. Despite this uncertainty, ten-year UK government bond yields have risen over the past twelve months but we put this down to two key factors. Firstly, the market had discounted perhaps too much negative news when the yield dipped to 1.15% in December last year. Secondly, although at different levels, UK bond yields remain correlated to the direction of US government bond yields and when the tide rises in the US, it is powerful enough to take others with it.

Whilst the Fund remains biased to base currency, we still consider it prudent to maintain an element of foreign currency exposure. Unsurprisingly, August's 0.25% hike in interest rates had minimal positive impact on Sterling as the future pace of tightening remains very uncertain. Many other key economic indicators are not suggestive of higher interest rates and 'real' inflation adjusted rates are likely to stay deeply negative for the foreseeable future. As mentioned above, BREXIT remains a constant source of uncertainty and we see little merit in attempting to second guess the myriad of possible outcomes.

Investment Manager's Report (continued)

For the year ended 30 September 2018.

Sterling Income Class (the "Class Fund") (continued)

Looking Ahead (continued)

The Fund's strategy remains committed to limiting downside in an environment where we forecast further yield normalisation. The duration strategy remains appropriately defensive but we are mindful that US government bond yields have been rising since mid-2016 and may soon be approaching levels that look attractive from a long-term perspective. Our intention remains to gradually increase the maturity profile of the Fund as yields rise towards more attractive levels.

Melville Douglas Investment Management (Proprietary) Limited
Investment Manager
9 November 2018

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

Report on the financial statements

Opinion

In our opinion, Melville Douglas Select 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 September 2018; the Statement of Comprehensive Income, and the Statement of Changes in Net Assets Attributable to Holders of Redeemable Shares; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Irish Auditing and Accounting Supervisory Authority website at: https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies (Jersey) Law 1991 exception reporting

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
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

**For and on behalf of PricewaterhouseCoopers
Chartered Accountants
Dublin
9 January 2019**

Statement of Financial Position

As at 30 September 2018
(Comparatives as at 30 September 2017)

	Notes	US Dollar Income Class 30 September 2018 USD	US Dollar Income Class 30 September 2017 USD	Sterling Income Class 30 September 2018 GBP	Sterling Income Class 30 September 2017 GBP
Assets					
Financial assets at fair value through profit or loss	2(b), 8.4	50,052,025	55,430,326	4,285,984	3,742,634
Cash and cash equivalents	2(c)	1,048,954	367,781	296,756	205,984
Receivable for shares sold	2(f)	–	33,120	125,000	–
Income receivable	2(d)	255,404	261,602	34,845	39,193
Receivable for investments sold		–	1,200,395	–	–
Total assets		<u>51,356,383</u>	<u>57,293,224</u>	<u>4,742,585</u>	<u>3,987,811</u>
Liabilities					
Payable for shares redeemed	2(f)	401,909	1,136,873	–	–
Management fees payable	2(g)	29,853	36,456	2,438	2,546
Administration fees payable	2(g)	5,875	6,836	533	477
Custodian fees payable	2(g)	1,370	1,544	240	249
Sub-Custodian fees payable	2(g)	482	3,078	70	187
Director fees payable	2(g)	8,372	8,464	610	553
Audit fees payable	2(g)	7,528	6,065	552	2,068
Other payables		5,649	5,611	483	384
Total liabilities		<u>461,038</u>	<u>1,204,927</u>	<u>4,926</u>	<u>6,464</u>
Net assets attributable to holders of redeemable shares					
		<u>50,895,345</u>	<u>56,088,297</u>	<u>4,737,659</u>	<u>3,981,347</u>
Net asset value per share					
Class A Shares		<u>162.82</u>	<u>165.20</u>	<u>117.91</u>	<u>119.01</u>
Class B Shares**		<u>10.00</u>	<u>–</u>	<u>–</u>	<u>–</u>
Class X Shares*		<u>9.93</u>	<u>–</u>	<u>9.95</u>	<u>–</u>

*On 17 October 2017, the US Dollar Income Class Fund – Class X Shares launched and on 28 August 2018, Sterling Income Class Fund – Class X Shares launched.

**On 1 March 2018, the Class B Shares launched.

The financial statements were approved by the Board on 9 January 2019 and signed on its behalf by.

Director

The notes on pages 15 to 26 form an integral part of these financial statements.

Statement of Comprehensive Income

For the year 1 October 2017 to 30 September 2018.

(Comparatives are for the year 1 October 2016 to 30 September 2017)

	Notes	US Dollar Income Class 30 September 2018 USD	US Dollar Income Class 30 September 2017 USD	Sterling Income Class 30 September 2018 GBP	Sterling Income Class 30 September 2017 GBP
Income					
Dividend income	2(d)	181,171	148,701	11,110	10,584
Interest income	2(d)	764,614	1,118,206	44,155	53,479
Deposit interest	2(d)	1,583	182	18	1
Other income		–	–	1,359	–
Net loss on financial assets at fair value through profit or loss	2(h), 3	(1,149,682)	(1,006,787)	(51,074)	(76,471)
Total net gain/(loss)		(202,314)	260,302)	5,568)	(12,407)
Expenses					
Management fees	2(g)	411,705	240,481	31,431	16,720
Custodian fees	2(g)	18,283	19,736	3,119	3,119
Sub-Custodian fees	2(g)	3,335	10,320	575	1,304
Administration fees	2(g)	79,182	88,446	5,988	6,147
Directors' fees	2(g)	33,367	26,087	2,432	7,899
Audit fees	2(g)	7,528	5,833	552	1,719
Sundry expenses		22,657	17,498	1,827	3,491
Total operating expenses		576,057	408,401	45,924	40,399
Net expense before finance costs		(778,371)	(148,099)	(40,356))	(52,806)
Finance Costs:					
Bank Interest		–	–	(828)	(39)
Total Finance Costs		–	–	(828)	(39)
Taxation	2(i), 5	–	–	–	441
Decrease in net assets attributable to holders of redeemable shares from operations		(778,371)	(148,099)	(41,184))	(52,404)

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 15 to 26 form an integral part of these financial statements.

Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares

For the year 1 October 2017 to 30 September 2018

(Comparatives are for the year 1 October 2016 to 30 September 2017).

		US Dollar Income Class 30 September 2018 USD	US Dollar Income Class 30 September 2017 USD	Sterling Income Class 30 September 2018 GBP	Sterling Income Class 30 September 2017 GBP
	Notes				
Net assets attributable to holders of redeemable shares at the beginning of the year		56,088,297	60,525,172	3,981,347	4,423,035
Proceeds from the issue of shares	6	10,162,633	15,607,479	905,789	1,343,608
Payments on the redemption of shares	6	(14,577,214)	(19,896,255)	(108,293)	(1,732,892)
Decrease in net assets attributable to holders of redeemable shares from investment activities		<u>(778,371)</u>	<u>(148,099)</u>	<u>(41,184)</u>	<u>(52,404)</u>
Net assets attributable to holders of redeemable shares at the end of the year		<u>50,895,345</u>	<u>56,088,297</u>	<u>4,737,659</u>	<u>3,981,347</u>

The notes on pages 15 to 26 form an integral part of these financial statements.

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 the years presented unless otherwise stated. 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 applicable Jersey Law and United Kingdom Generally Accepted Accounting Practice ("UK GAAP") including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102"). The Company is an open-ended investment company incorporated by way of a continuance in Jersey on 31 March 2003 under the provisions of the Companies (Jersey) Law 1991 as Melville Douglas European Fund Limited and holds a fund certificate issued pursuant to the Collective Investment Funds (Jersey) Law 1988 and 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 2018 have been prepared in accordance with FRS 102 as issued by the Financial Reporting Council ("FRC").

The Directors of the Company have applied FRS 102 for its annual and FRS 104 "Interim Financial Reporting" for its unaudited interim financial statements effective 1 October 2014. The Company has also applied "Amendments to FRS 102 - Fair value hierarchy disclosures" which were issued in March 2016 and are applicable for accounting periods beginning on or after 1 January 2018 with early application permitted. The Company took the option to early adopt the amendments and initially implemented these amendments in the interim period ended 31 March 2016.

The information required by FRS 102, to be included in a single statement for the reporting period displaying all items of income and expenses recognised during the period including those items recognised in determining profit or loss and items of other comprehensive income and a 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 Net Assets Attributable to Holders of Redeemable Shares on pages 14. In arriving at the results for the period, all amounts in the Statement of Comprehensive Income on page 13 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 Statements of Changes in Net Assets Attributable to Holders of Redeemable Shares.

b. Investments

Investments are recognised on the Statements 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. Subsequent to initial recognition, bonds held are valued at closing mid-market price. Funds held are valued at Net Asset Value per unit apart from Exchange Traded Funds held which are valued at exchange price. 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 Statements 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 Financial Statements (continued)

2. Accounting Policies (continued)

c. Cash and cash equivalents

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 Funds instant access to their accounts.

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 Statements of Comprehensive Income. Interest on deposit accounts is included on an accruals basis. Deposit interest and overdraft interest for the year is reported in the Statement of Comprehensive Income.

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 Dollar Income Class and Sterling for the Sterling Income Class.

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.

Receivable for shares sold and payable for shares redeemed represent amounts that have been contracted for but not yet settled or delivered on the Statement of Financial Position date.

g. Expenses

The Company is responsible for the payment of management, custodian, sub-custodian, performance 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 Statements 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 Statements of Comprehensive Income.

j. Distribution policy

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

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

	US Dollar Income Class 30 September 2018 USD	US Dollar Income Class 30 September 2017 USD	Sterling Income Class 30 September 2018 GBP	Sterling Income Class 30 September 2017 GBP
Non-derivative securities:				
Net realised gain/(loss) on investments	(31,699)	(23,065)	146	75,424
Net movement in unrealised investment schemes	<u>(1,117,983)</u>	<u>(983,722)</u>	<u>(51,253)</u>	<u>(152,113)</u>
	<u>(1,149,682)</u>	<u>(1,006,787)</u>	<u>(51,107)</u>	<u>(76,689)</u>
Derivative securities:				
Net movement in unrealised foreign currency	<u>-</u>	<u>-</u>	<u>33</u>	<u>218</u>
	<u>-</u>	<u>-</u>	<u>33</u>	<u>218</u>
Net loss on financial assets at fair value through profit or loss	<u>(1,149,682)</u>	<u>(1,006,787)</u>	<u>(51,074)</u>	<u>(76,471)</u>

4. Investment Purchases, Investment Sales and Commissions

US Dollar Income Class	30 September 2018 USD	30 September 2017 USD
Gross purchases in year including transaction costs	8,443,577	32,325,109
Commissions	<u>(450)</u>	<u>(2,250)</u>
Net purchases total	<u>8,443,127</u>	<u>32,322,859</u>
Gross sales in year including transaction costs	13,792,935	32,767,310
Commissions	<u>(600)</u>	<u>(800)</u>
Net sales total	<u>13,792,335</u>	<u>32,766,510</u>
Sterling Income Class	30 September 2018 GBP	30 September 2017 GBP
Gross purchases in year including transaction costs	1,091,988	1,778,125
Commissions	<u>(422)</u>	<u>(520)</u>
Net purchases total	<u>1,091,566</u>	<u>1,777,605</u>
Gross sales in year including transaction costs	464,999	2,054,953
Commissions	<u>-</u>	<u>(595)</u>
Net sales total	<u>464,999</u>	<u>2,054,358</u>

Notes to the Financial Statements (continued)

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.

US Dollar Income Class	30 September 2018 USD	30 September 2017 USD
Overseas tax – withholding tax on dividend income	–	–

Sterling Income Class	30 September 2018 GBP	30 September 2017 GBP
Overseas tax – withholding tax on dividend income	–	441

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 Companies (Jersey) Law 1991 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/her. 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:

	30 September 2018 USD	30 September 2017 USD
Current account		
Management shares of USD1,00 each	100	100
Authorised, issued and fully paid	100	100

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

Notes to the Financial Statements (continued)**6. Share capital (continued)****Movements of participating shares**

The following table shows the movement in participating shares during the year ended 30 September 2018.

	Number of shares at 30 September 2017	Issued during the year	Redeemed during the year	Number of shares at 30 September 2018
US Dollar Income Class – Class A Shares	339,521	47,153	(89,186))	297,488
US Dollar Income Class – Class B Shares**	–	3,329	–	3,329
US Dollar Income Class – Class X Shares*	–	244,024	–	244,024
Sterling Income Class – Class A Shares	33,453	1,066	(922)	33,597
Sterling Income Class – Class X Shares***	–	78,041	–	78,041

*On 17 October 2017, the Class X Shares launched.

**On 1 March 2018, the Class B Shares launched.

***On 28 August 2018, the Class X Shares launched.

The following table shows the movement in participating shares during the year ended 30 September 2017.

	Number of shares at 30 September 2016	Issued during the year	Redeemed during the year	Number of shares at 30 September 2017
US Dollar Income Class – Class A Shares	365,634	94,774	(120,887)	339,521
Sterling Income Class – Class A Shares	36,678	11,165	(14,390)	33,453

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”), Melville Douglas Investment Management (Proprietary) 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 0.80% of the net asset value of each Class A shares and 1.1% for the Class B shares. There is no management fee charged in respect of the Class X Shares. 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%

Notes to the Financial Statements (continued)

7. Related Party Transactions and Other Expenses (continued)

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 GBP5,000 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 Dollar Income Class directors fees incurred during the year ended 30 September 2018 amounted to USD33,367 (30 September 2017: USD26,087) with USD8,372 (30 September 2017: USD8,464) outstanding at the year end.

For the Sterling Income Class directors fees incurred during the year ended 30 September 2018 amounted to GBP2,432 (30 September 2017: GBP7,899) with GBP610 (30 September 2017: GBP553) 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 2018 and 30 September 2017 are as disclosed in the Statements of Comprehensive Income with the amounts outstanding at the year end disclosed in the Statements of Financial Position

8. Financial risk management

Consistent with the investment objectives, as noted in the Report of the Directors, the Company’s financial instruments comprise fixed and variable interest securities, equities and money market instruments. In addition, the Company holds cash, 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. 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):

	30 September 2018 USD	30 September 2017 USD
US Dollar Income Class	2,502,601	2,771,516
Sterling Income Class	214,299	187,132

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

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

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.

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 2018 is detailed in the Portfolio Statements (unaudited).

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:

30 September 2018 Programme	Fixed rate financial assets weighted average interest rate	Fixed rate financial assets weighted average period for which rate is fixed
US Dollar Income Class	1.83%	3 years 8 months

30 September 2018 Programme	Fixed rate financial assets weighted average interest rate	Fixed rate financial assets weighted average period for which rate is fixed
US Dollar Income Class	1.77%	3 years 7 months

30 September 2018 Programme	Fixed rate financial assets weighted average interest rate	Fixed rate financial assets weighted average period for which rate is fixed
Sterling Income Class	2.26%	3 years 5 months

30 September 2017 Programme	Fixed rate financial assets weighted average interest rate	Fixed rate financial assets weighted average period for which rate is fixed
Sterling Income Class	2.46%	3 years 5 months

US Dollar Income Class 30 September 2018	Fixed rate financial assets	Floating rate financial assets	Net assets not carrying interest	Total
USD	45,216,533	–	5,678,812	56,088,297
	45,216,533	–	5,678,812	56,088,297

Notes to the Financial Statements (continued)**8. Financial risk management (continued)****8.1. Market risk (continued)****Interest rate risk (continued)****US Dollar Income Class
30 September 2017**

	Fixed rate financial assets	Floating rate financial assets	Net assets not carrying interest	Total
USD	50,622,089	–	5,466,208	56,088,297
	<u>50,622,089</u>	<u>–</u>	<u>5,466,208</u>	<u>56,088,297</u>

**Sterling Income Class
30 September 2018**

	Fixed rate financial assets	Floating rate financial assets	Net assets not carrying interest	Total
GBP	3,806,298	–	931,361	4,737,659
	<u>3,806,298</u>	<u>–</u>	<u>931,361</u>	<u>4,737,659</u>

**Sterling Income Class
30 September 2017**

	Fixed rate financial assets	Floating rate financial assets	Net assets not carrying interest	Total
GBP	3,382,046	–	599,301	3,981,347
	<u>3,382,046</u>	<u>–</u>	<u>599,301</u>	<u>3,981,347</u>

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. 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 2018 and year ended 30 September 2017.

US Dollar Income Class

Exposure currency 30 September 2018	Investments USD	Cash USD	Other net Assets USD	Total net Assets USD	% of net assets
USD	50,052,025	1,048,954	(205,634)	50,895,345	100.00
	<u>50,052,025</u>	<u>1,048,954</u>	<u>(205,634)</u>	<u>50,895,345</u>	<u>100.00</u>

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

Currency risk (continued)

US Dollar Income Class

Exposure currency 30 September 2017	Investments USD	Cash USD	Other net Assets USD	Total net Assets USD	% of net assets
USD	55,430,3265	367,781	290,190	56,088,2975	100.00
	<u>55,430,326</u>	<u>367,781</u>	<u>290,190</u>	<u>56,088,297</u>	<u>100.00</u>

Sterling Income Class

Exposure currency 30 September 2018	Investments GBP	Cash GBP	Other net assets GBP	Total net assets GBP	% of net assets
EUR	–	170,429	–	170,429	3.60
GBP	3,910,288	104,812	153,878	4,168,978	88.00
USD	375,696	21,515	1,041	398,252	8.40
	<u>4,285,984</u>	<u>296,756</u>	<u>154,919</u>	<u>4,737,659</u>	<u>100.00</u>

Sterling Income Class

Exposure currency 30 September 2017	Investments GBP	Cash GBP	Other net assets GBP	Total net assets GBP	% of net assets
EUR	–	136,315	–	136,315	3.42
GBP	3,420,136	55,968	31,848	3,507,952	88.11
USD	322,498	13,701	881	337,080	8.47
	<u>3,742,634</u>	<u>205,984</u>	<u>32,729</u>	<u>3,981,347</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 (5% is considered to be a reasonable possible change in foreign currency rates). US Dollar Income Class has no foreign currency exposure for year ended 30 September 2018 and year ended 30 September 2017.

Sterling Income Class		Change in net assets 30 September 2018 GBP	Change in net assets 30 September 2017 GBP
EUR	+/-5%	8,521	6,816
USD	+/-5%	19,913	16,854

Notes to the Financial Statements (continued)

8. Financial risk management (continued)

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. Full details regarding the investment restrictions can be obtained from the prospectus.

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. 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.

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

The Custodian, Link Corporate Services (Jersey) Limited is not rated with Standard & Poor's, Moody's and Fitch.

For the year ended 30 September 2018 the Sub-Custodian and Banker, The Bank of New York Mellon SA/NV London Branch has a credit rating of AA- (2017 : AA-) with Standard & Poor's, Aa2 (2017 : Aa1) with Moody's and AA- (2017 : AA-) with Fitch.

8.4. Fair value hierarchy

The FRC 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 proposed 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 classifications. The Company has availed of early adoption thus the financial statements and comparatives have been prepared in accordance with these amendments and fair value measurement is categorised based on Levels 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 or in the case of fund of funds are based on the net asset value per unit.

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.

The following tables analyse within the fair value hierarchy the Companies financial assets measured at fair value at 30 September 2018 and 30 September 2017 in accordance with FRS 102.

30 September 2018

US Dollar Income Class	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Investment Companies	4,835,492	–	–	4,835,492
Corporate Bonds	–	24,045,767	–	24,045,767
Government Bonds	–	21,170,766	–	21,170,766
Total Assets	4,835,492	45,216,538	–	50,052,025

30 September 2017

US Dollar Income Class	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Investment Companies	4,808,237	–	–	4,808,237
Corporate Bonds	–	30,995,875	–	30,995,875
Government Bonds	–	19,626,214	–	19,626,214
Total Assets	4,808,237	50,622,089	–	55,430,326

30 September 2018

Sterling Income Class	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Investment Companies	479,686	–	–	479,686
Corporate Bonds	–	2,390,290	–	2,390,290
Government Bonds	–	1,416,008	–	1,416,008
Total Assets	479,686	3,806,298	–	4,285,984

30 September 2017

	Level 1 GBP	Level 2 GBP	Level 3 GBP	Total GBP
Sterling Income Class				
Investment Companies	360,588	–	–	360,588
Corporate Bonds	–	2,208,200	–	2,208,200
Government Bonds	–	1,173,846	–	1,173,846
Total Assets	360,588	3,382,046	–	3,742,634

Notes to the Financial Statements (continued)**9. Exchange rates**

The following exchange rates at 30 September 2018 and 30 September 2017 were used to translate foreign currency assets and liabilities.

US Dollar Income Class

	30 September 2018	30 September 2017
USD/EUR	0.86093	0.84590
USD/GBP	0.76684	0.74535

Sterling Income Class Fund

	30 September 2018	30 September 2017
GBP/EUR	1.12270	1.13490
GBP/USD	1.30405	1.34165

10. Valuation Date

The financial statements have been prepared on the last Net Asset Value of the year which has been calculated on 28 September 2018 with a price of that date.

11. Significant events during the period

On 17 October 2017, the Class X Shares launched on the US Dollar Income Class.

Capita Trust Company (Jersey) Limited was acquired by the Link Administration Holdings Limited on 6 November 2017 and has been renamed Link Corporate Services (Jersey) Limited.

On 1 March 2018, the Class B Shares launched on the US Dollar Income Class.

Effective 1 July 2018, an updated Prospectus was issued.

On 28 August 2018, the Class X Shares launched on the Sterling Income Class.

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

12. Post statement of financial position events

An updated Prospectus was issued on 29 November 2018 .

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

13. Approval of financial statements

The financial statements were approved by the Directors on 9 January 2019.

Fund Statistics (Unaudited)

US Dollar Income Class Class A Shares	Net asset value USD	Net asset value per share USD	% change in year**	Number of shares in issue	Highest* Price USD	Lowest* Price USD
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
30 September 2017	56,088,297	165.20	(0.20)	339,521	166.54	163.13
30 September 2018	48,438,116	162.82	(1.44)	297,488	165.41	161.64

US Dollar Income Class Class B Shares	Net asset value USD	Net asset value per share USD	% change in period	Number of shares in issue	Highest* Price USD	Lowest* Price USD
At launch (1 March 2018)	16,698	10.00	–	1,667	–	–
30 September 2018	33,287	10.00	–	3,329	10.05	9.94

US Dollar Income Class Class X Shares	Net asset value USD	Net asset value per share USD	% change in period	Number of shares in issue	Highest Price* USD	Lowest Price* USD
At launch (17 October 2017)	19,991	10.02	–	2,000	–	–
30 September 2018	2,423,942	9.93	(0.67)	244,024	10.01	9.83

Sterling Income Class Class A Shares	Net asset value GBP	Net asset value per share GBP	% change in period	Number of shares in issue	Highest* Price GBP	Lowest* Price GBP
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
30 September 2017	3,981,347	119.01	(1.31)	33,453	121.01	118.94
30 September 2018	3,961,270	117.91	(0.92)	33,597	119.55	116.70

*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.

Sterling Income Class Class X Shares	Net asset value USD	Net asset value per share USD	% change in period	Number of shares in issue	Highest Price* USD	Lowest Price* USD
At launch (28 August 2018)	654,322	10.00	–	65,460	–	–
30 September 2018	776,389	9.95	(0.50)	78,041	10.00	9.92

*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.

**Performance figures are based on the net asset value for financial reporting. This differs from the performance figures disclosed in the Investment Manager’s Report, which are based on the net asset value for shareholders dealing.

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.

	30 September 2018	31 March 2017
US Dollar Income Class Fund – Class A Shares	1.11%	0.69%
US Dollar Income Class Fund – Class B Shares**	1.42%	–
US Dollar Income Class Fund – Class X Shares*	0.32%	–
Sterling Income Class Fund – Class A Shares	1.16%	0.99%
Sterling Income Class Fund – Class X Shares***	0.34%	–

*On 17 October 2017, the Class X Shares launched.

**On 1 March 2018, the Class B Shares launched.

***On 28 August 2018, the Class X Shares launched.

TER percentages are annualised.

Portfolio Statement

US Dollar Income Class

As at 30 September 2018

	Nominal holding	Cost USD	Fair Value USD	% of Net Assets	Credit Rating
Transferable Securities Admitted to an Official Stock Exchange Listing or Dealt in on another Regulated Market					
Investment Companies					
Ireland					
Smith & Williamson Short Dated Corporate Bond Fund	5,481,796	5,121,188	4,835,492	9.50	NR
Total Investment Companies			4,835,492	9.50	
Corporate Bonds					
Germany					
Kreditanstalt fuer Wiederaufbau 1.000% 15/07/2019	5,480,000	5,470,105	5,411,908	10.63	Aaa
International					
European Investment Bank 2.500% 15/10/2024	5,000,000	5,106,719	4,823,930	9.48	Aaa
International Bank for Reconstruction & Development 1.875% 07/10/2019	2,900,000	2,913,198	2,874,783	5.65	Aaa
International Bank for Reconstruction & Development 1.375% 20/09/2021	1,100,000	1,080,875	1,050,842	2.06	Aaa
			8,749,555	17.19	Aaa
United Kingdom					
BAT International Finance Plc 'REGS' 3.250% 07/06/2022	862,000	865,848	842,237	1.65	Baa2
United States					
Apple Inc 2.850% 06/05/2021	1,150,000	1,147,659	11,144,769	2.25	Aa1
Microsoft Corp 3.000% 01/10/2020	1,111,000	1,141,512	1,115,278	2.19	Aaa
Nestle Holdings Inc 'EMTN' 3.125% 22/03/2023	1,200,000	1,196,552	1,189,572	2.34	Aa2
PepsiCo Inc 1.550% 02/05/2019	1,200,000	1,201,062	1,191,181	2.34	A1
Roche Holdings Inc 'EMTN' 2.000% 13/03/2020	1,240,000	1,245,690	1,225,018	2.41	Aa3
Unilever Capital Corp 2.100% 30/07/2020	1,215,000	1,227,375	1,186,625	2.33	A1
Walmart Inc 1.950% 15/12/2018	855,000	855,865	853,720	1.68	Aa2
Walt Disney Co/The 'GMTN' 1.850% 30/05/2019	1,142,000	1,145,088	1,135,904	2.23	A2
			9,042,067	17.77	
Total Corporate Bonds			24,045,767	47.24	
Government Bonds					
United States					
United States Treasury Inflation Indexed Bonds 0.125% 15/04/2021	5,369,564	5,193,913	5,260,442	10.34	Aaa
United States Treasury Note/Bond 2.250% 15/02/2027	8,060,000	8,060,000	7,590,424	14.91	Aaa

Portfolio Statement (Unaudited) (continued)**US Dollar Income Class (continued)**

As at 30 September 2018

	Nominal holding	Cost GBP	Fair Value GBP	% of Net Assets	Credit Rating
Transferable Securities Admitted to an Official Stock Exchange Listing or Dealt in on another Regulated Market					
Government Bonds (continued)					
United States (continued)					
United States Treasury Note/Bond 2.125% 30/06/2022	6,650,000	6,674,109	6,464,873	12.70	Aaa
United States Treasury Note/Bond 1.750% 31/12/2020	1,900,000	1,922,109	1,855,027	3.65	Aaa
			21,170,766	41.60	
Total Government Bonds			21,170,766	41.60	
Total Investments		51,499,367	50,052,025	98.34	
Total Transferable Securities Admitted to an Official Stock Exchange Listing or Dealt in on another Regulated Market			50,052,025	98.34	
Total Investments			50,052,025	98.34	
Net current assets			843,320	1.66	
Total net assets			50,895,345	100.00	

Sterling Income Class

As at 30 September 2018

Transferable Securities Admitted to an Official Stock Exchange Listing or Dealt in on another Regulated Market**Investment Companies****Ireland**

iShares Corp Bond – 0-5yr UCITS ETF GBP Dist	1,180	124,781	123,062	2.60	NR
Smith & Williamson Short Dated Corporate Bond Fund	394,365	392,432	356,624	7.53	NR
			479,686	10.13	
Total Investment Companies			479,686	10.13	

Corporate Bonds**Germany**

Kreditanstalt fuer Wiederaufbau 'EMTN' 1.625% 05/06/2020	414,000	418,868	418,188	8.83	Aaa
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Luxembourg

European Investment Bank 2.250% 15/08/2022	505,000	404,860	375,697	7.93	Aaa1
International Bank for Reconstruction & Development 0.625% 15/12/2023	437,000	426,354	420,403	8.87	Baa1
Nestle Finance International Ltd 'EMTN' 2.250% 30/11/2023	155,000	159,682	159,942	3.38	Aa2
			956,042	20.18	

Portfolio Statement (continued)**Sterling Income Class (continued)**

As at 30 September 2018 (continued)

	Nominal holding	Cost GBP	Fair Value GBP	% of Net Assets	Credit Rating
Transferable Securities Admitted to an Official Stock Exchange Listing or Dealt in on Another Regulated Market (continued)					
Total Investment Companies (continued)					
Corporate Bonds (continued)					
Netherlands					
Roche Finance Europe BV 'EMTN' 5.375% 29/08/2023	155,000	184,244	182,280	3.85	Aa3
United Kingdom					
BAT International Finance Plc 'EMTN' 1.750% 05/07/2021	100,000	100,561	99,982	2.11	Baa2
BP Capital Markets Plc 'EMTN' 4.325% 10/12/2018	100,000	100,402	100,590	2.12	A1
Experian Finance Plc 'EMTN' 4.750% 23/11/2018	100,000	100,338	100,615	2.12	Baa1
GlaxoSmithKline Capital Plc 'EMTN' 3.375% 20/12/2027	100,000	103,735	109,060	2.30	A2
Next Plc 5.375% 26/10/2021	100,000	108,970	109,741	2.32	Baa2
United States					
International Business Machines Corp 'EMTN' 2.750% 21/12/2020	100,000	102,126	103,099	2.17	A1
McDonald's Corp 'EMTN' 6.375% 03/02/2020	100,000	105,951	106,585	2.25	Baa1
PepsiCo Inc 'EMTN' 2.500% 01/11/2022	100,000	97,657	104,108	2.20	A1
			313,792	6.62	
Total Corporate Bonds			2,390,290	50.45	
Government Bonds					
United Kingdom					
United Kingdom Gilt 1.500% 22/01/2021	513,700	526,686	521,185	11.00	Aa2
United Kingdom Gilt 1.500% 22/07/2026	132,200	135,805	133,370	2.81	Aa2
United Kingdom Gilt 1.750% 07/09/2022	487,900	507,965	501,083	10.58	Aa2
United Kingdom Gilt 2.000% 22/07/2020	255,000	262,051	260,370	5.50	Aa2
			1,416,008	29.89	
Total Government Bonds			1,416,008	29.89	
Total Investments	4,363,468		4,285,984	90.47	
Total Transferable Securities Admitted to an Official Stock Exchange Listing or Dealt in on another Regulated Market					
			4,285,984	90.47	
Total Investments			4,285,984	90.47	
Net current assets			451,675	9.53	
Total net assets			4,737,659	100.00	

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 29 January 2019 at Standard Bank House, 47 – 49 La Motte Street, St. Helier, Jersey, Channel Islands at 11.45 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 2018 be approved and adopted.
2. That directors fees in the sum of USD30,000 and GBP5,000 for the year ended 30 September 2018 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

9 January 2019

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 Select 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 29 January 2019 at 11:45 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 _____ 2019

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.