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## **AMALGAMATED GROWTH & INCOME FUND**

a fund of

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

October 2019 – October 2019 – October 2019 – October 2019 – October 2019



## **Annual Report & Financial Statements**

for the year ended 31 October 2019

# **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.

3 February 2020



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# **ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019**

## **AMALGAMATED GROWTH & INCOME FUND**

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## **ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019**

### **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 2019.

#### **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. No new shares (2018: 6,249,945) shares were created in 2019 and no shares were redeemed during 2019 (2018: 107,604).

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 2019 at €76,480,233 represents a decrease of 2.24% from the total shareholder funds at 31 October 2018 which stood at €78,235,851.

Dividend income decreased from €4,559,970 in 2018 to €3,081,145 in 2019, a decrease of 32.43%, mainly a result of lower distributions from certain underlying investments. The Company's total expenses have increased from €21,791 in 2018 to €32,046 in 2019.

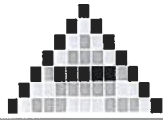
The Company's statement of comprehensive income registered a negative movement in the other net fair value changes on the financial assets held at fair value through profit or loss of €1,937,952 (2018: negative movement of €11,108,789) resulting from the negative share price movements of the Company's 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. The Fund's net asset value per share (NAVPS) as at 31 October 2019 of €2.432 represents a marginal decrease of 2.21% compared to the NAVPS of €2.487 as at 31 October 2018. The NAVPS at 31 October 2019 represents an increase of 13.64% 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.

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 2019**

### **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 6 June 2019 and 29 September 2019 paid interim net dividends of €1,750,000 and €300,000 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  
Dr. Norbert Tabone B. Accty (Hons), FCCA, MIA, Ph.D (Loughborough), CPA  
Chev. Michael Pace Ross B.A. (Hons) Mgt, MBA (appointed on 29 August 2019)

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.

#### **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

3 February 2020

Dr. N. Tabone  
Director



## *Independent auditor's report*

To the Shareholders of 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 2019, 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 11 to 25, comprise:

- the statement of financial position as at 31 October 2019;
- 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 (Cap. 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 - continued*

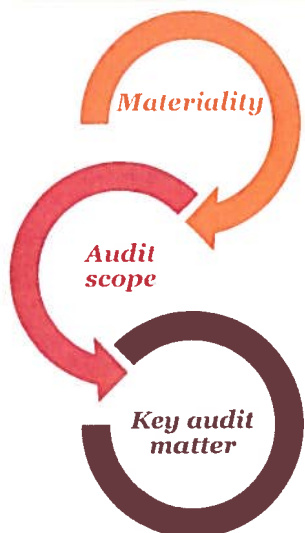
To the Shareholders of Amalgamated Investments SICAV p.l.c.

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 2018 to 31 October 2019, are disclosed in note 9(e) to the financial statements.

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### *Our audit approach* **Overview**



- Overall materiality: €765,000, which represents 1% of net asset value ("NAV") of the sub-fund of the company
- 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 - continued*

To the Shareholders of 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.

<b><i>Overall materiality</i></b>	€765,000 (2018: €782,300)
<b><i>How we determined it</i></b>	1% of net asset value ("NAV") of the sub-fund of the company.
<b><i>Rationale for the materiality benchmark applied</i></b>	We chose the above benchmark since investors within the fund are mainly focused on NAV. We chose 1% based on professional judgement, 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 €76,500 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.





## *Independent auditor's report - continued*

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

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, 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>	
As described in note 3, the financial assets at fair value through profit or loss as at year-end mainly comprised listed securities.	<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></ul>
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.	<ul style="list-style-type: none"><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 2019 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.</li></ul>
	The results of our procedures did not identify any material misstatements.



## *Independent auditor's report - continued*

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

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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 includes 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 - continued*

To the Shareholders of 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 judgement 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 - continued*

To the Shareholders of 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 the 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 19 years.

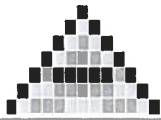
### **PricewaterhouseCoopers**

78, Mill Street  
Qormi  
Malta



Simon Flynn  
Partner

3 February 2020



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

## AMALGAMATED GROWTH & INCOME FUND

### Financial Statements

#### Statement of Financial Position

as at

	Notes	31.10.2019 €	31.10.2018 €
<b>Assets</b>			
<b>Current assets</b>			
Financial assets at fair value through profit or loss	3	<b>75,672,815</b>	75,431,338
Loans receivable	10(c)	<b>431,404</b>	2,714,779
Accrued income		<b>4,113</b>	7,454
Other debtors and prepayments	4	<b>237,299</b>	-
Cash and cash equivalents	14	<b>151,773</b>	122,434
<b>Total assets</b>		<b>76,497,404</b>	78,276,005
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the fund</b>			
Share capital	6	<b>73,591,956</b>	73,591,956
Equalisation reserve	7	<b>276,377</b>	276,377
Retained earnings		<b>2,611,900</b>	4,367,518
<b>Total equity</b>		<b>76,480,233</b>	78,235,851
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	3	-	4,651
Accrued expenses	5	<b>17,171</b>	35,503
<b>Total liabilities</b>		<b>17,171</b>	40,154
<b>Total equity and liabilities</b>		<b>76,497,404</b>	78,276,005
<b>Shares in issue as at 31 October 2019</b>	6	<b>31,453,367</b>	
Shares in issue as at 31 October 2018		31,453,367	
Shares in issue as at 31 October 2017		25,311,026	
<b>Net asset value as at 31 October 2019</b>		<b>76,480,233</b>	
Net asset value as at 31 October 2018		78,235,851	
Net asset value as at 31 October 2017		70,758,628	
<b>Net asset value per share as at 31 October 2019</b>	8	<b>2.432</b>	
Net asset value per share as at 31 October 2018		2.487	
Net asset value per share as at 31 October 2017		2.796	

The accounting policies and notes on pages 15 to 25 are an integral part of these financial statements.

These financial statements on pages 11 to 25 were authorised for issue by the Board of Directors on 3 February 2020 and were signed on its behalf by:

Prof. E. P. Delia  
Chairman

Dr. N. Tabone  
Director



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

## AMALGAMATED GROWTH & INCOME FUND

### ***Financial statements (ctd)***

#### ***Statement of Comprehensive Income*** for the year ended

	Notes	31.10.2019 €	31.10.2018 €
<b>Income</b>			
Bank interest		62	75
Dividend income		3,081,145	4,559,970
Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss		(1,937,952)	(11,108,789)
<b>Total net income/ (loss)</b>		<b>1,143,255</b>	<b>(6,548,744)</b>
<b>Expenses</b>			
Fees	9,10		
- Fund administrator fees		9,872	8,478
- Foreign portfolio management fees		3,133	-
- Custodian fees		4,335	4,359
Transaction costs		7,672	4,389
Directors' remuneration		1,078	-
Legal & professional fees		396	7,876
License & listing fees		3,661	9,264
Other costs		1,899	(12,575)
<b>Total operating expenses</b>		<b>32,046</b>	<b>21,791</b>
<b>Profit/(loss) before tax</b>		<b>1,111,209</b>	<b>(6,570,535)</b>
Tax expense	11	(816,827)	(1,226,568)
<b>Profit/(loss) for the year - total comprehensive income</b>		<b>294,382</b>	<b>(7,797,103)</b>

The accounting policies and notes on pages 15 to 25 are an integral part of these financial statements.



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

## 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 2017	56,617,630	276,377	13,864,621	70,758,628
<b>Comprehensive income</b>				
Loss 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)
Balance as at 31 October 2018	73,591,956	276,377	4,367,518	78,235,851
<b>Comprehensive income</b>				
Profit for the year	-	-	294,382	294,382
<b>Transactions with owners</b>				
Dividend distributions	-	-	(2,050,000)	(2,050,000)
<b>Balance as at 31 October 2019</b>	<b>73,591,956</b>	<b>276,377</b>	<b>2,611,900</b>	<b>76,480,233</b>

The accounting policies and notes on pages 15 to 25 are an integral part of these financial statements.



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

## AMALGAMATED GROWTH & INCOME FUND

### Financial statements (ctd)

#### Statement of Cash Flows

for the year ended

	Notes	31.10.2019 €	31.10.2018 €
<b>Cash flows from operating activities</b>			
Dividend income received		3,081,143	2,575,325
Interest received		435	4,713
Operating expenses paid		(51,799)	(48,867)
Net (purchases)/sales of investments		(2,181,119)	1,862,318
Cash generated from operating activities		848,660	4,393,489
Tax paid		(816,827)	(641,122)
<b>Net cash generated from operating activities</b>		<b>31,833</b>	<b>3,752,367</b>
<b>Cash flows from financing activities</b>			
Loan receipts (payment) from/to ultimate parent		2,047,506	(1,784,779)
Amounts paid on redemptions of redeemable shares		-	(294,082)
Dividend distributions	12	(2,050,000)	(1,700,000)
<b>Net cash used in from financing activities</b>		<b>(2,494)</b>	<b>(3,778,861)</b>
<b>Net movements in cash and cash equivalents</b>		<b>29,339</b>	<b>(26,494)</b>
Cash and cash equivalents at beginning of the year		122,434	148,928
<b>Cash and cash equivalents at end of the year</b>	14	<b>151,773</b>	<b>122,434</b>

The accounting policies and notes on pages 15 to 25 are an integral part of these financial statements.





# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

## 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 2018*

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in IAS 39.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

IFRS 9 has been applied retrospectively by the Fund and did not result in a change to the classification or measurement of financial instruments as outlined in note 3. The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 November 2018 that have a material effect on the financial statements of the Fund.

##### *(b) New standards, amendments and interpretations effective after 1 November 2018 and have not been early*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 November 2018, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

#### **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 2019

### AMALGAMATED GROWTH & INCOME FUND

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

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

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

The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristic of the financial assets. From 1 November 2018, the Fund classifies its financial assets and liabilities in the following categories:

- (i) Those to be measured subsequently at fair value through profit or loss; and
- (ii) Those to be measured at amortised cost.

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

The Fund is primarily focused on fair value information and uses that information to assess the investments performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flow of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss. The Fund's investment portfolio which had been previously been designated at fair value through profit or loss were classified as fair value through profit or loss on adoption of IFRS 9.

##### *Financial assets at amortised cost*

The Fund classifies its financial assets at amortised cost only if both the following criteria are met:

- The asset is held with a business model whose objectives is to collect contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payment of principal and interest

Financial asset at amortised cost held by the Fund include loans and receivables. The Fund's loans and receivables comprise loan receivable, accrued income, other receivables, margin account and cash and cash equivalents. The group reclassifies debt investments when and only when its business model for managing those assets changes.

##### *Financial liabilities at amortised cost*

Financial liabilities that are not classified at fair value through profit or loss are classified at amortised cost. Financial liabilities measured at amortised cost include accrued expenses and redeemable shares.

##### **(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 or liabilities not at fair value through profit or loss are recognised on the date they are originated and are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or issue.

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. The Fund derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

When the Fund purchases an option, an amount equal to fair value which is based on the premium paid is recorded as an asset. When the Fund writes an option, an amount equal to fair value which is based on the premium received by the Fund is recorded as a liability. When options are closed, the difference between the premium and the amount paid or received, net of brokerage commissions, or the full amount of the premium if the option expires worthless, is recognised as a gain or loss and is presented in the statement of comprehensive income within 'net movement on financial assets and liabilities at fair value through profit or loss'.

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

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 'net movement on financial assets and liabilities at fair value through profit or loss' in the period in which they arise.



## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

### AMALGAMATED GROWTH & INCOME FUND

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

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

##### *Financial assets at amortised cost*

Financial assets at amortised costs are subsequently measured at amortised costs. At each reporting date, the Fund measure the loss allowance on this type of financial assets at an amount equal to the lifetime ECL if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to 12-month ECL. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit-impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

##### *Financial liabilities at amortised cost*

Financial liabilities arising from the puttable feature of shares issued by the Fund are carried at the amount representing the shareholder's right to a residual interest in the Fund's net assets. Financial liabilities at amortised cost are measured using the effective interest rate method.

#### **(c) Fair value measurement**

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.

#### **(d) Transfers between levels of the fair value hierarchy**

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

#### **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.

#### **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. Cash and cash equivalents are measured at amortised cost.

#### **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.



## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

### AMALGAMATED GROWTH & INCOME FUND

#### Accounting policies (ctd)

##### **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.

##### **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.

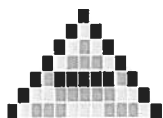
Dividend distribution to the Fund's shareholders is recognised as a liability in the Fund's financial statements in the period in which the dividends are approved by the Fund's shareholders.

##### **12 Dividend income and Interest Income**

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. Interest is recognised on a time-proportionate basis using the effective interest method. Interest income includes interest from cash and cash equivalents and debt securities classified as financial assets at amortised cost.

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

Transaction costs are costs incurred on acquisition/disposal of financial assets or liabilities 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 2019

## 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 AT FAIR VALUE THROUGH PROFIT OR LOSS

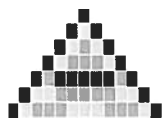
	Fair value 31/10/2019	% of net assets	Fair value 31/10/2018	% of net assets
<b>Financial assets designated at fair value through profit or loss</b>				
Listed equity investments	71,156,401	93.04%	74,241,618	94.89%
Collective investment schemes	4,516,414	5.91%	1,189,720	1.52%
	<b>75,672,815</b>	<b>98.95%</b>	<b>75,431,338</b>	<b>96.41%</b>
<b>Financial liabilities held for trading</b>				
Forward exchange contracts	-	-	4,651	-

#### 4. OTHER DEBTORS AND PREPAYMENTS

	31/10/2019 €	31/10/2018 €
Prepayments	1,431	-
Preplacements	235,868	-
	<b>237,299</b>	<b>-</b>

#### 5. ACCRUED EXPENSES

	31/10/2019 €	31/10/2018 €
Accrued custodian fees	2,052	12,264
Accrued foreign portfolio management fees	3,133	-
Other accrued expenses	11,986	23,239
	<b>17,171</b>	<b>35,503</b>



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

## AMALGAMATED GROWTH & INCOME FUND

### Notes to the financial statements (ctd)

#### 6. SHARE CAPITAL

##### a) Authorised share capital

	31/10/2019 Shares	31/10/2018 Shares
40,000,000 shares	40,000,000	40,000,000

##### b) Issued and fully paid

	31/10/2019 Shares	31/10/2018 Shares
<b>Shares in issue at beginning of the year</b>	<b>31,453,367</b>	25,311,026
Issue of shares	-	6,249,945
Redemption of shares	-	(107,604)
<b>Shares in issue at end of the year</b>	<b>31,453,367</b>	<b>31,453,367</b>

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 accordance with the Offering Memorandum.

The Fund's issued share capital as at 31 October 2019 amounted to €73,591,956 (2018: €73,591,956) with 31,453,367 shares in issue as shown above (2018: 31,453,367 shares).

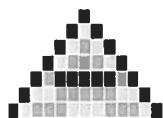
#### 7. EQUALISATION RESERVE

	31/10/2019 €	31/10/2018 €
At beginning of the year	276,377	276,377
Equalisation created upon issue of shares (Note 6 refer)	-	-
<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.



## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

### AMALGAMATED GROWTH & INCOME FUND

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

##### 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 Valletta 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 9 September 2019, BOV Asset Management Limited, a Company licensed under the Investment Services Act (Chap. 370 of the Laws of Malta) to carry out the management of collective investment schemes, were appointed to undertake 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 Fund Manager is entitled to receive from the Fund a fee of 0.40% per annum of the net asset value of the Fund and a performance fee should the designated investment portfolio perform above the agreed high-water mark. Management fees incurred during the year under review amounts to €3,133 (2018: NIL). No performance fees were incurred during the year under review (2018: NIL).

###### 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 (2018: €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:

	31.10.2019	31.10.2018
	€	€
Annual statutory audit	4,500	4,500
Tax compliance services	1,040	1,040
	<b>5,540</b>	<b>5,540</b>

##### 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 9 September 2019, BOV Asset Management Limited, were appointed to undertake 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.
- 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 year ended 31 October 2017. 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 ended 31 October 2018. Promissory notes issued during the year ended 31 October 2018 amounted to €2,302,010 and are all subject to the same terms and conditions as the promissory note dated 25 July 2016. During the year under review, the €2,283,375 was re-paid leaving a total outstanding amount of €431,404 as at year end (2018: €2,714,779).



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

## AMALGAMATED GROWTH & INCOME FUND

### Notes to the financial statements (ctd)

#### 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 2019 and 2018 amounted in total to €2,050,000 (€0.0652 per share) and €1,700,000 (€0.0540 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 2019 comprise a net interim dividend of €1,750,000 (€0.0556 per share) which was paid on 6 June 2019, and a final interim dividend of €300,000 (€0.0095 per share) was paid on 2 October 2019.

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.

#### 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.

Director's fees during the year under review amounted to €1,078 (2018: NIL). 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:

	2019 €	2018 €
Bank balances - Euro denominated	94,838	2,293
Bank balances - other	56,935	120,141
	<b>151,773</b>	<b>122,434</b>
Deposits held with banks earn interest at floating rates.	<b>151,773</b>	<b>122,434</b>
	<b>151,773</b>	<b>122,434</b>





## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

### 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 2019 and 31 October 2018 is the carrying amount of the financial assets as set out below.

	2019	2018
	€	€
Preplacements	235,868	-
Loan receivable (Note 10)	431,404	2,714,779
Accrued income	4,113	7,454
Cash & cash equivalents	151,773	122,434
	<b>823,158</b>	<b>2,844,667</b>

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 31 October 2019 and 31 October 2018, all other receivables and cash and cash equivalents are held with quality financial institutions. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

As at the reporting date, the Fund was not exposed to credit risk on forward exchange contracts. As at 31 October 2019, the Fund had NIL (2018: one) open transaction in forward exchange contracts.

##### *(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. 91.66% (2018: 90.19%) 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 accordance with the requirements of the Offering Memorandum.

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.



## ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

### AMALGAMATED GROWTH & INCOME FUND

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

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

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

##### **(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 1.12% of the net asset value of the Fund (31 October 2018: 0.33%).

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 2019 amounting to 0.56% of the net asset value (2018: 3.47%). 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 0.20% of the net assets of the Fund (2018: 0.16%). 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.

##### ***(iii) 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 €4,908,719 (2018: €4,939,353). 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 2019, 49.76% (2018: 58%) 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.



# ANNUAL REPORT & FINANCIAL STATEMENTS – 31 OCTOBER 2019

## AMALGAMATED GROWTH & INCOME FUND

### Notes to the financial statements (ctd)

#### 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).

	2019			Total €
	Level 1 €	Level 2 €	Level 3 €	
<b>Assets</b>				
Financial assets at fair value through profit or loss	75,672,815	-	-	75,672,815
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	-	-	-	-
	75,672,815	-	-	75,672,815
	2018			Total €
	Level 1 €	Level 2 €	Level 3 €	
<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)
	75,431,338	(4,651)	-	75,426,687

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 2019 and 31 October 2018, 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.