# OPTIMAL INVESTMENT GROWTH BASKET LIMITED

## Annual Report and Financial Statements

## For the year ended 30 September 2019

# OPTIMAL INVESTMENT GROWTH BASKET LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS
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# OPTIMAL INVESTMENT GROWTH BASKET LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS
## GENERAL INFORMATION

| | |
|---|---|
| **DIRECTORS:** | Chris Hickling<br>Janine Lewis<br>David Stephenson |
| **ADMINISTRATOR, SECRETARY AND REGISTRAR:** | Praxis Fund Services Limited<br>Sarnia House<br>Le Truchot<br>St Peter Port<br>Guernsey<br>GY1 1GR |
| **REGISTERED OFFICE:** | Sarnia House<br>Le Truchot<br>St Peter Port<br>Guernsey<br>GY1 1GR |
| **AUDITOR:** | Saffery Champness GAT LLP<br>PO Box 141<br>La Tonnelle House<br>Les Banques<br>St Sampson<br>Guernsey<br>GY1 3HS |
| **BANKERS:** | Investec Bank (Channel Islands) Limited<br>PO Box 188<br>Glategny Court<br>Glategny Esplanade<br>St Peter Port<br>Guernsey<br>GY1 3LP |
| **COMPANY REGISTRATION NO:** | 42302 |

# OPTIMAL INVESTMENT GROWTH BASKET LIMITED

## REPORT OF THE DIRECTORS
**For the year ended 30 September 2019**

The Directors present their annual report and the audited financial statements ("the financial statements") for the year ended 30 September 2019.

**Principal Activity**

The principal activity of the Company is investment holding.

The Company is a Guernsey authorised closed-ended investment company and is subject to the Authorised Closed-Ended Investment Scheme Rules 2008.

**Going concern**

At an Extraordinary General Meeting of the Company held on 18 May 2018, shareholders approved a special resolution to extend the life of the Company for a further period of between 5 and 10 years from the Company's current termination date of 26 November 2018, and authorised the Directors to seek to raise additional capital through a secondary fund raising. The fund raising closed on 28 November 2018 and was successful. Accordingly, under the terms of the Company's new prospectus, which replaced the current prospectus with effect from 18 May 2018, and in the absence of a further special resolution to extend the life of the Company, the Company's shares will be redeemed and the Company will terminate between December 2023 and December 2028.

The Board notes that the onset of the Covid-19 pandemic has had a significant disruptive impact on economies and financial markets worldwide, and has undertaken an assessment of the effect that the pandemic may have on the Company's ability to operate as a going concern.

The Board considers that the Covid-19 pandemic will not have a significant impact on the Company's ability to continue as a going concern, for the following reasons:

• The Company is closed-ended, as a result of which the Board has the power to decline requests to redeem shareholdings if it believes that such redemptions are not in the best interests of the Company;
• Should investors wish to redeem their shareholdings, there is the option to do so via the secondary market, facilitated by the Investment Adviser;
• Should the Board agree to a redemption, it would be offered to the investor at a price that the assets can be redeemed in the market. The Company itself would not be exposed to any losses that may arise;
• The Company is less exposed to the risk of widespread investor sell-off, because of the defensive nature of the Company's investment profile. Other than through default or insolvency of the debt provider, investors will be aware that on maturity of the Company, at the very least their invested capital will be protected, so limiting their exposure to falls in the markets of the kind that are currently being experienced. The Company has more than 3 years left until its maturity, so the Board considers that investors may be more likely to retain their shareholdings on the basis that they may take the view that the return from the Option investment is likely to be greater in 3 years' time than it is currently at a time of such market turbulence.
• To date the Board has received no enquiries, either directly or via the Investment Adviser, from investors wishing to redeem their shareholdings.

As a result of the extension of the life of the Company, of the above considerations related to the Covid-19 pandemic, and as the Company has sufficient working capital and adequate resources to continue in operations and meet its liabilities as they fall due for the foreseeable future, the Directors have determined that these financial statements should be prepared on a going concern basis.

**Results and Dividends**

The Statement of Comprehensive Income is set out on page 9. The Directors do not propose a dividend for the year (2018: £ Nil).

**Directors**

The Directors of the Company during the year and to the date of this report are detailed below.

Chris Hickling

Janine Lewis

David Stephenson

### Directors' and Other Interests

Janine Lewis is a director of Praxis Fund Services Limited ('PFSL'), the Company's Administrator, Secretary, Custodian and Registrar, and David Stephenson is an employee of PFSL. Chris Hickling is a director of Praxis Fund Holdings Limited, the immediate parent company of PFSL. Janine Lewis, Chris Hickling and David Stephenson are shareholders in PraxisIFM Group Limited, the ultimate parent company of PFSL.

During the year, no Director has had any beneficial interest in the shares of the Company.

No Director of the Company, or Investec Corporate and Institutional Banking ('ICIB'), the Investment Advisor to the Company, holds any right, either contingent or otherwise, to subscribe for shares in the Company.

Details of fees paid to PFSL and ICIB during the year are contained in notes 4 and 15 to these Financial Statements.

No fees were paid to the Directors by the Company during the year.

### Historical Results

The results and assets and liabilities of the Company for the last 5 years are as follows:

| | Total Assets | Total Liabilities | Total Comprehensive Income/Loss) |
|---|---|---|---|
| | £ | £ | £ |
| Year ended 30 September 2019 | 62,726,233 | 20,657 | 3,236,956 |
| Year ended 30 September 2018 | 40,668,560 | 19,145 | 2,548,914 |
| Year ended 30 September 2017 | 38,125,077 | 24,576 | 1,935,936 |
| Year ended 30 September 2016 | 36,017,724 | 21,725 | 3,099,330 |
| Year ended 30 September 2015 | 33,078,712 | 13,477 | (1,978,462) |

### Investment Portfolio

The Company's investment portfolio comprises the following investments:

| | Percentage of portfolio | Cost | Carrying Value |
|---|---|---|---|
| | | £ | £ |
| Investec Bank Limited Subordinated Callable Notes | 83.5% | 45,204,977 | 49,206,231 |
| UBS AG Index Basket Option | 16.5% | 8,646,081 | 9,719,569 |
| | | 53,851,058 | 58,925,800 |

Investec Bank Limited and UBS AG are providers of financial services.

**Statement of Directors' Responsibilities**

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report, which complies with the requirements of The Companies (Guernsey) Law, 2008.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with The Companies (Guernsey) Law, 2008. The Directors have chosen to prepare financial statements for the Company in accordance with International Financial Reporting Standards (IFRSs).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.
- the financial statements give a true and fair view and have been prepared in accordance with International Financial Reporting Standards, with The Companies (Guernsey) Law, 2008 and with The Protection of Investors (Bailiwick of Guernsey) Law, 1987.

**Auditor**

A resolution to re-appoint Saffery Champness GAT LLP as auditor will be put to the members at the Annual General Meeting.

By Order of the Board

**David Stephenson**
**Director**
**31 March 2020**

## Independent auditor's report to the members

**Opinion**

We have audited the financial statements of Optimal Investment Growth Basket Limited (the "Company") for the year ended 30 September 2019, which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs").

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the Company as at 30 September 2019 and of the profit for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. 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 are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

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

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

**Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact.

We have nothing to report in this regard.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters, in relation to which, The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

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

**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 (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

**Use of our report**
This report is made solely to the Company's members, as a body, in accordance with section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**SAFFERY CHAMPNESS GAT LLP**
**Chartered Accountants**
**St Sampson**
**Guernsey**
**31 March 2020**

## OPTIMAL INVESTMENT GROWTH BASKET LIMITED

### STATEMENT OF COMPREHENSIVE INCOME
**For the year ended 30 September 2019**

| | Notes | **Year ended 30 Sept 2019 £** | Year ended 30 Sept 2018 £ |
|---|---|---|---|
| **REVENUE** | | | |
| Interest income | 5 | **2,603,280** | 2,302,119 |
| | | | |
| **(LOSSES)/GAINS ON INVESTMENTS** | | | |
| Investments at fair value through profit and loss | 6 | **(1,006,391)** | 799,217 |
| Derivatives at fair value through profit and loss | 8 | **(16,644)** | (52,381) |
| | | **1,580,245** | 3,048,955 |
| | | | |
| Operating expenses | 9 | **(790,407)** | (500,041) |
| Foreign exchange losses | | **(5,100)** | - |
| **PROFIT FOR THE YEAR** | | **784,738** | 2,548,914 |
| | | | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| ***Items that may be reclassified to profit or loss*** | | | |
| Foreign exchange translation gains | | **2,452,218** | |
| | | | |
| Total other comprehensive income for the year | | **2,452,218** | **-** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **3,236,956** | 2,548,914 |
| | | | |
| **Earnings per ordinary share** | | | |
| Basic and diluted earnings per ordinary share | 10 | **27.84** | 126.95 |

There are no recognised gains or losses other than those reported above.

The notes on pages 13 to 27 are an integral part of these financial statements.

## OPTIMAL INVESTMENT GROWTH BASKET LIMITED

### STATEMENT OF FINANCIAL POSITION
### As at 30 September 2019

| | Notes | 30 Sept 2019 £ | 30 Sept 2018 £ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments at fair value through profit and loss | 6 | **9,719,569** | - |
| Investments at amortised cost | 7 | **49,206,231** | - |
| | | **58,925,800** | - |
| **CURRENT ASSETS** | | | |
| Investments at fair value through profit and loss | 6 | **-** | 40,485,259 |
| Derivatives at fair value through profit and loss | 8 | **-** | 16,644 |
| Trade and other receivables | 11 | **345,149** | 66,039 |
| Cash and cash equivalents | | **3,455,284** | 100,618 |
| | | **3,800,433** | 40,668,560 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 12 | **(20,657)** | (19,145) |
| **NET CURRENT ASSETS** | | **3,779,776** | 40,649,415 |
| | | **62,705,576** | 40,649,415 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 13 | **279** | 210 |
| Share premium | 14 | **45,524,460** | 25,073,158 |
| Retained earnings | | **14,728,619** | 15,576,047 |
| Translation reserve | | **2,452,218** | - |
| **EQUITY SHAREHOLDERS' FUNDS** | | **62,705,576** | 40,649,415 |
| Number of fully paid Class A shares | | **16,752.946** | 20,078.284 |
| Number of fully paid Class B shares | | **13,002.754** | - |
| Net Asset Value per Class A share | | **£2,107.35** | £2,024.55 |
| Net Asset Value per Class B share | | **US$2,589.72** | N/A |

The financial statements were approved and authorised for issue by the Board on 31 March 2020 and signed on its behalf by:

**David Stephenson**
**Director**

The notes on pages 13 to 27 are an integral part of these financial statements.

## OPTIMAL INVESTMENT GROWTH BASKET LIMITED

### STATEMENT OF CHANGES IN EQUITY
**For the year ended 30 September 2019**

| | Note | Management Shareholders | Ordinary Shareholders | | | | Total |
|---|---|---|---|---|---|---|---|
| | | **Share Capital £** | **Share Capital £** | **Share Premium £** | **Retained Earnings £** | **Translation Reserve £** | **Total £** |
| At 30 September 2017 | | 10 | 200 | 25,073,158 | 13,027,133 | - | 38,100,501 |
| Net profit for the year | | - | - | - | 2,548,914 | - | 2,548,914 |
| **At 30 September 2018** | | **10** | **200** | **25,073,158** | **15,576,047** | **-** | **40,649,415** |
| ***Adjustment on adoption of IFRS 9 - reclassification of financial assets to amortised cost*** | *7* | - | - | - | **(16,400)** | - | **(16,400)** |
| ***Total comprehensive income*** | | | | | | | |
| **Net profit for the year** | | **-** | **-** | **-** | **784,738** | **-** | **784,738** |
| ***Other comprehensive income*** | | | | | | | |
| **Foreign exchange translation gains** | | **-** | **-** | **-** | **-** | **2,452,218** | **2,452,218** |
| ***Total comprehensive income*** | | **-** | **-** | **-** | **784,738** | **2,452,218** | **3,236,956** |
| ***Transactions with owners*** | | | | | | | **-** |
| **Redemption of shares** | **13,14** | **-** | **(75)** | **(13,087,744)** | **(1,615,766)** | **-** | **(14,703,585)** |
| **Issue of shares** | **13,14** | **-** | **144** | **33,545,046** | **-** | **-** | **33,545,190** |
| **Share issue costs** | **14** | **-** | **-** | **(6,000)** | **-** | **-** | **(6,000)** |
| **At 30 September 2019** | | **10** | **269** | **45,524,460** | **14,728,619** | **2,452,218** | **62,705,576** |

The notes on pages 13 to 27 are an integral part of these financial statements.

## OPTIMAL INVESTMENT GROWTH BASKET LIMITED

### STATEMENT OF CASH FLOWS
### For the year ended 30 September 2019

| | Notes | **Year ended 30 Sept 2019 £** | Year ended 30 Sept 2018 £ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | **784,738** | 2,548,914 |
| Adjustments for: | | | |
| Interest income | 5 | **(2,603,280)** | (2,302,119) |
| Adjustments for: | | | |
| Gain on investments at fair value through profit and loss | 6 | **1,006,391** | (799,217) |
| Loss on derivatives at fair value through profit and loss | 8 | **16,644** | 52,381 |
| Foreign exchange losses | | **5,100** | - |
| Increase in trade and other receivables | | **(75,676)** | (1,054) |
| Increase/(decrease) in trade and other payables | | **1,512** | (5,431) |
| **Net cash outflow from operating activities** | | **(864,571)** | (506,526) |
| **Cash flows from investing activities** | | | |
| Bank interest | | **2** | 969 |
| Disposal of investments at fair value through profit or loss | 6 | **4,223,090** | - |
| Disposal of investments held at amortised cost | 7 | **34,796,957** | - |
| Acquisition of investments at fair value through profit or loss | 6 | **(8,646,081)** | - |
| Acquisition of investments held at amortised cost | 7 | **(45,204,977)** | - |
| **Net cash (outflow)/inflow from investing activities** | | **(14,831,009)** | 969 |
| **Cash flows from financing activities** | | | |
| Issue of ordinary share capital | | **33,341,756** | - |
| Redemption of ordinary share capital | | **(14,703,585)** | - |
| Share issue costs | 14 | **(6,000)** | - |
| **Net cash inflow from financing activities** | | **18,632,171** | - |
| **Increase/(decrease) in cash and cash equivalents for the year** | | **2,936,591** | (505,557) |
| **Cash and cash equivalents at the beginning of the year** | | **100,618** | 606,175 |
| **Foreign exchange translation gains** | | **418,075** | - |
| **Cash and cash equivalents at the end of the year** | | **3,455,284** | 100,618 |

The notes on pages 13 to 27 are an integral part of these financial statements.

## 1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

**Basis of preparation**
The financial statements of Optimal Investment Growth Basket Limited, with domicile in Guernsey, have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ("IASB").

**Going concern**
At an Extraordinary General Meeting of the Company held on 18 May 2018, shareholders approved a special resolution to extend the life of the Company for a further period of between 5 and 10 years from the Company's current termination date of 26 November 2018, and authorised the Directors to seek to raise additional capital through a secondary fund raising. The fund raising closed on 28 November 2018 and was successful. Accordingly, under the terms of the Company's new prospectus, which replaced the current prospectus with effect from 18 May 2018, and in the absence of a further special resolution to extend the life of the Company, the Company's shares will be redeemed and the Company will terminate between December 2023 and December 2028. As a result, and as the Company has sufficient working capital and adequate resources to continue in operations and meet its liabilities as they fall due for the foreseeable future, these financial statements have been prepared on a going concern basis.

The Board notes that the onset of the Covid-19 pandemic has had a significant disruptive impact on economies and financial markets worldwide, and has undertaken an assessment of the effect that the pandemic may have on the Company's ability to operate as a going concern.

The Board considers that the Covid-19 pandemic will not have a significant impact on the Company's ability to continue as a going concern, for the following reasons:

• The Company is closed-ended, as a result of which the Board has the power to decline requests to redeem shareholdings if it believes that such redemptions are not in the best interests of the Company;
• Should investors wish to redeem their shareholdings, there is the option to do so via the secondary market, facilitated by the Investment Adviser;
• Should the Board agree to a redemption, it would be offered to the investor at a price that the assets can be redeemed in the market. The Company itself would not be exposed to any losses that may arise;
• The Company is less exposed to the risk of widespread investor sell-off, because of the defensive nature of the Company's investment profile. Other than through default or insolvency of the debt provider, investors will be aware that on maturity of the Company, at the very least their invested capital will be protected, so limiting their exposure to falls in the markets of the kind that are currently being experienced. The Company has more than 3 years left until its maturity, so the Board considers that investors may be more likely to retain their shareholdings on the basis that they may take the view that the return from the Option investment is likely to be greater in 3 years' time than it is currently at a time of such market turbulence.
• To date the Board has received no enquiries, either directly or via the Investment Adviser, from investors wishing to redeem their shareholdings.

As a result of the extension of the life of the Company, of the above considerations related to the Covid-19 pandemic, and as the Company has sufficient working capital and adequate resources to continue in operations and meet its liabilities as they fall due for the foreseeable future, the Directors have determined that these financial statements should be prepared on a going concern basis.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

**Adoption of new and revised standards**
During the year, the following relevant standards and interpretations were adopted by the Company:

- IFRS 7 (amended), "Financial Instruments: Disclosures" (amendments effective for periods commencing on or after 1 January 2018, or on application of IFRS 9 if earlier);
- IFRS 9, "Financial Instruments - Classification and Measurement" (effective for periods commencing on or after 1 January 2018);
- IFRS 15, "Revenue from Contracts with Customers" (effective for periods commencing on or after 1 January 2018).

In addition, the IASB completed its Annual Improvements 2014-2016 Cycle project in December 2016 and its Annual Improvements 2015-2017 Cycle project in December 2017. These projects amended certain existing standards and interpretations effective for accounting periods commencing on or after 1 January 2018.

For details of the impact of the adoption of IFRS 9, please see the 'Changes in accounting policies' section below.

The adoption of IFRS 15 has not had a material effect on these Financial Statements as the Company has no income within the scope of IFRS 15.

Other than noted above, the Directors believe that none of these standards and interpretations will have a material effect on the financial statements of the Company.

**New, revised and amended standards and interpretations not yet adopted**
At the date of authorisation of these financial statements, the following relevant standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS 9 (amended), "Financial Instruments - Classification and Measurement" (amendments regarding prepayment features with negative compensation and modifications of financial liabilities, effective for periods commencing on or after 1 January 2019);

In addition, the IASB published ‘Definition of Material (Amendments to IAS 1 and IAS 8)’ in October 2018. This project has amended IAS 1 and IAS 8 to clarify the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards, effective for accounting periods commencing on or after 1 January 2020.

The Directors do not anticipate that the adoption of these standards in future periods will have a material impact on the financial statements of the Company.

**Changes in accounting policies**
*IFRS 9 “Financial Instruments”*
IFRS 9 ‘Financial Instruments’ addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018. As such the Company has adopted IFRS 9 for the first time in this financial year.

*Key requirements of IFRS 9*
Classification and measurement of financial assets will be driven by the entity’s business model for managing the financial assets and the contractual cash flow characteristic of those financial assets.

There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income and (iii) fair value through profit or loss. Under IFRS 9, equity or derivative investments are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income.

IFRS 9 also introduces a new expected credit loss impairment model, as opposed to the incurred credit loss model implemented under IAS 39. This requires entities to account for expected credit losses at initial recognition and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

### Changes in accounting policies (continued)

*Key requirements of IFRS 9 (continued)*

Finally, under IFRS 9 greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

*Impact of IFRS 9 – Classification and measurement*

Under the terms of IFRS 9, the Company has determined that it has two distinct business models, as follows:

(i) To invest in a debt instrument issued by Investec Bank Limited. The purpose of the Company's investment in the debt instrument is to collect the contractual cashflows of solely payments of principal and interest arising on maturity, which will provide capital protection for investors in the Company. Accordingly, on adoption of IFRS 9, the Company determined that its investment in the Investec Bank Limited Structured Deposit (the "Structured Deposit") should be reclassified from an investment at fair value through profit or loss to an investment at amortised cost with effect from the commencement of the current financial year. Subsequent to the maturity of the Structured Deposit on 28 November 2018, the Company invested in a holding of Investec Bank Limited Callable Notes (the "Notes"), which has also been classified as an investment at amortised cost.

(ii) To invest in an option linked to a basket of indices, in order to provide investors with a potential upside on their investment. Under the terms of IFRS 9, the option is automatically classified as an investment at fair value through profit or loss.

The adoption of IFRS 9 had a small impact on the valuation of the Structured Deposit, which was reclassified as an investment at amortised cost. As a result of this reclassification, at the start of the year the carrying value of the Structured Deposit was adjusted from a brought forward fair value of £34,517,750 to an amortised cost of £34,501,350, a decrease of £16,400.

In accordance with IFRS 9, the Company is required to assess its investment at amortised cost for expected credit losses at the reporting date and, having reviewed the credit rating of Investec Bank Limited, has concluded that no credit losses are expected over the life of the investment.

Other than as noted above, the adoption of IFRS 9 has not had a material impact on these Financial Statements, principally for the following reasons:

- the classification and measurement methodology for all of the Company's other assets and liabilities has remained the same under IFRS 9 as under IAS 39;
- the Company's Option investment is measured at fair value and so the changes in IFRS 9 relating to the assessment of credit losses do not apply to this instrument;
- the Company does not apply hedge accounting, and is therefore unaffected by the hedge accounting-related changes introduced in IFRS 9.

In accordance with the transition provisions of IFRS 9, prior year comparative balances have not been adjusted.

### Foreign exchange

Items included in the financial statements of the Company are measured in the currency of the primary economic environment in which the Company operates (the "functional currency"). Until the Company's rollover on 28 November 2018, the Directors determined that the functional currency of the Company was Sterling, as it was the currency in which the Company's capital was raised, its investments denominated, and the majority of its expenses incurred. Subsequent to 28 November 2018, the Directors have determined that the functional currency of the Company is US Dollars, as it is the currency in which the Company's investments are denominated, a significant proportion (although not the majority) of capital raised, and in which the majority of the Company's expenses are incurred. For consistency with previous annual financial statements, the Directors have selected Sterling as the presentation currency of the Company.

## 1. PRINCIPAL ACCOUNTING POLICIES (continued)

**Foreign exchange (continued)**
Foreign currency assets and liabilities are translated into Sterling at the rate of exchange ruling on the reporting date. Foreign currency transactions are translated into the functional currency of US Dollars at the rate of exchange ruling at the date of the transaction, and then translated into Sterling at the average exchange rate for the reporting period. Foreign exchange gains and losses are recognised in the Statement of Comprehensive Income in the period in which they arise. Differences arising on translation from the functional currency to the presentation currency are recognised in other comprehensive income in the period in which they arise and are taken to the translation reserve.

**Revenue recognition**
Revenue includes bank interest and interest on the Structured Deposit and the Notes and is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company and the revenue can be measured reliably. Interest on the Structured Deposit and the Notes has been calculated on an effective interest rate basis. Other revenues are accounted for on an accruals basis.

**Expenses**
Expenses are accounted for on an accruals basis. All expenses are charged to the Statement of Comprehensive Income, except for expenses incurred in relation to the launch of the Company, which have been charged against share premium.

**Investments**
The Company's Option investments are classified as investments at fair value through profit or loss.

On adoption of IFRS 9, the Company's investment in the Structured Deposit investment was reclassified from an investment at fair value through profit or loss to an investment at amortised cost. The Structured Deposit was disposed of during the year.

The Company's investment in the Notes is classified as an investment at amortised cost.

All investments are measured initially at fair value net of transaction costs, except where the investment will subsequently be measured at fair value through profit or loss. Transaction costs relating to the acquisition of investments at fair value through profit or loss are expensed as incurred in the Statement of Comprehensive Income. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

After initial recognition, the Option investment is measured at fair value through profit or loss. Fair value is calculated using quoted market prices, independent appraisals, discounted cash flow analysis or other appropriate valuation models at the year end date. After initial recognition, the Notes are measured at amortised cost using the effective interest rate method. Gains or losses arising on the disposal of investments are recognised in the Statement of Comprehensive Income, as are unrealised gains or losses on investments at fair value through profit or loss.

**Liquid resources**
Liquid resources comprise cash and cash equivalents and long-term deposits. Cash and cash equivalents comprises bank balances and short term deposits with an original maturity of three months or less. Deposits with an original maturity of greater than three months are classified as long-term deposits.

**Trade and other receivables**
Trade receivables are stated at amortised cost less any impairment.

**Financial liabilities**
Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

**Taxation**
The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged an annual exemption fee of £1,200 (2018: £1,200).

## 2. SEGMENT REPORTING

The Board of Directors considers that the Company is engaged in a single segment of business, being the holding of investments. The Board considers that it is the Company's Chief Operating Decision Maker.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results could differ from such estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate was revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

For details of the Directors' judgements in relation to the determination of the Company's functional currency, please refer to note 1, 'Foreign exchange'.

The Directors determined, on adoption of IFRS 9, that the Company's investment in the Structured Deposit should be reclassified from an investment at fair value through profit or loss to an investment at amortised cost, in accordance with the requirements of that standard (see note 1), and that its Option investment should be classified as an investment at fair value through profit or loss. On the acquisition of the Notes, the Directors determined that they should be classified as an investment at amortised cost. The methodologies for establishing the carrying value of the Company's investments are detailed in notes 6 and 7.

## 4. SIGNIFICANT AGREEMENTS

The following significant agreements have been entered into by the Company:

**Administration, Custodian and Secretarial Agreement**
Under the Administration, Custodian and Secretarial Agreement, with effect from 28 November 2018, the Company has agreed to pay or procure to be paid to the Administrator, for its services as administrator, secretary, custodian and registrar, a fee of 0.15% (2018: 0.15%) per annum of the Company's funds (as reduced by any redemptions of shares prior to the Redemption Date, which attract a settlement and registration fee of up to 0.5% of the value of the redemption) up to 28 November 2019, and 0.135% per annum thereafter. In addition the Administrator is entitled to receive interest earned by the Company on the unpaid element of the fees. See notes 9, 11, 12 and 15 for details of administration fees and interest paid in the year and balances outstanding at the year end.

**Investment Advisory Agreement**
Under the Investment Advisory Agreement, with effect from 28 November 2018, the Company has agreed to pay or procure to be paid to the Advisor, for its services as advisor, a fee of 0.65% (2018: 0.6%) per annum of the Company's funds (as reduced by any redemptions of shares prior to the Redemption Date, which attract a settlement and registration fee of up to 0.75% of the value of the redemption). In addition the Advisor is entitled to receive interest earned by the Company on the unpaid element of the fees. See notes 9, 11, 12 and 15 for details of investment advisory fees and interest paid in the year and balances outstanding at the year end.

**Distribution Agreement**
Under the Distribution Agreement, the Company has agreed to pay or procure to be paid to the Distributors a fee of 0.65% (2018: 0.65%) per annum of that portion of the Company's funds that is derived from the subscription amount subscribed for by Subscribers introduced by the Distributor (as reduced by any redemptions of such shares prior to the Redemption Date), or holders of existing issued shares introduced by the Distributor and who elect to remain invested in the Company (as reduced by any redemptions of such shares prior to the Redemption Date). Investec Corporate and Institutional Banking, the Company's Investment Advisor, is also a Distributor for the Company. See notes 9, 11 and 12 for details of distribution fees paid in the year and balances outstanding at the year end.

## 4. SIGNIFICANT AGREEMENTS (continued)

All fees described above are payable annually in advance on the anniversary of the Trade Date (the date of investment of the Company's funds) each year until the Termination Date (the date of compulsory redemption of the shares).

## 5. INTEREST INCOME

| | 30 Sept 2019 | 30 Sept 2018 |
|---|---|---|
| | £ | £ |
| Interest on investments at fair value through profit or loss | - | 2,301,797 |
| Interest on investments at amortised cost | 2,603,278 | - |
| Bank interest | 2 | 322 |
| | 2,603,280 | 2,302,119 |

## 6. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 30 Sept 2019 | 30 Sept 2018 |
|---|---|---|
| | £ | £ |
| **Merrill Lynch International Index Option** | | |
| Fair value brought forward | 5,967,509 | 4,619,823 |
| Disposal | (4,223,090) | - |
| Loss on disposal | (1,744,419) | - |
| Fair value adjustment | - | 1,347,686 |
| Fair value carried forward | - | 5,967,509 |
| **UBS AG Index Option** | | |
| Acquisition | 8,646,081 | - |
| Fair value adjustment | 738,028 | - |
| Translation difference | 335,460 | - |
| Fair value carried forward | 9,719,569 | - |

The Merrill Lynch Index Option matured on 21 November 2018. On 28 November 2018, the Company acquired an option issued by UBS AG (the "Option") linked to a basket of indices comprising the following:

- S&P 500 Index 40%
- Euro Stoxx 50 Index 25%
- Nikkei 225 Index 20%
- iShares MSCI Emerging Markets Index 15%

The Directors have determined the fair value of the Option based on the valuation provided by UBS AG. This valuation is calculated using formulae specified in the Option contract, which is based on the movement in the closing prices of the above indices from the issue date of the Option to the reporting date. The Option is classified as level 2 investment in the fair value hierarchy.

## 6. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| **Investec Bank Limited Structured Deposit** | **£** | £ |
| Fair value brought forward | **34,517,750** | 32,764,422 |
| Reclassification of investments at fair value through profit or loss to amortised cost on adoption of IFRS 9 | **(34,517,750)** | - |
| Interest | - | 2,301,797 |
| Fair value adjustment | - | (548,469) |
| Fair value carried forward | **-** | 34,517,750 |

On the adoption of IFRS 9 at the commencement of the financial year, the Company's investment in the Structured Deposit was reclassified as an investment at amortised cost (see note 7).

## 7. INVESTMENTS AT AMORTISED COST

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| **Investec Bank Limited Structured Deposit** | | |
| Reclassification of investments at fair value through profit or loss to amortised cost on adoption of IFRS 9 | **34,517,750** | - |
| Adjustment to carrying value on adoption of IFRS 9 | **(16,400)** | - |
| Interest | **295,607** | - |
| Disposal | **(34,796,957)** | - |
| Carrying value carried forward | **-** | - |

On the adoption of IFRS 9 at the start of the year, the Structured Deposit was reclassified from an investment at fair value through profit or loss to an investment at amortised cost (see note 6). Had the Structured Deposit not been reclassified, the Company would have recognised interest of £295,607 and a loss on disposal of £16,400 through profit or loss in the year. An adjustment of £16,400 was required to the brought forward value of the Notes as a result of its reclassification as an investment at amortised cost.

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| **Investec Bank Limited Unsecured Subordinated Callable Notes** | | |
| Acquisition | **45,204,977** | - |
| Interest | **2,307,671** | - |
| Translation difference | **1,693,583** | - |
| Carrying value carried forward | **49,206,231** | - |

The Investec Bank Limited Unsecured Subordinated Callable Notes (the "Notes") were acquired on 3 December 2018. The Notes function as zero coupon notes for a period of five years, and are redeemable at the option of the issuer on 4 December 2023. Should the Notes not be redeemed on 4 December 2023, they will subsequently be reclassified as Floating Rate Notes, paying interest quarterly at a rate of 3 month USD LIBOR plus 3.413%, with an ultimate compulsory maturity date of 4 December 2028.

In accordance with IFRS 9, the Company is required to assess its investment at amortised cost for expected credit losses at the reporting date and, having reviewed the credit rating of Investec Bank Limited, has concluded that no credit losses are expected over the life of the investment.

## 8. DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| Fair value brought forward | **16,644** | 69,025 |
| Loss on disposal | **(16,644)** | - |
| Fair value adjustment for the year | **-** | (52,381) |
| Fair value carried forward | **-** | 16,644 |

Derivatives at fair value through profit or loss comprised an interest rate swap utilised to fix the interest rate on the accreting deposit component of the Structured Deposit (see notes 6 and 7), which matured on 21 November 2018.

The derivative was classified as a level 2 investment in the fair value hierarchy.

## 9. OPERATING EXPENSES

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| Investment advisory fees | **343,930** | 208,776 |
| Distribution fees | **334,970** | 221,407 |
| Administration fees | **89,030** | 54,814 |
| Auditor's remuneration | **9,290** | 7,500 |
| GFSC Licence fees | **3,442** | 3,410 |
| Listing and sponsor fees | **4,890** | 4,632 |
| Statutory fees | **1,777** | 1,737 |
| Legal & professional fees | **-** | 322 |
| Interest payable | **-** | (4,477) |
| Sundry expenses | **3,078** | 1,920 |
| | **790,407** | 500,041 |

## 10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following data:

| Earnings attributable to shares: | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| Earnings for purpose of basic and diluted earnings per share being profit for the year attributable to shareholders | **£784,738** | £2,548,914 |
| Number of shares: | | |
| Weighted average number of shares for the purpose of basic and diluted earnings per share | **28,191.405** | 20,078.284 |
| Earnings per share | **£27.84** | £126.95 |

A weighted average number of shares has been calculated to enable users to gain a fairer understanding of the earnings generated per share through the year. The weighted average has been calculated with reference to the number of days shares have actually been in issue and hence their ability to influence income generated.

## 11. TRADE AND OTHER RECEIVABLES

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| Subscription monies due | **203,434** | - |
| Prepaid administration fees | **14,756** | 7,305 |
| Prepaid distributor fees | **60,617** | 29,144 |
| Prepaid investment advisory fees | **63,383** | 27,455 |
| Other prepayments | **2,959** | 2,135 |
| | **345,149** | 66,039 |

## 12. TRADE AND OTHER PAYABLES

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| Distribution fees | **3,282** | - |
| Audit fee | **8,000** | 7,500 |
| Interest payable | **9,375** | 11,645 |
| | **20,657** | 19,145 |

## 13. SHARE CAPITAL

**Authorised:**
Following the adoption of the Company's amended Articles Of Association on 18 May 2018, the Company no longer has any defined authorised share capital.

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| Issued and fully paid: | | |
| 10 Management shares of £1 each | **10** | 10 |
| 16,752.946 A Class shares (2018: 20,078.284) of £0.01 each | **168** | 200 |
| 13,002.754 B Class shares of US$0.01 each (2018: Nil) | **101** | - |
| | **279** | 210 |

With effect from 18 May 2018, the Company's Ordinary shares were redesignated as A Class shares.

In accordance with a resolution approved by Shareholders on 18 May 2018 to authorise the Directors to extend the life of the Company for a further period of 5 years, the Company sought to raise additional capital through a secondary fund raising, an exercise which was successfully achieved during the year. Accordingly, on 28 November 2018, 7,552.074 A Class shares were redeemed at a price of £1,946.96 per share; 4,226.736 A Class shares were issued at a price of £1,946.96; and 13,002.754 B Class shares were issued at a price of US$2,490.16.

A Class and B Class shares are entitled to 1 vote each at a general meeting of the company. Under the terms of the Company's new prospectus, which replaced the current prospectus with effect from 28 August 2017, and in the absence of a further special resolution to extend the life of the Company, the Company's shares will be redeemed and the Company will terminate between December 2023 and December 2028. A Class and B Class shareholders are entitled to receive any dividends or distributions from the Company and any surplus arising on the winding up of the Company after the payment of creditors and redemption of the Management shares at their nominal value.

Management shares are entitled to 10,000 votes each at a general meeting of the Company. Management shares may only be owned by The Basket Trust (see note 15) or its nominee. Management shareholders are not entitled to receive any dividends or distributions from the Company nor any surplus arising on the winding up of the Company in excess of the nominal value of the Management shares.

## 14. SHARE PREMIUM

| | 30 Sept 2019 | 30 Sept 2018 |
|---|---|---|
| | £ | £ |
| Balance brought forward | 25,073,158 | 25,073,158 |
| A Class shares redeemed | (13,087,744) | - |
| A Class shares issued | 8,229,244 | - |
| B Class shares issued | 25,315,802 | - |
| Share issue costs | (6,000) | - |
| Balance carried forward | 45,524,460 | 25,073,158 |

## 15. ULTIMATE CONTROLLING PARTY & RELATED PARTY TRANSACTIONS

The immediate controlling party at the year end date is PraxisIFM Trust Limited as trustee of The Basket Trust, which owns the Management shares in the Company. There is no ultimate controlling party of the Company. The ultimate controlling party of PraxisIFM Trust Limited is PraxisIFM Group Limited ('PGL'). PGL is also the ultimate controlling party of Praxis Fund Services Limited ('PFSL'), the administrator of the Company.

PFSL is deemed to be a related party, as Janine Lewis is a director of PFSL and a shareholder in PGL; Chris Hickling is a director of Praxis Fund Holdings Limited, the immediate parent company of PFSL and a shareholder in PGL; and David Stephenson is an employee of PFSL and a shareholder in PGL. During the year PFSL received £89,030 (2018: £54,814) for their services as administrator. At the year end date administration fees of £14,756 had been paid to PFSL in advance (2018: £7,305). At the year end date no interest (2018: £2,270) on outstanding fees was payable to PFSL.

The Investment Advisor, Investec Corporate and Institutional Banking, a division of Investec Bank Limited, the issuer of the Company's Structured Deposit, is deemed to be a related party. During the year Investec Corporate and Institutional Banking received £343,930 (2018: £208,776) for their services as investment advisor. At the year end date advisory fees of £63,383 (2018: £27,455) had been paid to Investec Corporate and Institutional Banking in advance and interest on outstanding fees of £9,375 (2018: £9,375) was payable to Investec Corporate and Institutional Banking.

## 16. FINANCIAL INSTRUMENT RISK FACTORS

The Company is exposed to market risk, credit risk and liquidity risk from the financial instruments it holds. The Company has a fixed modus operandi, as stated in its prospectus, which is to invest its capital in a zero coupon bond (or other structured product with similar characteristics) and an option or options on a specified index or basket of indices; and to retain a certain element of cash to cover expenses to be incurred over the specified period of its life. As a result of this, the Company's flexibility in dealing with the risks associated with these instruments is somewhat limited. However, the risk management policies that are employed by the Company to manage these risks are discussed below.

### 16. FINANCIAL INSTRUMENT RISK FACTORS (continued)

#### (i) Market risk

**(a) Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency of US Dollars (2018: measurement currency of Sterling). As at 30 September 2019, the Company is exposed to foreign exchange risk in relation to the following assets and liabilities:

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| Cash and cash equivalents | **144,087** | - |
| Trade and other payables | **(17,375)** | - |
| | **126,712** | - |

At 30 September 2019, the foreign currency exposure of the Company against the measurement currency of US Dollars, principally to Sterling, represented 0.2% of Equity Shareholder's Funds (2018: N/A). The Company's policy is not to manage the Company's exposure to foreign exchange movements by entering into any foreign exchange hedging transactions. If the exchange rate of the US Dollar against Sterling at the year end date had been 10% higher/lower, this would have resulted in an increase/decrease in the year end net asset value of £12,671 (2018: Nil). The sensitivity rate of 10% is regarded as reasonable as this is the approximate volatility of Sterling against the US Dollar in the year.

The Company had no other material currency exposures as at 30 September 2019 or 30 September 2018.

**(b) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents and fixed deposits and on interest payable on outstanding future fees. At 30 September 2019, the Company held cash and cash equivalents of £3,455,284 (2018: £100,618), £346 of which earns interest at a rate of 0.65% and the remainder at a rate of 0.00% (0.00% as at 30 September 2018). At 30 September 2019, the Company had outstanding future fees on which interest is payable of £2,326,390 (2018: £Nil).

Had these balances existed for the whole of the year and all other factors remained the same, the effect on the Statement of Comprehensive Income of an increase/decrease of 0.5% (2018: 0.25%) in short term interest rates would have been an increase of £5,644/decrease of £2 in total comprehensive income for the year (2018: increase of £252/decrease of £Ni). The sensitivity rate of 0.5% at the current year reporting date is regarded as reasonable in relation to the current US Dollar base rate of 2.25%, and the sensitivity rate of 0.25% at the prior year reporting date was regarded as reasonable in relation to the then current sterling base rate of 0.25%, as the interest rate of both currencies has been stable. The reasonableness of sensitivity rates for interest rate risk is assessed against the base rate of the currency in which the majority of the Company's bank balances are held.

The Company had no other material interest rate exposures as at either 30 September 2019 or 30 September 2018. At 30 September 2018, the Structured Deposit investment was exposed to fair value interest rate risk in respect of the interest rate swap that forms a part of the instrument. At 30 September 2019, the Company's Notes are interest-bearing, however they earn interest at a fixed rate and are therefore not subject to interest rate risk.

### 16. FINANCIAL INSTRUMENT RISK FACTORS (continued)

**(i) Market risk (continued)**

**(c) Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Company's Option is directly affected by changes in market prices.

Price risk is managed at inception by investing in a combination of two financial instruments: a holding of zero coupon bonds (or other structured product with similar characteristics) that will provide capital protection for investors; and a call option on a basket of indices that the investment advisor believes is most likely to provide positive performance during the life of the Company. In order to provide capital protection, the amount of Notes acquired is calculated to ensure that the maturing amount will be sufficient to guarantee that all investors who remain in the Company to maturity will at minimum get back the amount that they invested. The call option provides the potential for significant upside performance, should the relevant indices perform well, with the downside limited to loss of the initial option premium.

The investment premise of the Company involves participation in the potential upside afforded by the Option, whilst enjoying the capital protection afforded by the Notes. Therefore, whilst the Board monitors the performance of the Option and Notes, it is unlikely that the Board would consider redeeming these at any stage, other than in relation to the redemption of investors' shares. As a result, the management of price risk effectively occurs at the inception of the Company in the selection of investments, and is not an active ongoing process during the remainder of the life of the Company.

The investments at fair value through profit or loss expose the Company to price risk. The details are as follows:

| | **30 Sept 2019** | 30 Sept 2018 |
|---|---|---|
| | **£** | £ |
| Investec Bank Limited Structured Deposit (including embedded derivative) | **-** | 34,534,394 |
| Merrill Lynch International Index Option | **-** | 5,967,509 |
| UBS AG Index Option | **9,719,569** | - |
| | **9,719,569** | 40,501,903 |

A 50 per cent increase/decrease in the value of the Option at 30 September 2019 would have increased/decreased the Net Asset Value of the Company by £4,859,785 (2018: £2,983,755). The sensitivity rate of 50% is regarded as reasonable due to the potential volatility of the indices to which the Merrill Lynch International and UBS AG Options are/were linked, magnified by the participation rates of 147% and 244.55% respectively attached to the Options.

The Board notes that, subsequent to the year end date, the onset of the Covid-19 pandemic has had a significant negative impact on stock markets worldwide, including the indices to which the Company's Option investment is linked, and that this has had a correspondingly negative impact on the value of the Company's Option investment, which has fallen by approximately 73% in the two month period preceding the date of signing of these financial statements.

## 16. FINANCIAL INSTRUMENT RISK FACTORS (continued)

### (ii) Credit risk

Credit risk arises when a failure by counter-parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the year end date. These financial assets include cash and cash equivalents, debtors, investments at amortised cost and investments at fair value through profit or loss. The Company's exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying value or fair value of these instruments.

The Company states in its Prospectus that it will invest in subordinated debt instruments issued by Investec Bank Limited ('IBL') and an option linked to a specified index, and provides extensive disclosure to shareholders of those instruments and the risks attached thereto. As a result of this, the Company's policy for managing the credit risk attached to the Company's financial assets is to monitor the credit rating of the relevant counterparty for any significant deterioration, without reference to an absolute range of credit ratings. In the event of there being any significant deterioration in the perceived creditworthiness of the counterparty to a point where shareholders' interest may be at risk, the Directors in their absolute discretion would consider the following courses of action: selling the relevant securities to third party purchasers and reinvesting the proceeds in the purchase of securities of another issuer, such that the new securities would replicate as closely as possible the terms and conditions of the original securities; and transferring cash to another banking institution. At initial recognition of the Notes and the Option, the Directors considered the credit risk attached to these instruments to be low, and this remains their view. The Directors would only seek to sell the relevant securities or transfer cash if they consider on the advice of the investment advisor that such would be in the best interests of the Company and its shareholders.

In accordance with this policy, the Board and the investment advisor have noted that the Fitch long-term credit rating of IBL as at 30 September 2019 was BB+ (30 September 2018: BB+), and also notes Fitch's comment that IBL's rating is constrained by the sovereign rating of South Africa of BB+. The year end rating of Investec plc, a sister company to IBL, which holds the Company's cash and cash equivalents, is BBB+ (2018: BBB+). As a result, the Directors and the investment advisor believe that it is not in the best interest of shareholders to attempt to unwind the Notes prior to their maturity date on 4 December 2023, as they believe firstly that there has been no significant deterioration in the creditworthiness of IBL, and secondly that obtaining an alternative investment with an institution with a higher credit rating could only be achieved on less favourable terms than those offered by the Notes, which could affect the Company's ability to offer capital protection to shareholders on their investment.

The Company monitors the creditworthiness of its counterparties on an ongoing basis.

The majority of the Company's debtors and prepayments balance consists of prepayments and there is no credit risk associated with these balances.

The Notes are held with Investec Bank Limited, which has a Fitch long term rating of BB+ (2018: BB+). The Option is held with UBS AG, which has a Fitch long-term rating of AA- (2018: Merrill Lynch International, Fitch long-term rating of A+). The cash and cash equivalents are held with Investec Bank (Channel Islands) Limited, which has a Fitch long term rating of BBB+ (2018: BBB+).

## 16. FINANCIAL INSTRUMENT RISK FACTORS (continued)

### (iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet financial liability obligations as they fall due, which may cause financial losses to the Company. The Company places its cash and cash equivalents with financial institutions on a short-term basis in order to maintain a high level of liquidity. This ensures that the Company is able to complete transactions in a timely manner, thus minimising the Company's exposure to such losses.

The Board reviews the cash resources of the Company on an ongoing basis to ensure that sufficient monies are held on call account to meet the Company's short-term obligations. At 30 September 2019 the cash on call was £3,455,284 (2018: £100,618), which is considered by the Board to be sufficient to meet all of the Company's short term obligations.

The table below analyses the Company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period from the period end date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | **Less than 6 months** | **6-12 months** | **1-5 years** |
|---|---|---|---|
| **30 September 2019** | **£** | **£** | **£** |
| Trade and other payables | **20,657** | **-** | **-** |
| Net exposure | **20,657** | **-** | **-** |

| | Less than 6 months | 6-12 months | 1-5 years |
|---|---|---|---|
| 30 September 2018 | £ | £ | £ |
| Trade and other payables | 19,145 | - | - |
| Net exposure | 19,145 | - | - |

## 16. FINANCIAL INSTRUMENT RISK FACTORS (continued)

**(iv) Fair value hierarchy**

The following table analyses instruments carried at fair value, by level of the fair value hierarchy. 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 inputs).

| **30 September 2019** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| Investments at fair value through profit or loss | **-** | **9,719,569** | **-** | **9,719,569** |
| | **-** | **9,719,569** | **-** | **9,719,569** |

| 30 September 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Investments at fair value through profit or loss (including embedded derivative) | - | 40,501,903 | - | 40,501,903 |
| | - | 40,501,903 | - | 40,501,903 |

There have been no transfers between levels of the fair value hierarchy during the year.

## 17. CAPITAL RISK MANAGEMENT

The Company's capital comprises the funds it has raised through the issue of share capital.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to ensure that the Company will be able to continue as a going concern, the Board continuously monitors forecast and actual cash flows and matches the maturity profiles of assets and liabilities. The Board has also considered the impact of the Covid-19 pandemic subsequent to the year end, and does not believe that this will have a significant impact on the Company's capital or its ability to continue as a going concern. The Company has no external borrowings.

Shareholders may be able to redeem their Ordinary Shares prior to the Redemption Date, however such redemptions are wholly at the discretion of the Directors, and any request for redemption may be refused in whole or in part. No early redemptions will be permitted unless the Directors are satisfied that they have complied with all applicable law, including satisfaction of the solvency test as required by the Companies (Guernsey) Law, 2008.

## 18. POST BALANCE SHEET EVENTS

The impact of the Covid-19 pandemic subsequent to the year end on the Company's ability to continue as a going concern and on its investments has been assessed in notes 1, 17 (i) (c) and 18.

There were no other significant post balance sheet events requiring disclosure in these financial statements.