

A large, stylized oak leaf graphic in a lighter shade of blue, positioned on the left side of the page. The leaf has several lobes and a central vein, extending from the top left towards the bottom center.

FAIR OAKS INCOME FUND LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015



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Highlights

- Board announced intention to pay monthly dividends of 0.7 US cents per ordinary share, supplemented by a larger twelfth interim dividend. Dividends of 9.926 US cents per ordinary share have been paid in respect of the year.
- Strong interest from investors. US\$90 million of ordinary share capital was raised in the first half of 2015 and an additional US\$102 million was raised in August 2015 through the issue of a new C share class.
- Dividends of 2.354 US cents per C share have been paid in respect of the period.

Subsequent to the year end:

- C shares were converted into ordinary shares, using the conversion ratio of 1.0611 ordinary shares for every one C share held on 26 January 2016.

Financial Highlights	31 December 2015	31 December 2014
Total Net Assets	US\$277,591,973	US\$124,215,131
Net Asset Value per ordinary share	US\$0.8663	US\$1.0204
Net Asset Value per C share	US\$0.9191	N/A
Ordinary share price at year/period end	US\$0.9500	US\$1.0430
C share price at year end	US\$0.9900	N/A
Premium to Net Asset Value (ordinary shares)	9.66%	2.21%
Premium to Net Asset Value (C shares)	7.71%	N/A



Summary Information

Principal Activity

Fair Oaks Income Fund Limited (the “Company” or “FOIF”) was registered in Guernsey under the Companies (Guernsey) Law, 2008 on 7 March 2014. The Company’s registration number is 58123 and it is regulated by the Guernsey Financial Services Commission as a registered closed ended collective investment scheme. The Company is listed and began trading on the Specialist Fund Market of the London Stock Exchange on 12 June 2014.

The Company is a feeder fund and will pursue its investment objective and policy by investing in FOIF LP (the “Master Fund”), in which the Company is the only limited partner. The general partner of the Master Fund is Fair Oaks Income Fund GP Limited (the “General Partner”). Consequently, the Company’s investment objective and policy mirror those of the Master Fund.

Fair Oaks Founder LP, a Guernsey limited partnership has been established to act as the Founder Limited Partner of the Master Fund.

Investment Objective and Policy

The investment objective of the Company is to generate attractive, risk-adjusted returns, principally through income distributions.

The investment policy of the Company is to seek exposure to US and European Collateralised Loan Obligations (“CLOs”) or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating-rate senior secured loans and which may include non-recourse financing.

If at any time the Company holds any uninvested cash, the Company may also invest on a temporary basis in the following Qualifying Short Term Investments:

- cash or cash equivalents;
- government or public securities (as defined in the Financial Conduct Authority (“FCA”) Rules);
- money market instruments;
- bonds;
- commercial paper; or
- other debt obligations with banks or other counterparties having a “single A” (or equivalent) or higher credit rating as determined by any internationally recognised rating agency selected by the Board (which may or may not be registered in the EU).

The aggregate amount deposited or invested by the Company with any single bank or other non-government counterparty (including their associates) shall not exceed 20% of the Net Asset Value (“NAV”) at the time of investment. The Company cannot make any other types of investments without shareholder consent to a change of investment policy by ordinary resolution at a general meeting of the Company.



Chairman’s Statement

Introduction

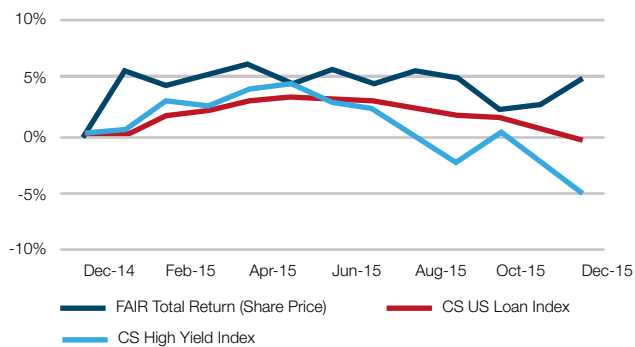
The independent Board of the Company is pleased to present its set of Financial Statements for the year ended 31 December 2015. We are pleased to confirm that the Company continued to raise additional capital to take advantage of what the General Partner of the Master Fund considers very attractive investment opportunities. The Company completed two additional offering of ordinary shares in February and May 2015 and a C share issue in August 2015. The Company paid a dividend of 9.926 US cents per share for the period.

The Company is a feeder fund and will pursue its investment objective and policy by investing in FOIF LP (the “Master Fund”). The Master Fund’s investment period will end on 12 June 2016 after which date the Master Fund will distribute to the Company all income and principal received from its underlying investments.

Performance

The Company generated a total NAV return of -1.5% over the period despite the weakness suffered by the market in the last quarter of 2015. The total return based on share price was 4.7% and the Company’s ordinary shares ended the year trading at a 9.7% premium to NAV. The Company shares outperformed the US bank loan and high yield indices in the period.

Relative Performance (Share Price)

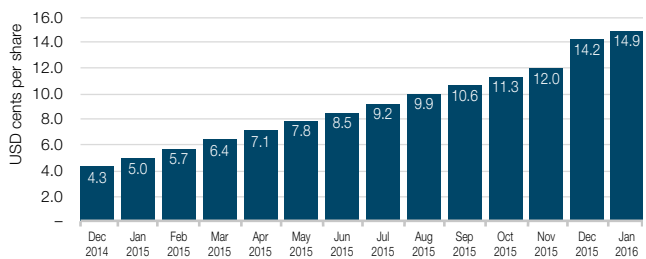


Source: Bloomberg, Credit Suisse, March 2016

Cash flow and dividends

The Master Fund received US\$27.0 million worth of cash flows from its investments and distributed a combined US\$28.8 million of income to the Company (US\$5.2 million of 2014 income and US\$23.6 million of 2015 income, of which US\$10.3 million was outstanding as at 31 December 2015). The Company paid eleven monthly dividends of 0.7 US cents per ordinary shares and declared a final dividend of 2.226 US cents per ordinary share for December, or a total of 9.926 US cents per ordinary share for the year.

Total dividends per share since inception



Material events

During February 2015, the Board of the Company announced it had raised US\$44.7 million (before costs and expenses) through the issue of 45 million new ordinary shares at US\$0.9932 per ordinary share, representing c.2.5% premium to the NAV per ordinary share as at 31 January 2015.

On 7 May 2015, the Board of the Company announced it had raised US\$44.5 million (before costs and expenses) through the issue of 45 million new ordinary shares at US\$0.9895 per ordinary share, representing c.2.5% premium to the NAV per ordinary share as at 30 April 2015.

In August 2015 an additional US\$101.8 million was raised in August 2015 through the issue of a new C share class.

Subsequent events

For details of significant events subsequent to the year end, refer to Note 14.



Chairman's Statement (continued)

Outlook

The Master Fund will end its investment period in June 2016. We believe that the Master Fund continued to benefit from the resources of the Investment Adviser to source, analyse and negotiate attractive investment opportunities through the course of 2015. The independence and broad investment policy of the Master Fund has made the Master Fund a preferred partner for a large number of CLO managers and underwriting banks and has resulted in structural innovations. The value added by the General Partner and Investment Adviser in terms of analysing and monitoring the underlying portfolios, optimising the CLO's structure and minimising fees and expenses for the Master Fund has resulted in no default losses to the end of 2015 and cash flows above original expectations. Furthermore, strong sourcing capabilities resulted in selective but faster than expected ramp up of new capital during 2015.

Professor Claudio Albanese

Chairman

7 April 2016



Investment Adviser's Report

Back in June 2014, the Directors, General Partner and the Investment Adviser believed that a two-year investment period would be optimal to take advantage of what, in their view, was one of the most attractive opportunities available in credit markets. As the Master Fund reaches the end of its investment period in June 2016, it is pertinent to re-assess our original views:

- *We believed that senior secured bank loans offered attractive value at this advanced stage in the credit cycle and that, given valuations in credit markets, CLOs offered an efficient way to enhance the attractive relative value of senior secured loans using non-recourse, non-mark-to-market, long-term financing*

As at the time of publication our key original base case assumptions (primarily default rate and recovery rate in case of default) have proven conservative, reinforcing our belief that the original target returns will be achieved at the maturity of the Master Fund. Furthermore, even on a mark-to-market basis and despite the extreme volatility experienced by the CLO market at the end of 2015, the Company's shares have outperformed other credit assets in 2015.

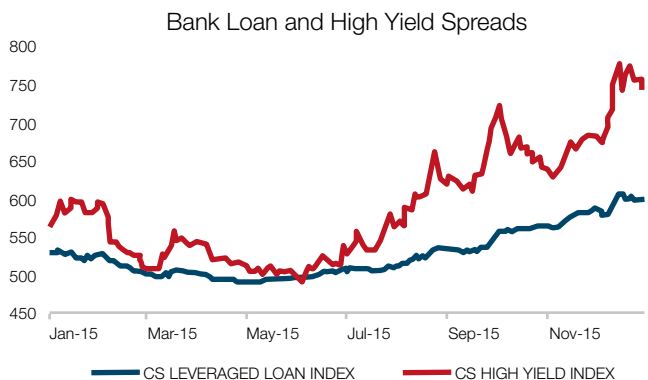
- *We highlighted that CLOs require detailed, bottom-up credit analysis and that positive credit selection would be a key tool to outperform given the size of CLO portfolios (150-300 issuers) vs the market (several thousand issuers)*

The Master Fund cumulative default rate as at 31 December 2015 was zero (0.03% as at the end of January 2016) vs. a lagging twelve-month issuer-weighted default rate for the US loan market of 1.19% as at end of December 2015 (1.50% as at end of January 2016). Exposure to energy and metals/mining issuers was limited to 2.1% and 0.6% of the portfolio respectively, as at 31 December 2015. The average bid price for loans in the Company's portfolios was 95.33c significantly above the 91.43c average for the Credit Suisse leveraged loan index at the end of December.

- *We expressed the view that the loan market would be characterised by significant price volatility and highlighted how the long term, non-mark-to-market, floating rate financing that characterise CLOs had the potential to generate returns primarily driven by actual credit losses, rather than this mark-to-market volatility*

We have seen loan price volatility increase and higher correlation between inflow/outflows in open-ended vehicles and loan prices. While this has the potential to be beneficial for CLOs, allowing them to reinvest principal in cheaper loans,

during the reinvestment period, it has also caused volatility in the CLO market. US CLO portfolios should benefit from good diversification, favourable sector positioning and par building opportunities given loan price volatility and higher new issue discounts on loans. During 2015 the loan market also benefitted from significantly lower exposure to commodities than the high yield market.



Source: Credit Suisse, March 2016 (loan spread based on bid price and to 3 year maturity)

- *We believed that the implementation of US and, to a lesser extent, European risk retention regulations would create opportunities either by US managers trying to print deals ahead of the regulations in the US or by allowing the Company to act as an originator in Europe*

After record breaking new issuance volumes in 2014, US CLO issuance continued at a fast pace during 2015 as managers launched transactions ahead of the US risk retention deadline (24 December 2016). This resulted in what could be described as a "buyers-market" which we believe benefited the Master Fund. In Europe, despite the Company's ability to act as an Originator, the reduced new issuance and lack of compelling arbitrage meant that the Master Fund's geographical investment profile was marginally different from what the GP had envisioned at IPO.

- *We also highlighted our belief that the Master Fund's focus on control positions would be a key driver of returns. We firmly believed that the independence of the General Partner of the Master Fund and the Investment Adviser from the CLO managers would guarantee that there are no conflicts of interest when deciding whether to wind down CLOs*

Active dialogue with managers and arrangers, supported by the independence of the General Partner and Investment Adviser has resulted in savings and structural innovations with the potential to enhance the Master Fund's risk-adjusted returns:



Investment Adviser’s Report (continued)

- Average arranger fees and CLO management fees of 0.20% and 0.27% respectively
- First CLO with “step-down” CLO manager fees which will be triggered if the CLO is not made compliant with risk retention regulations when the control equity investor wants to refinance liabilities, post December 2016
- Short maturity CLOs aiming to take advantage of advantageous AAA financing and lower loan prices
- The Master Fund participated in one loan warehouse facility which was subsequently rolled into a majority equity position (Ares XXXV)

The Master Fund’s investment period (two years from the Company’s IPO) was designed to maximise the Master Fund’s ability to take advantage of the opportunities identified by the Investment Adviser. Furthermore, the fixed investment period has proved an attractive feature to investors with the maturity reflecting the underlying assets’ self-liquidating features and offering shareholders a clear exit strategy.

Bank loan market overview

The institutional loan primary market experienced a second consecutive annual decline in issuance activity in 2015 as new volume totalled US\$326 billion, a 30% decline from 2014’s total issuance of US\$467 billion, which was down 30% from the previous year’s record US\$670 billion. However, the year’s total was still the fourth largest annual volume on record, trailing only the last two years as well as 2007’s US\$388 billion (J.P. Morgan, January 2016).

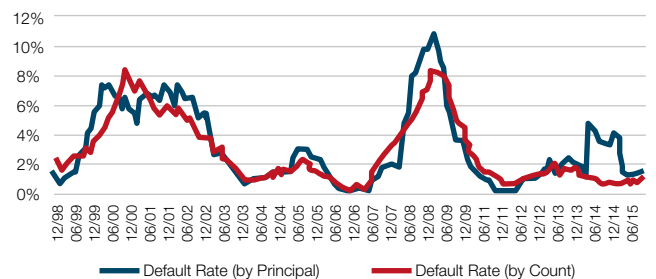
Throughout the course of 2015 we saw the macro backdrop deteriorate and by the end of 2015 it appeared increasingly likely that the credit cycle was nearing a turn. In the first half of the year, leveraged loans provided steady returns as benign supply and demand dynamics – light new-issue activity, record CLO volumes and moderate retail outflows – seeming to provided relative immunity to macro concerns. In the second half of the year however, retail outflows accelerated alongside concerns regarding US rate increases, commodities and global growth. The second half of 2015 experienced what could be described as a bifurcation driven by commodity issuers, with lower rated credits significantly underperforming higher rated credits, notably split B/CCCs posted a -18.86% loss, underperforming single-Bs (+0.06%) and BBs (+2.44%) (J.P. Morgan, January 2016).

Poor fourth quarter performance during 2015 resulted in full year negative US bank loan and high yield returns, with European High Yield and bank loans outperforming. The 12-month lagging default rate reached 1.19% by number of issuers in December 2015, well within the long-term average default rate (2.79% by number of issuers) reflecting the slow but steady US economic

recovery. The Master Fund’s default losses remained at zero, reinforcing the value of diligent credit selection.

2015’s default activity was dominated by companies in the Energy and Coal sectors, with the commodity sectors accounting for three-quarters of the year’s total default volume. The Master Fund remains underweight to commodities in line with the belief that lending to borrowers reliant on a single commodity price is not optimal. CLOs have benefitted from lower exposure to the Energy and Metals and Mining sectors relative to the broader loan and high yield markets (6.3% and 18.2% respectively). The level of exposure to both sectors has been quite different among CLO managers ranging from 1.6% to 19.5% (7.3% arithmetic average) according to JP Morgan. The Master Fund’s CLOs’ combined exposure to the energy and metals/mining sectors was 2.7% as at the end of December.

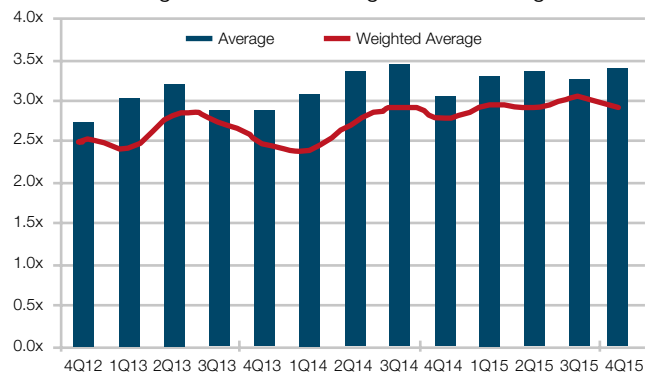
Loan Market Default Rate



Source: S&P Capital IQ LCD, January 2016

While the market expects default rates to increase in 2016, led by commodity-sensitive borrowers, we expect that loans will continue to benefit from their seniority, strong cash flow coverage and significantly lower commodity exposure than the unsecured high yield market. The Investment Adviser continues to monitor the underlying loans of each CLO portfolio and remains comfortable with original base case default assumptions.

Average cash-flow coverage of outstanding loans



Source: S&P Capital IQ LCD, March 2016

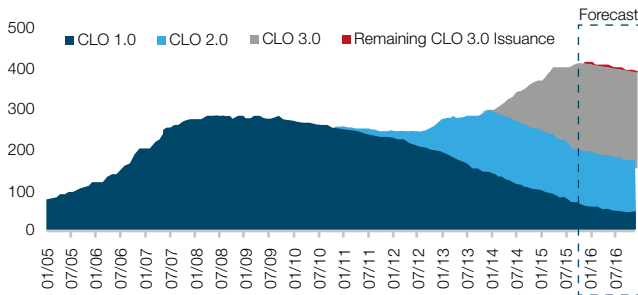


Investment Adviser’s Report (continued)

CLO market overview

According to J.P. Morgan, US CLO volume totalled US\$109.6 billion in 2015, which was the second highest annual total on record, trailing only a record-breaking US\$131.9 billion in volume during 2014.

CLO new issue and total outstandings (\$ billion)



Source: BAML

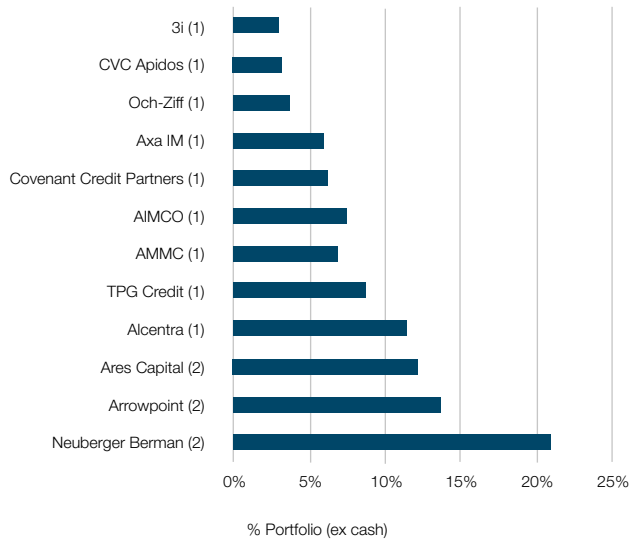
As discussed in the last Unaudited Interim Financial Statements, US risk retention regulations will be applicable from 24 December 2016. Over 15% of the new issue CLOs priced in 2015 were already compliant, while others included mechanisms to ensure compliance if and when the control equity investor wants to refinance debt tranches.

The Master Fund’s investments benefit from long-term, fixed spread, financing which is unaffected by fluctuations in loan prices. We continue to believe that the Master Fund’s CLO portfolios will also benefit from good diversification, favourable sector positioning and par building opportunities given loan price volatility and higher new issue discounts. Loan portfolios continue to see reasonable levels of prepayments and as a result, CLOs have the opportunity to reinvest principal receipts (during the reinvestment period) in loans at lower prices during periods of loan market volatility. The benefit of the higher weighted average yield on the loan portfolio spread will be received by the income note investor. The loan market volatility experienced in the second half of the year, also created very attractive investment windows to ramp up new CLO portfolios.

Portfolio update

\$205.8 million was invested in 2015, into eighteen new investments made into eleven transactions (including nine new CLOs). Exposure was taken to six new managers (AIMCO, Alcentra, Ares, CVC, Neuberger Berman and TPG) taking the total number of managers to twelve. The Master Fund opportunistically added mezzanine positions, further diversifying the portfolio while maintaining a 14.2%-16.0% weighted average expected gross return for 2015 investments. The Master Fund participated in one warehouse which was subsequently rolled into a majority equity position (Ares XXXV).

Portfolio Breakdown by CLO Manager



In terms of gross portfolio exposure, the Master Fund had, as at the end of December 2015, exposure to over 1,000 issuers, with an average loan spread of USD Libor + 4.4% including the impact of Libor floors. The top ten issuers represented an aggregated 6.6% exposure (vs. 6.2% as at end of December 2014), with the largest (First Data) representing 0.9%. The long-term financing of the underlying CLOs had a weighted average cost of funding of USD Libor + 2.2% (compared with 2.1% as at December 2014). The Master Fund’s portfolio remains biased towards nimble managers with very strong credit discipline who are able to react quickly and effectively to price movements in the loan market. The Investment Adviser is pleased with the level of diversity that has been achieved in the portfolio and continues to monitor each CLO portfolio continuously and discuss individual loans with the respective CLO managers.

The Master Fund received US\$79.6 million in 2015, slightly ahead of expectations. This included the early amortisation of T2 Income Fund CLO (“T2”) which was initiated by the Master Fund as controlling equity investor. Excluding T2, the Master Fund received US\$27.0 million from its CLO investments in 2015.

The decline in NAV over 2015 was caused by positions being marked down as CLO investors focused on the decline in the prices of loans within CLO portfolios. While there is merit in using market values to monitor CLOs, ultimate realised returns will be based largely on the default performance of the Master Fund’s investments which the General Partner continues to expect to be in line with, or better than, its original expectations.

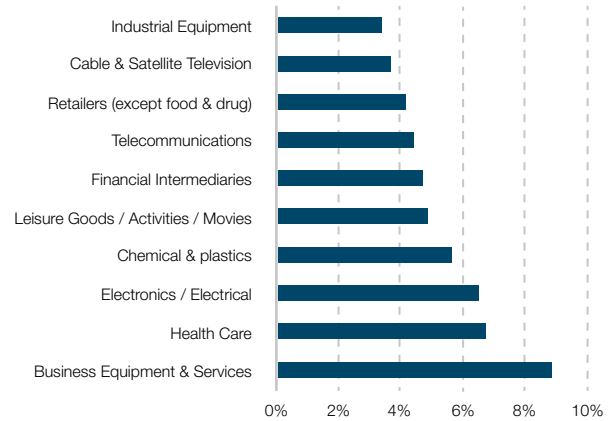


Investment Adviser’s Report (continued)

Risk management

The Master Fund benefits from an experienced and dedicated team of research analysts who review the initial portfolio of any new CLO and monitor current investments. The Master Fund has invested primarily in control positions, thus enabling it to veto any borrowers in the initial portfolio and facilitating close cooperation with CLO managers to ensure efficient monitoring of the investments. As an example, the Master Fund’s exposure to the oil and gas sector is significantly below the loan index’s. The low exposure to oil and gas issuers is an example of the value generated by the initial due diligence and ongoing fundamental analysis of the portfolios by the Investment Adviser’s internal credit team. It also highlights the importance of selecting CLO managers whose size does not prevent efficient and timely fine-tuning of the portfolios and who are subject to the right set of incentives to review and adjust the loan portfolios regularly. The Investment Adviser believes that, in order to manage risk effectively, it is critical to balance diversity and control. Although diversity in the underlying pool of borrowers is very important, holding an excessive number of individual CLOs may create a false sense of security and compromise the ability to closely monitor each portfolio.

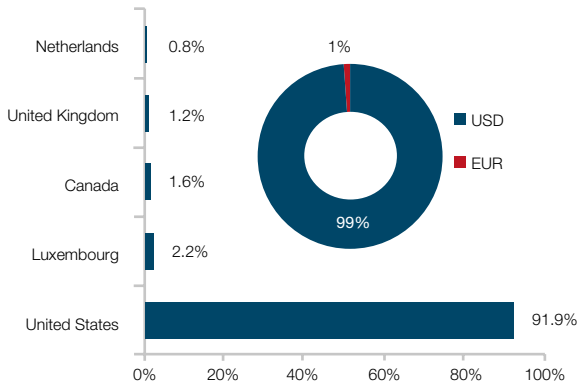
Industry Diversifications (Top 10)



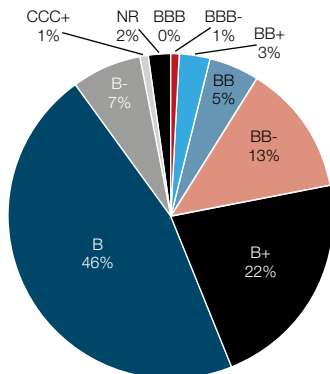
The Geographical Currency Breakdown, Rating Breakdown and Industry Diversification charts above form an integral part of the audited Financial Statements. Refer to note 5.

As at 31 December 2015, the Master Fund was exposed to a 1,078 issuers through 22 investments in 15 CLOs (12 managers). We believe that this level of look-through diversity is comparable to our peers, whereas the General Partner and Investment Adviser’s ability to closely monitor and control a smaller number of CLO investments is superior.

Geographical and Currency Breakdown (based on par value of loans in gross portfolio)



Rating Breakdown (based on par value of loans in gross portfolio)



Outlook

As per our original base case, we expect defaults to increase in the US loan market and trend towards their long term average. We expect CLOs on average to have lower defaults than the market, given their diversity. We also expect to see increasing differentiation in performance among CLO managers, as evidenced by the range of exposure to the oil and gas sector for example. We continue to believe that technical factors will hold loan price volatility high, benefitting the Master Fund’s CLO income note investments throughout their reinvestment periods.



Investment Adviser's Report (continued)

Outlook (continued)

The Company, General Partner and Investment Adviser continue to believe that the Master Fund offers a particularly attractive investment opportunity in the current market environment:

- The General Partner's and Investment Adviser's involvement in the initial portfolio selection and monitoring of CLO loan portfolios has already benefitted the Master Fund by enabling it to avoid deteriorating loans and industry sectors;
- The General Partner's and Investment Adviser's sourcing and structuring of the Master Fund's investments have resulted in substantially lower fees and expenses for the Master Fund's investors than its peers. The General Partner estimated that the weighted average structuring and management fees incurred by the Master Fund were 0.20% and 0.27% respectively as at 31 December 2015; and
- The General Partner's independence and alignment of interests will allow the Master Fund to benefit from its control strategy, as exemplified by the liquidation of T2 in 2015.

Fair Oaks Capital Limited

7 April 2016



Board of Directors

The Directors of the Company, all of whom are non-executive and independent, are listed as follows:

Professor Claudio Albanese (Chairman) (age 53) is the CEO of Global Valuation Limited and Visiting Professor of Mathematical Finance at King's College London (since Autumn 2008). He received a PhD in Theoretical Physics from ETH Zurich in 1988. He has held faculty positions at numerous academic institutions including ETH Zurich, CLA, the Courant Institute at NYU, and Princeton University. In 1994 he joined the University of Toronto as Associate Professor of Mathematical Physics and in that year he redirected his career towards Mathematical Finance. In 1998 he spent one year at Morgan Stanley at the credit derivatives trading desk. In 2004 he joined Imperial College London as Professor of Mathematical Finance. Claudio consults for several banks, financial service organisations and hardware manufacturers, speaks at numerous conferences and has published over 50 articles in academic and professional journals. Global Valuation's products include a combined software hardware solution for the simulation of banks' OTC portfolios and XVA metrics, a market data service for calibrated derivative models and a cloud based XVA benchmarking service. Claudio was non-Executive Director at Carador Income Fund Plc from 2006 to 2013. Claudio is a UK resident.

Jonathan (Jon) Bridel (Chairman of the Audit Committee) (age 51) is currently a non-executive chairman or director of various listed and unlisted investment funds and private equity investment managers. These include listings on the premium segment of the Official List of the UK Listing Authority. He was until 2011 Managing Director of Royal Bank of Canada's investment businesses in the Channel Islands. This role had a strong focus on corporate governance, oversight, regulatory and technical matters and risk management. Jon worked with Price Waterhouse Corporate Finance in London and subsequently served in a number of senior management positions in London, Australia and Guernsey in corporate and offshore banking and specialised in credit and investment management. He was also chief financial officer of two private multi-national businesses, one of which raised private equity. He holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. He graduated with an MBA from Durham University in 1988. Jon is a chartered marketer and a member of the Chartered Institute of Marketing, the Institute of Directors and is a chartered fellow of the Chartered Institute for Securities and Investment. Jon is a Guernsey resident.

Nigel Ward (Chairman of the Risk Committee) (age 59) has over 40 years' experience in international investment markets, credit and risk analysis, portfolio management, corporate and retail banking, corporate governance, compliance and the managed funds industry. He is currently an independent non-executive chairman or director on the board of several offshore funds and companies, including London and CISE listings, with investment mandate experience ranging across distressed debt, European SME private debt, ground rents, agricultural land, student accommodation, commodities, equity income and UK activist equity. Nigel was a founding Commissioner of the Guernsey Police Complaints Commission, and is an Associate of the Institute of Financial Services, a member of the Institute of Directors and holder of the IoD Diploma in Company Direction. Nigel is a Guernsey resident.



Disclosure of Directorships in Public Companies Listed on Recognised Stock Exchanges

The following summarises the Directors' directorships in other public companies:

Company Name	Stock Exchange
Claudio Albanese None	
Jon Bridel Alcentra European Floating Rate Income Fund Limited DP Aircraft 1 Limited Funding Circle SME Income Fund (appointed 19 August 2015) Sequoia Economic Infrastructure Income Fund Limited (appointed 6 January 2015) Starwood European Real Estate Finance Limited The Renewables Infrastructure Group Limited	London Stock Exchange – Main Market London Stock Exchange – SFM London Stock Exchange – Main Market London Stock Exchange – Main Market London Stock Exchange – Main Market London Stock Exchange – Main Market
Nigel Ward Acorn Income Fund Limited Braemar Group PCC Limited Crystal Amber Fund Limited Emerging Manager PCC Limited	London Stock Exchange – Main Market Channel Islands Securities Exchange London Stock Exchange – AIM Channel Islands Securities Exchange



Directors' Report

The Directors of Fair Oaks Income Fund Limited (the "Company") are pleased to submit their Annual Report and the Audited Financial Statements (the "Financial Statements") for the year ended 31 December 2015. In the opinion of the Directors, the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Company

The Company was incorporated and registered in Guernsey on 7 March 2014 under the Companies (Guernsey) Law, 2008. The Company's registration number is 58123 and it is regulated by the Guernsey Financial Services Commission ("GFSC") as a registered closed-ended collective investment scheme. The ordinary shares were listed on the Specialist Fund Market ("SFM") of the London Stock Exchange ("LSE") on 12 June 2014.

Going Concern

The Company has been incorporated with an unlimited life. On or before 31 May 2019, being the planned end date of the Master Fund, an ordinary resolution will be proposed by the Board to shareholders that the Company continues as a Registered Closed-Ended Collective Investment Scheme ("Continuation Resolution"). If the Continuation Resolution is passed by shareholders, a further Continuation Resolution will be proposed on the nearest Business Day falling every two years thereafter. If the Continuation Resolution is not passed, the Board shall draw up proposals for the voluntary liquidation of the Company.

After a review of the Company's holdings in cash and cash equivalents, investments and a consideration of the income deriving from those investments the Directors believe that it is appropriate to adopt the going concern basis in preparing the Financial Statements as the Company has adequate financial resources to meet its liabilities as they fall due.

Viability Statement

The Directors have conducted a robust assessment of the viability of the Company over a three year period to May 2019, taking account of the Company's current position and the potential impact of the principal risks documented below.

In making this statement, the Directors have considered the resilience of the Company, taking into account its current position, the principal risks facing the Company in severe but plausible scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the three year period to May 2019 is an appropriate period over which to provide its viability statement as this is the planned end date of the Master Fund (unless an ordinary resolution is passed by shareholders that the Company continues as a Registered Closed-Ended Collective Investment Scheme).

In making their assessment, factors taken into consideration by the Directors included the Company's NAV, net income, capital repayments and resulting cash flows and dividend cover over the period. These metrics were subjected to stress tests which involved flexing a number of main assumptions underlying the forecast. Where appropriate, this analysis was carried out to evaluate the potential impact of the Company's principal risks actually occurring, primarily, severe changes to macro economic conditions, increased defaults, deterioration in underlying credit ratings and downgrading or illiquidity of non-investment grade loans.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to May 2019.

Risks and uncertainties

In respect to the Company's system of internal controls and reviewing its effectiveness, the Directors:

- are satisfied that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; and
- have reviewed the effectiveness of the risk management and internal control systems including material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

The Risk Committee reviews the Company's overall risks at least four times a year and monitors the risk control activity designed to mitigate these risks.



Directors' Report (continued)

Risks and uncertainties (continued)

The risks associated with the Company include:

- **Operational risk** - The Board is ultimately responsible for all operational facets of performance including cash management, asset management, regulatory and listing obligations. The Company has no employees and so enters into a series of contracts/legal agreements with a series of service providers to ensure that both operational performance and regulatory obligations are met. The Board performs on-going internal monitoring of operational processes and controls and receives regular reports from the administrators of the Company, along with a report from the external auditors.
- **Investment risk** - The Risk Committee formally monitors the investment performance of the Company four times a year, when the Investment Adviser reports on the performance of the Company's portfolio at the Board meetings. The Investment Adviser carries out extensive due diligence on the Master Fund's underlying investments and monitors performance regularly. The investment guidelines and restrictions, as detailed in the prospectus of the Company, ensures adequate diversification of the Master Fund's underlying investments is regularly monitored by the Investment Adviser.
- **Regulatory risk** - The Company is required to comply with the Prospectus Rules, the Disclosure and Transparency Rules and the Market Abuse Directive (as implemented in the UK through Financial Services and Markets Authority). Any failure to comply could lead to criminal or civil proceedings. The Investment Adviser and Administrator monitor compliance with regulatory requirements and the Administrator presents a report at quarterly Board meetings.
- **Financial risk** - The financial risks, including market, credit and liquidity risk, faced by the Company, where appropriate, are set out in note 5. These risks and the controls in place to mitigate these risks are reviewed at each Risk Committee meeting.

Results and Dividends

The results for the year are shown in the Statement of Comprehensive Income on page 25.

The Directors declared dividends of US\$27,039,255 (Ordinary shareholders: US\$24,642,883, C shareholders: US\$2,396,372) for the year ended 31 December 2015. Further details of dividends declared or paid are detailed in note 4.

The Board paid dividends to shareholders representing an amount in aggregate at least equal to the gross income from investments, which are received from the Master Fund in the relevant financial period attributable to the Company's investment in the Master Fund, and Qualifying Short Term Investments less expenses of the Company.

On 16 January 2015, the Directors announced that the Company changed the frequency of its dividends from quarterly to monthly.

Independent Auditor

KPMG Channel Islands Limited were appointed on 12 May 2014 and served as Auditor during the financial year. A resolution to re-appoint KPMG Channel Islands Limited as Auditor will be put to the forthcoming Annual General Meeting ("AGM").

Investment Adviser

The Directors are responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities. The Company has, however, entered into an Investment Advisory Agreement with Fair Oaks Capital Limited (the "Investment Adviser") under which the Investment Adviser has been appointed to provide investment advisory services, which include analysing the progress of all assets and investments of the Company and advising the Company on liquidity and working capital retention issues, subject to the overriding supervision of the Directors.

The Directors consider that the interests of shareholders, as a whole, are best served by the continued appointment of the Investment Adviser to achieve the Company's investment objectives. A summary of these terms, including the investment advisory fee and notice of termination period, is set out in note 8 of the Financial Statements.

Custody Arrangements

On 15 December 2015, BNP Paribas Securities Services S.C.A., Guernsey Branch (the "new Custodian"), replaced Royal Bank of Canada (Channel Islands) Limited (the "former Custodian") as Custodian. The Company's assets, excluding the investment into the Master Fund, are held in custody by the new Custodian, pursuant to an agreement dated 15 December 2015. A summary of the terms, including fees and notice of termination period, is set out in note 8 of the Financial Statements.

The Company's assets, excluding the investment into the Master Fund, are registered in the name of the new Custodian in each case within a separate account designation and may not be appropriated by the new Custodian for its own account.



Directors' Report (continued)

The Board conducts an annual review of the custody arrangements as part of its general internal control review. The Board also monitors the credit rating of the new Custodian, to ensure the financial stability of the new Custodian is being maintained to acceptable levels. As at December 2015, the credit rating of the new Custodian as reported by Moody's and Standard & Poor's is Aa1 and AA+ respectively, which is deemed to be an acceptable level.

Directors and Directors' Interests

The Directors, all of whom are independent and non-executive, are listed on page 9.

None of the Directors have service contracts with the Company and no such contracts are proposed. Each independent non-executive Director is entitled to a basic fee of £32,000 (or £37,000 if the NAV of the Company is greater than US\$250 million at the beginning of any calendar quarter in which such fees are paid) each per annum. In addition, a one-off payment of £7,500 was paid to them relating to work performed prior to Admission to the Specialist Fund Market of the London Stock Exchange.

The Directors had the following interests in the Company at 31 December 2015 and 31 December 2014, held either directly or beneficially:

Name	31 December 2015		31 December 2014	
	No. of ordinary shares	Percentage	No. of ordinary shares	Percentage
Claudio Albanese (Chairman)	10,000	0.01%	10,000	0.01%
Jon Bridel	10,000	0.01%	10,000	0.01%
Nigel Ward	20,000	0.02%	20,000	0.02%

There have been no changes to the Directors' shareholdings since 31 December 2015.

Substantial Shareholdings

As at 14 March 2016, the Company had the following shareholdings in excess of 5% of the issued share capital:

Name	No. of ordinary shares	Percentage
Old Mutual Global Investors	55,560,273	17.34
Coller Investment Management	34,298,425	10.70
Seven Investment Management	24,544,240	7.66
Smith & Williamson	17,888,681	5.58
Wirral BC	16,269,355	5.08

Related Parties

Details of transactions with related parties are disclosed in note 8 to these Financial Statements.

Listing Requirements

Throughout the period, since being admitted to the Specialist Fund Market of the London Stock Exchange, the Company has complied with the Prospectus Rules, the Disclosure and Transparency Rules and the Market Abuse Directive (as implemented in the UK through Financial Services and Markets Authority).

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") became effective on 1 January 2013. The legislation is aimed at determining the ownership of US assets in foreign accounts and improving US tax compliance with respect to those assets. On 13 December 2013, the States of Guernsey entered into an intergovernmental agreement ("IGA") with US Treasury, in order to facilitate the requirements under FATCA. The Company registered with the Internal Revenue Service ("IRS") on 21 November 2014 as a Foreign Financial Institution ("FFI") and a Sponsoring Entity.



Directors' Report (continued)

United Kingdom-Guernsey Intergovernmental Agreement

On 22 October 2013 the Chief Minister of Guernsey signed an intergovernmental agreement with the United Kingdom ("UK-Guernsey IGA") under which certain disclosure requirements may be imposed in respect of certain shareholders in the Company who are, or are entities that are controlled by one or more, residents of the United Kingdom. The UK-Guernsey IGA is implemented through Guernsey's domestic legislation, in accordance with guidance which is currently published in draft form.

Alternative Investment Fund Managers Directive ("AIFMD")

The Company is categorised as a non-EU Alternative Investment Fund ("AIF") and an internally managed non-EU Alternative Investment Fund Manager ("AIFM") (as defined in the AIFMD) for the purposes of the AIFMD and as such neither it nor the Investment Adviser will be required to seek authorisation under the AIFMD. However, following national transposition of the AIFMD in a given EU member state, the marketing of ordinary shares in AIFs (as defined in the AIFMD) that are established outside the EU (such as the Company) to investors in that EU member state will be prohibited unless certain conditions are met. Certain of these conditions are outside the Company's control as they are dependent on the regulators of the relevant third country and the relevant EU member state entering into regulatory co-operation agreements with one another.

The Company is an internally managed non-EU AIFM for the purposes of AIFMD. The Directors have appointed the Risk Committee to manage the relevant disclosures to be made to investors and the necessary regulators. On 18 February 2015, the FCA confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company complied with Article 22 and 23 of the AIFMD for the year ended 31 December 2015.

There have been no material changes to the Company's Prospectus, other principal documents and operations since the Company disclosed to its investors the matters it is required to disclose to them under Article 23 of AIFMD on 28 May 2015. As the Board of the Company is the AIFM, the details of the Company's remuneration policy for the Directors is outlined on pages 13 and 20 and accords with the principles established by AIFMD.

Non-Mainstream Pooled Investments

The Company's ordinary shares and C shares are considered as "excluded securities" for the purposes of the FCA Rules regarding the definition and promotion of non-mainstream pooled investments ("NMPI") because the returns to investors holding the Company's ordinary shares are, and are expected to continue to be, predominantly based on the returns from ordinary shares and debentures held indirectly by the Company. The Board therefore believes that independent financial advisers can recommend the Company's ordinary shares to retail investors, although financial advisers should seek their own advice on this issue.

Reporting Fund regime

The Company was accepted into the UK Reporting Fund regime with effect from 7 March 2014. Under this regime, which effectively replaced the UK Distributor Status regime, an offshore investment fund operates by reference to whether it opts into the reporting regime ("Reporting Funds") or not ("Non-reporting Funds").

A UK investor who disposes of an interest in a Reporting Fund should be subject to tax on any gains realised as capital gains rather than income. Such investors will also be subject to income tax on the distributions received from the offshore fund and their share of the excess of the offshore fund's reported income over the distributions made (i.e. they will be subject to income tax on their share of the offshore fund's income regardless of whether this is distributed or not). Shareholders should seek their own professional advice as to the tax consequences of the UK Reporting Fund regime.

By order of the Board

Jon Bridel

Director

7 April 2016



Corporate Governance

Compliance

The Board has taken note of the Code of Corporate Governance issued by the Guernsey Financial Services Commission (“Guernsey Code”). The Guernsey Code provides a governance framework for GFSC licensed entities, authorised and registered collective investment schemes. Companies reporting against the UK Corporate Governance Code (the “UK Code”) or the Association of Investment Companies Code of Corporate Governance (“AIC Code”), which was published in February 2015, are deemed to satisfy the provisions of the Guernsey Code. The UK Code is available on the Financial Reporting Council website, www.frc.org.uk.

As a Guernsey incorporated company and under the SFM Rules for Companies, it is not a requirement for the Company to comply with the UK Code. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have considered the principles and recommendations of the AIC Code by reference to the AIC Corporate Governance Guide for investment companies (“AIC Guide”). The AIC Code, as explained in the AIC Guide, addresses all the principles set out in the UK Code. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Code), will provide better information to shareholders. The AIC code is available on the AIC website, www.theaic.co.uk.

For the year ended 31 December 2015, the Company complied substantially with the relevant provisions of the AIC Code and it is the intention of the Board that the Company will comply with those provisions throughout the year ending 31 December 2016, with the exception of the provisions listed below:

- *The appointment of a Senior Independent Director:* Given the size and composition of the Board it is not felt necessary to separate the roles of Chairman and Senior Independent Director. The Board considers that all the independent Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.
- *Internal audit function:* The Board has reviewed the need for an internal audit function and due to the size of the Company and the delegation of day-to-day operations to regulated service providers, an internal audit function is not considered necessary. The Directors will continue to monitor the systems of internal controls in place in order to provide assurance that they operate as intended.

Composition and Independence of Directors

As at 31 December 2015, the Board of Directors comprised three non-executive and independent Directors as set out below. The Company has no executive Directors or any employees. The biographies of the Board are disclosed on page 9.

Claudio Albanese is the Chairman of the Board, the Management Engagement Committee and of the Nomination and Remuneration Committee.

Jon Bridel is the Chairman of the Audit Committee.

Nigel Ward is the Chairman of the Risk Committee.

In considering the independence of the Chairman, the Board has taken note of the provisions of the AIC Code relating to independence and has determined that Claudio Albanese is an Independent Director.

Under the terms of their appointment, all non-executive Directors are subject to re-election at the first Annual General Meeting (“AGM”) and annually thereafter. At the first Annual General Meeting of the Company on 28 May 2015, shareholders re-elected all the Directors of the Company.

Although no formal training is given to Directors by the Company, the Directors are kept up to date on various matters such as Corporate Governance issues through bulletins and training materials provided from time to time by the Company Secretary, the AIC and other professional firms.



Corporate Governance (continued)

Composition and Independence of Directors (continued)

The Board receives quarterly reports and meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its disposal. At these meetings the Board monitors the investment performance of the Company. The Directors also review the Company's activities every quarter to ensure that it adheres to the Company's investment policy. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

The Board monitors the level of the share price premium or discount to determine what action is desirable (if any).

The Board and relevant personnel of the Investment Adviser acknowledges and adheres to the Model Code of Directors Dealings contained in the Listing Rules.

Directors' Performance Evaluation

The Board has established an informal system for the evaluation of its own performance and that of the Company's individual Directors. It considers this to be appropriate having regard to the non-executive role of the Directors and the significant outsourcing of services by the Company to external providers.

The Directors undertake, on an annual basis, a verbal assessment of the effectiveness of the Board particularly in relation to its oversight and monitoring of the performance of the Investment Adviser and other key service providers. The evaluations consider the balance of skills, experience, independence and knowledge of the Company. The Board also evaluates the effectiveness of each of the Directors.

Directors' Remuneration

With effect from 27 August 2015, it is the responsibility of the Nomination and Remuneration Committee to determine and approve the Directors' remuneration, having given the matter proper consideration, having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. The Chairman's remuneration is decided separately and is approved by the Board as a whole.

No Director has a service contract with the Company and details of the Directors' remuneration can be found in the Directors' Remuneration Report on page 20.

Directors' and Officers' Liability Insurance

The Company maintains insurance in respect of Directors' and Officers' liability in relation to their acts on behalf of the Directors.

Relations with Shareholders

The Company reports to shareholders twice a year by way of the Interim Report and the Annual Report and Audited Financial Statements. In addition, NAVs are published monthly and the Investment Adviser publishes monthly reports to shareholders on its website www.fairoaksincomefund.com.

The Board receives quarterly reports on the shareholder profile of the Company and regular contact with major shareholders is undertaken by the Company's corporate brokers and the executives of the Investment Adviser. Any issues raised by major shareholders are reported to the Board on a regular basis.

The Chairman and individual Directors are willing to meet major shareholders to discuss any particular items of concern regarding the performance of the Company. Members of the Board, including the Chairman and the Audit Committee Chairman, and the Investment Adviser are also available to answer any questions which may be raised by any shareholder at the Company's Annual General Meeting.



Corporate Governance (continued)

Directors' Meetings and Attendance

The table below shows the attendance at Board, Audit and Risk Committee meetings during the year. There were four formal Board meetings, four Audit Committee meetings, four Risk Committee meetings, one Management Engagement Committee meeting, one Nomination and Remuneration Committee meeting and ten informal Board meetings held during the year ended 31 December 2015.

Name	Board	Audit Committee	Risk Committee	Management Engagement Committee	Nomination & Remuneration Committee
Number of meetings held	14	4	4	1	1
Claudio Albanese (Chairman)	9	4	N/A	1	1
Jon Bridel (Audit Committee Chairman)	12	4	4	1	1
Nigel Ward (Risk Committee Chairman)	12	4	4	1	1

Board Committees

Audit Committee

The Audit Committee comprises all Board members, and meets at least three times a year. Jon Bridel is Chairman of the Audit Committee. As all Directors are non-executive whilst also taking into account the size and composition of the Board, it was deemed appropriate that all Board members are also members of the Audit Committee.

The key objectives of the Audit Committee include a review of the Financial Statements to ensure they are prepared to a high standard and comply with all relevant legislation and guidelines, where appropriate, and to maintain an effective relationship with the external auditor. With respect to the external auditor, the Audit Committee's role will include the assessment of their independence, review of auditor's engagement letter, remuneration and any non-audit services provided by the auditor. For the principal duties and report of the Audit Committee please refer to the Report of the Audit Committee on page 21.

Management Engagement Committee

The Management Engagement Committee will meet at least once a year. It comprises the entire Board and is chaired by Claudio Albanese. The Management Engagement Committee is responsible for the regular review of the terms of the Investment Advisory Agreement and the performance of the Administrator and the Investment Adviser and also the Company's other service providers. The first Management Engagement Committee meeting was held on 30 November 2015.

Risk Committee

The Risk Committee will meet at least four times per year. It comprises of Nigel Ward and Jon Bridel and is chaired by Nigel Ward. The principal function of the Risk Committee is to identify, assess, monitor and, where possible, oversee the management of risks to which the Company's investments are exposed, principally to enable the Company to achieve its target investment objective of a total return of 12% to 14% per annum over the planned life of the Company, with regular reporting to the Board. As the Company is an internally managed non-EU AIFM for the purposes of AIFMD, the Directors have appointed the Risk Committee to manage the additional risks faced by the Company as well as the relevant disclosures to be made to investors and the necessary regulators. On 18 February 2015, the FCA confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company complied with Articles 22 and 23 of the AIFMD for the year ended 31 December 2015.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was formed on 27 August 2015 and will meet at least once a year. It comprises the entire Board and is chaired by Claudio Albanese. The Nomination and Remuneration Committee is responsible for reviewing the structure, size and composition of the Board, to consider the succession planning for directors and senior executives, reviewing the leadership needs of the organisation, identifying candidates for appointment to the Board, agreeing a framework for Director remuneration, ensuring management of the Company are appropriately incentivised to enhance performance and reviewing the appropriateness of the remuneration policy on an on-going basis. The first Nomination and Remuneration Committee meeting was held on 30 November 2015.



Corporate Governance (continued)

Internal Control Review and Risk Management System

The Board of Directors is responsible for putting in place a system of internal controls relevant to the Company and for reviewing the effectiveness of those systems. The review of internal controls is an on going process for identifying and evaluating the risks faced by the Company, and which are designed to manage risks rather than eliminate the risk of failure to achieve the Company's objectives.

It is the responsibility of the Board to undertake risk assessment and review of the internal controls in the context of the Company's objectives that cover business strategy, operational, compliance and financial risks facing the Company. These internal controls are implemented by the Company's three main service providers: the Investment Adviser, the Administrator and the Custodian. The Board receives periodic updates from these main service providers at the quarterly Board meetings of the Company. The Board is satisfied that each service provider has effective controls in place to control the risks associated with the services that they are contracted to provide to the Company and are therefore satisfied with the internal controls of the Company.

The Board of Directors considers the arrangements for the provision of Investment Advisory, Administration and Custody services to the Company on an on-going basis and a formal review is conducted annually. As part of this review the Board considered the quality of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date.

Anti-bribery and Corruption

The Board acknowledge that the Company's international operations may give rise to possible claims of bribery and corruption. In consideration of The Bribery Act 2010, enacted in the UK, at the date of this report the Board had conducted an assessment of the perceived risks to the Company arising from bribery and corruption to identify aspects of business which may be improved to mitigate such risks. The Board has adopted a zero tolerance policy towards bribery and has reiterated its commitment to carry out business fairly, honestly and openly.



Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB and the Companies (Guernsey) Law, 2008 which give a true and fair view of the state of affairs of the Company and its profit or loss for that period.

International Accounting Standard ("IAS") 1 requires that Financial Statements present fairly for each financial period the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances a fair presentation will be achieved by compliance with all applicable IFRSs.

In preparing Financial Statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008 and the Listing Rules of the Specialist Fund Market of the London Stock Exchange. They are also responsible for the system of internal controls, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements in preparing the Financial Statements.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom and Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility Statement

Each of the Directors, whose names and functions are listed on page 9, confirms to the best of each person's knowledge and belief:

- the Financial Statements, prepared in accordance with the International Financial Reporting Standards as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and result of the Company, as required by DTR 4.1.12R and are in compliance with the requirements set out in the Companies (Guernsey) Law, 2008; and
- the Annual Report taken as a whole, is fair, balanced and understandable and include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face, as required by DTR 4.1.8R and DTR 4.1.11R.

Signed on behalf of the Board by:

Jon Bridel

Director

7 April 2016



Directors' Remuneration Report

The Company's policy in regard to Directors' remuneration is to ensure that the Company maintains a competitive fee structure in order to recruit, retain and motivate non-executive Directors of excellent quality in the overall interests of shareholders.

No element of the Directors' remuneration is performance related, nor does any Director have any entitlement to pensions, share options or any long term incentive plans from the Company.

The Company's Articles limit the fees payable to Directors in aggregate to US\$400,000 per annum.

The Directors are currently subject to the following annualised remuneration in the form of Directors' fees:

	For the period from 1 January 2015 to 30 September 2015 Annualised £	For the period from 1 October 2015 to 31 December 2015 Annualised £	For the period from 1 January 2015 to 31 December 2015 Actual £	For the period from 7 March 2014 (date of incorporation) to 31 December 2014 Actual £
Claudio Albanese (Chairman)	32,000	37,000	33,250	21,538
Jon Bridel (Audit Committee Chairman)	32,000	37,000	33,250	21,538
Nigel Ward (Risk Committee Chairman)	32,000	37,000	33,250	21,538
Total	96,000	111,000	99,750	64,614

Each Director will be entitled to £32,000 per annum or £37,000 per annum if the NAV of the Company is greater than US\$250 million, at the beginning of any calendar quarter in which such fees are paid. At the beginning of quarter four, 1 October 2015, the NAV of the Company was greater than US\$250 million, therefore, their Directors fees increased to £37,000 per annum.

During the period ended 31 December 2014, a one-off payment of £7,500 was paid to each Director relating to work performed prior to Admission to the SFM of the LSE.

The remuneration policy set out above is the one applied for the year ended 31 December 2015 and the period ended 31 December 2014 and is not expected to change in the immediate future.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The Directors were appointed as non-executive Directors by letters issued in April and May 2014. Each Director's appointment letter provides that, upon the termination of his appointment, he must resign in writing and all records remain the property of the Company. The Directors' appointments can be terminated in accordance with the Articles and without compensation. The notice period for the removal of Directors is three months as specified in the Director's appointment letter. The Articles provide that the office of director shall be terminated by, among other things: (a) written resignation; (b) unauthorised absences from board meetings for six months or more; (c) unanimous written request of the other directors; or (d) an ordinary resolution of the Company.

Under the terms of their appointment, each Director was subject to re-election at the first Annual General Meeting ("AGM") and annually thereafter. At the first Annual General Meeting of the Company on 28 May 2015, shareholders re-elected all the Directors for re-election. The Company may terminate the appointment of a Director immediately on serving written notice and no compensation is payable upon termination of office as a director of the Company becoming effective.

The amounts payable to Directors as at 31 December 2015 and 31 December 2014, shown in note 8 were for services as non-executive Directors.

No Director has a service contract with the Company, nor are any such contracts proposed.

Signed on behalf of the Board of Directors on 7 April 2016 by:

Jon Bridel
Director



Report of the Audit Committee

The Company has established an Audit Committee with formally delegated duties and responsibilities within written terms of reference (which are available from the Company's Secretary).

Chairman and Membership

The Audit Committee is chaired by Jon Bridel, a Chartered Accountant. He and its other members, Claudio Albanese and Nigel Ward, are all independent directors. Only independent directors serve on the Audit Committee and members of the Audit Committee have no links with the Company's external auditor and are independent of the Investment Adviser. The membership of the Audit Committee and its terms of reference are kept under review. The relevant qualifications and experience of each member of the Audit Committee is detailed on page 10 of these Financial Statements. The Audit Committee's intention is to meet three times a year in any full year and meets the external auditor during those meetings.

Duties

The Audit Committee's main role and responsibilities is to provide advice to the Board on whether the Annual Report and Audited Financial Statements taken as a whole, are fair, balanced and understandable and alongside the Interim Report and Unaudited Interim Financial Statements provide the information necessary for shareholders to assess the Company's performance, business model and strategy. The Audit Committee gives full consideration and recommendation to the Board for the approval of the contents of the Interim and Annual Financial Statements of the Company, which includes reviewing the external auditor's report.

The other principal duties include to consider the appointment of the external auditor, to discuss and agree with the external auditor the nature and scope of the audit, to keep under review the scope, results and effectiveness of the audit and the independence and objectivity of the auditor, to review the external auditor's letter of engagement, the auditor's planning report for the financial year and management letter and to analyse the key procedures adopted by the Company's service providers.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of the Company's internal control and risk management systems as they relate to the financial reporting process. The Audit Committee also focuses particularly on compliance with legal requirements, accounting standards and the relevant Listing Rules and ensuring that an effective system of internal financial and non-financial controls is maintained.

The Audit Committee also reviews, considers and, if thought appropriate, recommends for the purposes of the Company's Financial Statements valuations prepared by the Investment Adviser. These valuations are the most critical element in the Company's Financial Statements and the Audit Committee questions them carefully.

Financial Reporting and Audit

The Audit Committee has an active involvement and oversight in the preparation of both the interim and annual Financial Statements and in doing so is responsible for the identification and monitoring of the principal risks associated with the preparation of the Financial Statements. The principal risks identified in the preparation of these Financial Statements are as follows:

- Valuation of the Master Fund – The Company's investment in the Master Fund had a fair value of US\$269,069,087 as at 31 December 2015 and represents substantially all the net assets of the Company and as such is the biggest factor in relation to the accuracy of the Financial Statements. This investment is valued in accordance with the Accounting Policies set out in note 2 to the Audited Financial Statements. The Financial Statements of the Master Fund for the year ended 31 December 2015 were audited by KPMG Channel Islands Limited ("KPMG") who issued an unqualified audit opinion dated 7 April 2016. The Audit Committee has reviewed the Financial Statements of the Master Fund and the Accounting Policies and determined the Company's fair value of the investment in the Master Fund as at 31 December 2015 is reasonable.

The Audit Committee reviewed the Company's accounting policies applied in the preparation of its Annual Financial Statements report together with the relevant critical judgements, estimates and assumptions and, upon taking the appropriate advice from the Auditor, determined that these were in compliance with International Financial Reporting Standards ("IFRS"), as issued by the IASB and were reasonable. The Audit Committee reviewed the materiality levels applied by the Auditor to both the financial statements as a whole and to individual items and was satisfied that these materiality levels were appropriate. The Auditor reports to the Audit Committee all material corrected and uncorrected differences. The auditor explained the results of their audit and that on the basis of their audit work, there were no uncorrected differences proposed that were material in the context of the Financial Statements as a whole.



Report of the Audit Committee (continued)

Financial Reporting and Audit (continued)

The Audit Committee also reviews the Company's financial reports as a whole to ensure that such reports appropriately describe the Company's activities and to ensure that all statements contained in such reports are consistent with the Company's financial results and projections. Accordingly, the Audit Committee was able to advise the Board that the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

External Auditor

The Audit Committee has responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditors. KPMG were appointed as the first auditors of the Company. During the year, the Audit Committee received and reviewed the audit plan and report from the external auditors. It is standard practice for the external auditor to meet privately with the Audit Committee without the Investment Adviser being present at each Audit Committee meeting.

To assess the effectiveness of the external auditor, the Audit Committee will review:

- The external auditor's fulfilment of the agreed audit plan and variations from it;
- The Audit Committee Report from the auditor highlighting the major issues that arose during the course of the audit; and
- Feedback from the Investment Adviser and Administrator evaluating the performance of the audit team.

Where non-audit services are to be provided to the Company by the auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement will be considered before proceeding. All non-audit services are pre-approved by the Audit Committee after it is satisfied that relevant safeguards are in place to protect the auditors' objectivity and independence.

To fulfil its responsibility regarding the independence of the external auditors, the Audit Committee considered:

- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

During the year ended 31 December 2015, a member firm of KPMG International Cooperative ("KPMG International") provided non-audit services in relation to providing advice to the Board on the C share prospectus and tax compliance work. At the Audit Committee meeting in November 2015, KPMG confirmed that this had not impacted their independence and outlined the reasons for this. The Audit Committee considered this and were satisfied these non-audit services had no bearing on the independence of the Auditor.

The following table summarises the remuneration paid to KPMG and to other KPMG International member firms for audit and non-audit services during the year/period ended 31 December 2015 and 31 December 2014, translated into the functional currency at the exchange rate prevailing at 31 December 2015 and 31 December 2014, respectively.

	For the year ended 31 December 2015 US\$	For the period from 7 March 2014 (date of incorporation) to 31 December 2014 US\$
KPMG Channel Islands Limited		
– Annual Audit	71,248	45,066
– Interim review	22,104	–
Other KPMG member firms		
– Initial prospectus	–	109,446
– Reporting accountant services – issuance of C shares	94,997	–
– Tax compliance services	2,210	7,010



Report of the Audit Committee (continued)

Internal Controls

As the Company's investment objective is to invest all of its assets into the Master Fund, the Audit Committee, after consultation with the Investment Adviser and external auditor, considers the key risk of misstatement in its Financial Statements to be the valuation of its investment in the Master Fund, but are also mindful of the risk of the override of controls by its service providers: the Investment Adviser and Administrator.

The Investment Adviser and Administrator together maintain a system of internal control on which they report to the Board. The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Investment Adviser and Administrator provide sufficient assurance that a sound system of risk management and internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the internal financial control systems and risk management systems on which the Company is reliant. These systems are designed to ensure proper accounting records are maintained, that the financial information on which the business decisions are made and which is issued for publication is reliable, and that the assets of the Company are safeguarded. Such a system of internal financial controls can only provide reasonable and not absolute assurance against misstatement or loss.

In accordance with the guidance published in the 'Turnbull Report' by the Financial Reporting Council (the "FRC"), the Audit Committee has reviewed the Company's internal control procedures. These internal controls are implemented by the Company's two main service providers, the Investment Adviser and the Administrator. The Audit Committee has performed reviews of the internal financial control systems and risk management systems during the year. The Audit Committee is satisfied with the internal financial control systems of the Company.

On behalf of the Audit Committee

Jon Bridel

Audit Committee Chairman
7 April 2016

Independent Auditor's Report to the members of Fair Oaks Income Fund Limited

We have audited the Financial Statements of Fair Oaks Income Fund Limited (the "Company") for the year ended 31 December 2015 which comprise the Statement of Comprehensive Income, the Statement of Changes in Shareholders' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as issued by the IASB.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the Audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its result for the year ended 31 December 2015;
- are in accordance with International Financial Reporting Standards as issued by the IASB; and
- comply with the Companies (Guernsey) Law, 2008.

Matters on which we are required to report by exception

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

- the Company has not kept proper accounting records; or
- the Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Dermot A. Dempsey

For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors, Guernsey

7 April 2016



Statement of Comprehensive Income

For the year ended 31 December 2015

		1 January 2015 to 31 December 2015	For the period from 7 March 2014 (date of incorporation) to 31 December 2014
	Note	US\$	US\$
Revenue			
Net (losses)/gains on financial assets at fair value through profit or loss	6	(7,164,483)	5,175,980
Investment income	7	6,427	4,155
Net foreign exchange loss		(5,745)	(1,917)
Total (loss)/revenue		(7,163,801)	5,178,218
Expenses			
Investment adviser fees	8	406,676	154,511
Audit and interim review fees		95,794	51,486
Administration fees	8	153,553	71,375
Directors' fees and expenses	8	152,450	106,299
Other expenses		283,255	121,598
Total operating expenses		1,091,728	505,269
Total comprehensive (loss)/income for the year/period		(8,255,529)	4,672,949
Basic and diluted (loss)/earnings per ordinary share	10	(0.0208)	0.0400
Basic and diluted loss per C share	10	(0.0426)	-

All items in the above statement derive from continuing operations.

The accompanying notes on pages 29 to 50 form an integral part of the Financial Statements.



Statement of Changes in Shareholders' Equity

For the year ended 31 December 2015

	Note	Share capital US\$	Retained earnings US\$	Total US\$
At 1 January 2015		119,542,182	4,672,949	124,215,131
Issue of ordinary shares during the year	9	88,398,626	–	88,398,626
Issue of C shares during the year	9	100,273,000	–	100,273,000
Total comprehensive loss for the year		–	(8,255,529)	(8,255,529)
Dividends declared during the year	4	–	(27,039,255)	(27,039,255)
At 31 December 2015		308,213,808	(30,621,835)	277,591,973

	Note	Share capital US\$	Retained earnings US\$	Total US\$
At 7 March 2014 (date of incorporation)		–	–	–
Issue of ordinary shares during the period	9	119,542,182	–	119,542,182
Total comprehensive income for the period		–	4,672,949	4,672,949
At 31 December 2014		119,542,182	4,672,949	124,215,131

The accompanying notes on pages 29 to 50 form an integral part of the Financial Statements.



Statement of Financial Position

At 31 December 2015

	Note	31 December 2015 US\$	31 December 2014 US\$
Assets			
Cash and cash equivalents	2	5,401,130	331,830
Prepayments		92,507	37,242
Distribution receivable		10,256,219	–
Financial assets at fair value through profit or loss	6	269,069,087	123,902,137
Total assets		284,818,943	124,271,209
Liabilities			
Other payables	12	107,889	56,078
Dividends payable	4	7,119,081	–
Total liabilities		7,226,970	56,078
Net assets		277,591,973	124,215,131
Equity			
Retained earnings		(30,621,835)	4,672,949
Share capital	9	308,213,808	119,542,182
Total equity		277,591,973	124,215,131
Net asset value per ordinary share		0.8663	1.0204
Net asset value per C share		0.9191	–
Number of ordinary shares	9	212,426,903	121,728,916
Number of C shares	9	101,800,000	–

The Financial Statements on pages 25 to 50 were approved and authorised for issue by the Board of Directors on 7 April 2016 and signed on its behalf by:

Jon Bridel

Director

The accompanying notes on pages 29 to 50 form an integral part of the Financial Statements.



Statement of Cash Flows

For the year ended 31 December 2015

	Note	1 January 2015 to 31 December 2015 US\$	For the period from 7 March 2014 (date of incorporation) to 31 December 2014 US\$
Cash flows from operating activities			
Total comprehensive (loss)/income for the period		(8,255,529)	4,672,949
Adjustments for:			
Net losses/(gains) on financial assets at fair value through profit or loss	6	7,164,483	(5,175,980)
		(1,091,046)	(503,031)
Increase in prepayments		(55,265)	(37,242)
Increase in other payables		51,811	56,078
Distributions received from Master Fund		18,503,664	–
Purchase of investment*		(331,088,285)	(206,924,456)
Sale of investment		149,996,969	122,496,724
Net cash flow used in operating activities		(163,682,152)	(84,911,927)
Cash flows from financing activities			
Ordinary shares issued**		88,398,626	85,243,757
C shares issued		100,273,000	–
Dividends paid during the year		(19,920,174)	–
Net cash flow generated from financing activities		168,751,452	85,243,757
Net increase in cash and cash equivalents		5,069,300	331,830
Cash and cash equivalents at beginning of year/period		331,830	–
Cash and cash equivalents at end of year/period		5,401,130	331,830

* Purchase of investments excludes non-cash purchases of US\$Nil (31 December 2014: US\$34,298,425). Refer to notes 6 and 8 for further details.

** Excludes non-cash in specie transfer of US\$Nil (31 December 2014: US\$34,298,425) during the year. Refer to notes 8 and 10 for further details.

The accompanying notes on pages 29 to 50 form an integral part of the Financial Statements.



Notes to the Financial Statements

For the year ended 31 December 2015

1. GENERAL INFORMATION

The Company was incorporated and registered in Guernsey under the Companies (Guernsey) Law, 2008 on 7 March 2014. The Company's registration number is 58123 and it is regulated by the Guernsey Financial Services Commission as a registered closed ended collective investment scheme. The Company is listed and began trading on the Specialist Fund Market of the London Stock Exchange on 12 June 2014.

The Company makes its investments through FOIF LP (the "Master Fund"), in which the Company is a limited partner, the only other limited partner being the Founding Partner. The general partner of the Master Fund is Fair Oaks Income Fund GP Limited (the "General Partner"). The Master Fund invests in a portfolio consisting primarily of Collateral Loan Obligations ("CLOs"). The Company may also invest in Qualifying Short Term Investments if at any time the Company holds any uninvested cash.

With effect from 15 May 2014, Fair Oaks Capital Limited (the "Investment Adviser") was appointed as the Investment Adviser.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The Financial Statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and are in compliance with the Companies (Guernsey) Law, 2008 and the Prospectus Rules, the Disclosure and Transparency Rules and the Market Abuse Directive (as implemented in the UK through Financial Services and Markets Authority).

Basis of Preparation

The Company's Financial Statements have been prepared on a historical cost basis, except for financial assets measured at fair value through profit or loss.

The preparation of Financial Statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and judgements are discussed in note 3. The principal accounting policies adopted are set out below.

The Directors believe that the Annual Report and Financial Statements contains all of the information required to enable shareholders and potential investors to make an informed appraisal of the investment activities and profits and losses of the Company for the period to which it relates and does not omit any matter or development of significance.

As explained below, the Company qualifies as an investment entity and is therefore only required to prepare individual Financial Statements under IFRS.

New Accounting Standards effective and adopted

The IASB completed its Annual Improvements 2010-2012 Cycle and Annual improvements 2011-2013 Cycle in December 2013. These projects amended a number of existing standards and interpretations effective for accounting periods commencing on or after 1 July 2014.

The adoption of these amended standards has had no material impact on the Financial Statements of the Company.

New Accounting Standards and interpretations applicable to future reporting periods

At the date of approval of these Financial Statements, the following standards and interpretations, which may be relevant to the Company but have not been applied in these Financial Statements, were in issue but not yet effective:

- IFRS 9, 'Financial Instruments' (relating to the classification and measurement of financial assets and liabilities, effective for periods commencing on or after 1 January 2018). This standard specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39 'Financial Statements: Recognition and Measurement' ("IAS 39").



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

New Accounting Standards and interpretations applicable to future reporting periods *continued*

The Board expects that the adoption of the standard in a future period will not have a material impact on the Financial Statements of the Company as the majority of the Company's financial assets are designated at fair value through profit or loss.

Investment income

Other income relates to interest income. Interest income is recognised on a time-proportionate basis using the effective interest method and includes interest income from cash and cash equivalents.

The effective interest rate is calculated using estimated cash flows, considering the expected life of the financial asset and future potential credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate and all other premiums or discounts.

Net Gains and losses on Financial Assets at Fair Value through Profit or Loss

Net gains/(losses) on financial assets at fair value through profit or loss includes all realised and unrealised fair value changes, foreign exchange gains/(losses), distributions received, but excludes interest.

Net realised gains/(losses) from financial assets at fair value through profit or loss are calculated using the average cost method.

Expenses

Expenses of the Company are charged through profit or loss in the Statement of Comprehensive Income on an accruals basis.

Ordinary Shares and C Shares

The ordinary shares and C shares of the Company are classified as equity based on the substance of the contractual arrangements and in accordance with the definition of equity instruments under IAS 32.

The proceeds from the issue of participating shares are recognised in the Statement of Changes in Shareholders' Equity, net of incremental issuance costs.

Cash and Cash Equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

Financial Instruments

Classification

The Company classifies its financial assets and financial liabilities into categories in accordance with IAS 39.

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

Financial assets at fair value through profit or loss

Financial assets classified in this category are designated by management on initial recognition as part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy. The term "financial assets designated at fair value through profit or loss" included investments in US Treasury Bills which were purchased and sold during the year. The Investment Entities exception to consolidation ("Investment entities exception") in IFRS 10 'Consolidated Financial Statements' ("IFRS 10") requires subsidiaries of an investment entity to be accounted for at fair value through profit or loss in accordance with IAS 39. As the Company's investment in the Master Fund is not held for trading, it is presented in the Financial Statements with the "designated at fair value" financial assets, as all are managed together on a fair value basis.



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES *continued*

Financial Instruments *continued*

Classification continued

Financial assets at amortised cost

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and they are carried at amortised cost. The Company includes in this category cash and cash equivalents and other receivables. The amortised cost of a financial asset is the amount at which the instrument is measured at initial recognition (its fair value) adjusted for initial direct costs, minus principal repayments, plus or minus the cumulative amortisation, using effective interest rate method, of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Financial liabilities at amortised cost

The Company includes in this category expenses payable.

Recognition and initial measurement

Financial assets and financial liabilities are measured initially at fair value, being the transaction price, including transaction costs for items that will subsequently be measured at amortised cost, on the trade date. Transaction costs on financial assets at fair value through profit or loss are expensed immediately.

Subsequent measurement

After initial measurement, the Company measures financial instruments classified at fair value through profit or loss at their fair values. Changes in fair value are recorded within "Net (losses)/gains on financial assets at fair value through profit or loss" in the Statement of Comprehensive Income.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Investment in the Master Fund

The Board has determined that the Company has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund as the Company is effectively the sole limited partner, is exposed and has rights to the returns of the Master Fund and has the ability either directly or through the Investment Adviser to affect the amount of its returns from the Master Fund.

The Investment Entities exception requires that an investment entity that has determined that it is a parent under IFRS 10 shall not consolidate certain of its subsidiaries; instead it is required to measure its investment in these subsidiaries at fair value through profit or loss in accordance with IAS 39.

The criteria which defines an investment entity are as follows:

- An entity has obtained funds from one or more investors for the purpose of providing those investors with investment management services;
- An entity has committed to its investors that its business purpose is to invest funds solely for the returns from capital appreciation, investment income or both; and
- An entity measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company provides investment management services and has a number of investors who pool their funds to gain access to these services and investment opportunities that they might not have had access to individually. The Company, being listed on the Specialist Fund Market of the London Stock Exchange, obtains funding from a diverse group of external shareholders.

Consideration is also given to the time frame of an investment. An investment entity should not hold its investments indefinitely but should have an exit strategy for their realisation. As the Master Fund's investments have documented maturity/redemption dates or will be sold if other investments with better risk/reward profile are identified, the Directors consider that this demonstrates a clear exit strategy.



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES continued

Financial Instruments continued

Investment in the Master Fund continued

The Master Fund measures and evaluates the performance of substantially all of its investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to Directors, who use fair value as a significant measurement attribute to evaluate the performance of its investments and to make investment decisions for mature investments.

The Company has determined that the fair value of the Master Fund is the Master Fund's Net Asset Value ("NAV").

The Company has concluded that the Master Fund, which is fully drawn at the year end, meets the definition of an unconsolidated subsidiary under IFRS 12 and has made the necessary disclosures.

Foreign Currency

Functional and presentation currency

The Financial Statements of the Company are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The Directors have considered the primary economic currency of the Company and considered the currency in which the original finance was raised, distributions will be made, and ultimately what currency would be returned if the Company was wound up. The Directors have also considered the currency to which the underlying investments are exposed. On balance, the Directors believe US Dollar best represents the functional currency of the Company during the year. Therefore the books and records are maintained in US Dollars and for the purpose of the Financial Statements the results and financial position of the Company are presented in US Dollars, which has been selected as the presentation currency of the Company. All other foreign exchange differences relating to monetary items, including cash, are presented in 'Net gains/(losses) on derivatives at fair value through profit or loss and foreign exchange' in the Statement of Comprehensive Income.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

Taxation

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £1,200 (31 December 2014: £600).

Dividends

Dividends to the holders of ordinary shares and C shares are recorded through the Statement of Changes in Shareholders' Equity when they are declared to shareholders. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by the Companies (Guernsey) Law, 2008.

Segmental Reporting

The Board has considered the requirements of IFRS 8 – "Operating Segments". The Company has entered into an Investment Advisory Agreement with the Investment Adviser under which they are responsible for the management of the Company's investment portfolio, subject to the overall supervision of the Directors. Subject to its terms and conditions, the Investment Advisory Agreement requires the Investment Adviser to manage the Company's investment portfolio in accordance with the Company's investment guidelines as in effect from time to time, including the authority to purchase and sell securities and other investments and to carry out other actions as appropriate to give effect thereto. However, the Board retains full



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

responsibility to ensure that the Investment Adviser adheres to its mandate. Moreover, the Board is fully responsible for the appointment and/or removal of the Investment Adviser. Accordingly, the Board is deemed to be the “Chief Operating Decision Maker” of the Company.

In the Board's opinion, the Company is engaged in a single segment of business, being the investment into the Master Fund, a Guernsey registered Limited Partnership.

Segment information is measured on the same basis as that used in the preparation of the Company's Financial Statements.

The Company receives no revenues from external customers, nor holds any non-current assets, in any geographical area other than Guernsey.

3. USE OF JUDGEMENTS AND ESTIMATES

The preparation of Financial Statements in accordance with IFRS requires the Board to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses, disclosure of contingent assets and liabilities at the date of the Financial Statements and income and expenses during the period. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The principle estimates and judgements are as follows:

Going Concern

The Board has assessed the Company's financial position as at 31 December 2015 and the factors that may impact its performance in the forthcoming year and are of the opinion that it is appropriate to prepare these Financial Statements on a going concern basis.

Fair Value

The Company records its investment in the Master Fund at fair value. Fair value is determined as the Company's share of the Master Fund's NAV. This share is net of any notional carried interest due to the Founder Partner of the Master Fund. The Investment Adviser has reviewed the NAV of the Master Fund and determined that no adjustments regarding liquidity discounts were required. At 31 December 2015 the Company is effectively the sole limited partner in the Master Fund.

Investment Entity

In accordance with the Investment entities exception the Board has determined that the Company satisfies the criteria to be regarded as an investment entity and that the Company provides investment related services and as a result measures its investment in the Master Fund at fair value. This determination involves a degree of judgement (see note 2).

4. DIVIDENDS

The Company intends to pay dividends to shareholders representing an amount in aggregate at least equal to the gross income from investments, which are received by the Company in the relevant financial period attributable to the Company's investment in the Master Fund, and Qualifying Short Term Investments less expenses of the Company.

The Company intends to declare eleven monthly dividends of a minimum of 0.7 US cents per ordinary share and a larger twelfth interim dividend such that, in the opinion of the Directors, substantially all net income generated by the Company in 2015 will be distributed to shareholders.



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

4. DIVIDENDS continued

The Company declared the following dividends to ordinary shareholders during the year ended 31 December 2015 (31 December 2014: US\$Nil):

Period to	Payment date	Dividend rate per share (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
31 December 2014	12 February 2015	4.25	5,173,478	30 January 2015	29 January 2015
31 January 2015	19 February 2015	0.70	853,289	6 February 2015	5 February 2015
28 February 2015	19 March 2015	0.70	1,168,288	6 March 2015	5 March 2015
31 March 2015	23 April 2015	0.70	1,168,288	10 April 2015	9 April 2015
30 April 2015	21 May 2015	0.70	1,168,288	8 May 2015	7 May 2015
31 May 2015	25 June 2015	0.70	1,483,289	12 June 2015	11 June 2015
30 June 2015	23 July 2015	0.70	1,483,289	10 July 2015	9 July 2015
31 July 2015	20 August 2015	0.70	1,483,289	7 August 2015	6 August 2015
31 August 2015	24 September 2015	0.70	1,483,289	11 September 2015	10 September 2015
30 September 2015	22 October 2015	0.70	1,485,129	9 October 2015	8 October 2015
31 October 2015	19 November 2015	0.70	1,485,129	6 November 2015	5 November 2015
30 November 2015	24 December 2015	0.70	1,485,129	11 December 2015	10 December 2015
			19,920,174		
31 December 2015	13 January 2016	2.226	4,722,709	29 December 2015	24 December 2015
			24,642,883		

The Company also declared the following dividend to C shareholders for the period 17 August 2015 to 31 December 2015:

Period to	Payment date	Dividend rate per share (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
31 December 2015	13 January 2016	2.354	2,396,372	29 December 2015	24 December 2015

Under Guernsey law, companies can pay dividends in excess of accounting profit provided they satisfy the solvency test prescribed by the Companies (Guernsey) Law, 2008. The solvency test considers whether a company is able to pay its debts when they fall due, and whether the value of a company's assets is greater than its liabilities. The Company passed the solvency test for each dividend paid.

Total dividends payable as at 31 December 2015 was US\$7,119,081 (31 December 2015: US\$Nil).



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

5. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities. Below is a non-exhaustive summary of the risks that the Company is exposed to as a result of its use of financial instruments:

Market Risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and equity prices, affecting the Company's income and/or the value of its holdings in financial instruments.

The Company's exposure to market risk comes mainly from movements in the value of its investment in the Master Fund and on a look-through basis to the underlying loans in each CLO. Changes in credit spreads may further affect the Company's net equity or net income directly through their impact on unrealised gains or losses on investments within the Master Fund and on a look-through basis to the underlying loans in each CLO.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk. The Company's strategy for the management of market risk mirrors the strategy of the Master Fund, driven by their investment objective to generate attractive, risk-adjusted returns, principally through income distributions by seeking exposure to US and European CLOs or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating rate senior secured loans and which may include non-recourse financing. The Company's market risk is managed on a daily basis by the Investment Adviser in accordance with policies and procedures in place.

The Company intends to mitigate market risk generally by not making investments that would cause it to have exposure to a single corporate issuer exceeding 5% of the Master Fund's aggregate gross assets at the time of investment. Special Purpose Vehicles such as CLOs are not considered corporate issuers. The Company's market positions are monitored on a quarterly basis by the Board of Directors.

Interest Rate Risk

The Company is exposed to interest rate risk through the investments held by the Master Fund and on a look-through basis to the underlying assets in the CLOs, along with their investment in US Treasury Bills which were held during the year but sold at the year end.

The majority of the Company's financial assets are into the Master Fund which invests in Income Notes and Mezzanine tranches of cash flow CLOs. The Master Fund's exposure to interest rate risk is significantly mitigated by the fact that the majority of the underlying loans in each CLO, bear interest at floating Libor-based rates.

The Company's investment in US Treasury Bills were short term, therefore, their exposed interest rate risk was minimal as they were all sold within 3 months of them being purchased.

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates, however, the underlying cash positions will not be affected.

The following table shows the portfolio profile of the Master Fund at 31 December 2015 and 31 December 2014:

	31 December 2015	31 December 2014
	US\$	US\$
Investments with a floating interest rate	275,519,805	123,326,800
Financial assets at fair value through profit or loss (note 6)	275,519,805	123,326,800



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

5. FINANCIAL RISK MANAGEMENT *continued*

Market Risk *continued*

Interest Rate Risk *continued*

The following table shows the Directors' best estimate of the sensitivity of the portfolio of the Master Fund to stressed changes in interest rates, with all other variables held constant. The table assumes parallel shifts in the respective forward yield curves.

	Possible reasonable change in rate	31 December 2015 effect on net assets and profit or loss US\$	Possible reasonable change in rate	31 December 2014 effect on net assets and profit or loss US\$
	-1%	(1,807,418)	-1%	(424,187)
	1%	1,218,236	1%	424,187

Currency risk

The Company is exposed to very limited currency risk, as the majority of its assets and liabilities are denominated in US Dollars.

The Company is exposed indirectly to currency risk through its investment into the Master Fund. The Master Fund's portfolio is predominantly denominated in US Dollar. However, the Master Fund may also invest in underlying assets which are denominated in currencies other than the US Dollar (e.g. Euro). Accordingly, the value of such assets may be affected, favourably or unfavourably, by fluctuations in currency rates and which, if unhedged, could have the potential to have a significant effect on returns. To reduce the impact of currency fluctuations and the volatility of returns which may result from currency exposure, the Investment Adviser may hedge the currency exposure of the assets of the Master Fund.

The total net foreign currency exposure of the Master Fund at the year end was as follows:

	31 December 2015 US\$	31 December 2014 US\$
EUR Exposure		
Financial assets at fair value through profit or loss	5,298,923	6,198,862
Forward foreign exchange contracts	(5,433,294)	(6,199,139)
Other payables	(40,719)	(30,244)
Net EUR Exposure	(175,090)	(30,521)
	31 December 2015 US\$	31 December 2014 US\$
GBP Exposure		
Cash and cash equivalents	–	7,789
Other receivables	17,992	19,761
Other payables	(21,761)	(12,462)
Net GBP Exposure	(3,769)	15,088
NET EXPOSURE	(178,859)	(15,433)



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

5. FINANCIAL RISK MANAGEMENT continued

Market Risk continued

Currency risk continued

	Possible change in exchange rate	31 December 2015 net exposure US\$	31 December 2015 effect on net assets and profit or loss US\$
EUR/US Dollar	+/- 5%	(175,090)	(8,755)
GBP/US Dollar	+/- 5%	(3,769)	(188)

	Possible change in exchange rate	31 December 2014 net exposure US\$	31 December 2014 effect on net assets and profit or loss US\$
EUR/US Dollar	+/- 5%	(30,521)	(+/-) 1,526
GBP/US Dollar	+/- 5%	15,088	(+/-) 754

Other price risks

The risk that the fair value or future cash flows, on a look-through basis to the underlying CLOs' will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Directors do not believe that the returns on investments are correlated to any specific index or other price variable.

If the value of the Company's investment in the Master Fund was to increase or decrease by 1%, the impact on the NAV of the Company would be +/- US\$2,690,691 (31 December 2014: US\$1,239,021).

Credit and Counterparty 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 Company, the Master Fund or a vehicle in which the Master Fund invests, resulting in a financial loss to the Company. It arises principally from debt securities held, and also from derivative financial assets and cash and cash equivalents. For risk management reporting purposes, the Company considers and aggregates all elements of credit risk exposure (such as individual obligation default risk, country risk and sector risk).

The Company's policy over credit risk mirrors that of the Master Fund, which is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the Company's prospectus and by taking collateral.

The table below analyses the Company's maximum credit exposure to credit risk for the components of the Statement of Financial Position.

	31 December 2015 US\$	31 December 2014 US\$
Cash and cash equivalents	5,401,130	331,830
Other receivables	92,507	37,242
Distribution receivable	10,256,219	–
Financial assets at fair value through profit or loss	269,069,087	123,902,137
	284,818,943	124,271,209



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

5. FINANCIAL RISK MANAGEMENT *continued*

Credit and Counterparty Risk *continued*

The cash and assets of the Company, excluding its investment into the Master Fund, and as at 31 December 2015, substantially all of the assets of the Master Fund are held by the BNP Paribas Security Services (the “New Custodian”). Bankruptcy or insolvency of the New Custodian may cause the Company’s rights with respect to securities held by the New Custodian to be delayed or limited. This risk is managed by monitoring the credit quality and financial positions of the Custodian. The long-term rating of the New Custodian as at 31 December 2015 was Aa1 as rated by Moody’s (Royal Bank of Canada (Channel Islands) Limited (“Former Custodian”), 31 December 2014: Aa3) and AA+ by Standard & Poor’s (Former Custodian, 31 December 2014: AA-).

Credit risk is assessed from time to time by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser seeks to provide diversification in terms of underlying assets, issuer sector, geography and maturity profile. Please refer to the graph on page 7 for the concentration of credit risk by industry for the CLO investments on a look-through basis as at 31 December 2015. The Company’s credit risk is monitored on a quarterly basis by the Board of Directors.

The Master Fund’s exposure to credit risk of all of the underlying CLO investments based on the country of registration (not necessarily asset class exposure) as at 31 December 2015 and 31 December 2014 is summarised below:

	31 December 2015	31 December 2014
	US\$	US\$
United States of America	270,220,882	117,127,938
Europe	5,298,923	6,198,862
Master Fund financial assets at fair value through profit or loss (note 6)	275,519,805	123,326,800

The underlying CLO investments geographical breakdown is as follows:

	31 December 2015	31 December 2014
Country	%	%
United States of America	91.9	93.9
Luxembourg	2.2	–
Canada	1.6	–
United Kingdom	1.2	1.7
Germany	–	1.0
France	–	0.8
Netherlands	0.8	0.7
Other	2.3	1.9
Total	100.0	100.0

The table below summarises the Master Fund’s portfolio concentrations as of 31 December 2015 and 31 December 2014:

	Maximum portfolio	Average portfolio
	holdings of a single	holdings % of
	asset % of total	total portfolio
	portfolio	total portfolio
31 December 2015	8.61%	4.00%
31 December 2014	37.82%	11.11%



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

5. FINANCIAL RISK MANAGEMENT continued

Credit and Counterparty Risk continued

The below table summarises the Master Fund's portfolio by asset class and ratings of the portfolio as at 31 December 2015 and 31 December 2014:

By Asset Class	31 December 2015 US\$	31 December 2014 US\$
Equity CLO	215,819,398	110,870,529
Mezzanine CLO	52,283,397	12,456,271
Term loan	7,417,010	–
Master Fund financial assets at fair value through profit or loss (note 6)	275,519,805	123,326,800

The underlying CLO investments rating breakdown is as follows:

Rating	31 December 2015 %	31 December 2014 %
B	46.0	52.0
B+	22.0	20.0
BB-	13.0	11.0
B-	7.0	6.0
NR	2.0	5.0
BB	5.0	4.0
BB+	3.0	2.0
BBB-	1.0	–
CCC+	1.0	–
Total	100.0	100.0

Further information regarding the geographical, currency, rating and industry diversification breakdown is provided in the tables on page 7 in the Investment Adviser's Report.

Activities undertaken by the Company and Master Fund may give rise to settlement risk. 'Settlement risk' is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions, settlement risk is mitigated by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's policy and the Investment Adviser's approach to managing the liquidity is to ensure, as far as possible, that the Company will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the Company's reputation.



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

5. FINANCIAL RISK MANAGEMENT *continued*

Liquidity Risk *continued*

The Company's liquidity risk is managed on a daily basis by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser monitors and considers the Company's and the Master Fund's cash balances, projected expenses and projected income from investments when making any new investment recommendations.

Given the Company's permanent capital structure as a closed-ended fund, it is not exposed to redemption risk. However, the Company's financial instruments include investments in collateralised debt obligations and derivative contracts (if any) traded over-the-counter which are not traded in an organised public market and which may be illiquid.

The Company's overall liquidity risk is monitored on a quarterly basis by the Board of directors. Shareholders will have no right of redemption and must rely, in part, on the existence of a liquid market in order to realise their investment.

All liabilities of the Company are due within one financial year.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's activities relating to financial instruments, either internally or on the part of service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

Operational risk is managed so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of directors. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers.

The Directors' assessment of the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions with the service providers and a review of the service providers' Service Organisation Controls ("SOC") 1 reports on internal controls, if available.

Substantially all of the assets of the Company and Master Fund are held by BNP Paribas Securities Services S.C.A., Guernsey Branch, in its capacity as Custodian. The bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to the securities held by the Custodian to be limited. The Investment Adviser monitors the credit ratings and capital adequacy of the Custodian on a quarterly basis, and reviews the findings documented in the SOC 1 report on the internal controls annually.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. The Company's capital is represented by the ordinary shares and C shares. Capital is managed in accordance with the investment policy, in pursuit of its investment objectives.



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2015 US\$	31 December 2014 US\$
Cost at the start of the year/period	118,724,784	–
Purchases into the Master Fund at cost during the year/period*	181,103,099	118,724,784
Purchases of US Treasury Bills at cost during the year/period	149,985,186	122,498,097
Proceeds from sale of US Treasury Bills during the year/period	(149,996,969)	(122,496,724)
Realised gain/(loss) on sale of US Treasury Bills	11,783	(1,373)
Cost of investment into the Master Fund at the end of the year/period	299,827,883	118,724,784
Net unrealised (losses)/gains on investments at the end of the year/period	(30,758,796)	5,177,353
Financial assets at fair value through profit or loss at the end of the year/period	269,069,087	123,902,137
Realised gain on sales during the year/period	13,392	168
Realised loss on sales during the year/period	(1,609)	(1,541)
Increase in unrealised (loss)/gain during the year/period	(35,936,149)	5,177,353
Distributions received from Master Fund	28,759,883	–
Net (losses)/gains on financial assets at fair value through profit or loss	(7,164,483)	5,175,980

* the purchase of investments includes non-cash purchases of US\$Nil (31 December 2014: US\$34,298,425). Refer to note 8.

The following table reconciles the Master Funds financial assets at fair value through profit or loss to the Company's financial assets at fair value through profit or loss:

	31 December 2015 US\$	31 December 2014 US\$
Master Fund - Financial assets at fair value through profit or loss	275,519,805	123,326,800
Add: Master Fund's net current (liabilities)/assets	(6,450,718)	575,337
Company's financial assets at fair value through profit or loss	269,069,087	123,902,137

As at 31 December 2015 US\$Nil (31 December 2014: US\$Nil) carried interest was allocated to the Master Fund's Founder Partner.



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *continued*

The Company's net unrealised (losses)/gains on investment at the end of year/period comprises the following:

Master Fund	31 December 2015	31 December 2014
	US\$	US\$
Net unrealised gains on investments at the beginning of the year/period	5,177,353	–
Investment income	24,387,904	6,464,186
Unrealised losses on financial assets at fair value through profit or loss	(27,804,710)	(1,327,156)
Realised loss on financial assets at fair value	(2,121,116)	–
Net gains on derivative financial instruments and foreign exchange	629,681	799,006
Other income	861	186
Expenses	(2,268,886)	(758,869)
Distributions paid during the year/period	(28,759,883)	–
Net unrealised (losses)/gains on investments at the end of the year/period	(30,758,796)	5,177,353

IFRS 13 requires that a fair value hierarchy be established that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are set as follows:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *continued*

The following table analyses within the fair value hierarchy, the Company's financial assets (by class, excluding cash and cash equivalents, distributions receivable, prepayments, dividends payable and other payables) measured at fair value:

	31 December 2015			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Assets:				
Financial assets at fair value through profit or loss	–	–	269,069,087	269,069,087
Total	–	–	269,069,087	269,069,087

	31 December 2014			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Assets:				
Financial assets at fair value through profit or loss	–	–	123,902,137	123,902,137
Total	–	–	123,902,137	123,902,137

The investment in the Master Fund, which is fair valued at each reporting date, has been classified within Level 3 as it is not traded and contains unobservable inputs.

The following table presents the movement in Level 3 instruments:

	31 December 2015 US\$	31 December 2014 US\$
Opening Balance	123,902,137	–
Purchases	181,103,099	118,724,784
Net (losses)/gains on financial assets held at fair value through profit or loss	(35,936,149)	5,177,353
Closing Balance	269,069,087	123,902,137

Transfers between Level 1, 2 and 3

There have been no transfers between levels during the year ended 31 December 2015 or 31 December 2014. Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

The following table analyses within the fair value hierarchy, the Master Fund's financial assets and derivatives (by class, excluding cash and cash equivalents, other receivables, distributions payable and other payables) measured at fair value:

	31 December 2015			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Financial assets at fair value through profit or loss	–	59,700,407	215,819,398	275,519,805
Derivatives at fair value through profit or loss	–	(51,294)	–	(51,294)
Total	–	59,649,113	215,819,398	275,468,511



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS continued

	31 December 2014			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Financial assets at fair value through profit or loss	–	12,456,271	110,870,529	123,326,800
Derivatives at fair value through profit or loss	–	175,476	–	175,476
Total	–	12,631,747	110,870,529	123,502,276

The following table analyses within the fair value hierarchy the Company's assets and liabilities not measured at fair value but for which fair value is disclosed:

	31 December 2015			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Assets:				
Cash and cash equivalents	5,401,130	–	–	5,401,130
Prepayments	–	92,507	–	92,507
Distribution receivable	–	10,256,219	–	10,256,219
Total	5,401,130	10,348,726	–	15,749,856
Liabilities				
Other payables	–	107,889	–	107,889
Dividends payable	–	7,119,081	–	7,119,081
Total	–	7,226,970	–	7,226,970

	31 December 2014			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Assets:				
Cash and cash equivalents	331,830	–	–	331,830
Prepayments	–	37,242	–	37,242
Total	331,830	37,242	–	369,072
Liabilities				
Other payables	–	56,078	–	56,078
Total	–	56,078	–	56,078



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *continued*

The assets and liabilities included in the above table are carried at amortised cost; their carrying values are a reasonable approximation of fair value.

Cash and cash equivalents include deposits held with banks.

Other payables represent the contractual amounts and obligations due by the Company for settlement of trades and expenses.

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2015:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund	269,069,087	NAV	Zero % discount	N/A

The Master Fund has engaged an independent third party to provide valuations for its CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund's investments categorised in Level 3 as at 31 December 2015:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<u>Income Note CLOs</u>					
United States of America	210,520,475	Prices provided by a third party agent	US\$0.0345 – US\$0.8500	US\$0.7483	1% increase/decrease will have a fair value impact of +/- US\$2,105,205
Europe	5,298,923	Prices provided by a third party agent	€0.8000	€0.8000	1% increase/decrease will have a fair value impact of +/- US\$52,989

7. INVESTMENT INCOME

	For the year ended 31 December 2015 US\$	For the period from 7 March 2014 (date of incorporation) to 31 December 2014 US\$
Interest income on financial assets carried at amortised cost:		
Cash and cash equivalents	2,315	932
Investment income on financial assets at fair value through profit or loss	4,112	3,223
	6,427	4,155



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

8. RELATED PARTIES AND OTHER KEY CONTACTS

Transactions with Investment Adviser and Investment Portfolio Investor

Investment Adviser

Fair Oaks Capital Limited (the "Investment Adviser") is entitled to receive an investment advisory fee from the Company of 1% per annum of the NAV of the Company, in accordance with the Investment Advisory Agreement dated 15 May 2014. The investment advisory fee is calculated and payable on the last business day of each month or on the date of termination of the agreement. The base management fee will be reduced to take into account any fees received by the Investment Adviser incurred by the Company in respect of its investment in the Master Fund (taking into account any rebates of such Management Fees to the Company) in respect of the same relevant period.

The Investment Adviser has agreed to reinvest and/or procure the reinvestment by the General Partner or by an Affiliate of it of (a) 25% of the fees which it receives annually from the Company pursuant to the Investment Advisory Agreement and (b) 25% of the Management Fee which the General Partner receives annually from the Master Fund in relation only to the Company's interest in the Master Fund by, in each case, subscribing for or procuring the subscription for ordinary shares issued by the Company at the then-prevailing NAV per ordinary share, provided that it shall instead use its best endeavours to purchase or procure the purchase of such ordinary shares in the secondary market in circumstances where, at the time of any such subscription or purchase, the ordinary shares are trading at a discount of 5% or more of the NAV per ordinary share of the period to which it relates. If, having used best endeavours as mentioned above, ordinary shares cannot be purchased on the secondary market, ordinary shares shall be subscribed for from the Company. The obligation to subscribe for or purchase or procure the subscription for or purchase of these ordinary shares shall be fulfilled by the Investment Adviser by no later than one month after the end of the relevant financial period of the Company. On 2 February 2015, the General Partner of the Master Fund reinvested US\$165,701 into the Company's ordinary shares which is equivalent to 25% of the investment advisory and management fees paid to the Investment Adviser and the General Partner during the period ended 31 December 2014.

On 4 September 2015, the General Partner of the Master Fund reinvested US\$254,440 into the Company's ordinary shares which is equivalent to 25% of the investment advisory and management fees paid to the Investment Adviser and the General Partner during the period 1 January 2015 to 31 July 2015.

On 31 December 2015, the General Partner of the Master Fund reinvested US\$237,930 into the Company's ordinary shares which is equivalent to 25% of the investment advisory and management fees paid to the Investment Adviser and the General Partner during the period 1 August 2015 to 30 November 2015.

The investment advisory fee charged to the Company during the year amounted to US\$406,676 (31 December 2014: US\$154,511), of which US\$7,039 remained outstanding at 31 December 2015 (31 December 2014: US\$174). The Company also reimburses the Investment Adviser for all out-of-pocket expenses reasonably incurred in the performance of its duties.

The Investment Advisory agreement can be terminated by either party giving not less than 6 months written notice.

Other Material Contracts

Initial Portfolio Investor

On 4 March 2015, a fund advised by Collier Capital Limited had purchased the entire holding of 34,298,425 ordinary shares in the Company, previously held by GLI Finance Limited for US\$32,326,266. Following this transaction, Collier Capital Limited became a major shareholder and was therefore classified as a Related Party.

Collier Capital Limited entered into a lock-in agreement under which it agreed until 16 August 2016 not to directly or indirectly transfer the legal and/or beneficial ownership or any interest therein in any of the shares owned by it, subject to certain agreed exceptions.



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

8. RELATED PARTIES AND OTHER KEY CONTACTS *continued*

Other Material Contracts *continued*

Administrator

Praxis Fund Services Limited (the "Administrator") shall be entitled to receive a time based fee quarterly in arrears for all Company Secretarial services. The Administrator is also entitled to an annual fee of US\$25,000, payable quarterly in arrears for Administration and Accounting services. This was increased to US\$31,000 per annum during the launch of the C shares and this would fall away once the C shares merged with the ordinary shares. During the period ended 31 December 2014, the Administrator was also entitled to a time cost fee of US\$42,000 for services provided in relation to the establishment and launch of the Company and related entities.

Custodian

BNP Paribas Securities Services S.C.A., Guernsey Branch (the "new Custodian") and The Royal Bank of Canada (Channel Islands) Limited (the "former Custodian") waived all fees on the basis that all assets are invested into the Master Fund.

Directors' Fees

The Company's Directors are entitled to a fee in remuneration for their services as Directors at a rate payable of £32,000 or £37,000 if the NAV of the Company is greater than US\$250 million at the beginning of any calendar quarter in which such fees are paid. At the beginning of quarter four, 1 October 2015, the NAV of the Company was greater than US\$250 million, therefore, their Directors fees increased to £37,000 per annum.

The overall charge for the above-mentioned fees for the Company and the amounts due are as follows:

	For the year ended 31 December 2015 US\$	For the period from 7 March 2014 (date of incorporation) to 31 December 2014 US\$
CHARGE FOR THE PERIOD		
Investment adviser fee	406,676	154,511
Administration fee	153,553	71,375
Directors' fees and expenses	152,450	106,299
OUTSTANDING FEES		
Investment adviser fee	7,039	174
Administration fee	9,777	6,079
Directors' fee	–	–

Shares held by related parties

The shareholdings of the Directors' in the Company were as follows:

Name	31 December 2015		31 December 2014	
	No. of ordinary shares	Percentage	No. of ordinary shares	Percentage
Claudio Albanese (Chairman)	10,000	0.00%	10,000	0.01%
Jon Bridel	10,000	0.00%	10,000	0.01%
Nigel Ward	20,000	0.01%	20,000	0.02%

As at 31 December 2015, the Investment Adviser, the General Partner and principals of the Investment Adviser and General Partner held an aggregate of 1,197,987 shares (31 December 2014: 500,000), which is 0.56% (31 December 2014: 0.41%) of the issued ordinary share capital.



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

9. SHARE CAPITAL

The Company's ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction in equity and are charged to the share capital account, including the initial set up costs.

The authorised share capital of the Company is represented by an unlimited number of ordinary shares of nil par value and have the following rights:

- (a) Dividends: Shareholders are entitled to receive, and participate in, any dividends or other distributions resolved to be distributed in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.
- (b) Winding Up: On a winding up, the shareholders shall be entitled to the surplus assets remaining after payment of all the creditors of the Company.
- (c) Voting: Subject to any rights or restrictions attached to any shares, at a general meeting of the Company, on a show of hands, every holder of voting shares present in person or by proxy and entitled to vote shall have one vote, and on a poll every holder of voting shares present in person or by proxy shall have one vote for each share held by him, but this entitlement shall be subject to the conditions with respect to any special voting powers or restrictions for the time being attached to any shares which may be subject to special conditions. Refer to the Memorandum and Articles of Incorporation for further details.

The C share capital of the Company is represented by a maximum of 200 million C shares of nil par value and have the following rights:

- (a) Dividends: Holders of C shares shall be entitled to receive, and participate in, any dividends declared only insofar as such dividend is attributed, at the sole discretion of the Directors, to the C share surplus of that class. The holders of ordinary shares, which shall arise after conversion of any C shares in issue, shall rank in full for all dividends and other distributions declared, made or paid after conversion and otherwise pari passu with the ordinary shares in issue at the time of conversion.
- (b) Winding Up: On a winding up or return of capital prior to conversion, the capital and assets of the Company shall be applied as follows:
 - (i) the ordinary share surplus shall be divided amongst the holders of ordinary shares according to the rights attaching thereto as if the ordinary share surplus comprised the assets of the Company available for distribution; and
 - (ii) the C share surplus attributable to each class of C shares shall be divided amongst the holders of such class pro rata according to their holdings of C shares of that class.
- (c) Voting: The C shares shall carry the right to receive notice of, and to attend or vote at, any general meeting of the Company in the same manner as the ordinary shares (notwithstanding any difference in the respective NAV of the C shares and ordinary shares).



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

9. SHARE CAPITAL *continued*

Issued Share Capital

Ordinary Shares

	31 December 2015		31 December 2014	
	Shares	US\$	Shares	US\$
Share capital at the beginning of the year/period	121,728,916	119,542,182	–	–
Issued share capital*	90,697,987	89,879,572	121,728,916	121,908,119
Share issue costs	–	(1,480,946)	–	(2,365,937)
Total share capital at the end of the year/period	212,426,903	207,940,808	121,728,916	119,542,182

* Includes non-cash in specie transfer of US\$Nil (31 December 2014: US\$34,298,425) during the year.

C shares

	31 December 2015	
	Shares	US\$
Share capital at the beginning of the year	–	–
Issued share capital	101,800,000	101,800,000
Share issue costs	–	(1,527,000)
Total share capital at the end of the year	101,800,000	100,273,000

In August 2015, 101,800,000 C shares were issued at an issue price of 100 pence per C share for cash consideration.

10. EARNINGS PER SHARE

	31 December 2015	31 December 2014
	Number of ordinary shares	Number of ordinary shares
Weighted average number of ordinary shares	189,598,173	116,686,306
(Loss)/profit for the financial year/period	(US\$3,942,231)	US\$4,672,949
Basic and diluted (loss)/earnings per ordinary share	(US\$0.0208)	US\$0.0400
	31 December 2015	31 December 2014
	Number of C shares	Number of C shares
Weighted average number of C shares	101,181,818	–
Loss for the financial period	(US\$4,313,298)	–
Basic and diluted loss per C share	(US\$0.0426)	–

The weighted average number of ordinary shares as at 31 December 2015 and 31 December 2014 is based on the number of ordinary shares in issue during the period under review, as detailed in note 9.

11. TRADE AND OTHER RECEIVABLES

	31 December 2015	31 December 2014
	US\$	US\$
Prepaid expenses	92,507	37,242
	92,507	37,242



Notes to the Financial Statements (continued)

For the year ended 31 December 2015

12. TRADE AND OTHER PAYABLES

	31 December 2015	31 December 2014
	US\$	US\$
Investment advisory fee payable (note 8)	7,039	174
Audit fees payable	53,293	42,342
Administration fees payable (note 8)	9,777	6,079
Sundry expenses payable	37,780	7,483
	107,889	56,078

13. CONTINGENT LIABILITIES AND COMMITMENTS

The Company entered into a Subscription Agreement with the Master Fund and agreed to become a Limited Partner and made a commitment to the Master Fund of US\$299,827,883 (31 December 2014: US\$118,724,784).

At 31 December 2015 and 31 December 2014, the Company had no further outstanding commitments.

14. SUBSEQUENT EVENTS

On 22 January 2016, the Company announced the conversion ratio for the C shares. The net asset values attributable to the ordinary shares and the C shares as at 14 January 2016, were US\$0.8578 per ordinary share and US\$0.9102 per C share respectively.

The conversion ratio was 1.0611 ordinary shares for every one C share held as at close on the conversion record date of 26 January 2016. Entitlements to new ordinary shares were rounded down to the nearest whole share.

Following the conversion, the Company's issued ordinary share capital consisted of 320,446,883 ordinary shares. The Company holds no shares in treasury. Accordingly, following the conversion, the total number of voting rights in the Company is 320,446,883.

On 25 January 2016, the Company announced a monthly interim dividend of 0.7 US cents per ordinary share was declared in respect of the month ended 31 January 2016 and was paid on 26 February 2016. The ex dividend date was 11 February 2016.

On 23 February 2016, the Company announced a monthly interim dividend of 0.7 US cents per ordinary share was declared in respect of the month ended 29 February 2016 and was paid on 24 March 2016. The ex dividend date was 3 March 2016.

On 16 March 2016, the Directors announced that the General Partner of the Master Fund had applied to reinvest into the Company's ordinary shares an amount equivalent to 25% of the advisory and management fees paid to the Investment Adviser for the period from 1 December 2015 to 29 February 2016.

The reinvestment was effected by the issue of new ordinary shares at the prevailing NAV per ordinary share. 215,207 new ordinary shares were issued on 21 March 2016 at US\$0.7682, being the NAV per ordinary share as at 29 February 2016 minus the February 2016 dividend to which the new ordinary shares were not entitled. Accordingly, following the reinvestment, the total issued share capital in the Company is 320,662,090.

On 30 March 2016, the Company announced a monthly interim dividend of 0.7 US cents per ordinary share was declared in respect of the month ended 31 March 2016 and will be paid on 21 April 2016. The ex dividend date was 7 April 2016.

There were no other significant events since the period end which would require revision of the figures or disclosures in the Financial Statements.



Management and Administration

Directors

Claudio Albanese (Independent non-executive Chairman)
Jon Bridel (Independent non-executive Director)
Nigel Ward (Independent non-executive Director)

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Legal Advisers in Guernsey

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(resigned 15 December 2015)
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Administrator and Secretary

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