FAIR OAKS INCOME LIMITED

(FORMERLY FAIR OAKS INCOME FUND LIMITED)

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Contents

Highlights

- Fair Oaks Income Limited's (the "Company") Net Asset Value ("NAV") per 2017 Shares was up 14.4% and the NAV per 2014 Shares was up 15.4% for the year ended 31 December 2017 on a total return basis (with dividends reinvested), outperforming the Credit Suisse US Leveraged Loan Index, which was up 4.3% and the Credit Suisse US High Yield Index, which was up 7.0%.
- As at 31 December 2017, the Company's total market capitalisation was US$489 million.
- The Company's 2014 and 2017 share prices closed at a mid-price of US$1.1100 and US$1.0513 respectively on 29 December 2017 and traded at an average annual premium to NAV of 9.8% and 5.0% respectively.
- The Company declared dividends of 13.45 US cents per 2017 Share for 2017, equivalent to a 12.8% dividend yield on the closing mid-share price on 29 December 2017. Cumulative dividends per 2017 Share are 41.0 US cents.
- On 29 March 2017, Fair Oaks Income Fund Limited changed its name to Fair Oaks Income Limited.
- On 5 April 2017, 84.7% of ordinary shares were redesignated as 2017 Shares which would participate in the newly created Master Fund II. The remaining 15.3% of ordinary shares were redesignated as 2014 Shares.
- On 5 April 2017, the First Placing and Offer for C shares raised US$68.85 million. The C shares were then converted to 2017 shares in June 2017 using the conversion ratio of 1.0082 2017 Shares for each C share in issue.
- On 5 April 2017, 263.51 million 2017 Shares, 47.43 million 2014 Shares and 68.85 million C shares were admitted to the Specialist Fund Segment of the Main Market of the London Stock Exchange.
- On 28 July 2017, a compulsory partial redemption of 2014 shares at US$0.9828 per share resulted in a return to shareholders of US$910,994.
- On 2 October 2017, 28 million new 2017 Shares were issued at US$1.00 per share.
- On 17 November 2017, 57.35 million new 2017 Shares were issued at an issue price of US$1.0075 per share.

Financial Highlights

	31 December 2017	**31 December 2016**
2017 Shares		
Total Net Assets	US$418,947,430	US$311,683,895
Net Asset Value per share	US$1.0016	US$1.0024
Share price at year end	US$1.0513	US$0.9700
Premium to Net Asset Value	4.96%	(3.23%)
Ongoing charges figure*	0.37%	0.27%
2014 Shares		
Total Net Assets	US$47,003,051	N/A
Net Asset Value per share	US$1.0108	N/A
Share price at year end	US$1.1100	N/A
Premium/(discount) to Net Asset Value	9.81%	N/A
Ongoing charges figure*	0.31%	N/A

* Total ongoing charges, calculated in accordance with the AIC guidance, is at the Company level only for the year divided by the average NAV for the year. Charges of the underlying Master Funds are not included.

Summary Information

Principal Activity

Fair Oaks Income Limited (formerly Fair Oaks Income Fund Limited) (the "Company") 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 under The Registered Collective Investment Scheme Rules 2015. The Company is listed and began trading on the Specialist Fund Segment (previously Specialist Fund Market) ("SFS") of the London Stock Exchange on 12 June 2014.

The Company is a feeder fund and during the year under review pursued its investment objective and policy by investing in FOIF LP ("the Master Fund") and FOMC II LP ("the Master Fund II"), in both of which the Company is a limited partner. The Master Fund was registered in Guernsey on 7 May 2014 and the Master Fund II was registered in Guernsey on 24 February 2017 under The Limited Partnerships (Guernsey) Law, 1995, as amended.

On 5 April 2017, the Company re-designated its ordinary shares into 47,428,202 2014 Shares and 263,510,368 2017 Shares. The 2014 Shares invest solely into the Master Fund and the 2017 Shares invest solely into Master Fund II. Consequently, the Company's investment objective and policy mirror those of the Master Fund and Master Fund II. At 31 December 2017, the Company had direct holdings of 11.31% (31 December 2016: 74.13%) holding in the Master Fund and 100% (31 December 2016: Nil) holding in Master Fund II, which in turn had a holding of 62.82% in the Master Fund. The General Partner of the Master Fund and Master Fund II is Fair Oaks Income Fund GP Limited (the "General Partner" or "GP").

Also on 5 April 2017, 68,850,000 C Shares were issued at an issue price of 100 pence per C Share for cash consideration. On 27 June 2017, the C Shares were converted to 2017 Shares using the conversion ratio of 1.0082 2017 Shares for every one C Share held.

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

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 invest (either directly and/or indirectly through the Master Fund and/or Master Fund II) in 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.

The Master Fund II is also invested into Cycad Investments LP ("Cycad"). Cycad is a Limited Partnership registered in the United States of America. Aligned with the Company's investment policy, Cycad also invests into CLOs.

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") in aggregate, and also of the NAV of each share class, 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

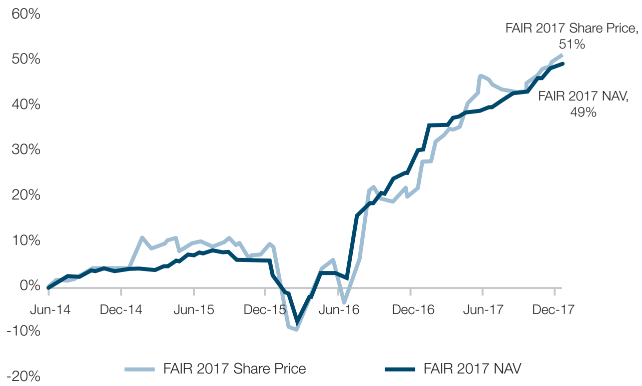
Introduction

The independent Board of the Company is pleased to present its Annual Report and Financial Statements for the year ended 31 December 2017.

Credit markets were strong in 2017 with the Credit Suisse US Leveraged Loan Index and the Credit Suisse US High Yield Index up 4.3% and 7.0% respectively[1]. The Company's NAV and share price outperformed, ending the year up +15.4% and +30.7% respectively for the 2014 Shares and +14.4% and +23.8% respectively for the 2017 Shares.

The Company's 2014 and 2017 share prices closed at a mid-price of US$1.1100 and US$1.0513 respectively on 29 December 2017 and traded at an average premium to NAV of 9.8% and 5.0% respectively[2].

2017 Shares NAV and Share Price since Inception[3]

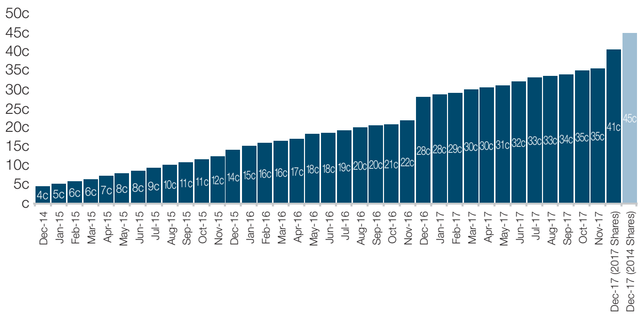


Cash flow and dividends

The Company declared and paid a 0.70 US cents per share dividend monthly from January to November for the 2014 and 2017 Shares and on 2 January 2018 announced a dividend of 10.02 US cents per 2014 Share and 5.75 US cents per 2017 Share for December. Full year dividends totalled 17.72 US cents and 13.45 US cents per 2014 and 2017 ordinary shares respectively, equivalent to a 16.0% and 12.8% dividend yield on the closing mid-share price on 29 December 2017.

The Company received $57.8 million of income distributions from the Master Fund and Master Fund II[4] relating to the 2017 financial year. The Company also received $5.4 million of principal distributions during 2017 from the Master Fund.

Total Dividends per Share since Inception (US cents per share)



Material events

Further to the announcement dated 7 November 2016 where the Company announced it was considering proposals under which shareholders would be offered an option (but would not have an obligation) to extend the duration of their investment in the Company through a share class which would retain an indirect pro-rata interest in the Master Fund and reinvest its capital distributions into a new Master Fund (Master Fund II). Following consultations with shareholders, on 10 January 2017, the Company announced its intention to proceed with the proposals, and also with a further equity raise through a C Share.

On 9 March 2017, the Company announced proposals which included shareholders being offered an option (but not an obligation) to extend the duration of their investment in the Company and also a further equity raise. On 28 March 2017, the Company announced that 47,428,202 ordinary shares had been elected for re-designation as 2014 Shares at the effective date, representing 15.3% of the ordinary shares currently in issue and that 263,510,368 ordinary shares would be re-designated as 2017 Shares, representing the balance of 84.7% of the ordinary shares in issue.

[1]Source: Credit Suisse.

[2]Average premium of daily share mid-price from Bloomberg over published NAV as at each date.

[3]Pursuant to a reorganisation effective April 2017, the Company's shares were re-designated into two separate classes, commonly known as the '2014 Shares' and the '2017 Shares'. Holders of the 2014 Shares achieve their investment objective by continuing to invest in the initial Master Fund, FOIF LP, whereas holders of the 2017 Shares achieve their investment objective by investing in a second Master Fund, FOMC II LP. It should be noted that as a result of the reorganisation, FOMC II LP has a significant limited partnership holding in FOIF LP.

[4]The Company's 2014 share class is invested in FOIF LP ("Master Fund I"). The Company's 2017 share class is invested in Fair Oaks Master Credit II ("Master Fund II").

Chairman's Statement (continued)

Material events (continued)

On 29 March 2017, the Board of the Company announced that, at the Extraordinary General Meeting of the Company, the following proposed resolutions were approved by shareholders:

- that the articles of incorporation be approved and adopted.
- that on the effective date all ordinary shares of no par value each in the capital of the Company ("ordinary shares") be re-designated on a one-for-one basis as "2017 ordinary shares" of no par value each in the capital of the Company ("2017 Shares") pursuant to the proposals set out in the Circular, except that where and to the extent that a shareholder has made a valid election for the re-designation of some or all of their Ordinary shares as "2014 ordinary shares" of no par value each in the capital of the Company ("2014 Shares") pursuant to an election contemplated under the Circular and in the case of the ordinary shares held by an excluded shareholder (as defined in the Circular), such ordinary shares be instead re-designated on a one-for-one basis as 2014 Shares.
- that the Directors of the Company be empowered to issue shares in the Company or rights to subscribe for such shares in the Company for cash as if the pre-emption provisions contained under Article 6.2 did not apply to any such issues provided that this power shall be limited to the issue of the below-mentioned shares or of rights to subscribe for the below-mentioned shares:
  - up to a maximum number of 200 million C Shares of no par value in the capital of the Company ("C Shares") under the Issue;
  - up to a maximum number of 250 million C Shares under the Placing Programme; and
  - up to such number of 2017 Shares under the Placing Programme as represents 10 per cent. of the 2017 Shares then in issue following the effective date, and
- the name of the Company be changed to Fair Oaks Income Limited.

On 3 April 2017, the Company announced the completion of a US$68.85 million Placing and Offer for subscription of C Shares. Application was made for 68,850,000 C Shares to be admitted to the Specialist Fund Segment of the Main Market of the London Stock Exchange. Following Admission on 5 April 2017, the Company had 263,510,368 2017 Shares, 47,428,202 2014 Shares and 68,850,000 C Shares in issue.

On 26 April 2017, the Company announced the publication of a supplementary prospectus, reflecting events arising since the publication of the Prospectus on 9 March 2017 and following the publication of the annual report and audited financial statements for the financial year ended 31 December 2016 by each of the Company and the Master Fund.

On 6 June 2017, the Company announced that, at the third Annual General Meeting of the Company held on the same date, all proposed resolutions were approved by shareholders on a poll.

On 23 June 2017, the Company announced that the proceeds of the C Shares raised in April had been fully committed and its intent to convert the C Shares into 2017 Shares on 27 June 2017.

On 14 July 2017, the Company announced that it would return US$910,994 (equivalent to 1.921 cents per 2014 Share) on 28 July 2017 by way of a compulsory partial redemption of 2014 Shares. Following the redemption, the Company had 46,501,283 2014 Shares in issue.

On 29 September 2017, the Company announced the issue of 28,000,000 new 2017 Shares, which had been made available on 26 September 2017, to complete a primary investment in a CLO equity security. Following the issue, the Company had 360,924,938 2017 Shares in issue.

On 8 November 2017, the Company announced a new investor commitment of US$20.0 million and that as a result, new 2017 Shares were being made available, conditional on the Company's EGM on 14 November 2017 approving the issue. All proposed resolutions were approved by shareholders on a poll and on 16 November 2017, the Company announced an issue of 57,350,000 new 2017 Shares. Following the issue, the Company has 418,274,938 2017 Shares in issue.

Chairman's Statement (continued)

Subsequent events

On 2 February 2018, the Company announced that application had been made to the London Stock Exchange for 73,799 2017 Shares to be admitted to trading on the Specialist Fund Segment of the Main Market. The new 2017 Shares were issued pursuant to the Company's scrip dividend alternative in respect of the dividend for the quarter ended 31 December 2017 and rank pari-passu with the existing issued 2017 Shares. Dealings in the new 2017 Shares commenced at 8.00 a.m. on 9 February 2018. Following admission, there will be 418,348,737 2017 Shares in issue.

On 14 March 2018, the Company announced, in light of the current pipeline of investment opportunities and an investor commitment received for 22.5 million 2017 Shares, that new 2017 Shares ("New Shares") were being made available, conditional on the result of an EGM of the Company convened for 29 March 2018. The proceeds of this placing were intended to be used as funding for a newly originated opportunity to make a primary investment of approximately US$35 million in a CLO equity security.

On 3 April 2018, the Company announced, that following a reconvened General Meeting from 29 March 2018, that it had resolved, to issue 35 million new 2017 Shares (the "New Shares") at an issue price of US$0.973. The New Shares were admitted to trading on the Specialist Fund Segment of the Main Market on 4 April 2018. Following the issue, the Company has 453,348,737 2017 Shares in issue.

Professor Claudio Albanese
Chairman

18 April 2018

Investment Adviser's Report

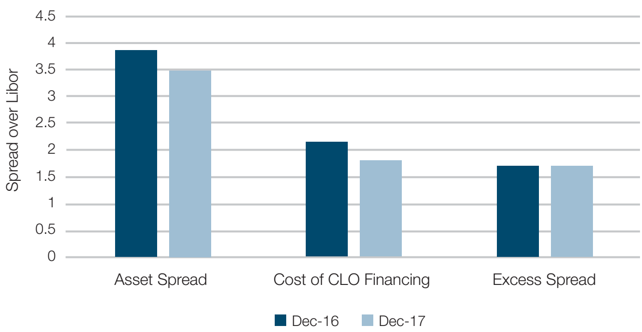
Default losses in the Master Fund II[5] continued to be below original base case assumptions and lower than the overall default rate for the bank loan market. The annualized default rate in the Master Fund II's CLO equity portfolio from inception of the Master Fund to the end of 2017 was 0.14%[6], significantly below the US loan market rolling twelve-month issuer-weighted default rate of 1.72% as at 31 December 2017.

Fair Oaks Capital Limited (the "Investment Adviser") continually monitors the underlying CLO portfolios, holding regular calls with the managers in order to identify and act early on potential sources of risk in the portfolios. Exposure to Oil & Gas and Retail borrowers was 1.3% and 4.0% respectively, both below the index weighting[7].

During the course of 2017, the US bank loan market saw tightening loan spreads, down from 348bps in January to 336bps at the end of December[8] and high loan prepayment rates. In 2017, the total amount of loan repayments was US$346.9bn compared to US$260.9bn in 2016[9]. As a consequence of higher yielding loans being prepaid early and being substituted by loans with lower spreads, the Master Fund II's average CLO loan portfolio spread fell by 37bps from Libor+3.87% in December 2016 to Libor+3.50% in December 2017.

The Master Fund II, as a control equity investor, has offset the tightening of CLO loan portfolio spreads by pro-actively managing the liabilities of its CLO investments. The weighted average cost of CLO financing for the Master Fund II's control positions was reduced from Libor+2.17% in December 2016 to Libor+1.81% in December 2017, almost completely offsetting the tightening spreads in the CLO loan portfolios.

Change in Fund spread[10]



The weighted average cost of CLO financing can be modified by either "resetting" or "refinancing" the CLO liabilities. A reset requires repaying all CLO notes at par. Although CLO managers and arrangers generally prefer resets (as they generate longer AUM and fees), the General Partner reviews each investment to ensure that the decision maximises the ultimate expected return on the investment and refinancing has been the preferred option. Since inception of the Master Fund II to December 2017, 75% of the CLO equity positions in Master Fund have been refinanced.

Refinancing a CLO does not change any of the key terms of the transaction other than the CLO's cost of debt while a reset typically includes an extension of the reinvestment period and maturity, which will result in higher CLO debt spreads than a refinancing (due to the longer maturity) and higher arranger fees. A further benefit of a refinancing is that it can be more selective and does not need to include all debt tranches (excluding, for example, lower rated notes originally issued at a discount to par).

The Investment Adviser believes that even in an unchanged market, the option to control the refinancing of CLO investments will have incremental value to the Master Fund II as it will allow the CLO to benefit from the term structure of CLO financing spreads, i.e. spreads decrease as the maturity of the CLO debt shortens. In early 2018, the Master Fund II has reset an additional CLO equity investment and is in the final stages of completing the second refinancing of Neuberger XIX which was originally refinanced in June 2017.

The Master Fund II also benefited in 2017 from the repayment at par of a number of mezzanine investments purchased in 2016. In 2017, the Master Fund received US$54.6 million prepayments from its mezzanine positions, generating a gross IRR of 30% on these investments.

[5]References to the "Master Fund II" refer to the underlying investment of the 2017 share class and the "Master Fund" refer to the underlying investment of the 2014 share class.
[6]Default rate defined as payment defaults on loans in CLOs in which the Master Fund holds an equity interest, weighted by the Master Fund's percentage equity holding.
[7]S&P LSTA Leveraged Loan Factsheet, where Oil & Gas was 3.4% and Retail (including Food & Drugs) was 6.2% as at 31 December 2017.
[8]Thomson Reuters.
[9]US prepayment rates from S&P/LSTA Loan Index.
[10]Asset spread based on loan par value weighted by Master Fund II's proportional ownership of Income Notes. Source: Intex; Cost of CLO Financing based on CLO liability spreads weighted by Master Fund II's proportional ownership of Income Notes. Source: Intex.

Investment Adviser's Report (continued)

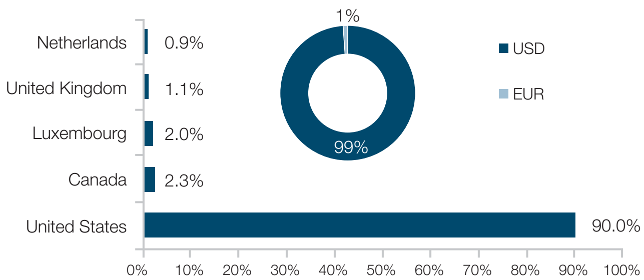
Portfolio Update

The 2017 Shares, as at 31 December 2017, via their investment in Master Fund II, had exposure to over 1,180 issuers[11] and the portfolio (including mezzanine investments) held 45 positions, across 38 CLOs managed by 21 CLO managers. Control CLO equity positions[12] represented 67.8% of the portfolio and non-control equity positions represented 1.0% of the portfolio. CLO mezzanine debt investments represented an additional 31.2%, composed of 5.9% mezzanine investments in CLOs in which Master Fund owned a control equity position, and 25.3% where it did not.

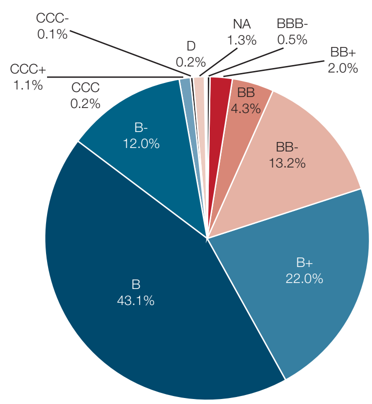
The 2014 Shares, as at 31 December 2017, via their investment in Master Fund, had exposure to 32 CLOs managed by 20 managers. Control CLO equity positions[13] represented 58.3% of the portfolio and non-control equity positions represented 1.3% of the portfolio. CLO mezzanine debt investments represented an additional 40.4%, composed of 7.5% mezzanine investments in CLOs in which Master Fund owned a control equity position, and 32.9% where it did not.

The following table and charts summarises the Master Fund II's geographic breakdown, rating and sector diversification and top bank loan exposures, on a look-through basis.

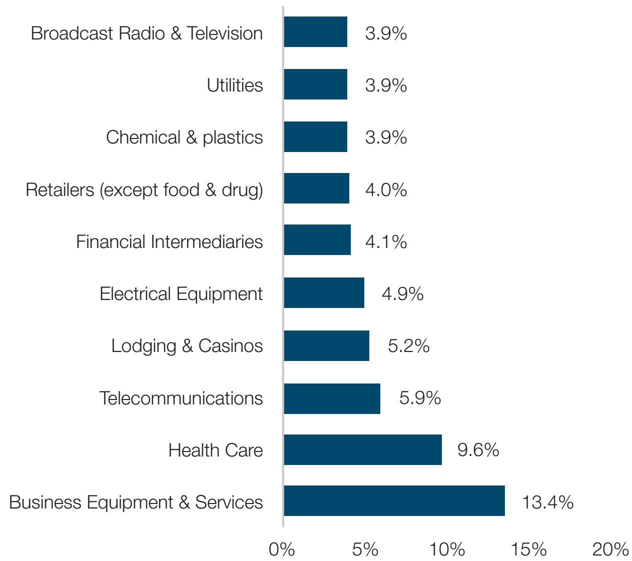
Geographic and Currency Breakdown[14]



Rating Breakdown[14]



Industry Diversification (Top 10)[14]



[11]Unique issuers whose loans are held in CLOs in which the Master Fund or Master Fund II holds equity
[12]Including subordinated fee notes.
[13]Including subordinated fee notes.
[14]Based on loan par value weighted by Master Fund II's proportional ownership of subordinated notes.

Investment Adviser's Report (continued)

Portfolio Update (continued)

Top 10 Issuers and Portfolio Data[14]

Issuer	Company Rating (S&P)	% Gross	Industry	Country
Albertson's	B+	0.81%	Food / Drug Retailers	United States
CenturyLink	BB	0.63%	Telecommunications	United States
Advantage Sales	B	0.60%	Food Service	United States
TransDigm	B+	0.58%	Aerospace & Defense	United States
Air Medical	B	0.54%	Health Care	United States
Rackspace Hosting	B+	0.52%	Telecommunications	United States
Calpine	B+	0.52%	Utilities	United States
First Data	B+	0.51%	Financial Intermediaries	United States
TPF/Eastern Power	B+	0.50%	Utilities	United States
Misys	B	0.50%	Business Equipment & Services	United States

Bank Loan Market Overview[15]

The Credit Suisse Leverage Loan Index returned 4.3% during 2017. As at 31 December 2017, the US loan market twelve month rolling default rate by number of issuers stood at 1.7%, down from 2.1% as at the end of 2016. The decline in late 2017 was due to several commodity-exposed issuers, which defaulted in 2015, being removed from the relevant twelve-month period.

Leveraged loans enjoyed a strong year in 2017 with US$1.4 trillion of total leveraged lending issuance, a jump of 60% compared to prior year. Of this amount, US$924 billion were institutional loans. Refinancing activity drove much of the loan issuance volume accounting for US$933 billion and breaking the 2013 refinancing volume record by 23%.

Loan volumes were driven by strong and broad investor demand for yield and increasing anticipation of rising interest rates. Strong demand pushed up bid prices during the year and the average bid prices for multi-quote institutional loans in the US secondary market increased by 126bps, ending 2017 at about 98.4.

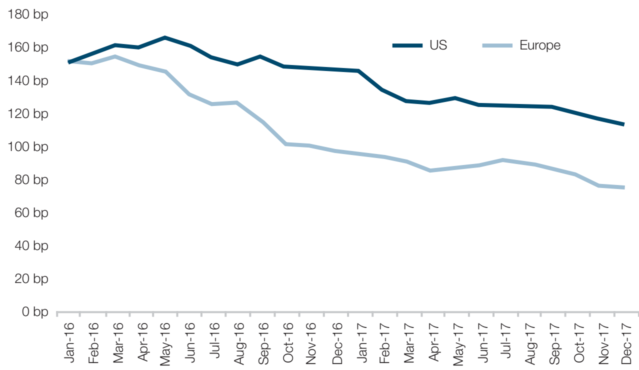
CLO Market Overview

The CLO market recorded strong levels of new issuance in 2017 despite concerns that US CLO risk retention, which came into effect in December 2016, would dampen US CLO creation. US CLO issuance increased by 62% in 2017 to US$118.1 billion while European CLO issuance increased by 14% to €20.1 billion[16]. The total number of new deals created in US and Europe were 212 and 49 respectively and the number of CLOs refinanced or reset were 365 in the US and 70 in Europe.

Despite the increase in new issue volumes and refinancing and resets, CLO liability spreads continued to tighten throughout the year. US and European CLO AAA spreads tightened from 150bps and 96bps at the start of 2017 to 115bps and 74bps at the end of 2017[17]. Strong relative value vs. corporate bonds increased demand for mezzanine CLO notes (especially BBB and BB-rated) while press reports and market comments pointed to a significant increase in demand for AAA and AA CLO notes from Japanese and other Asian investors.

18

US and EUR CLO AAA spreads[18]



We believe that US CLO equity arbitrage continues to offer one of the most attractive investment opportunities in the current credit markets as the long-term fixed spread of liabilities supports an attractive initial arbitrage and positive exposure to future loan market volatility. The following table illustrates the arbitrage present in the Master Fund's first investment in August 2014 and the last investment completed in October 2017 in Master Fund II.

[14]Based on loan par value weighted by Master Fund II's proportional ownership of subordinated notes.
[15]Leveraged loan figures from Thomson Reuters: Leveraged Loan Monthly report for year end 2017.
[16]Issuance levels from JP Morgan.
[17]JP Morgan CLOIE Index.
[18]JP Morgan Primary USD-CLO and EUR-CLO Index on AAA primary spreads to Libor/Euribor.

Investment Adviser's Report (continued)

CLO Market Overview (continued)

	First CLO Control Investment AWPT 2014-3	Latest 2017 CLO Control Investment Mariner 2017-4
Investment date	14-Aug-14	3-Oct-17
Initial Average Loan Portfolio Spread	+3.74%	+3.47%
Change in Loan Spread		-0.27%
AAA Spread	+1.55%	+1.22%
AA Spread	+2.35%	+1.72%
Weighted Average Cost of Funding	+2.32%	+1.82%
Change in Cost of Funding		-0.50%

In addition to the attractive initial arbitrage, CLO equity investments are unusual among credit assets in that they have the potential to benefit from loan price volatility in the future. For example, if loan spread and prepayment rates during the next five years reflect the levels and changes seen during 2013-2017, we estimate that the expected IRR for an illustrative CLO equity investment would increase by 4%[19].

Risk Management

Master Fund and Master Fund II continue to benefit from an experienced and dedicated team of research analysts who monitor the underlying portfolios of the CLO investments. Close relationships with the CLO managers help to monitor and forecast the performance of the underlying portfolios of the CLO investments, as well as serving as ongoing due diligence of the CLO managers.

Outlook

The Investment Adviser continues to believe that the Company's current CLO investments, held via the Master Fund and Master Fund II, are well positioned to continue to generate attractive returns, given the quality of the underlying portfolios and the continuous active monitoring and management of the underlying credit risk.

As described in the report, we believe that the current CLO equity arbitrage continues to be attractive and is positioned to benefit from potential price volatility in the underlying bank loan market.

Furthermore, on 9 February 2018, the U.S. Court of Appeals ruled that CLO managers are no longer subject to risk retention, reversing a lower court decision. In our view, the announcement will have a positive effect on the Company as it will increase the number of managers looking for third party CLO equity, potentially adding further diversity to the portfolio and improve the Company's negotiating position, and it will remove constraints in the refinancing or reset of non-risk-retention compliant CLOs in the portfolio, such that the Company will be able to refinance any transaction irrespective of whether it is currently risk retention compliant.

Fair Oaks Capital Limited

18 April 2018

[19]Based on expected IRR as per Intex for Allegro VI, Master Fund II's latest investment. Weighted average new issue institutional spreads and repayment rates for the S&P/LSTA Loan Index. Source: S&P Global Market Intelligence. All other variables unchanged. Full assumptions available on request.

Board of Directors

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

Professor Claudio Albanese (Chairman of the Board and Chairman of the Management Engagement Committee) (age 55) is the Head of Analytics at IMEX Synchronised Risk and Honorary Professor of Finance at CASS School of Business, 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, UCLA, 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. Claudio funded Global Valuation Limited, a software firm dedicated to the simulation of banks' OTC portfolios and XVA metrics. 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 53) is currently a non-executive chairman or director of various listed and unlisted investment funds and private equity investment managers. Listings include the premium segment of the Official List of the UK Listing Authority and the Specialist Fund Segment of the London Stock Exchange. He was until 2011 Managing Director of Royal Bank of Canada's investment businesses in Guernsey and Jersey. This role had a strong focus on corporate governance, oversight, regulatory and technical matters and risk management. After qualifying as a Chartered Accountant in 1987, Jon worked with Price Waterhouse Corporate Finance in London and subsequently served in a number of senior management positions in Australia and Guernsey in corporate and offshore banking and specialised in credit. 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, a chartered director and fellow of 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 and Chairman of the Nomination and Remuneration Committee) (age 61) 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 gained at NatWest, TSB Bank, Baring Asset Management and Bank Sarasin. He is currently an independent non-executive chairman or director on the board of several investment funds and companies, including London and The International Stock Exchange ("TISE") listings. Nigel is 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	London Stock Exchange – Main Market
DP Aircraft 1 Limited	London Stock Exchange – SFS
Funding Circle SME Income Fund	London Stock Exchange – Main Market
Sequoia Economic Infrastructure Income Fund Limited	London Stock Exchange – Main Market
Starwood European Real Estate Finance Limited	London Stock Exchange – Main Market
The Renewables Infrastructure Group Limited	London Stock Exchange – Main Market
Phaunos Timber Fund Limited*	London Stock Exchange – Main Market

*Company is in a managed wind-down.

Company Name	Stock Exchange
Nigel Ward	
Acorn Income Fund Limited	London Stock Exchange – Main Market
Braemar Group PCC Limited	The International Stock Exchange
Crystal Amber Fund Limited	London Stock Exchange – AIM
Emerging Manager PCC Limited	The International Stock Exchange
Hadrian's Wall Secured Investments Limited	London Stock Exchange – Main Market

Directors' Report

The Directors of Fair Oaks Income Limited (formerly 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 2017. 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 SFS of the London Stock Exchange ("LSE") on 12 June 2014.

Going Concern

After a review of the Company's holdings in cash and cash equivalents, investments and a consideration of the income deriving from, and the viability of, 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.

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.

The principal 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 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 faced by the Company, including market, credit and liquidity risk, 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.

Directors' Report (continued)

Viability Statement

The Directors have conducted a robust assessment of the viability of the Company over a three year period to May 2021, taking account of the Company's current position and the potential impact of the principal risks documented above.

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 2021 is an appropriate period over which to provide its viability statement as this is a reasonable period of which risks relating to the asset class should be considered.

During March 2017, the Company implemented proposals which included shareholders being offered an option (but not obligation) to extend the duration of their investment beyond the planned end date of the Master Fund. As such, the Company re-designated 263.5 million Ordinary Shares to a 2017 Share class and 47.4 million Ordinary Shares into a 2014 Share class. The 2014 Shares remained invested in the Master Fund, with the 2017 Shares invested and having exposure to a new Limited Partnership, FOMC II LP (the "Master Fund II"). The Master Fund II has a planned end date of June 2024 and an investment objective and policy substantially similar to that of the Master Fund. The General Partner acts as the general partner of Master Fund II as well as the Master Fund.

In addition, during April 2017, the first placing and offer for C shares raised US$68.85million. The C shares were converted to 2017 shares six months after admission. Subsequently in November 2017, the Company announced plans to issue new 2017 shares in order to fund a new primary investment opportunity in a collateralised loan obligation equity security with a potential return of 15-16% and any additional proceeds would be used to fund a second opportunity with a similar potential return. As a result of the issue on 16 November 2017, 57.35million new 2017 shares were issued at a price of US$1.0075.

In making their three year assessment, factors, in addition to the restructuring and fund raising events detailed above, 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 and default rates modestly higher than the five year average. 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 2021.

Results and Dividends

The results for the year are shown in the Statement of Comprehensive Income on page 30.

The Directors declared dividends of US$45,938,481 during 2017 followed by an additional dividend declaration of US$28,852,425, declared on 2 January 2018 in relation to the year ended 31 December 2017 (dividends declared in relation to the year ended 31 December 2016: US$42,547,328). Further details of dividends declared or paid are detailed in note 4.

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

Directors' Report (continued)

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

The Company's underlying assets in the Master Fund and the Master Fund II are held in custody by BNP Paribas Securities Services S.C.A., Guernsey Branch (the "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 underlying assets in the Master Fund and the Master Fund II are registered in the name of the Custodian in each case within a separate account designation and may not be appropriated by the Custodian for its own account.

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 Custodian, to ensure the financial stability of the Custodian is being maintained to acceptable levels. As at 31 December 2017, the credit rating of the Custodian was A2 as rated by Moody's (31 December 2016: A1) and A by Standard & Poor's (31 December 2016: A).

Directors and Directors' Interests

The Directors, all of whom are independent and non-executive, are listed on page 10.

None of the Directors has a service contract with the Company and no such contracts are proposed. Each independent non-executive Director is entitled to a basic fee of £43,000 (31 December 2016: £37,000) each per annum. The fee was increased with effect from 1 April 2017.

The Directors had the following interests in the Company at 31 December 2017 and 31 December 2016, held either directly or beneficially:

	31 December 2017		31 December 2016	
Name	**No. of 2017 Shares**	**Percentage**	**No. of 2014 Shares**	**Percentage**
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.01%
Jon Bridel	9,697	0.00%	9,697	0.01%
Nigel Ward	29,475	0.01%	19,393	0.01%

During the year ended 31 December 2017, Nigel Ward purchased 10,000 C Shares which were converted to 10,082 2017 Shares using the conversion ratio of 1.0082 2017 Shares for every one C Share held as at close on the conversion record date of 27 June 2017.

Directors' Report (continued)

Substantial Shareholdings

As at 28 February 2018, being the date of the latest shareholder analysis prior to the publication of these Financial Statements, the Company had the following 2017 shareholdings in excess of 5% of the issued share capital:

Name	No. of 2017 Shares	Percentage of 2017 Shares
Old Mutual Global Investors	73,501,636	17.57%
CCLA Investment Management	34,279,350	8.19%
Fidelity International	28,186,197	6.74%
Smith & Williamson Wealth Management	27,088,972	6.48%

As at 28 February 2018, being the date of the latest shareholder analysis prior to the publication of these Financial Statements, the Company had the following 2014 shareholdings in excess of 5% of the issued share capital:

Name	No. of 2014 Shares	Percentage of 2014 Shares
Coller Investment Management	32,608,369	70.12%
Charles Taylor Investment Management	3,845,963	8.27%
Newton Investment Management	2,870,201	6.17%

Related Parties

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

Listing Requirements

Since being admitted to the SFS of the London Stock Exchange on 12 June 2014, 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").

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 came into force with effect from July 2014.

Common Reporting Standard

The Common Reporting Standard ("CRS"), formerly the Standard for Automatic Exchange of Financial Account Information, became effective on 1 January 2016. CRS is an information standard for the automatic exchange of information developed by the Organisation for Economic Co-operation and Development ("OECD"). CRS is a measure to counter tax evasion and it builds upon other information sharing legislation, such as FATCA, the UK-Guernsey IGA for the Automatic Exchange of Information and the European Union Savings Directive. The first reporting under CRS for Guernsey was made during 2017.

Directors' Report (continued)

Alternative Investment Fund Managers Directive ("AIFMD")

The Company is categorised as a non-EU Alternative Investment Fund (as defined in the AIFMD) ("AIF") and the Board of the Company is a 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 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 2017. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.

The Company issued a new prospectus on 9 March 2017, the new Master Fund II was subsequently launched and invested into by the Company during 2017 as discussed further on page 2. New principal documents were entered into during this period and all matters were disclosed to investors as required under Article 23 of AIFMD. As the Board of the Company is the AIFM, the details of the Company's remuneration policy for the Directors is outlined on page 22 and accords with the principles established by AIFMD.

Non-Mainstream Pooled Investments

The Company's ordinary 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

18 April 2018

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 in compliance with the UK Corporate Governance Code (the "UK Code") or the Association of Investment Companies Code of Corporate Governance ("AIC Code"), which was published in July 2016, 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 SFS 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 2017, 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 2018, 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.
- *The appointment of Executive Directors:* Due to the broad range of experience of the Board and given the nature of the Company's activity and that the majority of Directors are deemed to be independent under the AIC Code, it is not considered necessary to appoint executive Directors.

Composition and Independence of Directors

As at 31 December 2017, 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 10.

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

Jon Bridel is the Chairman of the Audit Committee.

Nigel Ward is the Chairman of the Risk Committee and the Nomination and Remuneration 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 annually at the Annual General Meeting ("AGM"). At the Annual General Meeting of the Company on 6 June 2017, 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 acknowledge and adhere to the Market Abuse Regulation which was implemented on 3 July 2016.

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, an 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.

The Chairman also has responsibility for assessing the individual Board members' training and development requirements.

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 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 22.

Directors' and Officers' Liability Insurance

The Company maintains Directors' and Officers' liability insurance on behalf of the Directors in relation to the performance of their duties as Directors.

Relations with Shareholders

The Company reports to shareholders twice a year by way of the Interim Report and Unaudited Condensed Financial Statements 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 and 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 & Remuneration Committee, eight informal Board meetings and two extraordinary general meetings held during the year ended 31 December 2017.

Name	Board	Audit Committee	Risk Committee	Management Engagement Committee	Nomination & Remuneration Committee	EGM
Number of meetings held	12	4	4	1	1	2
Claudio Albanese (Chairman)	8	4	N/A	1	1	-
Jon Bridel (Audit Committee Chairman)	12	4	4	1	1	2
Nigel Ward (Risk Committee Chairman and Nomination & Remuneration Committee Chairman)	10	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 Auditor. With respect to the Auditor, the Audit Committee's role will include the assessment of their independence, review of the 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 23.

Management Engagement Committee

The Management Engagement Committee meets 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.

Risk Committee

The Risk Committee meets at least four times a 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 2017. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee meets at least once a year. It comprises the entire Board, in April 2017 Nigel Ward replaced Claudio Albanese as the Chairman of the Nomination and Remuneration Committee. 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.

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 ongoing 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 ongoing 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.

Criminal Finances Act

The Board of the Company has a zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion. The Board has satisfied itself in relation to its key service providers that they have reasonable provisions in place to prevent the criminal facilitation of tax evasion by their own associated persons and will not work with service providers who do not demonstrate the same zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion.

UK Modern Slavery Act

The Board acknowledges the requirement to provide information about human rights in accordance with the recently enacted UK Modern Slavery Act. The Board conducts the business of the Company ethically and with integrity, and has a zero tolerance policy towards modern slavery in all its forms. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, there are no further disclosures to be made in respect of employees and human rights.

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 International Accounting Standards Board ("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 IASB'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 IFRS.

In preparing the 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;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 SFS 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, who are listed on page 10, confirms to the best of their knowledge and belief:

- the Financial Statements, prepared in accordance with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Company, as required by DTR 4.1.12R;

- the Management Report (comprising the Chairman's Statement, the Investment Adviser's Report, the Directors' Report and other Committee Reports) includes a fair review of the development and performance of the business during the year, and the position of the Company at the end of the year, together with a description of the principal risks and uncertainties that the Company faces, as required by DTR 4.1.8R and DTR 4.1.9R; and

- the Annual Report, comprising the Financial Statements and the Management Report, taken as a whole, is fair, balanced and understandable.

Signed on behalf of the Board by:

Jon Bridel
Director

18 April 2018

Directors' Remuneration Report

The Company's policy in regard to Directors' remuneration is to ensure that remuneration is competitive, aligned with shareholder interests, relatively simple and transparent, and compatible with the aim of attracting, recruiting and retaining suitably qualified and experienced directors.

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 have received the following remuneration during the year in the form of Directors' fees:

	Per Annum £	For the period from 1 January 2017 to 31 December 2017 Actual £	For the period from 1 January 2016 to 31 December 2016 Actual £
Claudio Albanese (Chairman)	43,000	41,500	37,000
Jon Bridel (Audit Committee Chairman)	43,000	41,500	37,000
Nigel Ward (Risk Committee Chairman and Nomination & Remuneration Committee Chairman)	43,000	41,500	37,000
Total	**129,000**	**124,500**	**111,000**

Each Director is entitled to a fee of £43,000 per annum. The fee was increased with effect from 1 April 2017.

The remuneration policy set out above is the one applied for the years ended 31 December 2017 and 31 December 2016 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. 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 Annual General Meeting of the Company on 6 June 2017, 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 2017 and 31 December 2016, shown in note 8 related to 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 18 April 2018 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 website).

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 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 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 Condensed 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 Auditor's report.

The other principal duties include to consider the appointment of the Auditor, to discuss and agree with the 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 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 Significant Risk

The Audit Committee has an active involvement and oversight in the preparation of both the Interim Report and Unaudited Condensed Financial Statements and the Annual Report and Audited 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. After discussion with the Investment Adviser and KPMG Channel Islands Limited ("KPMG"), the Audit Committee determined that the key risk of material misstatement of the Company's Financial Statements related to the valuation of investments.

- Valuation of the Master Fund – The Company's investment in the Master Fund had a fair value of US$37,549,409 as at 31 December 2017. This investment is valued in accordance with the Accounting Policies set out in note 2 to the Financial Statements. The Financial Statements of the Master Fund for the year ended 31 December 2017 were audited by KPMG who issued an unmodified audit opinion dated 18 April 2018. 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 2017 to be reasonable.

- Valuation of Master Fund II – The Company's investment in the Master Fund II had a fair value of US$344,757,839 as at 31 December 2017 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 Financial Statements. The Financial Statements of the Master Fund II for the year ended 31 December 2017 were audited by KPMG who issued an unmodified audit opinion dated 18 April 2018. The Audit Committee has reviewed the Financial Statements of the Master Fund II and the Accounting Policies and determined the Company's fair value of the investment in the Master Fund II as at 31 December 2017 to be reasonable.

Report of the Audit Committee (continued)

Financial Reporting and Audit (continued)

The Audit Committee reviews the Company's accounting policies applied in the preparation of its Annual Financial Statements 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 IFRS, as issued by the IASB and were reasonable. The Audit Committee reviewed the materiality levels applied by the Auditor to the Financial Statements as a whole and was satisfied that 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.

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 Auditor. KPMG was appointed as the first Auditor of the Company in 2014. During the year, the Audit Committee received and reviewed the audit plan and strategy from KPMG. It is standard practice for the 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 Auditor, the Audit Committee will review:

- The 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 Auditors, the Audit Committee considered:

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

During the year ended 31 December 2017, KPMG provided non-audit services as listed on page 25 in the form of advice to the Board. KPMG confirmed that this had not impacted their independence and outlined the reasons for this. These non-audit services comply with the Financial Reporting Council ("FRC") Revised Ethical Standard 2016. The Audit Committee considered this and were satisfied that these non-audit services had no bearing on the independence of the Auditor.

Report of the Audit Committee (continued)

External Auditor (continued)

The following table summarises the remuneration payable to KPMG and to other KPMG International member firms for audit and non-audit services during the year ended 31 December 2017 and 31 December 2016, translated into the presentation currency at the exchange rate prevailing at 31 December 2017 and 31 December 2016 respectively.

	For the year ended 31 December 2017 US$	For the year ended 31 December 2016 US$
KPMG Channel Islands Limited		
– Annual Audit of the Company and related entities	213,575	80,827
– Interim review	52,955	27,765
Other KPMG International member firms		
– Reporting accountant services	142,071	–
– Transaction related services - conversion of C shares	11,348	9,255
– Tax compliance services	2,268	–

Internal Controls

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

The Investment Adviser and the 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 FRC, the Audit Committee has reviewed the Company's internal control procedures. These internal controls are implemented by 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
18 April 2018

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

Our opinion is unmodified

We have audited the financial statements of Fair Oaks Income Limited (the "Company") which comprise the statement of financial position as at 31 December 2017 and the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2017, and of the Company's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards ("IFRS"); and
- comply with the Companies (Guernsey) Law, 2008.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate to basis for our opinion.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows:

Financial assets at fair value through profit or loss

US$382.3 million (31 December 2016: US$291.7 million)

Refer to page 23 (Report of the Audit Committee), note 2 (Significant Accounting Policies), note 3 (Use of Judgements and Estimates) and note 6 (Financial Assets at Fair Value Through Profit or Loss)

Independent Auditor's Report to the members of Fair Oaks Income Limited (continued)

Key Audit Matters: our assessment of the risks of material misstatement (continued)

The risk	Our response
Valuation of investments: *Basis:* The Company's investments in two underlying limited partnerships (the "Master Funds") are designated at fair value through profit and loss and represent a significant proportion, and is the principal driver, of the Company's net asset value. The carrying value of the Master Funds is calculated by assessing the fair value of those Master Funds, which reflects the Company's proportionate share of the Master Funds' net asset value. The Master Funds' net asset values incorporates the fair value of their own investment portfolios whose underlying assets are comprised of Mezzanine and Equity Collateralized Loan Obligation ("CLO") positions. The fair value of these CLOs are determined using indicative prices ("Price Quotes") obtained by the Master Funds from their independent third party valuation provider (the "Valuation Agent"). Given the nature of CLO investments, market data is not always readily available to corroborate the Price Quotes and therefore they may not represent prices traded in an active market. *Risk:* The valuation of the Company's financial assets designated at fair value through profit and loss is considered a significant area of our audit, given that it represents the majority of the net assets of the Company. Inherent in that valuation is the use of significant estimates and judgments in determining the fair value of the underlying Master Funds' CLOs.	*Our audit procedures included:* **Control evaluation:** Assessed the design and implementation of the control in place in relation to the valuation of the Company's investment in the Master Funds. **Evaluation of the Valuation Agent:** Assessed, with the assistance of a KPMG valuation specialist, the objectivity, capabilities and competence of the Valuation Agent engaged by the Master Funds to provide Price Quotes. Assessed the methodology applied by the Valuation Agent in developing fair value Price Quotes. Independently obtained the Valuation Agent's report and agreed the Price Quotes provided to those used in the valuation of the Master Funds' CLOs. **Valuation procedures including use of a KPMG valuation specialist:** Assessed whether the net asset values of the Master Funds were representative of their fair value. Recalculated the Company's proportion of the net asset values of the Master Funds. For 100% of the Mezzanine CLO investments held by the Master Funds, with the support of a KPMG valuation specialist, independently determined reference prices by applying a mark to model valuation technique which utilises inputs such as the current weighted average life of the instrument and market observable discount rates. For a risk based selection of Equity CLO investments held by the Master Funds, with the support of a KPMG valuation specialist, independently determined reference prices through the use of fundamental cash flow modelling sourcing key inputs and assumptions used, such as default rates, prepayment rates and recovery rates, to observable market data. For transactions with third parties by the Master Funds occurring near the year end, we agreed the transaction price to supporting documentation and assessed their appropriateness as being representative of fair value. **Assessing disclosures:** We also considered the Company's disclosures (Note 3) in relation to the use of estimates, the Company's valuation of investments policies (Note 2) and fair value of financial instruments (Note 6) for compliance with IFRS.

Independent Auditor's Report to the members of Fair Oaks Income Limited (continued)

Our application of materiality and an overview of the scope of our audit
Materiality for the financial statements as a whole was set at US$12,000,000, determined with reference to a benchmark of Net Assets of US$465,950,481, of which it represents approximately 3% (31 December 2016: 3%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding US$600,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

We have nothing to report on going concern
We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

We have nothing to report on the other information in the Annual Report
The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We have nothing to report on other 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.

Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 21, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the members of Fair Oaks Income Limited (continued)

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

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.

Dermot A. Dempsey
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors

Glategny Court
St Peter Port
Guernsey GY1 1WR
Channel Islands

18 April 2018

Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	1 January 2017 to 31 December 2017 US$	1 January 2016 to 31 December 2016 US$
Revenue			
Net gains on financial assets at fair value through profit or loss	6	50,660,996	68,504,542
Investment income	7	41,105	16
Net foreign exchange gain/(loss)		235,235	(39,677)
Total revenue		**50,937,336**	**68,464,881**
Expenses			
Investment advisory fees	8	210,786	107,054
Audit and interim review fees		171,244	97,158
Administration fees	8	123,776	123,094
Directors' fees and expenses	8	206,164	149,216
Legal and professional fees		353,321	24,369
Other expenses		576,057	279,175
Share re-designation costs	10	877,172	-
Total operating expenses		**2,518,520**	**780,066**
Profit and total comprehensive income for the year		**48,418,816**	**67,684,815**
Basic and diluted earnings per 2017 share	11	**0.1330**	**-**
Basic and diluted earnings per 2014 share	11	**0.1435**	**0.2178**

All items in the above statement are derived from continuing operations.

The accompanying notes on pages 34 to 62 form an integral part of the Financial Statements.

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2017

	Note	Share capital (2017 Shares) US$	Share capital (2014 Shares) US$	Retained earnings (2017 Shares) US$	Retained earnings (2014 Shares) US$	Total equity US$
At 1 January 2017		**–**	**299,112,959**	**–**	**12,570,936**	**311,683,895**
Issue of 2017 Shares during the year, net of issue costs		84,707,871	–	–	–	84,707,871
Conversion of C Shares to 2017 Shares during the year, net of issue costs	10	67,989,374	–	–	–	67,989,374
Conversion of ordinary shares into 2017 Shares during the year, net of issue costs	10	253,488,546	(253,488,546)	–	–	–
Profit and total comprehensive income for the year		–	–	41,670,885	6,747,931	48,418,816
Transfer brought forward retained earnings from 2014 Shares to 2017 Shares		–	–	10,653,868	(10,653,868)	–
Dividends declared during the year	4	–	–	(39,563,114)	(6,375,367)	(45,938,481)
Share redemptions paid during the year	10	–	(910,994)	–	–	(910,994)
At 31 December 2017		**406,185,791**	**44,713,419**	**12,761,639**	**2,289,632**	**465,950,481**

	Note	Share capital US$	Retained earnings US$	Total equity US$
At 1 January 2016		**308,213,808**	**(30,621,835)**	**277,591,973**
Issue of ordinary shares during the year	10	165,322	–	165,322
Total comprehensive income for the year		–	67,684,815	67,684,815
Dividends declared during the year	4	–	(24,492,044)	(24,492,044)
Share redemptions paid during the year	10	(9,266,171)	–	(9,266,171)
At 31 December 2016		**299,112,959**	**12,570,936**	**311,683,895**

The accompanying notes on pages 34 to 62 form an integral part of the Financial Statements.

Statement of Financial Position

At 31 December 2017

	Note	31 December 2017 US$	31 December 2016 US$
Assets			
Cash and cash equivalents	2	54,580,314	12,200,459
Prepayments		125,921	77,057
Distributions receivable		28,980,964	7,826,914
Financial assets at fair value through profit or loss	6	382,307,248	291,682,780
Total assets		**465,994,447**	**311,787,210**
Liabilities			
Trade and other payables	12	43,966	103,315
Total liabilities		**43,966**	**103,315**
Net assets		**465,950,481**	**311,683,895**
Equity			
Retained earnings		15,051,271	12,570,936
Share capital	10	450,899,210	299,112,959
Total equity		**465,950,481**	**311,683,895**
Total Net Assets attributable to 2017 Shareholders		**418,947,430**	**–**
Number of 2017 Shares	10	**418,274,938**	**–**
Net asset value per 2017 Share		**1.0016**	**–**
Total Net Assets attributable to 2014 Shareholders	13	**47,003,051**	**311,683,895**
Number of 2014 Shares	10	**46,501,283**	**310,938,570**
Net asset value per 2014 Share	13	**1.0108**	**1.0024**

The Financial Statements on pages 30 to 62 were approved and authorised for issue by the Board of Directors on 18 April 2018 and signed on its behalf by:

Jon Bridel
Director

The accompanying notes on pages 34 to 62 form an integral part of the Financial Statements.

Statement of Cash Flows

For the year ended 31 December 2017

	Note	1 January 2017 to 31 December 2017 US$	1 January 2016 to 31 December 2016 US$
Cash flows from operating activities			
Profit for the year		48,418,816	67,684,815
Adjustments for:			
Net gains on financial assets at fair value through profit or loss	6	(50,660,996)	(68,504,542)
Net foreign exchange (gains)/losses		(235,235)	39,677
		(2,477,415)	**(780,050)**
(Increase)/decrease in prepayments		(48,864)	15,450
Decrease in trade and other payables		(59,349)	(4,574)
Income distributions received from Master Fund		14,337,385	45,553,904
Income distributions received from Master Fund II		22,327,040	–
Capital distributions received from Master Fund	6	5,401,064	9,266,250
Purchases into Master Fund during the year	6	–	(6,500,000)
Purchases into Master Fund II during the year	6	(103,214,011)	–
Net cash flow (used in)/from operating activities		**(63,734,150)**	**47,550,980**
Cash flows from investing activities			
Purchase of US Treasury Bills during the year		(49,969,000)	–
Proceeds from sale of US Treasury Bills during the year		50,000,000	–
Net cash flow from investing activities		**31,000**	**–**
Cash flows from financing activities			
Proceeds from 2017 share issuance, net of costs	10	84,707,871	165,322
Proceeds from C share issuance, net of costs	10	67,989,374	–
Dividends paid during the year	4	(45,938,481)	(31,611,125)
2014 Share redemptions paid during the year	10	(910,994)	(9,266,171)
Net cash flow from/(used in) financing activities		**105,847,770**	**(40,711,974)**
Net increase in cash and cash equivalents		**42,144,620**	**6,839,006**
Cash and cash equivalents at beginning of year		12,200,459	5,401,130
Effect of foreign exchange rate changes during the year		235,235	(39,677)
Cash and cash equivalents at end of year		**54,580,314**	**12,200,459**

The accompanying notes on pages 34 to 62 form an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended 31 December 2017

1. GENERAL INFORMATION

Fair Oaks Income Limited (formerly Fair Oaks Income Fund Limited) (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 under The Registered Collective Investment Scheme Rules 2015. The Company is listed and began trading on the Specialist Fund Segment ("SFS") (previously Specialist Fund Market) of the London Stock Exchange ("LSE") on 12 June 2014. On 5 April 2017, 47,428,202 2014 Shares, 263,510,368 2017 Shares and 68,850,000 C Shares were admitted to trade on the SFS of the Main Market of the LSE.

The Company makes its investments through FOIF LP (the "Master Fund") and FOMC II LP (the "Master Fund II"), in which the Company is a limited partner. The Master Fund was registered in Guernsey on 7 May 2014 and the Master Fund II was registered in Guernsey on 24 February 2017 under The Limited Partnerships (Guernsey) Law, 1995, as amended. The only other limited partner in the Master Fund II is Fair Oaks Founder II LP, a related entity.

On 5 April 2017, the Company re-designated its ordinary shares into 47,428,202 2014 Shares and 263,510,368 2017 Shares. The 2014 Shares invest solely into the Master Fund and the 2017 Shares invest solely into Master Fund II. At 31 December 2017, the Company had direct holdings of 11.31% (31 December 2016: 74.13%) holding in the Master Fund and 100% (31 December 2016: Nil) holding in Master Fund II, which in turn had a holding of 62.82% in the Master Fund. The general partner of the Master Fund and Master Fund II is Fair Oaks Income Fund GP Limited (the "General Partner or GP"). The Master Fund invests in portfolios consisting primarily of Collateral Loan Obligations ("CLOs") and the Master Fund II invests in a portfolio which consists primarily of the investment in the Master Fund. 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 the 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 contain all of the information required to enable shareholders and potential investors to make an informed appraisal of the investment activities and profit or loss 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 under IFRS to prepare individual Financial Statements under IFRS.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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");
- IFRS 15, "Revenue from Contracts with Customers" (effective for periods commencing on or after 1 January 2018).

In addition, the IASB completed its Annual Improvements 2014-2016 Cycle project in December 2016 and its Annual Improvements 2015-2017 Cycle project in December 2017. These projects have amended a number of existing standards and interpretations effective for accounting periods commencing on or after 1 January 2018 or 1 January 2019.

The Board expects that the adoption of these standards 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. As explained further on page 37, the Company meets the criteria to be classified as an investment entity and subsequently has determined that it shall not consolidate 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. As the business model of the Company will continue to be managed on the same basis going forward, the classification and measurement of the Company's investments into the Master Fund and Master Fund II will be largely unchanged when IFRS 9 replaces IAS 39.

Investment income

Investment income comprises interest income from cash and cash equivalents. Interest income is recognised on a time-proportionate basis using the effective interest method.

Net Gains/(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) and income and capital distributions received.

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.

2014 Shares, 2017 Shares and C Shares

The 2014 shares, 2017 shares and C shares (when in issue) 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. During the prior year, the term "financial assets designated at fair value through profit or loss" included investments in US Treasury Bills which were purchased and sold during that 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 investments in the Master Fund and Master Fund II are not held for trading, they are presented in the Financial Statements with the "designated at fair value" financial assets, as all are managed together on a fair value basis.

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 trade and other payables.

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 recognised in "Net gains/(losses) 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in the Master Fund and Master Fund II

The Board has determined that the Company has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund and Master Fund II as the Company is the only limited partner, other than the Fair Oaks Founder II LP, in Master Fund II and indirectly (via its investment in the Master Fund II) is the main limited partner in the Master Fund, is exposed and has rights to the returns of the Master Fund and Master Fund II and has the ability either directly, or through the Investment Adviser, to affect the amount of its returns from the Master Fund and Master Fund II.

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 SFS 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 both the Master Fund's and Master Fund II'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.

The Master Fund and Master Fund II measure and evaluate the performance of substantially all of their 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") and that the fair value of the Master Fund II is the Master Fund II's NAV.

The Company has concluded that both the Master Fund and Master Fund II, which are fully drawn down at the year end, meet the definition of unconsolidated subsidiaries under IFRS 12 and have made the necessary disclosures in notes 5 and 6 of these Financial Statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currency

Functional and presentation currency

The Directors have determined that the functional currency of the Company is US Dollar. In doing so, they have considered the following factors: that US Dollar is the currency of the primary economic environment of the Company, the currency in which the original finance was raised and distributions will be made, the currency that would be returned if the Company was wound up, and the currency to which the majority of the underlying investments are exposed. The Financial Statements of the Company are presented in US Dollars, which has been selected as the presentation currency of the Company.

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.

Dividends

Dividends payable to the holders of ordinary shares and 2014 and 2017 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 of Directors has considered the requirements of IFRS 8 – "Operating Segments". The Company has entered into an Investment Advisory Agreement with the Investment Adviser under which the Investment Adviser is 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 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 of Directors' opinion, the Company is engaged in a single segment of business, being investments into the Master Fund and Master Fund II, which are Guernsey registered limited partnerships.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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 year. 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 principal estimates and judgements made by the Board are as follows:

Judgements

Going Concern

The Board has assessed the Company's financial position as at 31 December 2017 and the factors that may impact its performance in the forthcoming year and is of the opinion that it is appropriate to prepare these Financial Statements on a going concern basis.

Investment Entity

In accordance with the Investment entities exception contained in IFRS 10, 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 investments in the Master Fund and Master Fund II at fair value. This determination involves a degree of judgement (see note 2).

Estimates

Fair Value

The Company records its investments in the Master Fund and Master Fund II at fair value. Fair value is determined as the Company's share of the Net Asset Value ("NAV") of the investments. This share is net of any notional carried interest due to the Founder Partner of the Master Fund or the Founder Partner of Master Fund II. The Investment Adviser has reviewed the NAVs of the investments and determined that no adjustments regarding liquidity discounts were required.

4. DIVIDENDS

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

The Company had declared eleven monthly dividends of a minimum of 0.7 US cents per ordinary share. A larger twelfth interim dividend was declared on 12 January 2018 such that, in the opinion of the Directors, substantially all net income generated by the Company in 2017 would be distributed to shareholders.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

4. DIVIDENDS (continued)

The Company declared the following dividends to ordinary shareholders during and related to the year ended 31 December 2017:

Period to	Payment date	Dividend rate per 2014 and 2017 share (cents)	Net dividend payable (US$)	Record date	Ex-dividend date
31 December 2016	2 February 2017	5.75	18,055,284	13 January 2017	12 January 2017
31 January 2017	28 February 2017	0.70	2,181,443	17 February 2017	16 February 2017
28 February 2017	30 March 2017	0.70	2,181,746	17 March 2017	16 March 2017
31 March 2017	28 April 2017	0.70	2,181,659	18 April 2017	13 April 2017
30 April 2017	18 May 2017	0.70	2,174,061	5 May 2017	4 May 2017
31 May 2017	22 June 2017	0.70	2,180,335	9 June 2017	8 June 2017
30 June 2017	20 July 2017	0.70	2,676,456	7 July 2017	6 July 2017
31 July 2017	17 August 2017	0.70	2,649,591	4 August 2017	3 August 2017
31 August 2017	21 September 2017	0.70	2,673,119	8 September 2017	7 September 2017
30 September 2017	19 October 2017	0.70	2,857,087	6 October 2017	5 October 2017
31 October 2017	23 November 2017	0.70	2,856,879	10 November 2017	9 November 2017
30 November 2017	21 December 2017	0.70	3,270,821	8 December 2017	7 December 2017
		13.45	45,938,481		

Period to	Payment date	Dividend rate per share (cents)	Net dividend payable (US$)	Record date	Ex-dividend date
Dividend per 2017 Share declared after 31 December 2017:					
31 December 2017	9 February 2018	5.75	24,050,809	12 January 2018	11 January 2018
Dividend per 2014 Share declared after 31 December 2017:					
31 December 2017	9 February 2018	10.02	4,659,429	12 January 2018	11 January 2018

The Company declared the following dividends to ordinary shareholders during and related to the year ended 31 December 2016:

Period to	Payment date	Dividend rate per share (cents)	Net dividend payable (US$)	Record date	Ex-dividend date
31 January 2016	26 February 2016	0.70	2,243,127	12 February 2016	11 February 2016
29 February 2016	24 March 2016	0.70	2,243,128	4 March 2016	3 March 2016
31 March 2016	21 April 2016	0.70	2,244,635	8 April 2016	7 April 2016
30 April 2016	19 May 2016	0.70	2,244,635	6 May 2016	5 May 2016
31 May 2016	23 June 2016	0.70	2,244,635	3 June 2016	2 June 2016
30 June 2016	21 July 2016	0.70	2,247,019	8 July 2016	7 July 2016
31 July 2016	18 August 2016	0.70	2,235,526	5 August 2016	4 August 2016
31 August 2016	22 September 2016	0.70	2,236,521	9 September 2016	8 September 2016
30 September 2016	20 October 2016	0.70	2,194,321	7 October 2016	6 October 2016
31 October 2016	24 November 2016	0.70	2,193,806	4 November 2016	3 November 2016
30 November 2016	22 December 2016	0.70	2,164,691	9 December 2016	8 December 2016
		7.70	24,492,044		
Dividend declared after 31 December 2016:					
31 December 2016	2 February 2017	5.75	18,055,284	13 January 2017	12 January 2017

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

4. DIVIDENDS (continued)

The default currency payment for dividends is US Dollars. However, with effect from 29 June 2016, shareholders can elect to receive their dividends in British Pounds Sterling ("Sterling") by registering under the Company's Dividend Currency Election.

The rate per ordinary share to be used to pay shareholders who elected to receive their dividend in Sterling will be announced on the London Stock Exchange each month prior to the payment date.

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 2017 were US$Nil (31 December 2016: US$Nil).

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 investments in the Master Fund and Master Fund II 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 Master Fund II 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 investments. The Company's strategy for the management of market risk mirrors the strategy of the Master Fund and Master Fund II, 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 or Master Fund II'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 Master Fund II and on a look-through basis to the underlying assets in the CLOs.

A majority of the Company's financial assets comprise investments into the Master Fund and Master Fund II, which invest in Income Notes and mezzanine tranches of cash flow CLOs. The Master Fund's and Master Fund II'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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

Interest receivable by the Company 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 and Master Fund II at 31 December 2017 and 31 December 2016:

	31 December 2017		31 December 2016
	Master Fund*	Master Fund II	Master Fund
	US$	US$	US$
Investments at floating interest rates	42,157,559	339,639,224	411,806,313
Financial assets at fair value through profit or loss (note 6)	**42,157,559**	**339,639,224**	**411,806,313**

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only.

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

	31 December 2017		31 December 2016
Possible reasonable change in rate	effect on net assets and profit or loss US$	Possible reasonable change in rate	effect on net assets and profit or loss US$
-1%	4,749,693	-1%	7,895,548
1%	3,004,201	1%	3,370,449

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 and Master Fund II. Both the Master Fund's and Master Fund II's portfolios are predominantly denominated in US Dollar. However, both the Master Fund and Master Fund II 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 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 and Master Fund II.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Currency risk (continued)

The Company's share of the Master Fund and Master Fund II's total net foreign currency exposure at the year end was as follows:-

	31 December 2017		31 December 2016
	Master Fund* **US$**	**Master Fund II** **US$**	**Master Fund** **US$**
EUR Exposure			
Financial assets at fair value through profit and loss	554,729	–	3,948,044
Forward foreign exchange contracts	(556,778)	–	(3,900,790)
Other receivables	–	–	–
Other payables	–	–	(29,162)
Net EUR Exposure	**(2,049)**	**–**	**18,092**

	31 December 2017		31 December 2016
	Master Fund* **US$**	**Master Fund II** **US$**	**Master Fund** **US$**
GBP Exposure			
Cash at bank	135	–	708
Other receivables	1,012	–	6,751
Other payables	(11,326)	(16,381)	(13,095)
Net GBP Exposure	**(10,179)**	**(16,381)**	**(5,636)**
Net Exposure	**(12,228)**	**(16,381)**	**12,456**

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only.

	Possible change in exchange rate	**31 December 2017 net exposure US$**	**31 December 2017 effect on net assets and profit or loss US$**
EUR/US Dollar	+/- 15%	(2,049)	(+/-) 307
GBP/US Dollar	+/- 10%	(26,560)	(+/-) 2,656

	Possible change in exchange rate	**31 December 2016 net exposure US$**	**31 December 2016 effect on net assets and profit or loss US$**
EUR/US Dollar	+/- 5%	18,092	(+/-) 905
GBP/US Dollar	+/- 15%	(5,636)	(+/-) (845)

The sensitivity rate of 15% (31 December 2016: 5%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Euro.

The sensitivity rate of 10% (31 December 2016: 15%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Sterling.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Other price risks

There is a 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 were to increase or decrease by 1%, the impact on the NAV of the Company would be +/- US$375,494 (31 December 2016: US$2,916,828).

If the value of the Company's investment in the Master Fund II were to increase or decrease by 1%, the impact on the NAV of the Company would be +/-US$3,447,578.

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, Master Fund II or a vehicle in which the Master Fund or Master Fund II invests, resulting in a financial loss to the Company. Credit risk 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 on credit risk mirrors that of the Master Fund and Master Fund II, 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 exposure to credit risk in relation to the components of the Statement of Financial Position.

	31 December 2017 US$	31 December 2016 US$
Cash and cash equivalents	54,580,314	12,200,459
Distributions receivable	28,980,964	7,826,914
Financial assets at fair value through profit or loss	382,307,248	291,682,780
	465,868,526	**311,710,153**

At 31 December 2017, there were no financial assets past due or impaired.

At 31 December 2017, the cash and cash equivalents and other assets of the Company, excluding its investments into the Master Fund and Master Fund II, and substantially all of the assets of the Master Fund and Master Fund II are held by BNP Paribas Security Services S.C.A. (the "Custodian"). Bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to securities held by the 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 Custodian as at 31 December 2017 was Aa3 as rated by Moody's (31 December 2016: A1) and A by Standard & Poor's (31 December 2016: A).

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 manage this risk by providing diversification in terms of underlying assets, issuer section, 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 2017. The Company's credit risk is monitored on a quarterly basis by the Board of Directors.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

The Master Fund's exposure to credit risk relating to the underlying CLO investments based on the country of registration (not necessarily asset class exposure) as at 31 December 2017 and 31 December 2016 is summarised below. Master Fund II's exposure to credit risk, also summarised below, relates to its directly held CLO investments and its investments into the Master Fund and Cycad based on the country of registration of the CLO investments and the Limited Partnerships (not necessarily asset class exposure) as at 31 December 2017.

	31 December 2017		31 December 2016
	Master Fund* US$	Master Fund II US$	Master Fund US$
United States of America	41,602,830	131,080,550	406,480,474
Europe	554,729	–	5,325,839
Guernsey	–	208,558,674	–
Master Fund/Master Fund II financial assets at fair value through profit or loss (note 6)	**42,157,559**	**339,639,224**	**411,806,313**

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only.

The geographical breakdown of the underlying CLO investments is as follows:

	31 December 2017		31 December 2016
	Master Fund %	Master Fund II* %	Master Fund %
United States of America	90.7	90.0	88.8
Other	1.9	3.0	3.3
Canada	2.2	2.3	2.9
Luxembourg	2.3	2.0	2.5
United Kingdom	1.2	1.1	1.3
Netherlands	0.8	0.9	1.2
Germany	0.9	0.7	–
Total	**100.0**	**100.0**	**100.0**

*The Master Fund II's exposure in the underlying CLO investments includes its exposure through its investment in the Master Fund.

The table below summarises the Master Fund's and Master Fund II's underlying portfolio concentrations as of 31 December 2017 and 31 December 2016:

	Maximum portfolio holdings of a single asset % of total portfolio	Average portfolio holdings % of total portfolio
31 December 2017		
Master Fund	9.07%	2.56%
Master Fund II*	8.73%	2.22%
31 December 2016		
Master Fund	5.68%	1.79%

*The Master Fund II's exposure in the underlying CLO investments includes its exposure through its investment in the Master Fund.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

The tables below summarises the Master Fund's and Master Fund II's portfolio by asset class and portfolio ratings as at 31 December 2017 and 31 December 2016:

	31 December 2017		31 December 2016
	Master Fund*	Master Fund II	Master Fund
By asset class	US$	US$	US$
Equity CLO	25,119,396	115,190,150	240,178,427
Mezzanine CLO	17,038,163	–	171,627,886
Limited Partnerships	–	224,449,074	–
Master Fund/Master Fund II financial assets at fair value through profit or loss (note 6)	**42,157,559**	**339,639,224**	**411,806,313**

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only.

The breakdown of the underlying CLO investments by rating is as follows:

	31 December 2017		31 December 2016
	Master Fund	Master Fund II*	Master Fund
Rating	%	%	%
B	38.2	43.1	39.8
B+	21.4	22.0	22.4
BB-	14.2	13.2	15.3
B-	12.8	12.0	8.9
BB	5.2	4.3	5.3
BB+	2.8	2.0	2.9
NR	2.0	1.3	2.2
CCC+	1.8	1.1	1.2
CCC	0.3	0.2	0.9
BBB-	0.7	0.5	0.5
CCC-	0.2	0.1	0.2
D	0.4	0.2	0.2
BBB	0.0	0.0	0.1
CC	0.0	0.0	0.1
Total	**100.0**	**100.0**	**100.0**

*The Master Fund II's exposure in the underlying CLO investments includes its exposure through its investment in the Master Fund.

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, Master Fund and Master Fund II 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

5. FINANCIAL RISK MANAGEMENT (continued)

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 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.

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, the Master Fund's and the Master Fund II'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 indirect investments in collateralised debt obligations, and may include over-the-counter derivative contracts, 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 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, Master Fund and Master Fund II are held by BNP Paribas Securities Services S.C.A., Guernsey Branch, in its capacity as the 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 of Director'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 2014 and 2017 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 2017

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017		
	2017 Shares US$	**2014 Shares US$**	**Total Company US$**
Cost of financial assets at fair value through profit or loss at the start of the year	–	297,061,633	297,061,633
Purchases of investments at cost during the year	103,214,011	–	103,214,011
Purchases of US Treasury Bills at cost during the year	49,969,000	–	49,969,000
Re-designation of investment cost to 2017 Shares	251,750,114	(251,750,114)	–
Proceeds from sale of US Treasury Bills during the year	(50,000,000)	–	(50,000,000)
Realised gain on sale of US Treasury Bills during the year	31,000	–	31,000
Capital distributions received from the Master Fund during the year	–	(5,401,064)	(5,401,064)
Cost of financial assets at fair value through profit or loss at the end of the year	354,964,125	39,910,455	394,874,580
Net unrealised losses on financial assets at the end of the year	(10,206,286)	(2,361,046)	(12,567,332)
Financial assets at fair value through profit or loss at the end of the year	**344,757,839**	**37,549,409**	**382,307,248**
Realised gain on sales during the year	31,000	–	31,000
Movement in net unrealised loss during the year	(5,648,290)	(1,540,190)	(7,188,480)
Income distributions declared from the Master Fund during the year	2,198,797	8,462,157	10,660,954
Income distributions declared from the Master Fund II during the year	47,157,522	–	47,157,522
Net gains on financial assets at fair value through profit or loss	**43,739,029**	**6,921,967**	**50,660,996**

	31 December 2016 US$
Cost at the start of the year	299,827,883
Purchases into the Master Fund at cost during the year	6,500,000
Capital distributions received from the Master Fund	(9,266,250)
Cost of investment into the Master Fund at the end of the year	297,061,633
Net unrealised losses on investments at the end of the year	(5,378,853)
Financial assets at fair value through profit or loss at the end of the year	**291,682,780**
Movement in net unrealised gain during the year	25,379,943
Income distributions declared by the Master Fund	43,124,599
Net gains on financial assets at fair value through profit or loss	**68,504,542**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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

During the year ended 31 December 2017, the Master Fund accepted Master Fund II as a limited partner and during the year ended 31 December 2016, the Master Fund accepted a new limited partner. The new limited partner was drawn down during March 2016 and April 2016. At 31 December 2017, the Company's 2014 Shareholders had a 11.31% (31 December 2016: 74.13%) holding in the Master Fund and Master Fund II had a 62.82% holding in the Master Fund. During the year ended 31 December 2017, the 2017 Shareholders invested into Master Fund II, in which they are the sole limited partner.

Look-through financial information

The following tables reconcile the Company's proportionate share of the Master Fund and Master Fund II's financial assets at fair value through profit or loss to the Company's financial assets at fair value through profit or loss:

	31 December 2017		
	Master Fund* **US$**	**Master Fund II** **US$**	**Total Company** **US$**
Financial assets at fair value through profit or loss	42,157,559	339,639,224	381,796,783
Less: Net current (liabilities)/assets	(4,608,150)	5,118,615	510,465
Total financial assets at fair value through profit or loss	**37,549,409**	**344,757,839**	**382,307,248**

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only.

	31 December 2016 **US$**
Master Fund - Financial assets at fair value through profit or loss	305,272,020
Less: Master Fund's net current liabilities	(13,589,240)
Total financial assets at fair value through profit or loss	**291,682,780**

The Company's proportionate share of the unrealised gains/(losses) on investments in the year comprises the following movements within the underlying investments:

	31 December 2017		
	Master Fund* **US$**	**Master Fund II** **US$**	**Total Company** **US$**
Net unrealised losses on investments at the beginning of the year	(5,378,853)	–	(5,378,853)
Unrealised losses attributable to 2017 shares	(3,955,152)	3,955,152	–
Investment income	11,918,387	1,944,155	13,862,542
Income distributions received from Master Fund	–	44,804,908	44,804,908
Income distributions received from Cycad	–	1,490,112	1,490,112
Unrealised (losses)/gains on financial assets at fair value through profit or loss	8,206,654	(14,118,009)	(5,911,355)
Realised gains on financial assets at fair value	1,375,534	–	1,375,534
Net losses on derivative financial instruments and foreign exchange	(99,153)	(49)	(99,202)
Other income	–	3,548	3,548
Expenses	(3,767,509)	(1,128,581)	(4,896,090)
Income distributions declared during the year	(10,660,954)	(47,157,522)	(57,818,476)
Net unrealised losses on investments at the end of the year	**(2,361,046)**	**(10,206,286)**	**(12,567,332)**

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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

	31 December 2016 Master Fund US$
Net unrealised losses on investments at the beginning of the year	(30,758,796)
Investment income	46,378,238
Unrealised gains on financial assets at fair value through profit or loss	30,753,925
Realised losses on financial assets at fair value	(315,693)
Net gains on derivative financial instruments and foreign exchange	134,730
Expenses	(8,446,658)
Income distributions declared during the year	(43,124,599)
Net unrealised losses on investments at the end of the year	**(5,378,853)**

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 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 2017

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, prepayments, distribution receivable, dividends payable and other payables) measured at fair value:

	31 December 2017			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets:				
Financial assets at fair value through profit or loss	–	–	382,307,248	382,307,248
Total	**–**	**–**	**382,307,248**	**382,307,248**

	31 December 2016			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets:				
Financial assets at fair value through profit or loss	–	–	291,682,780	291,682,780
Total	**–**	**–**	**291,682,780**	**291,682,780**

The investments in the Master Fund and the Master Fund II, which are fair valued at each reporting date, have been classified within Level 3 as they are not traded and contain unobservable inputs.

The following table presents the movement in Level 3 instruments:

	31 December 2017 US$	**31 December 2016 US$**
Opening Balance	291,682,780	269,069,087
Purchases	103,214,011	6,500,000
Movement in net unrealised (loss)/gain during the year	(7,188,479)	25,379,943
Capital distributions received from Master Fund	(5,401,064)	(9,266,250)
Closing Balance	**382,307,248**	**291,682,780**

Transfers between Level 1, 2 and 3

There have been no transfers between levels during the year ended 31 December 2017 or 31 December 2016. Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

On a look-through basis, the following table analyses within the fair value hierarchy the Company's proportionate share of the Master Fund's financial assets and derivatives (by class, excluding cash and cash equivalents, other receivables and prepayments, distribution payable, carried interest payable and trade and other payables) measured at fair value:

	31 December 2017			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Master Fund*				
Financial assets at fair value through profit or loss	–	17,038,163	25,119,396	42,157,559
Derivatives at fair value through profit or loss	–	(8,580)	–	(8,580)
Total	**–**	**17,029,583**	**25,119,396**	**42,148,979**

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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

	31 December 2017			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Master Fund II				
Financial assets at fair value through profit or loss	–	–	339,639,224	339,639,224
Total	**–**	**–**	**339,639,224**	**339,639,224**

	31 December 2016			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Master Fund				
Financial assets at fair value through profit or loss	–	127,227,752	178,044,268	305,272,020
Derivatives at fair value through profit or loss	–	196,375	–	196,375
Total	**–**	**127,424,127**	**178,044,268**	**305,468,395**

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

	31 December 2017			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets:				
Cash and cash equivalents	–	54,580,314	–	54,580,314
Prepayments	–	125,921	–	125,921
Distributions receivable	–	28,980,964	–	28,980,964
Total	**–**	**83,687,199**	**–**	**83,687,199**
Liabilities:				
Trade and other payables	–	43,966	–	43,966
Total	**–**	**43,966**	**–**	**43,966**

	31 December 2016			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Assets:				
Cash and cash equivalents	–	12,200,459	–	12,200,459
Prepayments	–	77,057	–	77,057
Distribution receivable	–	7,826,914	–	7,826,914
Total	**–**	**20,104,430**	**–**	**20,104,430**
Liabilities:				
Trade and other payables	–	103,315	–	103,315
Total	**–**	**103,315**	**–**	**103,315**

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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

Cash and cash equivalents include deposits held with banks.

Trade and 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 2017:

Security	Fair Value US$	Valuation methodology	Unobservable inputs	Ranges
Master Fund II	344,757,839	NAV	Zero % discount	N/A
Master Fund	37,549,409	NAV	Zero % discount	N/A
	382,307,248			

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2016:

Security	Fair Value US$	Valuation methodology	Unobservable inputs	Ranges
Master Fund	291,682,780	NAV	Zero % discount	N/A

The Master Fund and Master Fund II have 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 and Master Fund II's investments categorised in Level 3 as at 31 December 2017:

Asset Class	Fair Value US$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Master Fund II					
CLO Income Notes					
United States of America	115,190,150	Prices provided by a third party agent	US$0.8600 - US$0.9700	US$0.9322	1% increase/decrease will have a fair value impact of +/- US$1,151,901
Limited Partnerships					
Master Fund*	208,558,674	Zero % discount	N/A	N/A	1% increase/decrease will have a fair value impact of +/- US$2,085,587
Cycad	15,890,400	Zero % discount	N/A	N/A	1% increase/decrease will have a fair value impact of +/- US$158,904
	339,639,224				

*Subject to the Master Fund's inputs detailed below.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

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

Asset Class	Fair Value US$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Master Fund					
CLO Income Notes					
United States of America	24,317,969	Prices provided by a third party agent	US$0.5200 - US$0.9000	US$0.7338	1% increase/decrease will have a fair value impact of +/- US$243,179
Europe	554,729	Prices provided by a third party agent	€0.6700	€0.6700	1% increase/decrease will have a fair value impact of +/- US$5,547
Sub Fee Notes					
United States of America	246,698	Prices provided by a third party agent	US$0.0190 - US$0.4300	US$0.0514	1% increase/decrease will have a fair value impact of +/- US$2,467
	25,119,396				

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 2016:

Asset Class	Fair Value US$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Income Notes CLOs					
United States of America	172,993,836	Prices provided by a third party agent	US$0.5800 - US$0.9000	US$0.7896	1% increase/decrease will have a fair value impact of +/- US$1,729,938
Europe	3,948,045	Prices provided by a third party agent	€0.8300	€0.8300	1% increase/decrease will have a fair value impact of +/- US$39,480
Sub Fee Notes					
United States of America	1,102,387	Prices provided by a third party agent	US$0.0260 - US$0.0480	US$0.0373	1% increase/decrease will have a fair value impact of +/- US$11,024
	178,044,268				

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

7. INVESTMENT INCOME

	For the year ended 31 December 2017 US$	For the year ended 31 December 2016 US$
Interest income on financial assets carried at amortised cost:		
Cash and cash equivalents	41,105	16
	41,105	**16**

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 Amended and Restated Investment Advisory Agreement dated 9 March 2017 (the "Investment Advisory Agreement"). The investment advisory fee is calculated and payable on the last business day of each month or on the date of termination of the Investment Advisory Agreement. The base investment advisory fee will be reduced to take into account any fees received by the Investment Adviser incurred by the Company in respect of its investments in the Master Fund and Master Fund II (taking into account any rebates of such management Fees to the Company) in respect of the same relevant period.

The net investment advisory fee during the year is as follows:

	For the year ended 31 December 2017 US$	For the year ended 31 December 2016 US$
Company investment advisory fee	3,748,861	2,833,535
Less: Master fund II rebate	(526,758)	–
Less: Master fund rebate	(3,011,317)	(2,726,481)
Net investment advisory fee	**210,786**	**107,054**

In circumstances where, as at the date the Net Asset Value per share of the 2017 Shares with respect to the last calendar month of a calendar quarter (the "Quarter End 2017 NAV") is published, the price of the 2017 Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End 2017 NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an associate of it of (a) 25% of the fee which it received with respect to that quarter from the Company pursuant to the Investment Advisory Agreement which is attributable to the Net Asset Value of the 2017 Shares and (b) 25% of Master Fund II Priority Profit Share which the General Partner received with respect to that quarter from the Master Fund and Master Fund II which is attributable to the Net Asset Value of the 2017 Shares by, in each case, using its best endeavours to purchase or procure the purchase of 2017 Shares in the Company in the secondary market. The obligation to purchase or procure the purchase of such 2017 Shares shall be fulfilled by the Investment Adviser by no later than one month after the end of such calendar quarter. The Investment Adviser will have no obligation to reinvest and/or procure the reinvestment of fees it receives with respect to a calendar quarter in circumstances where: (i) the 2017 Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End 2017 NAV; or (ii) where the 2017 Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End 2017 NAV and it is unable to purchase or procure the purchase of 2017 Shares in the secondary market at a discount to their then-prevailing Quarter End 2017 NAV despite having used its best endeavours to do so; or (iii) Master Fund II commitment period has already expired, and, in each case, the Investment Adviser shall retain all fees it receives for such quarter.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

Transactions with Investment Adviser and Investment Portfolio Investor (continued)

Investment Adviser (continued)

In circumstances where, as at the date the Net Asset Value per share of the 2014 Shares with respect to the last calendar month of a calendar quarter (the "Quarter End 2014 NAV") is published, the price of the 2014 Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End 2014 NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an associate of it if (a) 25% of the fees which it received with respect to that quarter from the Company pursuant to the Investment Advisory Agreement which is attributable to the Net Asset Value of the 2014 Shares and (b) 25% of the Priority Profit Share which the General Partner received with respect to that quarter from the Master Fund which is attributable to the Net Asset Value of the 2014 Shares by, in each case, using its best endeavours to purchase or procure the purchase of 2014 Shares in the secondary market. The obligation to purchase or procure the purchase of 2014 Shares shall be fulfilled by the Investment Adviser by no later than one month after the end of such calendar quarter. The Investment Adviser will have no obligation to reinvest and/or procure the reinvestment of fees it receives with respect to a calendar quarter in circumstances where either: (i) the 2014 Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End 2014 NAV; or (ii) where the 2014 Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End 2014 NAV and it is unable to purchase or procure the purchase of 2014 Shares in the secondary market at a discount to their then-prevailing Quarter End 2014 NAV despite having used its best endeavours to do so and, in either case, the Investment Adviser shall retain all fees it receives for such quarter.

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

Founder Partner

The Master Fund and Master Fund II also pay the Founder Partner and Founder Partner II a carried interest equal to 15 per cent of cash available to be distributed (after payment of expenses and management fees) after Limited Partners have received a Preferred Return. The threshold calculation of the Preferred Return will be based solely on distributions and not on NAV calculations so the Master Fund and Master Fund II will not pay any carried interest until its investors have realised the amounts drawn down for investments and met their Preferred Returns. At 31 December 2017, US$16,729,932 (31 December 2016: US$10,016,796) carried interest was accrued at the Master Fund level, to be apportioned to and payable by all limited partners. At 31 December 2017, US$404,214 carried interest was accrued at Master Fund II level.

Other Material Contracts

Administrator

Praxis Fund Services Limited (the "Administrator") shall be entitled to receive a time-based fee quarterly in arrears for all Company Secretarial services. With effect from 9 March 2017, the Administrator is also entitled to an annual fee of US$31,000 (31 December 2016: US$25,000), payable quarterly in arrears for Administration and Accounting services, plus an additional US$7,000 per annum for running the additional C Share class until it converted to 2017 Shares.

The Administrator is also entitled to an additional fee for assisting with reporting under Article 24 of the AIFM Directive. The fee was originally £3,000 per return, per jurisdiction, until the C Share class converted to 2017 Shares. Under the dual share class structure, the reporting fee was reduced to £2,500 per return, per jurisdiction, and this fee was increased to £2,585 per return per jurisdiction with effect from 1 May 2017.

The Administrator is also entitled to an annual fee of £500 in relation to FATCA reporting and acting as Responsible Officer.

Custodian

BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") waived all fees on the basis that all assets are invested into the Master Fund and Master Fund II.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

Other Material Contracts (continued)

Directors' Fees

The Company's Directors are entitled to a fee in remuneration for their services as Directors at a rate payable of £43,000 each per annum (2016: £37,000). With affect from 1 April 2017, the annual fee paid to each Director of the Company increased to £43,000. In addition, a one-off payment of £5,000 was paid to each Director relating to the work performed in respect of the revised Prospectus with £2,500 due if additional raises total to US$100 million.

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

	For the year ended 31 December 2017 US$	For the year ended 31 December 2016 US$
CHARGE FOR THE YEAR		
Investment adviser fee	210,786	107,054
Administration fee	123,776	123,094
Directors' fees and expenses	206,164	149,216
OUTSTANDING FEES		
Investment adviser fee	3,606	8,363
Administration fee	–	10,800

Shares held by related parties

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

	31 December 2017		31 December 2016	
Name	**No. of 2017 Shares**	**Percentage**	**No. of ordinary shares**	**Percentage**
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.01%
Jon Bridel	9,697	0.00%	9,697	0.01%
Nigel Ward	29,475	0.01%	19,393	0.01%

During the year ended 31 December 2017, Nigel Ward purchased 10,000 C Shares which were converted to 10,082 2017 Shares using the conversion ratio of 1.0082 2017 Shares for every one C Share held as at close on the conversion record date of 27 June 2017.

As at 31 December 2017, the Investment Adviser, the General Partner and principals of the Investment Adviser and General Partner held an aggregate of 1,370,344 2017 Shares (31 December 2016: 1,370,344 2014 Shares), which is 0.41% (31 December 2016: 0.44%) of the issued 2017 share capital.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

9. TAX STATUS

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £1,200 under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989.

10. SHARE CAPITAL

Following the EGM, on 29 March 2017, the Company announced 47,428,202 ordinary shares had been elected for re-designation as 2014 Shares with an effective date of 5 April 2017, representing 15.3% of the ordinary shares in issue on that date. Consequently, 263,510,368 ordinary shares were re-designated as 2017 Shares, representing the balance of 84.7% of the ordinary shares in issue on that date. Based on the above election results and the ordinary share price as at close of business on 27 March 2017, the 2017 Share class had an opening market capitalisation of approximately US$262.2 million. The cost of re-designation which has been expensed during the year was US$877,172.

On 5 April 2017, 47,428,202 2014 Shares, 263,510,368 2017 Shares and 68,850,000 C Shares were admitted to trading on the SFS of the Main Market of the LSE.

The Company's 2017 and 2014 Shares are classified as equity. Incremental costs directly attributable to the issue of 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 of a particular class or tranche are entitled to receive, and participate in, any dividends or other distributions relating to the assets attributable to the relevant class or tranche which are 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 of a particular class or tranche shall be entitled to the surplus assets attributable to that class or tranche remaining after payment of all the creditors of the Company.

(c) Voting: Subject to any rights or restrictions attached to any class or tranche of 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 class or tranche of shares which may be subject to special conditions. Refer to the Memorandum and Articles of Incorporation for further details.

(d) Buyback: The Company may acquire its own shares (including any redeemable shares). Any shares so acquired by the Company may be cancelled or held as treasury shares provided that the number of shares of any class held as treasury shares must not at any time exceed ten per cent. (or such other percentage as may be prescribed from time to time by the States of Guernsey Committee for Economic Development) of the total number of issued shares of that class. Any shares acquired in excess of this limit shall be treated as cancelled.

The C share capital of the Company was represented by 68.85 million C Shares of nil par value for the period 5 April to 27 June 2017 and had the following rights:

(a) Dividends: Holders of C Shares were 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 arose after conversion of the C Shares in issue, 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

10. SHARE CAPITAL (continued)

(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 2014 Share surplus shall be divided amongst the holders of 2014 Shares of the relevant class pro rata to their holdings of 2014 Shares in such class as if the 2014 Share surplus comprised the assets of the Company available for distribution;

(ii) the 2017 Share surplus shall be divided amongst the holders of 2017 Shares of the relevant class pro rata to their holdings of 2017 Shares in such class as if the 2017 Share surplus comprised the assets of the Company available for distribution; and

(iii) the C Share surplus attributable to each class or tranche of C Shares shall be divided amongst the C Shareholders of such class or tranche pro rata according to their holdings of C Shares of that class or tranche.

(c) Voting: The C Shares carried the right to receive notice of, and to attend or vote at, any general meeting of the Company in the same manner as the 2017 and 2014 Shares (notwithstanding any difference in the respective NAV of the C Shares and 2017 and 2014 Shares).

Issued Share Capital

2017 Shares

	31 December 2017		31 December 2016	
	Shares	**US$**	**Shares**	**US$**
Share capital at the beginning of the year	–	–	–	–
Share capital issued during the year	85,350,000	84,707,871	–	–
Re-designation of 2014 Shares during the year*	263,510,368	253,488,546	–	–
Conversion of C shares during the year	69,414,570	67,989,374	–	–
Share capital at the end of the year	**418,274,938**	**406,185,791**	**–**	**–**

On 2 October 2017, 28,000,000 2017 Shares were issued at US$1.00 per Share and on 17 November 2017, 57,350,000 Shares were issued at US$1.0075 per Share.

2014 Shares

	31 December 2017		31 December 2016	
	Shares	**US$**	**Shares**	**US$**
Share capital at the beginning of the year	310,938,570	299,112,959	212,426,903	207,940,808
Share capital issued during the year	–	–	215,207	165,322
Re-designation to 2017 Shares during the year*	(263,510,368)	(253,488,546)	–	–
Conversion of C shares during the year	–	–	108,019,980	100,273,000
Share redemptions	(926,919)	(910,994)	(9,723,520)	(9,266,171)
Share capital at the end of the year	**46,501,283**	**44,713,419**	**310,938,570**	**299,112,959**

* Includes non-cash conversion from 2014 Shares to 2017 Shares of US$253,488,546.

On 28 July 2017, a compulsory partial redemption of 926,919 2014 Shares at US$0.9828 per Share took place.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

10. SHARE CAPITAL (continued)

Issued Share Capital continued

C shares

	31 December 2017		31 December 2016	
	Shares	**US$**	**Shares**	**US$**
Share capital at the beginning of the year	–	–	101,800,000	100,273,000
Issued share capital	68,850,000	68,850,000	–	–
Conversion of C shares to 2017 Shares during the year	(68,850,000)	(67,989,374)	–	–
Conversion of C shares to 2014 Shares during the year	–	–	(101,800,000)	(100,273,000)
Share issue costs	–	(860,626)	–	–
Total share capital at the end of the year	**–**	**–**	**–**	**–**

On 5 April 2017, 68,850,000 C Shares were issued at an issue price of US$1.00 per C Share for cash consideration.

The conversion ratio was 1.0082 2017 Shares for every one C Share held as at close on the conversion record date of 27 June 2017. Entitlements to new 2017 Shares were rounded down to the nearest whole share.

11. EARNINGS PER SHARE

	For the year ended 31 December 2017		For the year ended 31 December 2016
	2017 Shares US$	**2014 Shares US$**	**2014 Shares US$**
Weighted average number of shares	313,278,244	47,032,039	310,938,570
Total comprehensive profit for the financial year	US$41,670,885	US$6,747,931	US$67,684,815
Basic and diluted earnings per share	**US$0.1330**	**US$0.1435**	**US$0.2178**

The weighted average number of shares as at 31 December 2017 and 31 December 2016 is based on the number of 2017 and 2014 Shares in issue during the period under review, as detailed in Note 10.

12. TRADE AND OTHER PAYABLES

	31 December 2017 US$	31 December 2016 US$
Investment advisory fees payable (note 8)	3,606	8,363
Audit fees payable	15,960	61,752
Administration fees payable (note 8)	–	10,800
Sundry expenses payable	24,400	22,400
	43,966	**103,315**

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

13. RECONCILIATION OF FINANCIAL STATEMENTS NAV AND PUBLISHED NAV PER SHARE

At 31 December 2017, there was no material difference between the Financial Statements NAV per Share and the Published NAV per Share for both the 2017 Shares and the 2014 Shares.

31 December 2016	**NAV US$**	**Number of ordinary shares No.**	**NAV per ordinary share US$**
Published NAV	312,401,359	310,938,570	1.0047
Fair value adjustment*	(717,464)	310,938,570	(0.0023)
Financial statements NAV	**311,683,895**	**310,938,570**	**1.0024**

* The fair value adjustment is due to a difference in allocation of Master Fund NAV between Limited Partners.

14. 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$306,327,883 (31 December 2016: US$306,327,883) which has been fully called. The Commitment Period ended on 12 June 2016.

The Company entered into a Subscription Agreement with Master Fund II and agreed to become a Limited Partner and made a commitment to Master Fund II of US$407,420,957 (31 December 2016: US$Nil) of which US$358,920,957 had been called.

At 31 December 2017 and 31 December 2016, the Company had no further outstanding commitments.

15. SUBSEQUENT EVENTS

On 2 January 2018, the Company declared an interim dividend of 5.75 US cents per 2017 share and 10.02 US cents per 2014 share in respect of the month ended 31 December 2017, which was paid on 9 February 2018. The ex dividend date was 11 January 2018. A scrip dividend alternative was offered to 2017 shareholders in lieu of the cash dividend.

On 2 February 2018, the Company announced that application had been made to the London Stock Exchange for 73,799 2017 Shares to be admitted to trading on the Specialist Fund Segment of the Main Market. The new 2017 Shares were issued pursuant to the Company's scrip dividend alternative in respect of the dividend for the quarter ended 31 December 2017 and rank pari-passu with the existing issued 2017 Shares. Dealings in the new 2017 Shares commenced at 8.00 a.m. on 9 February 2018. Following admission, there will be 418,348,737 2017 Shares in issue.

On 2 February 2018, the Company declared a monthly dividend of 0.7 US cents per ordinary share in respect of the month ended 31 January 2018 to both the 2017 Shares and the 2014 Shares, which was paid on 2 March 2018. The ex dividend date was 15 February 2018.

On 28 February 2018, the Company declared a monthly dividend of 0.7 US cents per ordinary share in respect of the month ended 28 February 2018 to both the 2017 Shares and the 2014 Shares, which was paid on 22 March 2018. The ex dividend date was 8 March 2018.

On 14 March 2018, the Company announced, in light of the current pipeline of investment opportunities and an investor commitment received for 22.5 million 2017 Shares, that new 2017 Shares ("New Shares") were being made available, conditional on the result of an EGM of the Company convened for 29 March 2018. The proceeds of this placing were intended to be used as funding for a newly originated opportunity to make a primary investment of approximately US$35 million in a CLO equity security.

Notes to the Financial Statements (continued)

For the year ended 31 December 2017

15. SUBSEQUENT EVENTS (continued)

On 3 April 2018, the Company declared a monthly dividend of 0.7 US cents per ordinary share in respect of the month ended 31 March 2018 to both the 2017 Shares and the 2014 Shares, which will be paid on 26 April 2018. The ex dividend date will be 12 April 2018.

On 3 April 2018, the Company announced, that following a reconvened General Meeting from 29 March 2018, that it had resolved, to issue 35 million new 2017 Shares (the "New Shares") at an issue price of US$0.0.973. The New Shares were admitted to trading on the Specialist Fund Segment of the Main Market on 4 April 2018. Following the issue, the Company has 453,348,737 2017 Shares in issue.

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

Management and Administration

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

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