GLOBAL RATIONAL CAPITAL FUND

ANNUAL REPORT 30 JUNE 2018

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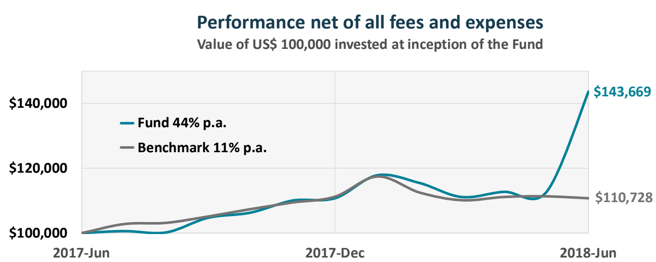
FOUNDER’S REPORT

Robert Tate
Founder & Investment Coordinator

OUTPERFORMANCE

For the financial year ended 30 June 2018, the Fund generated a return of 43.7%, after the deduction of all fees and expenses, while the Fund's benchmark, the MSCI ACWI, generated a return of 10.7%.



Most of the outperformance is attributable to the Fund’s participation in a rights issue by a Norwegian listed offshore oil drilling company called Awilco Drilling (“Awilco”).

Awilco ordered a new 7th generation rig at a bargain price and, to raise capital for the new rig, they issued shares in a private placement for majority shareholders in February 2018 and in a subsequent repair rights issue for minority shareholders in June 2018.

The subscription price was set in February 2018 at NOK 29 per share. The market reacted positively to the announcement and the share price rose over the following months to around NOK 45 – 50 leading up to the subsequent repair rights issue.

Only existing shareholders were eligible to participate in the rights issue, while a few strategic investors were contacted in a market sounding to participate in the private placement. The Fund was not contacted in the market sounding but was eligible to participate in the rights issue.

We called Awilco and learnt that: (1) shareholders in the rights issue would be allocated disproportionately fewer shares than shareholders in the private placement, relative to each groups’ respective pre-existing shareholdings; and (2) the subscription rights would not be transferable.

Unsatisfied, we sent letters of enquiry to the Norwegian Financial Authority, the Oslo Børs, the UK Ombudsman, the UK Financial Authority (since Awilco is a UK company listed in Oslo) and Awilco management.

Interestingly, the Oslo Børs had recently issued guidance notes to issuers relating to carrying out repair rights issues to rectify the dilutive effect of private placements and the regulator warned against increased use of criteria and methods to disadvantage certain shareholder groups.

We used some of the content of the guidance notes in our letters, citing that Section 5-14 of the Norwegian Securities Trading Act requires issuers to treat shareholders on a non-discriminatory basis and that a basic prerequisite when carrying out a repair issue is that it should ensure the largest degree of equal treatment possible.

The Norwegian regulators acknowledged our enquiry and their duty to review the rights issue prospectus while Awilco responded with rebuttals in a signed letter, noting that rights issue participants would have the benefit of additional time and certainty of pricing which has a positive option value.

In the end, Awilco did not increase the number of shares allocated in the rights issue but they did allow eligible shareholders to oversubscribe for shares that other shareholders would not or could not take up.

By the time the repair rights issue prospectus was approved, the share price was ~ NOK 45, while the rights issue price was NOK 27.35 (after adjusting for a post private placement dividend distribution), allowing rights issue participants to make a potential instant profit of around 65%.

The final kicker was that shareholders resident in the US (and in many other countries) were restricted from participating, per the prospectus, because the share issue was not registered under the US Securities Act. This meant that many existing shareholders would not be eligible to participate in the rights issue. Furthermore, Awilco operates in an out-of-favour industry; is small, unfollowed and is listed on a small exchange. It appeared likely there would be an oversupply of unutilised rights.

We knew that we would have to sell other listed companies the Fund owned to make room for a larger Awilco position. We evaluated the risk reward profile. In the worst-case scenario, the oversubscription application would not be approved, and the Fund would be left with a large amount of excess cash and we would have to buy back the other listed companies which would result in increased transaction costs. In the best-case scenario, the entire oversubscription application would be approved, and the Awilco shares bought could be sold immediately in the market for a ~ 65% profit.

The risk reward profile seemed very attractive, so we decided to apply for as many rights as the Fund could accept. Pressed for time, and on our return to Cayman after visiting several listed businesses in China and Japan, we quickly evaluated the Fund's portfolio and made room for a short-term overweight position in Awilco.

The oversubscription was successful and, even though the Fund was only allocated about half the Awilco rights applied for, the investment produced most of the Fund's 27.6% net return for the month of June 2018. We immediately realised substantial gains by selling shares in modest volumes until the oversized Awilco holding was reduced to a comfortable level.

CONCLUSION

While the Fund's performance for its first financial year has been good, we will continue to work hard and remain focused on long-term investment outperformance.

Opportunities with extraordinary risk reward propositions, such as the Awilco rights issue, are rare and we shall continue to pursue them; however, while our annual goal is to have over 100 company meetings and to read over 400 financial statements, there can be no guarantees in the results of our research.

20 December 2018

ABOUT US

Global Rational Capital Management Ltd. is the Investment Manager of Global Rational Capital Fund and is registered with the Cayman Islands Monetary Authority under the Securities Investment Business Law.

Our approach to managing the Fund is as follows:

FOCUS

We manage one Fund and our sole objective is to ensure it outperforms the global equity market. We are focused on long-term investment outperformance and our objective gives us a sense of purpose and justifies our existence.

We believe focus is vital for success and this is why we will never manage the investments of more than one fund or any segregated client accounts because this would distract us from our sole objective.

We will not dilute our time across competing priorities at the expense of investment performance. We also believe that a lot of choice doesn't necessarily help you make better investment decisions.

ALIGNMENT

All of our investable net worth is in the Fund alongside the interests of all shareholders. So if we underperform, it hurts us just as much as it hurts you.

The first question you should ask any investment manager is: "Are you going to be invested in the fund that I'm going to be invested in?". Many managers don't invest in the fund(s) they manage, or they only invest a small portion of their net worth.

At Global Rational Capital, we don't simply try to avoid conflicts of interest, we eliminate them, and we start by being fully and solely invested in the Fund so that it is impossible to put our interests against yours. We are all in this together.

INCENTIVES

Our fees are more sensitive to investment outperformance than to assets under management. Which means that you only pay over-and-above a minimal fee of 0.5% per annum when we outperform the benchmark over all periods to date. And the outperformance fees we earn must be reinvested back into the Fund.

Our fee structure forces us to prioritise long-term investment outperformance over short-term profitability and it provides a powerful incentive against gathering assets under management at the expense of investment performance. It's very different from the traditional "heads manager wins, tails clients lose" fee structure.

If we can't beat the benchmark, there is no reason for our existence. The fee structure is designed so that if we don't outperform, we will not profit, and we will not benefit by simply idling on a rising market tide.

Our efforts are focused entirely on the Fund's performance because the long-term success of Global Rational Capital is dependent on our ability to outperform. We have the courage to design the compensation structure in this unconventional manner because we believe we have the ability to outperform and will continue to prove it.

RATIONAL

We look for good businesses we can understand and buy at a price below intrinsic value. The approach is simple, but it requires a lot of time, effort and emotional intellect.

Intrinsic value is an estimate of the discounted value of the cash that can be taken out of a business during its remaining life. The lower the price of a share as compared to its assessed intrinsic value, the higher the margin of safety, and the more attractive we consider the share.

We view each stock investment as if we are the owners of the entire underlying business. This enables us to invest intelligently in a business-like manner and helps us avoid contagious irrational market emotions. We avoid the popular opinion and have the courage to foster contrarian insights.

We know that in the short-term, share prices are affected by market psychology; but over the long-term, share prices are determined by the economic progress of the underlying business and that is precisely what we pay attention to. We believe that market prices are there to serve us, not to instruct us.

Our investment research is focused on understanding businesses, estimating intrinsic value, and seeking undervalued companies with excellent potential. A key component of our research process is direct contact with company management through calls and face-to-face meetings.

We believe that successful investing is 90% hard work and our annual goal is to have over 100 company meetings and to read over 400 financial statements.

LONG-TERM

We view all shareholders as owner-partners who have entrusted their capital to us for the long-term. Having shareholders with a long-term orientation is the most important factor in enabling us to take a long-term time frame while the world puts disproportionate pressure on short-term results.

We put our clients' interests first and treat them as we would want to be treated if our roles were reversed and we believe our promises to manage the investments of only one fund and to be fully invested in the Fund are important commitments that will benefit you and us over the long-term.

The Fund is suitable for those investors who:

- Seek exposure to listed equities globally to provide long-term capital growth
- Are comfortable with stock market fluctuations, i.e. short- to medium-term volatility
- Are prepared to accept the risk of capital loss
- Have a long-term orientation and an investment horizon of at least five years
- Understand that we generally assess investments using a five-year time horizon

The Fund is available to long-term investors globally and while we may not be the best fit for everyone, we can help investors decide if we are the right partner for them.

INVESTMENT STRATEGY

We look for good businesses we can understand and buy at a price below intrinsic value. The approach is simple, but it requires a lot of time, effort and emotional intellect.

WE SEEK A DISCOUNT TO INTRINSIC VALUE

Intrinsic value is an estimate of the discounted value of the cash that can be taken out of a business during its remaining life. It is what a prudent businessman would be prepared to pay for an entire business with consideration for the company's long-term prospects.

The lower the price of a share as compared to its assessed intrinsic value, the higher the margin of safety, and the more attractive we consider the share. The margin of safety is by definition, a favourable difference between price on the one hand and intrinsic value on the other.

WE BELIEVE MARKET PRICES ARE THERE TO SERVE US, NOT TO INSTRUCT US

We view each stock investment as if we were the owner of the entire underlying business because investing is most intelligent when it is most business like. In the short-term, share prices are affected by market psychology; but over the long-term, share prices are determined by the economic progress of the underlying business.

There are times when a company's share price is above its intrinsic value, often when investors are overly optimistic and expect the price to continue to increase as greed dominates. There are also times when a company's share price is below intrinsic value, often when investors are overly pessimistic and expect developments to continue to worsen as fear dominates.

WE TAKE A CONTRARIAN VIEW

We are often attracted to shares that are disliked or unfollowed by others and are less likely to find great investments in areas that other investors or the financial community are excited about. Underappreciated securities are often underpriced by the market because sellers typically outnumber buyers.

WE TAKE A LONG-TERM VIEW

We cannot predict the length of time it will take for a stock to be priced more rationally, therefore we take a long-term view and will hold an investment through short-term market pessimism and wait for the market to eventually recognise the company's true value.

We are unable to time and predict a share price trough or peak and make no effort to do so. Instead, we focus on assessing a business's intrinsic value and we wait to buy at prices below and sell at prices above such value.

WE FOCUS ON RISK

We believe that risk is the possibility of a permanent loss of capital and we focus on the margin of safety because we believe it is important for absorbing the effect of miscalculations or worse than average luck. If an investment is bought on a bargain basis, even a moderate decline in the earning power need not prevent it from showing satisfactory results. The margin of safety will then have served its proper purpose.

The portfolio is considered in two parts: the small-growth and cyclical stocks; and the conservative stocks and cash. When the market heads lower, we sell the conservative stocks, utilise more cash and add to the small-growth and cyclical stocks. When the market picks up, we sell some of the winners from the growth stocks and cyclical stocks and add to the conservative stocks and keep more cash on hand to be utilised later when more appropriately priced opportunities become available.

WE PREFER WONDERFUL BUSINESSES

Businesses with wonderful economic characteristics and which can increase intrinsic value over time at an attractive rate are preferred. Other businesses with less promising long-term prospects are also considered, however a wider discount to intrinsic value shall be sought when purchasing shares in these companies.

WE WORK HARD TO UNDERSTAND BUSINESSES

Our investment research is focused on understanding businesses, estimating intrinsic value, and seeking undervalued companies. Research includes but is not limited to: reviewing company and competitor financial statements and historical records; meeting company management; testing company products and services; questioning industry contacts; reading industry news;

and screening various databases for undervalued businesses.

A key component of our research process is direct contact with company management through calls and face-to-face meetings. This is because we believe that company management should be industry experts best positioned to explain drivers of the industry's supply-demand dynamic and profitability. We believe that successful investing is 90% hard work and our annual goal is to have over 100 company meetings and to read over 400 financial statements.

Investment evaluation includes an assessment of: the earning power and quality of company assets; the level of company debt and cash; the quality and integrity of company management; and the competitiveness of the company and the industry. Companies which are poorly managed or are vulnerable due to excessive debt or competition are avoided.

WE CONSIDER SPECIFIC INVESTMENT CATEGORIES AND CHARACTERISTICS

To foster an organised rational decision-making process, we classify investments of interest into specific Investment Categories and consider whether a potential investment possesses certain specific favourable Investment Characteristics.

WE MONITOR THE PORTFOLIO BY RANKING INVESTMENTS

We constantly monitor portfolio positions and the correlation between them to control diversification. Investments with the highest expected return and the lowest risk are prioritised. Conviction is based on how well we know the company and to what extent the outcome is predictable.

WE ACKNOWLEDGE THE WISDOM OF INTELLIGENT INVESTORS

Although there is no monopoly on investment ideas, one must give credit where it is clearly due. Our investment philosophy is based on the shared wisdom and generous teaching of Benjamin Graham, Peter Lynch and Warren Buffett.

INVESTMENT CATEGORIES

We are discerning about public disclosure of individual securities since good investment ideas are rare, valuable and subject to competitive appropriation; however, we explain how we think so that you can assess our capital allocation approach. We classify investments into the following Investment Categories to foster an organised rational decision-making process.

FAST GROWERS

Fast growers are small to medium sized companies that can grow earnings quickly and have room to grow. The ideal fast grower should have a proven accelerating expansion record; a low institutional investor and analyst following; and a sensible unleveraged Price to Earnings (“P/E”) ratio.

The P/E ratio is often a useful measure of whether a stock is overpriced, fairly priced, or underpriced relative to a company’s earning power. The average P/E for a slow grower will be lower than the average P/E for a medium grower, and that in turn will be lower than the average P/E of a fast grower. A bargain P/E for a medium grower isn’t necessarily the same as a bargain P/E for a fast grower.

Fast growers can be held for a long time provided there continues to be adequate room to grow and provided they have not become too expensive.

Fast growers are often upstart enterprises which learn to succeed in one place, and then duplicate the winning formula over and over, city by city etc. The expansion into new markets results in accelerating earnings which drives the stock’s price higher.

One should consider the fast grower’s debt and whether the company is growing too aggressively and unsustainably. Larger fast growers risk a rapid devaluation when they begin to falter. The key for fast growers is to determine when they’ll stop growing and how much to pay for the growth. The total return from a fast grower is driven primarily by the growth in the company’s earning power.

STALWARTS

Stalwarts, sometimes called medium growers, are large well-established companies with durable competitive advantages that enable them to produce satisfactory and consistent earnings growth.

Stalwarts typically offer good protection during recessions. One may check for possible unwise diversification that may negatively affect the company and reduce earnings in the future. If the P/E strays too far beyond the normal range, one may consider selling the company and waiting to buy it back later at a lower price. Satisfactory returns can be made by compounding a series of gains in stalwarts and one may consider taking profits more readily than with young fast growers.

Stalwarts with heavy institutional ownership and analyst coverage that have outperformed and are overpriced are due for stagnation or a decline. The total return from a stalwart is primarily driven by a combination of: moderate growth in earning power; and narrowing of the margin between price and intrinsic value.

CYCLICALS

Cyclicals are companies which operate in commoditised industries and supply standardised products that cannot be easily differentiated. Cost leadership and low debt are important qualities of sustainable cyclical companies. The earnings of cyclical companies fluctuate widely in line with the industry cycle and their stock charts often look like the Alps with sharp peaks and deep troughs.

It is important to have a comprehensive understanding of the cyclical industry. The best time to buy a cyclical is at the bottom of the cycle and those who have a thorough understanding of the industry have an advantage in determining the bottom. Insider buying possibly offers the strongest signal to buy.

Coming out of a recession, cyclicals tend to rise much faster than the prices of the stalwarts. With most stocks, a low P/E ratio is regarded as a good thing, but not with the cyclicals. The average earning power of the business over a full cycle is a useful indicator for assessing the normalised value of the business. The total return from these investments is primarily driven by an upturn in the cycle.

TURNAROUNDS

A turnaround could be a company that had been doing well; however, due to a temporary mishap, the company’s short-term results are affected and its stock price plummets.

The mishap must be temporary in nature and not harm the long-term fundamentals and growth of the company. One should find out if the company can survive this mishap, emerge from it and return to its former earning power over time. One should determine what management is doing to correct the mishap and whether they are redressing it effectively. Key focus areas are company management and debt.

The most important question is whether the company can survive loan repayment demands by creditors. What is the debt structure? How long can it operate under pressure while working out its problems without becoming insolvent? How is the company supposed to be turning around and is business recovering? Are costs being cut?

There are several types of turnarounds including: 1) a bail-out dependant on government support; 2) a minor tragedy perceived worse than it is (stay away from tragedies that are unmeasurable); 3) a perfectly good company inside a bankrupt company; 4) a restructuring to maximise shareholder value; and 5) a security higher up in the capital structure.

Caution and careful analysis is required because there is a very fine line between turnarounds that are great investment opportunities and those that will become bankrupt. A benefit to investing in successful turnarounds is that of all the categories of stocks, their ups and downs are least correlated to the general market.

ASSET PLAYS

An asset play is a company that owns something valuable that the market has overlooked. The overlooked asset may be cash; real estate; a listed or private company; a brand, patent or license; intellectual property; customer data; or an unutilised tax break.

Asset plays can be low-risk and high-gain investments if one is confident of the asset values. A key issue is determining what will remain after all debts and future costs are taken into account. One should also consider whether there is a catalyst to narrow the discount to intrinsic value such as share buybacks or a potential corporate raider who may help shareholders reap the benefits of the assets.

INVESTMENT CHARACTERISTICS

We consider whether a potential investment possess one or more of the following specific favourable investment characteristics:

IT IS SIMPLE AND EASY TO UNDERSTAND

The simpler the business, the better. Excessively complicated companies are best avoided. Ideally, one should be able to draw the product or service with a pen or describe it to a child. If possible, the company's product(s) may be sampled. One should strive to identify and follow the most important industry specific factors that drive the business's profitability.

IT IS UNLOVED OR OUT-OF-FAVOUR

A company with terrific earnings potential and a strong balance sheet may be out-of-favour for non-economic reasons such as the following: it sounds boring (has a boring name); it does something dull (e.g. makes plastic cups); it does something disagreeable (e.g. waste management); it is depressing (e.g. a burial business), or it is listed in a country that is currently out-of-favour etc. In such instances, there may be a lot of time available to purchase the stock at a discount. Then, when the stock becomes trendy and overpriced, one can sell the shares to the trend-followers.

IT IS A SPINOFF

A spinoff is the creation of an independent company through the distribution of new shares in the spinoff company from an existing parent company. Spinoffs of divisions often result in lucrative investments.

Typically, investors are sent shares in the newly created company as a bonus or a dividend for owning the parent company. Large institutions (in particular) which receive spinoff shares tend to dismiss these shares as pocket change or found money and often sell the spinoff shares without regard to intrinsic value. Sometimes large institutional shareholders are not permitted to own the bonus shares because the spinoff company is too small or because it operates in an industry that does not fall within the institution's investment mandate - so the large institutional shareholder sells its allocated spinoff shares for non-economic reasons.

Furthermore, some investors who receive spinoff stock don't want to read the prospectus (sometimes over 800 pages long) that accompanies the offering and, instead, they decide to sell the stock. The prospectus is often blasé and understated and is not accompanied by heavy marketing typical of hot overpriced IPO's.

Often, company insiders want to and are incentivised to invest in the spinoff and are motivated and free to prove their worth through cost cutting and creative measures. The spinoff transaction often uncovers a previously hidden investment opportunity. Large parent companies do not want to spin off divisions and then see those spinoffs get into trouble, because that would bring embarrassing publicity, therefore, the spinoffs normally have strong balance sheets and are well-prepared to succeed as independent entities.

IT IS UNFOLLOWED

A stock with little or no institutional ownership and analyst following is a potential bargain because the less competition for and interest in the stock, the more likely it is to be undervalued.

IT OPERATES IN A NO-GROWTH INDUSTRY

Hot fast-growing industries attract a lot of competition which puts pressure on profits. A company operating in a no-growth industry is less likely to face stiff competition and therefore has more leeway to gain market share and grow earnings.

IT HAS A NICHE

An exclusive franchise is often best positioned to raise prices. For example, drug companies and chemical companies have niches - products that no one else is allowed to make. An aggregate (rock, sand and gravel) business most often has a niche because it's expensive to transport the aggregate and there is typically only one aggregate business per town. Strong brand names are almost as good as niches because they are expensive and it often takes many years to build public confidence in them.

IT SELLS PRODUCTS THAT PEOPLE MUST KEEP BUYING

Businesses with recurring revenues (such as razor blade sales) are often less risky and more profitable than businesses with once-off product sales (such as toys).

ITS INSIDERS ARE BUYERS

The purchasing of shares by company management is often a signal that they are confident in their business. When insiders are purchasing shares aggressively, one can be comfortable that, at a minimum, the company is unlikely to go bankrupt in the next six months.

When management owns stock, then rewarding the shareholders becomes a first priority. Whereas, when management simply collects a paycheck, then increasing salaries becomes a first priority. Since bigger companies tend to pay bigger salaries to executives, there's a natural tendency for corporate wage-earners to expand the business at any cost, often to the detriment of shareholders. This happens less often when management is heavily invested in shares.

It is more telling when lower ranking employees buy shares than when the CEO buys a few shares. Insider selling is not necessarily a sign of trouble, however insider buying is usually a good sign.

IT IS BUYING BACK SHARES

Buying back shares is often the simplest and best way a company can reward its investors. If a company has faith in its own future and its shares can be purchased at a reasonable price, then it may be wise for the company to invest in itself, just as the shareholders do. When stock is repurchased by the company, it is taken out of circulation, shrinking the number of outstanding shares and increasing the earnings per share, which in turn has a positive effect on the stock price.

OUR TERMS

FEES

The Fund pays a Management Fee and an Outperformance Fee to the Investment Manager monthly on a per Participating Share basis. The Management Fee is equal to 0.5% per annum of the Fund's Net Asset Value ("NAV"). If after deducting the Management Fee, the total return of the Fund is higher than the total return of the benchmark, being the MSCI ACWI, then an Outperformance Fee of 20% is charged on the excess return.

An Outperformance Fee is only charged when the Fund's total return is higher than the benchmark's total return, measured over any and all periods to date. The Investment Manager shall not be rewarded for idling on a rising market tide since Outperformance Fees are awarded only when the Fund's investment objective is met and a high-water mark is in place to ensure that the Fund only pays once for outperformance. To further the alignment of interests with all shareholders of the Fund, the Investment Manager does not receive payment of the Outperformance Fee in cash; instead, the Investment Manager must use the monetary value of the Outperformance Fee to purchase additional Participating Shares in the Fund.

SUBSCRIPTIONS

The Fund may permit subscriptions for Participating Shares on each Subscription Day (being the first calendar day of each month) by existing or new investors. The minimum initial subscription amount in the Fund is US$100,000 per investor.

Participating Shares are offered on each Subscription Day at the Net Asset Value per Participating Share on the Valuation Day (being the last calendar day of each month) immediately preceding the relevant Subscription Day.

To subscribe for Participating Shares:

- each prospective investor must complete and execute the Subscription Form (as attached in the Offering Memorandum) and return it to the Fund along with the necessary supporting documentation no later than 3pm (Cayman Islands time) fifteen calendar days prior to the Subscription Day;
- the completed Subscription Form and supporting documentation must be approved by the Investment Manager and Administrator prior to the Subscription Day; and
- the prospective investor must ensure that subscription amounts in cleared funds are received by the Fund prior to the Subscription Day.

REDEMPTIONS

A holder of Participating Shares may redeem some or all of his Participating Shares as of each Redemption Day (being the first calendar day of each month) at the Net Asset Value per Participating Share as at the immediately preceding Valuation Day (being the last calendar day of each month) provided that a completed and executed Redemption Notice (as attached in the Offering Memorandum) is received by the Fund no later than 3pm (Cayman Islands time) at least fifteen calendar days prior to the proposed Redemption Day.

An Early Redemption Charge of up to 5% of redemption proceeds will be imposed for any redemption of a Participating Share on or before the expiry of the third Anniversary Year of the issue of such Participating Shares. The proceeds of such Early Redemption Charge, if imposed, will be retained for the benefit of the Fund.

VOLUNTARY ANNUAL DONATION

Robert and Louise Tate, the Founders of the Investment Manager, have, in their absolute sole discretion, elected to make Voluntary Annual Donations, equal to 5% of the Management Fee earned in any given Fiscal Year, to pre-selected charities which help the poor, the sick and or the environment.

The Voluntary Annual Donation may be made by the Founders at their discretion, from their personal capital, after the Fund's Fiscal Year End and may be reported in the Fund's audited annual financial statements. The purpose of the Voluntary Annual Donation is to augment long-term sustainable motivation because the Founders believe that devoting a portion of their fee income to earnest causes will supplement their incentives and fulfilment in alignment with the creation of wealth for the Fund and all Shareholders.

OUR TEAM

ROBERT TATE
Founder and Investment Coordinator

Robert is a Co-founder and the Investment Coordinator of Global Rational Capital. He has held several positions in the fund management and financial services industry.

From 2013 to 2017, Robert was the Co-manager of OAM European Value Fund at Overseas Asset Management (Cayman) Ltd. ("OAM") where he sought businesses in Europe which he could understand and buy at a price below what he estimated the business to be worth based on the business's earning power. Robert is grateful to Mr. Desmond Kinch, founder of OAM, for sharing his wisdom in rational investing.

From 2012 to 2017, Robert also invested in the Florida and Michigan residential real estate market, through the purchase of foreclosure properties from distressed sellers in the aftermath of the great recession, with the long-term view of cash flow rental income and capital appreciation.

Robert was a fund accountant at UBS Fund Services (Cayman) Ltd. (subsequently acquired by MUFG Alternative Fund Services (Cayman) Limited) from 2011 to 2013. He was a senior fund auditor at Deloitte & Touche Cayman Islands and New York from 2010 to 2011. He was also a senior auditor of industrial companies at Deloitte & Touche South Africa from 2007 to 2010.

In total, Robert has over 10 years of experience working in the fund management and financial services industry.

Robert is a Chartered Accountant ("CA") and a member of the South African Institute of Chartered Accountants ("SAICA", Membership# 09115015) and the Cayman Islands Institute of Professional Accountants ("CIIPA", Membership# 1623). Robert is also a Chartered Financial Analyst® ("CFA®") Charterholder and a member of the CFA Institute (Membership# 6130282). Robert studied for and passed the CA and CFA exams simultaneously.

Robert is an active member of Rotary International and the Chairman of the Leadership Cayman program, part of the Cayman Islands Chamber of Commerce.

Robert graduated from the Nelson Mandela Metropolitan University (previously the University of Port Elizabeth) in South Africa with a postgraduate Honours degree and Bachelor of Commerce degree in Finance and Accounting. Robert is a British and South African citizen and resides in the Cayman Islands.

Robert is registered as a Director with the Cayman Islands Monetary Authority under the Directors Registration and Licensing Law of the Cayman Islands.

Louise Tate
Co-founder

Louise is a Co-founder of Global Rational Capital.

Louise invested in the Florida and Michigan residential real estate market, alongside Robert, through the purchase of foreclosure properties from distressed sellers in the aftermath of the great recession, with the long-term view of cash flow rental income and capital appreciation from 2012 to 2017.

Louise is a Registered Professional Nurse and graduated from the Nelson Mandela Metropolitan University (previously the University of Port Elizabeth) in South Africa with a Baccalaureus Curationis degree. She has also been awarded a certificate in the CFA Institute Investment Foundations program which is focused on the essentials of accounting, finance and investment ethics. Louise is a South African citizen and resides in the Cayman Islands.

DIRECTORY

REGISTERED OFFICE

Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands

DIRECTORS

Mr. Robert Tate and Mr. Lynden John

INVESTMENT MANAGER

Global Rational Capital Management Ltd.

with its registered office located at 68 Fort Street, George Town, Grand Cayman KY1-1101, Cayman Islands

REGULATOR

The Investment Manager is registered with the Cayman Islands Monetary Authority under the Securities Investment Business Law

AUDITORS

Moore Stephens MWM Inc.

ADMINISTRATOR AND REGISTRAR

Brackstone Accounting Services

CUSTODIAN AND BROKERS

Interactive Brokers LLC, Two Pickwick Plaza, Greenwich, CT 06830, USA

Saxo Bank, Philip Heymans Allé 15, DK 2900 Hellerup, Denmark

LEGAL ADVISER

Walkers, 190 Elgin Avenue, George Town, Grand Cayman KY1-9001, Cayman Islands

LEGAL ENTITY IDENTIFIER (LEI)

213800UXTZQ6GOHFRV21

FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA) GLOBAL INTERMEDIARY IDENTIFICATION NUMBER (GIIN)

FECVZ5.99999.SL.136

GLOBAL RATIONAL CAPITAL FUND

Audited Financial Statements
For the year ended 30 June 2018

GLOBAL RATIONAL CAPITAL FUND

Audited Financial Statements
For the year ended 30 June 2018

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Long live sensible

MOORE STEPHENS

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Independent Auditor's Report

To the shareholders of Global Rational Capital Fund

Report on the Audit of the financial statements

Opinion

We have audited the financial statements of Global Rational Capital Fund set out on pages 5 to 21, which comprise the statements of financial position as at 30 June 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Global Rational Capital Fund as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. 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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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, 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.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, 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 International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

Moore Stephens MWM Inc.

Moore Stephens MWM Inc.
Registered Auditor

Per: CA Whitefield
Partner

20 December 2018
Johannesburg

GLOBAL RATIONAL CAPITAL FUND

Statement of Financial Position
At 30 June 2018
Expressed in United States Dollars

	Note	2018
Assets		
Financial assets at fair value through profit or loss	3,4	577,992
Cash and cash equivalents		176,474
Other assets		478
Total assets		754,944
Liabilities		
Subscriptions received in advance		40,000
Outperformance fees payable	6	35,564
Management fees payable	6	298
Total liabilities (excluding net assets attributable to holders of Participating Shares)		75,862
Net assets		$ 679,082
Net assets attributable to holders of Management Shares	5	1
Net assets attributable to holders of Participating Shares		679,081
Number of Participating Shares	5	4,726.708
Net Asset Value per Participating Share		143.669

See accompanying notes to the financial statements.

GLOBAL RATIONAL CAPITAL FUND

Statement of Comprehensive Income
For the year ended 30 June 2018
(commencement of operations on 1 July 2017)
Expressed in United States Dollars

	Note	2018
Investment income		
Net realised gain on financial assets at fair value through profit or loss		240,440
Net unrealised loss on financial assets at fair value through profit or loss		(6,596)
Dividend income		12,383
Net foreign exchange gain		397
Net investment income		246,624
Expenses		
Outperformance fees	6	38,811
Management fees	6	2,562
Other expenses		1,682
Total expenses		43,055
Net change in net assets attributable to holders of Participating Shares		$ 203,569

See accompanying notes to the financial statements.

GLOBAL RATIONAL CAPITAL FUND

Statement of Changes in Net Assets Attributable to Holders of Participating Shares
For the year ended 30 June 2018
(commencement of operations on 1 July 2017)
Expressed in United States Dollars

		2018
Balance, beginning of year		—
Subscriptions by holders of Participating Shares		475,512
Net change in net assets attributable to holders of Participating Shares		203,569
Balance, end of year	$	679,081

See accompanying notes to the financial statements.

GLOBAL RATIONAL CAPITAL FUND

Statement of Cash Flows
For the year ended 30 June 2018
(commencement of operations on 1 July 2017)
Expressed in United States Dollars

		2018
Cash flows from operating activities		
Net change in net assets attributable to holders of redeemable shares		203,569
Adjustments:		
Net realised gain on financial assets at fair value through profit or loss		(240,440)
Net unrealised loss on financial assets at fair value through profit or loss		6,596
Payments for purchase of investments		(1,659,881)
Proceeds from sale of investments		1,315,733
Net changes in non-cash operating balances:		
Outperformance fees payable		35,564
Management fees payable		298
Other assets		(478)
Net cash flows from operating activities		(339,039)
Cash flows from financing activities		
Proceeds from issuance of Management Shares		1
Proceeds from issuance of Participating Shares		515,512
Net cash flows from financing activities		515,513
Net increase in cash and cash equivalents		176,474
Cash and cash equivalents at beginning of year		—
Cash and cash equivalents at end of year	$	176,474
Supplemental disclosure of cash flows from operating activities:		
Dividends received, net of withholding tax	$	11,890

See accompanying notes to the financial statements.

1. GENERAL INFORMATION

Global Rational Capital Fund (the "Fund") was incorporated on 14 June 2017 as an Exempted Company with limited liability pursuant to the Companies Law (as amended) of the Cayman Islands. The Fund commenced operations on 1 July 2017.

The registered office of the Fund is at the offices of Walkers Corporate Limited, Cayman Corporate Centre, 27 Hospital Road, George Town, Grand Cayman KY1-9008, Cayman Islands.

The investment objective of the Fund is to generate a long-term total return which exceeds that of the global equity market measured by the MSCI ACWI.

The Fund has appointed Global Rational Capital Management Ltd. (the "Investment Manager"), as the investment manager to the Fund pursuant to the terms of an investment management agreement between the Fund and the Investment Manager. The Investment Manager is a Cayman Islands company and is registered with the Cayman Islands Monetary Authority under the Securities Investment Business Law (as amended) of the Cayman Islands.

The Fund has appointed Brackstone Accounting Services (the "Administrator") as the administrator, registrar and transfer agent to the Fund pursuant to the terms of an administration agreement between the Fund and the Administrator.

The Fund did not have any employees during the year ended 30 June 2018.

The financial statements were approved by the Directors on 20 December 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The significant accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of preparation

The financial statements have been prepared on the historical cost basis except for financial assets and financial liabilities at fair value through profit or loss, which are measured at their fair value.

The financial records and statements are maintained and presented in United States Dollars ("USD" or "$"), which is the Fund's functional and presentational currency.

Standards and amendments to existing standards effective 1 July 2017

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

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(a) **Basis of preparation** (Continued)

New standards, amendments and interpretations effective after 1 July 2017

IFRS 9 Financial Instruments will replace *IAS 39 Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting and is effective for the Fund's accounting period beginning 1 July 2018. The Fund has determined there will be no material implications to the Fund's financial statements from adopting IFRS 9.

(b) **Use of estimates**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is 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.

(c) **Financial instruments**

Classification

The Fund has classified financial assets and liabilities into the following categories:

Financial assets and liabilities at fair value through profit or loss:

- Financial instruments held-for-trading – these include investments in derivative instruments. All derivatives in a net receivable position (positive fair value) are reported as financial assets. All derivatives in a net payable position (negative fair value) are reported as financial liabilities.

- Financial instruments designated at fair value through profit or loss upon initial recognition – these include investments in equity securities.

Financial assets and liabilities at amortised cost: these include all other assets and liabilities as presented on the statement of financial position.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(c) **Financial instruments** (Continued)

Recognition

The Fund recognises financial assets and liabilities at fair value through profit or loss on the trade date at which it becomes a party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded in the statement of comprehensive income.

Other financial assets and liabilities are recognised on the date they are originated.

Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs on financial assets at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

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

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of financial assets and liabilities traded in active markets are based on the last traded price or the mid-point between the bid and ask price on a recognised stock exchange.

The fair value of non-exchange traded financial instruments is estimated using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(c) **Financial instruments** (Continued)

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Fund has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis or assets are realised and liabilities settled simultaneously.

Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39.

The Fund uses the weighted average cost method to determine realised gains and losses on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Impairment

Financial assets which are stated at amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Specific instruments

Cash and cash equivalents
Cash comprises current deposits with banks and brokers. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(d) **Foreign currency transactions**

Transactions in foreign currencies are converted into United States Dollars at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into United States Dollars at the exchange rate at the date that the fair value was determined.

Realised foreign exchange gains and losses relating to financial assets at fair value through profit or loss traded during the period are included within net realised gain/loss on financial assets at fair value through profit or loss. All other foreign exchange differences, including those relating to financial assets at fair value through profit or loss held at the statement of financial position date and cash and cash equivalents, are presented separately in the statement of comprehensive income.

(e) **Interest and dividend income**

Interest income is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at the acquisition date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income relating to exchange-traded equity investments is recognised in the statement of comprehensive income on the ex-dividend date, net of withholding tax, if any.

(f) **Share capital**

Management Shares, which are non-redeemable voting shares, are classified as equity. Incremental costs directly attributable to the issue of Management Shares are recognised as a deduction from equity.

All Participating Shares issued by the Fund provide the investor with the right to require redemption for cash at the value proportionate to the investor's share in the Fund's net assets at the redemption date. In accordance with the amended IAS 32, "*Financial Instruments: Presentation*," such instruments give rise to a financial liability for the present value of the redemption amount.

(g) **Taxation**

The Fund is not subject to any form of taxation in the Cayman Islands including income, capital gains and withholding taxes. The Fund may be subject to withholding taxes on dividends and interest income imposed by countries in which it invests.

Expressed in United States Dollars

3. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

The Fund's investing activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The most important types of financial risk to which the Fund is exposed to are market risk, credit risk and liquidity risk.

The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. The following summary is not intended to be a comprehensive outline of all risks and investors should refer to the Offering Memorandum for a detailed discussion of the risks inherent in the Fund.

As at 30 June 2018, the Fund's financial assets at fair value through profit or loss comprise long equity securities in companies located in various countries.

(a) Market risk

Market risk embodies the potential for both losses and gains and includes price risk, interest rate risk and currency risk. The Fund's strategy on the management of investment risk is driven by the Fund's investment objective (refer to note 1). The Fund's market risk is managed on a daily basis by the Investment Manager in accordance with the Offering Memorandum.

Price risk

Price risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income. The Investment Manager is responsible for continuously monitoring the Fund's exposure to price risk.

The Investment Manager classifies the Fund's investments into specific Investment Categories, as outlined in the Fund's Offering Memorandum, to foster an organised rational decision-making process. As at 30 June 2018, the Fund's financial assets at fair value through profit or loss and net cash are classified in Investment Categories as follows:

30 June 2018 **Investment Categories**	**% of** **Net Assets**
Turnarounds	26%
Fast growers	20%
Stalwarts	19%
Cyclicals	16%
Asset plays	4%
Net cash	15%
Net Asset Value	**100%**

Expressed in United States Dollars

3. **FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS** (Continued)

(a) **Market risk** (Continued)

Price risk (Continued)

As at 30 June 2018, the Fund's financial assets at fair value through profit or loss and net cash are classified in industries as follows:

30 June 2018 **Industries**	**% of** **Net Assets**
Consumer goods	26%
Financials	21%
Industrials	16%
Oil & gas	13%
Basic materials	5%
Technology	4%
Net cash	15%
Net Asset Value	**100%**

Currency risk

The Fund may invest in financial instruments and enter into transactions denominated in currencies other than the USD, its functional currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the USD. The Fund may invest in securities in any country.

As at 30 June 2018, the Fund's financial assets at fair value through profit or loss and net cash are classified in geographies as follows:

30 June 2018 **Geographies**	**% of** **Net Assets**
Europe	35%
North America	21%
Africa & Middle East	16%
Australasia	10%
Central & South America	4%
Net cash	15%
Net Asset Value	**100%**

3. **FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS** (Continued)

(a) **Market risk** (Continued)

Currency risk (Continued)

The Fund's currency risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures in place. The Investment Manager may or may not choose to hedge the currency risks of the Fund. In addition, the Investment Manager may seek from time to time to hedge all or a portion of the market risks of the investments through the defensive use of derivative transactions. The Investment Manager may decide to increase the currency risks by using those same instruments. In both cases, the underlying portfolio may be pledged as collateral to secure these derivative transactions and foreign exchange contracts.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The only exposure to interest rate risk is on cash and margin accounts held with brokers which attract interest at standard variable rates. The directors of the Fund do not consider interest rate risk to be significant to the Fund.

(b) **Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

As at 30 June 2018, all of the Fund's financial assets potentially expose it to credit risk. The extent of the Fund's exposure to credit risk in respect of these financial assets approximates their carrying values as recorded in the Fund's statement of financial position.

The Investment Manager analyses credit concentration based on the counterparty, industry and geographical location of the financial assets that the Fund holds. It is the policy of the fund to transact the majority of its securities and contractual commitment activity with broker-dealers, banks and regulated exchanges that management considers to be well established.

The majority of investment positions, cash and margin accounts are held with a small number of brokers, which represents a concentration of credit risk. The Fund does not expect any losses as a result of this concentration.

3. **FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS** (Continued)

(c) **Liquidity risk**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund's constitution provides for the monthly creation and cancellation of Participating Shares and it is therefore exposed to the constant liquidity risk of meeting shareholder redemptions.

4. **FAIR VALUE INFORMATION**

IFRS 7 *Financial Instruments: Disclosures* requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value as at 30 June 2018:

		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:					
Equities	$	576,716	1,277	–	577,992

5. SHARE CAPITAL

The Fund's authorised share capital is $50,000 divided into:

- 4,999,900 Participating Shares being redeemable participating shares of par value $0.01 each to be issued to investors. The Participating Shares do not have the right to receive notice of, attend, speak or vote at general meetings of the Fund. Participating Shares are redeemable at the option of the holder in accordance with the terms set out in the Fund's Offering Memorandum and the Articles of Association of the Fund and are subject to compulsory redemption in certain circumstances. Although not anticipated to be paid, dividends may, in the absolute discretion of the Directors, be paid to the holders of the Participating Shares out of the reserves available for distribution. In a liquidation, after the payment of the capital paid on the Management Shares, the assets available for distribution are to be distributed to the holders of the Participating Shares pari passu in proportion to the Net Asset Value per Participating Share of the Participating Shares held.

- 100 Management Shares being voting non-participating shares of par value $0.01 each, all of which have been issued and are held by the Investment Manager. Management Shares carry one vote per share but do not carry any right to dividends. In a liquidation the Management Shares rank only for a return of the nominal amount paid up on those shares before any payment to the holders of Participating Shares and any other shares ranking pari passu with the Participating Shares in a liquidation.

Subject to the terms of the Articles of Association, authorised but unissued shares may be redesignated and/or issued at the discretion of the Directors and there are no pre-emption rights with respect to the issue of additional Participating Shares or any other class of share.

The movements in the number of Participating Shares for the year ended 30 June 2018 were as follows:

	Opening number of shares	**Shares issued**	**Shares redeemed**	**Closing number of shares**
Participating Shares	–	4,727	–	4,727

Capital risk management:

The capital of the Fund is represented by the net assets attributable to holders of Participating Shares. This amount can change significantly as the Fund is subject to monthly subscriptions and redemptions at the discretion of shareholders. The Fund's objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders and to maintain a strong capital base to support the development of the investment activities of the Fund.

The Directors and Investment Manager monitor capital on the basis of the value of net assets attributable to holders of Participating Shares. The Fund is not subject to regulatory imposed capital requirements.

6. RELATED PARTIES AND OTHER KEY CONTRACTS

Investment Manager:

The Investment Manager is related to the Fund by virtue of the control the Investment Manager has over the investment decisions of the Fund.

The Fund pays a management fee (the "Management Fee") and an outperformance fee (the "Outperformance Fee") on a per Participating Share basis to the Investment Manager.

Management Fee:

The Management Fee is equal to 0.5% per annum of the Fund's Net Asset Value (before any accruals for the Management Fee or Outperformance Fee for the current month) and is calculated and payable monthly on the last calendar day of each month, being a Valuation Day, as follows:

1. the Management Fee is equal to the Management Fee per Participating Share multiplied by the number of Participating Shares in issue at the relevant Valuation Day;

2. the "Management Fee per Participating Share" is equal to 0.04167% (0.5% per annum divided by 12 months) of the Pre-fee NAV per Participating Share at the relevant Valuation Day, the result being rounded to the nearest $0.001 ($0.0005 being rounded up);

3. the "Pre-fee NAV per Participating Share" is determined by dividing the Net Asset Value of the Fund attributable to Participating Shares (before any accruals for the Management Fee or Outperformance Fee for the current month) by the number of Participating Shares in issue as at the relevant Valuation Day, the result being rounded to the nearest $0.001 ($0.0005 being rounded up).

The Investment Manager may, in its sole discretion, elect to receive payment of the Management Fee in cash or may use the monetary value of the Management Fee to purchase Participating Shares at the next Subscription Day at the Subscription Price on that day.

Outperformance Fee:

If after deducting the Management Fee, the total return of the Fund is higher than the total return of the benchmark, being the MSCI ACWI, then an Outperformance Fee of 20% is charged on the excess return. An Outperformance Fee is only charged when the Fund's total return is higher than the benchmark's total return, measured over any and all periods to date.

A high-water mark is in place to ensure that the Fund only pays once for outperformance. An Outperformance Fee is only charged when the excess of the Fund's performance over and above the benchmark's performance reaches a new high, measured over any and all periods to date. When this occurs, the high-water mark is reset. If the Fund subsequently underperforms, and then outperforms again, the high-water mark ensures that Outperformance Fees are not charged for this outperformance because this is only recovering previous underperformance.

Participating Shares may be issued when the Net Asset Value per Participating Share is below the High-water Mark per Participating Share and no Outperformance Fees shall be charged until the Fund recovers from previous underperformance.

6. **RELATED PARTIES AND OTHER KEY CONTRACTS** (Continued)

Investment Manager: (Continued)

The Fund can pay an Outperformance Fee when the Net Asset Value per Participating Share declines. If the Net Asset Value per Participating Share and the benchmark both decline, an Outperformance Fee can still be charged if the decline in the Net Asset Value per Participating Share is less than the decline in the benchmark. This is because the Fund has still delivered a better result than the benchmark and has therefore still added value to Participating Shareholders who view the benchmark as an alternative investment to the Fund. By the same rule, in positive performance periods, Outperformance Fees shall only be charged if the Fund's positive performance is higher than that of its benchmark. Therefore, the Investment Manager shall not be rewarded for idling on a rising market tide.

The Investment Manager shall not receive payment of the Outperformance Fee in cash. The Investment Manager shall use the monetary value of the Outperformance Fee to purchase Participating Shares at the next Subscription Day at the Subscription Price on that day. Participating Shares purchased by the Investment Manager, whether by cash or with the monetary value of Management Fees or Outperformance Fees, are subject to an Early Redemption Charge of 5% of the redemption proceeds of such Participating Shares on or before the expiry of the third Anniversary Year of the issue of such Participating Shares. The Investment Manager may not vary or waive the Early Redemption Charge for the Investment Manager and the proceeds of such Early Redemption Charge will be retained for the benefit of the Fund.

The Outperformance Fee is calculated and payable monthly on the last calendar day of each month, being a Valuation Day, as follows:

1. the Outperformance Fee is equal to the Outperformance Fee per Participating Share multiplied by the number of Participating Shares in issue at the relevant Valuation Day;

2. the "Outperformance Fee per Participating Share" is equal to 20% of the Outperformance per Participating Share at the relevant Valuation Day, the result being rounded to the nearest $0.001 ($0.0005 being rounded up);

3. the "Outperformance per Participating Share" is equal to the greater of: a) the amount by which the Pre-outperformance-fee NAV per Participating Share exceeds the Benchmark Adjusted Prior Month High-water Mark per Participating Share; and b) zero;

4. the "Pre-outperformance-fee NAV per Participating Share" is equal to the Pre-fee NAV per Participating Share less the Management Fee per Participating Share at the relevant Valuation Day;

5. the "Benchmark Adjusted Prior Month High-water Mark per Participating Share" is equal to the High-water Mark per Participating Share as at the previous month's Valuation Day multiplied by the sum of one plus the total return percentage generated by the Fund's benchmark, being the MSCI ACWI, during the current month, the result being rounded to the nearest $0.001 ($0.0005 being rounded up);

6. the "High-water Mark per Participating Share" is equal to the greater of: a) the Net Asset Value per Participating Share; and b) the Benchmark Adjusted Prior Month High-water Mark per Participating Share, as at the last calendar day of each month, being a Valuation Day.

6. **RELATED PARTIES AND OTHER KEY CONTRACTS** (Continued)

Investment Manager: (Continued)

Other expenses:

The Investment Manager has, in its absolute sole discretion, elected to bear, the following other expenses incidental to the Fund's business: governmental charges and duties, fees of the Fund's Auditors, Director's expenses, the costs of maintaining the Fund's registered office in the Cayman Islands and the costs of printing and distributing any offering materials and any reports and notices to shareholders.

Shares held:

At 30 June 2018, the Investment Manager held 4,549 shares in the Fund.

Voluntary Annual Donation by the Founders of the Investment Manager:

Mr. Robert Tate and his wife, Mrs. Louise Tate, are the sole shareholders and founders of the Investment Manager. The Founders of the Investment Manager have, in their absolute sole discretion, elected to make Voluntary Annual Donations, equal to 5% of the Management Fee earned in any given Fiscal Year, to pre-selected charities which help the poor, the sick and or the environment. The Voluntary Annual Donation may be made by the Founders at their discretion, from their personal capital, after the Fund's Fiscal Year End and may be reported in the Fund's audited annual financial statements. The purpose of the Voluntary Annual Donation is to augment long-term sustainable motivation because the Founders believe that devoting a portion of their fee income to earnest causes will supplement their incentives and fulfilment in alignment with the creation of wealth for the Fund and all Shareholders.

The Founders made a donation to Rotary International of $128, equal to 5% of the Management Fee of $2,562 earned by the Investment Manager during the year ended 30 June 2018.

Administrator:

The Administrator is compensated for its services performed with a fee (the "Administration Fee") per hour of Fund administration work performed by the Administrator. The Administration Fee is calculated monthly based on the number of Fund administration hours worked by the Administrator during the month in respect of which the fee is payable.

The Investment Manager has, in its absolute sole discretion, elected to bear, the Administration Fees of the Fund.

7. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events up to the date the financial statements were approved and there is nothing to disclose.