

**Fraternity Funds SICAV p.l.c.**

**ANNUAL REPORT**

**For the period from 21 January 2020 (Date of Incorporation) to  
31 December 2020**

# Fraternity Funds SICAV p.l.c.

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# Fraternity Funds SICAV p.l.c.

## Directors, Officers and other information

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<b>Directors</b>	Dr. Alexia Ellul Mr. Joseph M. Formosa Mr. Michal Kosac
<b>Registered Office</b>	Central North Business Centre Level 1, Sqaq il-Fawwara Sliema SLM 1670 Malta
<b>Company Registration Number</b>	SV534
<b>Administrator</b>	Apex Fund Services (Malta) Limited Central North Business Centre Level 1, Sqaq il-Fawwara Sliema SLM 1670 Malta
<b>Company Secretary</b>	Apex Corporate & Advisory Services Ltd Central North Business Centre Level 1, Sqaq il-Fawwara Sliema SLM 1670 Malta
<b>Investment Committee</b>	Mr. Michal Kosac Mr. Joseph M. Formosa Dr. Simon Grima
<b>Custodian</b>	European Depositary Bank SA 3, Rue Gabriel Lippmann L-5365 Munsbach Luxembourg
<b>Statutory Auditor</b>	KPMG 92 Marina Street Pieta MT PTA 9044 Malta
<b>Legal Advisor</b>	CDF Advocates 25/23 Vincenti Buildings Strait Street Valletta VLT 1432 Malta

# Fraternity Funds SICAV p.l.c.

## Report of the Directors

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The directors present their report and the audited financial statements of Fraternity Funds SICAV p.l.c. (the "Company"), covering the financial period from 21 January 2020 (Date of Incorporation) to 31 December 2020.

### Incorporation and principal activities

The Company was incorporated on 21 January 2020. The Company is licensed and regulated by the Malta Financial Services Authority ("MFSA") under the Investment Services Act (CAP. 370, Laws of Malta) as a Professional Investor Fund which targets Qualifying Investors as set out in the Offering Memorandum and relevant Offering Supplement.

### Review of business

The licensed sub-funds as at the end of the period were as follows:

- Opportunity Fund (PIF/534A); and
- Real Estate Fund (PIF/534B).

During the period under review, there were no subscriptions and redemptions in Opportunity Fund and Real Estate Fund. The Company did not carry out any trading activity.

### Results

The results for the period under review are shown in the statement of comprehensive income.

### Dividend and reserves

No dividends were declared by the Company during the period from 21 January 2020 (Date of Incorporation) to 31 December 2020. There are no reserves available for distribution.

### Currency

The financial statements are drawn up in Euro (€), which is the currency in which the Company's share capital is denominated, in terms of section 187 of the Companies Act, 1995.

### Principal risks and uncertainties

The activities of the Company expose it to a variety of risks. The successful management of risk is essential to enable the Company to achieve its objectives. The ultimate responsibility for risk management rests with the Company's directors, who evaluate the Company's risk appetite and formulate policies for identifying and managing such risks. The principal risks and uncertainties facing the Company are included below.

The Company defines risk as the probability of a permanent loss of capital. The risk management effort targets the minimization of the probability of a permanent loss of invested capital within its investment objective. At the same time, it is also understood that the risk cannot be completely eliminated. Risk is considered acceptable by the Board of Directors if its sources are understood and within appetite and tolerance levels set by the Board of Directors after consulting the Investment Committee. It is important to understand the sources of risk and carry risk only if there is adequate compensation in the form of return.

The Company carries the risk of losses due to non-compliance with legal requirements towards the Maltese regulator and other regulators in whose jurisdiction the Company may conduct its business or other potential institutions.

The internal compliance function of the Company is carried out by experienced personnel. The Company is subject to numerous laws and regulations covering a wide range of matters. Failure to comply could have financial or reputational implications and could materially affect the Company's ability to operate. The Company has embedded operating policies and procedures to ensure compliance with existing legislation.

The outbreak of COVID-19 has proven to be quite erratic in its progression and continues to rapidly evolve. The pandemic has adversely impacted global and local commercial activities and its fluidity precludes any accurate prediction of its ultimate impact. The Company has taken measures to ensure operational capacity to its service providers. In the meantime, the Board continues to monitor the development of this virus so that it may be able to counteract adverse effects in the most effective manner.

The exposure of the above risks, the way these risks arise, and how the Company manages these risks are further disclosed in detail in note 9 to these financial statements and in the Offering Documentation of the Company and the respective Sub-Fund.

# Fraternity Funds SICAV p.l.c.

## Report of the Directors (continued)

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### Future Developments, Going Concern and Subsequent events

The Company did not trade during the year.

On 4 January 2021, Opportunity Fund issued 124 investor redeemable shares at €1,000 per share. In 2021, the Company, through the Real Estate Fund, is expected to issue bonds which are to be listed on the Prague Stock Exchange and expects to start trading in real estate.

Accordingly, these financial statements were prepared on the going concern basis.

The Company's management is not aware of any other subsequent events that could have an effect on the financial statements as at 31 December 2020.

### Directors

The Directors of the Company who served during the period were:

Dr. Alexia Ellul  
Mr. Joseph M. Formosa  
Mr. Michal Kosac

In accordance with the Company's Offering Memorandum, the directors will remain in office.

### Compliance with Standard License Conditions

During the period under review, there were no breaches of the Standard Licence Conditions and no breaches of regulatory requirements, which were subject to any administrative penalty or regulatory sanction.

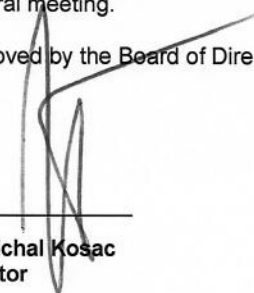
### Directors' Confirmation

We, the undersigned, are responsible for the preparation of the Annual Report of the Company for the financial period ended 31 December 2020 and confirm that to the best of our knowledge, it is complete and accurate in all material respects and conforms with the MFSA's requirements in terms of the Company's License Conditions and any disclosures of the Company's past performance are accurate and in conformity with the MFSA's applicable requirements.

### Auditors

The auditors, KPMG, have expressed their willingness to continue in office and a resolution proposing their reappointment and authorizing the directors to fix their remuneration will be put before the members at the next general meeting.

Approved by the Board of Directors on 30 March 2021 and signed on its behalf by:



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Mr Michal Kosac  
Director



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Ms Alexia Ellul  
Director

# Fraternity Funds SICAV p.l.c.

## Statement of Directors' Responsibilities


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The Directors are required by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") to prepare the financial statements which give a true and fair view of the state of affairs of the Company as at the end of the financial period and the results for that period.

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

- i. Selecting and applying appropriate accounting policies;
- ii. Ensuring the financial statements have been drawn up in accordance with International Financial Reporting Standards adopted by the EU;
- iii. Making accounting estimates that are reasonable in the circumstances; and
- iv. Ensuring that financials 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 keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company and to enable them to ensure that the financial statements comply with the Act. The Directors are also responsible for ensuring that an appropriate system of internal control is in operation to provide them with reasonable assurance that the assets of the Company are being properly safeguarded and that fraud and other irregularities will be prevented and detected.



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Mr Michal Kosac  
Director



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Ms Alexia Ellul  
Director


# Fraternity Funds SICAV p.l.c.


## Statement of Financial Position As at 31 December 2020

		The Company
		31.12.2020
	Note	€
<b>Current assets</b>		
Cash and cash equivalents	5	86,826
Prepaid expenses		658
Recoverable expenses from unitholders' funds	7	60,668
<b>Total Current assets</b>		<b>148,152</b>
<b>Total assets</b>		<b>148,152</b>
<b>Equity and Liabilities</b>		
<b>Share capital and Reserves</b>		
Share capital	6	1,000
Retained earnings		-
<b>Total equity</b>		<b>1,000</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Audit fees payable		6,195
Other payables	11	4,957
Due to founder shareholder	8	12,000
Subscription received in advance	13	124,000
<b>Total Current liabilities</b>		<b>147,152</b>
<b>Total liabilities</b>		<b>147,152</b>
<b>Total Equity and Liabilities</b>		<b>148,152</b>

The accompanying notes are an integral part of these financial statements. These also include more detailed information about the amounts attributable to the founder shareholders and the financial position relating to the sub-funds, in the next page.

The financial statements on pages 6 to 20 were approved and authorised for issue by the Board of Directors on 30 March 2021 and were signed on its behalf by:

  
\_\_\_\_\_  
Mr Michal Kosac  
Director

  
\_\_\_\_\_  
Ms Alexia Ellul  
Director

# Fraternity Funds SICAV p.l.c.

## Statement of Financial Position (continued) As at 31 December 2020

The following table provides more detailed information about the amounts attributable to the founder shareholders and the position relating to the sub-funds. This information is being presented in accordance with the prevalent local practice.

	Note	Attributable to founder shareholders	Attributable to:	
		31.12.2020 €	Opportunity Fund 31.12.2020 €	Real Estate Fund 31.12.2020 €
<b>Current assets</b>				
Cash and cash equivalents	5	1,000	85,826	-
Due from sub-funds	8	-	25,063	-
Prepaid expenses		-	329	329
Recoverable expenses from unitholders' funds	7	-	30,358	30,310
<b>Total Current assets</b>		<b>1,000</b>	<b>141,576</b>	<b>30,639</b>
<b>Total assets</b>		<b>1,000</b>	<b>141,576</b>	<b>30,639</b>
<b>Equity and Liabilities</b>				
<b>Share capital and Reserves</b>				
Share capital	6	1,000	-	-
Retained earnings		-	-	-
<b>Total equity</b>		<b>1,000</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Audit fees payable		-	3,098	3,097
Other payables	11	-	2,478	2,479
Due to sub-funds	8	-	-	25,063
Due to founder shareholder	8	-	12,000	-
Subscription received in advance	13	-	124,000	-
<b>Total Current liabilities</b>		<b>-</b>	<b>141,576</b>	<b>30,639</b>
<b>Total liabilities</b>		<b>-</b>	<b>141,576</b>	<b>30,639</b>
<b>Total Equity and Liabilities</b>		<b>1,000</b>	<b>141,576</b>	<b>30,639</b>

The above information is an integral part of the notes to these financial statements.



# Fraternity Funds SICAV p.l.c.

## Statement of Comprehensive Income For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

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	Note	The Company 21.01.2020 (Date of Incorporation) to 31.12.2020 €
<b>Expenditure</b>		
Audit fees	11	(6,195)
Directors and investment committee fees	8	(17,460)
Professional fees		(2,360)
Other operating expenses	12	(34,653)
<b>Total operating expenses</b>		<u>(60,668)</u>
<b>Loss for the period</b>		(60,668)
Other comprehensive income		-
<b>Total comprehensive income for the period</b>		<u>(60,668)</u>

The accompanying notes are an integral part of these financial statements. These also include more detailed information about the amounts attributable to the founder shareholders and the position relating to the sub-funds, in the next page.

# Fraternity Funds SICAV p.l.c.

## Statement of Comprehensive Income (continued) For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

The following table provides more detailed information about the amounts attributable to the founder shareholders and the position relating to the sub-funds. This information is being presented in accordance with the prevalent local practice.

	Note	Attributable to	Attributable to :	
		founder shareholders	Opportunity fund	Real Estate Fund
		21.01.2020 (Date of Incorporation) to 31.12.2020	21.01.2020 (Date of Incorporation) to 31.12.2020	21.01.2020 (Date of Incorporation) to 31.12.2020
		€	€	€
<b>Expenditure</b>				
Audit fees	11	-	(3,098)	(3,097)
Directors and investment committee fees	8	-	(8,730)	(8,730)
Professional fees		-	(1,180)	(1,180)
Other operating expenses	12	-	(17,350)	(17,303)
<b>Total operating expenses</b>		-	(30,358)	(30,310)
<b>Loss for the period</b>		-	(30,358)	(30,310)
Other comprehensive income		-	-	-
<b>Total comprehensive income for the period</b>		-	(30,358)	(30,310)

The above information is an integral part of the notes to these financial statements.

# Fraternity Funds SICAV p.l.c.

## Statement of Changes in Equity Attributable to Founder Shareholders

For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

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	Share capital	Retained earnings	Total
	€	€	€
Balance as at the beginning of the period	-	-	-
<b>Transactions with owners</b>			
Issue of founder shares during the period	1,000	-	1,000
<b>Balance as at the end of the period</b>	<b>1,000</b>	<b>-</b>	<b>1,000</b>

The accompanying notes are an integral part of these financial statements.

# Fraternity Funds SICAV p.l.c.

## Statement of Cash Flows

For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

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	The Company 21.01.2020 (Date of Incorporation) to 31.12.2020 €
<b>Cash flows from operating activities</b>	
Operating expenses paid	(38,174)
<b>Net cash outflows from operating activities</b>	<u>(38,174)</u>
<b>Cash flows from financing activities</b>	
Amount received on subscription of founder shares	1,000
Subscription received in advance	124,000
<b>Net cash inflows from financing activities</b>	<u>125,000</u>
Net increase in cash and cash equivalents	86,826
Cash and cash equivalents at beginning of period	-
<b>Cash and cash equivalents at end of period</b>	<u>86,826</u>

The accompanying notes are an integral part of these financial statements. These also include more detailed information about the amounts attributable to the founder shareholders and the position relating to the sub-funds, in the next page.

# Fraternity Funds SICAV p.l.c.

## Statement of Cash Flows (continued)

For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

The following table provides more detailed information about the amounts attributable to the founder shareholders and the position relating to the sub-funds. This information is being presented in accordance with the prevalent local practice.

	Attributable to founder shareholders 21.01.2020 (Date of Incorporation) to 31.12.2020 €	Attributable to:	
		Opportunity Fund 21.01.2020 (Date of Incorporation) to 31.12.2020 €	Real Estate Fund 21.01.2020 (Date of Incorporation) to 31.12.2020 €
<b>Cash flows from operating activities</b>			
Operating expenses paid	-	(13,111)	-
Payment of expenses on behalf of sub-fund	-	(25,063)	-
<b>Net cash outflows from operating activities</b>	-	(38,174)	-
<b>Cash flows from financing activities</b>			
Amount received on subscription of founder shares	1,000	-	-
Subscription received in advance	-	124,000	-
<b>Net cash inflows from financing activities</b>	1,000	124,000	-
Net increase in cash and cash equivalents	1,000	85,826	-
Cash and cash equivalents at beginning of period	-	-	-
<b>Cash and cash equivalents at end of period</b>	1,000	85,826	-

The above information is an integral part of the notes to these financial statements.

# Fraternity Funds SICAV p.l.c.

## Notes to the Financial Statements

For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

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### 1 Reporting entity

Fraternity Funds SICAV p.l.c. (the "Company") is organized under the laws of Malta as a multi-fund limited liability investment company with variable share capital (SICAV) incorporated in accordance with the terms of the Companies Act, 1995 (Chapter 386, Laws of Malta) on 21 January 2020 (Date of Incorporation), with registration number SV534 and commenced its operations on 11 June 2020. The Company is licensed and regulated by the Malta Financial Services Authority ("MFSA") under the Investment Services Act (Chapter 370, Laws of Malta) as a Professional Investor Fund which targets Qualifying Investors as set out in the Offering Memorandum and relevant Offering Supplement.

As at the reporting date, the Company has constituted two sub-funds, Opportunity Fund and Real Estate Fund (the "Sub-funds"), which were both licensed on 23 January 2020. The Sub-funds are not separate legal entities. In 2021, the Company, through the Real Estate Fund, is expected to issue bonds which will be listed on the Prague Stock Exchange.

The Company is the reporting entity and comprises all the activities of Fraternity Funds SICAV p.l.c. as the entity with the separate legal personality. The Statutory Financial Statements are those presented for the Company. The sub-funds are an integral part of that entity, as these do not have separate legal personality. In accordance with the relevant local practice, the financial statements caption amounts in the primary financial statements are also presented in a segregated format: those amounts 'attributable to founder shareholders', and the position relating to the sub-funds (segregated by the specific sub-fund). Also, in accordance with local practice, where appropriate, disclosures in the notes in the financial statements are segregated by sub-fund. Such presentation of the financial statements is nonetheless not a statutory requirement.

### 2 Basis of preparation

#### 2.1 Statement of compliance

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") (the "applicable framework"). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU. These financial statements have also been prepared and presented in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta).

#### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis.

##### *Going Concern*

The Company did not trade during the year. On 4 January 2021, Opportunity Fund issued 124,000 investor redeemable shares at €1,000 per share. In 2021, the Company, through the Real Estate Fund, is expected to issue bonds which will be listed on the Prague Stock Exchange and expects to start trading in real estate. Accordingly, these financial statements were prepared on the going concern basis.

#### 2.3 Functional and presentation currency

The financial statements are presented in Euro (€), which is the functional currency of the Company, rounded to the nearest unit. 'Functional currency' is the currency of the primary economic environment in which the Company operates. If indicators of the primary economic environment are mixed, then the directors use their judgement to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The Company's transactions are denominated in Euro. Investor subscriptions and redemptions are determined based on net asset value, and received and paid in Euro. The expenses are denominated and paid in Euro. Accordingly, the directors have determined that the functional currency of the Company is the Euro.

#### 2.4 Use of assumptions, estimates and judgements

The preparation of financial statements in conformity with IFRS requires the directors to make judgments, estimates and assumptions that affect both the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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.

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult to reach, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 Presentation of Financial Statements.

#### 2.5 New standards and interpretations

The Company did not early adopt new standards, amendments to standards and interpretations which are effective for annual periods beginning after 21 January 2020. None of these are expected to have a significant effect on the financial statements of the Company in the period of initial application.

# Fraternity Funds SICAV p.l.c.

## Notes to the Financial Statements (continued)

For the period from 21 January 2020 (Date of Incorporation) to  
31 December 2020

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### 3 Significant accounting policies

The Fund has consistently applied the accounting policies as set out below throughout the period presented in these financial statements.

#### 3.1 Financial assets and financial liabilities

##### 3.1.1 Recognition and initial measurement

The Company initially recognises financial assets and financial liabilities at fair value through profit or loss ("FVTPL") on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument. Other financial assets and financial liabilities are recognised on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

##### 3.1.2 Classification and subsequent measurement

On initial recognition, the Company classifies financial assets as measured at amortised cost or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are SPPI.

All other financial assets of the Company are measured at FVTPL.

As at 31 December 2020, the Company had only cash and cash equivalents as financial asset, which was measured at amortised cost.

##### *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition unless the Company were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

##### *Financial liabilities – Classification, subsequent measurement and gains and losses*

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

As at 31 December 2020, the Company classified financial liabilities into the category Financial liabilities at amortised cost:

##### 3.1.3 Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

##### 3.1.4 Impairment

The Company recognises loss allowances for ECLs on financial assets measured at amortised cost.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured at 12-month ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of 'investment grade'. The Company considers this to be Baa3 by Moody's.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

# Fraternity Funds SICAV p.l.c.

## Notes to the Financial Statements (continued) For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

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### 3 Significant accounting policies (continued)

#### 3.1 Financial assets and financial liabilities (continued)

##### 3.1.4 Impairment (continued)

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

##### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

##### *Presentation of allowance for ECLs in the statement of financial position*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

##### *Write-off*

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

##### 3.1.5 Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

##### 3.1.6 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has currently a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

##### 3.2 Redeemable shares

The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The Sub-funds issue redeemable shares on every dealing day defined as 31 December of each year, which are redeemable at the holder's option on every dealing day as defined above. Such shares are classified as financial liabilities. Redeemable shares can be put back to the Sub-funds at any time for cash equal to a proportionate share of the Sub-funds' net asset value attributable to the share class. The redeemable shares are carried at the redemption amount that is payable at the statement of financial position date if the holder exercises the right to put the share back to the Sub-funds.

Redeemable shares are issued and redeemed at the holder's option at prices based on the Sub-funds' net asset value per share at the time of issue or redemption. The Sub-funds' net asset value per share is calculated by dividing the net assets attributable to the holders of each redeemable share with the total number of outstanding redeemable shares. In accordance with the provisions of the Sub-funds' regulations, investment positions are valued annually on 31 December based on the latest available dealing price for the purpose of determining the net asset value per share for subscriptions and redemptions.

##### 3.3 Taxation

In terms of current Maltese fiscal legislation, collective investment schemes are classified as either 'prescribed' or 'non-prescribed' funds for income tax purposes. A collective investment scheme which declares that the value of its assets situated in Malta is less than eighty-five per cent of the value of its total assets is treated as a non-prescribed fund. On this basis, the Company qualifies as a non-prescribed fund for Maltese income tax purposes.



# Fraternity Funds SICAV p.l.c.

## Notes to the Financial Statements (continued)

For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

### 3 Significant accounting policies (continued)

#### 3.3 Taxation (continued)

Accordingly, the Company should not be subject to Maltese income tax in respect of the income or gain derived by it, except in respect of any income from immovable property situated in Malta, if any. Capital gains, dividends, interest and any other income from foreign investments held by the Company may nonetheless be subject to tax imposed by the country of origin concerned and any such taxes may not be recoverable by the Company or by the members under Maltese domestic tax law. The sub-funds are not a legal personality, so taxation is applied on the Company, which includes also the sub-funds.

##### *Members resident in Malta*

Capital gains realised by Maltese resident investors on the redemption, liquidation or cancellation of units may be subject to a 15% withholding tax. However, the Maltese resident investors may request the Company not to effect the deduction of the said 15% withholding tax in which case the investor would be required to declare the gains in his income tax return and will be subject to tax at the normal rates of taxes.

##### *Members not resident in Malta*

Any gains accruing to members not resident in Malta upon the transfer of shares (including a redemption) or upon a distribution on a winding-up of the Company should not be subject to tax in Malta subject to certain conditions being satisfied. The transfer of shares (including a redemption) and any distribution on a winding-up of the Company may result in a tax liability for the non-Maltese members according to the tax regime applicable in their respective countries of incorporation, establishment, residence, citizenship, nationality, domicile, or other relevant jurisdiction.

### 4 Format of the financial statements

In terms of Section 3(3) of the Third Schedule of the Companies Act, 1995 (Chapter 386, Laws of Malta) the layout, nomenclature and terminology of the items in these audited financial statements were adapted to the special nature of the Company. The profit and loss is referred to as the Statement of Comprehensive Income.

### 5 Cash and cash equivalents

Cash and cash equivalents as disclosed in the Statement of Cash Flows comprise cash at bank as follows:

	31.12.2020
	€
Founder shareholders	1,000
Opportunity Fund	85,826
	<u>86,826</u>

### 6 Share capital

The Company's share capital is represented by the Founder Shares. The Founder shares were issued at € 1 each and carry the right to one vote each and shall be the only share class in the Company carrying voting rights. As at 31 December 2020, the Company had € 1,000 issued share capital comprising of 1,000 fully paid-up shares being subscribed as follows:

- Fraternity Capital Limited	999 founder shares
- Mr. Michal Kosac	1 founder share

The total amount of distributions to Founder Shares shall be an amount not exceeding the aggregate of the Management Fee and Performance Fee due under the terms of the Offering Supplements.

### 7 Redeemable shares and Recoverable expenses from unitholders' funds

Redeemable shares outstanding are represented by "Investor Shares" issued for each of the Sub-funds separately. The Investor shares do not carry any voting rights. The maximum number of authorised investor shares of the Company is five billion (5,000,000,000) shares without any nominal value assigned to them, which may be issued as shares of any class representing the Sub-funds.

The initial offer period of Investor Shares of the Fund opened on 13 March 2020 and was extended till 31 December 2020. On 11 June 2020, Opportunity Fund received the amount of €124,000 from Fraternity Capital Limited which were recorded as subscriptions received in advance as at 31 December 2020 as the related investor shares were issued on 4 January 2021.

During the period ended 31 December 2020, the Scheme was in the initial offer period and incurred various expenses such as organisation costs, registration fees and professional fees. These costs will be recovered by the sub-funds once investors subscribe in each respective sub-fund.

# Fraternity Funds SICAV p.l.c.

## Notes to the Financial Statements (continued)

For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

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### 8 Related party balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions.

#### *Identity of related parties*

The Company has a related party relationship with its founder shareholder Fraternity Capital Limited, and the directors Mr. Michal Kosac, Mr. Joseph M. Formosa and Dr. Alexia Ellul. Mr. Michal Kosac and Mr. Joseph M. Formosa are also part of the Investment Committee of the Company. The sub-funds have also entered into transactions between themselves during the period.

The related party balances and related party transactions entered during the financial period 31 December 2020 are mentioned below:

- Opportunity Fund and Real Estate Fund have paid directors and investment committee fees of € 8,730 each.
- The amount of €25,063 was payable by Real Estate Fund to Opportunity Fund for expenses paid by Opportunity Fund on behalf of Real Estate Fund. This balance is not interest-bearing and is current in nature.
- Due to founder shareholder amounted to €12,000 in Opportunity Fund for expenses paid by the Founder shareholder on behalf of Opportunity Fund. This balance is not interest-bearing and is current in nature.

There were no other related party transactions during the financial period ended 31 December 2020 other than the transactions mentioned in the Statement of Changes in Equity for transactions with founder shareholders and note 7.

### 9 Financial risk review

The Company is established as an investment company with variable share capital (SICAV) which implies that financial instruments are extensively used in the course of its routine business. The type of financial instruments in which the Company may invest is regulated by its Offering Memorandum and Offering Supplements investments restrictions.

The Sub-funds are also exposed to market, credit and liquidity risks. This note presents information about the subfund's exposure to these risks, the objectives, policies and process for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

#### 9.1 Market risk

Market risk arises when changes in foreign exchange rates or equity prices affect the positions held by the Company. The Company does not regard either interest rate or commodity risks as material in its case. The Company invests neither in securities that exhibit direct interest rate sensitivity nor in commodities.

##### *Price risk*

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting financial instruments traded in the market. All securities present a risk of loss of capital.

As at 31 December 2020, the Company did not hold any financial instruments, hence was not exposed to price risk.

##### *Currency risk*

The Company invests in assets, which can be denominated in currencies other than the Euro, its functional currency. The Company is exposed to risks that the exchange rate of the Euro against other currencies may change in a manner that has an adverse effect on its Net Asset Value.

The Company was not exposed to currency risk as all the transactions occurred during the current period and balances at the reporting date were at functional currency.

#### 9.2 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company. It arises principally from cash and cash equivalents. For risk management reporting purposes, the Company considers and aggregates all elements of credit risk exposure (such as individual obligor default risk, country risk and sector risk).

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

The cash and cash equivalents of the Company are held with J&T Banka a.s. which is not rated by a credit rating agency.

# Fraternity Funds SICAV p.l.c.

## Notes to the Financial Statements (continued)

For the period from 21 January 2020 (Date of Incorporation) to  
31 December 2020

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### 9 Financial risk review (continued)

#### 9.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's liquidity position is monitored on a regular basis. Redeemable shares are redeemed on demand at the holder's option provided that the redemption request is received by the respective Sub-fund three business days before the relevant dealing day, and if accepted by the Company, they will be dealt on every dealing day which is defined as 31 December of each year.

The Directors may limit the total number of the Investor shares which may be redeemed on any dealing day to 10% of the outstanding Investor shares in a particular sub-Fund. In the event that such a limit is reached at any point during a dealing day, the directors may defer any further redemption instructions received during that dealing day, to such time as the total number of redemption applications received on that dealing day is re-established at less than 10% of the outstanding Investor Shares in the particular sub-Fund.

The balance of such Investor Shares that are not redeemed on that dealing day because of the limit established above will be redeemed on the next dealing day, subject to the directors' same power of deferral until the original redemption instructions have been satisfied. Redemption requests which are deferred to the following dealing day will be given priority over any redemption requests received in relation to the said dealing day.

All liabilities of the Company are due within less than one year.

### 10 Fair value information

#### *Fair value hierarchy*

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

As at 31 December 2020, the Company did not hold any financial instruments measured at fair value.

### 11 Fees and other payables

#### 11.1 Management fees

##### **Opportunity Fund**

The founder shareholders are entitled to receive a management fee of 2% per annum of the Sub-fund's net asset value, calculated and paid on quarterly basis.

The management fees for the period amounted to € Nil and the outstanding management fees as at 31 December 2020 amounted to € Nil.

##### **Real Estate Fund**

The founder shareholders are entitled to receive a management fee of 1.5% per annum of the Sub-fund's net asset value, calculated and paid on quarterly basis.

The management fees for the period amounted to € Nil and the outstanding management fees as at 31 December 2020 amounted to € Nil.

# Fraternity Funds SICAV p.l.c.

## Notes to the Financial Statements (continued)

For the period from 21 January 2020 (Date of Incorporation) to  
31 December 2020

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### 11 Fees and other payables (continued)

#### 11.2 Performance fees

##### Opportunity Fund

Each holder of Investor Shares will be subject to a Performance Fee payable to the founder shareholders in respect of each calculation period. The performance period ("the Performance Period") shall, with the exception of the first Performance Period, run from 1 January of one year to 31 December of that year. The Performance Fee shall be calculated on the basis of the NAV per Investor Share. The Performance Fee shall be equal to 20% of the amount by which the Net Asset Value per Share (before the deduction of the Performance Fee) has exceeded the NAV Target per Share during the Performance Period, multiplied by the average number of Investor Shares in issue, taken at each valuation point, during that Performance Period, subject to a hurdle rate of 2% per annum.

The NAV Target per Share is equal to the highest of: (i) highest NAV per Share as at the end of any previous accounting period on which a Performance Fee was paid ("the Highest NAV"), or (ii) the Initial Offer Price ("the Initial Price").

The performance fees for the period amounted to € Nil and the outstanding performance fees as at 31 December 2020 amounted to € Nil.

##### Real Estate Fund

The performance period ("the Performance Period") shall, with the exception of the first Performance Period, run from 1 January of one year to 31 December of that year. The Performance Fee shall be calculated on the basis of the NAV per Investor Share. The Performance Fee shall be equal to 15% of the amount by which the Net Asset Value per Share (before the deduction of the Performance Fee) has exceeded the NAV Target per Share during the Performance Period, multiplied by the average number of Investor Shares in issue, taken at each valuation point, during that Performance Period, subject to a hurdle rate of 2% per annum.

The NAV Target per Share is equal to the highest of: (i) highest NAV per Share as at the end of any previous accounting period on which a Performance Fee was paid ("the Highest NAV"), or (ii) the Initial Offer Price ("the Initial Price").

The performance fees for the period amounted to € Nil and the outstanding performance fees as at 31 December 2020 amounted to € Nil.

#### 11.3 Administration fees

##### Opportunity Fund

The Administrator is entitled to receive a minimum fee of €18,000 per annum or the below whichever is the greater:

<i>NAV size</i>	<i>Administration fee</i>
Up to €100 million	0.04% of NAV p.a.
Greater than €100 million	0.02% of NAV p.a.

The minimum administration fee as per above has been waived by the Administrator for the current period as the sub-fund was not active during the period. The administration fee for the period amounted to € 500, which is included within Other Operating Expenses in the statement of comprehensive income. The outstanding administration fees as at 31 December 2020 amounted to € 500.

##### Real Estate Fund

The Administrator is entitled to receive a minimum fee of €12,000 per annum or the below whichever the greater:

<i>NAV size</i>	<i>Administration fee</i>
Up to €100 million	0.03% of NAV p.a.
Greater than €100 million	0.02% of NAV p.a.

The minimum administration fee as per above has been waived by the Administrator for the current period as the sub-fund was not active during the period. The administration fee for the period amounted to € 500, which is included within Other Operating Expenses in the statement of comprehensive income. The outstanding administration fees as at 31 December 2020 amounted to € 500.

#### 11.4 Auditor's Remuneration

The audit fee for the period amounted to €6,195 (inclusive of outlays and Value Added Tax).

# Fraternity Funds SICAV p.l.c.

## Notes to the Financial Statements (continued)

For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

### 11 Fees and other payables (continued)

#### 11.5 Other payables

31 December 2020

	Attributable to founder shareholders €	Attributable to unitholders of investor shares of:	
		Opportunity Fund €	Real Estate Fund €
Accounting fees	-	500	500
Regulatory fees payable	-	500	500
Register fee payable	-	474	474
Setup costs payable	-	750	750
Other legal costs payable	-	254	255
	-	<b>2,478</b>	<b>2,479</b>

### 12 Other operating expenses

For the period from 21 January 2020 (Date of Incorporation) to 31 December 2020

	Attributable to founder shareholders €	Attributable to unitholders of investor shares of:	
		Opportunity Fund €	Real Estate Fund €
Compliance officer fee expense	-	3,303	3,303
MLRO fee expense	-	2,360	2,360
Organisation fees	-	6,125	6,125
Other expenses	-	5,562	5,515
	-	<b>17,350</b>	<b>17,303</b>

### 13 Subsequent events

On 4 January 2021, Opportunity Fund issued 124 investor redeemable shares at €1,000 per share.

The Company's management is not aware of any other subsequent events that could have an effect on the financial statements as at 31 December 2020.

## **Auditor's report**

To be inserted