

# Annual Report 2017

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### Further information

Periodic updates of elements of this annual report and supplementary information can be retrieved from the Company's website [www.castleai.com](http://www.castleai.com)

### Publication date

This report was released for publication on 29 March 2018.

The subsequent event note in the financial statements has been updated to 27 March 2018.

Amounts in the report are stated in USD thousands (TUSD) unless otherwise stated.

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All statements contained herein that are not historical facts including, but not limited to, statements regarding anticipated activity are forward looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Readers are cautioned, not to place undue reliance on any such forward-looking statements, which statements, as such, speak only as of the date made. The complete disclaimer can be obtained from [www.castleai.com](http://www.castleai.com).

## Castle Alternative Invest AG in 2017

		December 2017	December 2016
<b>Net asset value up 1.1 per cent</b>	Castle Alternative Invest AG's ("Castle", "CAI" or the "Company") net asset value per share increased by 1.1 per cent (USD +0.21 per share) in 2017. The annualised NAV return in Dollars since inception is +5.6 per cent.	USD 20.12 per share TUSD 162,829	USD 19.91 per share TUSD 176,603
<b>Cancellation of shares and capital reduction</b>	The annual general meeting ("the AGM") of the Company, on 11 May 2017, approved a share capital reduction by way of cancellation of 932,435 shares. The cancellation process was completed by 4 August 2017 and the shares duly cancelled. Accordingly, the share capital of Castle Alternative Invest has been reduced from CHF 48,268,660 to CHF 43,606,485 or 8,721,297 shares.	8,721,297 shares in issue	9,653,732 shares in issue
<b>Second line buyback for cancellation</b>	On 6 June 2016, the Company started the seventh share buyback for cancellation on a second trading line, as approved at the AGM 2016. A maximum of 649,914 shares could be bought back. The board of directors of the Company had decided to terminate it early on 30 June 2017 as the maximum number of shares were bought back. On 28 June 2017 the Company announced a share buyback program by issuing put options tradable on SIX Swiss Exchange. The put options were traded from 3 July up to and including 17 July 2017. Every 30 put options entitled shareholders to tender one registered share at the exercise price of CHF 17.70. Following the termination of the buyback via tradable put options, the Company decided to launch a new buyback program on its second trading line, which started on 24 July 2017. A maximum of 594,551 registered shares will be purchased.		
<b>USD trading line</b>	The board of directors of the Company decided not to continue the separate US Dollar trading line on the SIX-Swiss Exchange, with the last trading day in that line being 15 September 2017. The reason was the low trading activity compared to Castle's Swiss Franc trading line over many years. The Company continues to be traded in Swiss Franc at the SIX-Swiss Exchange since inception in 1997.		
<b>Share price decreased by 7.7 per cent in CHF</b>	The CHF share price decreased 7.7 per cent on the SIX-Swiss Exchange during the year, from CHF 16.95 per share to CHF 15.65 per share. The discount to the NAV of the CHF shares increased to 20.1 per cent compared to 16.3 per cent in December 2016.	CHF 15.65 per share	CHF 16.95 per share

## Chairman's statement

### Dear Shareholders,

The beginning of 2017 was marked by political uncertainty. In the US, newly inaugurated President Trump maintained his protectionist rhetoric, while in Europe, the spectre of right-wing nationalism and Eurozone break-up fears kept investors on guard. However, the Dutch and the French elections turned out to be benign and alleviated most immediate concerns. Meanwhile, global economic growth gained traction and led to the most synchronised recovery in a decade. Corporate earnings were bolstered by the expanding economic environment, providing a tailwind for investors. Struggling nations like Greece, Russia and Brazil now boast a brighter economic outlook.

Castle Alternative Invest AG generated a modest gain of 1.0 per cent, whereas the share price in Swiss Francs declined by 7.7 per cent. The US Dollar trading line was cancelled in September 2017 as the company decided to consolidate trading lines as a consequence of low trading activity over many years, as compared to Castle's Swiss Franc trading line. The strongest results were generated towards the end of the year with the largest contribution stemming from CTA's and Long/Short Equity allocations.

By the end of the year, the NAV of the underlying portfolio had risen to USD 20.12, an increase of 1.0 per cent for the year. The company has now established a twenty year track record of stable capital appreciation with low correlation to equity and bond market returns and low volatility.

On 30 June 2017, the company terminated its second line buyback program early. Together with the buyback program through the issuance of tradable put options completed in May 2016, the maximum number of shares approved by shareholders at the annual general meeting in 2016 was reached. Consequently, the board of directors decided to launch a further buyback program via the issuance of tradable put options during the course of July 2017. In total, 277,578 registered shares were tendered, representing 3.2 per cent of the share capital and voting rights. Following the termination of the buyback via tradable put options, the Company decided to launch a new buyback program on its second trading line, which started on 24 July 2017. A maximum of 594,551 registered shares will be purchased. Since 2010, the Company launched regular share buyback programs of 10 per cent per annum, by buying back its own shares at an average discount of approximately 15 per cent.

The board remains convinced that a well diversified portfolio of hedge funds can deliver attractive, risk adjusted returns, associated with a manageable degree of discount volatility. We will continue our best efforts to achieve this in the coming year through further second line share buybacks and other discount fighting mechanisms, as appropriate, subject to shareholder approval. In addition, the board, together with the management team, is currently reviewing various strategic solutions to address the company's trading liquidity and the prevailing discount level. Further information will be communicated during the course of 2018.

The Company's 2018 annual general meeting is scheduled to take place on 15 May 2018 in Pfäffikon, SZ, Switzerland. The board welcomes the opportunity to discuss the progress of the Company with interested shareholders.

Finally, as your chairman, I would like to thank you for your continuing support for the Company as it enters its twentieth year.

Yours sincerely,

**Tim Steel**

Chairman of the board of directors

## Investment manager's report

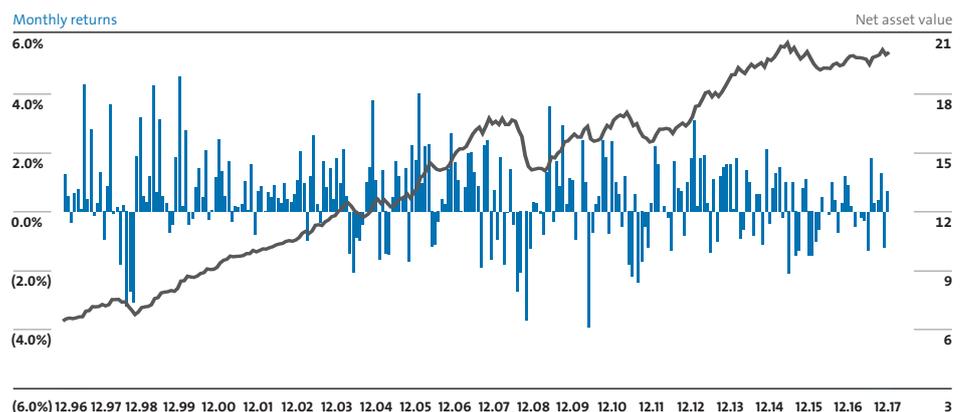
### Financial markets and hedge fund strategies

#### Macro backdrop

2017 started with political uncertainty across both US and Europe. In the US, the protectionist rhetoric of President Trump and in Europe, the spectre of right-wing nationalism were at center stage. Elections first in Holland and then in France mitigated the concerns about a potential populist wave shaking up the Eurozone architecture. In the course of the year, global economic growth gained traction across the main regions and led to the most synchronised recovery in a decade. The backdrop of an expanding economic environment bolstered corporate earnings, which resulted in a tailwind for equity investors.

Autumn brought about confirmation of incumbent leadership in China and Japan, and, with some reservations, also in Germany. In US politics, the tax reform finally took shape, a center piece of the Republican agenda and a much anticipated stimulus to the US economy and beyond.

Development NAV Castle Alternative Invest AG in USD<sup>1)</sup>



<sup>1)</sup> Before September 1999, CAI (Overseas) Ltd. pro-forma performance numbers (real numbers adjusted for currency hedging, net of management fee and performance fee but gross of cost on CAI AG level).

## Markets

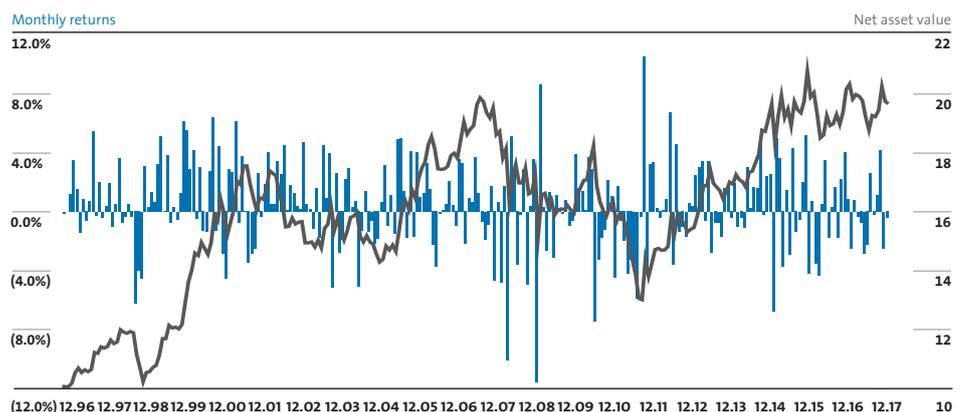
In this environment, risk assets performed well across the board. Equity markets were buoyed by solid corporate earnings growth and receding political uncertainty. Stock indices in Asia and emerging markets performed strongest, but developed markets also delivered above-average investment returns.

Similarly, in fixed income, bonds issued by emerging markets or non-investment-grade corporates outperformed safer options. Developed government bonds held up remarkably well nonetheless, considering that major central banks were eager to normalise monetary policy and eventually let interest rates rise from historically low levels.

In currencies, the Euro got a boost after the French elections and further appreciated as the European Central Bank prepared to withdraw their quantitative easing programs. Other currencies also showed strength versus the US Dollar, despite the fact that the US Federal Reserve continued to gradually raise policy lending rates.

With the exception of US energy infrastructure, real assets also delivered positive returns. However, absent higher inflation and/or shortages in major commodities, real assets were not the top priority on investors' buy-lists. Finally, three major hurricanes in the US left a trail of destruction and insurance-linked strategies were hit by rising damage claims.

### Development NAV Castle Alternative Invest AG in CHF



## Castle Alternative Invest AG

### Performance

The net asset value per share of Castle Alternative Invest AG in US Dollars increased by 1.1 per cent in 2017. At the end of December 2017, Castle's shares in CHF were trading at a discount of 20.11 per cent to net asset value. The portfolio was invested in 30 different managers and the level of investment was 97.36 per cent.

### Hedge fund strategies

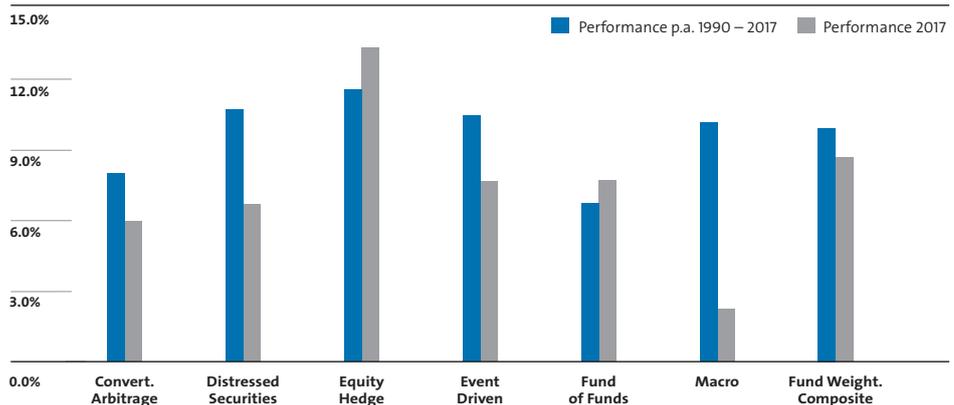
**Event driven** added 0.8 per cent to Castle's returns. We saw some dispersion in the results, which were mixed also within the same region. The European portfolio in particular was characterised by diverging performance across several restructuring opportunities. Two new positions added in the course of the year added to the overall portfolio performance.

**CTA/macro** strategies as a group deducted approximately 3.4 per cent from Castle's returns. CTAs ended the year in negative territory after the losses accumulated in the first two quarters couldn't be recouped despite a positive development in Q3 and Q4. Exogenous elements, like the French election or central bankers' statements, led to some abrupt trend reversals, in the FX and Fixed Income markets, which negatively impacted trend-following strategies. No diversification came, over the year, from short-term trading strategies, which were struggling in a declining volatility environment. Discretionary global macro managers also suffered across the board with no benefits from regional diversification (e.g. Global vs Asia) or from strategy focus (e.g. commodities vs diversified).

**Long/short equity** strategies added +3.2 per cent to Castle's returns. After being the largest detractor in 2016, long/short equity managers had a strong year in 2017 with a performance, as a group, in excess of 10 per cent. All but one manager added to the portfolio's performance. These results were achieved through a relatively conservative net exposure, on average below 40 per cent net, so that alpha generation was, again, a driver of performance. It was also interesting to observe that some managers were also able to generate alpha through stock picking on the short side, a not insignificant result achieved in very strong markets.

The **relative value** managers contributed 1.3 per cent to the portfolio and all ended in positive territory. One manager in particular was able to generate positive returns in each month.

### Long-term and current performance of HFR style indices

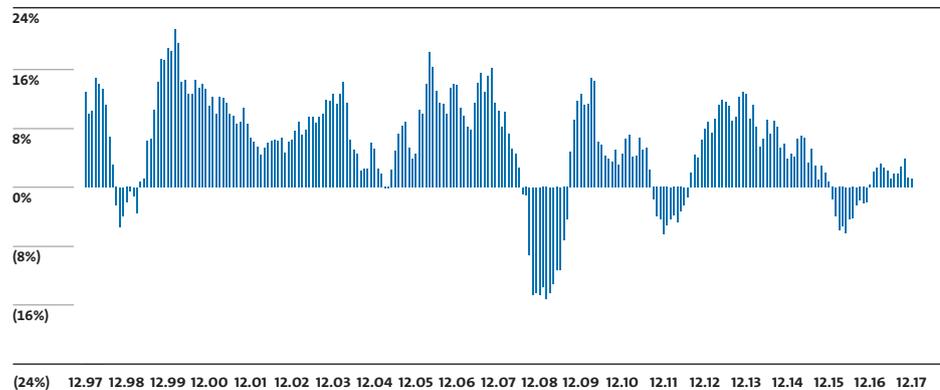


## Alternative investment industry and outlook

The non-investable HFRI Fund Weighted Composite Index delivered a solid 8.7 per cent return in 2017 with nearly all sub-indices posting positive returns. The top performers stemmed from the Emerging Markets (+20.1 per cent) and the Equity Hedge (+13.5 per cent) sector, where only the Short Bias and Energy/Basic Materials sub-sectors detracted. Macro managers – while still managing to post a profit (+2.2 per cent) – were on the lower end of the range, especially Active and Discretionary Thematic traders faced a challenging environment.

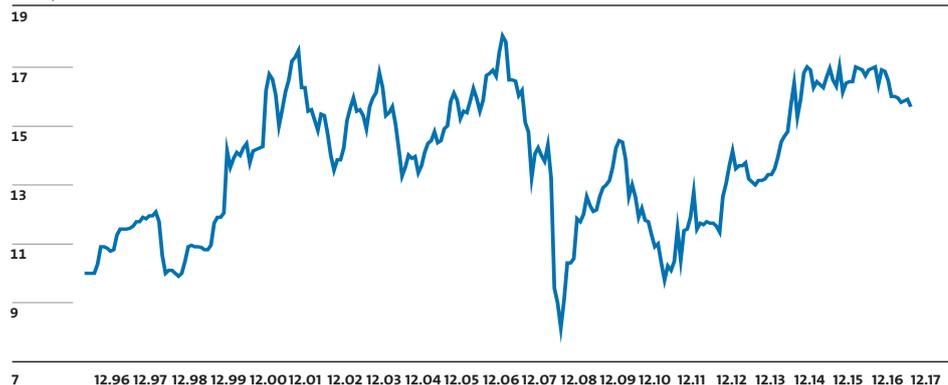
The industry assets recorded a modest net inflow of USD 9.8 billion, while overall assets reached an all-time high of USD 3.21 trillion, the sixth consecutive quarterly record for total industry capital, with inflows from Macro and Event Driven outweighing outflows from Equity Hedge and Relative Value strategies. The total number of hedge funds and fund of funds as of year-end stood at 9,754, which represents a slight decrease versus the end of 2016 level.

### Rolling 12 month returns (NAV) Castle Alternative Invest AG in USD



### Share price of Castle Alternative Invest AG in CHF

Share price in CHF



## Investment policy

### Investment objective

The Company's investment objective is to provide shareholders with long term capital growth through investment in a well diversified and actively managed portfolio of hedge funds, managed accounts and other investment vehicles.

### Investment policy

The Company invests through the Cayman Subsidiary (which is wholly owned by the Company) into Castle Alternative Invest (International) Plc ("CAI Ireland"). Accordingly, the investment policy of the Company is consistent with CAI Ireland. Any change to the investment objective or any material change to the investment policies of CAI Ireland requires approval of its shareholders by ordinary resolution or unanimous consent. In the event that a change to the investment policy is approved by an ordinary resolution, a reasonable notification period will be given to investors in CAI Ireland to allow them to redeem their shares prior to the implementation of such a change. In the event that CAI Ireland changes its investment policy the Company will take such action to ensure that the Company is not in breach of any applicable regulation.

CAI Ireland invests in a diversified global portfolio of hedge funds, managed accounts and other investment vehicles that employ various non-traditional investment strategies that usually belong to the following broadly defined main strategy classes:

#### Long/short equity

Long/short equity strategies represent the classic hedge fund investment style, taking both long and short positions in equity securities and derivatives thereof with various levels of gross and net exposure. The strategies mainly depend on stock picking, trading skills and portfolio risk management. The strategies may rely on fundamental, macro and sector analysis along with both bottom-up and top-down research.

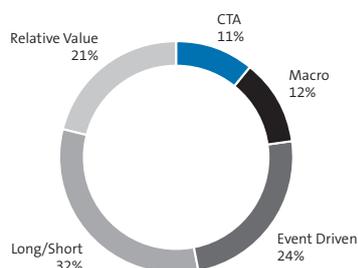
#### Event driven

Event driven strategies are designed to benefit from the consummation (or non-consummation) of various corporate events such as re-organisations, mergers or acquisitions, bankruptcies or various other situations. The strategies may be executed using a wide range of instruments, including common stock and debt instruments as well as various derivative instruments, with various levels of leverage.

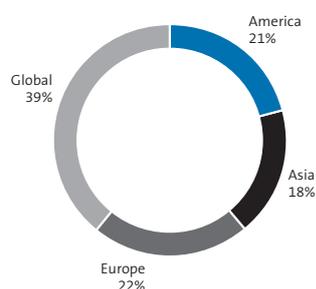
## Portfolio

Per December 2017

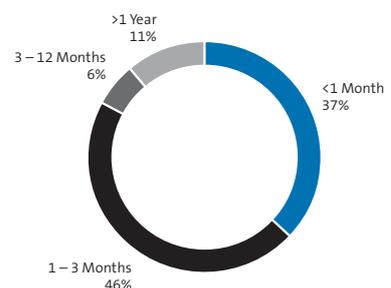
### Style allocation



### Geographical focus



### Liquidity of investment



### Top and bottom money makers 2017

Fund	Style	Date of initial investment	Performance for 2017	2017 gain/(loss) in TUSD
Crown/Linden Segregated Portfolio	Relative Value	June 2009	13.6%	1,582
Crown/BLS Segregated Portfolio	Long/Short	February 2016	19.6%	1,568
Crown/Capeview Segregated Portfolio	Long/Short	October 2012	15.3%	1,468
Crown Managed Futures Master Segregated Portfolio	CTA	June 2003	(5.5%)	(1,308)
Crown/Koppenberg Segregated Portfolio	Macro	June 2012	(22.5%)	(1,455)
Crown/Atreaus Segregated Portfolio	Macro	February 2016	(22.9%)	(1,654)

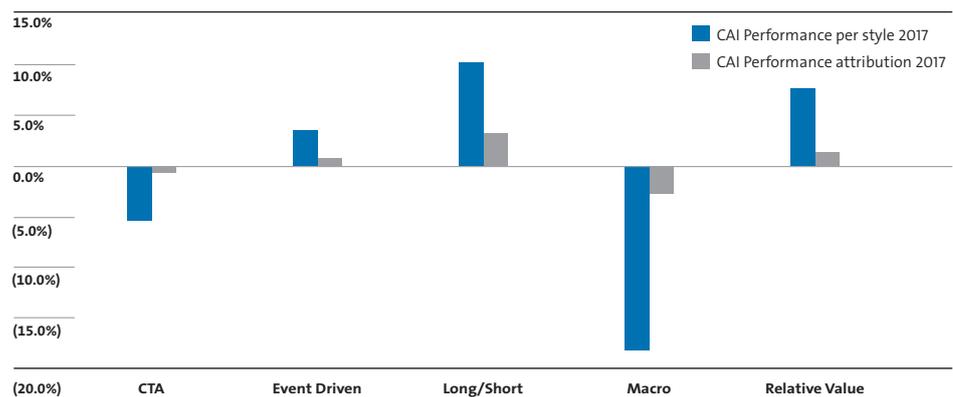
### Ten largest holdings

Fund	Style	USD million 31 December 2017	% of investments
Crown Managed Futures Master Segregated Portfolio	CTA	18.4	10.2%
Crown/Latigo Segregated Portfolio	Event Driven	14.1	7.8%
Crown/Linden Segregated Portfolio	Relative Value	13.8	7.7%
Crown/Zebedee Segregated Portfolio	Long/Short	13.1	7.3%
Crown/Polar Segregated Portfolio	Relative Value	13.1	7.2%
Tyrus Capital Opportunities Fund Limited	Event Driven	11.6	6.4%
Crown/Capeview Segregated Portfolio	Long/Short	11.1	6.1%
Discovery Global Opportunity Fund, Ltd.	Macro	10.3	5.7%
Crown/BLS Segregated Portfolio	Long/Short	9.6	5.3%
Crown/Alphadyne Segregated Portfolio	Relative Value	9.3	5.1%
<b>Subtotal of ten largest holdings</b>		<b>124.5</b>	<b>68.8%</b>
All other investments		56.6	31.2%
<b>Total of investments</b>		<b>181.1</b>	<b>100.0%</b>

### Style performance attribution

Per December 2017

Estimated performance of styles before cost in USD



**Relative value**

Relative value strategies are designed to exploit observed differentials across related market prices. Managers execute individual trades – at times through sophisticated structures – based on expectations that such differentials will probably narrow (or widen) and/or embedded options, futures etc. may be re-priced. The strategies may be applied across various instruments, including derivatives and over-the-counter instruments, with various levels of leverage.

**CTA/macro**

CTA/macro strategies mostly attempt opportunistically or systematically to exploit pricing trends in global markets, including interest rates, equities, currencies and commodities. The strategies rely on macro-economic assessment or systematic trading models that may apply various methodologies. The strategies are primarily executed through listed financial and commodity futures, options or swaps as well as currency instruments with various levels of leverage.

**Asset allocation**

Whilst the Company aims to invest into the four main strategy classes in a balanced proportion over the long term, the assets invested in any particular strategy class (determined on a look-through basis to the investment at fund level) may vary from time to time but will not in any event exceed 50 per cent of the value of its assets at the time the investment is made without prior shareholder approval.

The Company will invest and manage its assets in a way which is consistent with its objective of spreading investment risk.

The Company may invest through investment entities managed or advised by the investment manager (or any of its affiliates) to optimise its access to and/or returns from certain investment strategies as long as the investment manager (or any of its affiliates) waives, or compensates the Company for, any additional management and/or performance fees on the management of such vehicles.

The Company investments may include limited partnership interests, shares, warrants, certificates, bonds, subordinated loans and various derivative instruments.

The Company may invest unused cash in short-term (less than 12 months to maturity) and medium-term (not greater than five years to maturity) debt instruments or hold cash with reputable banks. Where it considers appropriate, the Company may enter into various derivative transactions, for example in seeking to manage its exposure to interest rate and currency fluctuations through the use of interest rate and currency hedging arrangements, or when implementing systematic or discretionary overlay strategies for the purposes of efficient portfolio management.

**Borrowings**

There are no borrowing limits in the Articles, but the directors have determined that borrowings shall not exceed 30 per cent of the value of the Company's assets at the time any borrowings are made. The Company will also be geared indirectly to the extent that the funds or other entities or investments in which the Company invests are themselves geared. Borrowings may be used at any time for short-term or temporary purposes, to facilitate share repurchases (where applicable) or to meet ongoing expenses. The Company may also borrow for investment purposes if doing so is deemed to be in the best interests of the Company. Such borrowings will be made on a short to medium term time horizon and the Company does not intend to leverage its investments on a longer term basis.

CAI Ireland is permitted to borrow up to 30 per cent of CAI Ireland's net asset value on a temporary basis including for settlement facilities or in order to meet temporary shortages of liquidity.

**Investment restrictions**

The Company may not invest more than 15 per cent of its net assets in any single manager and no more than 10 per cent of the Company's net assets in any single investment, at the time the investment is made. A single investment shall be determined on a look-through basis to the investment at fund level or as otherwise determined by the investment manager in good faith to be a single investment.

CAI Ireland shall not take or seek to take legal or management control of any underlying security in which it invests.

CAI Ireland may enter into OTC derivative transactions and other arrangements with counterparties and where assets are transferred to a counterparty the following rules as set out in Article 20 of the AIFMD Level 2 Regulation apply:

- (i) When selecting and appointing counterparties and prime brokers, AIFMs shall exercise due skill, care and diligence before entering into an agreement and on an ongoing basis thereafter taking into account the full range and quality of their services.
- (ii) When selecting prime brokers or counterparties of an AIFM or an AIF in an OTC derivatives transaction, in a securities lending or in a repurchase agreement, AIFMs shall ensure that those prime brokers and counterparties fulfil all of the following conditions:
  - (a) they are subject to ongoing supervision by a public authority;
  - (b) they are financially sound;
  - (c) they have the necessary organisational structure and resources for performing the services which are to be provided by them to the AIFM or the AIF.
- (iii) When appraising the financial soundness referred to in paragraph (ii)(b), the AIFM shall take into account whether or not the prime broker or counterparty is subject to prudential regulation, including sufficient capital requirements, and effective supervision.
- (iv) The list of selected prime brokers shall be approved by the AIFM's senior management. In exceptional cases prime brokers not included in the list may be appointed provided that they fulfil the requirements laid down in paragraph (ii) and subject to approval by senior management. The AIFM shall be able to demonstrate the reasons for such a choice and the due diligence that it exercised in selecting and monitoring the prime brokers which had not been listed.



# **Report of the statutory auditor to the general meeting of Castle Alternative Invest AG Pfäffikon (SZ)**

## **Report on the audit of the consolidated financial statements**

### **Opinion**

We have audited the consolidated financial statements of Castle Alternative Invest AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Article 14 of the Directive on Financial Reporting (DFR) of SIX Swiss Exchange and Swiss law.

### **Basis for opinion**

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, 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.

### **Our audit approach**

#### **Overview**



Overall Group materiality: USD 1.8 million

The Group consists of 3 reporting units located in Switzerland, Cayman Islands and Ireland.

We concluded full scope audit work at all 3 reporting units.

Our audit scope therefore addressed 100% of the Group’s assets, liabilities, equity, income and expenses and cash flows.

As a key audit matter the valuation and ownership of hedge fund investments has been identified as an area of focus.



### **Audit scope**

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### **Materiality**

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	USD 1.8 million
<i>How we determined it</i>	1% of total equity
<i>Rationale for the materiality benchmark applied</i>	We chose total equity as the benchmark because, in our view, this is the key metric of interest to investors, and is a generally accepted benchmark for investment companies.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Valuation and ownership of hedge fund investments**

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>The investment portfolio comprises investments in alternative investment funds covering a wide range of hedge fund strategies. All of the Group's investments are unquoted.</p> <p>We focused on this area because of the significance of the hedge fund investments in the consolidated financial statements and determining the valuation methodology and the inputs require</p>	<p>The investment valuations are prepared by the investment manager applying the valuation methods disclosed in note 2h(iii). We attended the meeting of the board of directors where these investment valuations were approved to observe this process.</p> <p>We tested the design and implementation of the key controls around the approval and ongoing monitoring of unquoted hedge fund investments</p>



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estimates and judgement to be applied by the investment manager and the board of directors.

As set out in notes 3 (Critical accounting estimates) and 21e (Fair value estimation) investments amount to USD 181.1 million or 95.0% of total assets. Refer to note 2h(iii) (Summary of accounting policies) for the valuation methods applied.

The hedge fund investments are safeguarded by an independent custodian. There is a risk that the Group may not have sufficient legal entitlement to these investments.

at the investment manager, to determine whether appropriate controls are in place and are operating effectively. No control deficiencies were identified. In addition, we reviewed the results of controls testing performed at the Irish subsidiary's administrator, which was made available to us in their type 2 ISAE 3402 report. This enabled us to assess the design and implementation of the controls around the valuation of unquoted hedge fund investments held by the Group, and to determine whether appropriate controls were in place and that they operated effectively throughout the year. This included controls to ensure that the ownership and valuation of investments is supported by information provided by the target hedge fund administrators. No control deficiencies relating to valuation or existence of unquoted hedge fund investments were identified in the report obtained.

We obtained information on the latest available valuation directly from the target hedge fund administrators or target hedge fund managers and checked that the information supported the valuations applied by the board of directors.

While the valuation as provided by the target hedge fund administrators is the primary source for valuation, on a sample basis we have tested those hedge fund investments that we identified as having a higher risk of valuation error in the fair value check process described in note 2h(iii). We challenged the assumptions applied by the investment manager, including the adequacy of the inputs used as set out in note 21e, focusing particular attention on unquoted hedge fund investments with suspended or prolonged redemption terms.

We obtained sufficient audit evidence to conclude that the inputs, estimates and methodologies used for the valuation of the unquoted hedge fund investments are within a reasonable range and that the board of directors consistently applied the valuation policies.

We verified the ownership of all hedge fund investments by confirming investment holdings directly with the depository. We also independently confirmed the existence and ownership of 99.40% of the fair value of investments with the target hedge fund administrator, registrar or transfer agent, as appropriate, and no discrepancies were noted. The remaining 0.60% of investments was confirmed using alternative audit procedures, which included reconciling those investments to the most recently available statements obtained from the Irish subsidiary's administrator.

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***Other information in the annual report***

The board of directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Castle Alternative Invest AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of the board of directors for the consolidated financial statements***

The board of directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS, Article 14 of the Directive on Financial Reporting (DFR) of SIX Swiss Exchange and the provisions of Swiss law, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group'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 board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Swiss law, ISAs and Swiss Auditing Standards 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 consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



## ***Report on other legal and regulatory requirements***

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Daniel Pajer  
Audit expert  
Auditor in charge

Keith Killackey  
Audit expert

Zurich, 29 March 2018

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## Consolidated statement of comprehensive income

For the year ended 31 December 2017 (All amounts in USD thousands unless otherwise stated)

	Note	2017	2016
<b>Income</b>			
<b>Net gain on investments designated at fair value through profit or loss</b>	5	<b>3,468</b>	<b>2,256</b>
<b>Income from current assets:</b>			
Gain on foreign exchange, net		1	1
Interest income	6	28	8
Other income		14	5
<b>Total gain from current assets</b>		<b>43</b>	<b>14</b>
<b>Total income</b>		<b>3,511</b>	<b>2,270</b>
<b>Expenses</b>			
Management and performance fees	7	(2,447)	(2,792)
Other operating expenses	8	(1,246)	(1,179)
<b>Total operating expenses</b>		<b>(3,693)</b>	<b>(3,971)</b>
<b>Operating loss</b>		<b>(182)</b>	<b>(1,701)</b>
Finance costs	9	(46)	(16)
<b>Loss for the year</b>		<b>(228)</b>	<b>(1,717)</b>
<b>Total comprehensive loss for the year</b>		<b>(228)</b>	<b>(1,717)</b>
<b>Loss attributable to:</b>			
Shareholders		(359)	(1,931)
Non-controlling interest		131	214
		<b>(228)</b>	<b>(1,717)</b>
<b>Total comprehensive loss attributable to:</b>			
Shareholders		(359)	(1,931)
Non-controlling interest	2 (e)	131	214
		<b>(228)</b>	<b>(1,717)</b>
<b>Earnings per share (in USD) attributable to equity holders</b>			
Weighted average number of shares outstanding during the year		8,527,880	9,386,037
Basic and diluted profit per share		USD (0.04)	USD (0.21)

The accompanying notes on pages 24 to 62 form an integral part of these consolidated financial statements.

## Consolidated balance sheet

As of 31 December 2017 (All amounts in USD thousands unless otherwise stated)

	Note	2017	2016
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	11	1,781	5,368
Accrued income and other receivables	12	7,841	81
<b>Total current assets</b>		<b>9,622</b>	<b>5,449</b>
<b>Non-current assets:</b>			
Investments designated at fair value through profit or loss	13	181,103	193,610
<b>Total assets</b>		<b>190,725</b>	<b>199,059</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Borrowings	14	6,568	—
Accrued expenses and other payables	15	572	795
<b>Total current liabilities</b>		<b>7,140</b>	<b>795</b>
<b>Equity</b>			
<b>Shareholders' equity:</b>			
Share capital	16	32,337	35,795
Additional paid-in capital		59,693	59,693
Less treasury shares at cost (bought for cancellation)		(10,919)	(13,733)
Retained earnings	16	81,718	94,848
<b>Total shareholders' equity before non-controlling interest</b>		<b>162,829</b>	<b>176,603</b>
Non-controlling interest	16	20,756	21,661
<b>Total equity</b>		<b>183,585</b>	<b>198,264</b>
<b>Total liabilities and equity</b>		<b>190,725</b>	<b>199,059</b>
<b>Net asset value per share (in USD)</b>			
	2 (n)		
Number of shares issued as at the year end		8,721,297	9,653,732
Number of treasury shares (bought for cancellation) as at the year end		(628,682)	(784,535)
<b>Number of shares outstanding net of treasury shares as at the year end</b>		<b>8,092,615</b>	<b>8,869,197</b>
<b>Net asset value per share</b>		<b>20.12</b>	<b>19.91</b>

The accompanying notes on pages 24 to 62 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

For the year ended 31 December 2017 (All amounts in USD thousands unless otherwise stated)

	2017	2016
<b>Cash flows from/(used in) operating activities:</b>		
Purchase of investments	(25,150)	(49,400)
Proceeds from sales of investments	33,667	68,358
Interest received	28	9
Operating expenses paid	(4,205)	(3,627)
<b>Net cash from operating activities</b>	<b>4,340</b>	<b>15,340</b>
<b>Cash flows from/(used in) financing activities:</b>		
Finance costs	(46)	(16)
Proceeds from bank borrowings	6,568	—
Repayments of bank borrowings	—	(10,152)
Issuance of capital to non-controlling interest	600	17,700
Return of capital to non-controlling interest	(1,636)	(2,201)
Purchase of treasury shares (bought for cancellation)	(13,414)	(18,178)
<b>Net cash used in financing activities</b>	<b>(7,928)</b>	<b>(12,847)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(3,588)</b>	<b>2,493</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>5,368</b>	<b>2,874</b>
Net (decrease)/increase in cash and cash equivalents	(3,588)	2,493
Net gain on foreign exchange on cash and cash equivalents	1	1
<b>Cash and cash equivalents, end of the year</b>	<b>1,781</b>	<b>5,368</b>
<b>Cash and cash equivalents consist of the following as at 31 December:</b>		
Cash at banks	1,781	5,368
<b>Total</b>	<b>1,781</b>	<b>5,368</b>

The accompanying notes on pages 24 to 62 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

For the year ended 31 December 2017 (All amounts in USD thousands unless otherwise stated)

	Note	Share capital	Additional paid-in capital	Less treasury shares	Retained earnings	Non-controlling interest	Total equity
<b>1 January 2016</b>		<b>39,882</b>	<b>59,693</b>	<b>(15,099)</b>	<b>112,234</b>	<b>5,429</b>	<b>202,139</b>
Total comprehensive (loss)/income for the year		—	—	—	(1,931)	214	(1,717)
Cancellation of treasury shares	16	(4,087)	—	19,544	(13,794)	—	1,663
Impact of CHF/USD historical rates on the cancellation of treasury shares		—	—	—	(1,661)	—	(1,661)
Purchase of treasury shares (bought for cancellation)		—	—	(18,178)	—	—	(18,178)
Issuance of capital to non-controlling interest		—	—	—	—	17,700	17,700
Return of capital to non-controlling interest		—	—	—	—	(1,682)	(1,682)
<b>31 December 2016</b>		<b>35,795</b>	<b>59,693</b>	<b>(13,733)</b>	<b>94,848</b>	<b>21,661</b>	<b>198,264</b>
<b>1 January 2017</b>		<b>35,795</b>	<b>59,693</b>	<b>(13,733)</b>	<b>94,848</b>	<b>21,661</b>	<b>198,264</b>
Total comprehensive (loss)/income for the year		—	—	—	(359)	131	(228)
Cancellation of treasury shares	16	(3,458)	—	16,228	(11,512)	—	1,258
Impact of CHF/USD historical rates on the cancellation of treasury shares		—	—	—	(1,259)	—	(1,259)
Purchase of treasury shares (bought for cancellation)		—	—	(13,414)	—	—	(13,414)
Issuance of capital to non-controlling interest		—	—	—	—	600	600
Return of capital to non-controlling interest		—	—	—	—	(1,636)	(1,636)
<b>31 December 2017</b>		<b>32,337</b>	<b>59,693</b>	<b>(10,919)</b>	<b>81,718</b>	<b>20,756</b>	<b>183,585</b>

The accompanying notes on pages 24 to 62 form an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

For the year ended 31 December 2017

(All amounts in USD thousand unless otherwise stated)

### 1 Organisation and business activity

Castle Alternative Invest AG, Pfäffikon (“the Company”), is a joint stock corporation established for an indefinite period in the Canton of Schwyz, Switzerland, by deed dated 24 July 1996. The Company was registered in the Commercial Register of the Canton of Schwyz on 30 July 1996. The Company’s business is principally conducted through two subsidiaries (“the Subsidiaries”); Castle Alternative Invest (Overseas) Ltd., Grand Cayman (“the Cayman Subsidiary”) and Castle Alternative Invest (International) plc, Dublin (“the Ireland Subsidiary”). Since 10 April 1997, the shares of the Company have been listed in Swiss Francs on the SIX Swiss Exchange and on 21 January 2002, a listing in US Dollar on the SIX Swiss Exchange followed, which has been discontinued effective 15 September 2017.

The Castle Alternative Invest Group (“the Group”) currently consists of the Company, the Cayman Subsidiary and the Ireland Subsidiary.

Castle Alternative Invest (Overseas) Ltd., Grand Cayman, was incorporated on 31 July 1996 as an exempted company under the laws of the Cayman Islands. The authorised share capital is USD 31,870 composed of 97,500 voting non-participating redeemable ordinary shares, of which none have been issued and 5,002,500 voting participating redeemable ordinary shares of which 3,862,360 have been issued and are held entirely by the Company. The Group consolidated the Cayman Subsidiary in compliance with IFRS 10.

Castle Alternative Invest (International) plc, Dublin, was established as an open-ended investment company with variable capital and limited liability under the laws of Ireland on 19 February 2001. At 31 December 2017, its capital amounts to TUSD 182,931 (2016: TUSD 189,441) and it is a subsidiary of the Cayman Subsidiary. The Ireland Subsidiary became active on 19 December 2001 after receiving authorisation from the Central Bank of Ireland. The share capital is divided into management shares and participating shares. The management shares are held by LGT Capital Partners (Ireland), Limited LGT Bank Ltd., Dublin Branch (formerly LGT Bank (Ireland) Ltd.) and LGT Fund Managers (Ireland) Ltd. With effect from 16 December 2010 the Ireland Subsidiary was restructured into an open-ended investment company with limited liquidity, variable capital and limited liability. At the same time the participating shares were split into two classes of shares; Class O and Class I. Class O is held by the Cayman Subsidiary and Class I was held by Swiss Life AG.

On 31 December 2012 Swiss Life AG fully redeemed its holding in the Class I shares of the Ireland Subsidiary. The redemption was paid out in cash with the remaining amount being placed in a newly opened side pocket share class for illiquid assets (Class RI). At the same time a side pocket share class for the Cayman Subsidiary’s portion of the illiquid assets was also created (Class RO). The side pocket share classes have paid out proceeds as their assets were realised. As of 31 December 2017 Swiss Life AG’s holding in the remaining Class RI shares comprised 1.67 per cent (2016: 1.77 per cent) of the net asset value of the Ireland Subsidiary.

On 26 September 2016, the Ireland Subsidiary launched a new Class A share class that is owned by LGT Castle Sub-Fund, an open-ended sub-fund with limited liquidity under the Irish investment company Crown Alpha plc. As of 31 December 2017 LGT Castle Sub-Fund’s holding in Class A shares comprised 9.74 per cent (2016: 9.27 per cent) of the net asset value of the Ireland Subsidiary.

The Cayman Subsidiary's holding in Class O shares and Class RO shares comprised 88.58 per cent of the net asset value of the Ireland Subsidiary (2016: 88.96 per cent). The Company controls the Ireland Subsidiary and consolidates it in compliance with IFRS 10. Swiss Life AG's holding and LGT Castle Sub-Fund's holding in the Ireland Subsidiary are shown as non-controlling interests in the Group's consolidated financial statements.

The Group regards shareholders' equity as the capital it manages. The Group's investment objective is to maximise the long-term returns to shareholders by investing, through its Subsidiaries or through such other subsidiaries as the Company may establish from time to time, in a diversified portfolio of non-traditional investments. Non-traditional investments mean and include investment funds and other investment structures (together the "Investment Vehicles") which aim for absolute returns and use a broad range of investment strategies including short sales and leverage. The Group offers the essential benefits of hedge fund investing in a well-diversified and actively managed global portfolio of high-quality hedge funds: absolute performance, low volatility, and low correlation to traditional assets.

The Group targets to generate absolute returns net to investors independently of major market cycles. In order to reach its investment objectives, the Group features an optimally balanced portfolio across all major hedge fund strategies: long/short, relative value, event driven and macro/CTA. The alternative investment fund manager ("AIFM") of the Group's Ireland Subsidiary provides active portfolio management, thorough due diligence and risk management. The strategy relies on the AIFM's experience and access to excellent hedge fund managers worldwide. No assurance can be given that the Group's investment objective will be achieved and investment results may vary substantially over time.

The consolidated financial statements are presented in US Dollar which is the Group's entities' functional currency and the Group's presentation currency.

As of 31 December 2017 and 2016 the Group did not employ any employees.

## **2 Summary of accounting policies for the consolidated financial statements**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **Basis of preparation**

The accompanying consolidated financial statements of the Group for the year ended 31 December 2017 have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB) and comply with Swiss Law and the accounting guidelines laid down in the SIX Swiss Exchange's Directive on Financial Reporting (DFR) for investment companies.

The consolidated financial statements of the Group have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The board considers the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy.

**a) Standards and amendments to published standards that are mandatory for the financial year beginning on or after 1 January 2017**

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

**b) Standards and amendments to published standards effective after 1 January 2017 that have not been early adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. Those standards, amendments and interpretations considered include:

- IFRS 9, "Financial instruments", (1 January 2018).

The board of directors has assessed this new standard and determined that its implementation will not have an impact on the consolidated financial statements of the Group and will not lead to any changes to the total shareholders' equity of the Group as all of the Group's investments are measured at fair value through profit or loss.

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

**c) Use of estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates. See also note 2 h), (iii).

**d) Basis of consolidation**

The consolidated financial statements are based on the financial statements of the individual Group companies prepared using uniform accounting principles and drawn up in accordance with the regulations governing the rendering of accounts in terms of the Listing Regulations of the SIX Swiss Exchange and with the International Financial Reporting Standards issued by the International Accounting Standards Board.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The consolidated interim financial statements include all assets and liabilities of the Company and its direct and indirect subsidiaries:

- Castle Alternative Invest (Overseas) Ltd., Grand Cayman
- Castle Alternative Invest (International) plc, Dublin

Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases.

Non-controlling interests are disclosed separately in the consolidated financial statements.

Intercompany transactions, balances, unrealised gains and losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**e) Non-controlling interest holders**

Non-controlling interest holders in the consolidated financial statements are presented as a component of equity. The profit or loss for the period and the total comprehensive income are allocated in the consolidated statement of comprehensive income to the amounts attributable to non-controlling interest holders and to the shareholders.

**f) Foreign currency**

The functional currency of the Group's entities is US Dollar. The US Dollar as the functional currency stems from the fact that the Group is investing in assets whose base currency is predominately in US Dollar. The Group has also used the US Dollar as its presentation currency.

Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are revalued into US Dollar at the exchange rates prevailing at the balance sheet date. Unrealised exchange gains and losses resulting from the revaluation of investments at fair value through profit or loss and denominated in foreign currency are recognised in the consolidated statement of comprehensive income. Other exchange gains and losses are also included in the consolidated statement of comprehensive income.

**g) Cash and cash equivalents**

Cash and cash equivalents comprise demand, call and term deposits with a maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise all cash, short-term deposits and other money market instruments with an original maturity of three months or less, net of bank overdrafts on demand. Cash and cash equivalents are recorded at nominal value.

**h) Financial assets and liabilities at fair value through profit or loss**

Under IAS 39, the Group has designated all its investments and securities into financial assets at fair value through profit or loss. This category was chosen as it reflects the business of an investment entity: the assets are managed and their performance evaluated on a fair value basis and management decisions are therefore reflected in the consolidated statement of comprehensive income. The Group's policy is for the AIFM and the board of directors to evaluate the information about these financial assets on a fair value basis together with other related financial information. The category of financial assets and liabilities at fair value through profit or loss comprises:

- Financial instruments held-for-trading. These include futures, forward contracts, options and swaps.
- Financial instruments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held for trading purposes and which may be sold.

Financial assets that are classified as loans and receivables include balances due from brokers and accounts receivable.

Financial liabilities that are not at fair value through profit or loss include balances due to brokers and accounts payable.

(i) Recognition and derecognition

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expires.

A regular way purchase of financial assets held for trading is recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded. A regular way purchase of financial assets designated as fair value through profit or loss is recognised using settlement date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded. Financial liabilities are not recognised until the entity becomes party to the contractual provisions of the instrument.

(ii) Measurement

Financial instruments are measured initially at fair value (transaction price). Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the consolidated statement of comprehensive income. Financial assets classified as loans and receivables are carried at amortised cost, less impairment losses, if any. Transaction costs on financial assets classified as loans and receivables are capitalised at initial recognition. Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost.

(iii) Fair value measurement principles and estimation

Fund investments for which market quotations are not readily available are valued at their fair values as described in the process below. The fund investments are normally valued at the underlying net asset value as advised by the managers/administrators of these funds, unless the directors are aware of good reason why such a valuation would not be the most appropriate indicator of fair value. Such valuations are necessarily dependent upon the reasonableness of the valuations provided by the underlying managers/administrators of such funds and whether the valuation bases used are IFRS and fair value compliant. The responsibility for determining the fair value lies exclusively with the board of directors. The board of directors, under advice from the AIFM, may perform additional procedures on fund investments, including but not limited to underlying manager/administrator due diligence and other analytical procedures. The board of directors together with the AIFM also reviews management information provided by fund investments on a regular basis. If the directors are aware of a good reason why a particular fund valuation would not be the most appropriate indicator of fair value the directors will work with the underlying manager of that investment in an attempt to obtain more meaningful fair value information.

The board of directors, together with the AIFM, will determine, in good faith, fair value by considering all appropriate and applicable factors relevant to the valuation of fund investments including, but not limited to, the following:

- reference to fund investment reporting information;
- reference to appropriate investment monitoring tools used by the AIFM; and
- reference to ongoing investment and business due diligence.

Notwithstanding the above, the variety of valuation bases that may be adopted, the quality of management information provided by fund investments and the lack of liquid markets for such fund investments means that there are inherent difficulties in determining the fair values of these investments that cannot be fully eliminated. Therefore, the amounts realised on the sale or redemption of fund investments may differ from the fair values reflected in these financial statements and the differences may be significant.

Because fund investments are typically not publicly traded, redemptions can only be made by the Subsidiaries on the redemption dates and subject to the required notice periods specified in the offering documents of each fund investment. The rights of the Subsidiaries to request redemption from fund investments may vary in frequency from monthly to annual redemptions. As a result, the carrying values of such fund investments may not be indicative of the values ultimately realised on redemption. In addition, the Subsidiaries' ability to redeem their investments may ultimately be materially affected by the actions of other investors who have also invested in these fund investments.

(iv) Realised gains

Realised gains on investments and securities are shown on a net basis in the consolidated statement of comprehensive income. Realised gains are recognised as being the difference between the cost value of an investment and the proceeds received upon the sale of the investment in the year that the investment was sold.

(v) Dividends

Dividends are recognised in the consolidated statement of comprehensive income within realised gains at the time upon the declaration of such dividends.

(vi) Interest income and finance costs

Interest income and finance costs as well as other income and expenses are recognised in the consolidated statement of comprehensive income on an accruals basis.

(vii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

**i) Accrued income and other receivables**

Accrued income and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

**j) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest method. Borrowings are shown as current liabilities unless the Group has the unconditional right to defer settlement for at least 12 months after the balance sheet date. Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

**k) Accrued expenses and other payables**

Accrued expenses and other payables are recognised initially at fair value and subsequently stated at amortised cost.

**l) Treasury shares**

The Company can buy and sell treasury shares in accordance with the Company's articles of association, Swiss company law and in compliance with the listing rules of the SIX Swiss Exchange. Treasury shares are treated as a deduction from shareholders' equity. The gains and losses on sales of treasury shares are credited or charged to the retained earnings account. Upon cancellation, resulting differences between the exchange rates from the time of purchase of the treasury shares to the historical rates are also recognised in retained earnings. The FIFO (first in/first out) method is used for de-recognition. The purchase price is booked gross with transaction costs and withholding tax.

**m) Share capital**

The Company's share capital is divided into 8,721,297 (2016: 9,653,732) registered shares with a par value of CHF 5 per share. The shares are fully paid in. Each share entitles the holder to participate in any distribution of income and capital.

**n) Net asset value per share and earnings per share**

The net asset value per share is calculated by dividing the net assets included in the consolidated balance sheet (excluding non-controlling interests) by the number of participating shares outstanding less treasury shares at the year end.

Basic profit per share is calculated by dividing the net profit attributable to the shareholders by the weighted average number of shares outstanding during the period. Diluted profit per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares.

**o) Taxes**

Taxes are provided based on reported income. Capital taxes paid are recorded in other operating expenses.

Castle Alternative Invest AG, Pfäffikon

For Schwyz cantonal and communal tax purposes, the Company is taxed as a holding company and is as such only liable for capital taxes. All relevant income of the Company, including the dividend income and capital gains from its investments, is exempt from taxation at the cantonal and communal level.

For Swiss federal tax purposes, an income tax is levied. However, there is a participation exemption on dividend income and capital gains on qualifying participations. The result of the participation exemption relief is that dividend income and capital gains are almost fully excluded from taxation.

Castle Alternative Invest (Overseas) Ltd., Grand Cayman

The activity of the Cayman Subsidiary is not subject to any income, withholding or capital taxes in the Cayman Islands. However it does invest in securities and subsidiaries whose dividends may be subject to nonrefundable foreign withholding taxes.

Castle Alternative Invest (International) plc, Dublin

The activity of the Ireland Subsidiary is not subject to any income, withholding or capital taxes in Ireland. However, it does invest in securities and subsidiaries whose dividends may be subject to nonrefundable foreign withholding taxes.

**p) Segment reporting**

IFRS 8 requires entities to define operating segments and segment performance in the financial statements based on information used by the chief operating decision-maker. The AIFM is considered to be the chief operating decision-maker. An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other operating segments.

The sole operating segment of the Group is investing in hedge funds. The AIFM works as a team for the entire portfolio, asset allocation is based on a single, integrated investment strategy and the Group's performance is evaluated on an overall basis. Thus the results published in this report correspond to the sole operating segment of investing in hedge funds.

**q) Related parties**

Related parties are individuals and companies where the individual or company has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions.

### **3 Critical accounting estimates**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are the fair value of non-quoted investments. The fair value of financial instruments that are not traded in an active market is determined by reference to the published net asset values of such underlying funds, as adjusted where relevant by the board of directors as described in the accounting policies. In the case of such an adjustment, changes in assumptions could affect the reported fair value of these investments. The variety of valuation bases that may be adopted, the quality of management information provided by fund investments and the lack of liquid markets for such fund investments means that there are inherent difficulties in determining the fair values of these investments that cannot be fully eliminated. Therefore, the amounts realised on the sale or redemption of fund investments may differ from the fair values reflected in these financial statements and the differences may be material.

#### 4 Foreign exchange rates

The following exchange rates have been applied to translate the foreign currencies of significance for the Group:

Foreign exchange rates		Unit	2017 USD	2016 USD
Swiss Francs	Year-end rates	1 CHF	1.0271	0.9831
Euro	Year-end rates	1 EUR	1.2006	1.0550
Swiss Francs	Average annual rates	1 CHF	1.0204	1.0141
Euro	Average annual rates	1 EUR	1.1394	1.1019

#### 5 Net gain/(loss) from investments designated at fair value through profit or loss

The net gain/(loss) on investments designated at fair value through profit or loss was earned on:

	2017 TUSD	2016 TUSD
<b>Realised gains/(losses), net on investments:</b>		
CTA	1,102	—
Macro	(1,033)	(160)
Event Driven	(1,768)	1,098
Long/Short	(1,329)	(368)
Relative Value	92	1,589
<b>Total realised (loss)/gain on investments<sup>1)</sup></b>	<b>(2,936)</b>	<b>2,159</b>
<b>Unrealised gains/(losses), net on investments:</b>		
CTA	(2,268)	829
Macro	(4,074)	1,075
Event Driven	2,965	2,588
Long/Short	7,278	(3,750)
Relative Value	2,503	(645)
<b>Total unrealised gain on investments<sup>2)</sup></b>	<b>6,404</b>	<b>97</b>
<b>Net gain on investments designated at fair value through profit or loss</b>	<b>3,468</b>	<b>2,256</b>

<sup>1)</sup> In the above table the realised gains are shown as being the difference between the cost value of an investment and the proceeds received upon the sale of the investment in the year that the investment was sold.

<sup>2)</sup> In the above table the unrealised gains are net of gains realised during the year, which were previously recognised as unrealised.

The net gain/(loss) on investments designated at fair value through profit or loss was geographically allocated as follows:

	2017 TUSD	2016 TUSD
<b>Realised gains/(losses), net on investments:</b>		
America	(304)	882
Asia	(1,286)	(1,698)
Europe	209	590
Global	(1,555)	2,385
<b>Total realised (loss)/gain on investments<sup>1)</sup></b>	<b>(2,936)</b>	<b>2,159</b>
<b>Unrealised gains/(losses), net on investments:</b>		
America	3,006	2,924
Asia	3,500	(3,024)
Europe	2,266	(1,400)
Global	(2,368)	1,597
<b>Total unrealised gain on investments<sup>2)</sup></b>	<b>6,404</b>	<b>97</b>
<b>Net gain on investments designated at fair value through profit or loss</b>	<b>3,468</b>	<b>2,256</b>

<sup>1)</sup> In the above table the realised gains are shown as being the difference between the cost value of an investment and the proceeds received upon the sale of the investment in the year that the investment was sold.

<sup>2)</sup> In the above table the unrealised gains are net of gains realised during the year, which were previously recognised as unrealised.

## 6 Interest income

Interest income for the year was earned on:

	2017 TUSD	2016 TUSD
<b>Interest income</b>		
Cash and cash equivalents:		
Third party	28	8
<b>Total</b>	<b>28</b>	<b>8</b>

## 7 Management and performance fees

Management and performance fees are composed as follows:

	2017 TUSD	2016 TUSD
<b>Management and performance fees</b>		
Management fees – related party	2,447	2,792
<b>Total</b>	<b>2,447</b>	<b>2,792</b>

## 8 Other operating expenses

Other operating expenses are composed as follows:

Other operating expenses	2017 TUSD	2016 TUSD
<b>Related party fees:</b>		
Credit facility standby fees	46	47
Administrative fees	53	21
Directors' fees and other expenses	223	222
General manager's expenses	74	74
Domicile fees	10	10
<b>Third party fees:</b>		
Administrative fees	108	94
Reporting and publications	31	29
Audit fees	153	147
Custody fees	117	118
Capital taxes (Switzerland)	13	12
Insurance	11	11
Legal fees	110	107
Project expenses (share buyback)	189	181
Stock exchange listing expenses	8	8
Tax advisory fees	26	21
Other expenses	74	77
<b>Total</b>	<b>1,246</b>	<b>1,179</b>

## 9 Finance costs

Interest expense for the year was paid on:

Finance cost	2017 TUSD	2016 TUSD
Due to banks – related party	46	16
<b>Total</b>	<b>46</b>	<b>16</b>

**10 Income taxes**

Reconciliation of income tax calculated with the applicable tax rate:

Tax expense	2017 TUSD	2016 TUSD
Loss for the year before income tax	(228)	(1,717)
Applicable tax rate	7.8%	7.8%
Income tax	(18)	(134)
Effect from non-taxable income	18	134
<b>Total</b>	—	—

The applicable tax rate is the same as the effective tax rate. Refer to note 2 o) for more information on taxes.

**11 Cash and cash equivalents**

Cash and cash equivalents consist of:

Cash and cash equivalents	2017 TUSD	2016 TUSD
<b>Cash at banks:</b>		
Related party	248	264
Third party	1,533	5,104
<b>Total</b>	<b>1,781</b>	<b>5,368</b>

The Company has no cash holdings which are not at its disposal. The carrying amounts of the cash and cash equivalents approximate fair value.

**12 Accrued income and other receivables**

Accrued income and other receivables	2017 TUSD	2016 TUSD
Receivable for investments sold	7,813	—
Other receivables	28	81
<b>Total</b>	<b>7,841</b>	<b>81</b>

### 13 Investments designated at fair value through profit or loss

The investments are allocated according to style as follows:

Investments designated at fair value through profit or loss	2017 TUSD	in %	2016 TUSD	in %
CTA	20,585	11%	21,751	11%
Macro	21,782	12%	31,111	16%
Event Driven	44,134	24%	44,786	23%
Long/Short	57,220	32%	62,596	33%
Relative Value	37,382	21%	33,366	17%
<b>Total</b>	<b>181,103</b>	<b>100%</b>	<b>193,610</b>	<b>100%</b>

The details of the investments are shown in the investment table on pages 38 to 41.

As at the balance sheet date of 31 December 2017, the Ireland Subsidiary had not redeemed any investments.

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## Investments designated at fair value through profit or loss<sup>1)</sup>

As of 31 December 2017 (note 13) (All amounts in USD thousands unless otherwise stated)

	Geography	Shares as at 1.1.2017	Shares as at 31.12.2017	Total net paid in as at 1.1.2017	Invest- ments 2017	Redemp- tions 2017	Realised gain/(loss) 2017	Total net paid in as at 31.12.2017	Unrealised gain/(loss) accumulat- ed 2017	Fair value as at 31.12.2017	% of invest- ments
<b>CTA</b>											
Crown/Diversified Trend Master Segregated Portfolio	Global	—	2,000	—	2,000	—	—	2,000	142	2,142	1.2%
Crown Managed Futures Master Segregated Portfolio	Global	6,960	6,247	14,177	—	(898)	1,102	13,280	5,163	18,443	10.2%
<b>Total CTA</b>				<b>14,177</b>	<b>2,000</b>	<b>(898)</b>	<b>1,102</b>	<b>15,280</b>	<b>5,305</b>	<b>20,585</b>	<b>11.4%</b>
<b>Macro</b>											
Crown/Atreus Segregated Portfolio	Global	4,960	4,960	7,400	—	—	—	7,400	(1,841)	5,559	3.1%
Crown/Guard Segregated Portfolio	Asia	5,332	—	5,332	—	(5,332)	(1,286)	—	—	—	0.0%
Crown/Koppenberg Segregated Portfolio	Global	5,099	5,145	5,698	850	(669)	356	5,879	(33)	5,846	3.2%
Discovery Global Opportunity Fund Ltd.	Global	12,459	12,459	5,674	—	—	—	5,674	4,613	10,287	5.7%
The Rohatyn Group Global Opportunity Fund Ltd.	Global	1	1	376	—	(103)	(103)	272	(182)	90	0.1%
<b>Total Macro</b>				<b>24,480</b>	<b>850</b>	<b>(6,104)</b>	<b>(1,033)</b>	<b>19,225</b>	<b>2,557</b>	<b>21,782</b>	<b>12.0%</b>
<b>Event Driven</b>											
Bennelong Asia Pacific Multi Strategy Equity Fund Ltd.	Asia	6,435	6,435	735	—	—	—	735	(227)	507	0.3%
Cerberus Asia Partners L.P.	Asia	1	1	—	—	—	—	—	—	—	0.0%
Crown Distressed Credit Opportunities plc <sup>2)</sup>	Global	8,480	5,845	738	—	(229)	388	509	819	1,328	0.7%
Crown/Eyck Segregated Portfolio	Europe	5,497	—	6,000	—	(6,000)	(603)	—	—	—	0.0%
Crown/GLG Segregated Portfolio	Europe	7,478	5,842	7,500	—	(1,636)	364	5,864	1,416	7,280	4.0%
Crown/Latigo Segregated Portfolio	America	11,166	11,166	11,500	—	—	—	11,500	2,641	14,141	7.8%
Crown/Oceanwood Segregated Portfolio	Europe	—	8,000	—	8,000	—	—	8,000	161	8,161	4.5%
Highland Crusader Fund II Ltd.	America	1	1	—	—	—	—	—	777	777	0.4%
Oceanwood Opportunities Fund	Europe	—	—	—	8,000	(8,000)	448	—	—	—	0.0%
OZ Asia Overseas Fund Ltd.	Asia	1	1	627	—	(83)	—	544	(318)	226	0.1%
OZ Overseas Fund Ltd. Tranche C shares	Global	2	2	134	—	(6)	19	128	(47)	81	0.0%
Tyrus Capital Opportunities Fund Ltd.	Global	86,626	86,626	8,516	—	—	—	8,516	3,117	11,633	6.4%
Winston Partners PE Investment Ltd.	Global	7,615	1	3,662	—	(3,661)	(2,384)	1	(1)	—	0.0%
<b>Total Event Driven</b>				<b>39,412</b>	<b>16,000</b>	<b>(19,615)</b>	<b>(1,768)</b>	<b>35,797</b>	<b>8,338</b>	<b>44,133</b>	<b>24.4%</b>

	Geography	Shares as at 1.1.2017	Shares as at 31.12.2017	Total net paid in as at 1.1.2017	Invest- ments 2017	Redemp- tions 2017	Realised gain/(loss) 2017	Total net paid in as at 31.12.2017	Unrealised gain/(loss) accumulat- ed 2017	Fair value as at 31.12.2017	% of invest- ments
<b>Long/Short</b>											
Crown/Ariose Segregated Portfolio	Asia	8,000	8,000	8,000	—	—	—	8,000	701	8,701	4.8%
Crown/BLS Segregated Portfolio	Asia	9,518	9,518	9,400	—	—	—	9,400	183	9,583	5.3%
Crown/Capeview Segregated Portfolio	Europe	6,719	6,719	6,833	—	—	—	6,833	4,245	11,078	6.1%
Crown/Helios Segregated Portfolio	Asia	—	3,394	—	4,500	—	—	4,500	295	4,795	2.7%
Crown/Lomas Segregated Portfolio	America	8,105	8,105	8,000	—	—	—	8,000	1,214	9,214	5.1%
Crown/NJ Segregated Portfolio	Global	6,247	—	9,036	—	(9,036)	(1,025)	—	—	—	0.0%
Crown/Zebedee Segregated Portfolio	Europe	11,711	11,711	11,711	—	—	—	11,711	1,428	13,139	7.3%
Galleon Technology Offshore Ltd.	America	57	57	1,278	—	—	—	1,278	(725)	553	0.3%
Polo Fund	America	41,403	41,403	8,117	—	(8,117)	(302)	—	—	—	0.0%
Raptor Private Holdings Ltd.	America	397	397	272	—	—	—	272	(115)	158	0.1%
<b>Total Long/Short</b>				<b>62,648</b>	<b>4,500</b>	<b>(17,153)</b>	<b>(1,327)</b>	<b>49,994</b>	<b>7,226</b>	<b>57,221</b>	<b>31.6%</b>
<b>Relative Value</b>											
Crown/Astignes Segregated Portfolio (formerly known as Crown/ Alphadyne Segregated Portfolio)	Asia	7,414	9,209	7,452	1,800	—	—	9,252	62	9,314	5.1%
Crown/Linden Segregated Portfolio	Global	6,257	6,257	8,480	—	—	—	8,480	5,384	13,864	7.7%
Crown/Polar Segregated Portfolio	America	11,909	11,909	12,000	—	—	—	12,000	1,076	13,076	7.2%
D.E. Shaw Composite International Ltd.	Global	1	1	—	—	—	102	—	113	113	0.1%
D.E. Shaw Composite International Ltd.											
Side Pocket Series	Global	1	1	247	—	(247)	—	—	976	976	0.5%
Drake Absolute Return Fund Ltd.	Global	43	24	89	—	(40)	(10)	49	(10)	39	0.0%
<b>Total Relative Value</b>				<b>28,268</b>	<b>1,800</b>	<b>(287)</b>	<b>92</b>	<b>29,781</b>	<b>7,601</b>	<b>37,382</b>	<b>20.6%</b>
<b>Total</b>				<b>168,985</b>	<b>25,150</b>	<b>(44,057)</b>	<b>(2,934)</b>	<b>150,077</b>	<b>31,027</b>	<b>181,103</b>	<b>100.0%</b>

<sup>1)</sup> Numbers may not fully add up due to rounding.

<sup>2)</sup> The Company has made the following commitment to an investment fund:  
– Crown Distressed Credit Opportunities plc – USD 16.5 million of which USD 4.1 million is unfunded.

## Investments designated at fair value through profit or loss<sup>1)</sup>

As of 31 December 2016 (note 13) (All amounts in USD thousands unless otherwise stated)

	Geography	Shares as at 1.1.2016	Shares as at 31.12.2016	Total net paid in as at 1.1.2016	Invest- ments 2016	Redemp- tions 2016	Realised gain/(loss) 2016	Total net paid in as at 31.12.2016	Unrealised gain/(loss) accumulat- ed 2016	Fair value as at 31.12.2016	% of invest- ments
<b>CTA</b>											
Crown Managed Futures Master Segregated Portfolio	Global	6,960	6,960	14,177	—	—	—	14,177	7,574	21,751	11.2%
<b>Total CTA</b>				<b>14,177</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>14,177</b>	<b>7,574</b>	<b>21,751</b>	<b>11.2%</b>
<b>Macro</b>											
Caxton Global Investments Ltd. Class SI	Global	58,483	—	334	—	(334)	534	—	—	—	0.0%
Crown/Atreus Segregated Portfolio	Global	—	4,960	—	7,400	—	—	7,400	(187)	7,213	3.7%
Crown/Guard Segregated Portfolio	Asia	10,000	5,332	10,000	—	(4,668)	(668)	5,332	(618)	4,715	2.4%
Crown/Koppenberg Segregated Portfolio	Global	4,598	5,099	5,098	600	—	—	5,698	1,778	7,476	3.9%
Discovery Global Opportunity Fund Ltd.	Global	12,459	12,459	5,674	—	—	—	5,674	5,777	11,452	5.9%
The Rohatyn Group Global Opportunity Fund Ltd.	Global	1	1	398	—	(22)	—	376	(120)	256	0.1%
Tudor BVI Global Fund Ltd. Legacy Class	Global	142	—	141	—	(141)	(27)	—	—	—	0.0%
<b>Total Macro</b>				<b>21,645</b>	<b>8,000</b>	<b>(5,165)</b>	<b>(160)</b>	<b>24,480</b>	<b>6,631</b>	<b>31,111</b>	<b>16.1%</b>
<b>Event Driven</b>											
Bennelong Asia Pacific Multi Strategy Equity Fund Ltd.	Asia	7,632	6,435	872	—	(137)	(62)	735	(368)	366	0.2%
Cerberus Asia Partners L.P.	Asia	1	1	—	—	—	9	—	—	—	0.0%
Crown Distressed Credit Opportunities plc <sup>2)</sup>	Global	11,016	8,480	959	—	(221)	347	738	1,160	1,899	1.0%
Crown/Eyck Segregated Portfolio	Europe	5,497	5,497	6,000	—	—	—	6,000	(159)	5,841	3.0%
Crown/GLG Segregated Portfolio	Europe	7,478	7,478	7,500	—	—	—	7,500	1,132	8,632	4.5%
Crown/Latigo Segregated Portfolio	America	—	11,166	—	11,500	—	—	11,500	2,920	14,420	7.4%
Crown/Seven Locks Segregated Portfolio	America	4,473	—	4,000	—	(4,000)	(271)	—	—	—	0.0%
Highland Crusader Fund II Ltd.	America	1	1	694	—	(694)	1,058	—	999	999	0.5%
Latigo Ultra Fund Ltd.	America	—	—	—	—	—	5	—	—	—	0.0%
OZ Asia Overseas Fund Ltd.	Asia	1	1	678	—	(51)	—	627	(262)	365	0.2%
OZ Overseas Fund Ltd. Tranche C shares	Global	2	2	145	—	(12)	11	134	(17)	117	0.1%
Tyrus Capital Opportunities Fund Ltd.	Global	86,627	86,626	8,516	—	—	—	8,516	3,630	12,146	6.3%
Winston Partners PE Investment Ltd.	Global	7,615	7,615	3,662	—	—	—	3,662	(3,662)	—	0.0%
<b>Total Event Driven</b>				<b>33,026</b>	<b>11,500</b>	<b>(5,114)</b>	<b>1,098</b>	<b>39,412</b>	<b>5,374</b>	<b>44,786</b>	<b>23.1%</b>

	Geography	Shares as at 1.1.2016	Shares as at 31.12.2016	Total net paid in as at 1.1.2016	Invest- ments 2016	Redemp- tions 2016	Realised gain/(loss) 2016	Total net paid in as at 31.12.2016	Unrealised gain/(loss) accumulat- ed 2016	Fair value as at 31.12.2016	% of invest- ments
<b>Long/Short</b>											
Crown/Ariose Segregated Portfolio	Asia	—	8,000	—	8,000	—	—	8,000	(78)	7,922	4.1%
Crown/BLS Segregated Portfolio	Asia	—	9,518	—	9,400	—	—	9,400	(1,386)	8,014	4.1%
Crown/Capeview Segregated Portfolio	Europe	8,129	6,719	8,244	—	(1,410)	590	6,833	2,777	9,610	5.0%
Crown/Japan Opportunities Segregated Portfolio	Asia	4,100	—	4,199	—	(4,199)	814	—	—	—	0.0%
Crown/LBN Segregated Portfolio	Asia	7,077	—	7,000	—	(7,000)	(984)	—	—	—	0.0%
Crown/Lomas Segregated Portfolio	America	—	8,105	—	8,000	—	—	8,000	(78)	7,922	4.1%
Crown/NJ Segregated Portfolio	Global	5,540	6,247	8,036	1,000	—	—	9,036	(193)	8,843	4.6%
Crown/Tyrian Segregated Portfolio	Asia	7,089	—	7,729	—	(7,729)	(808)	—	—	—	0.0%
Crown/Zebedee Segregated Portfolio	Europe	11,711	11,711	11,711	—	—	—	11,711	1,234	12,945	6.7%
Galleon Technology Offshore Ltd.	America	57	57	1,278	—	—	—	1,278	(709)	570	0.3%
Nevsky Fund plc	Global	5,359	—	7,104	—	(7,104)	26	—	—	—	0.0%
Polo Fund	America	41,403	41,403	8,117	—	—	—	8,117	(1,548)	6,569	3.4%
Raptor Private Holdings Ltd.	America	431	397	295	—	(23)	(6)	272	(73)	200	0.1%
<b>Total Long/Short</b>				<b>63,714</b>	<b>26,400</b>	<b>(27,466)</b>	<b>(368)</b>	<b>62,648</b>	<b>(52)</b>	<b>62,596</b>	<b>32.4%</b>
<b>Relative Value</b>											
Crown/Astignes Segregated Portfolio (formerly known as Crown/ Alphadyne Segregated Portfolio)	Asia	7,414	7,414	7,452	—	—	—	7,452	(93)	7,359	3.8%
Crown/Linden Segregated Portfolio	Global	4,687	6,257	5,480	3,000	—	—	8,480	3,721	12,201	6.3%
Crown/Polar Segregated Portfolio	America	—	11,909	—	12,000	—	—	12,000	350	12,350	6.4%
D.E. Shaw Composite International Ltd.	Global	1	1	—	—	—	—	—	130	130	0.1%
D.E. Shaw Composite International Ltd.											
Side Pocket Series	Global	1	1	437	—	(190)	—	247	1,028	1,276	0.7%
Double Black Diamond Ltd.	Global	17,984	—	6,284	—	(6,284)	1,496	—	—	—	0.0%
Drake Absolute Return Fund Ltd.	Global	43	43	89	—	—	—	89	(39)	50	0.0%
HBK Multi-Strategy Offshore Fund Ltd.	Global	—	—	—	—	—	(2)	—	—	—	0.0%
Polar Multi-Strategy Fund	America	—	—	—	—	—	95	—	—	—	0.0%
<b>Total Relative Value</b>				<b>19,742</b>	<b>15,000</b>	<b>(6,474)</b>	<b>1,589</b>	<b>28,268</b>	<b>5,098</b>	<b>33,366</b>	<b>17.2%</b>
<b>Total</b>				<b>152,304</b>	<b>60,900</b>	<b>(44,219)</b>	<b>2,159</b>	<b>168,985</b>	<b>24,625</b>	<b>193,610</b>	<b>100.0%</b>

<sup>1</sup> Numbers may not fully add up due to rounding.

<sup>2</sup> The Company has made the following commitment to an investment fund:  
– Crown Distressed Credit Opportunities plc – USD 16.5 million of which USD 4.1 million is unfunded.

## 14 Borrowings

As of 31 December 2017, the Subsidiaries have a credit line of TUSD 15,000 (31 December 2016: TUSD 15,000). The credit line is granted by LGT Bank Ltd., Dublin Branch and is secured by the participating shares of the Ireland Subsidiary as well as the voting participating redeemable ordinary shares of the Cayman Subsidiary. The pledged assets were deposited with LGT Bank Ltd., Vaduz and pledged in favour of the lender.

As of 31 December 2017, the Ireland Subsidiary had TUSD 6,568 borrowings from LGT Bank Ltd., Dublin Branch (31 December 2016: no borrowings).

Due to banks – fixed advance	Interest rate	Maturity	Amount in TUSD
As of 31 December 2017	3.5700%	5 January 2018	6,568
<b>Total</b>			<b>6,568</b>

## 15 Accrued expenses and other payables

Accrued expenses and other payables consist of:

Accrued expenses and other payables	2017 TUSD	2016 TUSD
Accrued management fee payable – related party	81	223
Accrued general manager's expenses payable – related party	—	74
Accrued credit facility standby fees payable – related party	11	11
Accrued administrative fee payable – related party	10	—
Accrued administrative fee payable – third party	18	19
Accrued custody fee payable – third party	19	21
Accrued withholding tax treasury shares (bought for cancellation) – third party	204	315
Other accrued expenses	229	132
<b>Total</b>	<b>572</b>	<b>795</b>

## 16 Shareholders' equity

### Shareholders' equity

As of 31 December 2017 the authorised, issued and fully paid up share capital of the Company amounts to TCHF 43,606 (TUSD 32,337) and as of 31 December 2016 to TCHF 48,269 (TUSD 35,795) consisting of 8,721,297 (2016: 9,653,732) registered shares with a par value of CHF 5. The translation into US Dollar has been done at the corresponding historical foreign exchange rate. Each share entitles the holder to participate in any distribution of income and capital. The Group regards shareholders' equity as the capital that it manages. Shareholders' equity, including non-controlling interest holders, amounts to TUSD 183,715 as of 31 December 2017 (2016: TUSD 198,264).

During the period from 21 June 2010 to 31 December 2017 the Company purchased treasury shares on its second trading line. According to the program periods the 2<sup>nd</sup> line treasury shares were cancelled in subsequent yearly tranches.

The Company's share buyback program is further detailed in note 7 on page 72 in the statutory report.

The table on page 44 summarises the various recent buyback programs.

### Treasury shares

Buyback programs	From	To	Cancelled	Number of shares	Average USD	Cost TUSD
Program initiated on 9 June 2015, announced on 5 June 2015						
Additions 2015	09.06.2015	31.12.2015	05.08.2016	455,300	17.13	7,801
Additions 2016	01.01.2016	06.05.2016	05.08.2016	264,150	16.83	4,445
Additions 2016	09.05.2016	10.05.2016	11.08.2017	5,076	16.86	86
Additions 2016 via tradable put options	17.05.2016	30.05.2016	11.08.2017	315,459	18.05	5,695
<b>Total</b>				<b>1,039,985</b>	<b>17.33</b>	<b>18,027</b>
Program initiated on 6 June 2016, announced on 1 June 2016						
Additions 2016	06.06.2016	31.12.2016	11.08.2017	464,000	17.14	7,952
Additions 2017	01.01.2017	12.05.2017	11.08.2017	147,900	16.86	2,494
Additions 2017	15.05.2017	30.06.2017	—	38,014	16.97	645
Additions 2017 via tradable put options	03.07.2017	17.07.2017	—	277,578	18.57	5,155
<b>Total</b>				<b>927,492</b>	<b>17.52</b>	<b>16,246</b>
Program initiated on 24 July 2017, announced on 28 June 2017						
Additions 2017	24.07.2017	31.12.2017	—	313,090	16.35	5,119
<b>Total</b>				<b>313,090</b>	<b>16.35</b>	<b>5,119</b>
<b>Movement of treasury shares 2<sup>nd</sup> line and tradable put options (bought for cancellation)</b>				<b>Number of shares</b>		<b>Cost TUSD</b>
<b>Shares held as of 1 January 2016</b>				<b>838,177</b>		<b>15,099</b>
Additions 2016 via 2 <sup>nd</sup> line				733,226		12,483
Additions 2016 via tradable put options				315,459		5,695
Cancellation on 5 August 2016				(1,102,327)		(19,544)
<b>Shares held as of 31 December 2016</b>				<b>784,535</b>		<b>13,733</b>
Additions 2017 via 2 <sup>nd</sup> line				499,004		8,258
Additions 2017 via tradable put options				277,578		5,155
Cancellation on 11 August 2017				(932,435)		(16,227)
<b>Shares held as of 31 December 2017</b>				<b>628,682</b>		<b>10,919</b>

## 17 Major shareholders

As of 31 December the following major shareholders were known by the Company:

Major shareholders	31 December 2017	31 December 2016
Between 20 and 33 $\frac{1}{3}$ %	LGT Group Foundation, Liechtenstein	LGT Group Foundation, Liechtenstein
Between 10% and 20%	LGT Capital Partners, Switzerland, on behalf of pension funds	LGT Capital Partners, Switzerland, on behalf of pension funds
Between 3% and 10%	Anstalt Fürst Liechtenstein BKS Global PCC Limited, Guernsey	Stiftung Fürst Liechtenstein II BKS Global PCC Limited, Guernsey

## 18 Significant fee agreements

In relation to its investment and administration activity the Company and/or its Subsidiaries entered into the following agreements:

- a) LGT Capital Partners (Ireland) Ltd., Dublin (“LGT CPI”), acts as the AIFM for the Ireland Subsidiary and as the investment manager for the Cayman Subsidiary (together the “Subsidiaries”). In its respective roles for the two Subsidiaries, LGT CPI receives a fee of 1.5 per cent (before deduction of the performance fee) per annum of the total US Dollar net asset value of the respective subsidiary as at the close of business on the final business day of each calendar month. The fee is due monthly in arrears, calculated as 0.125 per cent after the net asset value calculation. LGT CPI also receives a performance fee of 10 per cent of the net new trading gains of the Subsidiaries since the previous payment of such performance fee. This performance fee is payable annually and any previous losses must be recouped before such a performance fee becomes payable (“high water mark”). Performance fees are payable in arrears. Performance fees of shares redeemed during a performance period shall be paid out within 30 days after the date of redemption. The calculated net asset value is net of all accrued fees. LGT CPI will also be reimbursed for all reasonable out-of-pocket expenses, incurred for the benefit of the Subsidiaries. Both of these arrangements are for an initial fixed term ending on 17 July 2019 and can be terminated thereafter by either party with 90 days’ prior written notice.

The investment management and performance fees of the Cayman Subsidiary are calculated excluding the investment that the Cayman Subsidiary has in the Ireland Subsidiary, for which the fees have already been charged at the level of the Ireland subsidiary. This ensures that there is no double charging of fees for the same assets at the level of both Subsidiaries.

LGT Capital Partners Ltd., Pfäffikon, provides investment advice based on an investment advisory agreement with LGT CPI. The investment advisor is remunerated by the LGT CPI with no extra cost to the Subsidiaries.

- b) LGT Fund Managers (Ireland) Ltd. is appointed as manager of the Ireland Subsidiary and therefore entitled to TEUR 5 for company secretarial services and to TEUR 1.5 for the preparation of the financial statements.

- c) BNP Paribas Fund Administration Services (Ireland) acts as the administrator of the Ireland Subsidiary and receives an annual fee equal to 0.05 per cent of the net asset value of the Ireland Subsidiary, payable monthly in arrears. The administrator is also entitled to an annual fee of TEUR 4 for each additional share class. Any disbursement incurred will be charged separately.
- d) Since 1 January 2017 LGT Group Holding Ltd., Vaduz, took over the administrative services for the Company and charges an annual flat fee of TUSD 40 payable quarterly in arrears. LGT Bank Ltd., Vaduz, provided administrative services for the Company until 31 December 2016 (31 December 2016: TUSD 20). Any disbursements incurred will be charged separately. LGT Group Holding Ltd., Vaduz, also provides administrative services for the Cayman Subsidiary and charges an annual flat fee of TUSD 10.
- e) LGT Capital Partners Ltd., Pfäffikon, provides domicile services for the Company and receives a flat fee of TCHF 9 per annum.
- f) BNP Paribas Securities Services, Dublin Branch acts as custodian of the Ireland Subsidiary and receives a custody fee equal to a maximum of 0.02 per cent per annum of the net asset value of the Ireland Subsidiary, subject to a maximum annual fee of TUSD 70. BNP Paribas Securities Services, Dublin Branch receives in addition a depositary fee of 0.03 per cent per annum of the net asset value of the Ireland Subsidiary. The depositary is also entitled to an annual fee of TUSD 7.5 for cash flow monitoring services in addition to custody and depositary fees.
- g) Citco Bank Nederland N.V., Amsterdam, and Citco Global Custody N.V., Malta, provide custodial services to the Cayman Subsidiary and receive a fee equivalent to 0.035 per cent annually of the average holdings over the preceding three months, plus actual sub-custodian charges (if applicable) and out-of-pocket expenses. Citco Bank will charge a transaction fee of 0.25 per cent, with a minimum of USD 100 and a maximum of USD 800 for each transaction.

## 19 Significant transactions with related parties

In the opinion of the board of directors, the parties referred to in the schedule accompanying this note are related parties as defined by IAS 24 “Related Party Disclosures”. All related party transactions have been carried out within the normal course of business, and are disclosed in the table below.

LGT Group Foundation, Vaduz, is the controlling shareholder of LGT Capital Partners (Ireland) Ltd., Dublin, which is entitled to a management fee from the Subsidiaries (1.5 per cent of net assets in US Dollar before deduction of the accrual of the performance fee) and a performance fee.

### Related party transactions

Entity	Related party Relationship/Agreement(s) Direct/indirect	Terms and conditions	Transaction type	2017 TUSD	2016 TUSD
<b>Castle Alternative Invest AG</b>	LGT Bank Ltd./ Administrative Services Agreement/direct	Note 8 Note 11	Administration fee Cash at banks	— 150	21 203
	LGT Group Holding Ltd./ Administrative Services Agreement/direct	Note 8	Administration fee	40	—
	LGT Capital Partners Ltd./ Domicile Agreement/direct	Note 8	Domicile fee	10	10
	LGT Capital Partners Ltd./ Management expenses Agreement/direct	Note 8	General manager’s expenses	74	74
		Note 15	General manager’s expenses payable	—	74
	Directors/direct	Note 8	Directors’ fee	216	215
<b>Castle Alternative Invest (Overseas) Ltd.</b>	LGT Capital Partners (Ireland) Ltd./ Investment Management Agreement/ direct	Note 7 Note 15	Investment management fee Investment management fee payable	2 1	4 1
	LGT Group Holding Ltd./ Administrative Services Agreement/ direct	Note 8 Note 15	Administration fee Administration fee payable	10 10	— —
	LGT Bank Ltd./ Administrative Services Agreement and Loan Agreement/direct	Note 11	Cash at banks	98	61
	LGT Bank Cayman Ltd./ Services Level Agreement/direct		Management services fee	—	5
	Directors/indirect	Note 8	Directors’ fee	5	5
<b>Castle Alternative Invest (International) plc</b>	LGT Bank Ltd., Dublin Branch (formerly LGT Bank (Ireland) Ltd.)/ Loan Agreement/direct	Note 14 Note 9 Note 8	Due to banks: loan Interest expense Credit facility standby fee	6,568 46 46	— 16 47
		Note 15	Credit facility standby fees payable	11	11
	LGT Capital Partners (Ireland) Ltd./ Alternative Investment Fund Management Agreement/direct	Note 7 Note 15	Investment management fee Investment management fee payable	2,445 80	2,788 222
	Directors/indirect	Note 8/19	Directors’ fee	2	2
	LGT Capital Partners Ltd./ Advisory Agreement/indirect	No direct fees	Advisory fee (no direct fees)	—	—
	LGT Fund Managers (Ireland) Ltd./ Management Agreement/indirect	No direct fees	Secretarial services (no direct fees)	—	—

The Ireland Subsidiary received in 2017 cash of TUSD 600 (2016: TUSD 17,700) for the Class A class of shares which was launched in 2016 from the LGT Castle Sub-Fund under Crown Alpha plc. The AIFM of LGT Castle Sub-Fund is LGT Capital Partners (Ireland) Ltd., Dublin, the same AIFM as for the Ireland Subsidiary. The investment adviser is LGT Capital Partners Ltd., Pfäffikon, the same investment advisor as for the Ireland Subsidiary.

LGT Bank Ltd., Vaduz, acts as custodian for the Company. Cash was deposited with LGT Bank Ltd., Vaduz, at market conditions.

The Ireland Subsidiary is invested in the Segregated Portfolios below, which are all advised by LGT Capital Partners Ltd., Pfäffikon an affiliate of the Ireland Subsidiary's AIFM.

- Crown Distressed Credit Opportunities plc
- Crown Managed Futures Master Segregated Portfolio
- Crown/Astignes Segregated Portfolio (formerly known as Crown/Alphadyne Segregated Portfolio)
- Crown/Ariose Segregated Portfolio
- Crown/Atreus Segregated Portfolio
- Crown/BLS Segregated Portfolio
- Crown/Capeview Segregated Portfolio
- Crown/Diversified Trend Master Segregated Portfolio
- Crown/Eyck Segregated Portfolio
- Crown/GLG Segregated Portfolio
- Crown/Guard Segregated Portfolio
- Crown/Helios Segregated Portfolio
- Crown/Koppenberg Segregated Portfolio
- Crown/Latigo Segregated Portfolio
- Crown/Linden Segregated Portfolio
- Crown/Lomas Segregated Portfolio
- Crown/NJ Segregated Portfolio
- Crown/Oceanwood Segregated Portfolio
- Crown/Polar Segregated Portfolio
- Crown/Zebedee Segregated Portfolio

The table below shows the remuneration for the members of the board of directors and member of management in the year 2017 and 2016. In addition, the Company paid a directors and officers liability insurance fee of TUSD 11 (2016: TUSD 11). Travel expenses amounted to TUSD 31 (2016: TUSD 29).

Board and management remuneration is defined and paid out in CHF. See also the remuneration report on pages 78 to 81.

Remuneration and expenses	2017 TUSD	2016 TUSD
Chairman	59	61
Deputy chairman	47	46
Committee chairman	45	45
Members	34	34
General manager	74	74
<b>Total</b>	<b>259</b>	<b>260</b>

The board of directors has delegated the operational management of the Company to Benedikt Meyer as general manager. The general manager is compensated by the Company. LGT Group Foundation is the co-owner of LGT Capital Partners (Ireland) Ltd. which acts as AIFM/investment manager to the Group and receives a management fee for these services.

## 20 Segment reporting

The sole operating segment of the Group reflects the internal management structure and is evaluated on an overall basis. Revenue is derived by investing in a portfolio of hedge fund investments with a view to achieving significant value growth and to help shareholders maximise long-term returns. The following results correspond to the sole operating segment of investing in hedge funds.

The non-current assets are geographically allocated as follows:

	2017 TUSD	in %	2016 TUSD	in %
<b>Non-current assets</b>				
America	37,918	21%	43,030	22%
Asia	33,126	18%	28,742	15%
Europe	39,658	22%	37,028	19%
Global	70,401	39%	84,810	44%
<b>Total non-current assets</b>	<b>181,103</b>	<b>100%</b>	<b>193,610</b>	<b>100%</b>

The Group has a diversified shareholder population. For more information on the largest shareholders see note 17.

## 21 Financial risk management

The Group is exposed to a variety of financial risks including: market risk, credit risk and liquidity risk. The AIFM attributes great importance to professional risk management, beginning with careful diversifications, the sourcing of access to premier hedge fund investment opportunities, proper understanding and negotiation of appropriate terms and conditions, and active monitoring including ongoing interviews with managers, thorough analysis of reports and financial statements and performance reviews. The Group has investment guidelines that set out its overall business strategies, its investment policy, general investment and risk guidelines, and has established processes for the monitoring of these guidelines. The Ireland Subsidiary's AIFM provides the Irish Subsidiary with investment opportunities that are consistent with the Group's objectives.

### a) Market risks

- (i) Price risk – The investments held in the portfolio may be realised only after several years and their fair values may change significantly. The AIFM provides the Group with investment opportunities that are consistent with the Group's objectives. The investment portfolio is regularly reviewed by the board of directors.

The rights of the Group to request redemption from fund investments may vary in frequency from monthly to annual redemptions. The nature of the Group's fund investments, all being unquoted, means the Group relies on underlying administrator estimates and final net asset values, underlying manager estimates and audited final net asset values at year-ends for determining the fair value of fund investments, adjusted where relevant by the board of directors as described in the accounting policies.

The board of directors reviews and agrees policies with the AIFM for managing its risk exposure. The AIFM makes investment decisions in compliance with the Investment Management agreement and which are consistent with the Group's objectives.

The AIFM makes its decisions, including manager selections, based on a thorough understanding of the risk and performance characteristics of fund investments gained through detailed investigation and critical analysis. The AIFM selects underlying managers which it considers have robust risk controls and mechanisms. The monitoring of such fund investments is a continuous process. The investment portfolio is regularly reviewed by the board of directors.

While the Group holds a diversified portfolio of underlying fund investments, there are certain general market conditions under which any investment strategy is unlikely to be profitable. Neither the underlying managers of the fund investments nor the AIFM have any ability to control or predict such market conditions. Although, with respect to market risk, the Group's investment approach is designed to achieve broad diversification on a global basis, from time to time, multiple market events could move together against the Group's underlying investments and the Group could suffer losses.

Underlying managers of fund investments may transfer a portion of the Group's investment in that fund into share classes where liquidity terms are directed by the underlying manager in accordance with the respective fund investment's offering memorandum, commonly referred to as side pocket share classes. These side pocket share classes may have restricted liquidity and prohibit the Group from fully liquidating its investments without delay. The Group's AIFM attempts to determine the fund investment's strategy on side pockets prior to making an allocation to such investment through its due diligence process. However, no assurance can be given on whether or not the fund investments will implement side pockets during the investment period. Fund investments may also, at their discretion, suspend redemptions or implement other restrictions on liquidity which could impact the Group. As of 31 December 2017, TUSD 3,520 or 1.9 per cent of net assets were considered illiquid by the Group due to restrictions implemented by certain fund investments (2016: TUSD 4,329 or 2.2 per cent).

The investment remit is to have an optimally allocated portfolio over: (i) the various investment styles (e.g. CTA/macro, event driven, long/short equity, relative value, etc.); and (ii) geographical regions (e.g. Asia, Emerging Markets, Europe, USA etc.). The investment vehicles and their respective fund managers are selected on quantitative and qualitative research criteria including: (i) risk return prospects of different non-traditional investment strategies; (ii) business structure and team organisation of the fund manager; (iii) risk management procedure and liquidity aspects of the investment vehicles; (iv) amount under management and commitment of the principals of the fund manager; (v) cost structure; (vi) correlation to other fund managers and the entire portfolio; and (vii) historical performance in relation to investment style, expected returns, benchmarks and degree of risk. The Group allocates the majority of its assets at cost to funds with a proven performance record of several years. The objective is to invest into top quality fund managers across the respective investment sectors. A minority part of the assets are invested with new and emerging fund managers. The Group does not allocate more than 15 per cent of the net asset value at cost to one single fund manager or 10 per cent to any one investment vehicle. Under normal circumstances, no allocation to a fund manager will be made prior to a visit by the AIFM to the fund manager's business location. It includes a proper evaluation concerning the fund manager's business structure, its key employees, its track record, its relation with third parties and other relevant aspects. The AIFM carries out a monitoring procedure in order to implement the following risk control

parameters: (i) changes in a fund manager's structure and organisation; (ii) major deviations from historical returns; (iii) changes in the correlation of the portfolio; (iv) changes in investment styles; and (v) comparisons of fund manager's performance versus that of their underlying investments.

As of 31 December 2017 and 2016, the Group's market risk was affected mainly by changes in actual market prices.

#### Value at Risk

The Group applies value at risk methodology (VaR) to its portfolio as well as to the individual investments in order to estimate the risk of positions held at certain times. The risk analysis refers to a specified time horizon and to a given level of confidence and in this respect derives the potential losses that could occur on these positions as a result of market movements affecting the exposures held by hedge funds and based upon a number of assumptions for hedge fund behaviour and market behaviour. VaR is a statistically based estimate of the potential loss on the program (referring to portfolio composition at a particular point of time) from adverse market movements. It expresses the maximum amount the program might lose, but only to a certain level of confidence (99 per cent). There is therefore a specified statistical probability (1 per cent) that actual losses could be greater than the VaR estimate.

#### Methods and Assumptions

The risk analysis shows risk with respect to actual year-end allocations in the portfolio. For this analysis the VaR is calculated by deriving the 99<sup>th</sup> worst percentile of constructed weekly portfolio returns using the last 170 weeks and based on "treated" historical series of hedge funds. The "treatment" is applied because of the different and possible irregular frequencies. The time series is interpolated to produce weekly returns across the portfolio.

Actual outcomes are monitored regularly to test the validity of this VaR calculation. The employment of different methodologies, also with greater forward looking characteristics, generates information about the robustness of the risk figures.

#### Limitations to this Value at Risk Model

The weaknesses of this approach are reliance on historical observations and the different data availability across funds. Most of the funds provide weekly returns but the data frequencies can differ considerably between styles. Nevertheless, the figures presented should provide an adequate view of histories and reflect turbulent times well.

The methodology employed for this risk illustration is only one type of risk information considered and the complexity of risks analysis for fund of fund portfolios requires the use of various different methodologies.

#### Value at Risk Summary

Value at Risk Summary	2017	2016
As of 31 December	0.82%	1.07%

The performance of the investments and the compilation of the investment portfolio held by the Group is monitored by the AIFM on a monthly basis and reviewed regularly by the board of directors.

- (ii) Currency risk – The majority of the Group’s assets are denominated in the US Dollar, the functional currency. As a result, the Group is not exposed to a significant amount of currency risk. The Group’s policy is not to enter into any currency hedging transactions. The schedule below summarises the Group exposure to currency risks.

In accordance with the Group’s policy, the AIFM monitors the Group’s currency position on a monthly basis and the board of directors reviews it on a regular basis.

### Currency risk

As of 31 December 2017	USD TUSD	CHF TUSD	Total TUSD
<b>Assets</b>			
Cash and cash equivalents	1,574	207	1,781
Accrued income and other receivables <sup>1)</sup>	7,841	—	7,841
Investments designated at fair value through profit or loss	181,103	—	181,103
<b>Total assets</b>	<b>190,518</b>	<b>207</b>	<b>190,725</b>
<b>Liabilities</b>			
Borrowings	6,568	—	6,568
Accrued expenses and other payables <sup>1)</sup>	235	337	572
<b>Total liabilities</b>	<b>6,803</b>	<b>337</b>	<b>7,140</b>
<b>As of 31 December 2016</b>			
<b>Assets</b>			
Cash and cash equivalents	5,053	315	5,368
Accrued income and other receivables <sup>1)</sup>	81	—	81
Investments designated at fair value through profit or loss	193,610	—	193,610
<b>Total assets</b>	<b>198,744</b>	<b>315</b>	<b>199,059</b>
<b>Liabilities</b>			
Accrued expenses and other payables <sup>1)</sup>	343	452	795
<b>Total liabilities</b>	<b>343</b>	<b>452</b>	<b>795</b>

<sup>1)</sup> Provided for reconciliation purposes only.

(iii) Interest rate risk – The majority of the Group's financial assets and liabilities are non-interest bearing. As a result, the Group is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

The schedule below summarises the Group's exposure to interest rate risks. It includes the Group's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

In accordance with the Group's policy, the AIFM monitors the Group's overall interest sensitivity on a monthly basis, and the board of directors reviews it on a regular basis.

### Interest rate risk

As of 31 December 2017	Less than 1 month TUSD	Non-interest bearing TUSD	Total TUSD
<b>Assets</b>			
Cash and cash equivalents	1,781	—	1,781
Accrued income and other receivables <sup>1)</sup>	—	7,841	7,841
Investments designated at fair value through profit or loss	—	181,103	181,103
<b>Total assets</b>	<b>1,781</b>	<b>188,944</b>	<b>190,725</b>
<b>Liabilities</b>			
Borrowings	6,568	—	6,568
Accrued expenses and other payables <sup>1)</sup>	—	572	572
<b>Total current liabilities</b>	<b>6,568</b>	<b>572</b>	<b>7,140</b>
<b>As of 31 December 2016</b>			
	<b>Less than 1 month TUSD</b>	<b>Non-interest bearing TUSD</b>	<b>Total TUSD</b>
<b>Assets</b>			
Cash and cash equivalents	5,368	—	5,368
Accrued income and other receivables <sup>1)</sup>	—	81	81
Investments designated at fair value through profit or loss	—	193,610	193,610
<b>Total assets</b>	<b>5,368</b>	<b>193,691</b>	<b>199,059</b>
<b>Liabilities</b>			
Accrued expenses and other payables <sup>1)</sup>	—	795	795
<b>Total current liabilities</b>	<b>—</b>	<b>795</b>	<b>795</b>

<sup>1)</sup> Provided for reconciliation purposes only.

**b) Credit risk**

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

The Group's main credit risk concentration is from redemptions to be received from the hedge funds investments in which the Group is invested. The Group seeks to mitigate its exposure to credit risk by conducting its contractual transactions and placing its short-term funds only with institutions which are reputable and well established.

The schedule below summarises the Group's exposure to credit risks.

In accordance with the Group's policy, the AIFM monitors the Group's credit position on a monthly basis and the board of directors reviews it on a regular basis.

**Credit risk**

As of 31 December 2017	Fully performing TUSD	Total TUSD	S&P Rating
<b>Assets</b>			
Cash at LGT Bank Ltd., Vaduz	249	249	A+
Cash at BNP Paribas Securities Services, Dublin Branch	695	695	A
Cash at Citco Fund Services (Europe) B.V., Amsterdam	35	35	n/a
Cash at Zuercher Kantonalbank, Zurich	802	802	AAA
Accrued income and other receivables	7,841	7,841	n/a
<b>Total exposure to credit risk</b>	<b>9,622</b>	<b>9,622</b>	

As of 31 December 2016	Fully performing TUSD	Total TUSD	S&P Rating
<b>Assets</b>			
Cash at LGT Bank Ltd., Vaduz	264	264	A+
Cash at BNP Paribas Securities Services, Dublin Branch	2,878	2,878	A
Cash at Citco Fund Services (Europe) B.V., Amsterdam	18	18	n/a
Cash at Zuercher Kantonalbank, Zurich	2,208	2,208	AAA
Accrued income and other receivables	81	81	n/a
<b>Total exposure to credit risk</b>	<b>5,449</b>	<b>5,449</b>	

**c) Liquidity risk**

The schedule below analyses the Group's financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date. The amounts in the schedule are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

The AIFM carries out a detailed liquidity plan in which all subscriptions and redemptions in the underlying hedge fund investments are taken into account. The goal is to keep a liquidity reserve in cash and cash equivalents to take advantage of investment opportunities which may arise and to cover any future fee payments.

As mentioned in note 14 the Subsidiaries have a credit line of total TUSD 15,000 (2016: TUSD 15,000) granted by LGT Bank Ltd., Dublin Branch, which may be used for bridge financing purposes and helps to mitigate liquidity risk.

**Liquidity risk**

As of 31 December 2017	Less than 1 month TUSD	1 – 3 months TUSD	No stated maturity TUSD	Total TUSD
<b>Liabilities</b>				
Borrowings	6,568	–	–	6,568
Accrued expenses and other payables	177	389	7	572
<b>Total current liabilities</b>	<b>6,745</b>	<b>389</b>	<b>7</b>	<b>7,140</b>
<b>Total outstanding commitment amount (note 22)</b>	<b>4,109</b>	–	–	<b>4,109</b>
<b>As of 31 December 2016</b>	<b>Less than 1 month TUSD</b>	<b>1 – 3 months TUSD</b>	<b>No stated maturity TUSD</b>	<b>Total TUSD</b>
<b>Liabilities</b>				
Accrued expenses and other payables	280	515	–	795
<b>Total current liabilities</b>	<b>280</b>	<b>515</b>	–	<b>795</b>
<b>Total outstanding commitment amount (note 22)</b>	<b>4,100</b>	–	–	<b>4,100</b>

Most of the investments which the Group makes are also subject to specific restrictions on transferability and disposal. Consequently, risks exist that the Group might not be able to readily dispose of its holdings in such markets or investments when it chooses and also that the price attained on a disposal is below the amount at which such investments are included in the Group's consolidated balance sheet. To help mitigate this risk the Group seeks to invest in investments with redemption periods of no longer than three months. The table below analyses the redemption periods for the investments.

### Liquidity risk – redemption periods

As of 31 December 2017	Less than 1 month TUSD	1 – 3 months TUSD	3 – 6 months TUSD	More than 6 months TUSD	Un- determined TUSD	Total TUSD
Redemptions periods	61,368	89,160	15,441	11,614	3,520	181,103
<b>Total</b>	<b>61,368</b>	<b>89,160</b>	<b>15,441</b>	<b>11,614</b>	<b>3,520</b>	<b>181,103</b>

As of 31 December 2016	Less than 1 month TUSD	1 – 3 months TUSD	3 – 6 months TUSD	More than 6 months TUSD	Un- determined TUSD	Total TUSD
Redemptions periods	29,765	105,055	41,110	13,351	4,329	193,610
<b>Total</b>	<b>29,765</b>	<b>105,055</b>	<b>41,110</b>	<b>13,351</b>	<b>4,329</b>	<b>193,610</b>

The following investments are not readily realisable due to the terms of the individual investments, various events and/or the illiquid nature of the underlying assets.

### Liquidity risk – evented funds

As of 31 December 2017		Fair value TUSD
Fund investment	Event	
Bennelong Asia Pacific Multi Strategy Equity Fund Ltd.	Sidepocket	507
D.E. Shaw Composite International Ltd. (side pocket series)	Liquidation/ sidepocket	1,089
Drake Absolute Return Fund Ltd.	Liquidation	39
Galleon Technology Offshore Ltd.	Liquidation	553
Highland Crusader Fund II Ltd.	Liquidation	777
OZ Asia Overseas Fund Ltd.	Sidepocket	226
OZ Overseas Fund Ltd. Tranche C shares	Sidepocket	81
Raptor Private Holdings Ltd.	Liquidation	158
The Rohatyn Group Global Opportunity Fund Ltd.	Sidepocket	90
<b>Total</b>		<b>3,520</b>

As of 31 December 2016		Fair value TUSD
Fund investment	Event	
Bennelong Asia Pacific Multi Strategy Equity Fund Ltd.	Sidepocket	366
D.E. Shaw Composite International Ltd. (side pocket series)	Liquidation/ sidepocket	1,406
Drake Absolute Return Fund Ltd.	Liquidation	50
Galleon Technology Offshore Ltd.	Liquidation	570
Highland Crusader Fund II Ltd.	Liquidation	999
OZ Asia Overseas Fund Ltd.	Sidepocket	365
OZ Overseas Fund Ltd. Tranche C shares	Sidepocket	117
Raptor Private Holdings Ltd.	Liquidation	200
The Rohatyn Group Global Opportunity Fund Ltd.	Sidepocket	256
<b>Total</b>		<b>4,329</b>

As discussed in note 1 side pocket share classes were created for illiquid assets. In addition to the evented funds, the following investments are considered illiquid due to their nature or, as set out in their issuing documents, exhibit longer notice periods and will therefore take longer to redeem. Crown Distressed Credit Opportunities plc was due to expire on 1 July 2016 but was extended to 29 June 2018 and has a fair value of TUSD 1,328 (2016: TUSD 1,899).

In accordance with the Group's policy, the AIFM monitors the Group's liquidity position on a monthly basis and the board of directors reviews it on a regular basis.

**d) Capital risk management****Discount control**

The directors recognise the importance to shareholders of the Company's share price performance in the secondary market. Accordingly, the directors may take steps from time to time with a view to seeking to limit the prevailing discount to net asset value at which the shares trade. In particular, the directors may authorise repurchases of shares for cancellation and the utilisation of the Company's powers to buyback shares to be held in treasury for re-sale from time to time.

(i) Repurchase of shares for cancellation – The directors may implement share repurchases for cancellation of up to 10 per cent of the Company's issued share capital. The directors currently anticipate that any such repurchases will be made at a price of up to 95 per cent of the prevailing net asset value per share, although the repurchase price will remain subject to ongoing review by the directors in the light of future share trading conditions and the current Listing Rules as well as the pertinent regulations of the SIX Swiss Exchange and the Swiss Takeover Board. The Company will arrange to repurchase shares for cancellation in accordance with Swiss regulations. It is currently anticipated that the Company would use one of the following methods to repurchase the shares: a fixed-price repurchase offer, the issuance of put options or the establishment on the SIX Swiss Exchange of a 2<sup>nd</sup> line of trading to repurchase the shares at market price. The actual method used by the Company to repurchase shares for cancellation will depend on the market and regulatory situation at the time of implementation, full details of which would be provided to shareholders when seeking approval for the share repurchase.

(ii) Repurchase of shares to be held in treasury – The directors may consider repurchasing shares in the market for treasury if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the shares. Pursuant to the Swiss Code of Obligations, the Company is not required to obtain a general authority from shareholders to effect the repurchase of shares to be held in treasury. Any purchase of shares by the Company for treasury will only be made through the market at prices (after allowing for costs) below the prevailing net asset value per share and will otherwise be in accordance with the regulations in force at the time and with guidelines established from time to time by the board. Swiss law limits the right of a company to purchase and hold its own shares.

**e) Fair value estimation**

Fund investments for which market quotations are not readily available are valued at their fair values as described below. Fund investments are normally valued at their net asset value as advised by the underlying managers/administrators of such funds. Such valuations are necessarily dependent upon the reasonableness of the valuations provided by the underlying managers/administrators of such funds and whether the valuation bases used are IFRS and fair value compliant. The responsibility for determining the fair value lies exclusively with the board of directors. The board of directors under advice from the AIFM may perform additional procedures on fund investments, including but not limited to underlying manager/administrator due diligence and other analytical procedures. If the directors are aware of a good reason why a particular fund valuation would not be the most appropriate indicator of fair value the directors will work with the underlying manager of that investment in an attempt to obtain more meaningful fair value information. See note 2 h) (iii) for further valuation information.

IFRS 13 requires the Group to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements. The hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

The following table analyses within the fair value hierarchy the Group’s financial assets (by class) measured at fair value at 31 December 2017 and 2016.

As of 31 December 2017	Level 1 TUSD	Level 2 TUSD	Level 3 TUSD	Total TUSD
<b>Assets</b>				
<b>Assets designated at fair value through profit or loss:</b>				
Investments	–	176,255	4,848	181,103
<b>Total</b>	–	<b>176,255</b>	<b>4,848</b>	<b>181,103</b>

As of 31 December 2016	Level 1 TUSD	Level 2 TUSD	Level 3 TUSD	Total TUSD
<b>Assets</b>				
<b>Assets designated at fair value through profit or loss:</b>				
Investments	–	187,382	6,228	193,610
<b>Total</b>	–	<b>187,382</b>	<b>6,228</b>	<b>193,610</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The Group does not hold level 1 investments as of 31 December 2017 and 31 December 2016.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations, or alternative pricing sources such as the binding and executable underlying net asset values provided by the managers/administrators of these instruments, supported by observable inputs are classified within level 2. These include listed equities, over-the-counter derivatives and fund investments for which market quotations are not readily available. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. For more information on the valuation of these investments see note 2 h) (iii).

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include hedge fund investments that, due to various events and/or the illiquid nature of the underlying assets, are not readily realisable. See also note 21 c) liquidity risk. There were no transfers in 2017 and 2016.

If the value of the level 3 investments (based on year end values) had increased or decreased by 5 per cent with all other variables held constant, the impact on the consolidated statement of comprehensive income and consolidated balance sheet would have been TUSD 242 (2016: TUSD 311). For further sensitivity analysis on the investments please refer to note 21 a) (i).

The following table shows the allocation of the level 3 investments according to geography, in percentage of the total fair value of these investments.

Diversification by geography	2017 % of financial assets at fair value through profit or loss	2016 % of financial assets at fair value through profit or loss
America	31%	28%
Asia	15%	6%
Global	54%	66%
<b>Total</b>	<b>100%</b>	<b>100%</b>

As of 31 December 2017, the Group had an investment in Highland Crusader Fund II Limited (“Highland”) for which the valuation is complex as the fund holds a large number of illiquid investments. The Group redeemed its entire position as of 30 June 2008, however, due to the illiquidity of the portfolio and increasing redemption requests, the investment manager of Highland decided to suspend redemption payments. After further losses, the investment manager proposed that the fund be wound up in its entirety making the value of all outstanding balances including prior redemption requests dependent on the realised value of assets as the fund is liquidated. Investors accepted this distribution scheme in the summer of 2011 and the investment was therefore classified as a level 3 investment in the 2011 annual report. Since the acceptance of the distribution plan, up to 31 December 2017, the Group had received redemption proceeds amounting to TUSD 12,033.

In the case of D.E. Shaw Composite International Ltd. redemptions from this fund during 2011 resulted in a proportion of the redemption proceeds being distributed in the form of side-pockets which are illiquid. These side-pocket positions were classified as level 3 in the annual report of 2011.

The Group's investment in Crown Distressed Credit Opportunities plc was reclassified from level 2 to level 3 in the 2011 annual report due to the fact that its liquidity terms imply that it can only be liquidated over a prolonged timeframe due to its private equity like nature. This investment was made at a time when all the assets of the Group belonged to the closed ended listed Company and thus such liquidity terms were deemed compatible with the Group's liquidity requirements.

The following table presents a reconciliation disclosing the changes during the year for financial assets and liabilities classified as being level 3.

<b>As of 31 December 2017</b>	<b>Investments designated at fair value through profit or loss TUSD</b>
<b>Assets</b>	
At 1 January	6,228
Net change in unrealised loss	(1,066)
Sales	(314)
Transfers in/out	—
<b>At 31 December</b>	<b>4,848</b>
<b>Total unrealised gain for the year included in the statement of comprehensive income for investments held at the end of the year</b>	<b>146</b>
<b>As of 31 December 2016</b>	<b>Investments designated at fair value through profit or loss TUSD</b>
<b>Assets</b>	
At 1 January	10,242
Net change in unrealised loss	(2,332)
Sales	(1,682)
Transfers in/out	—
<b>At 31 December</b>	<b>6,228</b>
<b>Total unrealised gain for the year included in the statement of comprehensive income for investments held at the end of the year</b>	<b>1,864</b>

The carrying values of all other assets and liabilities are a reasonable approximation of fair value.

## 22 Commitments, contingencies and other off-balance-sheet transactions

The Group has made the following commitments to investment funds as of 31 December:

As of 31 December 2017	Commitment in TUSD	Open commitment amount in TUSD
Crown Distressed Credit Opportunities plc	16,500	4,109
<b>Total</b>	<b>16,500</b>	<b>4,109</b>

As of 31 December 2016	Commitment in TUSD	Open commitment amount in TUSD
Crown Distressed Credit Opportunities plc	16,500	4,100
<b>Total</b>	<b>16,500</b>	<b>4,100</b>

The nature of these commitments is that they can be called at the respective investment managers' discretion. The management confirms that there are no other commitments, contingencies or other transactions that could have a material effect upon the financial situation of the Group as of 31 December 2017.

## 23 Subsequent events

The consolidated financial statements are authorised for issue on 29 March 2018 by the board of directors. The annual general meeting called for 15 May 2018 will vote on the final acceptance of the consolidated financial statements.

Since the balance sheet date of 31 December 2017 Castle Alternative Invest AG purchased 165,200 treasury shares on its second trading line for a total consideration of TUSD 2,751. As of 29 March 2018 the Company held a total of 793,882 such shares in treasury shares.

Since the balance sheet date of 31 December 2017, there have been no material events that could impair the integrity of the information presented in the consolidated interim financial statements.

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# ***Report of the statutory auditor to the general meeting of Castle Alternative Invest AG Pfäffikon (SZ)***

## ***Report on the audit of the financial statements***

### ***Opinion***

We have audited the financial statements of Castle Alternative Invest AG (the Company), which comprise the balance sheet as at 31 December 2017, the statement of income and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

### ***Basis for opinion***

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession 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.

### ***Our audit approach***

#### ***Audit scope***

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### ***Materiality***

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.



<i>Overall materiality</i>	CHF 1.6 million
<i>How we determined it</i>	1% of total shareholders' equity
<i>Rationale for the materiality benchmark applied</i>	We chose total shareholders' equity as the benchmark because, in our view, this is the key metric of interest to investors and it is a generally accepted benchmark for investment companies.

### ***Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority***

We have determined that there are no key audit matters to communicate in our report.

### ***Responsibilities of the board of directors for the financial statements***

The board of directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the board of directors determines 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 board of directors is responsible for assessing the entity'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 board of directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards 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 at the website of EXPERTsuisse: <http://expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



## ***Report on other legal and regulatory requirements***

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Daniel Pajer  
Audit expert  
Auditor in charge

Keith Killackey  
Audit expert

Zurich, 29 March 2018

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## Balance sheet

As of 31 December 2017 (All amounts in CHF thousands unless otherwise stated)

	Note	2017	2016
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		927	2,453
<b>Total current assets</b>		<b>927</b>	<b>2,453</b>
<b>Non-current assets:</b>			
Participations	3	157,932	177,647
<b>Total non-current assets</b>		<b>157,932</b>	<b>177,647</b>
<b>Total assets</b>		<b>158,859</b>	<b>180,100</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Other payables		208	328
Accrued expenses		119	132
<b>Total current liabilities</b>		<b>327</b>	<b>460</b>
<b>Equity</b>			
<b>Shareholders' equity:</b>	7		
Share capital		43,606	48,269
Legal reserves			
Reserves from capital contributions		62,344	62,344
Other legal reserves		31,907	31,907
Accumulated surplus brought forward		31,207	50,662
Treasury shares at cost (bought for cancellation)		(10,532)	(13,542)
<b>Total shareholders' equity</b>		<b>158,532</b>	<b>179,640</b>
<b>Total liabilities and equity</b>		<b>158,859</b>	<b>180,100</b>

**Statement of income and accumulated surplus/(deficit)**

For the year ended 31 December 2017 (All amounts in CHF thousands unless otherwise stated)

	Note	2017	2016
<b>Income</b>			
Value adjustments on participations	2 b)	(12,642)	(21,333)
Dividends from participations		12,642	19,919
(Loss)/gain on foreign exchange, net		(2)	1
Other translation differences		(7,259)	2,993
Other income		1	1
<b>Total (loss)/income</b>		<b>(7,260)</b>	<b>1,582</b>
<b>Expenses</b>			
Administrative expenses		(621)	(607)
Financial expenses		(179)	(178)
<b>Total expenses</b>		<b>(800)</b>	<b>(785)</b>
<b>(Loss)/profit before taxes</b>		<b>(8,060)</b>	<b>797</b>
Taxes	5	(13)	(12)
<b>(Loss)/profit for the year</b>		<b>(8,073)</b>	<b>785</b>
<b>Accumulated surplus</b>			
Accumulated surplus brought forward		50,662	63,092
(Loss)/profit for the year		(8,073)	785
Cancellation of treasury shares		(11,382)	(13,215)
<b>Accumulated surplus brought forward</b>		<b>31,207</b>	<b>50,662</b>
<b>Proposal of the board of directors for appropriation of accumulated surplus</b>			
To be carried forward		31,207	50,662
<b>Total</b>		<b>31,207</b>	<b>50,662</b>

## Notes to the company financial statements

For the year ended 31 December 2017

(All amounts in Swiss Francs thousands unless otherwise stated)

### 1 Organisation and business activity

Castle Alternative Invest AG, Pfäffikon ("the Company") was incorporated on 30 July 1996 as a joint stock corporation under Swiss laws. The Company's registered office is Schützenstrasse 6, CH-8808 Pfäffikon.

Since 10 April 1997, the shares of the Company have been listed in Swiss Francs on the SIX Swiss Exchange and on 21 January 2002, a listing in US Dollar on the SIX Swiss Exchange followed, which has been discontinued effective 15 September 2017.

The main activity of the Company is investing in a diversified portfolio of non-traditional investments, through its two Subsidiaries, Castle Alternative Invest (Overseas) Ltd., Grand Cayman ("the Cayman Subsidiary") and Castle Alternative Invest (International) plc, Dublin ("the Ireland Subsidiary").

Castle Alternative Invest Group ("the Group") currently consists of the Company, the Cayman Subsidiary and the Ireland Subsidiary.

As of 31 December 2017 and 2016 the Company did not employ any employees.

### 2 Accounting principles

These Company financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations (Art. 957 to 963b CO).

#### a) Participations

The participation in the Cayman Subsidiary is stated at acquisition cost or at the lower net realisable value. As of 31 December 2017 the participations were revalued into Swiss Francs using the net asset value of the Cayman Subsidiary at 31 December 2017 in US Dollar, converted into Swiss Francs using the year-end rate.

#### b) Accounting and reporting currency

The books of the Company are kept in US Dollar (functional currency). The board of directors resolved that the Company's financial statements shall be presented in Swiss Francs, in line with the provisions of the CO. As of 1 January 2017 the Company has discontinued to value its participation at the historic exchange rate and applies the modified current/non-current method as follows:

- All assets and liabilities by applying the year-end exchange rate;
- the shareholders' equity at the historical exchange rate; and
- income and expenses at the average exchange rate for the year.

The translation difference from the conversion of the functional currency to the reporting currency is recorded in the statement of income as other translation differences. Net foreign exchange losses from the revaluation of an asset or liability not denominated in the Company's functional currency are charged to the statement of income, whereas net translation gains are deferred (unless such translation gains are a recovery of translation losses previously charged to the statement of income).

Balance sheet reconciliation of participation carrying value	2017 TCHF	2016 TCHF
<b>1 January</b>	<b>177,647</b>	<b>196,028</b>
Valuation adjustment on participation	(12,642)	(21,333)
Foreign exchange translation differences on participation	(7,073)	2,952
<b>31 December</b>	<b>157,932</b>	<b>177,647</b>

### 3 Participations

The Company's only direct investment is 100 per cent of the voting participating redeemable ordinary shares of the Cayman Subsidiary. The Company holds 3,862,360 voting participating redeemable ordinary shares at CHF 0.01 each. The Cayman Subsidiary is invested in the Ireland Subsidiary, an open ended investment company with variable capital under the laws of Ireland.

Where a dividend distribution has been approved by a subsidiary, the participation income from the subsidiary is recognised based on an economic standpoint, i.e. at the same time as the corresponding liability is recorded in the subsidiary.

Nominal share capital Issued and fully paid	Cayman Subsidiary TCHF	Total book value of participations TCHF
31 December 2016	39	177,647
<b>31 December 2017</b>	<b>39</b>	<b>157,932</b>

### 4 Foreign exchange rates

The following exchange rates have been applied to translate the foreign currencies of significance for the Company:

Foreign exchange rates	Unit	2017 CHF	2016 CHF
US Dollar	Year-end rates	1 USD 0.9736	1.0172
US Dollar	Average annual rates	1 USD 0.9800	0.9861

## 5 Taxes

The Company is taxed as a holding company and is as such liable for cantonal/communal capital taxes (reduced rates) and Swiss federal income taxes. The actual tax expenses cover all taxes through 31 December 2017.

## 6 Pledged assets

As of 31 December 2017, the Subsidiaries have a credit line of TUSD 15,000 (31 December 2016: TUSD 15,000). The credit line is granted by LGT Bank Ltd., Dublin Branch and is secured by the participating shares of the Ireland Subsidiary as well as the voting participating redeemable ordinary shares of the Cayman Subsidiary, which are directly held by the Company. The pledged assets are deposited with LGT Bank Limited, Vaduz and pledged in favour of the lender. As of 31 December 2017, the Ireland Subsidiary had borrowed TUSD 6,568 from LGT Bank Ltd., Dublin Branch (2016: no borrowings).

## 7 Shareholders' equity

### Shareholders' equity

The share capital of the Company at 31 December 2017 amounts to TCHF 43,606 (TUSD 32,337) (31 December 2016: TCHF 48,269 (TUSD 35,795)) consisting of 8,721,297 (2016: 9,653,732) issued and fully paid registered shares with a par value of CHF 5. The reduction is due to the cancellation of 2<sup>nd</sup> line treasury shares which took place in August 2017. Each share entitles the holder to participate in any distribution of income and capital.

### Treasury shares

The Company can buy and sell treasury shares in accordance with the Company's articles of association, Swiss company law and in compliance with the listing rules of the SIX Swiss Exchange.

As at 31 December 2017 no subsidiaries held treasury share (31 December 2016: Nil).

## Treasury shares

Buyback programs	From	To	Cancelled	Number of shares	Average CHF	Cost TCHF
Program initiated on 9 June 2015, announced on 5 June 2015						
Additions 2015	09.06.2015	31.12.2015	05.08.2016	455,300	16.61	7,563
Additions 2016	01.01.2016	06.05.2016	05.08.2016	264,150	16.56	4,374
Additions 2016	09.05.2016	10.05.2016	11.08.2017	5,076	16.35	83
Additions 2016 via tradable put options	17.05.2016	30.05.2016	11.08.2017	315,459	17.82	5,623
<b>Total</b>				<b>1,039,985</b>	<b>16.96</b>	<b>17,643</b>
Program initiated on 6 June 2016, announced on 1 June 2016						
Additions 2016	06.06.2016	31.12.2016	11.08.2017	464,000	16.89	7,836
Additions 2017	01.01.2017	12.05.2017	11.08.2017	147,900	16.92	2,503
Additions 2017	15.05.2017	30.06.2017	—	38,014	16.47	626
Additions 2017 via tradable put options	03.07.2017	17.07.2017	—	277,578	17.72	4,919
<b>Total</b>				<b>927,492</b>	<b>17.13</b>	<b>15,884</b>
Program initiated on 24 July 2017, announced on 28 June 2017						
Additions 2017	24.07.2017	31.12.2017	—	313,090	15.93	4,987
<b>Total</b>				<b>313,090</b>	<b>15.93</b>	<b>4,987</b>

Movement of treasury shares 2<sup>nd</sup> line and tradable put options (bought for cancellation)

	Number of shares	Cost TCHF
<b>Shares held as of 1 January 2016</b>	<b>838,177</b>	<b>14,352</b>
Additions 2016 via 2 <sup>nd</sup> line	733,226	12,293
Additions 2016 via tradable put options	315,459	5,623
Cancellation on 5 August 2016	(1,102,327)	(18,726)
<b>Shares held as of 31 December 2016</b>	<b>784,535</b>	<b>13,542</b>
Additions 2017 via 2 <sup>nd</sup> line	499,004	8,116
Additions 2017 via tradable put options	277,578	4,919
Cancellation on 11 August 2017	(932,435)	(16,045)
<b>Shares held as of 31 December 2017</b>	<b>628,682</b>	<b>10,532</b>

**Share buyback 2<sup>nd</sup> line (bought for cancellation)**

Since 2010, the Company has announced openings of second trading lines on a yearly basis for the Company's shares on the SIX Swiss Exchange. The Company is always the exclusive buyer on these trading lines and repurchases shares for the purpose of subsequently reducing its share capital. These treasury shares are treated as a deduction from shareholders' equity at the average purchase price.

On 28 June 2017, the Company announced that the board of directors decided to launch a new share buyback program for reduction of the share capital through a 2<sup>nd</sup> line trading line on SIX Swiss Exchange. It started on 24 July 2017 and a maximum of 594,551 registered shares will be purchased.

**Share buyback via tradable put options (bought for cancellation)**

On 10 May 2016, the Company announced its decision to issue further put options tradable on the SIX Swiss Exchange. Every 30 put options entitled shareholders to tender one registered share at the exercise price of CHF 17.80 until 30 May 2016. The put options were traded from 17 May 2016 up to and including 30 May 2016. On 1 June 2016, the Company announced that a total of 9,463,770 put options were declared for exercise. These treasury shares are treated as a deduction from shareholders' equity using cost values.

On 28 June 2017, the Company announced its decision to issue further put options tradable on the SIX Swiss Exchange. Every 30 put options entitled shareholders to tender one registered share at the exercise price of CHF 17.70 until 17 July 2017. The put options were traded from 3 July 2017 up to and including 17 July 2017. On 28 June 2017, the Company announced that a total of 8,327,340 put options were declared for exercise. These treasury shares are treated as a deduction from shareholders' equity using cost values.

**Shareholders' equity**

In 2017 (all amounts in CHF thousands unless otherwise stated)

	Share capital	Legal reserves Reserves from capital contributions	Other legal reserve	Accumulated surplus	Treasury shares 2 <sup>nd</sup> line at cost (bought for cancellation)	Total
<b>31 December 2016</b>	<b>48,269</b>	<b>62,344</b>	<b>31,907</b>	<b>50,662</b>	<b>(13,542)</b>	<b>179,640</b>
Cancellation of treasury shares	(4,663)			(11,382)	16,045	—
Purchase of treasury shares (bought for cancellation)	—	—	—	—	(13,035)	(13,035)
Loss for the year	—	—	—	(8,073)	—	(8,073)
<b>31 December 2017</b>	<b>43,606</b>	<b>62,344</b>	<b>31,907</b>	<b>31,207</b>	<b>(10,532)</b>	<b>158,532</b>

**Allocation of legal reserves from capital contributions**

Under Swiss tax law effective 1 January 2011, repayments of capital contribution reserves established since 1997 are no longer subject to withholding tax deduction. In order to establish the amount of capital contribution reserves that the Company may be able to repay to shareholders without being subject to the withholding tax deduction that applies to dividends paid out of retained earnings, the board of directors received shareholder approval at the 2011 annual general meeting for the allocation of the legal reserves, effective 1 January 2011. The legal reserves to the amount of TCHF 100,435 were divided into legal reserves from capital contributions of TCHF 68,528 and other legal reserves of TCHF 31,907 on 1 January 2011. The amount the Company allocated to the legal reserves from capital contributions deviates slightly from the standard practice of the Swiss tax authorities in that the Company has not deducted the share capital increase expenses.

**8 Major shareholders**

As of 31 December the following major shareholders were known by the Company:

Major shareholders	31 December 2017	31 December 2016
Between 20% and 33 1/3%	LGT Group Foundation, Liechtenstein	LGT Group Foundation, Liechtenstein
Between 10% and 20%	LGT Capital Partners, Switzerland, on behalf of pension funds	LGT Capital Partners, Switzerland, on behalf of pension funds
Between 3% and 10%	Anstalt Fürst Liechtenstein BKS Global PCC Limited, Guernsey	Stiftung Fürst Liechtenstein II BKS Global PCC Limited, Guernsey

**9 Compensation and share ownership**

The annual remuneration and expense allowances paid to the members of the board of directors as well as the premium paid for the officers liability insurance are detailed within the remuneration report on pages 78 to 81 of this report.

The board of directors has delegated the operational management of the Company to Benedikt Meyer as general manager. The general manager is indirectly compensated by the Company via LGT Capital Partners Ltd., Pfäffikon.

No further compensation by the Company or its subsidiaries for their activities has been due, nor did directors receive shares, options or loans.

Share ownership	2017	2016
<b>Castle Alternative Invest AG</b>		
<b>Members of the board of directors</b>		
Reto Koller	8,000	8,000
Dr André Lagger	4,755	4,755
<b>Total</b>	<b>12,755</b>	<b>12,755</b>
<b>LGT Capital Partners (Ireland) Ltd.</b>		
<b>Members of the board of directors</b>		
Dr Roberto Paganoni	4,000	4,000
<b>Total</b>	<b>4,000</b>	<b>4,000</b>

## 10 Auditors

PricewaterhouseCoopers Ltd., Zurich, are the auditors of the Company. They accepted the mandate in 2001. Daniel Pajer, the auditor in charge, took up office in 2015.

Total audit fees charges by PricewaterhouseCoopers for the audit 2017 of the Company to TCHF 67 (2016: TCHF 65).

## 11 Subsequent events

The Company's financial statements are authorised for issue on 29 March 2018 by the board of directors. The annual general meeting called for 15 May 2018 will vote on the final acceptance of the Company's financial statements.

Since the balance sheet date of 31 December 2017 Castle Alternative Invest AG purchased 165,200 treasury shares on its second trading line to the amount of TUSD 2,751. As of 29 March 2018 the Company held in total 793,882 treasury shares on its second trading line.

Since the balance sheet date of 31 December 2017, there have been no material events that could impair the integrity of the information presented in the financial statements.



## ***Report of the statutory auditor to the general meeting of Castle Alternative Invest AG Pfäffikon, SZ***

We have audited the remuneration report of Castle Alternative Invest AG for the year ended 31 December 2017.

### ***Board of directors' responsibility***

The board of directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The board of directors is also responsible for designing the remuneration system and defining individual remuneration packages.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

### ***Opinion***

In our opinion, the remuneration report of Castle Alternative Invest AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Daniel Pajer  
Audit expert  
Auditor in charge

Keith Killackey  
Audit expert

Zurich, 29 March 2018

## Remuneration report

The remuneration report contains information about the principles of remuneration, procedures for determining remuneration and components of remuneration for the board of directors and management of Castle Alternative Invest AG. It also details the remuneration awarded in 2016 and 2017 as well as the planned components of remuneration in 2018. It is based on the provisions of the Articles of Incorporation, the transparency requirements set out in Articles 13–16 of the Swiss Ordinance against Excessive Compensation in Listed Companies (VegüV) and Article 663<sup>bis</sup> of the Swiss Code of Obligations, the SIX Swiss Exchange Directive on Information relating to Corporate Governance and the principles of the Swiss Code of Best Practice for Corporate Governance drawn up by Economiesuisse.

### Principles of Remuneration

- Transparency (simplicity, clarity)
- Adherence to market rates of executive pay  
(benchmarking of similar companies, qualifications and experience)

### Governance

The board of directors appointed a remuneration committee comprising Dr André Lagger (chairman), Dr Konrad Bächinger (member).

The remuneration committee draws up proposed remuneration guidelines for the board of directors. The members of the board of directors are entitled to reimbursement of their expenses incurred in the interest of the company as well as to compensation corresponding to their activities, as determined by the board of directors.

The remuneration committee meets as often as required, but at least once a year.

The Company appointed Benedikt Meyer as general manager, in accordance with Art. 716b CO and the articles of association and organisational regulations of the Company. This work for the Company on average takes up approximately 25 per cent of his working time.

### Procedures for determining remuneration

The level of remuneration awarded to the board of directors is based on sector and market comparisons. The remuneration committee also consults comparative figures and surveys of listed companies operating in the same sector.

**Structure of remuneration**

The board of directors is compensated in cash for all of its duties, including expenses for ordinary and extraordinary meetings, committee activities and other extraordinary activities. Neither shares nor options were allocated in the reporting year.

**Remuneration policy**

Remuneration of the board of directors of Castle Alternative Invest AG shall be effected in accordance with the provisions of the Articles, notably article 17. The board of directors determined that its members and member of management be remunerated annually as follows (pro-rata when a mandate is not executed for a full year):

Remuneration	2017 CHF	2016 CHF
Chairman	55,000	55,000
Deputy chairman	44,000	44,000
Committee chairman	44,000	44,000
Member	33,000	33,000
General manager	75,000	75,000

The remuneration shall be payable by the end of each quarter. The remuneration of the general manager shall be payable once per year and is due at the end of January of each calendar year.

Travel and other expenses related to attendance at board meetings shall be covered by an expense allowance for each meeting in Switzerland, physically attended, as follows:

Travel and other expenses	2017 CHF	2016 CHF
Switzerland based	250	250
Europe based	1,500	1,500
Overseas based	7,000	7,000

Expense accounts in excess of CHF 5,000 shall be signed off by the chairman (or, in the chairman's case, by the deputy chairman). Accounts below such may be signed off by the general manager.

Directors may furthermore be paid all other expenses properly incurred by them in connection with the business of the Company. The board may, in addition, grant special remuneration to any director who performs special or extra services to or at the request of the Company.

**Remuneration for financial year 2017 (Article 14 VegüV)**

The table below shows the remuneration for the members of the board of directors and the management in the year 2017 and 2016. The total remuneration of the Company does not include the employer's contributions to social security of TCHF 5 (31 December 2016: TCHF 5). In addition, the Company paid in 2017 a Directors and Officers liability insurance premium of TCHF 11 (31 December 2016: TCHF 12). Travel expenses amounted to TCHF 30 (31 December 2016: TCHF 28).

The board of directors remuneration is defined and paid out in CHF.

	Cash compensation CHF	Social security payments CHF	Travel and other expenses CHF	Total remuneration CHF
<b>As of 31 December 2017</b>				
Tim Steel, chairman	52,554	2,446	4,500	59,500
Dr Konrad Bächinger, deputy chairman	42,606	1,394	250	44,250
Reto Koller, committee chairman – audit committee	44,000	–	21,000	65,000
Dr André Lagger, committee chairman – remuneration committee	–	–	–	–
Kevin Mathews, member	33,000	–	4,500	37,500
General manager	75,000	–	–	75,000
<b>Total</b>	<b>247,160</b>	<b>3,840</b>	<b>30,250</b>	<b>281,250</b>

	Cash compensation CHF	Social security payments CHF	Travel and other expenses CHF	Total remuneration CHF
<b>As of 31 December 2016</b>				
Tim Steel, chairman	51,576	3,424	3,204	58,204
Dr Konrad Bächinger, deputy chairman	42,606	1,394	864	44,864
Reto Koller, committee chairman – audit committee	44,000	–	21,000	65,000
Dr André Lagger, committee chairman – remuneration committee	–	–	–	–
Kevin Mathews, member	33,000	–	3,000	36,000
General manager	75,000	–	–	75,000
<b>Total</b>	<b>246,182</b>	<b>4,818</b>	<b>28,068</b>	<b>279,068</b>

The fee paid to the general manager comes at no extra cost to the Group as it is offset by a reduction of an equal amount from the management fees payable to LGT Capital Partners (Ireland) Ltd.

**Loans and credits to board members and the management (Article 15 VegüV)**

No further loans or credits by the Company or its subsidiaries for their activities have been granted to members of the board of directors in the financial year 2017.

**Compensation, loans and credits to related parties (Article 16 VegüV)**

No further compensation, loans or credits by the Company or its subsidiaries for their activities have been granted to any related party in the financial year 2017.

Dr André Lagger      Benedikt Meyer

29 March 2018

## Corporate governance

### 1. Group structure and shareholders

Castle Alternative Invest (“the Group”) consists of Castle Alternative Invest AG (“the Company”) and two fully consolidated subsidiaries as shown below and as listed in note 1 to the consolidated financial statements. The Company’s registered office is Schützenstrasse 6, 8808 Pfäffikon, Switzerland. Within the Group, only CAI is a listed company.

#### 1.1 Significant shareholders

The shareholding structure of the Company as of 31 December 2017 is shown below:

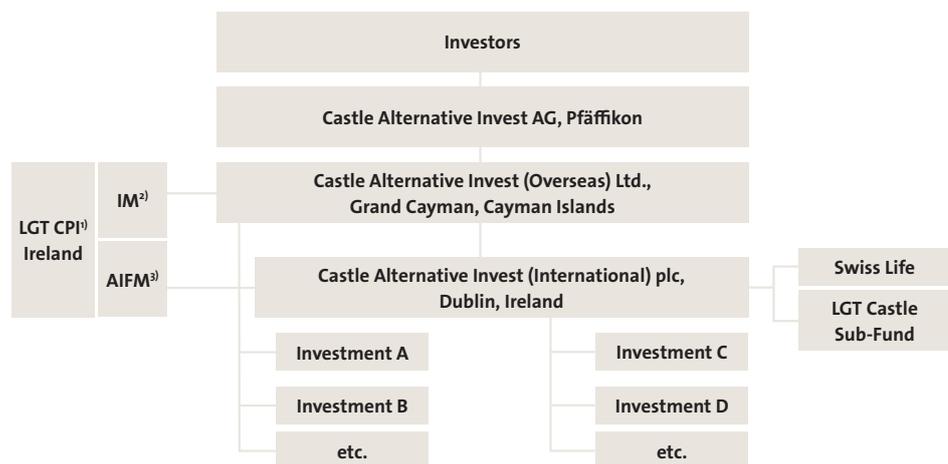
- LGT Group Foundation, Liechtenstein, reported a holding of 31.16 per cent.
- LGT Capital Partners AG, Switzerland (as asset manager of LGT’s pension foundations), reported a holding of 15.87 per cent.
- Stiftung Fürst Liechtenstein II, Liechtenstein, reported a holding of 5.49 per cent.
- BKS Global PCC Limited A, Guernsey, reported a holding of 3.09 per cent.

An update on shareholdings can be obtained from the SIX website at

[http://www.six-exchange-regulation.com/obligations/disclosure/major\\_shareholders\\_en.html#](http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html#)

The Group has not entered into any cross-shareholdings that exceed 5 per cent of the capital shareholding as voting rights on either side.

#### 1.2 Group structure



<sup>1)</sup> LGT Capital Partners (Ireland) Limited

<sup>2)</sup> Investment manager

<sup>3)</sup> Alternative investment fund manager

## 2. Capital structure

### 2.1 Capital

The Company's share capital consists of 8,721,297 registered shares with a par value of CHF 5 each. The shares are listed in Swiss Franc at the SIX Swiss Exchange in Zurich with ISIN CH0005092751 and valor number 509275.

Since 2010, the Company has announced openings of second trading lines on a yearly basis for the Company's shares on the SIX Swiss Exchange. The Company is always the exclusive buyer on these trading lines and repurchases shares for the purpose of subsequently reducing its share capital. These shares are treated as a deduction from shareholders' equity using cost values.

On 6 June 2016, the Company started the seventh share buyback for cancellation on a second trading line, as approved at the AGM 2016. A maximum of 649,914 shares can be bought back. The board of directors of the Company had decided to terminate it early on 30 June 2017 as the maximum number of shares were bought back.

On 28 June 2017 the Company announced a share buyback program by issuing put options tradable on SIX Swiss Exchange. The put options were traded from 3 to and including 17 July 2017. Every 30 put options entitled shareholders to tender one registered share at the exercise price of CHF 17.70.

Following the termination of the buyback via tradable put options, the Company decided to launch a new buyback program on its second trading line, which started on 24 July 2017. A maximum of 594,551 registered shares will be purchased.

The Company does not have conditional and authorised share capital. The Company has not issued any participation certificates (Partizipationsscheine), preference shares (Vorzugsaktien) or profit sharing certificates (Genussscheine). Shares of the subsidiaries are not listed.

A detailed overview of the capital structure is shown in note 7 of the Company financial statements. Changes in capital within the last two financial years can be seen from the consolidated statements of changes in shareholders' equity on page 23 of the 2017 annual report.

The market capitalisation of the Company (ISIN: CH0005092751/Valor: 509275) per year end 2017 amounted to approx. TCHF 126,649. There are no outstanding convertible bonds or options issued by the Company or any of its subsidiaries on the Company's securities.

## **2.2 Voting rights, share registration**

Each share confers the right to one vote. Entry in the share register of registered shares with voting rights is subject to the approval of the Company. Persons acquiring registered shares shall on application be entered in the share register without limitation as shareholders with voting power, provided they expressly declare themselves to have acquired the shares in their own name and for their own account and comply with the disclosure requirements of the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act).

Entry of registered shares with voting rights may be refused in the following situations:

Persons not expressly declaring themselves to be holding shares for their own account (nominees) shall be entered in the share register with voting rights without further inquiry up to a maximum of 1.5 per cent of the outstanding share capital available at the time. Above this limit, registered shares held by nominees shall be entered in the share register with voting rights only if the nominee in question makes known the names, addresses and shareholdings of the persons for whose account he is holding 0.3 per cent or more of the outstanding share capital at the time and provided that the disclosure requirements stipulated by the Stock Exchange Act are complied with. The board of directors has the right to enter into agreements with nominees concerning their disclosure requirements.

Legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in like manner, as well as individuals, legal entities or partnerships (especially syndicates) which act in concert with intent to evade the entry restrictions are considered as one shareholder or nominee.

The Company may in special cases approve exceptions to the above regulations. After due consultation with the person concerned, the Company is further authorised to remove the shareholder from the share register as a shareholder with voting rights with retroactive effect if they were effected on the basis of false information or if the respective person does not provide the information required.

No agreements with nominees were entered into, nor were exceptions to the above regulations granted in 2017.

### **3. Board of directors**

As of 31 December 2017, all members of the board of directors are non-executive. None of the members have been members of management of the Company or one of its subsidiaries over the last three years. Dr Andre Lagger is affiliated with LGT Group Foundation, which owns the investment manager that manages the Group's investments.

No other member of the board of directors has any significant business connections with any members of the Group.

The board is composed of the following members:

## Board of directors

The board considers that it is well represented with the balance and blend of skills, experience and expertise of its directors.

### **Tim Steel, chairman**

Tim Steel (British Citizen, 1952) was educated at Eton (Oppidan Scholar) and Trinity College, Cambridge (Philosophy and Law). He joined Robert Fleming as an analyst and was then a pension fund manager from 1974 to 1979. He joined Cazenove & Co in 1980 as an equity salesman and became Partner in 1982. Tim Steel ran the New York office from 1983 before returning to London in 1989 when he was made Head of UK Sales. He was appointed as managing director of Cazenove Capital Management Limited in 2000 and retired as vice chairman at the end of 2009. Since 2011 he has been a non-executive director of ProPhotonix and since 2013 chairman of Committed Capital. Since 2014 he has been a non-executive director of WH Ireland Limited and is currently serving as the chairman of that board. Tim Steel was elected at the general meeting held on 29 October 2008 and was reelected at the general meeting held in May 2017 for a term ending at the 2018 annual shareholder meeting.

### **Dr Konrad Bächinger, deputy chairman and remuneration committee member**

Dr Konrad Bächinger (Swiss citizen, 1950) received a Ph.D. in law from the University of Zurich. He was admitted to the bar in 1977. He acted subsequently as legal counsel for the St. Gallische Creditanstalt and as head of legal department of Adolph Saurer AG. In 1984, he joined LGT Bank in Liechtenstein as general counsel. In 1989 he was appointed managing director and head of legal matters and project department. In 1990 he became member of the executive board of the bank, heading commercial banking and legal matters. In 1998 he became chief executive officer of LGT Capital Management. In April, 2001 Dr Bächinger was appointed to the Group executive committee of Liechtenstein Global Trust, now known as LGT Group Foundation. In 2006, he became a senior advisor of LGT Group Foundation and in 2010 he retired from LGT.

Dr Bächinger is also deputy chairman of the board of directors of Castle Private Equity AG and chairman and board member of several investment companies managed or owned by affiliates of LGT Group Foundation. Dr Bächinger was elected to the board of directors in 1997 and was re-elected at the general meeting held on May 2017 for a term ending at the 2018 annual shareholder meeting.

**Dr André Lagger,  
director and remuneration  
committee chairman**

Dr André Lagger (Swiss citizen, 1962) received a Ph.D. in business administration from the University of Berne and completed studies at the Swiss Banking School. He began his career at Union Bank of Switzerland in Zurich, moving to UBS London in 1994 as head of corporate development of UBS London. In 1997, he joined LGT Services in Zurich as head of corporate controlling. Subsequently, he became, in 1998, member of the executive board and chief financial officer of LGT Capital Management in Vaduz and, in 2001, chief executive officer of LGT Financial Services. Since October 2006, he is CEO of the business unit operations & technology of LGT Group Foundation.

André Lagger was elected at the general meeting held in May 2017 for a term ending at the 2018 annual shareholder meeting.

**Reto Koller,  
director and audit committee  
chairman**

Reto Koller (Swiss and US citizen, 1955) received M.Sc. degrees in business administration, finance and accounting from the University of St. Gallen in 1980 and the London School of Economics in 1981. He joined Winterthur Insurance's strategic-planning division in 1981. He moved to Winterthur Reinsurance Corp. in New York in 1984, where he was vice president – fixed income investments and operations manager until 1989. In 1990, he took over as president and chief investment officer, North America for Winterthur Investment Management Corp. in New York. He resigned from Winterthur North America in 2007. Since 2008 he has been principal of Hale International LLC, New Canaan, CT, USA, an investment consulting firm.

Reto Koller was elected at the general meeting held on 29 October 2008 and was re-elected at the general meeting held in May 2017 for a term ending at the 2018 annual shareholder meeting.

**Kevin Mathews,  
director and audit committee  
member**

Kevin Mathews (Irish citizen, 1960) received a Joint Financial Services Diploma from the Institute of Bankers at University College Dublin in 1995 and is a Qualified Financial Adviser (QFA). He joined the Irish Department of Labour in Dublin prior to working in key account management for Svenska Handelsbanken in Luxemburg between 1986 and 1995. He was managing director of LGT Bank (Ireland) between 1995 and 2006. He is currently providing consultancy and advisory services to banking, investment funds, local government and charitable organisations. Mr. Mathews is also chairman of the board of directors of Castle Alternative Invest (International) PLC and chairman and board member of several investment companies managed or owned by affiliates of LGT Group Foundation.

Kevin Mathews was elected at the general meeting held on 29 October 2008 and was re-elected at the general meeting held in May 2017 for a term ending at the 2018 annual shareholder meeting.

### 3.1 Responsibilities

The principal responsibilities of the board of directors as defined in the Swiss Code of Obligations and the Company's articles of association and organisational regulations are:

- (i) organisation of the Company's main structures, including planning, management and reporting procedures and its internal risk control systems;
- (ii) determination of the investment policy and supervision of its implementation; and
- (iii) appointment and supervision of the Company's general manager and the investment manager.

Board members share these responsibilities jointly. No specific tasks have been allocated to individual members of the board.

An audit committee has been set up, consisting of two board members: Reto Koller (chairman) and Kevin Mathews.

The audit committee's duties include:

- (i) selecting the auditor (for approval at the shareholders' meeting), as well as determining and supervising the terms of their engagement;
- (ii) monitoring the integrity of the financial statements; and
- (iii) reviewing the internal control systems in place in the Company.

A remuneration committee has been elected by the shareholders' general meeting, consisting of Andre Lagger (chairman) and Konrad Bächinger. The remuneration committee draws up proposed remuneration guidelines for the board of directors. Please refer to the remuneration report on pages 78 to 81 for further details regarding the duties of the remuneration committee.

### 3.2 Organisation

The board of directors has delegated the operational management of the Company to Benedikt Meyer as general manager (see next page), in accordance with Art. 716b CO and the articles of association and organisational regulations of the Company.

The board has delegated the management of the Company's assets in accordance with the investment policy and guidelines to LGT Capital Partners (Ireland) Limited, the investment manager (see next pages).

The board resolves by majority vote with the presence of a majority of members. Decisions can be taken by phone conference or circular resolution unless a board member requests otherwise. The board of directors meets as often as business matters require, as a rule three times a year.

The board considers agenda items laid out in the notice and agenda which are formally circulated to the board in advance of any meeting as part of the board papers. The members of the board may request any agenda items to be added that they consider appropriate for board discussion. In addition each director is required to inform the board of any potential or actual conflict of interest prior to board discussion. In 2017, three board meetings, one remuneration committee meeting and five audit committee meetings were held, with an average duration of between two and four hours. Board meetings are attended by representatives of the investment manager and the general manager. In addition to the physical meetings, various ad hoc meetings and phone conference calls were held throughout the year to deal with matters substantially of an administrative nature and these were attended by the directors available at the time.

In addition to board meetings, individual members of the boards of the Company and of the investment manager and the general manager interact frequently.

### 3.3 Information and control

In addition to information received in board meetings, the directors receive monthly reports on the course of business, including the status of the portfolio. Directors may request additional information or details through the general manager.

## 4. Management

### 4.1 General manager

The board of directors has delegated the operational management of the Company to Benedikt Meyer as general manager.

#### **Benedikt Meyer**

Mr Meyer (Swiss citizen, born 1983) is an executive director at LGT Capital Partners Ltd. Prior to joining LGT Capital Partners in 2010, Mr Meyer worked in product management and investor relations for Partners Group AG in Zug and London. In 2002, Mr Meyer completed an extensive three year training program as an accountant. Mr Meyer holds a Diploma of Higher School of Business Studies HF (BSc in Economics). He is fluent in English and German, and conversant in French.

### 4.2 Investment management

LGT Capital Partners (Ireland) Limited, Dublin, has been appointed investment manager of the Cayman Subsidiary and AIFM of the Group's Ireland Subsidiary. The investment manager is responsible for the management of the Company's assets in accordance with the investment policy and guidelines. The investment manager does not have any duties or responsibilities in relation to the operational management of the Company.

The main responsibilities of the investment manager are:

- (i) implementation of the investment policy, including identifying, purchasing and selling investments;
- (ii) monitoring of investments; and
- (iii) analysis and forecast of cash flows.

The role of the investment manager is governed through investment management agreements with the Company subsidiaries. These agreements are for an initial period expiring on 17 July 2019. However, these agreements shall remain in force and effect thereafter unless and until terminated by one of the parties giving not less than 90 calendar days' notice in writing to the other party. The compensation of the investment manager is shown in note 7 and 18 of the consolidated financial statements.

The board of the investment manager is affiliated with LGT Group.

The fee paid to the general manager is offset by a reduction of an equal amount from the management fees payable to LGT Capital Partners (Ireland) Ltd. Other significant fee arrangements for the management of the Company's assets are listed in note 18 of the consolidated financial statements.

## **5. Compensation, shareholdings and loans**

The policy regarding the remuneration of the board of directors is detailed within the remuneration report, on pages 78 to 81 of this report.

Travel and other expenses related to attendance of board meetings were covered by an expense allowance for each meeting in Switzerland, physically attended, as detailed within the remuneration report, on pages 78 to 81 of this report.

No further compensation, fees, shares, options or loans have been made by the Company or its subsidiaries in respect of the activities of directors during the course of the year under review.

## **6. Voting and representation restrictions**

### **6.1 Voting restrictions**

The articles of association do not contain any statutory voting rights restrictions other than those disclosed in section 2 above. No exceptions were granted in the year under review.

The convocation of the general meeting of shareholders and the addition of items to its agenda are to conform with the regulations of the Swiss code of obligations.

### **6.2 General meeting of shareholders**

The next shareholders' meeting is scheduled for 15 May 2018 and shall be convened by publication in the Swiss Official Gazette of Commerce at least 20 days prior to the date of the meeting.

Shareholders registered with voting rights in the shareholders' register until and including 8 May 2018 shall receive, with their invitation to the annual general meeting, a registration card to apply for an admission card and voting documentation. No new share registrations with voting rights shall be made in the shareholders' register between 7 May 2018 and the end of the general meeting.

Shareholders representing at least 10 per cent of the share capital may request that an extraordinary shareholders' meeting be convened. Shareholders representing shares with an aggregate nominal value of at least CHF 1 million may request that an item be included in the agenda of the shareholders' meeting. Such requests must be made in writing at least 35 days before the date of the meeting, specify the item to be included in the agenda and contain the proposal on which the shareholder requests a vote.

### 6.3 Statutory quorums

The articles of association contain the following voting quora that extend beyond the thresholds of simple and qualified majority prescribed in the Swiss Code of Obligations:

- the easement or abolition of the restriction of the transferability of the registered shares;
- the conversion of registered shares into bearer shares and bearer shares into registered shares; and
- the abolition of restrictions in the articles of association concerning the passing of a resolution by the shareholders' meeting.

The dissolution of the Company with a liquidation requires a resolution of the shareholders' meeting passed by at least 80 per cent of all share votes.

## 7. Change of control

The Company has stated in article 6 of its articles of association that a party acquiring shares above the legal threshold potentially triggering a public offer in the Company is not obliged to make a public offer to acquire all shares of the Company pursuant to articles 32 and 52 of the Stock Exchange Act (opting-out clause).

The members of the board of directors, the general manager and the investment manager do not benefit from contractual clauses on change-of-control situations.

## 8. Auditors

PricewaterhouseCoopers Ltd., Zurich, are the auditors of the Company. They accepted the mandate in 2001. Daniel Pajer, the auditor in charge, took up office in 2015.

Total audit fees charged by PricewaterhouseCoopers for the 2017 audit amounted to TUSD 153 (2016: TUSD 147).

Supervision of the audit takes place in various meetings and discussions between the auditors and board members throughout the year as well as through the internal audit department of LGT Group.

Principal means of information between the external auditor and the board of directors (in particular through the audit committee) is the annual audit report submitted by the auditor to the directors. The report is generally discussed with representatives of the auditor at the spring board meeting that also resolves on approval of the annual report. Prior to discussion of the auditors' report, audit committee meetings – typically in the form of conference calls – take place to discuss progress of the audit and any specific matters noted. Preparation of the audit (which includes an update on changes in accounting and reporting standards and audit requirements by the auditor) usually take place in autumn, either in the form of the auditor's presence at an audit committee meeting or by means of a phone discussion.

## **9. Information policy**

The Company publishes an annual report per 31 December and a semi-annual report per 30 June. Furthermore, the Company publishes monthly portfolio updates.

The Company publishes these and other documents on the Company's website [www.castleai.com](http://www.castleai.com). Subscribers listed on the Company's distribution schedule generally receive these documents (or references to their website location) upon publication by e-mail. Ad-hoc messages and announcements (e.g. regarding general meetings) are also distributed by e-mail. Several documents are available in print form. Please contact representatives of the Company through the website or by letter or phone to be added to the mailing list.

The financial calendar can be downloaded from the Company's website [www.castleai.com](http://www.castleai.com).

### **9.1 Non-applicability/negative disclosure**

It is expressly noted that any information not contained or mentioned herein is non-applicable or its omission is to be construed as a negative declaration (as provided in the Corporate Governance Directive and the commentary thereto).

## Share information

Exchange rate CHF/USD: 0.9736

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Since inception
<b>Share information</b>										
Number of bearer shares at year-end	38,501,000	19,707,060	17,481,596	16,352,817	13,371,710	12,378,210	10,756,059	9,653,732	8,721,297	
CAI Net asset value (USD)	15.95	16.66	15.60	16.83	18.97	19.70	19.83	19.91	20.12	
CAI Net asset value (CHF)	16.50	15.56	14.64	15.39	16.86	19.58	19.82	20.25	19.59	
CAI Closing price (USD)	12.35 <sup>3)</sup>	12.30 <sup>3)</sup>	11.65 <sup>3)</sup>	12.70 <sup>3)</sup>	14.40 <sup>3)</sup>	16.45 <sup>3)</sup>	16.25 <sup>3)</sup>	16.40 <sup>3)</sup>	— <sup>4)</sup>	
CAI Closing price (CHF)	12.60	11.90	11.50	11.60	13.00	16.45	16.55	16.95	15.65	
<b>Share performance</b>										
CAI Net asset value (USD)	12.6%	4.5%	(6.4%)	7.9%	12.7%	3.8%	0.7%	0.4%	1.1%	205.8% <sup>1)</sup>
CAI Net asset value (CHF)	8.6%	8.1%	(5.9%)	5.1%	9.6%	16.1%	1.2%	2.2%	(3.3%)	95.8% <sup>2)</sup>
CAI Closing price (USD)	64.7% <sup>3)</sup>	(0.4%) <sup>3)</sup>	(5.3%) <sup>3)</sup>	9.0% <sup>3)</sup>	13.4% <sup>3)</sup>	14.2% <sup>3)</sup>	(1.2%) <sup>3)</sup>	0.9% <sup>3)</sup>	— <sup>4)</sup>	64.5% <sup>3)</sup>
CAI Closing price (CHF)	54.6%	(5.6%)	(3.4%)	0.9%	12.1%	26.5%	0.6%	2.4%	(7.7%)	64.5%

<sup>1)</sup> Before September 1999, CAI (Overseas) Ltd. pro-forma performance numbers (real numbers adjusted for currency hedging, net of management fee and performance fee but gross of cost on CAI AG level).

<sup>2)</sup> CHF 2.61 write-off of incorporation costs due to accounting principle changes (IAS).

<sup>3)</sup> Inception of US Dollar trading 21 January 2002.

<sup>4)</sup> The US Dollar listing was discontinued on 15 September 2017.

### Price information

Reuters RIC: CHF "CASNn.S"

Reuters Contributors Page: LGTY

Bloomberg: CHF "CASN SW <Equity>"

Investdata: CHF "509275,4"

### Listing

SIX Swiss Exchange: 509.275 (Swiss security number)

### Publication of net asset value

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