

## **Addition to the Alpha Quest Funds SICAV p.l.c. semi-annual statements issued as at June 30<sup>th</sup>, 2018.**

Based on the “Notification of shortcomings identified and a call to eliminate them” issued on October April 5<sup>th</sup>, 2019 under Ref. No.: 2019/038894/CNB/570 by the Licensing and Enforcement Department of Czech National Bank (the “Regulator”), with registered address; Na Prikope 28, 115 03 Praha 1, Czech Republic, and a subsequent call to eliminate such shortcomings, Alpha Quest Funds SICAV p.l.c. (the “Company”), represented by its directors Mr. Michal Kosac, Dr. Frank Chetcuti Dimech and Mr. Joseph Xuereb, in order to fulfil such requirements, issue the following information in order to satisfy the information required by the Regulator.

### **Shortcoming 1**

#### *Business activities*

The business strategy of both sub-funds is to invest assets in the Romanian restitution points that are to be converted into either immovable property during auctions or convert into cash in 5 equal yearly payments (20% each year up to the nominal value per point of 1 RON).

The Romanian Government has not made an official statement about auctions as at to-date, since there is a lack of proper cadaster to account for state owned properties and land. This does not affect the performance of the sub-funds since their base case scenario has remained, which is the conversion of points into cash.

This has been very successful, since Romania paid all of its liabilities connected with restitution points ahead of the schedule in the first half of 2018.

Romania paid all of the tranches in the respective year 2017 ahead of the payment schedule; which is 180 days from the day that the payment title is issued. Company has cashed in, in the first half of 2018, payment titles that were to be paid in October-December 2018, thus ahead of the schedule.

From 2018, the Company is investing cash received from Romanian government in money market instruments, mostly in highly rated and liquid corporate bonds.

This enables (a) high liquidity for purchases of points should an opportunity to buy presents itself (b) protection since the bond issued will be due in 2021. It enables the Company to build a strong cash position yielding return until the publicly issued bonds become due.

Looking forward, the company sees cashing in to be on schedule with the current law, which is 180 days from the issuance of payment titles.

## **Alpha Quest Funds SICAV p.l.c.,**

Central North Business Centre, Level 1 Sqaq, il-Fawwara Sliema, SLM1670 Malta  
Reg. No. SV 430

*Risk factors and uncertainties that could negatively affect issuer's business include but are not limited to:*

- Risk of newly formed company: The Company does not have long enough history to show proven track record.
- Sub-funds being economically separated entities: The assets of other sub-funds cannot be used to satisfy obligations of other sub-funds. Thus only the assets of the sub-fund issuing financial obligation can be used to repay such obligation.
- Payment titles issued by Romanian government: The major part of the sub-fund's portfolio is invested in obligations issued by the Romanian state. Instrument is not publicly traded thus it is uncertain if it can be sold at a fair price at any time in the market place.
- Market risk: Since most of the assets of the sub-funds are invested in Romania which is considered an emerging market.
- Sub-fund's assets not being publicly traded: The Sub-funds invest in the Romanian instruments which are not publicly traded. Such instruments are considered risky and speculative in nature.
- Real estate investment risk: Part of the portfolio can be invested in real estate. The Sub-fund runs the risk of price fluctuations in the real estate market as well as liquidity risk associated with real estate investments.
- Pricing of real estate: Once invested in real estate, the sub-funds can potentially run the risk of pricing difficulties connected with real estate investments.
- Interest rates changing risk: Fixed income instruments, which can be bought as an investment by the sub-funds, have an inverse relationship with changing interest rates. Unstable interest rates environment could have a negative impact on the fixed income instruments held by the sub-funds.
- Liquidity risk: Real estate is considered as the most illiquid investment or else the average time of converting real estate to cash is the longest. In time of need of liquidity, each sub-fund can find itself in a difficult position since substantial part of its portfolio will be invested in real estate. In addition, since the Romanian obligations are not publicly traded, it might be hard to sell should the Romanian government start defaulting on its obligations.
- High leverage risk: Since Alpha Quest Balanced Fund is an issuer of publicly traded bonds, it is exposing itself to enormous amount of risk should its investment strategy produce negative returns.
- Inflationary risk: Rising prices can affect the value of the underlying assets of the portfolio.
- Foreign exchange risk: The functional currency of the Company and its sub-funds is the EUR while the assets of the portfolio are denominated in RON. In case of RON depreciation, this will have negative effect on the underlying net asset value of the sub-funds.
- Concentration risk: The majority of fund's assets are invested in the Romanian restitution points. This creates a risk for the underlying net assets value should the Romanian government default on its obligations.
- Management compensation: Management have variable compensation based on the performance of the sub-funds. This can incentivize them to undertake speculative investments in order to produce extraordinary returns.
- Operating risk: It can be created in the absence of rigorous internal processes.

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- Company founded under foreign law: The Company and its sub-funds have been incorporated under the laws of Malta. Maltese law can substantially differ from Czech laws under which the publicly traded bond has been issued.
- Political, economic and social risks: Romania is classified as an emerging and post-socialistic market, which up to this date faced significant political, economic and social risk which could negatively impact the sub-funds' performance and their net asset value.

In the 1H 2018 Alpha Quest Balanced Fund reported a net income EUR 1,185,635.40, taking in to consideration accruals for all expenses including anticipated bond coupon payment.

Alpha Quest Opportunity Fund reported Net Income of EUR 1,002,333.99 for the same period.

In the 1H 2018, the total amount of subscriptions for investor shares amounted to EUR 116,271.46 for Alpha Quest Balanced Fund, while total amount of subscriptions for Alpha Quest Opportunity Fund EUR 638,952.76.

There were no redemptions in Alpha Quest Balanced Fund, total amount of redemptions in Alpha Quest Opportunity Fund amounted to EUR 5,750,588.43.

As at June 30<sup>th</sup> 2018, total amount of Romanian restitution points held by Alpha Quest Balanced Fund was 277,765,350.80 while Alpha Quest Opportunity Fund held 96,630,057.44. Nominal value of one Restitution point is RON 1 (Romanian Leu)

The "market value" of Romanian restitution points ("valuation value" using cost amortization method, since no official secondary market exists) is EUR 44,109,387.5 for Alpha Balanced Fund and EUR 14,495,521.3 for Alpha Quest Opportunity Fund respectively.

There were no major movements reported out of scope of strategy and business model of Alpha Quest Funds SICAV plc.

## **Shortcoming 2**

*Comparison with the corresponding period of the preceding year*

Cashing in process has started in 2017, thus 1H 2017 was the first accounting period during which the company has received actual payment titles for cashing in.

Comparing 1H 2017 and 1H 2018, the company was in line with its objectives, receipt of payment titles was on expected track. Also the cashing in process has taken place before the 180 day period from issuance of payment title.

Total amount of money cashed in from Romanian government as at December 31<sup>st</sup> 2017 was EUR 1,221,303.70 for Alpha Quest Balanced Fund and EUR 14,135,975.25 for Opportunity Fund.

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Comparing to reporting period 1h 2018 (as at June 30<sup>th</sup> 2018) EUR 2,709,163 for Balanced Fund and 434,746.85 for Opportunity Fund.

In terms of NAV, comparing 1H 2018 with 1H 2017, figures are as follows:

Alpha Quest Balanced Fund as at June 30<sup>th</sup> 2017 EUR 1,241.5 per investor share, compared to 1,189.2 as at June 30<sup>th</sup> 2018.

Alpha Quest Opportunity Fund EUR 1,064.55 per investor share compared to EUR 1,247.2 as at June 30<sup>th</sup> 2018.

Idle cash was invested during both periods in money market instruments to achieve high liquidity and safety.

Portfolio composition as at June 30<sup>th</sup> 2018:

### *Alpha Quest Balanced Fund*

Romanian restitution points: EUR 44,109,387.5

Cash: EUR 2,709,163

Bonds: EUR 6,690,403.59

### *Alpha Quest Opportunity Fund*

Romanian restitution points: EUR 14,495,521.3

Cash: EUR 434,746.85

Bonds: EUR 2,246,515.02

Fund investments: EUR 4,328,824.31

Besides points investments, cash received and not placed into points purchases, is deployed to purchases of highly graded and highly liquid Czech issued corporate bonds.

Alpha Quest Balanced as at June 30<sup>th</sup> 2018 owned total of 4 four bonds and that being: Alpha Quest Balanced Fund; publicly traded bond issued by sub-fund itself, TD Beta, s.r.o., issuer has the same director as Alpha Quest Funds SICAV plc.; private placement bond, J&T Energy; bond issued by a founder shareholder of Alpha Quest Funds SICAV plc, and Home Credit.

Alpha Quest Opportunity fund owned as June 30<sup>th</sup> 2018 total of two bonds and that being: Alpha Quest Balanced Fund; publicly traded bond issued by other sub-fund of Alpha Quest Funds SICAV plc, and J&T Energy; bond issued by a founder shareholder of Alpha Quest Funds SICAV plc.

Alpha Quest as at June 30<sup>th</sup> 2018 invested in a collective investment scheme; Alpha Quest Balanced Fund, sub-fund of Alpha Quest Funds SICAV plc, thus this is considered a cross-investment.

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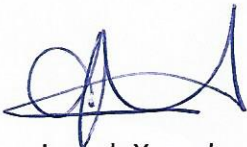
**Shortcoming 3**

We, the directors of Alpha Quest Funds SICAV p.l.c. registration no. SV 430, namely; Dr Frank Chetcuti Dimech, Joseph Xuereb and Michal Kosac confirm that to the best of our knowledge the Half-Yearly Report, issued as at June 30<sup>th</sup>, 2018 gives a true and fair view of the Issuer's financial position, business activities and financial results over the past six months and of the prospects for future developments of the Issuer's financial situation, business activities and financial results.

In Malta on June 26<sup>th</sup>, 2019



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