# Annual Report and Audited Financial Statements Boussard & Gavaudan Holding Limited

For the year ended 31 December 2018

## **Boussard & Gavaudan Holding Limited**

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#### Directors

Andrew Henton (Chairman)
Nicolas Wirz (resigned on 29 June 2018)
Andrew Howat
Sylvie Sauton (since 29 June 2018)

(Directors are non-executive and independent for the purpose of LR15.2.12-A)

#### Investment Manager

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London, W1J 0AH
United Kingdom

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> 1077 ZZ Amsterdam The Netherlands

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Registrar and CREST Service Provider

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Carey Olsen
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**Sub-Administrator** 

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For the latest information: https://www.bgholdingltd.com/index.php

## **Boussard & Gavaudan Holding Limited**

### Glossary of Terms

## For the year ended 31 December 2018

Described below are the legal entities underlying funds, management companies, as well as some other commonly used terms and their acronyms or defined terms used within this report.

## Management companies

BGIM/Investment Manager Boussard & Gavaudan Investment Management LLP
BGAM Boussard & Gavaudan Asset Management, LP
BGPL Boussard & Gavaudan Partners Limited

#### Funds

BGHL Boussard & Gavaudan Holding Limited

Umbrella Fund BG Umbrella Fund PLC

BGF BG Fund (a sub-fund of the Umbrella Fund)

Master Fund BG Master Fund ICAV

#### Commonly used terms

AIFMD The Alternative Investment Fund Managers Directive, Directive 2011/61/EU
AIFM Alternative Investment Fund Manager for the purposes of the AIFMD

AIF Alternative Investment Fund for the purposes of the AIFMD

AIFMD Regulations The Alternative Investment Fund Managers Regulations 2013 made by H.M.

Treasury in the United Kingdom

Board The Board of Directors

Code The UK Corporate Governance Code published by the UK's Financial Reporting

Council

Companies Law The Companies (Guernsey) Law, 2008, as amended

Exane BNP Paribas NAV Ret asset value

Year The year ended 31 December 2018

IFRS International Financial Reporting Standards (as adopted by the European Union)

AFM Authority for the Financial Markets

AUM Assets Under Management

Financial Statements Financial Statements for the year ended 31 December 2018

## Boussard & Gavaudan Holding Limited Chairman's Statement For the year ended 31 December 2018

Dear Shareholders,

I am pleased to present to you the Annual Report and Audited Financial Statements of BGHL for the Year.

From 1 January to 31 December 2018, BGHL's NAVs for the Euro and Sterling shares decreased by 6.1% and 5.1% respectively, whilst the market price decreased by 10.8% and 14.0% respectively.

The determinants of share price are the NAV, reflecting the performance of BGF and the underlying Master Fund, and the degree of discount or premium to NAV at which BGHL's shares trade, which in turn is driven by supply and demand in the market place, the liquidity of the underlying shares and general market sentiment.

We continue to monitor closely the discounts to the NAVs at which both classes of share trade. Every reasonable and cost-effective endeavour will continue to be made to narrow those discounts to the NAV and to increase the liquidity of the shares.

The Board is wholly independent of the Investment Manager. Its Directors are focused on keeping the interest of the shareholders. At each of its quarterly Board meetings the Board holds extended discussions with the Investment Manager and the dialogue is open regarding performances, risk management, areas of developments and BGHL stock performance.

In particular the Board has been kept updated on the potential consequences and actions taken by the Investment Manager regarding a Hard Brexit.

With regard to the review of the business, performance, allocation and risk analysis, I refer you to the Investment Manager's Report and Financial Highlights. In addition, I refer you to the Directors' Report, which describes BGHL's corporate governance systems.

For your continuing information, BGHL publishes on its website (www.bgholdingltd.com) daily and monthly NAVs and monthly newsletters based on data provided to it by the Sub-Administrator and the Investment Manager.

On behalf of the Board, I would like to thank you once again for your continued support.

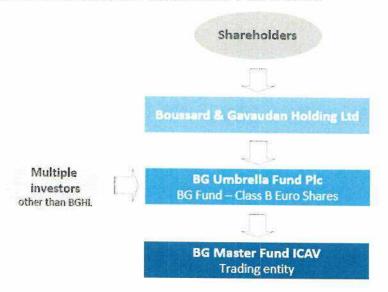
Andrew Henton Chairman

17 April 2019

#### 1. Background and Structure

Boussard & Gavaudan Investment Management LLP is the Investment Manager of BGHL, the Umbrella Fund and of the Master Fund.

The Umbrella Fund, BGF and the Master Fund structure.



BGHL invests in Class B Euro shares which are a separate Euro-denominated share class of BGF. BGF is a sub fund of the Umbrella Fund, predominantly owned by investors other than BGHL. BGHL is not subject to management fees and performance fees at BGF level in order to avoid multiple layering of fees. The Investment Manager receives management fees and performance fees in respect of its role as Investment Manager of BGHL.

The Umbrella Fund was incorporated under the laws of Ireland as a public company with limited liability on 16 November 2011 under the Companies Act 1990 with registration number 506116. The Umbrella Fund is authorised by the Central Bank of Ireland (the "Central Bank") as a designated investment company pursuant to Part XIII of the Companies Act, 1990 and also as a qualifying investor alternative investment fund (QIAIF). The Umbrella Fund is structured as an umbrella fund with segregated liability between sub-funds. Each sub-fund of the Umbrella Fund maintains a single pool of assets subject to any allocations made to a class in accordance with the requirements of the Central Bank. The assets of each sub-fund are segregated from one another and are invested in accordance with the investment objectives and investment policies applicable to each such sub-fund and as set out in the relevant supplement to the Umbrella Fund's prospectus.

BGF is a sub-fund of the Umbrella Fund, launched on 3 January 2012, which invests substantially all of its assets into the Master Fund. BGHL is therefore exposed to the strategies offered by the Master Fund.

The Master Fund is an open-ended Irish collective asset-management vehicle (ICAV) with variable capital incorporated under the laws of Ireland under the Irish Collective Asset-management Vehicles Act 2015 with registration number C154515. The Master Fund is also authorised by the Central Bank of Ireland as a QIAIF. The Master Fund, which is the trading entity, maintains a single pool of assets subject to any allocations made to a share class in accordance with the requirements of the Central Bank.

#### 2 Investment policies

#### 2.1 BGHL's investment policy

BGHL invests its assets in order to deliver an exposure to multiple alternative investment strategies. The Investment Manager is responsible for the day-to-day management of BGHL's investments. BGHL seeks to achieve its investment objective by investing the proceeds of any fund raising, net of any amounts retained to be used for working capital requirements, into BGF. BGF in turn invests in the Master Fund and, by utilising its borrowing powers, makes leveraged investments.

Over time, a proportion of the net assets of BGHL may, at the discretion of the Investment Manager, be invested in other hedge funds and/or other financial assets within the limits set out under the heading "Asset Allocation" below and subject to the limit on the leverage set out under the heading "Gearing" below, provided that, where such hedge funds are managed by the Investment Manager, BGHL will invest through a share class which will not be subject to management or performance fees at the level of the underlying hedge fund.

The Investment Manager may use BGHL's borrowing facilities at its discretion within the limits set out under the heading "Asset Allocation" below. The Investment Manager's ability to use borrowings is subject to the limit on

leverage set out under the heading "Gearing" below. Such investments may include the acquisition of minority or majority interests in unlisted companies or listed companies ("Direct Investments"). The Investment Manager may also make private equity investments through investing in funds that have a private equity investment focus ("Indirect Private Equity Investments").

With the possible application of leverage and when taken with the returns achieved from BGF, investments other than the investment in BGF as described above are intended to allow BGHL to achieve an attractive return. BGHL's investments in assets other than BGF are expected to consist of investment opportunities that are identified by the Investment Manager in connection with its, and its affiliates, current activities but which are not pursued by BGF due to risk profiles or liquidity profiles inconsistent with those of BGF.

#### Gearing

BGHL uses its borrowing facilities to allow it to have a gross investment exposure of up to 200 percent of its NAV at the time of investment. BGHL has power under its Articles of Incorporation to borrow up to an amount equal to 100 percent of its NAV as at the time of borrowing. Leverage is used by BGHL for the purposes of (i) managing day to day cash flow, i.e. for meeting expenses of BGHL and for funding repurchases of its own shares and (ii) leveraging investments made by BGHL, including its investment in BGF or in other hedge funds managed by the Investment Manager (hereafter, "Manager Funds"), always in compliance with the exposure limitations set out under the heading "Asset Allocation" below.

#### Asset Allocation

#### Investments in Manager Funds

Substantially all of the net assets of BGHL are currently invested in BGF and it is anticipated that a significant proportion of BGHL's net assets will remain invested in BGF. Over time, no less than 80 percent of the NAV and no more than 110 percent of the NAV will be invested in Manager Funds, with at least 80 per cent of the NAV invested in BGF.

#### Investments in assets other than Manager Funds

In relation to those investments in assets other than Manager Funds, the Directors have determined that such investments shall not exceed certain limits, namely:

- Other Hedge fund investments. The Directors have determined that BGHL's investments in hedge funds (other than Manager Funds) when aggregated may not exceed an amount equal to 25 percent of its NAV at the time of making any such investment.
- Indirect Private Equity Investments. The aggregate value of Indirect Private Equity Investments may not exceed an amount equal to 25 percent of BGHL's NAV at the time of making any such investment. In addition, BGHL will not make any single Private Equity Investment representing in excess of an amount equal to 10 percent of its NAV as at the time that investment is made. Private Equity Investments made in linked transactions will be aggregated for the purposes of this calculation.
- Other Investments (Direct Investments). The aggregate value of Direct Investments may not exceed an amount equal to 50 percent of BGHL's NAV at the time of making any such investment.

#### 2.2 The Master Fund's investment policy

The investment objective of the Master Fund, in which BGF is mainly invested, is to seek to achieve an attractive return on capital consistent with principals designed to manage risk of capital loss. The Master Fund arbitrages linear and non-linear instruments that can be exchange traded or traded over the counter. The Investment Manager may use derivative financial instruments for investment purposes or to hedge against fluctuations in the relative values of the Master Fund's portfolio positions. The investments are subject to normal market fluctuations and to the risks inherent to investment in securities. There can be no assurances that appreciation will occur. The value of financial instruments can increase as well as decrease and the Master Fund may not realise its initial investment on the disposal of its investments.

The Master Fund carries the following strategies and sub-strategies:

#### Volatility strategies:

- mandatory convertible bond arbitrage
- convertible bond arbitrage
- volatility trading

#### Equity strategies:

- merger arbitrage & special situations
- long / short trading with short-term catalyst & value

#### Credit strategies:

- credit long / short
- capital structure arbitrage
- restructuring / distressed securities strategies

#### Trading strategies:

These are quantitative strategies involving the use of models and data analysis based on factors. Factors
may include economic indicators, market data, fundamental, and valuation factors. The strategies may
involve the systematic use of trading rules or machine learning techniques.

## 3. Highlights and review of the development of the business

The Investment Manager's role is to allocate BGHL's capital in accordance with its investment objective which is to produce long term appreciation of BGHL's assets. Except for its working capital, BGHL has fully invested its net assets as well as any amount borrowed.

BGHL (in Euro)	31 Dec 2018	31 Dec 2017	Variation %
Net assets	646,651,306	689,001,092	(6.1)%

The decrease in BGHL's net assets is explained by a negative performance during the Year.

#### 4. Performance

BGHL's Euro and Sterling Share prices and NAV per Share performed as follows:

		Pr	Price		Performance	
BGHL	Ticker Bloomberg	31 Dec 2018	31 Dec 2017	2018	5 years annualised	
Euro share - Price	BGHL NA Equity	€17.30	€19.40	(10.8)%	6.4%	
Euro share - NAV		€22.00	€23.45	(6.1)%	5.8%	
Sterling share - Price	BGHS LN Equity	£15.10	£17.55	(14.0)%	7.4%	
Sterling share - NAV		£19.64	£20.71	(5.1)%	5.6%	

HFRX Global Hedge Fund Index	HFRXGL Index	1,189.86	1,275.60	(6.7)%	(0.6)%
HFRX Equal Weighted Strategies Index	HFRXEW Index	1,207.36	1,275.64	(5.4)%	0.2%

BGHL's NAV is calculated by BGHL's Sub-Administrator, SS&C Financial Services LLC. BGHL's Euro and Sterling Share prices are provided by Euronext Amsterdam and the London Stock Exchange, respectively. Past performances are not indicative of future results.

The Investment Manager's actions affect BGHL's performance and NAV per Share. Although the NAV per Share appreciation influences BGHL's Share price on the Amsterdam and London stock exchanges, the Investment Manager has little direct influence on the Share price and on the discount between the Share price and the NAV per Share. The performance of BGHL's Sterling NAV per share tracks the performance of BGHL's Euro NAV per share, plus/minus the impact of the EUR/GBP hedge compared to a perfect hedge and less the accretive effect of the Euro shares bought back as part of the share buy-back programme.

#### 5. Risks

Through a rigorous investment process, the Investment Manager identifies and assesses risks before investing.

#### 5.1 Risk Management Organisation and Policy

The Investment Manager has established a Risk Management unit, segregated from the Portfolio Management unit, which reports to its Chief Executive Officer. Risks and responsibilities are split between the Quantitative Risk Management team which is in charge of market risk and the Qualitative Risk Management team which is in charge of counterparty and operational risk. A Risk Management Committee oversees the Risk Management unit. Exposures are calculated using a risk management system which is a third party proprietary software package provided by a leading risk and portfolio management solution provider. The system provides extensive real time information on the Master Fund's exposures and limits, generates sensitivity analyses and calculates stress-test scenarios. The open architecture of the system allows the Investment Manager to create specific inhouse reports for risk management purposes.

#### 5.2 The Master Fund's Risk Management Policy

The Master Fund takes significant market risk exposure from the investments it makes. When assessing market risks the Investment Manager always combines:

- a macroeconomic, portfolio level with a microeconomic, position specific approach;
- quantitative measures with qualitative assessments; and

- a local risk measurement perspective which captures the impact both of limited market moves, and stress scenario type measurements which capture large market moves.

#### 5.2.1 Macroeconomic risk

Macroeconomic risk is defined as those risks having a wide ranging effect on the entire portfolio or on a significant portion of it. It results from exogenous events such as economic changes, geopolitical uncertainty or general market disruptions.

#### Quantitative analysis

For *limited market variations* the Investment Manager assesses exposure by using a number of sensitivity factors (colloquially known as "Greeks", a recognised set of metrics used within the financial industry) mainly linked to changes and movements in equity markets, credit instruments, interest rates and foreign exchange. Greeks are used for real time portfolio hedging.

For extreme market variations, stress scenarios are run to measure the impact on the portfolio of a wide variety of market situations. Scenarios, which stress all types of market data, are produced daily and can be generated on demand. The reports allow risks to be assessed from the portfolio level down into each strategy, sub-strategy, trade and finally individual instrument in order to identify the main contributors to potential losses. A "trade" generally means a combination of financial instruments which contribute to the same arbitrage opportunity. Scenarios are graduated from level 1 to 5 with level 5 scenarios bearing the largest shocks. Level 3 scenarios are tested against established tolerance limits and trigger adjustment of the portfolio when limits are breached.

Results are checked daily by the Investment Manager's front office and quantitative risk management teams. Given the non linear nature of the portfolio and the wide range of instruments and strategies used, stress scenario calculations are considered by the Investment Manager to provide a better assessment of risk than value at risk calculations. A wide range of reports are also produced to monitor exposures and concentrations of risk. "What-if scenarios" as well as other risk indicators (which aggregate all types of exposures in different ways) are scrutinised. A non aggregated vision, focusing on nominal and/or notional amounts, is also used to track excessive concentrations of risk.

#### Qualitative analysis

The qualitative assessment focuses on hard to measure risks such as potential changes in the liquidity of various underlying financial instruments. Small and mid caps, leveraged positions as well as speculative positions entailing a hedge fund liquidation risk are examples of positions exposed to liquidity changes.

#### 5.2.2 Microeconomic risk

Microeconomic risk is defined as the risk applying to a *specific "trade" position* in the portfolio and one of its main components is the *idiosyncratic risk* which measures the risks applying to *one single issuer* to whom the Master Fund has exposure. Idiosyncratic risk is used to assess events such as bankruptcy, takeovers, bond offers, credit rating changes or any other credit event. Idiosyncratic risks are identified in the decision-making phases before the investments takes place and during the investment's life.

#### Quantitative analysis

For *limited market variations* the Investment Manager assesses exposure by using the Greeks by issuer. The Greeks (delta, gamma, theta and vega) in this sense measure risk in the context of key variables affecting option prices. Delta measures the effect of a change in the price of an underlying asset on an option's premium, and gamma reflects the rate of delta change in relation to that underlying price change. Theta measures the rate of decline in time premium to maturity, and vega is an indicator of how an option price changes as volatility changes.

For extreme market variations, crash tests by issuer are run. The scenario which aims at assessing the bankruptcy of an issuer aggregates all the positions of the Master Fund by issuer and then applies extreme shocks whose magnitude depends on each financial instrument type contributing to the trade, and on their recovery rate, both of which themselves depend on the seniority of instruments. The Master Fund's portfolio has protection against extreme movements by trading equity options which provide positive convexity to the portfolio. Options will behave as insurance to the portfolio, in particular through their Gamma sensitivity which provides protection in the event of a market crash.

#### Qualitative analysis

Qualitative analysis takes account of many events such as regulatory changes, changes in the management of a company but also liquidity risk. Liquidity risk is the risk that the Master Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It also reflects the ability of the Master Fund to unwind a specific trade in a reasonable timeframe. Liquidity has, by definition, an idiosyncratic component, but it also varies according to macroeconomic conditions. The Master Fund

is exposed to the risk of credit related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honour its contractual obligations. This credit exposure exists within financing relationships, derivatives and other transactions. Concentrations of risk are managed by diversifying the credit sensitivity of the portfolio across sectors, countries and maturities.

#### 5.2.3 Capital allocation process and Equity-at-risk methodology.

The Investment Manager uses the "Equity-at-risk" methodology as a key indicator to monitor the leverage and solvency of the Master Fund and to allocate capital across strategies. Within each strategy, the Equity-at-risk allocated to each trade is used to calculate the return on equity which is the ratio used to assess the profitability of a trade. The Investment Manager secures the "Excess Margin" (see below) of the funds it manages by signing agreements which allow "Haircut" levels (see below) to be fixed over a pre-agreed period of time.

#### Equity-at-Risk and Excess Margin methodology

Prime brokers, when providing financing to hedge funds, take a risk that they assess using their own methodology. Even though each prime broker has its own methodology and risk measure, approaches tend to be similar. Risk measures are achieved by the use of "Haircuts". Haircuts reflect the level of risk attributed by a prime broker to a position. The higher the level of haircut, the higher the risk is. These methodologies take into account, to a large extent, the benefits of hedging by applying specific haircut and netting effects to hedged positions. Under these methodologies, an amount of equity, considered at risk, is allocated through the use of haircuts to each position. Each prime broker calculates its risk exposure to the sole portion of the fund's portfolio it holds. Given that prime brokers are the main financing and leverage providers, their view of the risk is central to the Investment Manager and so is the consequence of any restriction they may impose. Their measure constitutes an independent risk measurement.

The Investment Manager replicates the methodology applied by prime brokers through a model, named "Equity-at-risk". The model, applied to the entire portfolio, is a proxy for the calculations of the prime brokers. The difference between the AUM and the Equity-at-risk is the "Excess-Margin". The level of Excess-Margin is the level of spare risk to increase positions or enter into additional ones without having to raise additional cash. An Excess-Margin of 25%, which corresponds to a 75% level of Equity-at-Risk, means that the Master Fund can theoretically increase all of the positions in its portfolio by approximately 33% without having to raise further cash. The model provides an estimation of the fund's potential for additional leverage across its prime brokers. Equity-at-risk calculations are run every night and compared to the prime broker's calculations.

## 6. Capital allocation, risk and risk adjusted returns:

#### 6.1 Capital allocation, risks and risk adjusted returns of BGHL

BGHL's investments are diversified thanks to its exposure -through BGF- to the investment strategies of the Master Fund which is its main investment. BGHL uses its borrowings from Natixis to leverage its exposure to BGF and to finance its "other investments".

BGHL's assets were allocated and performed as shown in the table below.

	Performance 2018		
	Euro Share	Sterling Share	
BGHL	(6.1)%	(5.1)%	
BGF Euro B Class - NAV	(4.1)%	(4.1)%	
BGF Euro B Class – Leverage	(0.4)%	(0.4)%	
Other Investments	(0.2)%	(0.2)%	
Foreign Exchange		1.1%	
Share buy back	_		
Fees, miscellaneous	(1.4)%	(1.5)%	

	Holding in % AUM		
	31-Dec-18 Exposure	Minimum Period Exposure	Maximum Period Exposure
BGHL	110.8%	108.6%	110.8%
BGF Euro B Class - NAV	100.0%	100.0%	100.0%
BGF Euro B Class - Leverage	9.5%	7.4%	9.5%
Other Investments	1.3%	1.1%	1.3%

Source: Boussard & Gavaudan Investment Management LLP

BGF Euro Class B's NAV is calculated by the Administrator, SS&C Financial Services LLC

During the reporting Year, BGHL complied with its Investment Policy and has maintained its gross and commitment exposure, as required under AIFMD, within the limits established by the Investment Manager.

BGHL	AIFMD Commitment method		AIFMD Gross me	thod
% AUM	Exposure	Limit	Exposure	Limit
31 December 2018	109.7%	200.0%	111.0%	200.0%
31 December 2017	109.5%	200.0%	113.5%	200.0%

## 6.2 Capital allocation, risks and risk adjusted returns of the Master Fund

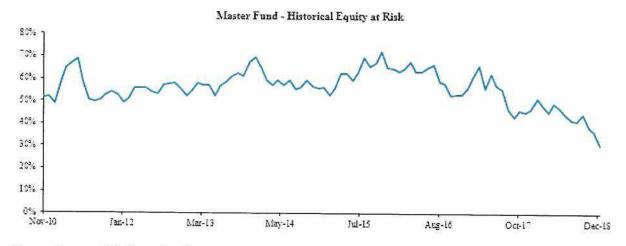
The Master Fund's investments are diversified thanks to its exposure to its multiple investment strategies.

The Investment Manager allocates the capital of the Master Fund according to the Equity-at-risk methodology. The Master Fund's usage of Equity-at-risk and performance by strategies were as follows:

Master Fund (% AUM)	Performance	Equity at risk		
- Haster Fund (70 ACM)	31 December 2018	31 December 2018	31 December 2017	
Volatility strategies	0.4%	6.7%	7.3%	
Equity strategies	(3.3)%	14.7%	28.6%	
Credit strategies	0.7%	3.2%	3.6%	
Trading	(1.9)%	6.8%	5.7%	
Others		1.8%	1.0%	
BGF Euro B Class - NAV	(4.1)%	33.2%	46.2%	
	Excess Margin	66.8%	53.8%	
	Total Risk	100.0%	100.0%	

Source: Boussard & Gavaudan Investment Management LLP

The Investment Manager is very selective when deploying Equity-at-risk and seeks to maintain, at the Master Fund level, a prudent Excess-margin level at any time. The graph below illustrates the evolution of the equity at risk since November 2010.



Source: Boussard & Gavaudan Investment Management LLP

In a challenging market environment for the Master Fund's strategies in 2018, the Investment Manager has decided towards the second half of the year to drastically reduce the Master Fund's equity-at-risk and to focus on stronger catalysts with the intention to redeploy equity-at-risk, at some point, when he will forsee some attractive investment opportunities in a more stabilized market.

The Investment Manager monitors carefully the risk of the asset classes to which the Master Fund is sensitive. The main asset classes are the equity, credit and volatility asset classes whose sensitivities are shown and explained below.

Asset Class	Index	Ticker Bloomberg	Master Fund's beta vs Index(5 years)	Index volatility (5 years)
Equity	Stoxx 600	SXXP index	0.09	14.5%
Credit	FTSE Euro Corporate Bonds All Maturities	FECVCP index	0.22	2.3%
Interest rate	Bloomberg / EFFAS	BCEE1T Index	0.15	3.7%

Asset Class	Master Fund's Vega
Volatility	18 basis point by volatility point

Source: Boussard & Gavaudan Investment Management LLP

A beta sensitivity of 0.10 versus an index means that if the index increases or decreases by 1%, the Master Fund is likely to increase or decrease by 0.1%. The "Stoxx 600" index is an equity market index which represents large, mid and small capitalisation companies across the main countries of the European region. The "FTSE Euro Corporate bond" index is a credit market index which includes Euro issues from corporate entities. The Investment Manager believes that these indices are the most relevant equity and credit indices to compare the Master Fund with.

A vega sensitivity of 1 basis point means that an increase in volatility by 1 percentage point leads to a performance of 0.01% for the Master Fund. The Vega measures the sensitivity to volatility for a given instrument. For a given instrument, it is the derivative of its price with respect to the volatility of its underlying. The Investment Manager considers the Vega to be the best proxy of the Master Fund's sensitivity to volatility and believes there are no relevant indices to compare its volatility sensitivity against.

Given that interest rate risks are essentially hedged, the Master Fund has low beta sensitivity versus the "Bloomberg/EFFAS" index which is a government bond market index.

During the Year, the Master Fund complied with its Investment Policy and has maintained the gross and commitment exposures, as required under AIFMD, within the limits established by the Investment Manager.

Master Fund	AIFMD Commitment method		AIFMD Gross m	ethod
%AUM	Exposure	Limit	Exposure	Limit
31 December 2018	261.8%	700.0%	457.2%	2000.0%
31 December 2017	240.5%	700.0%	543.1%	2000.0%

Source: Boussard & Gavaudan Investment Management LLP

## 7. Detailed performance analysis

#### 7.1. Detailed allocation and performance analysis of the Master Fund

The Master Fund contributed approximately (4.1)% to BGHL's performance during the Year, primarily driven by equity strategies.

#### Volatility strategies

Mandatory Convertible Bond Arbitrage

Mandatory convertible bonds contributed steadily and positively during the year.

#### Convertible Bond Arbitrage

Convertible bond arbitrage attribution was slightly negative. Market activity was muted and there was a general decline in valuations. On the primary market front, new issues continued to look expensive from an arbitrage standpoint. The Investment Manager doubted that market liquidity would improve and sold down various positions. The size of the convertible book is very limited at the present time.

#### Volatility Trading

Volatility trading had a slightly negative contribution. Overall, volatilities were subdued with a few infrequent erratic moves, which were mainly driven by technical factors and market illiquidity and which were quite difficult to catch.

#### **Equity Strategies**

Equity strategies were the main negative contributor to performance. BG Fund was impacted by specific idiosyncratic news on individual names and also by significant market flows from de-risking which hurt more fundamental value positions. The negative performance was offset, to a reasonable extent, by risk arbitrage and special situation trades which performed very well in 2018, although they did not deliver enough to offset the other losses. The fund's long gamma profile disappointingly did not fully compensate for the underperformance, however the Investment Manager will remain long gamma in line with the long term strategy. The new year began with a much leaner portfolio in BG Fund, and the Investment Manager continues to monitor multiple specific opportunities ready to deploy capital on these and other opportunities as they arise.

#### Credit Strategies

#### Capital Structure Arbitrage

Capital structure arbitrage was marginally positive thanks to active trading around existing positions. The Investment Manager did not find enough significant discrepancies to build any new strong conviction positions and the overall exposure to this sub-strategy therefore remains limited.

#### Credit Long / Short

Credit long / short had a small negative contribution to the year in the context of weak credit markets dominated by macroeconomic uncertainties rather than fundamentals. Given the persistence of such market conditions, the Investment Manager remains cautious overall and has reduced overall exposure while monitoring for relative dislocations or idiosyncratic opportunities that might emerge.

#### Credit Special Situations

Credit special situations contributed positively. The fund benefited from one specific position in the oil services sector where there was the successful implementation of a financial restructuring plan. This performance was partially offset by another situation where the restructuring proved a disappointment for the Investment Manager.

#### Direct Lending

BG Master Fund ICAV invests in loans originated by Fiduciam Nominees Limited (https://fiduciam.co.uk). Fiduciam makes secured business loans to small and medium sized enterprises in several Western European jurisdictions. The loans are secured on real property. The size of the portfolio in 2018 is still modest, around 670 million and so is its contribution to the master fund's performance.

#### **Trading**

Trading contributed negatively to overall performance. Quantitative strategies were very accretive for the majority of the year, however they suffered from very adverse conditions in the last two months. The Investment Manager remains committed to these strategies that serve as diversifiers as well as return generators, although the allocation was pared back towards the end of the year given the unfavorable market dynamic.

#### 7.2. Detailed performance analysis of assets other than Manager Funds

In addition to its investment in the Master Fund, BGHL has other investments. At the end of the Year, the net asset value of these investments represented 1.3% of the net asset value of BGHL.

#### Rasaland Investors plc ("RLI")

RLI is a Malta-based holding company structured as a private equity fund in terms of fees and organisation. RLI is managed by BK Partners. RLI is dedicated to investing in land, hotels and high-end resort developments in Mexico.

#### As of 31 December 2018:

- <u>RLI</u> was fully invested in and held a 45.4% interest in the private company ACTUR (the other ACTUR shareholders being Mexican public institutions).
- ACTUR owns
  - o land development assets (Xala project) and
  - a minority interest (21.33%) in the publicly-traded company RLH Properties, S.A.B. de C.V. (ticker: RLHA:MM) ("RLH"), such indirect stake in RLH accounting for approximately 42.2% of RLI's NAV.

<u>RLH</u> operates as a hotel and tourism management and development company in Mexico. The company acquires, constructs and manages luxury and ultra-luxury resorts across Mexico, including the Four Seasons Hotel in Mexico City. The company was founded in 2013 and its shares of common stock have been traded on the Mexican Stock Exchange since November 2015.

Key events during the Period:

- RLH raised US\$ 213 million in eash through a rights issue: US\$ 193 million from third party investors
  and US\$ 20 million from ACTUR. The eash portion of the capital increase will be applied to the
  acquisition of stakes in hotels, branded residential business and to the development of the Mandarina
  hotels.
- ACTUR contributed the Mandarina land to RLH in exchange for RLH shares
- RLH acquired the Hotel Villa Magna in Madrid for €210 million from the Dogus Group.
- ACTUR and RLI's respective reinvestment period were extended to 2020 and their life extended to July 2022 with the possibility to extend for an additional 2 year period.
- These extensions were voted by the shareholders of ACTUR and RLI. They followed a request by a
  core institutional shareholder of ACTUR making a new equity investment, requiring a longer period to
  provide flexibility for the exit of its investment. The extensions better reflect the business plan of the
  group.

The expected timeframe for ACTUR to monetise its land assets is longer than the expected timeframe for BGHL to exit its investment in RLI. Secondary market transactions suggest that BGHL will only be able to exit at a material discount to the net asset value of RLI. As a consequence, for its fair market value assessment of BGHL's investment in RLI, BGIM's valuation committee continues to apply a 50% illiquidity discount to the most recent net asset value per share calculated by the administrator of RLI.

Overall, including fx movements, RLI contributed slightly positively to BGHL's performance during the Year.

#### GFI Informatique ("GFI")

BGHL sold its remaining position on 12 June 2018 at a price of  $\epsilon$ 8.50 per share for a total consideration of  $\epsilon$ 11.076.852. The cash proceeds were invested in BGF as of 2 July 2018.

#### 8. Review of important events since the end of the Year

There have been no important events except for those disclosed in note 17 of the Financial Statements.

#### 9. Risks and Uncertainties

The principal risks and uncertainties are listed and described in the Directors' report. The Investment Manager views the key risks as follows:

- the level of return generated relative to "market" returns, and the relative variability in those returns:
- the impact on NAV if sudden materially adverse movements occur in financial markets; and
- the value of assets (including assets held within the Master Fund on a "look through basis") which cannot be priced by reference to observable prices in a liquid market.

BGHL's main investment exposures, including the main risks to which the Master Fund is exposed, have been described in this report. The key market risks are equity price risk, interest rate risk, foreign currency risk, credit risk, volatility risk and liquidity risk. The diversified nature of the investments within the Master Fund mitigates the apparent concentration risk within BGHL.

The Investment Manager aims to continue to perform in accordance with its long term objective of delivering consistent NAV appreciation. The equity at risk of the Master Fund is deployed into attractive investment opportunities that are identified. The amount of leverage employed does not expose BGHL to a significant refinancing or default risk.

In terms of headline risks to the fund in 2019 the following, non-exhaustive, list contains the most likely events that could have an adverse impact on performance; continued uncertainty surrounding the details of the UK exit from the EU, the impact of tariffs and a "trade war" between the US, EU and China, risk of general economic slowdown or political upheaval in Europe and consequent reduced level of corporate activity, idiosyncratic risks surrounding specific investments in single names, and central bank interest rate setting failing to maintain a stable environment with controlled inflation.

A continued environment of low volatility could also cause a potential drag on performance, while conversely there remains the risk of a significant and correlated sell-off in equities and government bonds which could have adverse systemic effects on the Master fund.

Risks remain exacerbated following the UK vote to leave the European Union and considerable political, legal and regulatory uncertainty remains that may lead to a reduction in corporate activity and investment. Consequential risks are weaker economic growth, heightened volatility, an increase in the risk premium and potential capital outflows from the region.

In addition to Europe, political uncertainty in, and between, other regions remains. The dynamic geo-political environment threatens to moderate global growth with shifting alliances and restructuring of trade deals and corporate taxation leading to economic uncertainty.

These risks remained framed against a backdrop of an uncertain path of central bank action as quantitative easing programmes continue to be wound down.

"Brexit" and the subsequent fall in Sterling versus the Euro had no material impact on BGHL's hedging programme. The Euro base currency of BGHL creates potential FX exposure for Sterling share investors and, to protect the starting capital in Sterling terms against Euro/Sterling FX moves during the month, the starting capital is hedged with a Euro /Sterling FX forward rolled on a monthly basis. Hedges are rolled only on the starting capital each month and Sterling share investors remain exposed to intra-month currency risk on the profit or loss made in Euro terms over the course of each month.

As regards RLI, the illiquid nature of the investment, the status of the Mexican real estate market and the political environment in Mexico are all factors which could potentially push down its carrying value. Given that the valuation of RLI is already marked at a significant discount however, which the Investment Manager views as reflecting fair value, further downside risk on this investment is mitigated.

Boussard & Gavaudan Investment Management LLP Acting by its managing member, Boussard & Gavaudan Partners Limited

17 April 2019

## **Boussard & Gavaudan Holding Limited Directors' Report**

## For the year ended 31 December 2018

The Directors present their annual report and audited financial statements for the Year.

#### **Principal Activities**

During the Year, BGHL continued to invest substantially all of its net assets in BGF, a feeder fund fully invested in the Master Fund. The Master Fund implements diversified investment strategies, including volatility, equity and credit strategies. The overall investment objective of the Master Fund is to provide investors with consistent absolute returns primarily through investing and trading in financial instruments of companies incorporated in, or whose principal operations are in Europe.

In addition to its investment in BGF and as described in BGHL's offering memorandum and investment policy, BGHL enters into other investments, including private equity investments.

## Performance of Investment Manager and Continued Appointment

From 1 January to 31 December 2018, BGHL's NAVs for the Euro and Sterling shares decreased by 6.1% and 5.1% respectively, whilst BGHL's market price decreased by 10.8% and 14.0% respectively.

Regarding BGHL's return this is the second time post 2008 that BGHL has sustained a loss in a calendar year. This performance is clearly disappointing. While the Directors are alert to the importance of seeking to preserve capital, they acknowledge that 2018 has been a tough year for the performance of the multi-asset investment industry as a whole. The HFRX Global Hedge Fund EUR index returned (6.7)% impacted mostly by poor equity markets. In particular for 2018 overall, the Eurostoxx 50 total return index (SX5T) was down (12.03)%.

BGIM was appointed as Investment Manager and AIFM by BGHL, BGF and the Master Fund on 21 July 2014. The Investment Manager was registered on 5 November 2013 as a limited liability partnership or "LLP" in England and Wales for the purpose of complying with AIFMD Regulations, and the Investment Manager was authorised by the FCA on 11 July 2014 to perform the regulated activity of managing an AIF and remains so authorised.

The Board has reviewed the performance of the Investment Manager since the date of its appointment and is satisfied that the continued appointment of the Investment Manager on the terms agreed is in the interests of the Shareholders. Please refer to the Investment Manager's Report for a review of the performance of BGHL over the Year. Please also refer to note 8 to the financial statements for further details on the terms of the investment management agreement.

#### Results for the Year and State of Affairs at 31 December 2018

The Statement of Financial Position and the Statement of Comprehensive Income for the Year are set out in the audited financial statements.

#### **Directors**

The Directors as at 31 December 2018 and as at the date of this report were:

- Andrew Henton, Chairman;
- Andrew Howat; and
- Sylvie Sauton

Mr. Andrew Howat was appointed as a director effective 1 July, 2017 and elected by the Company's shareholders at the annual general meeting held on 27 July, 2017. Mrs Sylvie Sauton was appointed as a director on 29 June, 2018. Mr Wirz retired on the same date. BGHL's articles of incorporation require that all Directors who held office at the two preceding annual general meetings shall retire and, if willing, offer themselves for reelection. Mr. Henton was re-elected by the Company's shareholders at the annual general meeting held on 29 June 2018.

#### Directors' interests in shares

As of 31 December 2018, none of the directors invested in shares of BGHL.

## Share buy-back programme and Liquidity Enhancement Agreement

BGHL's shares are dual listed on the London Stock Exchange and Euronext Amsterdam.

Since its listing, BGHL has operated a share buy back programme approved at each annual general meeting by its shareholders. Historically, this programme has been the key methodology by which the Board has sought to reduce the discount to the prevailing NAV at which BGHL's shares are trading, and to improve liquidity in the shares.

However, although the Board seeks to minimise its level, such discount is largely driven by market forces beyond BGHL's control. BGHL intends to retain the scope to use the share buy back programme on a discretionary basis. BGHL's share buy-back programme is financed by redemptions of BGF shares. BGF has monthly liquidity, which means that redemptions are payable once in every calendar month. BGHL does not know in advance the volumes and frequency of share buy-backs for any given month. On 29 June 2018, the shareholders renewed BGHL's authority to make market purchases of its shares. Under such authority BGHL is allowed to purchase up to 8% of the shares of each class in issue (excluding treasury shares). At the time authority was granted, the limit of 8% shares in issue (excluding treasury shares) were 2,302,578 Euro shares and 48,697 Sterling shares. Previously, BGHL was granted an exemption by The Panel on Takeovers and Mergers in the UK from making a mandatory offer for the whole of the issued and to be issued share capital of the Company in accordance with Rule 9 of The Takeover Code if such obligation arose purely as a result of such market purchases. However, because the percentage of the Company's issued share capital which the Company was authorised to repurchase was reduced to 8% at the recent annual general meeting, there is no reasonable expectation that an obligation to make an offer will be triggered by such market repurchases, so renewal of the exemption was not sought during the Period.

Any repurchases under the Share buy-back programme will be made at a discount to the prevailing NAV and will therefore be accretive to the NAV. They will therefore contribute to the different performance of BGHL's NAV relative to that of BGF.

During the Year no Euro or Sterling shares were repurchased.

The discounts of the shares with respect to their NAVs were as follows

Discount to NAV	31 Dec 2018	31 Dec 2017
Euro Shares	(21.4)%	(17.3%)
Sterling Shares	(23.1)%	(15.3%)

Below is a graph showing the discount to their NAV at which BGHL's Euro shares have traded and the Euro share buy-back activity since BGHL's inception. BGHL did not repurchase any shares in the Year.

**BGHL Euro Share** 



#### Governance

As a closed-ended investment company incorporated in Guernsey with a premium listing on the Official List of the UK Listing Authority, BGHL is required to include a statement in its Annual Report as to whether BGHL has complied throughout the accounting period with all relevant provisions set out in the Code or, if not, setting out those provisions with which it has not complied and the reasons for non-compliance.

The Board places a high degree of importance on ensuring that high standards of corporate governance are maintained and has adopted the Code, which sets out principals of good governance and a code of best practice for UK listed companies. The Code is available for download from the Financial Reporting Council's web-site www.frc.org.uk.

On 30 September 2011, the Guernsey Financial Services Commission Code published its Finance Sector Code of Corporate Governance (the "GFSC Code"), which came into effect on 1 January 2012. Companies which report in accordance with the Code are deemed to meet the requirements of the GFSC Code.

No limit has been imposed on the overall length of service of Directors, although each Director stands for reelection every three years.

The Board has carried out a full review of the Code to ensure that the appropriate level of corporate governance is attained. The Board confirms that BGHL has complied with the provisions of the Code during the Year, with the following exceptions.

Firstly, there is no chief executive position within BGHL, nor any management committee. Being a closed-ended investment company whose Directors are all independent non-executives, BGHL has no employees and therefore no requirement for a chief executive nor management committee with executive responsibilities

Secondly, none of the Directors has been formally appointed as the senior independent Director. All of the Directors derive only a minority of their total remuneration from BGHL and hence have no financial dependency on BGHL. There is also no nomination committee, with all putative Director's appointments being considered by the full Board.

Thirdly, BGHL does not have a formal diversity policy. This is a function of the fact that the company's remunerated officers are limited to the directors. The composition and effectiveness of the Board is internally assessed on an annual basis. The periodic rotation or retirement of directors is a trigger event which initiates a formal search and selection process. This prioritises professional experience relevant to the needs of the company over other more subjective factors which do not lend themselves to formal assessment and testing. Whilst BGHL does not therefore have any policy of positive discrimination in relation to age, gender or race, the company does recognise the value that different perspectives and outlooks can bring to quality of decision making. Accordingly, whilst remaining focussed on merit based appointments, the Board encourages and seeks to identify candidates who can also enhance the diversity of its composition.

The Board meets formally at least four times a year. In addition to these scheduled meetings, during the Year the Board has consulted the Investment Manager regularly. The Directors are satisfied that they have been kept fully informed of the investment performance, financial and operational controls, and other matters relevant to the business of BGHL. The Directors have, where necessary to the furtherance of their duties, taken independent professional advice at the expense of BGHL.

The attendance record of the Directors is set out below:

	Quarterly Board	Ad hoc Board	Audit Committee	AGM	Management Engagement Committee
Meetings Attended:			1000		
Nicolas Wirz	2/2	0/1	1/1	0/1	1/1
Andrew Henton	4/4	3/3	2/2	1/1	1/1
Andrew Howat	4/4	3/3	2/2	1/1	1/1
Sylvie Sauton	2/2	1/2	1/1	0/0	0/0

The focus at Board meetings is a review of investment performance, marketing and investor relations, risk management, general administration and compliance, peer group information and industry, regulatory and corporate governance issues. Board papers are circulated in advance, allowing the Directors the opportunity to add agenda items they consider appropriate for Board discussion. Each Director is required to inform the Board of any potential or actual conflicts of interest prior to Board discussions.

As required by B.3.2 of the Code, the letters of engagement of the Directors are available for inspection upon request of the Secretary at the BGHL's registered office. The Board evaluates its performance and the performance of individual Directors on an annual basis by reference to the guidelines set out in the Code and believes that the current mix of skills and experience of the Directors is appropriate to the requirements of BGHL. As required by B.4.2 of the Code, the Chairman reviews and agrees with each Director their training and development needs, if any.

In accordance with B.3.1 of the Code, the Board confirms that there have been no material changes to the Chairman's commitments required to be disclosed to the Board or to be explained in this annual report.

In accordance with A.1.3 of the Code, BGHL has purchased Directors' and officers' liability insurance and intends to renew such insurance cover on an annual basis.

#### Directors' Interests and Remuneration

Save as disclosed in these financial statements, BGHL is not aware of any potential conflicts of interest between any duty owed to BGHL by any of the Directors and their respective private interests. Each Director is currently paid an annual fee of  $\epsilon$ 20,000 other than the Chairman, who is entitled to receive  $\epsilon$ 38,000 per annum, and the Chairman of the Audit Committee, who receives an additional fee of  $\epsilon$ 7,500 per annum.

Due to the nature of their roles and in light of BGHL's stated investment objective and policy, no discretionary compensation payments are ordinarily made to the Directors. No Director has a contract for services and none of them is entitled to compensation in lieu of notice.

Shareholders are at each annual general meeting given the opportunity to vote on the Directors' remuneration.

#### Directors' Duties and Responsibilities

The Directors' responsibilities are as follows:

- Statutory obligations and public disclosure;
- Strategic matters and financial reporting;
- Oversight of management and advisors' matters;
- Risk assessment and management, including reporting, monitoring, governance and control; and
- Other matters having a material effect on BGHL.

#### Committees of the Board

The Board has not deemed it necessary to appoint a nomination or remuneration committee as, being comprised wholly of independent Directors, the whole Board considers these matters. In reviewing candidates to succeed Mr Wirz, a number of individuals were put forward by Guernsey based selection firms. In addition, applications were also sought using informal professional networks. The selection process was managed and led by the two extant independent directors, Messrs Henton and Howat. Ms Sauton was in fact introduced via professional networking and no finders fee was payable to any agency in connection with her appointment. Full, formal and tailored induction was provided to Ms Sauton by the Board with the support of the Secretary.

## Management Engagement Committee

A Management Engagement Committee was established in 2015 to oversee the performance of service providers, including the Investment Manager. It has defined terms of reference and duties and its members comprised Andrew Henton, Sylvie Sauton and Andrew Howat, with Mr Howat acting as permanent Chairman since 5 February 2018.

#### **Audit Committee**

An Audit Committee, with defined terms of reference and duties, has been established and comprised the following members as of 31 December 2018: Andrew Henton, Sylvie Sauton and Andrew Howat, with Mr Howat acting as permanent Chairman of the Audit Committee.

A separate Report of the Audit Committee setting out its duties and how it has fulfilled them is included later in this annual report. BGHL considers that the Audit Committee's performance of its duties fulfils the requirements of C.3.2 of the Code.

## Principal Risks and Uncertainties

BGHL's business model involves identifying and taking positions on assets whose market price does not reflect the Manager's assessment of intrinsic value. As market prices trend towards the Manager's assessment of intrinsic value, profits are generated. In adopting this strategy, BGHL is deliberately and consciously exposed to various types of market risk which are described in the report of the Investment Manager. Additional risks are described in the notes to the accompanying financial statements. The Report of the Audit Committee describes financial reporting risks and how these risks have been mitigated. The Board believes that these disclosures are accurate, complete and not misleading.

The most significant risk identified by the Directors is lack of liquidity in BGHL's shares exacerbating the prevailing discount to NAV at which they trade. This creates a potential arbitrage opportunity notwithstanding the long term track record of strong NAV appreciation. The second principal risk is that of the investment strategy pursued by the Master Fund no longer achieving its investment objectives, leading to non-achievement by BGHL of a long term appreciation in its asset value on a "per share" basis. This might be occasioned if the pricing relationships between and within different asset classes diverged materially from historical patterns, or the quality of investment analysis conducted within the Investment Manager was materially degraded. The next most significant risk is considered to be a significant systemic market event which cannot be anticipated in advance and is associated with geopolitical risk.

Brexit in isolation is not considered to pose a particular risk to BGHL. The hedging strategy adopted in relation to the Sterling share class is described in the report of the Investment Manager. BGIM is regulated to carry out investment management activities in both the UK and France, and has the necessary infrastructure to carry out such activity in both jurisdictions. In the event that political, regulatory or macro economic conditions changed such that it was beneficial for the investment manager to consolidate its activities in only one of these locations, the necessary changes could be implemented swiftly relying on procedures that are regularly tested as part of the business continuity plan. To the extent that particular adverse consequences might occur following a "hard" Brexit, the Manager has already put in place mitigating strategies.

The Investment Manager seeks to deliver risk adjusted returns which are attractive. The main information provided by the Investment Manager to the Board, and by which risk exposures are assessed, are as follows:

Relative performance analysis: NAV accretion or dilution is reported monthly, and broken down by attribution to each specific strategy pursued within the Master Fund. Individual and aggregated strategy performances are compared to relevant indices or benchmarks. This serves to highlight over and under performances, and also any divergence from historic trends.

Stress testing: The impact on NAV is modelled each month against a series of downside scenarios. These scenarios make allowance not just for market movements, but also for liquidity related events (for example "mid cap" stocks falling by a greater amount that the main index due to materially reduced trading volumes in smaller company stocks). Different scenarios are modelled both singly, and in combination so that "contagion" risks are considered. Portfolio construction is informed by the results of this modelling.

<u>Pricing analysis</u>: The Investment Manager shares with the Board of Directors analysis that is prepared by the administrator of the Master Fund. This highlights the percentage of NAV in the Master Fund which is based on prices that cannot be independently verified by reference to an independent or market source. The existence of instruments for which independent pricing is not available is deemed to be a risk factor, and any such instruments are subjected to additional ongoing scrutiny.

In addition to the various financial and market risks, the Board actively monitors operational and commercial risk. Key risks in this regard are the following:

Prevailing share price: BGHL's shares currently trade at a discount to NAV and have done so for several years. However, this is a function of supply and demand for BGHL's shares in the market and cannot therefore be controlled by the Board. The key element of the programme by which the Board seeks to manage the level of discount has been the share buy back programme. For so long as the prevailing share price is markedly less than NAV, it is value accretive to shareholders when BGHL buys back its own shares at that price. In considering other interventions that might influence the level of discount, the Board seeks to avoid significantly increasing the total expense ratio and to favour actions which are persistent in their effect, as opposed to short term and transient.

Scale of operations: The Board reviews the operational plans of the Investment Manager at least annually. In so doing it seeks assurances that adequate resources are available to maintain an effective and compliant operating infrastructure. Future business development plans, headcount, organisational structure and the experience of operational incidents (if any) are all taken into account.

Service providers: BGHL places reliance on the administrator, sub-administrator, depositary and sub-custodian of the Master Fund. To the extent that independent assurance statements or reports can be obtained in relation to these firms, the Board of Directors requests them. Oversight is also exercised via open market sources (credit ratings), direct enquiry of the Investment Manager and feedback from other independent advisers (including the auditor).

Cyber security: The threat posed by "hackers" to companies operating in the financial services sector, (the nature of whose activities involves the management of assets readily convertible into cash) is acknowledged by the Board of Directors. The measures in place to mitigate these risks (including those measures intended to identify and contain intrusions, should they occur) form part of the oversight regime directed at the Manager and key service providers.

The Business Risk Assessment is used to monitor risk in its wider sense. This document identifies and describes key risks under seven categories (investment, liquidity, credit, market, counterparty, operational, governance and anti-money laundering), identifying the relevant controls by which to mitigate the associated risks. Impact assessments (a function both of likelihood and severity of impact) are considered for every risk identified, and the document informs both resource allocation (including the allocation of operational responsibility) and decision making about changes or additions to the control environment.

#### Risk Management and Internal Control Systems

The Audit Committee has conducted a review of BGHL's system of internal controls and further information is given in the Report of the Audit Committee.

The Board is ultimately responsible for BGHL's system of internal controls and for reviewing its effectiveness. The Board has developed a framework that is designed to manage, rather than to eliminate the risk of failure to achieve BGHL's business objectives. The framework involves identifying sources of risk, the potential significance (financial and operational) of any risk impact(s), and the associated controls in place to identify, pre-empt and mitigate those potential impacts. This is documented in a Business Risk Assessment which is considered at least annually by the Board. The framework is discussed with the Investment Manager, and members of the Audit Committee conduct an on site review meeting with the Investment Manager to review the effectiveness of controls and any breaches / errors that have occurred since the last inspection visit. Any such control failures are also recorded on an exceptions basis and reported at quarterly Board meetings or in real time if sufficiently significant. No significant failings or weaknesses have been identified. These processes ensure an at least annual review of BGHL's system of internal controls, including financial, operational, compliance and risk management. The system can only provide reasonable and not absolute assurance against material misstatements.

The Board has delegated the management of BGHL's investment portfolio, the provision of custody services, the administration (including the independent calculation of BGHL's NAV), share registration, corporate secretarial functions and the production of the half-yearly and annual independently audited financial reports. The Board retains accountability for the functions it delegates. Formal contractual arrangements have been put in place between BGHL and the providers of these services.

Compliance reports are provided at each quarterly Board meeting by BGHL's Secretary. The Board considers that its internal control processes meet best practice as recommended in the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK's Financial Reporting Council as an adjunct to the UK Corporate Governance Code.

#### Long Term Viability

The principal risks facing BGHL are documented in the Business Risk Assessment and described above. The business model and investment strategy are described and evaluated in the Investment Manager's report. The Board's review of the effectiveness of BGHL's risk management and internal control systems is described in the Audit Committee's report.

Given the nature of its assets (mainly redeemable units in the Master Fund, which are themselves backed by liquid, tradeable assets) it would take a general failure in the effective and ongoing operation of financial markets (cessation of market liquidity) to threaten BGHL's solvency. Such a market failure could prevent investments held by the Master Fund from being redeemed. This in turn would inhibit BGHL from being able to redeem its position in the Master Fund wholly or in part, and thereby leave it potentially unable to meet its trading obligations as they fall due. The fact that the operating expenses (excluding performance fees) of BGHL represent less than 2% of its prevailing NAV for the current reporting Year makes this risk remote.

The Board has conducted a robust assessment of the principal risks and uncertainties facing BGHL, and also assesses long term viability in accordance with C2.2 of the Code. The key risk to BGHL has been identified as a failure of the investment decision making process to generate NAV accretion that is in line with investor expectations, and which is attractive on a risk adjusted basis when compared with alternative managed investment opportunities.

## **Boussard & Gavaudan Holding Limited Directors' Report**

## For the year ended 31 December 2018

BGHL's performance is measured on a monthly basis via both the NAV of its underlying investments and its share price. Key data inputs used by the Investment Manager when making investment decisions in the Master Fund (BGHL's principal investment) comprise company earnings (quarterly), macro factors (daily interest and currency exchange rates) and indicators of sentiment (yield curves and risk measures, such as the VIX index). Scenario stress tests are run on a monthly basis to measure potential "drawdowns" (ie reductions in NAV on a monthly basis) on the portfolio in the event of changes in the economic climate. These stress tests comprise severe but plausible scenarios and have been an integral part of the portfolio construction process for many years.

BGHL's performance is compared primarily to peer group funds on an annual basis, and performance fees payable to the Investment Manager are also calculated annually. The significant majority of investment positions taken by the Master Fund are in liquid assets that can be converted to cash readily in the market and great effort is made by the Investment Manager to minimise drawdowns and to maintain liquidity. This emphasis on short term position management is an important feature of the Master Fund's strategy. Given that BGHL's operating costs as a percentage of its realisable investment portfolio are low, and that it is a closed ended fund, the Directors consider there to be significant liquidity headroom available in all but the most extreme market failure scenarios.

Despite the emphasis on short term performance and resilience described above, not all investment positions are entered into with the expectation of them being unwound within twelve months. Moreover, the "repeatability" of the investment process is of fundamental importance. The Investment Manager has developed proprietary analytical tools and processes that it seeks to apply on a consistent basis over time when making investment decisions. In this way it seeks to generate positive risk adjusted returns using proprietary strategies that are sustainable for the medium to long term, such that performance is not predicated on the retention of "key men". Such algorithms and tools are necessarily a function of market behaviour and asset pricing correlations, and hence subject to change over time.

Whilst the turnover of positions within the Master Fund is thus relatively short term in duration, the timeframe over which it is necessary to identify and respond to "paradigm shifts" in economic markets is longer term in nature. Factors such as government or central bank policies (e.g. quantitative easing) or external events (including wars and regional instability) can cause significant changes in investor sentiment, which can in turn alter market assessments of intrinsic value and correlations between different asset types. For these reasons, the Board considers a three year time horizon as being the appropriate period over which to assess future prospects and viability.

Based on BGHL's performance to date and feedback from BGHL's major shareholders, the Board believes that the majority of shareholders intend to continue their investment in BGHL for the foreseeable future, subject to unforeseen future events.

On the basis of the relevant and rigorous assessment described above, the Board believes that BGHL will remain viable as a closed-ended investment company for at least the next three years.

#### Regulatory Compliance

BGHL keeps abreast of regulatory and statutory changes and responds as appropriate. The Board continues to take advice on AIFMD from external professional advisers and to implement necessary measures to ensure compliance with relevant requirements of the AIFMD Regulations. The Chief Compliance Officer within the Investment Manager is also a resource relied upon by the Board in this regard. Although the majority of the obligations associated with AIFMD are applicable to the AIFM, the Board is satisfied that BGHL as an AIF complies fully with its relevant obligations under the UK's AIFMD and the AIFMD Regulations 2013. Key Information Documents ("KIDs") have been produced in accordance with the Packaged Retail and Insurance-based Investment Products ("PRIIPs") regulation and are available at <a href="https://www.bgholdingltd.com/priips.php">https://www.bgholdingltd.com/priips.php</a>

The EU General Data Protection Regulation ("GDPR") was enacted during the year. BGHL falls within its scope and had put in place measures to ensure compliance by 25 May 2018. Policies have been enacted both to ensure ongoing compliance by BGHL, but also to oversee compliance by third party service providers who process or hold relevant data belonging to BGHL.

#### Going Concern

The Board conducts a rigorous and proportionate assessment of BGHL's operational and financial risks with reference to cash flow requirements, debt positions and the liquidity of investments on a quarterly basis.

BGHL has also borrowed €70m from Natixis under the committed revolving loan facility agreement described in note 11 to the financial statements.

In addition to the management obligations associated with these debt positions, BGHL also incurs ongoing fees and expenses associated with its day to day operations.

## **Boussard & Gavaudan Holding Limited Directors' Report**

## For the year ended 31 December 2018

The Directors regularly consider the financial solvency of BGHL and are required by the Companies Law to do so on every occasion that any distribution is to be declared, including, but not limited to, dividends, the redemption and conversion of shares, and repurchases by BGHL of its own shares. Under Guernsey law, there is no limit on the period of time for which the Directors are required to consider BGHL's future solvency. The Directors are confident that BGHL's assets exceed its liabilities and that BGHL has sufficient liquid assets to meet its debts as they fall due. In addition, should BGHL have insufficient cash to meet its expenses, BGHL expects that it would very rapidly be able to realise sufficient investments to meet such expenses. This is evidenced by a formal solvency statement.

After making enquiries, the Board has a reasonable expectation that BGHL has adequate resources to continue in operational existence for at least the next twelve months. Therefore, the financial statements have been prepared on a going concern basis.

#### Relations with Shareholders

BGHL considers the ongoing interests of investors and other stakeholders on the basis of open and regular dialogue with the Investment Manager. The Board intends to supplement this with a more regular programme of deliberate outreach to investors on at least an annual basis. Shareholders are also of course always welcome to contact the Board of BGHL in writing via the Secretary, should they wish to have a dialogue and/or provide any feedback.

Furthermore, at a minimum, the Chairman of the Board and the Chairman of the Audit Committee attend BGHL's annual general meeting. As recommended by E.2.1 of the Code, a separate resolution is proposed on each substantially separate issue at each general meeting of shareholders, including a vote on BGHL's annual financial report at the annual general meeting, and forms of proxy issued by BGHL for use at each general meeting provide for three way voting — for, against or vote withheld. Notices of annual general meetings are always sent at least 20 working days before the meeting and in accordance with the notice periods set out in the Companies Law.

After each general meeting, the results of the meeting are announced as recommended by E.2.2 of the Code and the announcement of results is also made available on the BGHL's website. As a matter of best practice, all resolutions are voted upon on a poll. Finally, if required, BGHL can also make available representatives of the Investment Manager to shareholders.

While BGHL reports formally to its shareholders twice a year, it also maintains a website which contains comprehensive information (www.bgholdingltd.com). This includes historic communications, investment philosophy, risk management policies, Investment Manager's reports, statistical information and corporate governance guidelines.

#### Statement of Directors' Responsibilities

The Directors are responsible for the preparation of financial statements in accordance with applicable Guernsey law and generally accepted accounting principals. Guernsey law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of BGHL as at the end of the Year and profit or loss for that Year.

The Directors are also responsible for ensuring that the annual report includes information required by the rules of the UK Listing Authority. The Directors ensure that BGHL complies with the provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Listing Authority which, with regard to corporate governance, require BGHL to disclose how it has applied the principals, and complied with the provisions, of the Code.

In preparing those financial statements, the Directors should:

- Select suitable accounting policies and then apply them on a consistent basis;
- Make judgements and estimates that are reasonable;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is not appropriate to presume that BGHL will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of BGHL and to enable them to ensure that the financial statements comply with the Companies Law. They are also responsible for the system of internal controls for safeguarding the assets of BGHL and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Shareholders holding more than 3% of the shares in issue need to disclose their holdings to the AFM, the Dutch regulatory authority. The AFM discloses this information on its web site. The information can be found under the section "Register substantial holdings and gross short positions". Shareholders may use the following link to access the information directly:

 $\underline{https://www.afm.nl/en/professionals/registers/meldingenregisters/substantiele-deelnemingen/details?id=22451}$ 

The Directors consider the BGHL Annual Report and audited financial statements, taken as a whole:

- is fair, balanced and understandable; and
- provides the information necessary for shareholders to assess the BGHL's performance, business model and strategy.

#### **Audit Confirmation**

So far as each of the Directors is aware, there is no relevant audit information of which BGHL's auditor is unaware and each Director has taken all reasonable steps he ought to have taken as a Director to make himself aware of any relevant information and to establish that BGHL's auditor is aware of that information.

By order of the Board

Andrew Henton Chairman

17 April 2019

#### Role and responsibility

This is the report of the Audit Committee (herein the "Committee") which has been prepared with reference to the Code and describes the work of the Committee in discharging its responsibilities.

BGHL established the Committee in compliance with the FCA's Disclosure and Transparency Rule 7.1 and the Code. The Committee meets formally at least twice each year and on an ad hoc basis when required and reports to the Board. It has formally delegated duties and responsibilities with written terms of reference which are reviewed and reapproved annually. Those terms of reference are published on BGHL's website at <a href="http://www.bgholdingltd.com">http://www.bgholdingltd.com</a>

The Committee is mandated by the Board to investigate any activity within its terms of reference and to consult externally with legal or other independent professional advisors, as required, to ensure that the Committee adequately discharges its duties and responsibilities, which include:

- a) considering the appointment of the external auditor, its letter of engagement and the terms thereof, the audit fee, and any questions of resignation or dismissal of the external auditor;
- b) reviewing from time to time the cost effectiveness of the audit and the independence and objectivity of the external auditor;
- c) developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- d) reviewing BGHL's half-yearly and annual financial reports, not excepting the full Board's responsibility over the reports, focusing particularly on:
  - Any changes in accounting policies and practice;
  - Major judgmental areas;
  - Significant adjustments arising from the audit;
  - The going concern assumption;
  - Compliance with accounting standards (and in particular accounting standards adopted in the financial year for the first time);
  - Compliance with applicable legal and regulatory requirements (including inter alia, those of the FCA, the London Stock Exchange, the Guernsey Financial Services Commission, the Companies Law, NYSE Euronext, and the Netherlands Authority for the Financial Markets);
  - A risk management review; and
  - Assessing the effectiveness of internal controls.
- e) discussing any problems and reservations arising from the final audit, and any other matters which the auditor may wish to discuss (in the absence of BGHL's agents where necessary);
- f) reviewing the external auditor's Report to the Audit Committee and determining whether any changes have to be implemented as a result;
- g) reviewing, on behalf of the Board, BGHL's system of internal control (including financial, operational, compliance and risk management) and making recommendations to the Board;
- h) considering the major findings of internal investigations and management's response;
- i) reviewing BGHL's operating, financial and accounting policies and practices;
- j) considering any other matters specifically delegated to the Committee by the Board from time to time; and
- k) confirming to the Board as to whether the Annual Report and audited financial statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess BGHL's performance, business model and strategy.

The Committee may review any matter that it considers appropriate not withstanding that it is not specifically mentioned in the above list of duties.

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#### Composition

The Committee comprised the following members as of 31 December 2018: Andrew Henton, Sylvie Sauton and Andrew Howat, with Mr Howat acting as permanent Chairman of the Committee. All members of the committee have relevant competence to the sector in which BGHL operates in addition to relevant financial experience as required by C.3.1 of the Code.

Only independent non-executive Directors serve on the Committee and the members do not have any links with BGHL's external auditor. They are also independent of the management teams of the Investment Manager, administrator and all other service providers. In addition, it meets the external auditor at least twice a year. The membership of the Committee and its terms of reference are kept under review.

#### Oversight of controls and risk management

The Board conducts an annual Business Risk Assessment in conjunction with the Investment Manager. The intention of this exercise is to identify and articulate the material risks that might affect BGHL and its trading prospects, the likelihood of them occurring and their assessed impact. As part of this process the explicit controls intended to mitigate either or both of the risk of occurrence, or the impact of an occurrence, are also articulated. In this way a residual net impact assessment is derived.

In support of this exercise, the Committee visits the Investment Manager annually to review and inspect operations. The Committee meets senior staff members responsible for the internal control and oversight functions, who report as to the proper conduct of the business in accordance with the regulatory environment in which both BGHL and the Investment Manager operate.

The oversight programme follows a preplanned agenda and in 2018 involved reviews of, inter alia (i) changes that had taken place within the Investment Manager's operation; (ii) IT systems and controls, including cyber security arrangements; (iii) regulatory compliance; (iv) investor relations; (v) the valuation of unquoted investments; and (vi) the risk register, complaints, errors and breaches logs and business continuity arrangements. Performance was assessed as satisfactory with no unacceptable or unanticipated risk exposures. The results of the oversight visit are documented.

As part of the oversight programme, both the Investment Manager and the Administrator report formally to the Committee at least annually on their systems of internal controls. In accordance with the provisions of C.2.1 of the Code, the Committee has conducted a review of those systems of internal controls and is satisfied that they are sufficient to withstand the risks to which BGHL is subject.

As BGHL is a closed-ended investment company, all of whose Directors are non-executive, and as all executive functions have been delegated to professional third party advisors, the Committee does not consider it necessary for BGHL to have its own internal audit function. However, as a consequence of continued growth an Internal Audit function was established by the Investment Manager during 2018. BGHL now obtains the benefit of this "third line of defence". Whilst no reliance can be placed on them, reviews conducted on the Investment Manager's operations by independent custodians, and on site due diligence visits by prospective investors and their professional advisers, provide a degree of additional comfort.

Whilst BGHL does not have any staff, the Committee considers that the arrangements by which staff of the Investment Manager and the Administrator may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters are of great importance. The Committee reviews such arrangements annually and, as required by C.3.5 of the Code, is satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

## Significant issues considered regarding the Annual Financial Report

In discharging its responsibilities, the Audit Committee has specifically considered the following significant issues relating to the financial statements:

C1 18 1	
Significant issue	How the issue was addressed
Valuation of BGHL's investments	The Board reviews portfolio valuations on a regular basis throughout the Year, and at quarterly meetings with the Investment Manager seeks assurance that the pricing basis is appropriate and in line with relevant accounting standards. BGHL's net asset value is calculated on a daily basis by the Sub-Administrator.
	Rasaland is the sole remaining unlisted and level 3 asset in the BGHL portfolio. This position is not immediately realisable and requires valuation based on third party assessments and judgements. Consideration was given as to whether the selected basis of valuation was reasonable and fair.
	Historically, the valuation used has been based on calculations produced by the management of that company. A key input is land valuations produced independently of management by a third party. Consistent application of the valuation mechanic used by RLI management is verified by reporting accountants, although this verification does not of itself opine on the resultant valuation.
	It was originally anticipated that BGHL would exit the RLI position in around 2017/2018, but a full realisation of value is now projected to be as many as a further ten years away. A 50% provision continues to be made against the reported valuation in 2018 to reflect the fact that BGHL's exit horizon is considerably shorter than that of the majority investors. The Audit Committee still concurs that a provision reflecting illiquidity is appropriate given BGHL's intention to trade out of the position well before RLI management deliver a liquidity event for investors. The quantum of the provision reflects the differential between the respective time horizons of BGHL and RLI management for value realisation. This is considered to have implications for the manner in which fair value should be assessed, and greater emphasis has been placed on realisable value than intrinsic value. So far as the former is concerned, there was a share transaction during the financial year priced at a 57% discount to par, representing 0.26% of the total share capital. Whilst this transaction involved a very small tranche of shares, it approximates to the net carrying value presented in the statutory accounts. There remains no immediate threat to solvency and going concern within RLI, and there are physical land assets to underpin the valuation. The mark down, whilst less than the 57% discount associated with the most recent transaction, is thus considered fair.
	The auditors have again highlighted the subjectivity associated with the level of illiquidity discount applied to the RLI position. An alternative valuation basis, discounting land values only has previously been used, which might result in an overall discount of "only" 30% and a net carrying value €5m greater than that presented in the accounts. For 2018 the auditors have adopted an overall discount methodology which resulted in a potential discount of 35% and an understatement of the RLI investment of €1.8 million. The Audit Committee recognises the judgemental element to the provision, and has consciously favoured prudence in the absence of pricing certainty. We deem the subjective unadjusted difference (€1.8m) as not material to the financial statements.
	The Audit Committee concluded that the NAV for the Master Fund remained the appropriate basis of valuation.

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Completeness and accuracy of the disclosures in the financial statements	The Audit Committee concluded that all appropriate and required disclosures have been incorporated in the financial statements, and drew comfort from the fact that multiple layers of oversight exist to achieve this objective. Specifically, the sub-administrator, administrator, Investment Manager and external auditor have all performed their own checks for completeness.		
	The Audit Committee continues to give particular attention to the extent of disclosures about the underlying portfolio of the Master Fund. Risk measures, sensitivities and performance are driven by the make up of that portfolio and hence additional disclosures about it are appropriate to permit a full understanding of the accounts. However, BGHL does not have direct influence over the Master Fund and the Committee remains concerned to ensure that the correct balance gets struck between disclosing the drivers of performance, without inviting users of the financial statements to conflate BGHL with the Master Fund.		
Presentation of financial statements	The Audit Committee considered the complexity of the financial statements in their entirety, and the descriptive narrative supporting the financial disclosures. It was recognised that the sophistication of the investment strategies pursued by BGHL do not lend themselves to description in "plain English" and that the use of technical terminology was not always consistent with the goals of ensuring transparency and maximising ease of understanding.		
	On balance the Audit Committee concluded that the benefits of accurate - but detailed - descriptive narrative outweighed the possible benefit of simplified summaries. The nature of the shareholder base (predominantly sophisticated professional investors) was an important factor in reaching this conclusion.		

#### Going concern

The Audit Committee reviewed the assumptions upon which it is assumed that BGHL can continue to operate on a going concern basis. In so doing, it assessed outstanding financial obligations and calls on BGHL's resources, investment performance and the meeting of shareholders' expectations.

#### Auditor and audit tenure

BGHL's auditor has acted in this role since 2006, but there was a partner rotation in 2014. The Committee, in conjunction with the Board, is committed to reviewing this appointment on a regular basis to ensure that BGHL is receiving an optimal level of service. The appointment of the auditor is reviewed annually, and the Committee is satisfied that sufficient safeguards are put in place by the auditor to mitigate risks associated with long association such as regular partner rotation. There are no contractual obligations which restrict BGHL's choice of auditor.

The Committee does not award any non-audit work other than the review of its interim financial statements for the half year ended 30 June. The full Board would have to approve any other non-audit work. Where non-audit services are provided by the auditor, these engagements are pre-approved by the Committee to ensure that the auditor's independence and objectivity is not breached and a recommendation is made to the Board. Whilst interim reviews of financial information are considered to be a non-audit service, the Committee did not consider that this role undermined auditor independence. No other non-audit services were provided in 2018.

The Committee considered the experience and tenure of the audit partner and staff and the nature and level of services provided. The Committee received confirmation from the auditor that it had complied with the relevant UK professional and regulatory requirements on independence. Given that the auditor has been in office for more than ten years, and that the current audit is the fifth led by the incumbent partner, the Board expects a new audit partner to be in place for the 31 December 2019 audit.

#### Assessment of the external audit process

The Committee considers the nature, scope and results of the auditor's work and monitors the independence of the external auditor. Formal reports are received from the auditor on an annual basis relating to the extent of their work. The work of the auditor in respect of any significant audit issues and consideration of the adequacy of that work is discussed.

The Chairman of the Committee liaises with the Investment Manager, the Administrator and the Sub-Administrator to discuss the extent of audit work completed to ensure all matters of risk are covered, while the Committee assesses the quality of the draft financial statements prepared by the Sub-Administrator.

The Committee has an active involvement and oversight of the preparation of both half yearly and annual financial statements. Ultimate responsibility for reviewing and approving the annual financial report remains with the Board.

## Conclusion in respect of the Annual Report and audited financial statements

The production of BGHL's Annual Report and audited financial statements is a comprehensive process requiring input from a number of different parties. One of the key governance requirements is that BGHL's Annual Report and audited financial statements be fair, balanced and understandable. The Board has requested that the Committee advise on whether it considers that the annual financial report fulfil these requirements.

As a result of the work performed, the Committee recommended that the Board should conclude that the Annual Report and audited financial statements for the Year, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess BGHL's performance, business model and strategy and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Directors' Report above.

Andrew Howat

Chairman of Audit Committee

17 April 2019

## Boussard & Gavaudan Holding Limited Alternative Investment Fund Managers Directive Report For the year ended 31 December 2018

#### Background

The AIFMD came into force on 22 July 2013, although there was a transitional period for compliance by existing AIFMs and AIFs until 21 July 2014 under the UK's Alternative Investment Fund Managers Regulations, 2013 (the "AIFMD Regulations"). The objective of the AIFMD is to introduce a common regulatory regime for funds marketed in or into the EU which are not regulated under the UCITS regime, with a view to increased investor protection and to enable European regulators to obtain increased information in relation to funds being marketed in or into the EU to assist their monitoring and control of systemic risk issues.

BGHL is not marketed in the EU and therefore does not fulfill the definition of an AIF. However, the Board has chosen to voluntarily adopt the requirements of AIFMD and AIFMD regulations for the Year.

The Investment Manager is an EU-based AIFM. Although the Investment Manager is within the scope of AIFMD, BGHL is a non-EU AIF not currently marketed in the EU, so the depositary rules in Article 21 of the AIFMD and the transparency requirements of Articles 22 (annual report) and 23 (Disclosure to investors) of the AIFMD do not apply to BGHL. However, on the advice of the Investment Manager the Board wishes to provide the BGHL shareholders with the information below.

## 1. Material changes in the disclosures to investors

During the Year, there were no material changes to the information required to be made available to investors before they invest in BGHL under Article 23 (Disclosure to investors) of the AIFMD.

## 2. Presentational changes to the income and expenditure account

Note 13 to financial statements details the realised and change in unrealised gain /loss at asset type level as per the AIFMD requirements.

#### 3. Risk management policy note

The current risk profile of BGHL, the main features of the risk management systems employed by Investment Manager to manage those risks, the measures to assess the sensitivity of BGHL's portfolio to the most relevant risks are set out in the Investment Manager's Report and in note 4 to the financial statements.

#### 4. Leverage and borrowing

BGHL is entitled to employ leverage in accordance with its investment policy and as described in the section entitled "Gearing" reproduced in the Investment Manager's Report. The investment policy does not restrict the types and sources of leverage.

During the reporting Year, BGHL employed leverage through borrowings and derivatives instruments. BGHL's borrowings are described in note 11 to the financial statements. Derivatives are used by BGHL for the purpose of hedging the exposure on assets denominated in currencies other than the Euro.

#### Collateral and asset re-use

The investment policy does not restrict collateral and asset "re-use" arrangements. BGHL has granted a security interest to Natixis, as described in note 11 to the financial statements but has not granted any right of "re-use" of its assets.

Leverage limits and usage

BGHL is subject to the following leverage limits:

200% of the Net Asset Value as described in the "Gearing" section of the investment policy. 200% of the Net Asset Value as per the AIFMD's "commitment method",

200% of the Net Asset Value as per the AIFMD's "gross method".

## Boussard & Gavaudan Holding Limited Alternative Investment Fund Managers Directive Report For the year ended 31 December 2018

#### 5. Liquidity arrangements

BGHL is a closed-ended AIF with the ability to employ leverage, which has two implications on its liquidity management:

- BGHL has no redemption-related liquidity management requirements.
- The Investment Manager monitors the liquidity risk and ensures that the liquidity profile of BGHL's investments complies with BGHL's underlying obligations. BGHL's liquidity risk, obligations and liquidity sources are described in note 4c (liquidity risk).

#### Within the meaning of AIFMD:

- There were no "new arrangements for managing the liquidity" of BGHL during the reporting Year.
- BGHL has no "assets subject to special arrangements arising from their illiquid nature".

#### 6. Disclosures on Securities Financing Transactions and Total Return Swaps

BGHL, being managed by an EU-based AIFM, is subject to the European Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse.

BGHL does not use securities financing transactions nor total return swaps.

#### 7. AIFM Remuneration Policy

Remuneration reporting requirements under the AIFMD Regulations are effective once a first full year period has been completed. Given that BGHL decided to voluntarily comply with the AIFMD Regulations with effect from 21 July 2014, these requirements apply to BGHL.

The Investment Manager (the "AIFM") Remuneration Policy is designed to support a pay for performance philosophy and reward eligible colleagues for both team and individual performance against specific goals in line with the needs of the business. All employees share in the responsibility for financial success and the growth of the business. The Remuneration Policy links individual objectives directly to the goals of the business. A participant's actual incentive pay-out will be based on both funding results and business distribution approach. Incentive funding takes into consideration financial performance of a participant's business as well as the Investment Manager overall financial performance. The Investment Manager has a pay for performance philosophy and expects differentiated rewards based on individual performance and contributions. Therefore, distribution of the funded incentive pool is intended to deliver differentiated incentives to the highest performers. Management discretion may be used in determining the funding and the final pay-out. An incentive pay-out is not an entitlement or guarantee, it is designed to enlist and encourage the right actions/behaviours, and reward based on results. All staff receive fixed remuneration in the form of basic pay to ensure that the fixed and variable components are appropriately balanced. The element of basic pay is sufficiently high to allow the operation of a fully flexible policy on variable remuneration including allowing no variable remuneration component being paid. The remuneration policy includes the following features: deferral over 3 years, awards in instruments, at least 50% in shares, retention of the shares for 6 months, and potential application of malus and clawback provisions.

## Total remuneration paid to staff of the AIFM during the financial period ending 31 March 2018:

Fixed remuneration\*: €5,306,432 Variable remuneration\*: €15,139,220

Number of staff: 80

Aggregate remuneration of senior management\*: €8,784,850

Aggregate remuneration of employees whose actions have a material impact on the risk profile of the AIFs managed by the AIFM\*: €12,262,760

\*Remuneration figures reflect an approximation of the portion of remuneration reasonably attributable to the AIFs.

By order of the Board

Andrew Henton

Chairman

Andrew Howat Director

17 April 2019

A description of important events which have occurred during the Year, their impact on the performance of BGHL as shown in the financial statements and a description of the principal risks and uncertainties facing BGHL, together with an indication of important events that have occurred since the end of the Year and BGHL's likely future development is given in the report of the Investment Manager, the Directors' report and the notes to the financial statements. They are considered to be incorporated here by reference.

There were no material related party transactions which took place in the Year, other than those disclosed in the report of the Investment Manager and at note 6 to the financial statements.

The Directors confirm that to the best of their knowledge:

- (a) The financial statements, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of BGHL as at and for the Year and,
- (b) This management report (including the information incorporated by reference) includes a fair review of the development and performance of BGHL and its position at the Year end, together with a description of the principal risks and uncertainties that BGHL faces.

By order of the Board

Andrew Henton Chairman

Andrew Howat Director

17 April 2019

## **Boussard & Gavaudan Holding Limited** Report of Independent Auditor

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BOUSSARD & GAVAUDAN HOLDING LIMITED

#### **Opinion**

We have audited the financial statements of Boussard & Gavaudan Holding Limited (the 'Company') for the year ended 31 December 2018 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- ▶ have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on page 18-19 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 20 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on pages 21 in the financial statements about whether they considered it
  appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any
  material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from
  the date of approval of the financial statements
- whether the directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on pages 20-21 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## **Boussard & Gavaudan Holding Limited** Report of Independent Auditor

#### Overview of our audit approach

Key audit matters	Valuation of investments
Materiality	Overall materiality of €6.4m which represents 1% of net asset value.

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

lisstatement of valuation of evel 3 investment 2018: €8.3 million, 2017: €8.2	We have updated our understanding of the Company's valuation methodology (including the controls surrounding the	We have identified a judgmental audit difference in the application of the illiquidity discount on the
efer to the Audit Committee eport on page 26, Accounting olicies on pages 44-45 and Note of the Financial Statements on ages 47-48.  There is a risk that the fair value of the investment may be disstated due to a high level of oldgement in the valuation of the evel 3 investment due to the oplication of an illiquidity scount, and other unobservable puts.	valuation process) and accounting policies for its Level 3 investment;  We have obtained an analysis of the Level 3 investment held by BGHL, its constituent parts and the method used to value the investment;  We have obtained valuation papers from the Investment Manager describing the investment held and valuation method used;  We have obtained an understanding of year-on-year changes in the valuation;  We have agreed the valuation inputs to supporting documentation and tested the arithmetical accuracy of the Company's calculation for its unquoted investment;  We have challenged the appropriateness of the valuation techniques applied and obtained evidence to corroborate the inputs into the valuation model, and the illiquidity discount applied;  We have held discussions with the Manager of the Level 3 investment, as well as the Investment Manager	Level 3 investment by management. Our best estimate of an overall discount is 35%, which results in an understatement in the investment in Rasaland Investors plc of €1.8 million.  Other than the above matter we have nothing to report.

and Board of Directors, to understand whether there have been any recent transactions in the Level 3 investment in order to calibrate to recent market activity the level of discount applied;

 We have used information obtained during the audit to identify whether management has identified appropriate adjustments which were made in accordance with the entity's accounting policies and applicable financial reporting framework; and

> We have held a number of discussions with the EY Valuation & Business Modelling ("VBM") Group in Mexico regarding market transaction data to support the level of discount applied

Fair value of Level 2 Investments are not properly determined (2018: €708.3 million, 2017: €748.7 million)

Refer to the Accounting policies Note 2 on page 44-45 and Note 3 of the Financial Statements on Page 48-49.

98.9% of the fair value of investments relate to the Company's holding in the BG Fund investments. The remainder relates to the unquoted Level 3 investment.

The valuation of the investments is the principal driver of the Company's net asset value and total comprehensive income. Incorrect valuation could have a significant impact on the net asset value of the Company.

- We have updated our understanding of BGHL's valuation methodology (including the controls surrounding the valuation process) and accounting policies for its investments;
- We have obtained an analysis of the Level 2 investments held by BGHL and the methods used to value these investments;
- For holdings in BG Fund, we have confirmed the Net Asset Value ("NAV") at the reporting date with the independent administrator of BG Fund;
- We have recalculated the fair value of the investment in BG Fund based on the number of units held and NAV at the reporting date confirmed by administrator; and
- We have observed liquidity in the Company's level 2 investments around the year end date by obtaining the issues/redemptions schedule from the independent administrators.

No significant findings were reported to the audit committee in respect of the valuation of Level 2 investments.

## **Boussard & Gavaudan Holding Limited** Report of Independent Auditor

#### An overview of the scope of our audit

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

#### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be 6.4 million (2017: 6.9 million), which is 1% (2017: 1%) of Net Asset Value. We believe that Net Asset Value provides us with an appropriate basis for audit materiality as this is a key published performance measure and is a key metric used by management in assessing and reporting on the overall performance of the Company.

During the course of our audit, we reassessed initial materiality and noted no matters leading us to amend materiality levels from those originally determined at the audit planning stage.

#### Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely  $\epsilon$ 4.8million (2017:  $\epsilon$ 5.2million). We have set performance materiality at this percentage due to the investment strategy remaining consistent with our previous experience and limited identification of audit findings in previous periods.

#### Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €0.3million (2017: €0.3million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

# **Boussard & Gavaudan Holding Limited** Report of Independent Auditor

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 23 the statement given by the directors that they
  consider the annual report and financial statements taken as a whole is fair, balanced and understandable and
  provides the information necessary for shareholders to assess the company's performance, business model
  and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 24-28 the section describing the work of the audit committee
  does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 16-17 the parts of the directors' statement required under the Listing Rules relating to the company's compliance
  with the UK Corporate Governance Code containing provisions specified for review by the auditor in
  accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of
  the UK Corporate Governance Code.

# Matters on which we are required to report by exception

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

- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

#### Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 22 to page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

# Boussard & Gavaudan Holding Limited Report of Independent Auditor

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <a href="https://www.frc.org.uk/auditorsresponsibilities">https://www.frc.org.uk/auditorsresponsibilities</a>. This description forms part of our auditor's report.

#### Use of our report

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

David Robert John Moore, ACA

for and on behalf of Ernst & Young LLP Guernsey, Channel Islands 17 April 2019

#### Notes:

- The maintenance and integrity of the Boussard & Gavaudan Holding Limited web site is the responsibility
  of the directors; the work carried out by the auditors does not involve consideration of these matters and,
  accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial
  statements since they were initially presented on the web site.
- Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Boussard & Gavaudan Holding Limited Statement of Financial Position As at 31 December 2018

Assets	Note	31 Dec 2018 €	31 Dec 2017 €
Investments at fair value through profit or loss Cost € 439,838,617 (2017: €453,071,015)	3	716,581,290	766,691,700
Unrealised gain on forward derivatives contracts and foreign			7,00,001,700
exchange forward contracts	3	74	1,550,118
Due from brokers	15	1,610,000	3,096,979
Dividend receivable		500 = 000000	195,474
Cash and cash equivalents		1,229,554	
Total assets		719,420,844	771,534,271
Equity and liabilities			
Liabilities			
Loans payable	11,16	70,000,000	70,000,000
Inrealised loss on foreign exchange forward contracts	3,16	100,456	119,269
Due to brokers	15	500	708
Performance fees payable	8	500	9,575,000
Management fees payable	8	2,490,030	2,639,593
Other liabilities		54,652	99,248
nterest payable	11	123,900	99,361
Total liabilities	#854 S	72,769,538	82,533,179
Equity			
Share capital		511,878,078	£11 070 070
reasury shares		311,070,070	511,878,078
Retained earnings		134,773,228	177,123,014
Total equity	9	646,651,306	689,001,092
Total equity and liabilities	3	719,420,844	771,534,271
Net asset value per share:	,		
Class A EURO shares outstanding 28,782,231 (2017: 28,758,219)			12022-1703
		€ 22.0045	€ 23.4457
Class A GBP shares outstanding 608,712 (2017: 632,590)		£19.6444	£20.7084

The financial statements on pages 38 to 57 were approved by the Board of Directors on 17 April 2019 and signed on its behalf by:

Andrew Henton

Chairman

Andrew Howat **Director** 

The accompanying notes on pages 42 to 57 form an integral part of these financial statements

# Boussard & Gavaudan Holding Limited Statement of Comprehensive Income For the year ended 31 December 2018

Note	31 Dec 2018 €	31 Dec 2017 €
13	8,030,432	15,741,064
13	(38,409,316)	43,133,254
	(30,378,884)	58,874,318
	(245)	12,275 770,311
30	(30,379,129)	59,656,904
8 8 7 6	1,277,199 5,552 10,274,734 108,220 86,020 7,440 56,453 - 155,039 11,970,657	1,188,658 6,564 9,575,000 10,379,312 105,164 95,051 4,753 64,036 8,155 164,639 21,591,332
5	(42,349,786)	38,065,572
3		(231,093)
	(42,349,786)	37,834,479
	€ (1.4412) £(1.2800)	€ 1.3010 £0.3965
	13 13 8 8 7	Note €  13 8,030,432  13 (38,409,316) (30,378,884)  (245)  (30,379,129)  1,277,199 5,552  8 10,274,734 7 108,220 6 86,020 7,440 56,453  155,039 11,970,657  (42,349,786)  € (1.4412)

There is no statement of Other Comprehensive Income presented as there was no other comprehensive income during the Year.

All activities are of a continuing nature.

The accompanying notes on pages 42 to 57 form an integral part of these financial statements

# Boussard & Gavaudan Holding Limited Statement of Changes in Equity For the year ended 31 December 2018

2018	Share Capital 6	Distributable Reserve €	Treasury Shares €	Retained Earnings E	Total Equity $\epsilon$
Balance as at 1 January 2018  Total comprehensive loss	511,878,078	£ 19	re con	177,123,014 (42,349,786)	689,001,092 (42,349,786)
Balance as at 31 December 2018	511,878,078			134,773,228	646,651,306
	Share Capital	Distributable Reserve	Treasury Shares	Retained Earnings	Total Equity
2017 Balance as at 1 January 2017	511,878,078	Ĩ	(2,393,250)	141,681,785	651,166,613
Total comprehensive income		ř	(Control of the Control of the Contr	37,834,479	37,834,479
Treasury Shares cancelled	(307)	(2,393,250)	2,393,250		•
Transferred from retained earnings	,	2,393,250		(2,393,250)	
Balance as at 31 December 2017	511,878,078			177.123.014	689,001,092

The accompanying notes on pages 42 to 57 form an integral part of these financial statements

# Boussard & Gavaudan Holding Limited Statement of Cash Flows For the year ended 31 December 2018

Cash flows from operating activities         €         €           Net (loss)/profit and total comprehensive (loss)/income         (42,349,786)         37,834,479           Adjustments to reconcile net (loss)/profit to net cash used in operating activities:         Unrealised loss/(gain) on financial instruments at fair value through profit and loss         13         38,409,316         (43,133,254)           Realised gain on financial instruments at fair value through profit and loss         13         (8,030,432)         (15,741,064)           Decrease/(increase) in due from brokers         1,486,979         (703,975)           Increase/(decrease) in interest payable         24,539         (13,316)           Decrease) in performance fee payable         (9,575,000)         (1,386,356)           (Decrease)/increase in management fee payable         (149,563)         187,739           Decrease/(increase) in dividend receivable         195,474         (195,473)           Decrease/(increase) in dividend receivable         195,474         (195,474)           Decrease/increase in other liabilities         (44,596)         60,064           Net cash used in operating activities         29,376,852         40,345,729           Purchase of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         (374,021)			31 Dec 2018	31 Dec 2017
Net (loss) profit and total comprehensive (loss) fincome   Adjustments to reconcile net (loss) profit to net cash used in operating activities:   Unrealised loss/(gain) on financial instruments at fair value through profit and loss   13   38,409,316   (43,133,254)     Realised gain on financial instruments at fair value through profit and loss   13   (8,030,432)   (15,741,064)     Decrease/(increase) in due from brokers   1,486,979   (703,975)     Increase/(decrease) in interest payable   24,539   (13,316)     (Decrease)/increase in due to brokers   (208)   708     Decrease in performance fee payable   (9,575,000)   (1,386,356)     (Decrease)/increase in management fee payable   (149,563)   187,739     Decrease in provision for transaction fees   (1,478,300)     Decrease/(increase) in dividend receivable   (195,474)   (195,474)     Decrease/(increase) in dividend receivable   (195,474)   (195,474)     Decrease/(increase) in interest payable   (144,596)   (160,604)     Realised gain on financial instruments at fair value through profit or loss   (7,940,000)   (15,331,390)     Sales of investments at fair value through profit or loss   (7,940,000)   (15,331,390)     Sales of investments at fair value through profit or loss   (7,940,000)   (15,331,390)     Sales of investments at fair value through profit or loss   (374,021)   (445,590)     Net cash provided by investing activities   (374,021)   (445,590)     Net cash used in financing activities   (374,021)   (445,590)     Net and cash equivalents at 1 January   (374,021)   (445,590)     Net movement in cash and cash equivalents   (374,021)   (445,590)     Cash and cash equivalents at 31 December   (374,021)		Note	€	€
Cash flows from investing activities   Cash flows from investing activities   Cash flows from investing activities   Cash flows from financing activities   Cash flows from financing activities   Cash flows from financing activities   Cash and cash equivalents at 1 January   Cash and cash equivalents at 31 December   Cash 30,00,00,00,00,00,00,00,00,00,00,00,00,0	Cash flows from operating activities			
Unrealised loss/(gain) on financial instruments at fair value through profit and loss         13         38,409,316         (43,133,254)           Realised gain on financial instruments at fair value through profit and loss         13         (8,030,432)         (15,741,064)           Decrease/(increase) in due from brokers         1,486,979         (703,975)           Increase/(decrease) in interest payable         24,539         (13,316)           (Decrease)/increase in due to brokers         (208)         708           Decrease in performance fee payable         (9,575,000)         (1,386,356)           (Decrease)/increase in management fee payable         14,563         187,739           Decrease in provision for transaction fees         -         -         (1,478,300)           Decrease (increase) in dividend receivable         195,474         (195,474)           (Decrease)/increase in other liabilities         (44,596)         60,064           Net eash used in operating activities         (7,940,000)         (15,331,309)           Sales of investments at fair value through profit or loss         (7,940,000)         (15,331,309)           Sales of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         (374,021)         (445,590)           Net settlements of forei	Net (loss)/profit and total comprehensive (loss)/income		(42,349,786)	37,834,479
Realised gain on financial instruments at fair value through profit and loss         13 (8,030,432) (15,741,064)           Decrease/(increase) in due from brokers         1,486,979 (703,975)           Increase/(decrease) in interest payable         24,539 (13,316)           (Decrease) in performance fee payable         (9,575,000) (1,386,356)           (Decrease) in performance fee payable         (149,563) 187,739           (Decrease) increase in management fee payable         (149,563) 187,739           Decrease in provision for transaction fees         - (1,478,300)           Decrease/(increase) in dividend receivable         195,474 (195,474)           (Decrease)/increase in other liabilities         (44,596) 60,064           Net cash used in operating activities         (20,033,277) (24,568,749)           Cash flows from investing activities         (7,940,000) (15,331,390)           Sales of investments at fair value through profit or loss         (7,940,000) (15,331,390)           Sales of investments at fair value through profit or loss         29,576,852 (40,345,729)           Net cash provided by investing activities         (374,021) (445,590)           Sales of investments at fair value through profit or loss         (374,021) (445,590)           Net actilements of foreign exchange forward derivative contracts         (374,021) (445,590)           Net actilements of foreign exchange forward derivative contracts <td< td=""><td>Adjustments to reconcile net (loss)/profit to net cash used in operating activities:</td><td></td><td></td><td></td></td<>	Adjustments to reconcile net (loss)/profit to net cash used in operating activities:			
Decrease/(increase) in due from brokers         1,486,979         (703,975)           Increase/(decrease) in interest payable         24,539         (13,316)           (Decrease)/increase in due to brokers         (208)         708           Decrease in performance fee payable         (9,575,000)         (1,386,356)           (Decrease)/increase in management fee payable         (149,563)         187,739           Decrease in provision for transaction fees         -         (1,478,300)           Decrease (increase) in dividend receivable         195,474         (195,474)           (Decrease)/increase in other liabilities         (44,596)         60,064           Net cash used in operating activities         (20,033,277)         (24,568,749)           Cash flows from investing activities         (7,940,000)         (15,331,390)           Sales of investments at fair value through profit or loss         (7,940,000)         (15,331,390)           Sales of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         (374,021)         (445,590)           Net settlements of foreign exchange forward derivative contracts         (374,021)         (445,590)           Net ash used in financing activities         (374,021)         (445,590)           Net movement in c	Unrealised loss/(gain) on financial instruments at fair value through profit and loss	13	38,409,316	(43,133,254)
Decrease/(increase) in due from brokers         1,486,979         (703,975)           Increase/(decrease) in interest payable         24,539         (13,316)           (Decrease)/increase in due to brokers         (208)         708           Decrease in performance fee payable         (9,575,000)         (1,386,356)           (Decrease)/increase in management fee payable         (149,563)         187,739           Decrease in provision for transaction fees         -         (1,478,300)           Decrease/(increase) in dividend receivable         195,474         (195,474)           (Decrease)/increase in other liabilities         (44,596)         60,064           Net cash used in operating activities         (20,033,277)         (24,568,749)           Cash flows from investing activities         (7,940,000)         (15,331,390)           Sales of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         21,636,852         25,014,339           Net cash flows from financing activities         (374,021)         (445,590)           Net settlements of foreign exchange forward derivative contracts         (374,021)         (445,590)           Net ash used in financing activities         (374,021)         (445,590)           Cash and cash equivalents at 1 Januar	Realised gain on financial instruments at fair value through profit and loss	13		
Increase/(decrease) in interest payable	Decrease/(increase) in due from brokers		NA WARREST SERVICES	and the second second
Coerease in due to brokers         (208)         708           Decrease in performance fee payable         (9,575,000)         (1,386,356)           (Decrease) in grovision for transaction fees         (149,563)         187,739           Decrease in provision for transaction fees         - (1,478,300)           Decrease/(increase) in dividend receivable         195,474         (195,474)           (Decrease)/increase in other liabilities         (44,596)         60,064           Net cash used in operating activities         20,033,277         (24,568,749)           Purchase of investments at fair value through profit or loss         (7,940,000)         (15,331,390)           Sales of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         21,636,852         25,014,339           Net settlements of foreign exchange forward derivative contracts         (374,021)         (445,590)           Net cash used in financing activities         (374,021)         (445,590)           Net movement in cash and cash equivalents         1,229,554         -           Cash and cash equivalents at 1 January         -         -           Cash and cash equivalents at 31 December         1,229,554         -           Supplementary information         (1,208,538) <t< td=""><td>Increase/(decrease) in interest payable</td><td></td><td>MANUFACTURE AND AND AND AND AND AND AND AND AND AND</td><td>V10744001 0007107000</td></t<>	Increase/(decrease) in interest payable		MANUFACTURE AND	V10744001 0007107000
Decrease in performance fee payable         (9,575,000)         (1,386,356)           (Decrease)/increase in management fee payable         (149,563)         187,739           Decrease in provision for transaction fees         -         (1,478,300)           Decrease/(increase) in dividend receivable         195,474         (195,474)           (Decrease/(increase) in other liabilities         (44,596)         60,064           Net cash used in operating activities         (20,033,277)         (24,568,749)           Purchase of investments at fair value through profit or loss         (7,940,000)         (15,331,390)           Sales of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         21,636,852         25,014,339           Net settlements of foreign exchange forward derivative contracts         (374,021)         (445,590)           Net settlements of foreign exchange forward derivative contracts         (374,021)         (445,590)           Net cash used in financing activities         1,229,554         -           Net movement in cash and cash equivalents         1,229,554         -           Cash and cash equivalents at 1 January         -         -           Cash and cash equivalents at 31 December         1,229,554         -           Supplemen	(Decrease)/increase in due to brokers		= 2.W=20.5	
Commonwealth   Comm	Decrease in performance fee payable			
Decrease in provision for transaction fees         — (1,478,300)           Decrease/(increase) in dividend receivable         195,474         (195,474)           (Decrease)/increase in other liabilities         (44,596)         60,064           Net cash used in operating activities         (20,033,277)         (24,568,749)           Cash flows from investing activities           Purchase of investments at fair value through profit or loss         (7,940,000)         (15,331,390)           Sales of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         21,636,852         25,014,339           Net settlements of foreign exchange forward derivative contracts         (374,021)         (445,590)           Net ash used in financing activities         (374,021)         (445,590)           Net movement in cash and cash equivalents         1,229,554         —           Cash and cash equivalents at 1 January         —         —           Cash and cash equivalents at 31 December         1,229,554         —           Supplementary information         Interest paid         (1,258,212)         (1,208,538)	(Decrease)/increase in management fee payable		Control Contro	contracted and resident
Decrease/(increase) in dividend receivable (Decrease)/increase in other liabilities (44,596) 60,064         (195,474) 60,006         (195,474) 60,006         (195,474) 60,006         (195,474) 60,006         (195,474) 60,006         (195,474) 60,006         (20,033,277) (24,568,749)           Cash flows from investing activities           Purchase of investments at fair value through profit or loss         (7,940,000) (15,331,390)         (15,331,390)           Sales of investments at fair value through profit or loss         29,576,852 40,345,729         40,345,729           Net cash provided by investing activities         21,636,852 25,014,339           Cash flows from financing activities         (374,021) (445,590)           Net settlements of foreign exchange forward derivative contracts         (374,021) (445,590)           Net cash used in financing activities         1,229,554         -           Cash and cash equivalents at 1 January         -         -           Cash and cash equivalents at 31 December         1,229,554         -           Supplementary information           Interest paid         (1,208,538)	Decrease in provision for transaction fees		\$.5340.85.25.2A.	
Cash flows from investing activities         (374,021)         (445,590)           Purchase of investments at fair value through profit or loss         29,576,852         40,345,729           Sales of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         21,636,852         25,014,339           Cash flows from financing activities         (374,021)         (445,590)           Net settlements of foreign exchange forward derivative contracts         (374,021)         (445,590)           Net cash used in financing activities         1,229,554         -           Cash and cash equivalents at 1 January         -         -           Cash and cash equivalents at 31 December         1,229,554         -           Supplementary information         Interest paid         (1,258,212)         (1,208,538)	Decrease/(increase) in dividend receivable		195,474	28 25 27 102
Cash flows from investing activities         (20,033,277)         (24,568,749)           Purchase of investments at fair value through profit or loss         (7,940,000)         (15,331,390)           Sales of investments at fair value through profit or loss         29,576,852         40,345,729           Net cash provided by investing activities         21,636,852         25,014,339           Cash flows from financing activities         (374,021)         (445,590)           Net settlements of foreign exchange forward derivative contracts         (374,021)         (445,590)           Net cash used in financing activities         (374,021)         (445,590)           Net movement in cash and cash equivalents         1,229,554         -           Cash and cash equivalents at 1 January         -         -           Cash and cash equivalents at 31 December         1,229,554         -           Supplementary information           Interest paid         (1,258,212)         (1,208,538)	(Decrease)/increase in other liabilities			reason and the
Purchase of investments at fair value through profit or loss Sales of investments at fair value through profit or loss Net cash provided by investing activities  Cash flows from financing activities Net settlements of foreign exchange forward derivative contracts Net cash used in financing activities  Net movement in cash and cash equivalents Cash and cash equivalents at 1 January Cash and cash equivalents at 31 December  Supplementary information Interest paid Divided denoted 1  (1,258,212) (1,208,538)	Net cash used in operating activities			
Purchase of investments at fair value through profit or loss Sales of investments at fair value through profit or loss Net cash provided by investing activities  Cash flows from financing activities Net settlements of foreign exchange forward derivative contracts Net cash used in financing activities  Net movement in cash and cash equivalents Cash and cash equivalents at 1 January Cash and cash equivalents at 31 December  Supplementary information Interest paid Divided denoted 1  (1,258,212) (1,208,538)				
Sales of investments at fair value through profit or loss Net cash provided by investing activities  Cash flows from financing activities  Net settlements of foreign exchange forward derivative contracts Net cash used in financing activities  Net movement in cash and cash equivalents  Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  Supplementary information  Interest paid  Divided denoted by investing activities  29,576,852 40,345,729 21,636,852 25,014,339  (445,590)  (445,590)  (445,590)  1,229,554 -  Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  (1,258,212) (1,208,538)				
Net cash provided by investing activities  Cash flows from financing activities  Net settlements of foreign exchange forward derivative contracts Net cash used in financing activities  Net movement in cash and cash equivalents  Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  Supplementary information  Interest paid  Divided the model of the provided by investing activities  21,636,852 25,014,339  (445,590)  (445,590)  1,229,554 -  Cash and cash equivalents at 1 January			(7,940,000)	(15,331,390)
Cash flows from financing activities  Net settlements of foreign exchange forward derivative contracts Net cash used in financing activities  (374,021) (445,590)  Net movement in cash and cash equivalents  Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  Supplementary information  Interest paid  (1,258,212) (1,208,538)			The second secon	
Net settlements of foreign exchange forward derivative contracts  Net cash used in financing activities  (374,021) (445,590)  Net movement in cash and cash equivalents  Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  Supplementary information  Interest paid  (1,258,212) (1,208,538)	Net cash provided by investing activities		21,636,852	25,014,339
Net cash used in financing activities  (374,021) (445,590)  Net movement in cash and cash equivalents  Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  Supplementary information  Interest paid  (1,258,212) (1,208,538)	Cash flows from financing activities			
Net cash used in financing activities (374,021) (445,590)  Net movement in cash and cash equivalents  Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  Supplementary information  Interest paid  (1,258,212) (1,208,538)			(374,021)	(445,590)
Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  1,229,554  Supplementary information Interest paid  (1,258,212) (1,208,538)	Net cash used in financing activities			
Cash and cash equivalents at 1 January  Cash and cash equivalents at 31 December  1,229,554  Supplementary information Interest paid  (1,258,212) (1,208,538)				>
Cash and cash equivalents at 31 December  1,229,554  Supplementary information Interest paid (1,258,212) (1,208,538)	Net movement in cash and cash equivalents		1,229,554	=
Supplementary information Interest paid (1,258,212) (1,208,538)	Cash and cash equivalents at 1 January			
Interest paid (1,258,212) (1,208,538)	Cash and cash equivalents at 31 December		1,229,554	
Interest paid (1,258,212) (1,208,538)				
(1,200,312) (1,200,336)	1000 1000 1000 1000 1000 1000 1000 100			
Dividend received 195,474 574,837	Interest paid		(1,258,212)	(1,208,538)
	Dividend received		195,474	574,837

The accompanying notes on pages 42 to 57 form an integral part of these financial statements

#### Notes to the Financial Statements

#### For the year ended 31 December 2018

#### 1. General information

#### 1.1 BGHL

BGHL is a limited liability closed-ended investment company incorporated in Guernsey on 3 October 2006 with registration number 45582.

BGHL was admitted to the Eurolist Market operated by Euronext Amsterdam on 3 November 2006. As a result of listing and trading of the shares on Euronext Amsterdam, BGHL is subject to Dutch securities regulations and to supervision by the relevant Dutch authorities. BGHL is registered with the Dutch Authority for the Financial Markets as a collective investment scheme.

On 28 July 2008, BGHL's shares were also admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange Plc's main market for listed securities. As a result of admission to the Official List of the UK Listing Authority, BGHL is subject to the UK Listing Authority's Listing, Prospectus, Disclosure Guidance and Transparency Rules, save where Dutch securities regulations take precedence. BGHL's share issue costs were borne by the Investment Manager.

At the time of this dual listing, BGHL created a class of shares denominated in Sterling (the "Sterling Shares") through the conversion of existing Euro shares into new Sterling shares at the prevailing NAV per Euro share as at 30 June 2008. From that date, shareholders have been able to convert their existing holding of shares in BGHL from one class into another class. Conversions, from one class to another, are effected once a year on the last business day of November, in compliance with the procedure published on BGHL's website.

#### 1.2 The Investment Manager

Boussard & Gavaudan Investment Management LLP is the Investment Manager of BGHL. The Investment Manager is an English limited liability partnership. The Investment Manager is authorised by the United Kingdom's Financial Conduct Authority to perform the activity of managing alternative investment funds.

The Investment Manager also manages BGF and the Master Fund.

The Administrator arranges for the monthly publication of the NAV of BGHL as at the end of the previous month and the Investment Manager provides daily estimates.

As of 31 December 2018 and 31 December 2017 neither of BGHL and BGF had any employees or owned any facilities.

#### 2. Accounting policies

#### Basis of preparation and statement of compliance

The financial statements have been prepared on a historical cost basis except for financial assets and liabilities held at fair value through profit or loss that have been measured at fair value.

The financial statements are prepared in accordance with IFRS and with legislation and rules pertaining to Amsterdam Euronext and London Stock Exchange listed companies, as well as in accordance with the Companies Law.

The accounting policies have been applied consistently by BGHL and are consistent with those used in the previous year except for the adoption of IFRS 9 as described in more detail below.

Notes to the Financial Statements For the year ended 31 December 2018

New standards, amendments and interpretations issued but not effective for the financial Year beginning 1 January 2018 and not early adopted by BGHL

There are no standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant or material impact on BGHL.

New standards, amendments and interpretations effective for the Period beginning 1 January 2018 and adopted by BGHL

IFRS 9, 'Financial Instruments', replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, and brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 requires an entity to measure and recognise impairment based on Expected Credit Losses (ECL's) replacing IAS 39's incurred loss model. There is no impact on BGHL financial position or performance after adoption of IFRS 9 as:

- Investments and forward derivative contracts continue to be classified as fair value through profit or loss, consistent with IAS 39;
- Due to and from brokers, loans payable and other receivables and payables continue to be classified at amortised cost, consistent with IAS 39;
- No impairment losses resulted from applying the "Expected Credit Losses" model of IFRS 9 compared to the IAS 39 "Impaired Loss" model; and
- BGHL does not apply hedge accounting.

The revised accounting policies as a result of adopting IFRS 9 are on pages 44 to 45 under the headings "Financial assets at fair value through profit or loss", "Financial liabilities at fair value through profit or loss", "Loans payable", and "Due from and due to brokers".

BGHL has retrospectively applied IFRS 9 with the initial application date of 1 January 2018 and there is no impact to financial position or performance for the period beginning 1 January 2017.

# Significant accounting judgements, estimates and assumptions

The preparation of BGHL's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the asset or liability affected in future periods.

#### Judgements

In the process of applying BGHL's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

#### Fair Value

When the fair value of financial assets cannot be derived from active markets, their fair value is determined using valuation techniques that may include the use of valuation models. BGHL applies judgement when selecting the method of valuation.

For a description of methods and assumptions used in assessing fair value of financial assets, please refer to Note 3.

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below. BGHL based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of BGHL. Such changes are reflected in the assumptions when they occur.

# Boussard & Gavaudan Holding Limited Notes to the Financial Statements For the year ended 31 December 2018

Fair Value

The inputs to the valuation models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty's), correlation and volatility.

Changes in assumptions about these factors could affect the reported fair value of financial instruments in the statement of financial position and the level where the instruments are disclosed in the fair value hierarchy.

The models are tested for validity by calibration against prices from any observable current market transactions in the same instrument (without modification or repackaging) when available. To assess the significance of a particular input to the entire measurement, BGHL performs sensitivity analysis or stress testing techniques.

BGHL may invest in private equity funds, which are not quoted in an active market and which may be subject to restrictions on redemptions such as lock up periods, redemption gates and side pockets.

The Investment Manager considers the valuation techniques and inputs used in valuing these investments as part of its due diligence prior to investing, to ensure they are reasonable and appropriate and therefore the NAV of these funds may be used as an input into measuring their fair value. In measuring this fair value, the NAV of the funds is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the fund and fund manager. In measuring fair value, consideration is also paid to any transactions in the shares of the fund.

When assessing the fair value of the RLI position, BGHL made an estimation of the level of discount to the valuation reported by RLI reflecting the value currently realisable by BGHL.

For a description of estimates and assumptions used in assessing fair value of financial assets, please refer to Note 3. Management believes that the estimates utilised in preparing its financial statements and management judgements applied are reasonable. However, actual results could differ from these estimates.

#### Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which BGHL operates ('the functional currency'). The functional currency is Euro, which reflects BGHL's primary activity of investing in Euro denominated securities. BGHL has adopted the Euro as its presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

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

A financial asset is measured at fair value through profit or loss if:

- (a) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding; or
- (b) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- (c) At initial recognition, it is irrevocably designated as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Included within this category are:

- Investments in equity instruments;
- Investments in debt instruments that are held under a business model to manage them on a fair value basis for investment income and fair value gains; and
- Derivative forward contracts that are in an asset position.

Investments in equity and debt instruments are initially recognised at fair value excluding attributable purchase costs. For equity and debt instruments that are listed they are subsequently valued by using quoted prices, whereas non-listed equities are determined by using the NAV determined by independent administrator as its basis or by using valuation models. The valuation methodology is discussed in note 3.

#### Notes to the Financial Statements

# For the year ended 31 December 2018

#### Forward contract

A forward contract is a contract which obliges one party to the contract to buy, and the other party to sell, the asset that is the subject of the contract for a fixed price at a future date. Forward contracts are initially recorded at fair value. A forward currency contract involves an obligation to purchase or sell a specific currency at a future date, at a price set at the time the contract is made. Forward foreign exchange contracts are subsequently valued by reference to the forward price at which a new forward contract of the same size and maturity could be undertaken at the valuation date. The unrealised gain or loss on open forward currency contracts is calculated as the difference between the contract rate and this forward price, and is recognised in the Statement of Financial Position.

Changes in the fair value of investments are recorded in the Statement of Comprehensive Income in net unrealised gain/loss on financial assets at fair value through profit or loss.

Any transfers between levels of the fair value hierarchy, are deemed to have occurred at the end of the reporting Year.

# Financial liabilities at fair value through profit or loss

A financial derivative liability is required to be measured at fair value through profit or loss.

Included within this category are:

Derivative forward contracts that are in a liability position.

Accounting policy for forward contracts in liability position is the same as described in financial assets at fair value through profit or loss.

# Recognition/derecognition of financial assets and liabilities at fair value

Purchases and sales of financial assets and liabilities at fair value are recognised on the trade date - the date on which BGHL commits to purchase or sell the investment. Financial assets and liabilities are derecognised when the rights to receive cash flows from the investments have expired or BGHL has transferred substantially all risks and rewards of ownership.

#### Loans payable

Loans payable are carried at amortised cost.

#### Due from and due to brokers

Amounts due from and to brokers represent deposits held with brokers, receivables for securities sold, payables or payments for securities purchased that have been contracted for but not yet settled or delivered on the statement of financial position date respectively, and cash pledged as collateral on derivative contracts. Amounts due from brokers is initially measured at fair value plus transaction costs and subsequently measured at cost less impairment. Amounts due to brokers is initially measured at fair value less transaction costs and subsequently measured at amortised cost. For amounts due from brokers, BGHL has applied IFRS 9's simplified approach and has calculated ECLs based on lifetime expected credit losses. No impairment allowance has been accounted for as a result of the adoption of IFRS 9.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

#### Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term investments in an active market with original maturities of three months or less and bank overdrafts.

#### Taxation

Current income tax assets and liabilities for the current Year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where BGHL directly and through the Master Fund, operates and generates taxable income.

# Notes to the Financial Statements

# For the year ended 31 December 2018

BGHL invests in foreign countries which may levy withholding tax at source on revenues derived by non residents. Where such tax is withheld at source by the broker or another party BGHL records the revenue on a gross basis in Statement of Comprehensive Income (the revenue is grossed up and offset against an expense representing the tax withheld at source).

#### Income and expenses

Expenses are accounted for as they occur on an accrual basis. Expenses are charged to the Statement of Comprehensive Income.

#### Interest income and expense

Interest income, arising on due from brokers and interest expense on due to broker and short term loans are recognised in the Statement of Comprehensive Income within interest income and interest expense.

#### Dividend income

Dividend income is recognised on ex-dividend date.

#### Investment entity

BGHL has unrelated investors and holds multiple investments. Ownership interests in BGHL are in the form of equity shares which are exposed to variable returns from changes in the fair value of BGHL's assets and liabilities. BGHL has been deemed to meet the definition of an investment entity per IFRS 10 as the following conditions exist:

- (a) BGHL has obtained funds for the purpose of providing investors with investment management services.
- (b) BGHL's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income, through investments.
- (c) The performance of investments is measured and evaluated on a fair value basis.

BGHL's exit strategy with respect to its investment in BGF is that BGHL may redeem its shares in BGF on a monthly basis and does not have any special or preferential rights in BGF. Redemptions and subscriptions in BGF are made in order to manage BGHL's exposure in accordance with BGHL's investment policy.

#### Basic and diluted earnings per share, and NAV per share

Basic earnings per share are calculated by dividing the net income by the weighted average number of registered shares in issue, during the Year. There is no difference between the basic and diluted earnings per share.

NAV per share is calculated by dividing the net assets at the Statement of Financial Position date by the number of shares outstanding at the Statement of Financial Position date.

#### Treasury shares

When BGHL purchases its own equity instruments (treasury shares), they are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of BGHL's own equity instruments.

#### Provision

Provisions are recognised when BGHL has a present obligation (either legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount.

#### 3. Fair value of financial instruments

The following tables analyse BGHL's net assets between the three levels of the fair value hierarchy:

31 December 2018	Level 1	Level 2	Level 3	Total Fair Value	Total Cost
Financial assets at fair value €: BG Fund Private equity investments	7.	708,269,674	8,311,616	708,269,674 8,311,616	431,456,831 8,381,786
Sub-Total €	2	708.269.674	8,311,616	716,581,290	439,838,617
Financial liabilities at fair value €:  Derivatives  Forward foreign exchange contracts		(100,456)	2	(100,456)	707,038,017
Total €		708,169,218	8,311,616	716,480,834	439,838,617

31 December 2017	Level 1	Level 2	Level 3	Total Fair Value	Total Cost
Financial assets at fair value €:				Total Lant Targe	A Ottal Cost
BG Fund	-	748,733,435	201	748,733,435	433,612,377
Private equity investments	2		8,184,572	8,184,572	8,381,786
Listed equity investments	9,773,693	-	0,101,572	9,773,693	11,076,852
Sub-Total €	9,773,693	748,733,435	8,184,572	766,691,700	453,071,015
Derivatives		,,	0,104,572	700,091,700	433,071,013
Forward contracts	-	1,303,159	1=	1,303,159	
Forward foreign exchange contracts	1.5	246,959	-	246,959	_
Total €	9,773,693	750,283,553	8,184,572	768,241,818	453,071,015
Financial liabilities at fair value €:			3,23.,072	700,241,010	455,071,015
Derivatives Forward foreign exchange contracts	-	(119,269)		(119,269)	
Total €	9,773,693	750,164,284	8,184,572	768,122,549	453,071,015

Other short term operating assets and liabilities are excluded from the table due to their nature.

In accordance with IFRS, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants. The above tables analyse BGHL's investment into the three levels of fair value hierarchy in accordance with IFRS 13 as described below:

Level 1 - quoted prices in active markets for identical investments that BGHL has the ability to access.

Level 2 – valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment spreads, credit risk, etc.) or quoted prices from inactive exchanges. Forward contracts are valued primarily based on market observable inputs such as a share price or forward foreign currency curves at the balance sheet date.

Level 3 – valuations based on significant unobservable inputs (including BGHL's own assumptions in determining the fair value of investments)

#### 3.1 Level 3 investments

Financial assets €	2018	2017
Opening Balance	8,184,572	9,471,461
Purchases		2,031,390
Unrealised gain/(loss)	127,044	(3,318,279)
Closing Balance	8,311,616	8,184,572

The above table presents the movements in Level 3 investments. There were no transfers between levels for the Year.

# Boussard & Gavaudan Holding Limited Notes to the Financial Statements For the year ended 31 December 2018

#### Rasaland Investors Plc ("RLI")

RLI is classified as a Level 3 asset for valuation purposes since its fair value uses significant unobservable inputs. RLI is administered by Francis J. Vassallo & Associates, a Maltese company. RLI management value the net assets of the company using a documented valuation procedure. The key significant unobservable input used in this process is land values in Mexico sourced from independent professional advisers, Cushman & Wakefield. These "area based" land values are applied without adjustment to individual properties, the existence and ownership of which is also independently verified by law firm Baker & Mackenzie. Consistent and accurate application of the agreed valuation methodology is verified by PricewaterhouseCoopers on an annual basis. The administrator, Francis J. Vassallo & Associates, only performs an annual valuation each 31 December. The value of RLI had remained almost unchanged, slightly above cost, since BGHL made its investment in June 2008.

In accordance with BGHL's valuation policy, this investment is treated as a private equity fund which should be valued at fair value. A forced sale transaction on approximately 5% of the share capital of RLI in May 2017 provided evidence that BGHL will likely only be able to exit at a material discount to the net asset value of RLI if it wishes to exit before the expected term. BGIM has received a fairly strong indication that it is going to be at least another 10 years until RLI realises its assets, whereas BGHL's exit horizon is likely to be within a much shorter timeframe. As a consequence, BGIM's valuation committee has amended its valuation methodology and fair value assessment. Since May 2017, given BGHL's time horizon to exit this investment and past transactions, the Investment Manager's valuation committee has applied a 50% illiquidity discount to the net asset value per share calculated by the administrator.

As of the date of this report, BGHL now holds 19,075,103 shares which is approximately 10.1% of the share capital. Change in unrealised gain on RLI investment for the Year amounted to €127,044 (2017: loss €3,318,279):

RLI	31 December 2018	31 December 2017	Variation %
NAV per share (USD)	0.9977	1.0092	(1.1)%
Discounted price	0.4988	0.5154	(3.2)%
Carrying value (USD)	0.4988	0.5154	(3.2)%

Source: Francis J. Vassallo & Associates

The valuation produced by BGHL is derived from the net asset value, which is driven in part by land and hotel asset values and there is a direct correlation between those values and the net asset value of RLI. In addition, the valuation is sensitive to change in the illiquidity discount. As of 31 December 2018, a 25% increase or decrease in the NAV per share or Carrying value would result as below:

-				25% in	crease			25%	6 decrease	
	Quantity	Туре	Price	Asset Value €	Price +25%	Asset Value €	Gain €	Price	Asset Value €	Loss €
31-Dec-18	19,075,103	NAV per share \$	0.9977	16,623,232	1.25	20,779,041	4,155,808	0.75	12,467,424	(4,155,808)
31-200-10	19,075,105	Carrying value S	0.4988	8,311,616	0.62	10,389,520	2,077,904	0.37	6,233,712	(2,077,904)
31-Dec-17	19,075,103	NAV per share \$	1.0092	16,025,659	1.26	20,032,074	4,006,415	0.76	12,019,244	(4,006,415)
	. ,,,,,,,,,,	Carrying value \$	0.5154	8,184,572	0.64	10,230,715	2,046,143	0.39	6,138,429	(2,046,143)

#### 3.2 Level 2 investments

The significant majority of BGHL's gross assets are invested in the Master Fund. Notwithstanding the significance of BGHL as a material investor in the Umbrella Fund, BGHL does not enjoy any special or particular rights in relation to the management of the Master Fund because of the voting rights attached to its investment. Specifically, it receives no information from the Umbrella Fund that is not communicated simultaneously to other investors, has no right to appoint a Director or attend board meetings, and has no influence on investment and operational decisions. Therefore, BGHL has no control over the Umbrella Fund nor, in the opinion of the Directors, could it exercise significant influence as described in IAS 28.

BGHL's investment in BGF is classified as Level 2 in the fair value hierarchy because the only inputs to valuation are number of shares and the quoted observable market price of those shares. The quoted price is published on the Irish Stock Exchange. BGHL classifies the interest in BGF as Level 2 because there is not a continuous active market in BGF's shares. The market is active only once a month when investors can transact in BGF shares at the published price which is calculated by the administrator of BGF based on its NAV.

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#### Notes to the Financial Statements

#### For the year ended 31 December 2018

The underlying investments of BGF, which are principally held by the Master Fund, are predominantly classified as Level 1 and Level 2 in the fair value hierarchy. The proportion of Level 3 investments of the Master Fund is disclosed in the table below including the proportion of the investments which are fair valued by the Investment Manager using a variety of techniques including discounted cash flows and public/private company comparables.

Master Fund % AUM (*)	31 Dec 2018	31 Dec 2017	Variation %
Level 3	1.79%	1.41%	0.38%
of which Investment Manager's Valuation	0.07%	0.18%	(0.11)%

Source: Administrator, SS&C Financial Services LLC

(\*) Profit & Loss of the FX to hedge investors is included in the AUM of the Master Fund.

Instruments are valued in the risk management system which is fed by real time market data in order to price the portfolio. Some instruments such as, but not limited to, derivatives are priced by using in-house developed models.

The system calculates profits and losses as well as net asset values. Inputs are used in applying the various valuation techniques and broadly based on the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, spot and volatility prices, interest rate, credit and foreign exchange levels, default probabilities, liquidity factors as well as other data.

BGHL does not have access to the detail of the underlying valuations nor to the sensitivities and strategies of the Umbrella Fund, BGF and the Master Fund other than as explained in the Investment Manager's Report. BGHL does not have the ability nor the responsibility to direct or to implement the Master Fund's investment objective and policy. As a consequence BGHL does not consider that it is appropriate to seek to disclose in the notes of the financial statements all quantitative information relating to the underlying investments held by the Master Fund in its financial statements. General information about the Master Fund's exposure can be found in the Investment Manager's Report.

#### Umbrella Fund

BGHL's holding of voting shares in the Umbrella Fund is disclosed in the table below:

BGHL's holdings	31 Dec 2018	31 Dec 2017
Voting shares - Umbrella Fund	24.60%	26.07%

The investment in the Umbrella Fund is measured at fair value through profit or loss.

Investment by BGHL into BGF in €	31 Dec 2018	31 Dec 2017
Subscriptions	7,940,000	13,300,000
Redemptions	(18,500,000)	(19,950,000)
Change in holding	(10,560,000)	(6,650,000)

As at 31 December 2018 and 31 December 2017 there were no capital commitment obligations and no amounts due to BGF for unsettled purchases.

#### **GFI**

BGHL sold its remaining position on 12 June 2018 at a price of €8.50 per share for a total consideration of €11,076,852. The cash proceeds were invested in BGF as of 2 July 2018.

#### 4. Financial instruments and associated risks

BGHL's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in BGHL's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to BGHL's continuing profitability. BGHL is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk arising from the financial instruments it holds.

#### Risk management structure

The Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management of BGHL.

#### Notes to the Financial Statements

# For the year ended 31 December 2018

#### Risk measurement and reporting system

Monitoring and controlling risks is primarily set up to be performed based on limits established by the Board of Directors. These limits reflect the business strategy including the risk that BGHL is willing to accept and the market environment of BGHL. In addition, BGHL monitors and measures the overall risk in relation to the aggregate risk exposure across all risk types and activities.

BGHL is substantially invested in the Master Fund, which represents over time between 80% and 110% of its Net Asset Value. Prima facie, this creates a concentration risk. This concentration risk is addressed by the fact that the Master Fund has wide discretion to invest across different asset classes and to pursue different strategies, and therefore has the benefit of diversification inherently embedded within it. However, the considerable discretion to allocate assets within the Master Fund is of itself a risk since it is theoretically possible for that vehicle to take highly concentrated positions. This risk is managed by the scenario analysis that is performed as part of the stress testing processes. These tests are intended to identify concentration risk which may exist within the Master Fund. The tests are described in the Directors' report.

BGHL has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy. The Master Fund's maximum level of leverage in accordance with the gross and commitment methods as required under AIFMD is expressed as a percentage of NAV, are 700% under the commitment method and 2,000% under the gross method.

Further commentary on risks and the management of risk is contained within the Investment Manager's report.

#### (a) Market Risk

BGHL is exposed to market risk directly from the investments it makes and indirectly as a result of the types of investments that the Master Fund makes. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables.

Market risk consists of equity price risks, foreign currency risks and interest rate risks and is discussed in below sections.

#### Price risk

Price risk is the risk of changes in the fair values of equities or equity-linked financial instruments as the result of changes in the levels of equity indices and the value of individual shares. Price risk exposure arises from BGHL's investments in equity securities. BGHL takes significant equity price risk from the investments it makes. At 31 December 2018, should the price of BGF and investments other than BGF have increased/decreased by 10% with all other variables remaining constant, the effect on profit and loss for the Year and on net assets would result in an increase/decrease of approximately €71,658,129 (2017: €76,669,170).

The above impact includes BGHL's indirect exposure to the Master Fund's price risk.

#### Interest rate risk

BGHL is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its Statement of Financial Position and Statement of Cash Flows. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. Volatility in interest rates could make it more difficult or expensive for BGHL to obtain debt financing, and could negatively cause the prices of long or short positions to move in directions not initially anticipated and could decrease the returns that BGHL's investments generate.

BGHL has exposure to short-term interest rate risk and more specifically to an increase in short term rates under the borrowing arrangements described in note 11. A 1% increase/decrease in short term rates would increase/decrease BGHL's cost of borrowing, and accordingly have a negative/ positive effect on, the profit and loss for the Year as follows:

In Euro	31 Dec 2018	31 Dec 2017
Short Term Financing	70,000,000	70,000,000
1% decrease in interest rates, increase in profit/equity	700,000	700,000
1% increase in interest rates, decrease in profit/equity	(700,000)	(700,000)

BGHL is also indirectly exposed to interest rate risk through its exposure in the Master Fund.

#### Foreign currency risks

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

#### Notes to the Financial Statements

# For the year ended 31 December 2018

#### Currency hedge of the Sterling Shares

BGHL uses forward foreign exchange contracts with maturities of less than three months to hedge the sterling share class exposure in order to provide Sterling shareholders with Sterling equivalent of the Euro performance.

#### Portfolio currency hedge

BGHL's investments in currencies other that the Euro are hedged by the Investment Manager using forward currency contracts which are commitments either to purchase or sell a designated currency at a specified future date for a specific price and may settle in cash or another financial asset. Forward currency contracts are individually traded over-the-counter contracts which result in credit exposure to the counterparty. Forward currency contracts result in exposure to market risk based on changes in market prices relative to contracted amounts. Market risks arise due to the possible movement in foreign currency exchange rates. BGHL uses forward foreign exchange contracts with maturities up to three months to hedge its private equity investments which are denominated in foreign currencies.

Notional amounts are the underlying reference amounts to foreign currencies upon which the fair value of the forward contracts held by BGHL are based. While notional amounts do not represent the current fair value and are not necessarily indicative of the future cash flows of BGHL's forward contracts, the underlying price changes in relation to the variables specified by the notional amounts affect the fair value of these derivative financial instruments.

Forward foreign exchange contracts settle on a net basis and the net amount at 31 December 2018 was payable €100,456 (2017: receivable €127,690). The table below summarises BGHL's exposure to foreign currency risks:

	31 Dec	2018	31 Dec	2017
Portfolio Currency Exposure - Amounts in €	GBP	USD	GBP	USD
Investments at fair value through profit or loss	8	8,311,616	-	8,184,572
Due from brokers	28,316	16,358	1,476	15,663
Foreign exchange forward derivatives contracts	13,477,947	(8,384,092)	14,798,227	(8,185,810)
Net FX exposure of the portfolio	13,506,263	(56,118)	14,799,703	14,425
Net assets effect -5% change in currency	(675,313)	2,806	(739,985)	(721)
	31 Dec	2018	31 Dec 2017	
Sterling Share Currency Exposure - Amounts in €	GBP	USD	GBP	USD
Foreign exchange forward derivatives contracts -				
hedge	13,477,947	( <del>=</del>	14,798,227	( <u>*</u>
Value of sterling shares	(13,312,035)		(14,745,036)	_
Net FX exposure	165,912	-	53,191	
Sterling Share Net Assets effect -5% change in			22,171	
currency	(8,296)	12	(2,660)	-

# At 31 December 2018, BGHL had contracted to buy and sell the foreign exchange amounts:

Purchase Currency	Unit	Sale Currency	Unit	Settlement Date	Unrealised gain/(loss) (€)
GBP	12,110,000	EUR	(13,561,337)	4 January 2019	(83,390)
EUR	8,367,564	USD	(9,625,000)	5 February 2019	
Total					(100,456)

# At 31 December 2017, BGHL had contracted to buy and sell the foreign exchange amounts:

Purchase Currency	Unit	Sale Currency	Unit	Settlement Date	Unrealised gain/(loss) (€)
GBP EUR	13,150,000 8,431,451	EUR USD	(14,917,496) (9,850,000)	4 January 2018 5 February 2018	(119,269)
Total			(2,020,000)	3 i cordary 2018	127,690

BGHL is also indirectly exposed to foreign exchange risk through its exposure in the Master Fund.

#### (b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with BGHL.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only on incurred losses as was the case under IAS 39. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

# Notes to the Financial Statements

#### For the year ended 31 December 2018

As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for 12-month expected credit losses is maintained but updated for changes in amount.

BGHL's credit risk is assessed as low since its exposure to brokers/dealers is with reputable broker/dealers, all securities transactions of BGHL are cleared by major securities firms pursuant to customer agreements, BGHL's appointed Custodian is a large financial institution having investment grade ratings from the major rating agencies and all of BGHL's exposures to counterparties are with reputable financial institutions.

As a result, in assessing the expected credit losses ("ECL") provision of the amounts due from brokers, the impairment loss identified by the directors was considered immaterial.

Amounts appearing in the Statement of Financial Position as due from and due to brokers which contribute to credit risk and which are detailed by main categories in the following table.

31 December 2018	Gross amount Due from Brokers	Gross amount Due to Brokers	Net amount due
	€	€	€
Unsettled trades		(500)	(500)
Cash held with custodians	1,229,554	3	1,229,554
Cash Collateral	1,610,000	_	1,610,000
Gain/(loss) on forward contract	-	(100,456)	(100,456)
Total €	2,839,554	(100,956)	2,738,598

31 December 2017	Gross amount Due from Brokers	Gross amount Due to Brokers	Net amount due
	€	€	$\epsilon$
Unsettled trades	-	(708)	(708)
Cash held with custodians	686,979	_	686,979
Cash Collateral	2,410,000	-	2,410,000
Gain/(loss) on forward contract	1,550,118	(119,269)	1,430,849
Total €	4,647,097	(119,977)	4,527,120

#### Unsettled trades

BGHL is exposed to the credit risk of the counterparties, brokers, dealers and exchanges with which it deals, whether BGHL engages in exchange-traded or off-exchange transactions. BGHL's principal trading activities are primarily with brokers and other financial institutions located in Europe. At the end of the Year, substantially all the investments in securities owned and securities sold, not yet purchased, due from brokers and due to brokers, are positions with and amounts due to or from these brokers. BGHL may be subject to the risk of loss of assets placed on deposit with a broker in the event of the broker's bankruptcy, the bankruptcy of any clearing broker through which the broker executes and clears transactions, or the bankruptcy of an exchange clearing house. BGHL's exposure to brokers/dealers is with reputable broker/dealers.

Amounts receivable or payable for securities transactions that have not settled at the Year end are reflected under the line unsettled trade. The nominal amount is the maximum exposure. Most of the transactions settle on a delivery versus payment basis. The risk on unsettled trades is the difference between the contractual price and the replacement price of the transaction if the counterparty were to default. Dividends receivable from brokers are at risk for their full nominal amount. All securities transactions of BGHL are cleared by major securities firms pursuant to customer agreements.

#### Cash held with custodian

BNP Paribas Securities Services SA ("BPSS") was appointed by BGHL to act as custodian, and is responsible for the safe custody of those assets held by BGHL through BPSS. BPSS is a wholly-owned subsidiary of BNP Paribas SA. The Custodian is entitled to receive a fee from BGHL based on an agreed percentage per annum of the assets held in custody. BPSS is a large financial institution having investment grade ratings from the major rating agencies.

#### Off balance sheet risk in relation to over-the-counter derivatives

Participants on over-the counter markets are not subject to credit valuation and regulatory oversight as are members of "exchange-based" markets. BGHL may invest in over-the-counter transactions in these markets, and may take a credit risk with regard to parties with which it trades and may bear the risk of settlement default. These risks may differ materially from those involved in exchange-traded transactions described above.

# Boussard & Gavaudan Holding Limited Notes to the Financial Statements

# For the year ended 31 December 2018

Transactions entered into directly between two counterparties generally do not benefit from these protections, which in turn may subject BGHL to the risk that a counterparty does not settle a transaction in accordance with agreed terms and conditions because of a dispute over the terms of the contract or because of a credit or liquidity problem. Counterparty risk is increased for contracts with longer maturities when events may intervene to prevent settlement. The ability of BGHL to transact business with any one or any number of counterparties, the lack of any independent evaluation of the counterparties or their financial capabilities, and the absence of a regulated market to facilitate settlement, may increase the potential for losses to BGHL. BGHL's exposure to counterparty risk associated with counterparty non-performance on over-the-counter derivatives is generally limited to the fair value of over the counter contracts reported as assets which are not covered by an equivalent collateral amount and to the independent amounts requested by counterparties to cover the risk of a derivative contract. Counterparty risk exposure is monitored daily. The risk management system gives real time marked to market position, collateral and risk exposure. All of BGHL's exposures to counterparties are with reputable financial institutions which are at least single A investment grade rated from the major rating agencies.

There are no assets and liabilities held at Year end, other than FX forwards which are subject to offsetting.

BGHL is also indirectly exposed to credit risk through its exposure in the Master Fund.

#### (c) Liquidity risk

Liquidity risk is the risk that BGHL will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments.

BGHL's financial commitments are represented from time to time by:

- interest, fees and other expenses payable
- amounts payable for the share buy-backs
- the short term financing described in note 11
- amounts due under forward foreign exchange contracts

BGHL manages its ability to fulfill these commitments by combining:

- the unencumbered cash held for working capital purposes
- redemptions in BGF

BGHL retains an amount of cash with its custodian which is used as working capital in order to manage day to day expenses such as fees and expenses payable.

BGHL invests into BGF by subscribing redeemable participating shares. BGHL may redeem its shares in BGF on a monthly basis with a 60-day notification and does not have any special or preferential rights in BGF.

The Investment Manager of the Master Fund monitors the liquidity adequacy between assets and liabilities on an ongoing basis. As part of this monitoring, attention is paid to the liquidity and the maturity of the assets in the portfolio.

Compared to last year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

All financial liabilities of BGHL at 31 December 2018 are shown on an undiscounted basis in the following maturity table.

In EURO		At 31 Dece	ember 2018			
III ECKO	< 1 month	1 to 6 months	6 months to 1 year	> 1 year		
Bank loan	-			(70,000,000)		
Forwards	(100,456)			(70,000,000)		
Due to brokers	(500)	_	200			
Management fee payable		(2,490,030)		Ē.		
Other payables	(54,652)	(2,1,0,000)	-	-		
Interest payable	(5 1,052)		(123,900)	元 2		
Total financial liabilities	(155,608)	(2,490,030)	(123,900)	(70,000,000)		
In EURO	At 31 December 2017					
III LURO	< 1 month	1 to 6 months	6 months to 1 year	> 1 year		
Bank loan	-	-	(70,000,000)			
Forward	(119,269)	20	(.0,000,000)			
Due to Brokers	(708)			-		
Performance fees payable		(9,575,000)		<b>₽</b>		
Management fee payable	_	(2,639,593)	-	-		
Other payables	(99,248)	(2,037,373)	5	7.		
Interest payable	(>>,240)	-	(99,361)			
Total financial liabilities	(219,225)	(12,214,593)	(70,099,361)			

# Boussard & Gavaudan Holding Limited Notes to the Financial Statements

# For the year ended 31 December 2018

#### 5. Capital management

BGHL is not subject to any externally imposed capital requirements. When managing the capital of BGHL as detailed below, the Investment Manager seeks to provide consistent absolute returns in accordance with BGHL's investment objectives and policies, for example those related to gearing. BGHL operated a share buy-back programme designed to reduce its capital, which has had the favourable effect of increasing the NAV per Share since the Shares were repurchased at a discount to their NAV. Transactions under the programme are disclosed in note 10.

Over the Year the indebtedness of BGHL, comprised of short-term commitments, has changed as follows:

Fair value in €	31 Dec 2018	31 Dec 2017
External Debt	70,000,000	70,000,000
Equity	646,651,306	689,001,092
Ratio = External Debt / Equity	10.82%	10.16%

#### 6. Related Party transactions

The relationship between BGHL and the Investment Manager and the fees earned are disclosed in note 8. Each Director is entitled to an annual fee of  $\[ \in \] 20,000 \]$  (2017:  $\[ \in \] 20,000 \]$ ) for an annualised total of  $\[ \in \] 40,000 \]$  (2017:  $\[ \in \] 40,000 \]$ ); the Chairman is entitled to receive  $\[ \in \] 38,000 \]$  (2017:  $\[ \in \] 38,000 \]$ ) per annum and the Chairman of the audit committee is entitled to receive an additional fee of  $\[ \in \] 7,500 \]$  (2017:  $\[ \in \] 7,500 \]$ ) per annum.

The issued share capital of BGHL is owned by numerous parties and therefore in the opinion of the Directors, there is no ultimate and immediate controlling party as no BGHL investors hold more than 50% of total shares in issue.

#### 7. Administration fees

JTC Fund Solutions (Guernsey) Limited, the Administrator, is entitled to an annual fee. In addition, the Administrator outsources the accounting to SS&C Financial Services LLC for an annual service fee payable monthly.

#### 8. Management fees and Performance fees

Under the Investment Management Agreement, the Investment Manager has been given responsibility for the day-to-day discretionary management of BGHL's assets in accordance with BGHL's investment objective and policy, subject to the overall supervision of the Directors. The Investment Management Agreement is terminable by either party giving to the other not less than twelve months notice in writing, except in certain circumstances where, inter alia, the Investment Manager ceases to have all necessary regulatory permissions, becomes insolvent or is in material breach of the Investment Management Agreement, in which case the Investment Management Agreement may be terminated forthwith. If the Investment Management Agreement is terminated before 31 December in any period, the performance fee in respect of the then current Calculation Period is calculated and paid as though the date of termination were the end of the relevant Calculation Period.

The Investment Manager receives a management fee, accrued monthly and payable quarterly, calculated at the annual rate of 1.5 percent of the NAV.

The Investment Manager is also entitled to receive a performance fee. The Performance Fee is calculated in respect of each Calculation Period. The Performance Fee is deemed to accrue on a monthly basis as at each Valuation Day. For each Calculation Period, the Performance Fee is equal to 20 percent of the appreciation in the NAV per share during that Calculation Period above the previous high NAV per Share of the relevant class (the "Base NAV per Share"). The Base NAV per Share is the highest NAV per Share achieved as at the end of any previous Calculation Period (if any).

For the Year the Management fees and the Performance fees were as follows:

	31 Dec 2018		31 Dec	2017
	Expense during the year €	Payable at the end of the year €	Expense during the year €	Payable at the end the year €
Management Fees Performance Fees	10,274,734	2,490,030	10,379,312 9,575,000	2,639,593 9,575,000

# **Boussard & Gavaudan Holding Limited Notes to the Financial Statements**

# For the year ended 31 December 2018

#### 9. Total Expense Ratio

Total expense ratios are as below. Performance fees are not taken into account in the total expense ratio.

Year ended	AUM € year Average	Management Fees	Administration & Depositary Fees	Other Fees	Total Expense Ratio
31 December 2018	680,511,718	1.5%	0.02%	0.04%	1.56%
31 December 2017	686,904,231	1.5%	0.02%	0.05%	1.57%

# 10. Share Capital and Treasury Shares

Authorised share Capital

The authorised share capital of BGHL is  $\in 1,010,000$  divided into 5,100,000,000 ordinary shares of  $\in 0.0001$  each and 5,000,000,000 C Shares of  $\in 0.0001$  each.

Allotted, issued and fully paid

The share capital detail as of 31 December 2018 is as follows:

Class A Shares		Euro Shares				
Share balances	Issued and fully paid	Treasury Shares	Outstanding Shares	% Treasury Shares (*)	Issued and fully paid	
At 1 January 2017	29,184,957	(322,842)	28,862,115	1.1%	528,912	
Share Cancelled	(322,842)	322,842		(+)		
Share Conversions	(103,896)		(103,896)	) <del>=</del>	103,678	
At 31 December 2017	28,758,219		28,758,219	0.0%	632,590	
Share Cancelled	3=	-		-	-	
Share Conversions	24,012	2	24,012	-	(23,878)	
At 31 December 2018	28,782,231	-	28,782,231	0.0%	608,712	

(\*) Under the Companies Law and the listing rules of EuroNext Amsterdam and the UK Listing Authority, BGHL is only allowed to acquire its own shares with the prior approval of its members in general meeting and that authority is limited to a maximum of 14.99% of its issued share capital on the date that the members' resolution is passed. As explained in the Directors' Report, authority to repurchase 8% of the issued share capital was sought and granted at the annual general meeting held on 29 June 2018. All shares held in treasury are cancelled after each month end and BGHL seeks renewal of its authority to repurchase its own shares at each annual general meeting.

#### Voting

The shareholders are entitled to receive notice of and to attend and vote at general meetings of BGHL and each holder of shares being present in person or by proxy or corporate representative at a meeting shall upon a show of hands have one vote and upon a poll each such holder present in person or by proxy or by corporate representative shall have one vote in respect of each share held by him.

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in BGHL may be issued with such preferred, deferred or other special rights or restrictions whether as to dividend, voting, return of capital or otherwise as BGHL at any time by ordinary resolution may determine and subject to and in default of such determination as the Board may determine. Subject to the provisions of the Companies Law, the terms and rights attaching to any class of shares, the Articles and any guidelines established from time to time by the Directors, BGHL may from time to time, purchase or enter into a contract, under which it will or may purchase any of its own shares.

If at any time the share capital is divided into further classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue) may whether or not BGHL is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution of the holders of the shares of that class. On a winding-up, the shareholders are entitled to the surplus assets remaining after payment of all the creditors of BGHL.

#### 11. Loans payable

	31 Dec 2018	31 Dec 2017
	€	€
Beginning cost	(70,000,000)	(70,000,000)
Ending Cost	(70,000,000)	(70,000,000)
Accrued interest	(123,900)	(99,361)
Loans payable at fair value	(70,123,900)	(70,099,361)

The above carrying values are a reasonable approximation of their fair values.

Over the year, BGHL has borrowed money in Euro at a variable rate plus a spread rate of 1.80%.

#### **Bank Facility**

On 22 November 2013, BGHL and Natixis SA entered into a facility agreement under which Natixis made available to BGHL a committed credit facility (the "Facility").

On 22 November 2018, the Facility's maturity was extended by two years to 22 November 2020. BGHL has the right to prepay and cancel the Facility at any time.

At the end of the Year, the Facility was utilised in full and all the proceeds were used to invest in BGF. The total amount due under the Facility was as follows:

Bank Facility - Natixis in €	31 Dec 2018	31 Dec 2017
Principal	(70,000,000)	70,000,000
Accrued Interest	(123,900)	(99,361)

In order to secure its obligations under the Facility, BGHL granted to Natixis a first priority security interest over the following number of BGF's Euro B Class Shares.

Security Interest	31 Dec 2018	31 Dec 2017	Variation %
BGF – Euro B Class – Shares	2,800,000	2,800,000	
BGF – Euro B Class – Price	179.176963	186.770635	(4.1)%
Value in Euro	€501,695,498	€522,957,778	(4.1)%

#### Variable Funding Notes

During the year, BGHL terminated its Variable Funding Notes programme. There had been no notes outstanding since July 2016.

#### 12. Segment information

For management purposes, BGHL is engaged in one main operating segment, which invests in financial instruments. All of BGHL's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based upon analysis of BGHL as one segment. The financial results from this segment are equivalent to the financial statements of BGHL as a whole.

The following table analyses BGHL's total income per geographical location. The basis for attributing the total income is the place of incorporation of the instrument's counterparty.

In EURO	31 Dec 2018	31 Dec 2017
Ireland	(29,903,761)	61,651,378
France	-	682,956
United Kingdom	(603,242)	505,074
Rest of the world	127,874	(3,182,504)
Total	(30,379,129)	59,656,904

The following table analyses BGHL's operating income per investment type.

In EURO	31 Dec 2018	31 Dec 2017
Equity securities	(28,473,557)	59,141,723
Derivative financial instruments Foreign exchange gains on financial instruments not at	(1,905,327)	502,906
fair value through profit or loss	(245)	12.313
Total	(30,379,129)	59,656,904

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#### 13. Net realised and change in unrealised gain and loss on financial assets and liabilities:

Realised gain on financial assets and liabilities at	31 Dec 2018	31 Dec 2017	
fair value through profit or loss	€	€	
Realised gain			
Equity securities	8,404,454	16,186,654	
Realised loss			
Derivatives - Foreign Exchange Forward	(374,022)	(445,590)	
Net realised gain	8,030,432	15,741,064	

Change in unrealised gain or loss on financial assets	31 Dec 2018	31 Dec 2017	
and liabilities at fair value through profit or loss	€	€	
Change in unrealised gain			
Equity securities	1,430,204	53,418,474	
Change in unrealised loss	53 00		
Equity securities	(38,308,215)	(12,536,875)	
Derivatives - Forward	(1,531,305)	2,251,655	
Net change in unrealised gain	(38,409,316)	43,133,254	

#### 14. Taxation

BGHL has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and is charged the annual fee of £1,200 (2017: £1,200). As a result, no provision for income tax has been made in the financial statements.

BGHL invests in foreign countries which may levy withholding tax at source on revenues derived by non residents. Where such tax is withheld at source by the broker or another party BGHL records the revenue on a gross basis in Statement of Comprehensive Income (the revenue is grossed up and offset against an expense representing the tax withheld at source).

#### 15. Due from brokers and due to brokers

Amount due from brokers include €1,610,000 (2017: €2,410,000) of cash pledged as collateral on forward foreign exchange contracts.

#### 16. Changes in liabilities arising from financing activities

	Loans payable	Foreign exchange forward derivatives contracts
Balance at 1 January 2018	70,000,000	(127,690)
Cash flows	Section of the section	(374,021)
Changes in fair value	-	602,167
Balance at 31 December 2018	70,000,000	100,456

	Loans payable	Foreign exchange forward derivatives contracts
Balance at 1 January 2017	70,000,000	820,806
Cash flows	-	(445,590)
Changes in fair value	=	(502,906)
Balance at 31 December 2017	70,000,000	(127,690)

The 'Changes in fair values' row above includes realised loss on foreign exchange forward derivatives contracts and unrealised loss/gain on foreign exchange forward derivatives contracts under financial liabilities.

#### 17. Post balance sheet events

There were no material post balance sheet events since the year-end.

#### 18. Approval of financial statements

The financial statements were approved and authorized for issue by the Board on 17 April 2019, at which date these financial statements were considered final.