

# Annual report including audited financial statements as at 31st December 2016

## **Lancelot Ector**

Investment Company (SICAV), Luxembourg

R.C.S. Luxembourg B 54 040



Subscriptions are received solely on the basis of the most recent prospectus and Key Investor Information Document (which may be read under <http://fundinfo.sebfundservices.lu/LancelotEctor/>) and the latest audited annual report at 31st December and, if more recent, the unaudited financial statements at 30th June.

**Lancelot Ector**

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## Lancelot Ector

### Organisation

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#### Registered Office

4, rue Peternelchen  
L-2370 Howald

#### Board of Directors of the SICAV

##### Chairman

Tobias JÄRNBLAD  
Managing Director  
Lancelot Asset Management AB, Stockholm, Sweden

Per LJUNGBERG

Deputy Managing Director  
Lancelot Asset Management AB, Stockholm, Sweden

Jean-Claude WOLTER

Honorary Lawyer, Director of Companies  
Luxembourg, Grand-Duchy of Luxembourg

#### Management Company

SEB Fund Services S.A.  
4, rue Peternelchen  
L-2370 Howald

#### Board of Directors of the Management Company

##### Chairman

Gustaf UNGER  
Head of Investor Services, Transaction Banking  
Skandinaviska Enskilda Banken AB (publ), Sweden

##### Directors

Göran FORS  
Head of Sales and Market Development  
Asset Servicing  
Skandinaviska Enskilda Banken AB (publ), Sweden

Marie JUHLIN

Managing Director  
SEB Fund Services S.A., Luxembourg  
(since 29th March 2016)

Jonas LINDGREN

Client Executive, Hedge Fund Coverage  
Skandinaviska Enskilda Banken AB (publ), Sweden

Erika LUNDQUIST

Managing Director  
Skandinaviska Enskilda Banken S.A., Luxembourg  
(until 31st October 2016)

Magnus WALLBERG

Deputy Managing Director, CFO/COO  
Skandinaviska Enskilda Banken S.A., Luxembourg  
(until 29th March 2016)

## Lancelot Ector

### Organisation (continued)

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<b>Depositary</b>	Skandinaviska Enskilda Banken S.A. 4, rue Peternelchen L-2370 Howald
<b>Central Administration Agent</b>	SEB Fund Services S.A. 4, rue Peternelchen L-2370 Howald
<b>Sub-Administrative Agent and Registrar Agent</b>	European Fund Administration S.A. 2, rue d'Alsace L-1122 Luxembourg
<b>Investment Manager</b>	Lancelot Asset Management AB Nybrokajen 7, PO Box 16172 SE-103 23 Stockholm
<b>Auditor</b>	PricewaterhouseCoopers, Société coopérative 2, rue Gerhard Mercator L-2182 Luxembourg
<b>Placement and Distribution Agent</b>	Lancelot Asset Management AB Nybrokajen 7, PO Box 16172 SE-103 23 Stockholm
<b>Authorized Placement Agent in Sweden</b>	Consortum AB Wenner-Gren Center Sveavägen 166 SE-113 46 Stockholm

## Lancelot Ector

### General information

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Lancelot Ector (the "Company") is an open-ended investment Company incorporated on 28th February 1996 under the laws of the Grand Duchy of Luxembourg as a "*Société d'Investissement à Capital Variable*" ("SICAV"). The Company is registered under Part I of the amended Law of 17th December 2010 relating to undertakings for collective investment.

The EU Savings Directive has been abrogated with effect in Luxembourg from 1st June 2016 and replaced by the Common Reporting Standards described in the current prospectus.

On 1st June 2016, the Luxembourg Memorial C has been replaced by RESA (Recueil Electronique des Sociétés et Associations), the new official electronic platform of central publication regarding companies and associations. Publications made after 1st June 2016 are available on this new platform accessible through the website of the Registre de Commerce et des Sociétés.

The Company is structured as an umbrella fund. At the date of the present financial statements, the Company has only one active Sub-Fund:

- Lancelot Ector - Master Fund; expressed in SEK.

The Company issues shares of Class B which can be subscribed and redeemed at the registered office of the Company or the Administrative Agent, through any Distributor or Placement Agent and/or any sub-distributor or sub-placement agent.

The B Class of Shares corresponding to the Lancelot Ector - Master Fund are issued in the form of categories being accumulation shares and dividend shares.

The financial year of the Company ends on 31st December.

Subscription and redemption prices are available at the registered office of the Company.

Financial reports of the Company are published annually and semi-annually. At the date of the financial statements, one Sub-Fund is offered for sale. As a consequence, the financial statements of the Sub-Fund Lancelot Ector - Master Fund reflect also the global situation of the Company.

These reports, as well as the offering prospectus, and all information concerning the Company can be obtained at the offices of the registered office of the Company.

The financial reports can also be consulted under <http://fundinfo.sebfundservices.lu/lancelotEctor/>.

Dear Shareholder,

Lancelot Ector, SICAV was established as an umbrella fund on 28th February 1996.

Total shares outstanding for the Master Fund, initially launched on 13th March 1996 at SEK 10,00 per share, amount to 15,484,631.77 capitalisation shares and 6,147,598.13 distribution shares as of 31st December 2016, representing total net assets of SEK 641,617,067. The net asset value per capitalisation share was SEK 33.42 i.e. increase of 234.2% after fees from launch date and increase of 1.55% during the year 2016.

The Master Fund is a so-called balanced fund, which seeks to achieve long-term growth from diversified investments both in equities and bonds. The asset allocation is flexible with the equity part primarily invested in Swedish listed stocks but with the possibility of international diversification. The bond portion of the portfolio shall to a large extent be invested in Swedish bonds with low credit risks.

#### **Global economy and financial markets (market review)**

Global bond yields continued to rise markedly at the tail end of the year. After core fixed income markets had plumbed to new historical depths this summer, overall yields jumped sharply by the end of November - in fact by a magnitude similar to that of the taper tantrum of May-September 2013. Initially supported by positive macroeconomic news globally, the rise in yields sharply accelerated after the US presidential election. Market developments reflected better than expected third quarter GDP growth in advanced economies, and the release of manufacturing purchasing managers' indices - a leading indicator of growth - signalling an economic expansion in most countries. Buoyant US equity markets also suggested that markets expect a boom in the United States and higher corporate profits on an anticipated shift towards more expansionary fiscal policy, lower taxes and laxer regulation. Accordingly, market odds of tighter monetary policy increased in the United States and the dollar strengthened. The global rise in yields and the strengthening of the dollar weighed on the assets of emerging market economies (EMEs). Until early November, EMEs were unscathed by developments in advanced economies. Then, investor sentiment shifted markedly. Bond outflows and exchange rate depreciation in the post-election week were even larger than at the height of the taper tantrum. However, credit and equity market reactions in EMEs were more muted than in 2013, possibly reflecting a different economic and financial backdrop. EME funds had already experienced large outflows instead of steady inflows in recent years, defusing pressures on asset valuations. A prospective boom in the United States may also have been seen to benefit EMEs.

Accordingly, the Organization for Economic Cooperation and Development (OECD) lifted its forecast for global growth in November on expected US fiscal stimulus. The OECD now predicts a global expansion in 2018 that will reach its fastest pace since 2011. World GDP is forecasted to expand 3.3% next year, up by 0.1 percentage point from September's estimate and further accelerate to 3.6% in 2018. The US will grow 2.3% in 2017 and 3% in 2018, while the euro area will expand 1.6% and 1.7% respectively. Growth in China will be 6.4% and 6.1% and 1% and 0.8% in Japan, according to the OECD.

The Federal Reserve (the Fed) raised short-term interest rates for the second time in a decade and forecasted a faster pace of tightening in the coming year, as it responds to a US economy that has been gathering momentum and may receive further stimulus from Republican tax cuts. With the US on the cusp of full employment and inflation gradually approaching the Fed's target, the central bank raised the target range for its federal funds rate by a quarter-point to 0.5-0.75%, as was widely expected in the financial markets. Following a long procession of downgrades to its interest-rate forecasts in recent quarters, the central bank's policymakers pencilled in a median projection of three quarter-point increases for 2017, up from two previously. In its post-meeting statement, the Fed said it was raising

rates in view of “realised and expected labour market conditions and inflation” while reiterating its existing guidance that increases will be “gradual”. The Bank of England (BoE) held its benchmark rate at 0.25% and also kept its asset purchase programs running as planned. Emphasizing the balancing act between managing inflation and growth, the BoE also said the economy will cool in 2017 as consumer spending weakens and the vote to leave the European Union rattles investment plans. Meanwhile, the European Central Bank (ECB) announced it would extend its asset-buying programme beyond March next year until the end of 2017, but would slow the pace of its monthly purchases from EUR 80 billion to EUR 60 billion. ECB also expanded the range of securities it can buy under its quantitative easing programme by allowing the purchase of bonds yielding less than the ECB’s deposit rate of minus 0.40%, and lowering the minimum required remaining maturity from two years to one. ECB president Draghi cited weak underlying price pressures, political uncertainties and inadequate government reforms as he laid out the reasons for expanding the ECB’s asset-purchasing plan. Various ECB council members have frequently stressed that the euro area’s economic upturn is largely reliant on continued monetary easing as government fail to play their part. Sweden’s Riksbank kept its benchmark interest rate at minus 0.5%, but opted to continue buying government bonds for the first six months of 2017. The bank stated that increases in the repo rate are not expected to begin until the beginning of 2018. In Japan, the Bank of Japan (BoJ) adopted a new policy called “Yield Curve Control”, aiming to target the yield for the 10-year government bond to around zero per cent, which actually was an increase from the negative yields prevailing before the decision. The central bank is trying to counter a flattening of the yield curve, which it says may have a negative effect on economic activity. The BoJ has faced growing concern that almost four years of unprecedented easing, including negative rates, has failed to lift the economy in a sustainable way out of a two-decade deflationary spiral.

In the currency markets, the second half saw a strengthening US dollar against most major currencies as factual and expected central bank policy divergence dominated markets. For the full year, the US dollar index against major currencies rose by 3.6% and against the euro by 3%. The American currency strengthened 3% against the Japanese yen and by 8% versus the Swedish krona. Against the Chinese yuan the USD appreciated by less than 6% as the monetary authorities in China stepped up efforts to stabilize the exchange rate. Many traders are building bearish positions as the exchange rate is facing increased pressure from accelerating capital outflows, the prospect of faster US interest rate increases and volatile domestic markets. Apart from the daily fixing of the exchange rate, policy makers have tightened capital controls to rein in outflows. In the commodity space the Thomson Reuters CRB index (about a third is petroleum products) was up 10% for the year. Crude oil prices advanced by 52% after the pronounced decline in 2015, supported by optimism that OPEC and 11 other producing nations will cut production, and of course a more positive world economic outlook. The price of gold moved inversely with short-term interest rates (and the USD) in the second half of the year, but ended 2016 up almost 9%.

Global stock markets ended the year on a strong note. Equity markets were initially gripped by deflation fear and low growth, but bottomed out around the surprise Brexit vote in June. After that, the narrative changed to focus more on possible reflation through fiscal policy, and then the growth-friendly election of Donald Trump as the new president of the US. This led to a massive shift of funds leaving the bond market and moving to stocks. For the full year, the EU markets rose by 5.7% in local currency terms (MSCI). The Nordic region actually fell by 2.6%, dragged down by Danish heavy-weight Novo Nordisk. Among the big European bourses, the UK (+14.3%) outperformed driven by a number of international companies which benefit from a falling exchange rate. In Sweden, the equity market was up 5.2%. The North American region increased by more than 9.6% (USA +9.2%) while the Pacific region ended the period 0.4% lower. The Japanese market fell by 2.6%.

The world index increased by 6.04% in local currency terms, and by 12.67% in Swedish krona terms.

**The Fund (performance review)**

As of 31st December 2016 the Swedish equity exposure amounted to 15.12%, international equity exposure amounted to 12.39%, bonds amounted to 65.95%, UCIs amounted to 1.19% and cash and other assets amounted to 5.35% of total net asset value. The equity portion of the Fund was increased during the second half of the year from approximately 24% to 28%. Including a negative Swedish index position, the equity exposure was approximately 26%. The duration of the bond portfolio at the turn of the year was 1.2 years.

Some changes were made in the equity portfolio during the last six months of 2016. CVS Health Corporation was added to the portfolio. The company provides integrated pharmacy health care services in the US. It operates through Pharmacy Services (health plan design and administration serving employers, insurance companies, unions, individuals etc.) and Retail/long-term care (selling e.g. prescription drugs, beauty products and cosmetics, convenience foods). It is very rare to find a company that has so consistently grown its earnings and dividends over time. Moreover, in addition to consistent growth, CVS's growth rate has also been significantly above average. CVS has grown earnings at the compound annual rate of 12.5% since 2000 versus the S&P 500, which has only grown earnings at the rate of 5.4%. Importantly, both capital appreciation and cumulative total dividend income have been superior with CVS. Since fiscal year 2000, the company's dividend has grown at an annual rate of nearly 17%. In addition, the company has also been buying back their shares since 2007. Importantly, the balance sheet is strong and healthy as the operating cash-flow has been steady. Cash-flow per share more than adequately covers the dividend. The stock price reflected this impeccable operating record and the stock became overvalued. But since the summer of 2015, and for most of 2016, CVS's stock price was in a freefall. When valuation gets extreme, a company's stock price becomes highly vulnerable to bad news. The price drop was possibly due to the significant political scrutiny around drug pricing. Efforts to regulate and control drug pricing could have an indirect impact on CVS's revenues and earnings. But the company, and the industry as a whole, does not produce exceptionally high gross profit margin or net profit margin. Further, a new investment in Ericsson was made as the stock price fell dramatically. The company's history is filled with disappointments and below-par profitability, but Ericsson still enjoy a market leading position in the mobile infrastructure market. With 75% of sales, the Network division is key, but this market is still showing weak growth and further cost cutting could be in the offing. The stock will continue to be volatile and is therefore not a long-term position. The entire position in Charles Schwab was sold after a run-up in the stock price as US short-term rates rose markedly thereby boosting Schwab's earnings. The investment generated in excess of 80% including currency effects, i.e. a stronger USD versus the SEK.

In 2016 the value of the Fund increased by 1.55%. The main positive contributors to the Fund's performance were Volvo, Danaher (split into two companies, Danaher and Fortive) and Charles Schwab. Britvic on the other hand lagged, but the negative stock price development was somewhat cushioned by a short GBP position. Performance from the bond portfolio was positive.

**Outlook for 2017 (market outlook)**

Investors spend a lot of time trying to figure out what returns the stock market will give them in the future. But stocks (and bonds) are relatively long-term instruments, and are not really suited for predictions made for the coming 12 months. Over an annual basis the average stock market returns jumps around in a random fashion, but have historically had a positive skew, i.e. the average return number over time is positive. Furthermore, there is a clear relationship between starting valuation and average future stock market performance. The problem with this approach is that averages typically do not tell the full story because they hide the risk, both to the upside and the downside. If one instead compares ranges of best and worst long-term returns to different starting valuations, the same relationship applies as higher valuation have tended to lead to lower returns. But the spreads between the best and worst returns has been huge over time, and stocks have historically gone both up and down for extended holding periods even if the starting valuation is high. A better way to use the valuation numbers is to set realistic expectations. The probabilities for a positive outcome are still favourable for a long-term investor, but the potential for risk, i.e. negative average annual returns for say a 5-year holding period, has historically been greater from higher valuation levels, which is where we currently stand. Therefore, the conservative investor accepts that there is an above-average probability to expect returns to be lower over the coming five years compared to the last five-year period. With lower expected returns and larger price swings, diversification is becoming more important. Even with low yields, bonds will continue to play a protective role, while the equity portfolio needs to span the globe to seek stocks with differing characteristics.

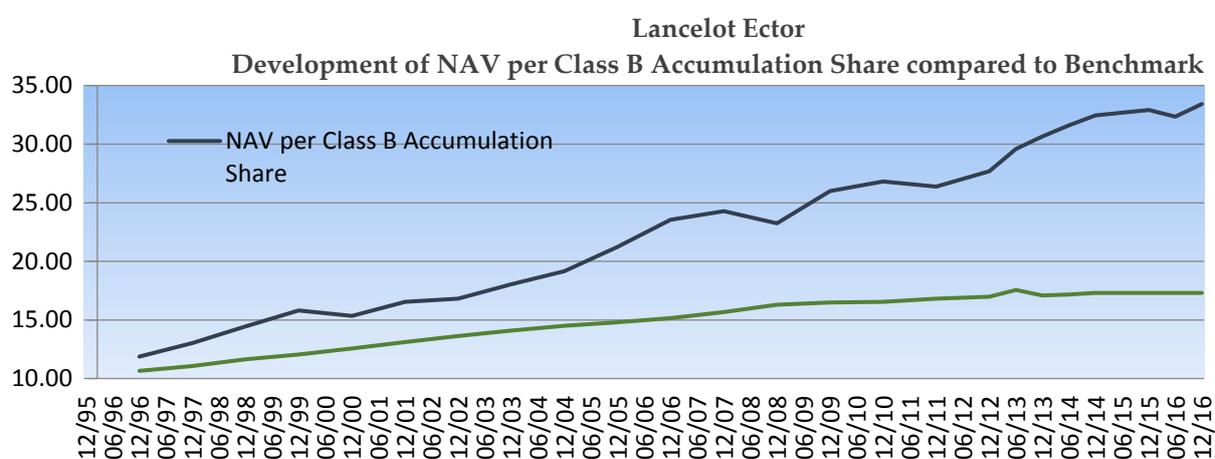
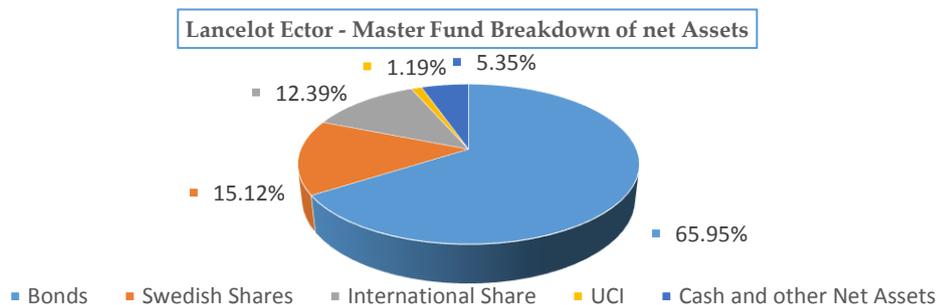
Luxembourg, 2nd March 2017

The Board of Directors

Note: The information in this report represents historical data and is not an indication of future results.

# Lancelot Ector

## Graphics (Unaudited)



Year	NAV Development	Benchmark Development
1996	18.75% *	6.56% *
1997	9.72%	3.97%
1998	10.84%	5.02%
1999	9.51%	3.53%
2000	-2.97%	4.28%
2001	7.79%	4.31%
2002	1.73%	3.95%
2003	7.22%	3.55%
2004	6.26%	2.77%
2005	10.74%	2.15%
2006	10.86%	2.26%
2007	3.15%	3.44%
2008	-4.28%	4.11%
2009	11.90%	1.19%
2010	3.12%	0.33%
2011	-1.68%	1.61%
2012	5.05%	0.92%
2013	10.69%	0.69%
2014	5.91%	0.79%
2015	1.39%	0.079%
2016	1.55%	0.00%

\* Relating to the period 15/03/1996 to 31/12/1996, i.e. since the Fund's inception.



## Audit report

To the Shareholders of  
**Lancelot Ector**

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We have audited the accompanying financial statements of Lancelot Ector, which comprise the statement of net assets and the statement of investments and other net assets as at 31st December 2016 and the statement of operations and other changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements.

### *Responsibility of the Board of Directors of the SICAV for the financial statements*

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements and for such internal control as the Board of Directors of the SICAV determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Responsibility of the "Réviseur d'entreprises agréé"*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the SICAV, as well as evaluating the overall presentation of the financial statements.

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T: +352 494848 1, F: +352 494848 2900, [www.pwc.lu](http://www.pwc.lu)*

*Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)  
R.C.S. Luxembourg B 65 477 - TVA LU25482518*



## Audit report (continued)

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Lancelot Ector as of 31st December 2016, and of the results of their operations and changes in their net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

### *Other information*

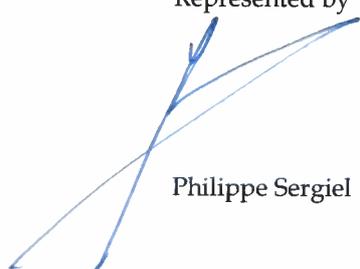
The Board of Directors of the SICAV is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our audit report thereon.

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

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

PricewaterhouseCoopers, Société coopérative  
Represented by

Luxembourg, 21st March 2017



Philippe Sergiel

## Lancelot Ector - Master Fund

### Statement of net assets (in SEK)

as at 31st December 2016

#### Assets

Securities portfolio at market value	607,299,235
Cash at banks	34,449,972
Income receivable on portfolio	1,670,634
Unrealised gain on forward foreign exchange contracts	750,695
Total assets	644,170,536

#### Liabilities

Bank overdrafts	7,686
Expenses payable	2,545,783
Total liabilities	2,553,469

Net assets at the end of the year 641,617,067

Number of Class B Accumulation Shares outstanding	15,484,631.773
Net asset value per Class B Accumulation Share	33.42

Number of Class B Dividend Shares outstanding	6,147,598.126
Net asset value per Class B Dividend Share	20.18

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

## Lancelot Ector - Master Fund

### Statement of operations and other changes in net assets (in SEK) from 1st January 2016 to 31st December 2016

#### Income

Dividends, net	4,259,474
Interest on bonds and other debt securities, net	4,020,982
Other income	3,320,906
Total income	11,601,362

#### Expenses

Management fees	6,557,701
Performance fees	1,757,865
Banking charges and other fees	4
Transaction fees	212,203
Central administration costs	864,704
Professional fees	216,721
Other administration costs	163,469
Subscription duty ("taxe d'abonnement")	322,871
Interest paid on bank overdrafts	242,768
Other expenses	482,333
Total expenses	10,820,639

Net investment income	780,723
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#### Net realised gain/(loss)

- on securities portfolio	28,492,736
- on forward foreign exchange contracts	1,008,559
- on foreign exchange	-343,669
Realised result	29,938,349

#### Net variation of the unrealised gain/(loss)

- on securities portfolio	-17,048,864
- on forward foreign exchange contracts	-2,411,164
Result of operations	10,478,321

Dividends paid	-3,900,292
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Subscriptions	82,722,784
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Redemptions	-68,881,710
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Total changes in net assets	20,419,103
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Total net assets at the beginning of the year	621,197,964
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Total net assets at the end of the year	641,617,067
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The accompanying notes are an integral part of these financial statements.

## Lancelot Ector - Master Fund

### Statistical information (in SEK)

as at 31st December 2016

<b>Total net assets</b>	
- as at 31.12.2016	641,617,067
- as at 31.12.2015	621,197,964
- as at 31.12.2014	604,761,793
<b>Number of Class B Accumulation Shares</b>	
- outstanding at the beginning of the year	14,913,851.588
- issued	2,553,045.638
- redeemed	-1,982,265.453
- outstanding at the end of the year	15,484,631.773
<b>Net asset value per Class B Accumulation Share</b>	
- as at 31.12.2016	33.42
- as at 31.12.2015	32.91
- as at 31.12.2014	32.46
<b>Number of Class B Dividend Shares</b>	
- outstanding at the beginning of the year	6,355,576.535
- issued	0.000
- redeemed	-207,978.409
- outstanding at the end of the year	6,147,598.126
<b>Net asset value per Class B Dividend Share</b>	
- as at 31.12.2016	20.18
- as at 31.12.2015	20.50
- as at 31.12.2014	20.84
<b>Dividend paid</b>	
Ex-dividend date	27.01.2016
Dividend per share	0.615
Shares outstanding at dividend date	6,341,937.692

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

## Lancelot Ector - Master Fund

### Statement of investments and other net assets (in SEK) as at 31st December 2016

Currency	Number / nominal value	Description	Cost	Market value	% of total net assets
<b><u>Investments in securities</u></b>					
<b><u>Transferable securities admitted to an official stock exchange listing</u></b>					
<b>Shares</b>					
<b>Automobiles and components</b>					
SEK	311,000	Volvo AB B	28,745,420	33,090,400	5.16
<b>Capital goods</b>					
USD	31,200	Danaher Corp	13,683,250	22,080,418	3.44
USD	29,000	Fortive Corp	10,708,636	14,140,204	2.20
SEK	111,000	SKF AB B	16,707,741	18,603,600	2.90
			41,099,627	54,824,222	8.54
<b>Consumer durables and apparel</b>					
CHF	16,000	Cie Financière Richemont SA	7,883,244	9,655,452	1.51
SEK	49,610	Electrolux AB B	10,151,282	11,226,743	1.75
			18,034,526	20,882,195	3.26
<b>Food and drug retailing</b>					
USD	14,500	CVS Health Corp	10,815,174	10,402,792	1.62
<b>Food, beverage and tobacco</b>					
GBP	324,500	Britvic Plc	14,794,030	20,668,452	3.22
<b>Investment companies</b>					
SEK	61,670	Investor AB B	18,563,045	20,998,635	3.27
<b>Software and services</b>					
USD	27,200	Inovalon Holdings Inc A	3,616,556	2,547,159	0.40
<b>Technology hardware and equipment</b>					
SEK	245,000	Telefon AB LM Ericsson B	12,590,743	13,107,500	2.04
<b>Total shares</b>			148,259,121	176,521,355	27.51
<b>Bonds</b>					
<b>Corporate bonds</b>					
SEK	15,000,000	AF AB FRN Reg S 16/21.03.19	15,069,150	15,100,050	2.35
SEK	20,000,000	Castellum AB FRN MTN Ser 104 13/26.09.18	20,099,000	20,217,900	3.15
SEK	10,000,000	Castellum AB FRN Sen 15/13.03.20	10,000,000	9,896,550	1.54
SEK	6,000,000	Husqvarna AB FRN MTN Sen 16/03.05.19	6,000,000	6,052,680	0.94
SEK	10,000,000	Husqvarna AB FRN Sen 12/28.11.17	10,000,000	10,155,150	1.58
SEK	10,000,000	Jernhusen AB 2.375% Ser 102 13/23.04.18	10,310,867	10,299,850	1.61
SEK	17,000,000	Jernhusen AB FRN Ser 104 13/19.09.23	17,665,210	16,894,345	2.63
SEK	10,000,000	PostNord AB FRN MTN Ser 106 14/01.04.19	10,043,700	10,029,950	1.56
SEK	23,000,000	Scania CV AB FRN EMTN Ser 62 16/06.09.21	23,000,000	23,159,045	3.61

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

## Lancelot Ector - Master Fund

### Statement of investments and other net assets (in SEK) (continued) as at 31st December 2016

Currency	Number / nominal value	Description	Cost	Market value	% of total net assets
SEK	20,000,000	Specialfastigheter Sverige AB FRN EMTN Sen 14/23.06.20	20,000,000	20,152,700	3.14
SEK	30,000,000	Sveaskog AB FRN DMTN 14/22.01.20	30,000,000	30,017,850	4.68
SEK	25,000,000	Sveaskog AB FRN Sen 14/30.10.23	25,000,000	24,483,375	3.82
SEK	7,000,000	Willhem AB 0.7% Sen 15/11.02.19	6,996,570	7,050,960	1.10
			<u>204,184,497</u>	<u>203,510,405</u>	<u>31.71</u>
<b>Financial Institution bonds</b>					
SEK	30,000,000	Danske Bank A/S 2% EMTN Reg S Ser 532 14/23.05.19	31,311,900	31,232,850	4.87
SEK	25,000,000	Lansforsakringar Bank 0.6175% Ser 784 16/10.05.19	25,084,750	25,226,125	3.93
SEK	20,000,000	Nordea Hypotek AB 1% MTN Ser 5531 15/08.04.22	20,253,600	20,244,200	3.16
SEK	20,000,000	SBAB Bank AB FRN EMTN Reg S Sub Ser 614 12/16.11.22	20,356,000	20,295,500	3.16
SEK	25,000,000	SBAB Bank AB FRN EMTN Sen 13/11.10.18	25,000,000	25,197,625	3.93
SEK	10,000,000	SBAB Bank AB FRN MTN Sub Ser B 16/17.06.Perpetual	10,000,000	10,193,100	1.59
SEK	25,000,000	Skandinaviska Enskilda Bk AB 1.5% MTN Ser 574 15/15.12.21	25,919,000	26,016,375	4.06
SEK	25,000,000	Stadshypotek AB 1.5% Ser 1585 15/15.12.21	26,060,250	26,015,875	4.05
			<u>183,985,500</u>	<u>184,421,650</u>	<u>28.75</u>
<b>Municipal bonds</b>					
SEK	15,000,000	Gothenburg (City of) FRN EMTN Sen 15/09.09.19	15,030,450	15,099,525	2.35
SEK	20,000,000	Gothenburg (City of) FRN EMTN Ser 1013 14/20.06.19	20,012,000	20,121,300	3.14
			<u>35,042,450</u>	<u>35,220,825</u>	<u>5.49</u>
<b>Total bonds</b>					
			<u>423,212,447</u>	<u>423,152,880</u>	<u>65.95</u>
<b>Open-ended investment funds</b>					
<b>Tracker funds (UCI)</b>					
<b>Investment funds</b>					
SEK	100,000	XACT BEAR Units Dist	10,367,501	7,625,000	1.19
<b>Total tracker funds (UCI)</b>					
			<u>10,367,501</u>	<u>7,625,000</u>	<u>1.19</u>
<b>Total investments in securities</b>					
			<u>581,839,069</u>	<u>607,299,235</u>	<u>94.65</u>
<b>Cash at banks</b>					
				34,449,972	5.37
<b>Bank overdrafts</b>					
				-7,686	0.00
<b>Other net assets/liabilities</b>					
				-124,454	-0.02
<b>Total</b>					
				<u><u>641,617,067</u></u>	<u><u>100.00</u></u>

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

**Notes to the financial statements**

as at 31st December 2016

**Note 1 - Significant accounting policies**

a) Presentation of the financial statements

The financial statements of the Company are established in accordance with the Luxembourg legal and regulatory requirements concerning Undertakings for Collective Investment.

The financial statements are presented on the basis of the Net Asset Value of the Sub-Fund calculated as at 31st December 2016. In accordance with the prospectus, the last official trading Net Asset Value of the corresponding Sub-Fund has been calculated as at 30th December 2016 as the Net Asset Value has not been calculated as at 31st December 2016. Nevertheless, an additional Net Asset Value has been calculated as at 31st December 2016 for reporting purpose and is disclosed in these financial statements.

b) Valuation

- 1) Securities admitted to official listing on a stock exchange or which are traded on another regulated market which operates regularly and is recognised and open to the public within the EU or the OECD Member States are valued on the base of the last known sales price. If the same security is quoted on different markets, the quotation of the main market for this security will be used. If there is no relevant quotation or if the quotations are not representative of the fair value, the evaluation will be done in good faith by the Board of Directors or its delegate with a view to establishing the probable sales prices for such securities.
- 2) Non-listed securities are valued on the base of their probable sales price as determined in good faith by the Board of Directors and its delegate.
- 3) Liquid assets are valued at their nominal value plus accrued interest.
- 4) Time deposits are valued at their yield value if a contract exists between the Company and the Depository stipulating that these time deposits can be withdrawn at any time and their yield value is equal to the realized value.
- 5) All assets denominated in a different currency than the respective Sub-Fund's currency are converted into this respective Sub-Fund's currency at the exchange rates used for the respective Valuation Day.
- 6) Financial instruments which are not traded on the futures exchanges but on a regulated market are valued at their settlement value, as stipulated by the Company's Board of Directors in accordance with generally accepted principles, taking into consideration the principles of proper accounting, the customary practices in line with the market, and the interests of the shareholders, provided that the above-mentioned principles correspond with generally accepted valuation regulations which can be verified by the auditor.

c) Net realised gain/(loss) on sales of securities

The net realised gain/(loss) on sales of securities is determined on the basis of the average cost of securities sold. The realised gains and losses on sales of securities portfolio are recorded net in the statement of operations and other changes in net assets.

**Notes to the financial statements (continued)**

as at 31st December 2016

d) Cost of securities

The acquisition cost of a security denominated in a currency other than that of the Sub-Fund is converted to the Sub-Fund's currency at the exchange rate prevailing on the date of purchase.

e) Exchange translation

Bank balances, other assets and liabilities and the value of securities held that are denominated in other currencies than the Sub-Fund's currency are converted at the prevailing exchange rate of the closing day. Income and expenses incurred in currencies other than the Sub-Fund's currency are converted at the prevailing exchange rate of the day of each transaction. Exchange gains and losses are recorded in the statement of operations and other changes in net assets.

At the date of the financial statements, the prevailing exchange rates on the closing day were as follows:

1	SEK	=	0.1117710	CHF	Swiss Franc
			0.1042947	EUR	Euro
			0.0890205	GBP	Pound Sterling
			0.1099892	USD	US Dollar

f) Investment income

Dividend income is recognised on an ex-dividend basis and is recorded net of withholding tax.

Interest income is accrued on a *pro rata temporis* basis, net of any withholding tax.

g) Forward foreign exchange contracts

Forward foreign exchange contracts are valued at prevailing market rates for the remaining period from valuation day to the maturity of the contracts. Unrealised gain/(loss) is recorded in the statements of net assets. Net variation of the unrealised gain/(loss) and the net realised gain/(loss) are recorded in the statement of operations and other changes in net assets.

h) Transaction fees

Transaction costs disclosed under the caption "Transaction fees" in the expenses of the statement of operations and other changes in net assets are mainly composed of broker fees incurred by the Company relating to purchases or sales of securities and of fees relating to liquidation of transactions paid to the Depositary.

**Note 2 - Subscription, redemption and conversion fees**

Shares of Class B are subscribed at an issue price based on the Net Asset Value per Share on the relevant Valuation Day. No subscription fee is charged.

The price to be paid in respect of each share tendered for redemption (the "Redemption Price") is the Net Asset Value.

**Notes to the financial statements (continued)**

as at 31st December 2016

**Note 3 - Management fees**

For infrastructure supplies, the Management Company is entitled to receive out of the Sub-Fund's assets a fee of maximum 0.025% p.a.. This fee is payable monthly in arrears based on the Sub-Fund's net assets calculated daily during the relevant month.

For its services, the Investment Manager, Lancelot Asset Management AB, Stockholm, is entitled to receive an Investment Management Fee received by the Management Company on behalf of the Investment Manager of maximum 1% p.a.. This fee is payable monthly in arrears based on the Sub-Fund's net assets calculated daily during the relevant month.

These fees are recorded under the caption "Management fee" in the statement of operations and other changes in the net assets.

**Note 4 - Performance fees**

A Performance Fee is paid out of the Sub-Fund's assets to the Investment Manager. The Performance Fee is 15% of the amount by which the relevant Sub-Fund's total return, based on the Net Asset Value at the beginning and at the end of the relevant year and after accrual of the fixed fee, outperforms on a year to year basis the agreed benchmark return.

Since 1st January 2016, the new benchmark return is the higher of:

- a) 0 percent
- b) The twelve months rate of interest Interpolated between Swedish Treasury Bills and/or Swedish Government Bonds at 31st December of the prior year, as published in the financial media or any corresponding benchmark approved by the Board of Directors of the SICAV.

On 1st January 2016, the Benchmark return was determined by interpolating between the market rate of the Swedish Treasury Bond 1050 with maturity in July 2016 and the market rate of the Swedish Treasury Bond 1051 with maturity in August 2017 ( the "Market Rates"), where both are converted from 30/360 to actual/360 day convention. As per this methodology, the Benchmark reference rate is -0.488% for the year 2016. Therefore, the benchmark return shall be 0 percent for the year 2016.

Until 31st December 2015, the Benchmark return was in the case of the Lancelot Ector - Master Fund the twelve months' interest on Swedish Treasury Bills at 31st December of the prior year, as published in the financial media or a corresponding benchmark which is generally recognized, auditable and approved by the Board of Directors, should no twelve months Swedish Treasury Bills be in issue at this date. Negative performances, if any, were not carried forward or taken into consideration.

At the date of the financial statements, the performance fee was recorded for Sub-Fund and amounted to SEK 1,757,865.00.

**Note 5 - Central administration costs**

For its services to the Company, the Management Company is entitled to receive, out of the Sub-Fund's assets an administration fee of maximum 0.13% p.a. payable monthly in arrears based on the Sub-Fund's net assets calculated daily during the relevant month with a minimum fee of EUR 3,330 per month. This fee includes the fee due to the Depositary.

The Management Company is furthermore entitled to receive out of the Sub-Fund's assets for the Registrar and Transfer Agent function an annual flat fee per share Class, in accordance with Luxembourg customary banking practice.

This fee is recorded under the caption "Central administration costs" in the statement of operations and other changes in the net assets.

**Note 6 - Withholding tax refund**

The Company has claimed withholding taxes in Sweden for the years 2010 and 2011. Since 2012 the Swedish State has discontinued the former withholding tax on dividends of Swedish issuers paid to EU resident funds such as Lancelot Ector. During the second half of 2016, the Fund has received a decision from the Swedish tax authorities for that period and the amount of 3,153,945.00 SEK has been paid to the Fund on 12th July 2016.

The Company has claimed withholding taxes in Norway for the period from 2008 to 2013 and in Finland for the years 2009 to 2013. During the first half of 2015, the Fund has received a decision from the tax authorities regarding Norwegian tax reclaim for 2010 and the amount of NOK 221,116.50 has been paid to the Fund on 27th May 2015.

The claim withholding taxes in Finland allowed a refund of 17,585.68 EUR with value 13th April 2016.

**Note 7 - Subscription duty ("*taxe d'abonnement*")**

The Company is governed by Luxembourg law.

Pursuant to the legislation and regulations in force, the Company is subject to an annual subscription duty ("*taxe d'abonnement*") of 0.05% which is payable quarterly and calculated on the basis of the net assets of each Sub-Fund on the last day of each quarter.

According to Article 175 (a) of the amended Law of 17th December 2010 the net assets invested in Undertakings for Collective Investments already subject to the "*taxe d'abonnement*" are exempt from this tax.

**Note 8 - Independent Director's fees**

Independent Director's fees of SEK 179,881 are included in the caption "Other Expenses" in the statement of operations and other changes in net assets.

## Lancelot Ector

### Notes to the financial statements (continued)

as at 31st December 2016

#### Note 9 - Forward foreign exchange contracts

As at 31st December 2016, the following Sub-Fund is committed in the following forward foreign exchange contracts with Skandinaviska Enskilda Banken S.A., Luxembourg:

##### **Lancelot Ector - Master Fund**

Currency	Purchases	Currency	Sales	Maturity	Unrealised result (in SEK)
SEK	8,120,834	CHF	891,909	28.02.2017	139,698
SEK	20,069,906	GBP	1,760,302	28.02.2017	334,921
SEK	1,402,681	USD	153,374	28.02.2017	12,962
SEK	1,498,329	USD	159,995	28.02.2017	48,617
SEK	16,078,534	USD	1,750,807	28.02.2017	214,497
					<u>750,695</u>

#### Note 10 - Changes in investment portfolio

The statement of changes in the investment portfolio for the period covered by the report is available free of charge upon request from the registered office of the Company.

**Appendix 1 - Risk management**

As required by Circular CSSF 11/512, the Board of Directors needs to determine the global risk exposure of the Company either by applying the commitment approach or the VaR approach. In terms of risk management, the Board of Directors of the Management Company decided to adopt the commitment approach as a method of determining the global exposure.

**Appendix 2 - Remuneration disclosure**

SEB Fund Services S.A. (SEB) has implemented a Remuneration policy that is designed to encourage good performance and behaviour, and seeks to achieve a balanced risk-taking that goes in line with shareholders' expectations.

In SEB, there is clear distinction between the criteria for setting fixed remuneration (e.g. base pay, pension and other benefits) and variable remuneration (e.g. short- and long-term variable remuneration). The individual total remuneration corresponds to requirements on task complexity, management and functional accountability and also related to the individual's performance.

SEB provides a sound balance between fixed and variable remuneration and aligns the payout horizon of variable pay with the risk horizon. This implies that certain maximum levels and deferral arrangements apply for different categories of employees.

The amount below represents the proportion of the total remuneration on calendar year 2016 and adjusted according to the number of full time employees during the year 2016 and identified staff (i.e. the aggregate amount of remuneration broken down by senior management and members of staff of the Management Company/AIFM whose actions have a material impact on the risk profile of the funds). This amount is further proportioned to the total net asset value of each fund, taking into account UCITS and non-UCITS.

	TNA as of 31st December 2016*	% of total TNA managed by Management Company/AIFM	Fixed Remuneration *		Variable Remuneration *		Number of beneficiaries (Average Full Time Equivalent)
			All Employees	Identified Staff	All Employees	Identified Staff	All Employees
Lancelot Ector	66,917,278.01	0.92	12,337.13	4,661.99	456.76	215.14	14.18

\* All amounts are in euro

Fixed Remuneration (incl. fixed salary, allowances, pension)

Variable Remuneration (incl. short term incentives and long term incentives)

**Appendix 3 - Information concerning the SFTR disclosures**

At the date of the financial statements, the Company is currently not in scope of the requirements of the SFTR regulation EU 2015/2365 on transparency of securities financing transactions and of reuse of collateral. Furthermore, no corresponding transactions were carried out during the period referring to the financial statements.

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