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# AMALGAMATED GROWTH & INCOME FUND

a fund of

AMALGAMATED INVESTMENTS SICAV p.l.c.

October 2018 - October 2018 - October 2018 - October 2018 - October 2018



## **Annual Report & Financial Statements**

for the year ended 31 October 2018

# **AMALGAMATED GROWTH & INCOME FUND**

a fund of

**AMALGAMATED INVESTMENTS SICAV p.l.c.**

a collective investment scheme organised  
as a multi-fund investment company with variable share capital  
under the laws of Malta on the 5 August 2000  
and licensed by the Malta Financial Services Authority  
under the Investment Services Act and re-organised as a  
Professional Investor Fund.

27 February 2019



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# **ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018**

## **A M A L G A M A T E D   G R O W T H   &   I N C O M E   F U N D**

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## **ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018**

### **AMALGAMATED GROWTH & INCOME FUND**

#### **Report of the Directors**

The Directors present their Annual Report and the Audited Financial Statements for the year ended 31 October 2018.

#### **Principal Activities**

Amalgamated Investments SICAV p.l.c. is organised under the laws of Malta as a multi-fund investment company with variable share capital (SICAV) pursuant to the Companies' Act, 1995. The Company was registered on the 5 August 2000 with registration number SV13 and consists of one fund, the Amalgamated Growth & Income Fund. On 1 July 2007, the Company was re-licensed as a Professional Investor Fund targeting Experienced Investors and on 18 November 2013, the Company was re-licensed as a Professional Investor Fund targeting Qualifying Investors. Amalgamated Investments SICAV plc qualifies as a de minimis self-managed scheme pursuant to Article 3 of Directive 2011/61/EU. The Company has no employees.

#### **Review of Business**

The Fund has continued to adopt a low marketing profile in the current year. 6,249,945 (2017: 2,106,732) shares were created in 2018. 107,604 shares were redeemed during 2018 (2017: NIL).

As dividend income is substantially distributed, movements in the total of shareholders' funds as at each year end reflect substantially the market price movements of the Company's underlying investments between the start and end of the relevant periods and the net subscriptions/redemptions for that period. The total value of shareholder funds on 31 October 2018 at €78,235,851 represents an increase of 10.57% over the total shareholder funds at 31 October 2017 which stood at €70,758,628.

Dividend income increased from €2,771,836 in 2017 to €4,559,970 in 2018, an increase of 64.51%, mainly a result of higher distributions (including the issue of scrip dividends) from certain underlying investments. The Company's total expenses have decreased from €114,742 in 2017 to €21,791 in 2018. This decrease is mainly due to the higher costs incurred in 2017 in connection with the performance fee payable to the Head Investment Manager in relation to the foreign element of the portfolio, and also the higher transaction costs incurred as a result of higher stock-broking charges on the Company's acquisitions on the local and international markets during 2017.

The Company's statement of comprehensive income registered a negative movement in the other net fair value changes on the financial assets held at fair value through profit or loss of €11,108,789 (2017: positive movement of €962,186) resulting from the negative share price movements of the Company's main local listed equities. In the light of the Fund's primary objective of investing in large local market capitalisation shares, its performance over the entire operating period has been affected by the price movements registered in these securities. During the period under review, the Malta Stock Exchange Market Capitalisation index increased marginally by 0.19%. The Fund's net asset value per share (NAVPS) as at 31 October 2018 of €2.487 represents a decrease of 11.05% compared to the NAVPS of €2.796 as at 31 October 2017. The NAVPS at 31 October 2018 represents an increase of 16.21% on the opening market price of €2.14 on the Fund's launch date, 30 October 2000.

Future dividend income flows remain dependent on the performance of the Company's underlying investments and are accordingly expected to reflect the dividend distributions that are likely to occur in the case of the Company's major shareholdings, primarily those of the two major local banks. Given the long term perspective outlined in the Fund's investment objectives, it is still considered that a hold strategy for the local large cap investments that represent the bulk of the Fund's portfolio remains the best option for the Fund with a view to continuing to outperform the MSE index over time.

Financial risk management objectives, policies and exposures of the Company are further described in Note 15 to the financial statements.

#### **Compliance with Standard Licence Conditions**

During the period under review, no regulatory sanctions were imposed on the Company.



## **ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018**

### **AMALGAMATED GROWTH & INCOME FUND**

#### **Results and Dividends**

The results for the period under review can be found in the Statement of Comprehensive Income. The Directors have on 13 May 2018, 28 May 2018 and 5 October 2018 paid interim net dividends of €750,000, €640,000 and €310,000 respectively and do not recommend a payment of a further dividend.

#### **Directors**

The Directors of the Company who held office during the period under review are:

Professor Emanuel P Delia B.A. (Hons) Econ, M.A., M.Litt (Oxon) - Chairman

Mr. Joseph C Caruana ACIB

Mr. Norbert Tabone B. Accty (Hons), FCCA, MIA, CPA (appointed on 31 October 2017)

In accordance with article 22.5 (vi) of the Company's Articles of Association, the office of the Directors shall be vacated by the Directors at the closure of the annual general meeting next following their appointment or at the end of the calendar year during which such annual general meeting should have been held, whichever is the earlier.

The Directors are eligible and offer themselves for re-election.

#### **Statement of Directors' Responsibilities for the financial statements**

The directors are required by the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the company as at the end of each financial period and of the profit or loss for that period.

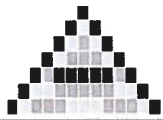
In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Event After the Reporting Period**

By means of a Company Announcement dated 16 April 2018, the Company had informed the market that it had entered into a preliminary agreement with UniCredit Spa for the acquisition of the latter's shareholding in Bank of Valletta p.l.c. On 1 November 2018, the Company issued a further announcement advising that the conditions precedent in the said agreement were not all satisfied by 31 October 2018 and accordingly, the agreement was automatically terminated.



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**ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018**  
**A M A L G A M A T E D   G R O W T H   &   I N C O M E   F U N D**

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**Auditors**

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their reappointment will be proposed at the Annual General Meeting.

On behalf of the Board

Prof. E. P. Delia  
Chairman

27 February 2019

Mr. N. Tabone  
Director



## *Independent auditor's report*

To the Shareholders of the Amalgamated Investments SICAV p.l.c.

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion:

- Amalgamated Investments SICAV p.l.c.'s financial statements give a true and fair view of the company's financial position as at 31 October 2018, and of the company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap.386).

Our opinion is consistent with our additional report to the Board of Directors.

#### **What we have audited**

Amalgamated Investments SICAV p.l.c.'s financial statements, set out on pages 12 to 28, comprise:

- the statement of financial position as at 31 October 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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 are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Capt. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.



## *Independent Auditor's Report (ctd)*

To the Shareholders of the Amalgamated Investments SICAV p.l.c.

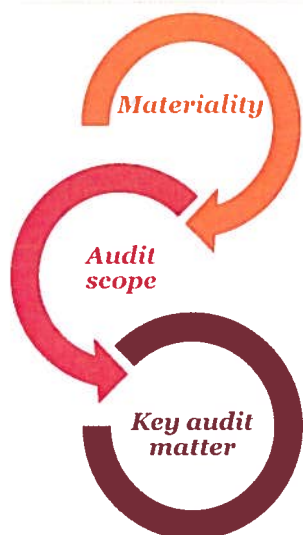
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the company are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the company, in the period from 1 November 2017 to 31 October 2018, are disclosed in note 9(e) to the financial statements.

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### *Our audit approach*

#### **Overview**



- Overall materiality: €782,300
- The company is a collective investment scheme organised as a multi-fund investment company with variable share capital and licensed by the Malta Financial Services Authority under the Investment Services Act and re-organised as a Professional Investor Fund. The company consists of one sub-fund, the Amalgamated Growth & Income Fund.
- We conducted our audit at BOV Fund Services Limited, the appointed Administrator of the company.
- Valuation and existence of financial assets at fair value through profit or loss

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which the company operates.





## *Independent Auditor's Report (ctd)*

To the Shareholders of the Amalgamated Investments SICAV p.l.c.

### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

<i>Overall materiality</i>	€782,300
<i>How we determined it</i>	1% of net asset value ("NAV") of the sub-fund of the company.
<i>Rationale for the materiality benchmark applied</i>	We chose the above benchmark since investors within the fund are mainly focused on NAV, noting that it is also within the range of commonly accepted asset-related thresholds that we consider acceptable.

We agreed with the directors that we would report to them misstatements identified during our audit above €78,230 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



## Independent Auditor's Report

To the Shareholders of the Amalgamated Investments SICAV p.l.c.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<i>Valuation and existence of financial assets at fair value through profit or loss</i>	
<p>As described in note 3(a), the financial assets at fair value through profit or loss as at year-end mainly comprised listed securities.</p> <p>We consider this area to be a key audit matter because these financial assets represent the principal element of the financial statements of the Company.</p>	<ul style="list-style-type: none"><li>• We tested the valuation of the financial assets at fair value through profit or loss by agreeing the prices used in their valuation to independent pricing sources.</li><li>• With respect to the company's investments in listed local securities, we tested existence by agreeing the holdings to the Malta Stock Exchange Statement of Holding as at 31 October 2018 received directly by us.</li><li>• With respect to the rest of the company's financial assets at fair value through profit or loss, we agreed all investment holdings to the independent custodian confirmation received from Bank of Valletta plc. In addition, we evaluated the adequacy of the disclosures made in note 15 of the financial statements. The results of our procedures did not identify any material misstatements.</li></ul>



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### *Other information*

The directors are responsible for the other information. The other information comprises the report of the directors (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the directors' report, we also considered whether the directors' report include the disclosures required by Article 177 of the Maltese Companies Act (Cap.386).

Based on the work we have performed, 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; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap.386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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### *Responsibilities of the directors for the financial statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors 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.



## *Independent Auditor's Report*

To the Shareholders of the Amalgamated Investments SICAV p.l.c.

### *Auditor's 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 auditor's 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



## *Independent Auditor's Report*

To the Shareholders of the Amalgamated Investments SICAV p.l.c.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### *Report on other legal and regulatory requirements*

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

We also have responsibilities under Maltese Companies Act (Cap.386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

#### **Appointment**

We were first appointed as auditors of the company on 5 August 2000. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 18 years.

#### **PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta



Simon Flynn  
Partner

27 February 2019



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

### Financial Statements

#### Statement of Financial Position

as at

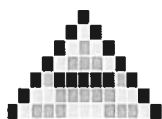
	Notes	31.10.2018 €	31.10.2017 €
<b>Assets</b>			
<b>Current assets</b>			
Financial assets at fair value through profit or loss	3(a)	75,431,338	69,731,705
Loans receivable	3(b)	2,714,779	930,000
Accrued income	3(b)	7,454	14,962
Other debtors and prepayments	4	-	1,493
Cash and cash equivalents	14	122,434	148,928
<b>Total assets</b>		<b>78,276,005</b>	<b>70,827,088</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the fund</b>			
Share capital	6	73,591,956	56,617,630
Equalisation reserve	7	276,377	276,377
Retained earnings		4,367,518	13,864,621
<b>Total equity</b>		<b>78,235,851</b>	<b>70,758,628</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	3(a)	4,651	-
Accrued expenses	5	35,503	68,460
<b>Total liabilities</b>		<b>40,154</b>	<b>68,460</b>
<b>Total equity and liabilities</b>		<b>78,276,005</b>	<b>70,827,088</b>
<b>Shares in issue as at 31 October 2018</b>	6	<b>31,453,367</b>	
Shares in issue as at 31 October 2017		25,311,026	
Shares in issue as at 31 October 2016		23,204,294	
<b>Net asset value as at 31 October 2018</b>		<b>78,235,851</b>	
Net asset value as at 31 October 2017		70,758,628	
Net asset value as at 31 October 2016		63,720,159	
<b>Net asset value per share as at 31 October 2018</b>	8	<b>2.487</b>	
Net asset value per share as at 31 October 2017		2.796	
Net asset value per share as at 31 October 2016		2.746	

The accounting policies and notes on pages 16 to 28 are an integral part of these financial statements.

These financial statements on pages 12 to 28 were authorised for issue by the Board of Directors on 27 February 2019 and were signed on its behalf by:

Prof. E. P. Delia  
Chairman

Mr. N. Tabone  
Director



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

### Financial statements (ctd)

#### Statement of Comprehensive Income

for the year ended

	Notes	31.10.2018 €	31.10.2017 €
<b>Income</b>			
Bank interest		75	120
Dividend income		4,559,970	2,771,836
Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss		(11,108,789)	962,186
<b>Total net (loss)/income</b>		<b>(6,548,744)</b>	<b>3,734,142</b>
<b>Expenses</b>			
Fees	9,10		
- Fund administrator fees		8,478	9,387
- Foreign portfolio management fees		-	7,000
- Performance fees		-	37,801
- Custodian fees		4,359	3,864
Transaction costs		4,389	30,241
Directors' remuneration		-	5,125
Legal & professional fees		7,876	14,374
License & listing fees		9,264	5,754
Other costs		(12,575)	1,196
<b>Total operating expenses</b>		<b>21,791</b>	<b>114,742</b>
<b>(Loss)/Profit before tax</b>		<b>(6,570,535)</b>	<b>3,619,400</b>
Tax expense	11	(1,226,568)	(885,302)
<b>(Loss)/Profit for the year - total comprehensive income</b>		<b>(7,797,103)</b>	<b>2,734,098</b>

The accounting policies and notes on pages 16 to 28 are an integral part of these financial statements.



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

### Financial statements (ctd)

#### Statement of Changes in Equity

for the year ended

	Share capital	Equalisation reserve	Retained earnings	Total
	€	€	€	€
Balance as at 01 November 2016	50,686,576	253,071	12,780,512	63,720,159
<b>Comprehensive income</b>				
Profit for the year	-	-	2,734,098	2,734,098
<b>Transactions with owners</b>				
Subscriptions of redeemable shares	5,931,054	23,306	-	5,954,360
Dividend distributions	-	-	(1,649,989)	(1,649,989)
Balance as at 31 October 2017	56,617,630	276,377	13,864,621	70,758,628
<b>Comprehensive income</b>				
Profit for the year	-	-	(7,797,103)	(7,797,103)
<b>Transactions with owners</b>				
Subscriptions of redeemable shares	17,268,408	-	-	17,268,408
Redemptions of redeemable shares	(294,082)	-	-	(294,082)
Dividend distributions	-	-	(1,700,000)	(1,700,000)
<b>Balance as at 31 October 2018</b>	<b>73,591,956</b>	<b>276,377</b>	<b>4,367,518</b>	<b>78,235,851</b>

The accounting policies and notes on pages 16 to 28 are an integral part of these financial statements.





# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

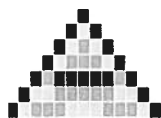
### Financial statements (ctd)

#### Statement of Cash Flows

for the year ended

	Notes	31.10.2018 €	31.10.2017 €
<b>Cash flows from operating activities</b>			
Dividend income received		2,575,325	2,759,268
Interest received		4,713	5,694
Operating expenses paid		(48,867)	(68,896)
Purchase of investments		(5,086,112)	(6,285,463)
Proceeds from sale of investments		5,163,651	5,284,433
Cash generated from operating activities		2,608,710	1,695,036
Tax paid		(641,122)	(885,302)
<b>Net cash generated from operating activities</b>		<b>1,967,588</b>	809,734
<b>Cash flows from financing activities</b>			
Amounts paid on redemptions of redeemable shares		(294,082)	-
Dividend distributions	12	(1,700,000)	(1,649,989)
<b>Net cash used in from financing activities</b>		<b>(1,994,082)</b>	(1,649,989)
<b>Net movements in cash and cash equivalents</b>		<b>(26,494)</b>	(840,255)
Cash and cash equivalents at beginning of the year		148,928	989,183
<b>Cash and cash equivalents at end of the year</b>	14	<b>122,434</b>	148,928

The accounting policies and notes on pages 16 to 28 are an integral part of these financial statements.



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

### **Accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **1 Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Fund's accounting policies (note 2).

##### *(a) Standards and amendments to existing standards effective 1 November 2017*

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 November 2017 that would be expected to have a material impact on the Fund.

##### *(b) New standards, amendments and interpretations effective after 1 November 2017 and have not been early adopted*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for accounting years beginning after 1 November 2017. The Fund has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Fund's directors are of the opinion that with the exception of IFRS 9, 'Financial Instruments', there are no requirements that will have a possible significant impact on the Fund's financial statements in the years of initial application.

IFRS 9 Financial Instruments issued on July 2014 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The Standard supersedes all previous versions of IFRS 9. IFRS 9 introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule based requirements that are generally considered to be overly complex and difficult to apply. The new model also results in a single, forward-looking 'expected loss' impairment model that will require more timely recognition of expected credit losses.

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. IFRS 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. The effective date for IFRS 9 is 1 January 2018.

On adoption of IFRS 9 the Fund's investment portfolio is expected to continue to be classified as fair value through profit or loss. Other financial assets which are held for collection are expected to continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

#### **2 Foreign currency translation**

##### *(a) Functional and presentation currency*

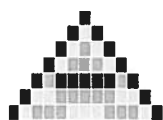
The Fund's investors are mainly from the Eurozone, with the subscriptions and redemptions of the redeemable shares denominated in Euro. The performance of the Fund is measured and reported to the investors in Euro. The Directors consider the Euro as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are presented in Euro, which is the Fund's functional and presentation currency.

##### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the reporting date.

Foreign exchange gains and losses arising from translation are included in the statement of comprehensive income as follows:

- (i) Foreign exchange gains and losses relating to cash and cash equivalents are presented in the statement of comprehensive income within 'net foreign currency gains on cash and cash equivalents'.
- (ii) Foreign exchange gains and losses relating to the financial assets carried at fair value through profit or loss are presented in the statement of comprehensive income within 'other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss'.



## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

### AMALGAMATED GROWTH & INCOME FUND

#### **Accounting policies (ctd)**

#### **3 Financial assets and financial liabilities at fair value through profit or loss**

##### **(a) Classification**

The Fund classifies its investments in debt and equity securities, and derivatives, as financial assets or financial liabilities at fair value through profit or loss.

This category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at fair value through profit or loss at inception.

##### **(i) Financial assets/liabilities held for trading**

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading. The Fund does not classify any derivatives as hedges in a hedging relationship.

##### **(ii) Financial assets/liabilities designated at fair value through profit or loss at inception**

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

The Fund's policy requires the Board of Directors to evaluate the information about these financial assets/liabilities on a fair value basis together with other related financial information.

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. Loans and receivables consist of accrued income and cash and cash equivalents.

##### **(b) Recognition, derecognition and measurement**

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income.

Financial assets are de-recognised when the right to receive cash flows from the investments expires or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other net changes in fair value of financial assets and liabilities at fair value through profit or loss' in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income when the Fund's right to receive payments is established. Other gains and losses, including interest on debt securities at fair value through profit or loss are recognised in the statement of comprehensive income in the year in which they arise within 'other net fair value movements on financial assets and liabilities at fair value through profit or loss'.

##### **(c) Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded securities) is based on quoted market prices at the close of trading on the reporting date. The Fund utilises the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.



## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

### AMALGAMATED GROWTH & INCOME FUND

#### **Accounting policies (ctd)**

##### **4 Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

##### **5 Other receivables and payables**

Other receivables and payables represent amounts receivable and payable respectively, for transactions contracted for but not yet delivered by the end of the period.

These amounts are initially recognised at fair value and subsequently measured at amortised cost less any provision for impairment. A provision for impairment of amounts due is established when there is objective evidence that the Fund will not be able to collect all amounts due.

##### **6 Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts. Bank overdrafts, where applicable, are shown in current liabilities in the statement of financial position.

##### **7 Accrued expenses**

Accrued expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method, where the effect is material.

##### **8 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

##### **9 Share Capital**

The Fund issues redeemable shares, which are redeemable at the holder's option. Certain criteria exist which require puttable financial instruments that meet the definition of a financial liability to be classified as equity. These criteria include: the puttable financial instruments must entitle the holder to a pro-rata share of net assets; the puttable instruments must be the most subordinated class and that class's features must be identical; there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer. The Fund's redeemable shares meet the above criteria and accordingly are classified as equity.

Should the redeemable shares' terms or conditions change such that they do not comply with the above mentioned strict criteria, the redeemable shares would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying value of the equity instrument and fair value of the liability on the date of reclassification would be recognised in equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Redeemable shares can be put back to the Fund at any time for cash or in specie equal to a proportionate share of the Fund's trading net asset value calculated in accordance with the Fund's regulations.



## **ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018**

### **AMALGAMATED GROWTH & INCOME FUND**

#### **Accounting policies (ctd)**

##### **10 Equalisation reserve**

The Fund operates an equalisation account to ensure that the amount distributed in respect of each share will be the same for all shares notwithstanding different dates of issue of those shares. Accordingly, a sum equal to that part of the issue/redemption price of a share, which reflects income (if any) accrued up to the date of issue/redemption, will be deemed to be equalisation payment/charge and credited (in the case of share issues)/debited (in the case of share redemptions) by the directors to the equalisation account. Part of the first distribution to holders in respect of which equalisation payments are made, will be paid out of these amounts. Therefore, on distribution, these amounts are transferred to retained earnings. The closing balance of this reserve represents amounts that were not distributed by the year end.

However, in the absence of significant fluctuations between the redemption and issue or creation of shares, it is not expected to consider equalisation when determining distributions to shareholders nor to pay to shareholders any excess of equalisation credits over debits. Any fluctuations between redemptions and creations of shares that could have an effect of 1 per cent or more on the Net Asset Value per share shall be considered significant.

##### **11 Dividend distributions**

In the absence of unforeseen circumstances, subject to the availability of distributable profits and in the absence of exceptional market conditions, the directors shall distribute to shareholders all Malta taxed dividend income received by the Fund. The directors may, if they consider it in the best interests of shareholders to also distribute part or all of the Fund's other income after deduction of related expenses.

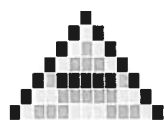
Dividend distribution to the Fund's shareholders is recognised as a liability in the Fund's financial statements in the period in which the dividends are approved by the Fund's shareholders.

##### **12 Interest income**

Interest income is recognised on a time-proportionate basis using the effective interest method. It includes interest income from cash and cash equivalents.

##### **13 Transaction costs**

Transaction costs are costs incurred on acquisition/disposal of financial assets at fair value through profit and loss. They include the bid-ask spread, fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as an expense.



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

### Notes to the financial statements

#### 1. GENERAL

Amalgamated Investments SICAV p.l.c. ("the Fund") is an open-ended investment company and was incorporated with limited liability in Malta on 5 August 2000. On 1 July 2007, it was re-organised as a Professional Investor Fund targeting Experienced Investors and on 18 November 2013, the Fund was re-licensed as a Professional Investor Fund targeting Qualifying Investors.

The Company is licensed by the Malta Financial Services Authority as a Collective Investment Scheme under the Investment Services Act, 1994. The Amalgamated Growth & Income Fund is listed on the Official List of the Malta Stock Exchange.

The investment objective of the Fund is to endeavour to maximise the total return to Investors while minimising risks associated with investment in particular securities, primarily through investment in a portfolio of Maltese listed equity securities as well as securities listed on foreign exchanges issued by entities at the time of investment by the Fund having a market capitalisation in excess of €60,000,000.

#### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, the accounting estimates and judgements made generally in the course of preparing these financial statements, and in particular the accounting policies adopted as disclosed therein, are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

#### 3. FINANCIAL ASSETS AND LIABILITIES

##### a) Financial assets and liabilities at fair value through profit or loss

	Fair value 31/10/2018	% of net assets	Fair value 31/10/2017	% of net assets
<b>Financial assets designated at fair value through profit or loss</b>				
Equity investments	74,241,618	94.89%	68,113,146	96.26%
Collective investment schemes	1,189,720	1.52%	1,324,241	1.87%
Debt securities	-	0.00%	200,680	0.28%
Forward exchange contracts	-	0.00%	93,638	0.13%
	<b>75,431,338</b>	<b>96.41%</b>	<b>69,731,705</b>	<b>98.55%</b>
<b>Financial liabilities held for trading</b>				
Forward exchange contracts	4,651	-	-	-

##### b) Loans and receivables

As at 31 October 2018 and 2017, loans and receivables relate to:

	31/10/2018 €	% of net assets	31/10/2017 €	% of net assets
Loans receivable	2,714,779	3.47%	930,000	1.31%
Accrued income	7,454	0.01%	14,962	0.02%
Cash and cash equivalents	122,434	0.16%	148,928	0.21%
	<b>2,844,667</b>	<b>3.64%</b>	<b>1,093,890</b>	<b>1.54%</b>



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

### Notes to the financial statements (ctd)

#### 4. OTHER DEBTORS AND PREPAYMENTS

	31/10/2018	31/10/2017
	€	€
Prepayments	-	1,493
	<u>-</u>	<u>1,493</u>

#### 5. ACCRUED EXPENSES

	31/10/2018	31/10/2017
	€	€
Accrued custodian fees	12,264	8,764
Accrued foreign portfolio management fees	-	648
Other accrued expenses	23,239	59,048
	<u>35,503</u>	<u>68,460</u>

#### 6. SHARE CAPITAL

##### a) Authorised share capital

	31/10/2018	31/10/2017
	Shares	Shares
40,000,000 shares	<u>40,000,000</u>	<u>40,000,000</u>

##### b) Issued and fully paid

	31/10/2018	31/10/2017
	Shares	Shares
Shares in issue at beginning of the year	25,311,026	23,204,294
Issue of shares	6,249,945	2,106,732
Redemption of shares	(107,604)	-
Shares in issue at end of the year	<u>31,453,367</u>	<u>25,311,026</u>

The Fund's capital is represented by the redeemable shares with no par value and with each carrying one vote. They are entitled to dividends and to payment of a proportionate share based on the Fund's net asset value per share on the redemption date. The directors may mandatorily redeem all outstanding shares where the Net Asset Value of the shares in the Fund falls below €6,988,120 (or its equivalent). The relevant movements are shown in the statement of changes in equity under transactions with owners, recorded directly in equity. In accordance with the objective outlined in Note 1 and the risk management policies in Note 15, the Fund endeavours to invest the subscriptions received in appropriate investments. The Fund typically will, and in any event may, at all times in its sole discretion, satisfy any redemption instructions by the transfer to that shareholder of assets of the Fund in specie, other than in respect of the investors at launch (see 15 (A [b])). As at the date at which these financial statements are rendered, the Fund has the option to redeem shares in specie in respect of 99.15% of the total redeemable shares in issue.

The Fund's issued share capital as at 31 October 2018 amounted to €73,591,956 (2017: €56,617,630) with 31,453,367 shares in issue as shown above (2017: 25,311,026 shares).



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

### Notes to the financial statements (ctd)

#### 7. EQUALISATION RESERVE

	31/10/2018 €	31/10/2017 €
At beginning of the year	276,377	253,071
Equalisation created upon issue of shares (Note 6 refer)	-	23,306
<b>Balance at end of year</b>	<b>276,377</b>	<b>276,377</b>

The equalisation reserve is a distributable reserve.

#### 8. NET ASSET VALUE PER SHARE

The consideration received or paid for shares issued or re-purchased respectively is based on the value of the Fund's net asset value per redeemable share at the date of the transaction.

#### 9. FEES

##### a) *Fund administrator fees*

Under the terms of an agreement dated 10 October 2013, the Fund appointed BOV Fund Services Ltd (formerly known as Valetta Fund Services Limited) as Fund Administrator. The Fund Administrator is entitled to receive from the Fund a fee of 0.0125% per annum of the net asset value of the Fund subject to a minimum of €6,250 per annum.

##### b) *Foreign portfolio management fees*

On 20 April 2011, Charles J. Farrugia was appointed Head Investment Manager with the responsibility of undertaking the day-to-day investment management of certain assets forming part of the foreign portfolio (the "Designated Investment Portfolio") as may be stipulated from time to time at the discretion of the Fund acting through the Investment Committee. The agreement provided for a fixed management fee payable to the Head Investment Manager and a performance fee payable to the Head Investment Manager provided certain pre-established investment performance targets are achieved. No management fees and performance fees were incurred during the period under review (2017: €7,000 and €30,241 respectively). There were no outstanding performance and management fees as at year end (2017: €17,801). The outstanding performance fees were settled in November 2017. Charles J. Farrugia resigned from his post as Director, Member of the Investment Committee and Head Investment Manager with effect from 31 October 2017.

##### c) *Custodian fees*

The Custodian, Bank of Valletta p.l.c., receives, for safekeeping of the foreign portfolio assets of the Fund and other services, a custody fee of 0.04% on market value of foreign investments, with a minimum of €3,500 per annum (2017: €3,500).

##### d) *Investment advisory fees*

Investment advisory fees are incurred under arrangements whereby the Investment Committee may seek advice from reputable organisations in respect of the Fund's investments.

##### e) *Auditor's fees*

Fees charged by the auditor for services rendered (excluding VAT) during the financial year relate to:

	31.10.2018 €	31.10.2017 €
Annual statutory audit	4,500	4,100
Tax compliance services	1,040	1,040
	<b>5,540</b>	<b>5,140</b>





## **ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018**

### **AMALGAMATED GROWTH & INCOME FUND**

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

##### **10. AGREEMENTS**

- a) Under the terms of an agreement dated 10 October 2013, the Fund, appointed BOV Fund Services Limited as Fund Administrator with effect from 1 November 2013.
- b) On 20 April 2011, Charles J. Farrugia was appointed Head Investment Manager with the responsibility of undertaking the day-to-day investment management of certain assets forming part of the foreign portfolio (the "Designated Investment Portfolio") as may be stipulated from time to time at the discretion of the Fund acting through the Investment Committee. The agreement provided for a fixed management fee payable to the Head Investment Manager and a performance fee payable to the Head Investment Manager provided certain pre-established investment performance targets are achieved. Mr Charles J. Farrugia resigned from his post as Director, Member of the Investment Committee and Head Investment Manager with effect from 31 October 2017.
- c) Amalgamated Investments SICAV p.l.c. issued a promissory note amounting to €1,600,000 to Mercury p.l.c. repayable on demand upon receipt of two day notice from Amalgamated Investments SICAV p.l.c., subject to terms stated in an agreement dated 25 July 2016. The promissory note is unsecured and is subject to an interest rate of 0.50% per annum. Furthermore, through the promissory note, AIS reserves the right to reject a request for redemption of shares in the sub-fund by Mercury p.l.c. in the event that such redemption would cause the value of Mercury p.l.c.'s shareholding in the sub-fund to be worth less than twice the value of the amount outstanding. €1,300,000 were repaid during the prior year on this promissory note. On 24 October 2017, Amalgamated Investment SICAV p.l.c. issued a further promissory note, subject to the same terms and conditions as the promissory note dated 25 July 2016, amounting to €630,000 of which €517,231 were repaid during the year under review. Promissory notes issued during the year under review amounted to €2,302,010 and are all subject to the same terms and conditions as the promissory note dated 25 July 2016. The total outstanding amount as at year end amounted to €2,714,779 (2017: €930,000).

##### **11. TAX EXPENSE**

The tax regime for collective investment schemes is based on the classification of funds into prescribed or non-prescribed funds in terms of the conditions set out in the Collective Investment Schemes (Investment Income) Regulations, 2001 (as amended). In general, a prescribed fund is defined as a resident fund, which has declared that the value of its assets situated in Malta amount to at least 85% of the value of the total assets of the fund.

On the basis that the Amalgamated Growth & Income Fund is currently classified as a prescribed fund for income tax purposes, it is subject to Maltese tax on its investment income as defined in the Income Tax Act at a rate of 10% or 15% depending on the nature of the income. Taxed dividends received from Maltese-resident companies may be subject to tax at source at the applicable rates of up to 35%. In the case of the Fund's foreign investments, capital gains, dividends, interest and other gains or profits may be subject to tax imposed by the foreign country concerned and such taxes may not be recoverable by the Fund or by its unit holders.

Distributions of profits allocated to the Maltese Taxed Account should not be subject to further tax in the hands of the shareholders, whilst distributions from other sources of income or from the Equalisation Reserve may be subject to a 15% final withholding tax in certain circumstances. No tax on capital gains should be incurred by investors upon the disposal of units in such a fund.

##### **12. DIVIDEND DISTRIBUTIONS**

Net dividends paid in 2018 and 2017 amounted in total to €1,700,000 (€0.0540 per share) and €1,649,989 (€0.0652 per share) respectively and are presented as transactions with owners, recorded directly in equity within the statement of changes in equity.

The net dividends paid in 2018 comprise a net interim dividend of €750,000 (€0.0238 per share) which was paid on 13 May 2018, €640,000 (€0.0203 per share) which was paid on 28 May 2018 and a further net interim dividend of €310,000 (€0.0099 per share) was paid on 5 October 2018.

The net dividends paid in 2017 comprise a net interim dividend of €539,996 (€0.0233 per share) which was paid on 30 December 2016, €859,997 (€0.0371 per share) which was paid on 8 June 2017 and a further net interim dividend of €249,996 (€0.0099 per share) was paid on 13 October 2017.



## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

### AMALGAMATED GROWTH & INCOME FUND

#### Notes to the financial statements (ctd)

#### 13. RELATED PARTIES

The immediate and ultimate parent company of Amalgamated Investments SICAV p.l.c. (AIS) is Mercury p.l.c., whose directors are also appointed on the Board of AIS. Mercury p.l.c. is a public company incorporated in Malta with its registered address at Aragon House - Business Centre, Dragonara Road, St Julians, Malta.

Amalgamated Investments SICAV p.l.c. issued promissory notes to Mercury p.l.c. as further described in Note 10c.

No remuneration was paid to directors during the year under review (2017: €5,125). There were no other payments to key management personnel as defined in IAS 24.

#### 14. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, the year end cash and cash equivalents comprise bank balances held at call as follows:

	2018 €	2017 €
Bank balances - Euro denominated	2,293	48,101
Bank balances - other	120,141	100,827
	<b>122,434</b>	<b>148,928</b>
Deposits held with banks earn interest at floating rates.	<b>122,434</b>	<b>148,928</b>
	<b>122,434</b>	<b>148,928</b>



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

### Notes to the financial statements (ctd)

#### 15. FINANCIAL INSTRUMENTS

##### A Risk management

The Fund's activities potentially expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk). The Fund's overall risk management strategy focuses on minimising potential adverse effects on the Fund's financial performance. The Fund made use of a forward exchange contract to hedge currency risk exposure during the current financial year.

##### (a) Credit Risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk is managed through investment limits in any particular security falling within the parameters established in the Offering Memorandum and through ensuring that the issuer or counterparty is a reputable and creditworthy institution.

The main concentration to which the Fund is exposed arises from the Fund's investments in debt securities. The Fund is also exposed to counterparty credit risk on derivative financial instruments, cash and cash equivalents, and other receivable balances.

The maximum exposure to credit risk at 31 October 2018 and 31 October 2017 is the carrying amount of the financial assets as set out below.

	2018	2017
	€	€
Financial assets at fair value through profit or loss - debt securities	-	200,680
Loan receivable (Note 10)	2,714,779	930,000
Accrued Income	7,454	14,962
Cash & cash equivalents	122,434	148,928
	<b>2,844,667</b>	<b>1,294,570</b>

The following table provides information regarding the Fund's aggregated credit risk exposure in relation to debt securities. The credit rating analysis below takes into account the rating of the respective financial asset and is categorised by external credit rating agencies.

	2018	2017
	€	€
Debt securities by rating category	-	200,680
A -	0%	100%

The maturity of the debt securities are as follows:

1 to 5 years	-	200,680
	-	200,680

As at the reporting date, the Fund was also exposed to credit risk on forward exchange contracts. As at 31 October 2018, the Fund had one (2017: one) open transaction in forward exchange contracts. This consisted of a purchase of €2,060,214 (2017: €1,500,000) against USD with maturity date 04 January 2019 (2017: 31 January 2018). As at 31 October 2018, the forward exchange contract had a negative fair value of €4,651 (2017: positive value of €93,638) and the Fund had a collateral of €142,970 (2017: NIL) in relation to the forward exchange contract.

The loans receivable represents amounts due from Mercury plc and the Directors are of the opinion that the Fund is not subject to a significant level of credit risk in this regard.

All bank balances and forward exchange contracts are held and transacted with quality financial institutions.

At the reporting date, none of these assets are impaired or past due but not impaired.



## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

### AMALGAMATED GROWTH & INCOME FUND

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

#### **15. FINANCIAL INSTRUMENTS (ctd)**

##### ***(b) Liquidity Risk***

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to cash redemptions of shares, albeit that it has the right to, and will typically, effect all redemptions in specie whether or not the investment was originally made in cash or in specie. Redemptions are processed on the Fund's dealing day, which is the last business day in the month of October or, in the case of redemption requests during the year, the first Wednesday immediately following the date of receipt of the redemption request. 90.19% (2017: 90.62%) of the Fund's net assets are securities listed on the Malta Stock Exchange. The market in such securities may be illiquid in view of the fact that the trading volumes on the Malta Stock Exchange, which is a relatively new market when compared to more established markets, are limited. The Fund has the ability to borrow to meet short term liquidity requirements. Additionally, the Fund has the option to redeem shares in specie in respect of 99.15% of the total redeemable shares in issue as at the date at which these financial statements are rendered.

Redeemable shares are redeemable on demand at the holders' option. However, the directors do not envisage that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term. All other liabilities are payable within one year.

##### ***(c) Market Risk***

###### ***(i) Currency Risk***

Currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency fluctuations between the functional currency of the Fund and the currency of the underlying investments of the Fund, may adversely affect the value of the investments and the income derived therefrom.

The currency exposure of the Amalgamated Growth & Income Fund is managed by ensuring that foreign investments are made primarily in major currencies. In any event, the Fund primarily holds assets denominated in its functional currency with a relatively low percentage of assets denominated in foreign currencies, amounting to 0.33% of the net asset value of the Fund (31 October 2017: 2.99%).

Furthermore, foreign exchange fluctuations are partially hedged through forward exchange contracts (note 15A).

The Fund is not significantly exposed to currency risk, and accordingly a sensitivity analysis for foreign exchange risk disclosing how net assets attributable to shareholders would have been affected by changes in foreign exchange rates that were reasonably possible at the reporting date is not deemed necessary.

###### ***(ii) Interest Rate Risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Assets issued at variable rates expose the Fund to cash flow interest rate risk. Assets issued at fixed rates expose the Fund to fair value interest rate risk.

The Fund holds fixed interest security that expose the Fund to fair value interest rate risk as at 31 October 2018 amounting to 3.47% of the net asset value (2017: 1.31%). On the other hand, the Fund holds a limited amount of floating rate debt and cash and cash equivalents that expose the Fund to cash flow interest rate risk amounting to 0.16% of the net assets of the Fund (2017: 0.49%). The majority of the Fund's financial assets are non-interest bearing. As a result, the Fund is not subject to significant amounts of risks due to fluctuations in the prevailing levels of market interest rates.

Based on the above, the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the reporting date is not considered to be material.



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018

## AMALGAMATED GROWTH & INCOME FUND

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

#### **15. FINANCIAL INSTRUMENTS (ctd)**

##### **A Risk management (ctd)**

###### *(ii) Price risk*

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in profit or loss, all changes in market conditions will directly affect the profit or loss.

Given the predominance of local listed equities in the Fund's portfolio, an increase or decrease in the MSE equity index, with all other variables held constant, would result in an increase or decrease in the net assets attributable to holders of redeemable shares. To illustrate this sensitivity, if the MSE equity index, with all other variables held constant, increases or decreases by 7%, the net assets attributable to holders of redeemable shares would increase or decrease by circa €4,939,353 (2017: €5,277,000). This sensitivity is based on a simplistic scenario and in practice, effects may not be linear. Furthermore, it does not allow for future investment decisions that may be taken to take advantage or mitigate these effects, nor do they take into account wider macro-economic factors.

Investments that can be made on the Malta Stock Exchange are limited and this may lead to concentration of risk by having an exposure to a particular security or industry sector, which is higher than that normally associated with a diversified portfolio. The risk is managed through ensuring that the issuer or counterparty is a reputable and creditworthy institution. At 31 October 2018, 58% (2017: 53%) of the Amalgamated Growth and Income Fund's total assets were held in two equity instruments.

Furthermore, the Fund's performance is also influenced by the level of dividends receivable from its underlying equity securities. Consequently, any significant downturn in the dividend policy adopted by the underlying investments will accordingly impact the Fund's performance by reducing the amount of distributable profits available to be paid to shareholders.

##### **B Fair value hierarchy**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable).

2018				
	Level 1 €	Level 2 €	Level 3 €	Total €
<b>Assets</b>				
Financial assets at fair value through profit or loss	75,431,338	-	-	75,431,338
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	-	(4,651)	-	(4,651)
	<b>75,431,338</b>	<b>(4,651)</b>	<b>-</b>	<b>75,426,687</b>
2017				
	Level 1 €	Level 2 €	Level 3 €	Total €
<b>Assets</b>				
Financial assets at fair value through profit or loss	69,638,067	93,638	-	69,731,705
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	-	-	-	-
	<b>69,638,067</b>	<b>93,638</b>	<b>-</b>	<b>69,731,705</b>



## **ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2018**

### **AMALGAMATED GROWTH & INCOME FUND**

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

#### **15. FINANCIAL INSTRUMENTS (ctd)**

##### ***B Fair value hierarchy (ctd)***

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, debt securities and exchange traded funds. The Fund does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on alternative pricing sources supported by observable inputs are classified within Level 2. These include over-the-counter derivatives.

As at 31 October 2018 and 31 October 2017, the carrying amounts of the Fund's other financial assets and liabilities reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instrument and their expected realisation.

##### ***C Capital risk management***

The capital of the Fund is represented by the net assets attributable to equity holders of the Fund. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for equity holders of the Fund and maintain a strong capital base to support the development of the investment activities of the Fund.

The Board of Directors monitor capital on the basis of the value of net assets attributable to equity holders of the Fund.

#### **16. EVENT AFTER THE REPORTING PERIOD**

By means of a Company Announcement dated 16 April 2018, the Company had informed the market that it had entered into a preliminary agreement with UniCredit Spa for the acquisition of the latter's shareholding in Bank of Valetta p.l.c. On 1 November 2018, the Company issued a further announcement advising that the conditions precedent in the said agreement were not all satisfied by 31 October 2018 and accordingly, the agreement was automatically terminated.