

Principia Fund N.V.

The Netherlands

ANNUAL REPORT

for the year ended 31 December 2016

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General information

| | |
|------------------------|--|
| Registered Office | Gustav Mahlerplein 3 Symphony Offices, 26 th Floor 1082 MS Amsterdam The Netherlands |
| Fund Manager | Privium Fund Management B.V. Gustav Mahlerplein 3 Symphony Offices, 26 th Floor 1082 MS Amsterdam The Netherlands |
| Foundation | Stichting Administratiekantoor Principia Luna Arena Herikerbergweg 238 P.O. Box 23393 1101 CM Amsterdam The Netherlands |
| Administrator | Custom House Global Fund Services Limited Westblaak 89 P.O. Box 25121 3001 HC Rotterdam The Netherlands |
| Independent Auditor | Ernst & Young Accountants LLP Boompjes 258 3011 XZ Rotterdam The Netherlands |
| Payment Bank/Custodian | ABN AMRO Clearing Bank N.V. Gustav Mahlerlaan 10 1082 PP Amsterdam The Netherlands |

General information

Fiscal Advisor (Netherlands)

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Claude Debussylaan 42
1082 MD Amsterdam
The Netherlands

Fiscal Advisor (UK)

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8th Floor
6 New Street Square
New Fetter Lane
London EC4A 3AQ
United Kingdom

Depository

Darwin Depository Services B.V.
Barbara Strozziilaan 101
1083 HN Amsterdam
The Netherlands

Historical multi-year overview

Key figures

| | 2016 | 2015 |
|--------------------------------------|--------------------------|--------------------------|
| <i>(All amounts in EUR)</i> | | |
| Equity at the beginning of the year | 13,330,392 | 13,301,391 |
| Issue of units | 849,437 | 751,393 |
| Direct investment result | 225,332 | 284,531 |
| Indirect investment result | 2,879,100 | (421,440) |
| | <u>17,284,261</u> | <u>13,915,875</u> |
| Redemption of units | 78,906 | 271,050 |
| Expenses | 321,021 | 314,433 |
| Equity at the end of the year | <u>16,884,334</u> | <u>13,330,392</u> |
| Investments | 14,836,177 | 11,382,564 |
| Cash and cash equivalents | 2,118,886 | 2,007,437 |
| Other assets and liabilities | (70,729) | (59,609) |
| Equity at the end of the year | <u>16,884,334</u> | <u>13,330,392</u> |
| Net profit/(loss) | | |
| Investment income | 225,332 | 284,531 |
| Indirect investment result | 2,879,100 | (421,440) |
| Expenses | (321,021) | (314,433) |
| Net profit/(loss) | <u>2,783,411</u> | <u>(451,342)</u> |
| Number of units | | |
| Class A | 128,336.9880 | 122,341.5640 |
| Class B | 6,497.5789 | 5,812.8157 |
| Unitholders' equity per unit | | |
| Class A | 125.02 | 103.92 |
| Class B | 129.16 | 106.03 |
| Performance | | |
| Class A | 20.30% | (3.03)% |
| Class B | 21.82% | (1.81)% |

Management report

General equity market conditions

2016 was an incredible year in terms of economic and political developments. We witnessed the surreal situation of negative yielding bonds reaching a value of over \$13 trillion globally, while the UK referendum and the US elections were probably the most defining events of the year. In the US, promises of lower taxes, a relaxation of business regulation and increased infrastructure spending provided fuel for optimism (or as Keynes would have called it, “Animal Spirits”), propelling US and global markets to new highs. In a short space of time, yields on US treasuries spiked and the market narrative shifted from expectations of continued low growth, low inflation and zero interest rates to one of higher growth and inflation.

Global equity markets rose in both US and EUR terms in 2016. Although markets like the UK (due to Brexit) and China generated negative returns in USD terms, stock markets around the world were generally up from mid-single digits to double digits for the year. For the bellwether index, the S&P500, earnings declined in aggregate but the market rose 12%, leaving valuations at the high end of their historic range and at very high levels on cyclically adjusted measures like the Shiller P/E. Economically sensitive parts of the market like the Energy, Materials and Financial sectors performed strongly and, particularly in the case of Financials, most of the returns for the year were generated after the US election. The weakest industry was Health Care, which has been plagued by political uncertainty and others pressures on the future pricing power of parts of the pharmaceuticals supply chain in the large US market.

For the first time in almost a decade, value style indices outperformed growth indices across the globe. However, the recent outperformance of value represents only a minor reversal of the previous decade of significant underperformance vs. growth and spreads between value and growth stocks continue to be very wide in a historical context.

As we wrote in our 2015 commentary, we believe that stock market pricing continues to be influenced by a wave of “industrial scale” passive investment liquidity. The inexorable march into passive investment vehicles and out of active funds continued unabated in 2016, with a record \$280bn flowing into US index funds alone. Given the important role that active managers play in creating price discovery, the large shift from an active to passive driven market may be having important valuation and performance distorting effects which are being underappreciated by the market. We believe these effects can be seen, for example, in the continued historically wide dispersion in valuations between growth stocks, bond proxies, and stocks traditionally classified as value.

Performance

Our objective is to achieve superior long-term capital appreciation and we believe the best way to achieve that is to invest in a diversified group of attractive businesses that are trading at sizeable discounts to our assessment of intrinsic value. The Fund does not seek to mirror the exposure in a benchmark. A result of this approach is that the portfolio (and consequently its performance) will differ materially from the benchmark in the short-term. We believe little weight should be placed on short-term results, good or bad. We would be disappointed, however, if the Fund did not significantly exceed the performance of a passive global benchmark over a full market cycle.

The Fund was launched towards the end of one of the most substantial underperformance cycles of value based strategies. As a result, the Fund substantially underperformed the benchmark global equity index in the period following its launch. However, 2016 saw a reversal of this trend and the Fund generated a return of 20.1% against 10.9% for the MSCI world UCITS ETF. Since October 2014, when the Fund completed its phasing in period, the Fund returned 25.6% against 29.2% for the benchmark, bringing the performance differential to 3.6% which is down significantly from the differential of 11.9% at the end of 2015.

Additionally, against a universe of close, high calibre, global equity peers, who have managers that have shown considerable skill in long-term security selection, the Fund’s performance has been in-line with strategy expectations.

Management report

Portfolio developments

There are three ways in which we aim to put the odds in our favour in terms of generating attractive long-term performance for our investors. The first is to identify businesses that will grow their underlying intrinsic values over time. If the Fund holds a collection of businesses that are likely to reinvest free cash flows at attractive returns on capital, then the aggregate value of the portfolio will grow over time.

The second is to buy these businesses for less than their current underlying values. Buying businesses for less than they are worth, lowers risk and increases return. If the discount to value unwinds over time, investors should benefit from the movement toward value plus the growth in value.

And finally, through our incremental trading activity, we aim to further grow the value of the Fund by proactively recycling capital from relatively more expensive securities to less expensive securities as the relationships between price and fundamentals change over time. By selling shares of companies with higher price to value ratios and reinvesting proceeds into companies with lower price to value ratios, we can buy more value for each dollar invested and hence further increase the intrinsic value of the Fund.

In addition to incremental adds and trims of existing positions, during the year we bought nine new positions and exited eight.

The nine new positions purchased in 2016 were; Apple, Safran, Express Scripts, Discovery Communications, UBS, Citigroup, Bank of America, Derwent London and Astellas Pharma. Of these; Apple, Safran, Express Scripts and Discovery have become top 10 holdings. Apple and Express Scripts are re-initiations after we exited them in 2015. We exited these positions in 2015 after their share prices reached our value estimates and we found more attractively priced ideas to allocated capital to. After our exit, the stock prices declined notably and we viewed them to be attractively priced again, prompting our re-investment decision.

Safran has become a relatively large holding for the Fund. It is a French listed aerospace company with most of its profits coming from its propulsion and equipment business. The company benefits from very high barriers to entry in an industry with attractive long-term growth prospects. Safran has very attractive long-term economics in the form of high margin maintenance revenues on its huge installed base of over 25 000 units for its highly successful CFM56 engine. Customers who have bought the CFM56 are essentially locked into Safran for maintenance for decades given the high switching costs and critical safety concerns related to using different vendors. The stock price of Safran has become attractive in our view because current earnings (but not long-term value) are being impacted by the company's transition to a new generation of engines. As is to be expected, the transition to supplying a new generation of engines is resulting in margin pressure as the company is impacted from diseconomies of scale while it builds out its production capabilities. The company already has a large order backlog for its new engines and continues to maintain a near monopoly in the narrow body aircraft market, which gives us a high degree of confidence in Safran's prospects.

Discovery Communications is controlled by legendary media value creator, John Malone and is the number one pay TV programmer in the world with 3bn cumulative subscribers in 220 countries. Their networks are comprised of strong brands such as Discovery Channel, TLC, Animal Planet and Eurosport. Traditional media company stock prices have been weak due to concerns related to disruptive technology change which is accelerating media consumption behaviour changes. We believe these concerns are more than factored into the price of Discovery and that the company's strong content and good international growth prospects are being underappreciated.

In mid-2016, we initiated moderate sized positions in three financials; Citigroup, UBS and Bank of America. After years of pessimism in the financial sector we viewed these stocks as exceptionally undervalued given their pricing below even tangible book values, combined with their rapidly improving profitability even in the face of extreme, but what we believe to be cyclical rather than structural headwinds. All three of these holdings have appreciated markedly since the Fund invested in them but we continue to hold as we believe they remain undervalued and have the potential for years of improving fundamentals.

Management report

The Fund also initiated a new position in the UK REIT, Derwent London, shortly after the stock plummeted after the UK referendum. We believe Derwent is one of the best managed real estate companies in the world. The company has a pristine balance sheet, is a skilled niche operator and has a strong track record of value creation through many cycles. Fears and uncertainty surrounding Brexit have led to precipitous declines in UK real estate stocks, including Derwent. We acknowledge the risks related to Brexit but believe Derwent's stock price is factoring in an excessive level of pessimism, particularly considering the increasing dislocation of the implied value of the company's portfolio against post referendum pricing benchmarks. Although the company is focused on central London; the market may be overstating Derwent's sensitivity to macro risks as its portfolio has virtually no exposure to the UK financial sector and the business creates significant value independent of market rental levels. UK REITS are looking increasingly attractively valued vs. the direct (unlisted property market) while the direct property market, in turn looks attractively priced vs. standard benchmark bonds.

Finally, towards the end of the year, we initiated a position in Astellas Pharma. Astellas is Japan's second largest pharma company by sales and has market cap of more than \$30bn. Astellas has a strong existing product portfolio and a large pipeline focussed on urology and oncology (a key long term growth area). The company has a solid track record of value creation and management are incentivised by attaining high levels of ROE while maintaining a net cash balance sheet, and very high levels of R&D, giving us confidence in the future growth prospects of the firm. Capital discipline is good and the company proactively buys back shares when they believe their stock is undervalued, as they have been doing recently. We believe Astellas is an above average quality pharma business, yet it is trading at multiples far below European, US and even Japanese listed peers.

The eight positions exited during the year were; Nu Skin, Dena, IBM, Blucora, Starz, Outerwall, Coach and Philip Morris. Starz and Outerwall were subject to takeovers, while the rest, we sold as the stock prices approached or surpassed our estimates of fair value and as we were able to find more attractively valued new opportunities (discussed above) to recycle capital into.

The results of our bottom up stock selection activity from a sector perspective is that the Fund saw increased exposure to the Financials and Health Care sectors during the year. Financials went from 8% of NAV to 16% and Healthcare from 4% to 9%. This was at the expense of Technology, which declined from 29% to 23%, Consumer Staples which declined from 7% to 3% and Consumer Discretionary which declined from 23% to 18%.

The Fund's cash levels declined marginally in 2016, starting with about 15% and ending on 12.5%. Most of the cash decline occurred at the start of the year during a sharp market decline when the MSCI world fell about 13.5% in USD terms in a few weeks. During this period, we were able to allocate capital at increasingly attractive valuations and were able to bring the cash level down to about 11%. The subsequent rise in the market, particularly toward the end of the year, has led to an increasing dearth of opportunities in our opinion and cash levels have drifted up marginally again to around 12.8% at the time of writing.

As we have discussed before, our aim is to be fully invested for the majority of the market cycle but will only invest if we can find a sufficient number of attractive companies trading on absolute discounts to our valuation estimates. In 2016, market volatility created opportunities to allocate incremental capital but we continue to believe that the overall opportunity set remains relatively limited. Although cash has a very low current yield, we don't believe it is detrimental to portfolio performance over the long run when available discounts to value are scarce. Return on cash needs to be measured over a long time horizon. If the Fund can avoid buying overvalued securities today so as to buy undervalued securities in the future, then the eventual return on cash currently held will be much higher.

Management report

Outlook

We believe that global markets, in aggregate, continue to be priced to deliver below historic average long-term returns and that the reward for bearing incremental risk is low. In most developed markets, forward P/E ratios based on analyst estimates (who tend to be overly optimistic) suggest little room for error, particularly if interest rates start to rise in earnest. In addition to high valuations, volatility is low and correlations have been increasing, making stock picking even more challenging. For example, at the time of writing, the MSCI world has gone more than 180 days without a 5% correction, a development which has not happened since shortly before the financial crisis more than a decade ago.

We believe, underpinning or supporting this backdrop, is the growing price insensitive liquidity fuelled by passive investment vehicles which continues to create risks that are currently being underappreciated by the market and may eventually prove to be unsustainable. Should the currently popular passive investing driven factors or styles become unpopular for an extended period, we may see a rapid and painful unwinding of the excesses built around them. ETF and index investors are valuation insensitive and liquidity flows based on superficial factors may be fickle, with just as much price insensitivity on the way down, should market conditions change.

Although, not optimal, the opportunity set for Principia is likely better than what the aggregate market conditions discussed above would suggest. The wide valuation dispersions we discussed earlier (for example between value and growth stocks), continue to create relatively attractive opportunities, which we believe are well represented in the Fund. In addition, if we are correct in our analysis that expensive areas of the market have been driving an above average component of aggregate returns (and index valuations) over the last several years, then the inevitable reversion to fair value should have a far bigger negative impact on aggregate markets and passive investors than on high active share, value oriented strategies such as Principia.

Notwithstanding the challenging environment, we believe we have been able to assemble a well-diversified portfolio of attractive businesses trading at discounts to our absolute measures of intrinsic value. We feel confident in our strategy and the Fund's potential for the generation of attractive long-term returns.

General principles of remuneration policy Privium Fund Management B.V. (‘Privium’)

Privium Fund Management B.V. has a careful, controlled and sustainable remuneration policy which meets all the requirements included in the Alternative Investment Fund Managers Directive (AIFMD) and the guidelines on sound remuneration policies under the AIFMD (ESMA Guidelines). The remuneration policy is consistent with and contributes to a sound and effective risk management framework and does not encourage risk taking beyond what is acceptable for Privium Fund Management B.V.

The Board of Privium Fund Management B.V. is responsible for establishing the Remuneration policy. The Board of Privium Fund Management B.V. reviews the Remuneration policy at least once a year and the policy may be amended if circumstances warrant that.

Remunerations at Privium Fund Management B.V. may consist out of a fixed salary (this may include a payment to cover certain expenses of staff members) and a variable remuneration.

Privium Fund Management B.V. may reclaim all or part of the variable remuneration paid if (i) this payment was made on the basis of incorrect information, (ii) in the event of fraud by the employee, (iii) in the event of serious improper behaviour by the employee or serious negligence in the performance of his tasks, or (iv) in the event of behaviour that has resulted in considerable losses for the institution.

Management report

Remuneration policy 2016

This policy is based on the situation as of December 31, 2016. The financial year of the Fund Manager ends on December 31 of any year. The financial year of most Funds of which Privium is the Fund Manager will end on December 31 of any year.

For some of the funds the compensation consists of both a management and a performance fee. In 2016, the aggregate costs for staff totalled EUR 1,303,881. In the table below the Board of Privium Fund Management is being described as Identified Staff in senior management roles. All other staff members are categorized as identified staff outside senior management roles.

| | Identified staff in senior management roles | Identified staff outside senior management roles | Total staff |
|---------------------------------|--|---|--------------------|
| Number of staff | 2 | 20 | 22 |
| Total fixed payment (in EUR) | 96,936 | 1,206,945 | 1,303,881 |
| Total variable payment (in EUR) | 0 | 0 | 0 |
| Total payment (in EUR) | 96,936 | 1,206,945 | 1,303,881 |

Variable payments to staff members in senior management roles are dependent on the profitability of the company. Variable payments to identified staff outside senior management depend on the profitability of the company and/or the performance of the funds.

Privium Fund Management BV, the investment manager of the fund, does not charge any employee remuneration fees to the fund (except for the Supermarkt VastGoed fund). Employee remuneration is paid out of the management and performance fees (if any). In total 22 staff members were involved during (some part of) the year, including both part-time and full time staff.

Management report

Risk management and willingness to take risks

In the table below we list the various risk to which investors in the Fund are exposed and we discuss the measures applied to manage these risks and their potential impact on the Fund's NAV's.

| Sorts of risks | Risk hedged | Measures applied and expected effectiveness | Expected impact on 2017 NAV if risk materializes | Impact on 2016 NAV | Adjustments to risk management in 2016 or 2017 |
|-----------------------|-------------|--|--|---|--|
| Price/Market Risk | No | The fund has been holding cash and long only equity positions. In line with the philosophy of the fund, buying shares of companies at a price that is lower than the intrinsic value is a fundamental part of the risk management framework of the fund. Strong bottom-up company analysis is a very important item in mitigating risks during the holding period of a position. However share price fluctuations due to general equity market movements during the holding period can't be mitigated or avoided in full by conducting company analysis. This risk is inherent when securities like equities are traded. | Investments are being selected on having discounts to its intrinsic value but largely this will also depend on general market circumstances. | The Fund outperformed its benchmark in 2016 by a wide margin and stock selection worked well. | No |
| Interest rate risk | No | The Fund has no interest bearing financial instruments except for cash at bank. Therefore the Fund is not exposed to significant interest rate risk. | None | None | No |
| Foreign Exchange risk | No | FX risk is not being hedged. It is not expected that this will change in the near future either. | This will largely depend on FX movements. | Around 70% of the investments are denominated in non-EUR currencies. | No |
| Liquidity risk | No | Liquidity risk mostly has been mitigated by investing in positions that offer sufficient liquidity | We would not expect a negative NAV impact if this risk would materialize. | None | No |
| Credit risk | No | Spare cash is maintained at ABN AMRO. ABN AMRO has an A credit rating (S&P credit rating) and we would reconsider the relationship if this changes. | None | None | No |
| Operational risk | No | This risk is mostly mitigated by having rigid operational procedures in place. Next to that duties and responsibilities are clearly divided between Privium employees. The same is applicable at the service providers of the several Privium Funds. | None | None | No |
| Counterparty Risk | No | This risk is mostly mitigated by selecting and maintaining relationships with top tier counterparties and service providers. | None | None | No |

Control Statement

The Board of Privium Fund Management declares to have an AO/IB (Handbook) that meets the requirements of the "Wet op het financieel toezicht and the 'Besluit gedragstoezicht financiële ondernemingen ('Bgfo')". During 2016, we assessed the various aspects of the Privium operations as outlined in this AO/IB. We have not identified any internal control measures that do not meet the requirements of Article 121 of the Bgfo and as such we declare that the operations in the year 2016 functioned effectively as described. During 2016, also a number of independent service providers have conducted checks on Privium's operations as part of their ongoing responsibility. No errors have been signalled.

In 2016, the Fund Manager updated its Handbook as part of the annual update. During the fourth quarter of 2016 the Fund Manager decided to hire an external audit officer who's responsibility will be conduct an annual due diligence on a number of internal procedures at the Fund Manager. These will mostly be related to Compliance and Risk Management. During the fourth quarter of 2016 this due diligence took place for the first time. The external audit officer has reported his findings to the Fund Manager in a report.

Financial statements

BALANCE SHEET (As at 31 December)

| | <i>Note</i> | 2016 EUR | 2015 EUR |
|---|-------------|---------------------------|---------------------------|
| Assets | | | |
| Investments | | | |
| Equities | | 14,836,177 | 11,382,564 |
| | 3 | <u>14,836,177</u> | <u>11,382,564</u> |
| Current assets (fall due in less than 1 year) | | | |
| Cash and cash equivalents | 4 | 2,118,886 | 2,007,437 |
| Other receivables | 5 | 11,397 | 11,964 |
| | | <u>2,130,283</u> | <u>2,019,401</u> |
| Total assets | | <u>16,966,460</u> | <u>13,401,965</u> |
| Current liabilities (fall due in less than 1 year) | | | |
| Accrued expenses and other payables | 6 | (47,126) | (46,402) |
| Subscriptions received in advance | 7 | (35,000) | (25,171) |
| | | <u>(82,126)</u> | <u>(71,573)</u> |
| Total liabilities | | <u>(82,126)</u> | <u>(71,573)</u> |
| Total assets minus total liabilities | | <u>16,884,334</u> | <u>13,330,392</u> |
| Unitholders' equity | | | |
| Contribution of unitholders | | 13,647,788 | 12,877,257 |
| Unappropriated gain | | 3,236,546 | 453,135 |
| Total unitholders' equity | 8,18 | <u>16,884,334</u> | <u>13,330,392</u> |

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

Financial statements

INCOME STATEMENT

(For the year ended 31 December 2016)

| | <i>Note</i> | 2016 EUR | 2015 EUR |
|---|--------------|---------------------------|---------------------------|
| Investment income | | | |
| <i>Direct investment result</i> | | | |
| Interest income | 9 | 2,555 | 330 |
| Dividend income | 10 | 221,542 | 284,201 |
| Other income | | 1,235 | - |
| | | <u>225,332</u> | <u>284,531</u> |
| <i>Indirect investment result</i> | | | |
| Foreign currency translation | 11 | 51,676 | 184,019 |
| Realised gains on equities | 12 | 369,329 | 792,359 |
| Unrealised gains/(losses) on equities | 12 | 2,459,374 | (1,398,793) |
| Realised losses on derivative financial instruments | | (1,279) | - |
| Subscription and redemption fees | | - | 975 |
| | | <u>2,879,100</u> | <u>(421,440)</u> |
| Total investment income/(loss) | | <u>3,104,432</u> | <u>(136,909)</u> |
| Expenses | | | |
| Management fee | 13 14, 15 | (172,764) | (171,056) |
| Administration fee | 14 | (18,881) | (18,511) |
| Depositary fee | 14 | (18,150) | (14,786) |
| Audit fee | 14 | (11,894) | (14,620) |
| Bank charges | | (6,827) | (7,851) |
| FATCA fees | | (4,534) | (4,532) |
| Custody fee | 14 | (3,300) | (4,468) |
| Legal fees | | (1,588) | (605) |
| Interest expense | | (1,343) | (2,232) |
| Incorporation costs | | - | (10,986) |
| Other operational costs | | (10,430) | (12,295) |
| Total expenses | | <u>(249,711)</u> | <u>(261,942)</u> |
| Net profit/(loss) before tax | | 2,854,721 | (398,851) |
| Withholding tax | | (71,310) | (52,491) |
| Net profit/(loss) after tax | | <u>2,783,411</u> | <u>(451,342)</u> |

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

Financial statements

STATEMENT OF CASH FLOWS (For the year ended 31 December 2016)

| | <i>Note</i> | 2016 | 2015 |
|---|-------------|--------------------------------|--------------------------------|
| | | EUR | EUR |
| Cash flows from operating activities | | | |
| Purchases of investments | | (5,490,871) | (5,462,463) |
| Proceeds from sale of investments | | 4,865,961 | 3,908,647 |
| Net payments for derivative financial instruments | | (1,279) | - |
| Interest received | | 2,304 | 266 |
| Interest paid | | (1,292) | (2,079) |
| Dividend received | | 222,360 | 277,720 |
| Entry and exit fees received | | (11,685) | 975 |
| Management fee paid | | (169,308) | (185,045) |
| Custody fee paid | | (3,300) | (4,468) |
| Depositary fee paid | | (18,150) | (14,786) |
| Incorporation costs paid | | - | (10,986) |
| Bank charges paid | | (6,827) | (7,851) |
| Withholding tax paid | | (71,310) | (52,491) |
| Other income received | | 1,235 | (1,000) |
| Administration fee paid | | (18,719) | (26,374) |
| Audit fee | | (11,652) | (14,620) |
| Legal fee paid | | (1,588) | (605) |
| Other general expenses paid | | (6,466) | (11,846) |
| Net cash flows used in operating activities | | <u>(720,587)</u> | <u>(1,607,006)</u> |
| Cash flows from financing activities | | | |
| Proceeds from sales of units | | 859,266 | 775,505 |
| Payments on redemptions of units | | (78,906) | (271,050) |
| Net cash flows provided by financing activities | | <u>780,360</u> | <u>504,455</u> |
| Net increase/(decrease) in cash and cash equivalents | | 59,773 | (1,102,551) |
| Cash and cash equivalents at the beginning of the year | | 2,007,437 | 2,925,969 |
| Foreign currency translation of cash positions | | 51,676 | 184,019 |
| Cash and cash equivalents at the end of the year | 4 | <u><u>2,118,886</u></u> | <u><u>2,007,437</u></u> |
| Analysis of cash and cash equivalents | | | |
| Cash at bank | | 35,665 | 81,554 |
| Due from broker | | 2,083,221 | 1,925,883 |
| Total cash and cash equivalents | | <u><u>2,118,886</u></u> | <u><u>2,007,437</u></u> |

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

Notes to the financial statements

1. GENERAL INFORMATION

Principia Fund N.V. (the “Fund”) is structured as an open-ended investment fund and was established in Amsterdam in April 2014. The Fund is a public company limited by shares (naamloze vennootschap) and is a legal entity under the laws of the Netherlands. The Fund is registered at the commercial register of the Chamber of Commerce of the Netherlands under number 60521945. The Fund commenced operations on 22 May 2014. The Fund has a registered office at Gustav Mahlerplein 3, Symphony Offices, 26th Floor, 1082 MS Amsterdam, The Netherlands.

The shares of the Fund are divided in two series (“shareclasses”), Shareclass A and Shareclass B. The investment policy and risk profile of the Fund are equal for both shareclasses. Investors can invest in the Fund by obtaining depository receipts (“units”) representing an interest in Shareclass A (“A units”) or Shareclass B (“B units”). Units will be issued by the Foundation, who will be the legal owner of the shares represented by the units. The units of the Fund will be issued in two series (“unitclasses”), Unitclass A and Unitclass B. The units in Unitclass B are only available for subscription by persons working for the Fund Manager or related to the Fund. All other persons can subscribe for units in Unitclass A. As at 31 December 2016 and 31 December 2015, both Unitclass A and Unitclass B units are in issue.

The investment objective of the Fund is to earn a higher return than the average of the world’s developed equity markets, as represented by iShares MSCI World UCITS ETF.

The Fund’s investment activities are managed by Privium Fund Management B.V. (the “Fund Manager”), with the administration delegated to Custom House Global Fund Services Limited (the “Administrator”).

The Fund had no employees during the years ended 31 December 2016 and 31 December 2015.

The Fund Manager is subject to the supervision of the Netherlands Authority for the Financial Markets (“AFM”). On 22 July 2014, the AFM licence of the Fund Manager was automatically converted into an Alternative Investment Fund Managers Directive (“AIFMD”) licence by the AFM.

The financial statements have been authorised for issue by the Fund Manager on 20 June 2017.

2. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the reporting principles generally accepted in the Netherlands (“Dutch GAAP”) including the guidelines for annual reporting (RJ) 615 and the statutory provisions concerning annual accounts contained in Part 9, Book 2 of the Dutch Civil Code and the Wet op het financieel toezicht (“Wft”).

The financial statements are prepared on a fair value basis for financial investments, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

Below is a summary of the accounting policies of the Fund.

Functional currency

The financial statements are presented in Euro (“EUR”), which is the Fund’s functional currency.

Recognition and measurement

An asset is recognised in the balance sheet when it is probable that future economic benefits of the asset will flow to the Fund and the amount of the asset can be reliably measured. A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. Income is recognised in the income statement when an increase in future economic benefit related to an increase in an asset or decrease in a liability has arisen that can be measured reliably.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES *(CONTINUED)*

Recognition and measurement *(continued)*

Expenses (including value added tax ("VAT"), where applicable) are recognised in the income statement when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Estimates

The preparation of financial statements in conformity with the relevant rules requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's accounting policies. If necessary, for the purposes of providing the view required under Section 362, subsection 1, Book 2 of the Dutch Civil Code, the nature of these estimates and judgements, including related assumptions, is disclosed in the notes to the financial statements in question.

Foreign exchange

Assets and liabilities denominated in currencies other than the EUR are converted to EUR at the exchange rates prevailing on the balance sheet date. Transactions in foreign currency are converted at the rates prevailing on the date of the transaction. Foreign currency exchange differences arising on translation and realised gains and losses on disposal or settlement of monetary assets and liabilities are recognised in the income statement.

Classification of units

The units of the Fund are classified as equity. These units are recognised and measured at the redemption amount. Any distribution of equity is recognised through equity.

Basis of valuation - policies in preparing the balance sheet

Financial investments are initially measured at fair value which is the fair value of the consideration given or received. Financial investments are subsequently re-measured at fair value.

The Fund measures the fair value of any security which is listed or quoted on any securities exchange or similar electronic system and regularly traded thereon using its last traded price on the relevant business day. If no trades occurred on such day, it will be valued at the closing price on the previous business day.

Gains and losses arising from fair value changes are recognised in the income statement as 'realised gains on equities', 'unrealised gains/(losses) on equities' and 'realised losses on derivative financial instruments'.

Receivables and prepayments

The value of accounts receivable and prepaid expenses will be deemed to be the full amount unless it is unlikely to be paid or received in full. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. Cash is carried at face value.

Payables and accruals

Payables and accruals and deferred income are included at fair value.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Statement of cash flows

The statement of cash flows is prepared according to the direct method. The statement of cash flows shows the Fund's cash flows for the year divided into cash flows from operations and financing activities and how the cash flows have affected cash funds.

For the purposes of the statement of cash flows, financial instruments at fair value through profit or loss are included under operating activities. Cash flows from financing activities include proceeds from subscriptions and payments for redemptions of shares of the Fund. As the nature of the Fund is to invest in financial instruments, all cash flows related to investments are classified as cash flows from operating activities.

Notes to the financial statements

2. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

Unitholders' equity

All references to net asset value ("NAV") throughout the financial statements are equivalent to unitholders' equity.

Principles for determining the result

The Fund recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase and sale of investments is recognised using trade date accounting.

The changes in the value of the investments held by the Fund are accounted for in the income statement.

Dividends from equities are included at the date when they are declared.

Expenses are accounted for in the income statement on the accrual basis.

Tax position

The Dutch tax authorities have granted a ruling confirming that the Fund is tax transparent. This implies that the Fund is not subject to corporate income tax. Distributions made by the Fund (for example in case of redemption by a unitholder) are not subject to dividend withholding tax.

NOTES FOR INDIVIDUAL BALANCE SHEET ITEMS

3. Investments

Movement in schedule of investments

| <i>(All amounts in EUR)</i> | 2016 | 2015 |
|--|--------------------------|--------------------------|
| Investment in equities | | |
| As at 1 January | 11,382,564 | 10,435,182 |
| Purchases | 5,490,871 | 5,462,463 |
| Sales | (4,865,961) | (3,908,647) |
| Realised (loss)/gain | (87,500) | 381,503 |
| Realised gain on foreign exchange differences | 456,829 | 410,856 |
| Unrealised gain/(loss) | 2,678,627 | (2,070,157) |
| Unrealised (loss)/gain on foreign exchange differences | (219,253) | 671,364 |
| As at 31 December | <u>14,836,177</u> | <u>11,382,564</u> |

4. Cash and cash equivalents

As at 31 December 2016, cash and cash equivalents comprise of balances held with ABN AMRO Clearing Bank N.V. amounting to EUR 35,665 (2015: EUR 81,554). As at 31 December 2016 and 31 December 2015, no restrictions in the use of these balances exist.

Cash and cash equivalents also include amounts due from ABN AMRO Clearing Bank N.V. of EUR 2,083,221 (2015: EUR 1,925,883), representing amounts held in brokerage accounts.

Notes to the financial statements

NOTES FOR INDIVIDUAL BALANCE SHEET ITEMS (CONTINUED)

5. Other receivables

At the reporting date, other receivables consist of the following:

| <i>(All amounts in EUR)</i> | 2016 | 2015 |
|--------------------------------|----------------------|----------------------|
| Dividend receivable | 11,053 | 11,871 |
| Interest receivable | 344 | 93 |
| Total other receivables | <u>11,397</u> | <u>11,964</u> |

6. Accrued expenses and other payables

As at 31 December, accrued expenses and other payables consist of the following:

| <i>(All amounts in EUR)</i> | 2016 | 2015 |
|--|------------------------|------------------------|
| Management fee payable | (16,770) | (13,314) |
| Audit fee payable | (12,947) | (12,705) |
| Administration fee payable | (4,912) | (4,750) |
| FATCA fee payable | (4,753) | (4,606) |
| Foundation fee payable | (4,090) | (9,725) |
| Licence fee payable | (1,300) | - |
| Interest fee payable | (204) | (153) |
| Other payables | (2,150) | (1,149) |
| Total accrued expenses and other payables | <u>(47,126)</u> | <u>(46,402)</u> |

7. Subscriptions received in advance

Subscriptions received in advance represent the amounts received from unitholders for subscriptions to units of the Fund for the first business day of the next month. Unitholders are required to deposit the amounts with the Fund prior to the issuance of units.

As at 31 December 2016, the subscriptions received in advance amount to EUR 35,000 (2015: EUR 25,171). On 2 January 2017, the Fund issued 269.9222 units of Unitclass B to the subscribing unitholders.

8. Share capital

Structure of the Fund's capital

Principia Fund N.V. is structured as an open-ended investment fund and was established in Amsterdam in April 2014. The shares of the Fund are divided in two series ("shareclasses"), Shareclass A and Shareclass B. The investment policy and risk profile of the Fund are equal for both shareclasses. The shareclasses only differ with respect to the management fee and the performance fee, as no such fees are charged to Shareclass B. Investors can invest in the Fund by obtaining depository receipts ("units") representing an interest in Shareclass A ("A units") or Shareclass B ("B units"). Units will be issued by the Foundation, who will be the legal owner of the shares represented by the units. The units of the Fund will be issued in two series ("unitclasses"), Unitclass A and Unitclass B. The units in Unitclass B are only available for subscription by persons working for the Fund Manager or related to the Fund. All other persons can subscribe for units in Unitclass A. As at 31 December 2016 and 31 December 2015, both Unitclass A and Unitclass B units are in issue.

Notes to the financial statements

NOTES FOR INDIVIDUAL BALANCE SHEET ITEMS (CONTINUED)

8. Share capital (continued)

Structure of the Fund's capital (continued)

The movement of equity in the units during the year is as follows:

| <i>(All amounts in EUR)</i> | 2016 | 2015 |
|--|--------------------------|--------------------------|
| <i>Contributions of unitholders</i> | | |
| Balance at the beginning of the year | 12,877,257 | 12,396,914 |
| Issue of units | 849,437 | 751,393 |
| Redemption of units | <u>(78,906)</u> | <u>(271,050)</u> |
| Total contributions at the end of the year | <u>13,647,788</u> | <u>12,877,257</u> |
| <i>Unappropriated gain</i> | | |
| Balance at the beginning of the year | 453,135 | 904,477 |
| Net profit/(loss) after tax | <u>2,783,411</u> | <u>(451,342)</u> |
| Total undistributed gain at the end of the year | <u>3,236,546</u> | <u>453,135</u> |
| Equity at the end of the year | <u>16,884,334</u> | <u>13,330,392</u> |

Subscriptions and redemptions

The Fund enables the Foundation to issue units on the first business day of each calendar month at the unitholders' equity per unit on the preceding valuation day, plus a subscription fee of 0.15% of the subscription amount. The minimum initial subscription for each unitholder is EUR 20,000 with the minimum subsequent subscription amounts being EUR 1,000. The Unitclass A and Unitclass B units were issued at an initial subscription price of EUR 100 per unit and thereafter at the unitholders' equity per unit. The minimum subscription amount can be lowered at the sole discretion of the Fund Manager.

The Fund enables the Foundation to redeem units of the unitholders' equity on the last day of each calendar month, less a fee of 0.15% of the redemption amount. The minimum value of units which may be subject of one redemption request is EUR 1,000. The Fund Manager may decide to lower this amount in individual cases.

The movement of the units during the year ended 31 December 2016 was as follows:

| | Units at the beginning of the year | Units issued | Units redeemed | Units at the end of the year |
|--------------|---|--------------------------|---------------------------|---|
| Unitclass A | 122,341.5640 | 6,730.6049 | (735.1809) | 128,336.9880 |
| Unitclass B | <u>5,812.8157</u> | <u>684.7632</u> | <u>-</u> | <u>6,497.5789</u> |
| Total | <u>128,154.3797</u> | <u>7,415.3681</u> | <u>(735.1809)</u> | <u>134,834.5669</u> |

The movement of the units during the year ended 31 December 2015 was as follows:

| | Units at the beginning of the year | Units issued | Units redeemed | Units at the end of the year |
|--------------|---|--------------------------|----------------------------|---|
| Unitclass A | 120,326.8670 | 4,478.3082 | (2,463.6112) | 122,341.5640 |
| Unitclass B | <u>3,757.6282</u> | <u>2,055.1875</u> | <u>-</u> | <u>5,812.8157</u> |
| Total | <u>124,084.4952</u> | <u>6,533.4957</u> | <u>(2,463.6112)</u> | <u>128,154.3797</u> |

Notes to the financial statements

NOTES FOR INDIVIDUAL BALANCE SHEET ITEMS (CONTINUED)

8. Share capital (continued)

Capital management

The Fund's objectives when managing capital are to safeguard the Fund's ability to continue as a going concern in order to provide returns for unitholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Fund does not intend to pay dividends. All earnings will normally be retained for investments.

NOTES FOR INDIVIDUAL INCOME STATEMENT ITEMS

9. Interest income

Interest income relates to the interest on bank and broker balances.

10. Dividend income

Dividend income relates to dividend from equity instruments.

11. Foreign currency translation

Realised and unrealised exchange differences consist of realised and unrealised translation gains on assets and liabilities other than financial assets and liabilities. For the year ended 31 December 2016, this amounted to gains of EUR 51,676 (2015: gains of EUR 184,019). The following average and closing rates have been applied in the preparation of these financial statements (the equivalent of one Euro is shown):

| | 2016 | | 2015 | |
|---|----------|----------|----------|----------|
| | Average | Closing | Average | Closing |
| <i>(Showing the equivalent of 1 Euro)</i> | | | | |
| Great Britain Pound | 0.8193 | 0.8523 | 0.7264 | 0.7372 |
| Hong Kong Dollar | 8.5921 | 8.1558 | 8.6071 | 8.4180 |
| Japanese Yen | 120.3300 | 123.0012 | 134.3600 | 130.6848 |
| Norwegian Krone | 9.2922 | 9.0931 | 8.9529 | 9.6074 |
| United States Dollar | 1.1069 | 1.0520 | 1.1102 | 1.0856 |

12. Investment return

(All amounts in EUR)

| | 2016 | | 2016 | 2015 |
|---------------------|------------------|--------------------|------------------|------------------|
| | Profit | Loss | Total | Total |
| Equities | | | | |
| Realised result | 1,005,485 | (636,156) | 369,329 | 792,359 |
| Unrealised result | 3,459,303 | (999,929) | 2,459,374 | (1,398,793) |
| Total result | 4,464,788 | (1,636,085) | 2,828,703 | (606,434) |

Notes to the financial statements

NOTES FOR INDIVIDUAL INCOME STATEMENT ITEMS (CONTINUED)

13. Costs

The Fund makes use of various parties for management, administration and custody services. The table below provides a breakdown of expenses.

| <i>(All amounts in EUR)</i> | 2016 | 2015 |
|--|-------------------------|-------------------------|
| Expenses accruing to Fund Manager | | |
| Management fee | (172,764) | (171,056) |
| Other expenses | | |
| Administration fee | (18,881) | (18,511) |
| Depositary fee | (18,150) | (14,786) |
| Audit fee | (11,894) | (14,620) |
| Bank charges | (6,827) | (7,851) |
| FATCA fees | (4,534) | (4,532) |
| Custody fee | (3,300) | (4,468) |
| Legal fees | (1,588) | (605) |
| Interest expense | (1,343) | (2,232) |
| Incorporation costs | - | (10,986) |
| Other operational costs | (10,430) | (12,295) |
| Total | <u>(249,711)</u> | <u>(261,942)</u> |

The basis on which various costs are charged to the Fund are disclosed in detail in the Prospectus. It is a Dutch regulatory requirement to disclose any differences between actual costs and the costs disclosed in the Prospectus. During the year ended 31 December 2016, all costs actually charged to the Fund were in accordance with the costs disclosed in the Prospectus. During the year, the Fund also incurred costs such as interest expense of EUR 1,343 (2015: EUR 2,232), FATCA fees of EUR 4,534 (2015: EUR 4,532), bank charges of EUR 6,827 (2015: EUR 7,851), legal fees of EUR 1,588 (2015: EUR 605) and other general expenses of EUR 3,080 (2015: EUR 5,579) which are not detailed in the Prospectus.

Ongoing charges ratio

The ongoing charges ratio is the ratio of the total costs to the average net assets of the Fund. The average net assets are based on the Fund's net assets at each calculation of the unitholders' equity i.e., monthly.

For the year ended 31 December 2016, the ongoing charges ratio for the Fund is as follows:

| | 2016 |
|--|-------------|
| Ongoing charges ratio including performance fees | 1.72% |
| Ongoing charges ratio excluding performance fees | 1.72% |

For the year ended 31 December 2015, the ongoing charges ratio for the Fund is as follows:

| | 2015 |
|--|-------------|
| Ongoing charges ratio including performance fees | 1.84% |
| Ongoing charges ratio excluding performance fees | 1.84% |

Turnover factor

For the year ended 31 December 2016, the turnover factor for the Fund is 78.22% (2015: 74.02%). The turnover factor is calculated by adding total purchases and sales, subtracting total subscriptions plus total redemptions and dividing the total by the average unitholders' equity.

Notes to the financial statements

14. RELEVANT CONTRACTS

Fund Manager

Management fee

Privium Fund Management B.V. acts as the Fund Manager to the Fund. The Fund Manager is entitled to an annual management fee of 1.25% of the unitholders' equity of Unitclass A. The management fee is calculated monthly and payable monthly in arrears. No management fee is charged to Unitclass B.

Details of management fees charged for the year are disclosed in the income statement.

Performance fee

The Fund Manager is also entitled to a monthly performance fee in respect of Unitclass A. No performance fee is charged to Unitclass B. The performance fee is equal to 20% of the percentage to which the Fund outperforms the MSCI World ETF, after deduction of the fixed fees. The performance fee only applies once the Fund reaches a new Outperformance High Water Mark ("OHWM"). This means that the Fund Manager will only receive a performance fee when the performance of Unitclass A relative to the performance of the benchmark reaches a new all-time high level. Should the OHWM have increased, the Fund Manager is entitled to 20% of the increase of the OHWM. Should the Fund outperformance versus the benchmark decrease, then the Fund Manager will not be entitled to the performance fee until the outperformance has surpassed the previous OHWM. The performance fee will be determined on the basis of the unitholders' equity of Unitclass A on the last day of each calendar month, after adjusting for subscriptions, redemptions and distributions with respect to Unitclass A, and will then fall due immediately.

During the years ended 31 December 2016 and 31 December 2015, there were no performance fees charged to the Fund.

Administrator

The Fund has entered into an administration agreement with Custom House Global Fund Services Limited. The Administrator charges an annual fee, to be calculated and paid monthly in arrears on the basis of the unitholders' equity of the Fund before deduction of the management fee, and with a minimum of EUR 15,000 per annum. This annual fee is based on the following sliding scale:

- | | |
|--|-----------------|
| ▪ Part up to EUR 30 million | 10 basis points |
| ▪ Part between EUR 30 million and EUR 50 million | 8 basis points |
| ▪ Part above EUR 50 million | 6 basis points |

The Administrator also charges a fixed fee of EUR 3,500 per annum for the preparation of the annual report. No VAT has to be paid on these amounts. From 1 January 2017, the annual fee will increase to EUR 5,000.

Details of administration fees charged for the year are disclosed in the income statement.

Payment Bank/Custodian

ABN AMRO Clearing Bank N.V. acts as Custodian to the Fund. The Custodian is entitled to receive fees from the Fund in accordance with its customary charges.

Independent Auditor

The Fund appointed Ernst & Young Accountants LLP as the Independent Auditor. The Independent Auditor's remuneration consists of EUR 11,894 (2015: EUR 14,620) audit fee (including VAT) for the audit of the financial statements. The Independent Auditor does not provide any non-audit services or other audit services to the Fund.

Notes to the financial statements

14. RELEVANT CONTRACTS (CONTINUED)

Depository

The Fund has entered into a depository agreement with Darwin Depository Services B.V. Prior to 1 January 2016, the Depository charged an annual fee of EUR 10,000 (excluding VAT), payable quarterly in advance, for depository services provided to the Fund. From 1 January 2016, the annual fee increased to EUR 15,000 (excluding VAT). From 1 January 2017, the annual fee will increase to EUR 16,500. A once-off fee of EUR 2,500 for the on-boarding process was paid by the Fund on signing the depository agreement. Details of depository fees charged for the year are disclosed in the income statement.

15. RELATED PARTY TRANSACTIONS

Related party transactions are transfers of resources, services or obligations between related parties and the Fund, regardless of whether a price has been charged. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or is part of key management of the Fund. The following provides details on the related parties of the Fund and transactions with the related parties.

The Fund Manager is considered a related party.

The following transactions occurred between the Fund and the Fund Manager during the reporting year.

2016 transactions and balances as at 31 December 2016

| | Paid | Balance |
|----------------|-------------|----------------|
| | EUR | EUR |
| Management fee | (169,308) | (16,770) |

2015 transactions and balances as at 31 December 2015

| | Paid | Balance |
|----------------|-------------|----------------|
| | EUR | EUR |
| Management fee | (185,045) | (13,314) |

The units in Unitclass B have been issued to persons working for the Fund Manager or related to the Fund. Mr. Ryan Nicholas Dally, the portfolio manager, holds 1,068.1794 units (31 December 2015: 708.1228 units) of Unitclass B.

16. FINANCIAL INVESTMENTS AND ASSOCIATED RISKS

The Fund's investment objective is to earn a higher return than the average of the world's developed equity markets, as represented by iShares MSCI World UCITS ETF.

The Fund attempts to achieve its objective by investing predominantly in global listed equities and is therefore exposed to all the risks and rewards associated with the equities selected. The Fund is actively managed and will likely differ materially from the benchmark in order to achieve its objective.

The Fund's activities expose it to a variety of financial risks: market risk (including market price risk, interest rate risk and currency risk), credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. Market risk comprises market price risk, interest rate risk and currency risk. The Fund's market risk is managed through diversification of its investments. For further explanation of the investment objectives, policies and processes, refer to pages 6 and 7 of these financial statements.

Notes to the financial statements

16. FINANCIAL INVESTMENTS AND ASSOCIATED RISKS (CONTINUED)

Market risk (continued)

Market price risk

Price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As at 31 December 2016 and 31 December 2015, price risk arises on the Fund's investments in equities.

The Fund's diversification of financial assets at fair value through profit or loss represented per significant industry sector as at 31 December 2016 and 31 December 2015 is as follows:

| Sector | 2016 EUR | % of unitholders' equity | 2015 EUR | % of unitholders' equity |
|--------------------|-------------------|--------------------------------|-------------------|--------------------------------|
| Insurance | 1,786,991 | 10.6 | 1,085,502 | 8.1 |
| Semiconductors | 1,221,708 | 7.2 | 1,324,535 | 9.9 |
| Media | 1,173,512 | 7.0 | 960,367 | 7.2 |
| Computers | 1,004,904 | 5.9 | - | - |
| Telecommunications | 1,003,055 | 5.9 | 964,430 | 7.2 |
| Software | 907,340 | 5.4 | 682,919 | 5.1 |
| Internet | 788,992 | 4.7 | 1,171,140 | 8.9 |
| Other sectors | 6,949,675 | 41.2 | 5,193,671 | 39.0 |
| | <u>14,836,177</u> | <u>87.9</u> | <u>11,382,564</u> | <u>85.4</u> |

The table below details the sensitivity of the Fund's investments to a reasonable possible increase of 5% at 31 December 2016 and 31 December 2015:

| Sector | 2016 Amount in EUR | % of unitholders' equity | 2015 Amount in EUR | % of unitholders' equity |
|--------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|
| Insurance | 89,350 | 0.5 | 54,275 | 0.4 |
| Semiconductors | 61,085 | 0.4 | 66,227 | 0.5 |
| Media | 58,676 | 0.3 | 48,018 | 0.4 |
| Computers | 50,245 | 0.3 | - | - |
| Telecommunications | 50,153 | 0.3 | 48,222 | 0.4 |
| Software | 45,367 | 0.3 | 34,146 | 0.3 |
| Internet | 39,450 | 0.2 | 58,557 | 0.4 |

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund has no interest bearing financial instruments except for cash at banks and amounts due from broker which are subject to normal market related short-term interest rates. Therefore, the Fund is not exposed to significant interest rate risks.

Notes to the financial statements

16. FINANCIAL INVESTMENTS AND ASSOCIATED RISKS (CONTINUED)

Market risk (continued)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk exposure arises from the Fund investing in financial instruments and entering into transactions which are denominated in currencies other than its functional currency. The Fund's exposure to foreign exchange movements at 31 December 2016 and 31 December 2015 is as follows:

| | 2016 | | 2015 | |
|----------------------|-------------------|--------------------------------|-------------------|--------------------------------|
| | Fair value EUR | % of unitholders' equity | Fair value EUR | % of unitholders' equity |
| Currency | | | | |
| Great Britain Pound | 1,658,078 | 9.8 | 1,010,489 | 7.6 |
| Hong Kong Dollar | 736,161 | 4.4 | 634,996 | 4.8 |
| Japanese Yen | 1,810,543 | 10.7 | 1,550,278 | 11.6 |
| Norwegian Krone | 477,926 | 2.8 | 436,189 | 3.3 |
| United States Dollar | 10,705,550 | 63.4 | 9,185,134 | 68.9 |

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. It arises from cash and cash equivalents and other receivables. The carrying values of financial assets (excluding any investments in equity instruments) best represent the maximum credit risk exposure at the reporting date and amount to EUR 2,130,283 (2015: EUR 2,019,401).

All transactions of the Fund are cleared by ABN AMRO Clearing Bank N.V. representing a concentration risk. Bankruptcy or insolvency of ABN AMRO Clearing Bank N.V. may cause the Fund's rights with respect to the cash and/or its investments to be delayed or limited. The Fund regularly monitors its risk by monitoring the credit quality of ABN AMRO Clearing Bank N.V. as reported.

As at 31 December 2016, the credit rating of ABN AMRO Clearing Bank N.V. is 'A' (2015: 'A'), as determined by Standard and Poor's. If the credit quality or the financial position of this entity deteriorates significantly the Fund Manager will deal with another provider.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities.

The Fund's Prospectus provides for the monthly creation and cancellation of units and it is therefore exposed to the liquidity risk of meeting unitholders redemptions. The Fund's policy only allows for redemptions on the last day of each calendar month and notice of 10 business days must be provided.

The Fund's listed securities are considered to be readily realisable as they are listed on recognised exchanges.

The Fund's other liabilities are short-term in nature.

17. SOFT DOLLAR ARRANGEMENTS

A 'soft dollar arrangement' applies when a (financial) service provider offers services and products (such as research and information services) to an asset manager in exchange for executing certain securities transactions.

Notes to the financial statements

17. SOFT DOLLAR ARRANGEMENTS (CONTINUED)

The Fund Manager had a soft dollar arrangement with Green Street during the year ended 31 December 2016 to the value of EUR 10,000 (2015: EUR 10,000).

18. UNITHOLDERS' EQUITY AS ISSUED

The following schedule shows the reconciliation between the unitholders' equity in accordance with the Prospectus and the unitholders' equity as determined in accordance with Dutch Accounting Standard 210 ("Dutch GAAP").

The Prospectus states that incorporation costs should be amortised over 5 years. Dutch GAAP prefers that incorporation costs be expensed immediately.

| | 2016 | 2015 |
|--|--------------------------|--------------------------|
| | EUR | EUR |
| Unitholders' equity attributable to holders of units in accordance with the Prospectus | 16,924,575 | 13,387,685 |
| Adjustments | | |
| Unamortised incorporation costs | (40,241) | (57,293) |
| Adjusted unitholders' equity attributable to holders of units in accordance with Dutch GAAP | <u>16,884,334</u> | <u>13,330,392</u> |
| Number of units | | |
| Unitclass A | 128,336.9880 | 122,341.5640 |
| Unitclass B | 6,497.5789 | 5,812.8157 |
| Unitholders' equity per unit in accordance with the Prospectus | | |
| Unitclass A | 125.32 | 104.36 |
| Unitclass B | 129.47 | 106.48 |
| Adjusted unitholders' equity per unit in accordance with Dutch GAAP | | |
| Unitclass A | 125.02 | 103.92 |
| Unitclass B | 129.16 | 106.03 |

19. EVENTS AFTER THE BALANCE SHEET DATE

No material events occurred after the balance sheet date that could influence the transparency of the financial statements.

Investment portfolio as at 31 December 2016

| Assets | Currency | Fair value EUR | % of unitholders' equity |
|-------------------------------------|----------|-------------------|--------------------------------|
| Equities | | | |
| American International Group Inc. | USD | 911,981 | 5.4 |
| Apollo Group Inc. | USD | 68,924 | 0.4 |
| Apple Inc. | USD | 614,330 | 3.6 |
| Astellas Pharma Inc. | JPY | 318,100 | 1.9 |
| AtoS | EUR | 390,574 | 2.3 |
| Bank of America Corp. | USD | 292,006 | 1.7 |
| Berkshire Hathaway Inc. | USD | 875,010 | 5.2 |
| Cisco Systems Inc. | USD | 352,816 | 2.1 |
| Citigroup Inc. | USD | 296,585 | 1.8 |
| Derwent London Plc | GBP | 389,116 | 2.3 |
| Discovery Communications | USD | 450,754 | 2.7 |
| Express Scripts Holding Co. | USD | 436,803 | 2.6 |
| Fluor Corp. | USD | 355,708 | 2.1 |
| FTD Cos Inc. | USD | 357,917 | 2.1 |
| Gilead Sciences Inc. | USD | 343,755 | 2.0 |
| Innoviva Inc. | USD | 430,207 | 2.5 |
| Luk Food Holdings International Ltd | HKD | 227,682 | 1.3 |
| Michael Kors Holdings Ltd | USD | 438,380 | 2.6 |
| Nexon Co Ltd | JPY | 431,075 | 2.5 |
| Oracle Corp | USD | 907,340 | 5.4 |
| Performant Financial Corp | USD | 70,509 | 0.4 |
| QinetiQ Group Plc | GBP | 338,613 | 2.0 |
| QUALCOMM Inc. | USD | 721,105 | 4.3 |
| Royal Mail Plc | GBP | 323,683 | 1.9 |
| Safran SA | EUR | 584,580 | 3.5 |
| Samsung Electronics Co Ltd | USD | 500,604 | 3.0 |
| Scripps Networks Interactive Inc. | USD | 359,564 | 2.1 |
| SJM Holdings Ltd | HKD | 246,009 | 1.5 |
| Softbank Corp. | JPY | 650,240 | 3.9 |
| Sotsu Co Ltd | JPY | 262,536 | 1.6 |
| Spectrum ASA | NOK | 77,145 | 0.5 |
| Subsea 7 SA | NOK | 326,959 | 1.9 |
| Tata Motors Ltd | USD | 349,784 | 2.1 |
| Television Broadcasts Ltd | HKD | 244,416 | 1.4 |
| Tesco Plc | GBP | 488,037 | 2.9 |
| Tronc Inc. | USD | 118,778 | 0.7 |
| UBS Group | CHF | 284,552 | 1.7 |
| | | 14,836,177 | 87.9 |

Investment portfolio as at 31 December 2015

| Assets | Currency | Fair value EUR | % of unitholders' equity |
|--------------------------------------|----------|-------------------|--------------------------------|
| Equities | | | |
| American International Group Inc. | USD | 744,942 | 5.6 |
| Apollo Group Inc. | USD | 221,593 | 1.7 |
| AtoS | EUR | 363,241 | 2.7 |
| Berkshire Hathaway Inc. | USD | 340,560 | 2.6 |
| Blucora Inc. | USD | 214,389 | 1.6 |
| Cisco Systems Inc. | USD | 377,258 | 2.8 |
| Coash Inc. | USD | 370,263 | 2.8 |
| Dena Co Ltd | JPY | 368,350 | 2.8 |
| Fluor Corp | USD | 240,319 | 1.8 |
| FTD Cos Inc. | USD | 279,491 | 2.1 |
| Gilead Sciences Inc. | USD | 192,015 | 1.4 |
| International Business Machines Corp | USD | 212,971 | 1.6 |
| Luk Food Holdings International Ltd | HKD | 179,086 | 1.3 |
| Michael Kors Holdings Ltd | USD | 198,898 | 1.5 |
| Nexon Co Ltd | JPY | 308,911 | 2.3 |
| Nu Skin Enterprises Inc. | USD | 205,924 | 1.5 |
| Oracle Corp | USD | 682,919 | 5.1 |
| Outerwall Inc. | USD | 157,018 | 1.2 |
| Performant Financial Corp | USD | 53,558 | 0.4 |
| Philip Morris International Inc. | USD | 415,418 | 3.1 |
| QinetiQ Group Plc | GBP | 170,381 | 1.3 |
| QUALCOMM Inc. | USD | 611,690 | 4.6 |
| Royal Mail Plc | GBP | 359,551 | 2.7 |
| Samsung Electronics Co Ltd | USD | 712,845 | 5.3 |
| Scripps Networks Interactive Inc. | USD | 269,450 | 2.0 |
| SJM Holdings Ltd | HKD | 216,785 | 1.6 |
| Softbank Corp | JPY | 587,172 | 4.4 |
| Sotsu Co Ltd | JPY | 219,175 | 1.6 |
| Spectrum ASA | NOK | 118,686 | 0.9 |
| Starz – A | USD | 261,526 | 2.0 |
| Subsea 7 SA | NOK | 282,200 | 2.1 |
| Tata Motors Ltd | USD | 268,748 | 2.0 |
| Television Broadcasts Ltd | HKD | 232,178 | 1.7 |
| Tesco Plc | GBP | 343,979 | 2.6 |
| Theravance Inc. | USD | 403,862 | 3.0 |
| Tribune Publishing Co | USD | 197,123 | 1.5 |
| | | 11,382,564 | 85.4 |

Other information

Provisions of the Prospectus on distribution policy

The Fund Manager does not intend to distribute any income of the Fund to the unitholders. The Fund Manager shall have sole discretion whether to distribute any income of the Fund or whether to retain it within the Fund.

Provision of information

This annual report and the Prospectus of the Fund are available free of charge from the Fund Manager or available for download free of charge from the Fund Manager's website: www.priviumfund.com.

Date of authorisation

The financial statements have been authorised for issue by the Fund Manager in Amsterdam on 20 June 2017.



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Independent auditor's report

To: The shareholders and directors of Principia Fund N.V.

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of Principia Fund N.V., based in Amsterdam, The Netherlands.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Principia Fund N.V. as at December 31, 2016, and of its result and its cash flows for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code and the requirements set with regard to the financial statements by or pursuant to the Dutch Financial Supervision Act.

The financial statements comprise:

- ▶ The Balance Sheet as at December 31, 2016
- ▶ The Income statement for 2016
- ▶ The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Principia Fund N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics) and with the independence and other ethical requirements set forth in Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (the IESBA Code).

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

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- ▶ Management Report)
- ▶ Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code
- ▶ General information

Based on the following procedures performed, we conclude that the other information:

- ▶ Is consistent with the financial statements and does not contain material misstatements
- ▶ Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The board of directors is responsible for the preparation of the other information, including the board of director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code and the requirements set by or pursuant to the Dutch Financial Supervision Act.

Description of responsibilities for the financial statements

Responsibilities of the board of directors for the financial statements

The board of directors of the investment entity is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code and the requirements set with regard to the financial statements by or pursuant to the Dutch Financial Supervision Act. Furthermore, the board of directors is responsible for such internal control as the board of directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the board of directors is responsible for assessing the investment entity's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the board of directors should prepare the financial statements using the going concern basis of accounting unless the board of directors either intends to liquidate the investment entity or to cease operations, or has no realistic alternative but to do so. The board of directors should disclose events and circumstances that may cast significant doubt on the investment entity's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

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

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

The Hague, 20 June 2017

Ernst & Young Accountants LLP

signed by R.J. Bleijs