FAIR OAKS INCOME LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Contents

Highlights

- Fair Oaks Income Limited's (the "Company") Net Asset Value ("NAV") per 2017 Shares was up 0.5% and the NAV per 2014 Shares was up 5.2% for the year ended 31 December 2018 on a total return basis (with dividends reinvested). This compares to the Credit Suisse US Leveraged Loan Index, which was up 1.1% and the Credit Suisse US High Yield Index, which was down 2.4%.
- As at 31 December 2018, the Company's total market capitalisation was US$377.5 million.
- The Company's 2014 and 2017 share prices closed at a mid-price of US$0.8300 and US$0.7925 respectively on 31 December 2018 and traded at an average annual premium to NAV of 0.82% and 7.74% respectively.
- The Company declared dividends of 13.45 US cents per 2017 Share in 2018, equivalent to a 17.0% dividend yield on the closing mid-share price on 31 December 2018. Cumulative dividends since the inception of the Company per 2017 Share are 52.0 US cents.
- The Company returned US$0.5763 per 2014 share to shareholders through compulsory partial redemptions of 2014 shares, amounting to a return to shareholders of US$22.0 million.

Financial Highlights

	31 December 2018	**31 December 2017**
2017 Shares		
Total Net Assets	US$396,310,795	US$418,947,430
Net Asset Value per share	US$0.8742	US$1.0016
Share price at year end	US$0.7925	US$1.0513
(Discount)/premium to Net Asset Value	(9.35%)	4.96%
Ongoing charges figure*	0.22%	0.37%
2014 Shares		
Total Net Assets	US$19,308,254	US$47,003,051
Net Asset Value per share	US$0.8800	US$1.0108
Share price at year end	US$0.8300	US$1.1100
(Discount)/premium to Net Asset Value	(5.68%)	9.81%
Ongoing charges figure*	0.36%	0.31%

* 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 Fund and the Master Fund II are not included.

Summary Information

Principal Activity

Fair Oaks Income 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.

At 31 December 2018, the Company has 21,942,137 2014 Shares ("2014 Shares") and 453,348,737 2017 Shares ("2017 Shares"). The 2014 Shares invest solely into the Master Fund and the 2017 Shares invest solely into Master Fund II. The Company's investment objective and policy mirror those of the Master Fund and Master Fund II. At 31 December 2018, the Company had direct holdings of 11.31% (31 December 2017: 11.31%) in the Master Fund and 100% (31 December 2017: 100%) holding in Master Fund II, which in turn had a holding of 62.82% (31 December 2017: 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").

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 of Directors (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

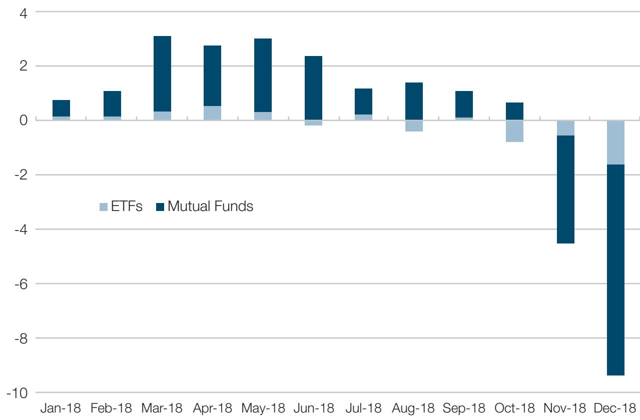
Introduction

The independent Board of the Company is pleased to present its Annual Report and Financial Statements for the financial year ending 31 December 2018.

US bank loans generated a strong performance during the first ten months of the year with the Credit Suisse Leveraged Loan index up +4.36% through October. In the same period, the return of the US high yield index was flat[1] while the JP Morgan CLOIE B rated index was up +9.16%[2].

US bank loans suffered significant losses in November and December 2018 as a result of outflows from mutual funds and other open-ended funds (Figure 1.1). Extreme outflows from open-ended funds were driven mainly by changes in interest rate expectations.

Figure 1.1 – Fund flows: loan mutual funds and ETFs (US$ billion) in 2018[3]



CLO valuations were affected by the volatility in loan markets, despite limited CLO trading flows and the lack of negative fundamental news. As a consequence, the Company's 2018 performance followed a similar pattern to the loan market with the positive NAV return through October offset by negative valuations in November and December.

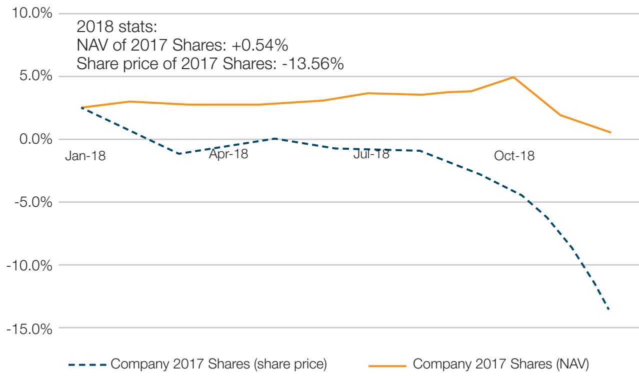
For the full year 2018, the high yield market generated negative returns of -2.37% while loans, B rated CLOs and the Company's 2017 Shares NAV ended the year with small gains (Table 1.2).

Table 1.2 – Total returns in 2018

	2018 total return
Credit Suisse US High Yield Index	-2.37%
Credit Suisse US Leveraged Loan Index	1.14%
J.P. Morgan Post-Crisis CLOIE B Index	2.93%
The Company's 2017 Shares NAV	0.54%

Despite the lack of negative Company specific news or large trading volumes, weakness in the listed fund sector impacted the premium to NAV at which the Company traded. As a result, the share price underperformed NAV and the 2017 Shares ended 2018 at a 9.35% discount to NAV, compared to a 4.96% premium at the end of 2017.

Figure 1.3 – Total return on 2017 Shares NAV and share price in 2018



Performance attribution

The following factors affected performance in 2018:

Discount to NAV

The main negative contributor to share price return in 2018 was the reversal of the 4.96% premium to NAV to a 9.35% discount which contributed -13.63% to the share performance.

CLO equity valuations and discount rates

Lower valuations of CLO equity in late 2018 also impacted returns, despite the strong fundamental performance of the underlying investments. While expected cash flows from investments did not change significantly, we estimate that higher discount rates used by the market in late 2018 contributed -9.50% to the NAV performance[4].

[1] Credit Suisse High Yield index from December 2017 to October 2018.
[2] JP Morgan CLOIE index returns from December 2017 to October 2018.
[3] Data from LIPPER.
[4] Estimate based on the difference between actual, third party valuations as at 31 December 2018 and the valuation of the CLO equity portfolio as at 31 December 2018 based on the estimated discount rates of the same assets as at 29 December 2017.

Chairman's Statement (continued)

Performance attribution (continued)

Distributions received relating to the 2018 financial year

The Company received US$54.8 million in distributions from its investments. Distributions were healthy and should benefit from loan spread volatility in the future.

Other factors

The following factors also impacted, to a lesser extent, the Company's share and NAV performance in 2018:

- A volatile basis between one-month and three-month Libor impacted distributions and valuations negatively as the underlying loan borrowers opted to pay interest based on one-month Libor whereas the CLO liabilities continued to use three-month Libor as a benchmark;
- tighter loan spreads in early 2018 resulted in a lower funding arbitrage for CLO equity investments in the Company's portfolio.

Figure 1.4 – Difference in weighted average asset spread and weighted average cost of CLO financing in Master Fund II[5&6].

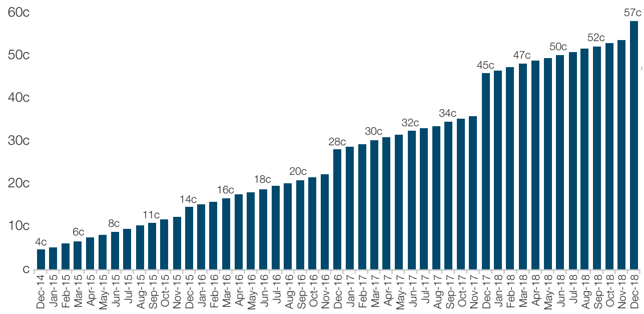
Cash flow and dividends

The Company declared a 0.70 US cents per share dividend monthly from January to November and on 10 January 2019[7] announced a final interim dividend of 4.26 US cents per 2014 Share and 3.45 US cents per 2017 Share in respect of the year ended 31 December 2018. Full year dividends totalled 11.96 US cents and 11.15 US cents per 2014 and 2017 ordinary share respectively, equivalent to a 14.4% and 14.1% dividend yield on the closing mid-share price on 31 December 2018.

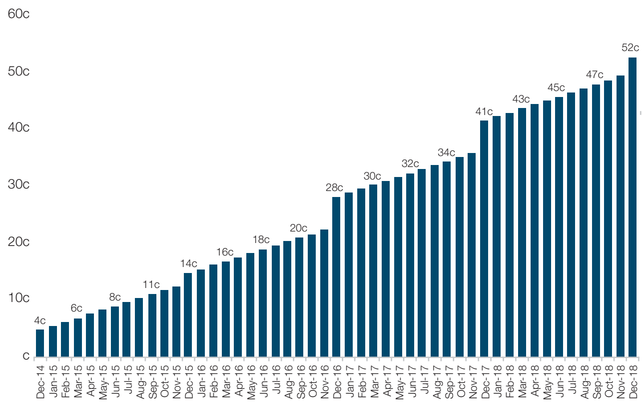
The Company received US$54.8 million of income distributions from the Master Funds[8] relating to the 2018 financial year. The Company also received US$17.4 million of principal distributions from the Master Fund which was distributed back to shareholders of the 2014 Shares by compulsory partial redemption in July, October and December 2018.

Figure 1.5 – Cumulative dividends per share since inception (US cents per share):

2014 Shares



2017 Shares



Material 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 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 December 2017 dividend and rank pari-passu with the existing issued 2017 Shares. Dealings in the new 2017 Shares commenced on 9 February 2018. Following admission, there were 418,348,737 2017 Shares in issue.

[5]Weighted average asset spread based on loan par value weighted by Master Fund II's proportional ownership of Income Notes. Source: Intex.

[6]Based on CLO liability spreads weighted by Master Fund II's proportional ownership of Income Notes. Source Intex.

[7]In accordance with IAS 10, this final interim dividend has not been included within these Financial Statements.

[8]References to Master Funds refer to FOIF LP ("Master Fund") and FOMC II (Master Fund II). Master Fund refers to the underlying investments of the 2014 share class and Master Fund II refers to the underlying investments of the 2017 share class.

Chairman's Statement (continued)

Material events (continued)

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 the reconvened EGM 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 had 453,348,737 2017 Shares in issue.

On 6 July 2018, the Company returned US$6.5 million (equivalent to 13.978 US cents per share) by way of a compulsory partial redemption of 2014 Shares (the "Fourth Redemption"). The Fourth Redemption was effected at 90.71 US cents (being the NAV per 2014 Share as at 31 May 2018 less the monthly interim dividend of 0.7 US cents declared on 5 June 2018). Following the redemption, the Company had 39,335,595 2014 Shares in issue.

On 3 October 2018, the Company returned US$12.5 million (equivalent to 31.778 US cents per share) by way of a compulsory partial redemption of 2014 Shares (the "Fifth Redemption"). The Fifth Redemption was effected at 88.85 US cents (being the NAV per 2014 Share as at 31 August 2018 less the monthly interim dividend of 0.7 US cents declared on 6 September 2018). Following the redemption, the Company had 25,266,955 2014 Shares in issue.

On 18 October 2018, the Company announced that Fair Oaks Income Fund (GP) Limited (the general partner of the Master Fund and Master Fund II) had purchased 285,355 2017 Shares in the secondary market, in line with its commitment to reinvest 25% of quarterly management fees in the event the 2017 Shares trade at a discount to NAV on the day the quarter end NAV is published.

On 13 December 2018, the Company returned US$3.0 million (equivalent to 11.873 US cents per share) by way of a compulsory partial redemption of 2014 Shares (the "Sixth Redemption"). The Sixth Redemption was affected at 90.23 US cents (being the NAV per 2014 Share as at 31 October 2018 less the monthly interim dividend of 0.7 US cents declared on 30 October 2018). Following the redemption, the Company had 21,942,137 2014 Shares in issue.

On 14 December, the Company announced that following the Sixth Redemption and given the capital returned to 2014 Shareholders and the reduced market capitalisation of the 2014 Shares, the Board was considering whether an early redemption of the 2014 Shares (offering qualifying shareholders the opportunity to exchange their shares for a direct interest in the Master Fund or, alternatively, to receive their NAV in cash immediately) may be in the best interests of the 2014 Shareholders.

Subsequent events

On 13 March 2019, the Company announced a final compulsory redemption of all 2014 Shares at a price equal to the NAV per 2014 Share as at 28 February 2019 less the dividend to be declared for the month ended 28 February 2019 (the "Redemption Price").

The consideration for the redemption was, as default, a US Dollar cash payment. This cash payment was funded by the Master Fund II acquiring at NAV the residual interest in the Master Fund owned by the Company in respect of 2014 Share class. There was also an option to receive an in specie distribution of a 2014 Shareholder's pro rata exposure to the Company's interest in the Master Fund. All holdings of 2014 Shares on the register at the close of business on the record date, being 1 April 2019, will be redeemed.

On 15 March 2019, the Company announced the final Redemption Price per 2014 Shares of US$0.8155 being the NAV per 2014 Share as at 28 February 2019 of US$0.8225 less the 0.7 US cent dividend declared for that month.

On 3 April 2019, the Company announced with regards to the final redemption of 2014 Shares, as noted above, that the rate per share to be used to pay shareholders who elected to receive their redemption proceeds in sterling will be GBP 0.6191 per share. It is expected that the proceeds of the redemption will be paid through CREST to holders of Shares in uncertificated form, and by cheque to holders of Shares in certificated form on 15 April 2019.

Furthermore, the Company notified that its issued share capital now consists of 453,348,737 2017 Shares only, further to the final redemption of 21,942,137 2014 Shares effected on 1 April 2019. None of these 2017 Shares are held in Treasury, therefore, the total number of 2017 Shares with voting rights in the Company is 453,348,737. The 2014 Shares are now disabled on CREST and the line of stock cancelled.

Chairman's Statement (continued)

Outlook

The Company expects to continue to benefit from a low default rate in the loan portfolios of its CLOs. Master Fund II's annualised default rate from inception to the end of December was 0.16%[9], compared to an annualised default rate for the same period in the US loan market of 1.50%[10]. The Company also expects the Master Funds to continue to actively refinance or reset its control CLO equity investments to ensure that the funding arbitrage in the portfolio is maximised.

The Fund's CLO investments benefit from low, long-term, non-recourse financing at a weighted average rate of Libor +1.67% as at the end of December 2018. The financing spread is fixed but can be reduced by refinancing. Volatility in loan markets is expected to benefit the Company's portfolio as CLOs reinvest in loans at wider spreads resulting in higher distributions to the CLO equity investments.

We expect the Company's limited maturity and discount management provisions to continue to support its share price.

Professor Claudio Albanese
Chairman

10 April 2019

[9]Master Fund II's annualised default rate includes Master Fund II's share of the Master Fund from inception in June 2014.
[10]S&P Leveraged Loan index default rate by principal amount.

Investment Adviser's Report

Portfolio Update

The 2017 Shares, as at 31 December 2018, via their investment in Master Fund II[1] held twenty-two CLO equity positions and three B rated CLO mezzanine investments offering exposure to 1,182 loan issuers[2] and fifteen CLO managers. Control CLO equity positions represented 95.0% of the portfolio.

Figure 2.1 – CLO manager diversification of Master Fund II[3]

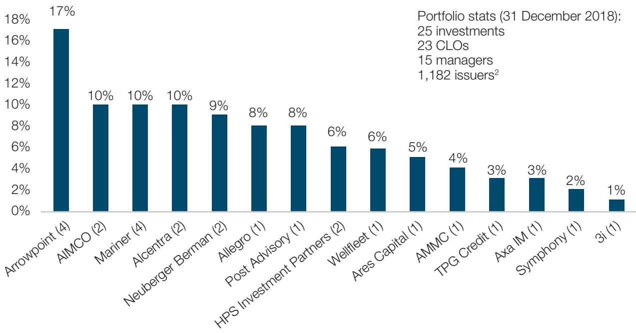
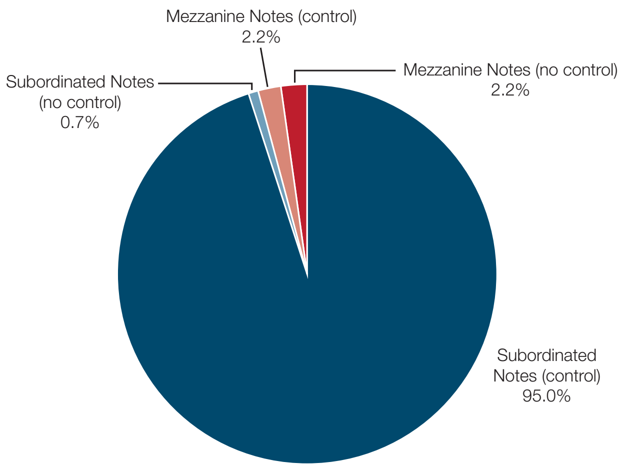


Figure 2.2 – Portfolio composition of Master Fund II[4]



The 2014 Shares, as at 31 December 2018, via their investment in the Master Fund, had exposure to ten CLO equity positions and two B rated CLO mezzanine investments offering exposure to 1,012 loan issuers and nine CLO managers.

Figure 2.3 – CLO manager diversification of the Master Fund[5]

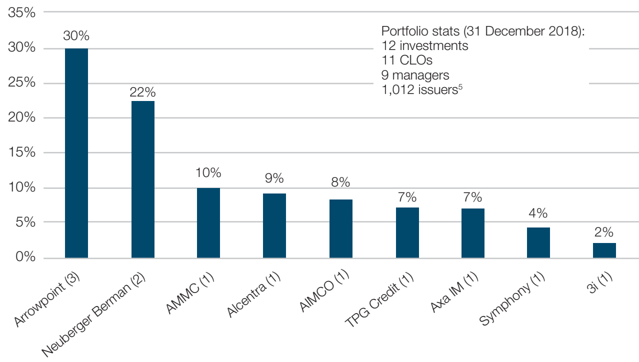
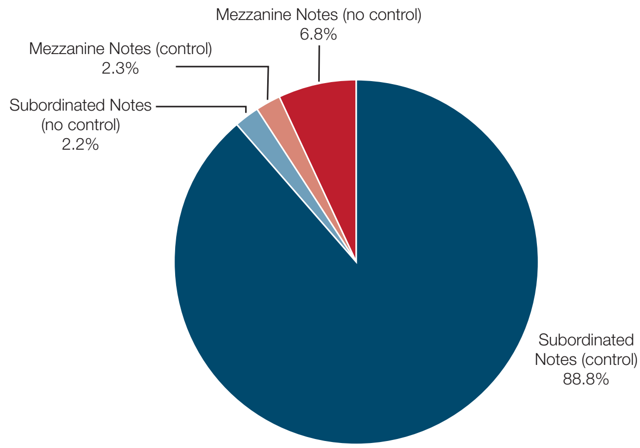


Figure 2.4 – Portfolio composition of the Master Fund[6]



The Master Fund exited two control equity investments (Covenant Credit Partners CLO II and Ares XXXV). Fifteen CLO mezzanine positions in the Master Fund were repaid at par in 2018 and the Master Fund sold seven CLO mezzanine positions at a weighted average price of 98.3 US cents (the seven mezzanine investments were purchased at a weighted average purchase price of 79.5 cents). Principal proceeds received by Master Fund II were reinvested while US$17.4 million proceeds received by the Company on behalf of 2014 Shareholders were used to redeem 2014 Shares.

[1] References to "Master Fund II" refer to the underlying investment of the 2017 Shares and the "Master Fund" refer to the underlying investments of the 2014 Shares.
[2] Based on the underlying loans in CLOs in which Master Fund II holds equity.
[3] Based on nominal holding per CLO manager, as at 31 December 2018.
[4] Based on December 2018 valuations of portfolio.
[5] Based on the underlying loans in CLOs in which Master Fund holds equity.
[6] Based on December 2018 valuations of the portfolio.

Investment Adviser's Report (continued)

Portfolio Update (continued)

Master Fund II reinvested principal proceeds and new capital raised across five new CLOs (Table 2.5).

Table 2.5: New purchases in 2018 by Master Fund II

Purchase date	Nominal (US$)	Deal name	CLO manager	CLO Loan portfolio spread	US loan market spread[7]	AAA cost of funding in the CLO	US primary market AAA CLO[8]
April 2018	39,282,500	Post CLO 2018-1	Post Advisory Group	353bps	347bps	105bps	108bps
May 2018	28,875,000	Wellfleet CLO 2018-1	Wellfleet Credit Partners	336bps	346bps	110bps	109bps
June 2018	26,000,000	Ares XXXVR CLO	Ares CLO Management	339bps	345bps	105bps	111bps
June 2018	30,000,000	Shackleton 2018-XII CLO	Alcentra NY	336bps	345bps	107bps	111bps
August 2018	31,687,500[9]	HPS Loan Management 13-2018	HPS Investment Partners	339bps	347bps	116bps	119bps

Loan Market Update[10]

While we continue to be cautious about credit quality in the loan market, average leverage of US loans decreased from 5.2x in Q3 2017 to 5.0x in Q3 2018 (Figure 2.6)[11] while interest coverage was robust at 3.5x as at Q3 2018 (Figure 2.7)[11].

Figure 2.6 – Average leverage of outstanding loans[11]

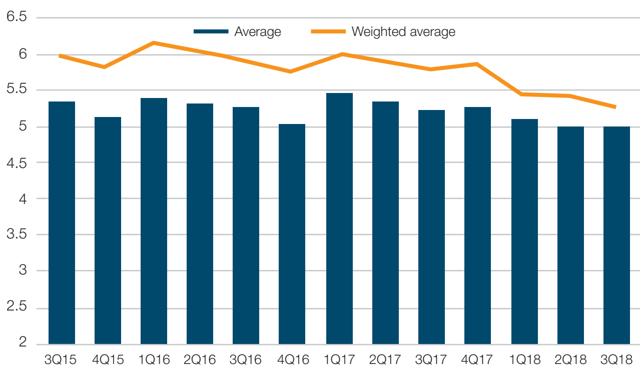
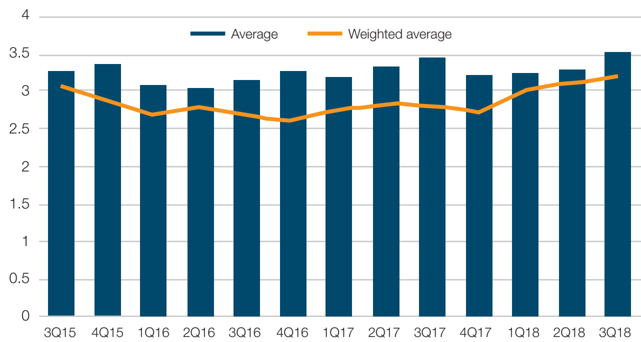


Figure 2.7 – Average cash-flow coverage of outstanding loans[12]



The rolling twelve-month default rate increased to 2.42% in Q1 2018, after Clear Channel Communications filed for Chapter 11, but closed the year at 1.63%[13]. In total, 29 companies defaulted on US$40.9bn of debt in 2018. Excluding the default from Clear Channel Communications, which represented US$16bn or 38% of total volume, default activity was the lowest since 2013[14].

The top three sectors contributing to 2018's defaults were Energy (29%), Retail (23%) and Consumer Products (10%)[15].

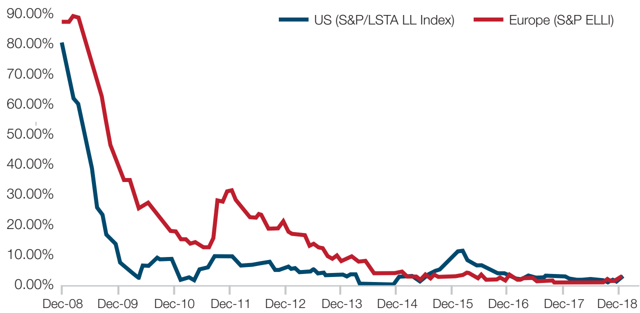
[7]Based on average loan spreads from Credit Suisse Leveraged Loan index on purchase date of the investment.
[8]Based on AAA CLO primary spreads from JP Morgan on purchase date of the investment.
[9]Total includes the mezzanine portion that Master Fund II also acquired in the CLO.
[10]US loan issuance, first-lien spreads and fund flows from LPC & Lipper: Refinitiv – Leveraged loan market overview, as at 31 December 2018.
[11]S&P/LSTA Loan index to Q3 2018.
[12]S&P/LSTA Loan index to Q3 2018.
[13]Twelve-month US default rate by principal amount from S&P/ LSTA Leveraged Loan index.
[14]JP Morgan Morning Intelligence, as at 31 December 2018.
[15]US loan issuance, first-lien spreads and fund flows from LPC & Lipper: Refinitiv – Leveraged loan market overview, as at 31 December 2018.

Investment Adviser's Report (continued)

Loan Market Update (continued)

The distressed ratio in the US and Europe, defined as percentage of loans trading below 80c, continues to be well below the historical averages (Figure 2.8).

Figure 2.8 – Distressed ratio: Euro vs US loans[16]

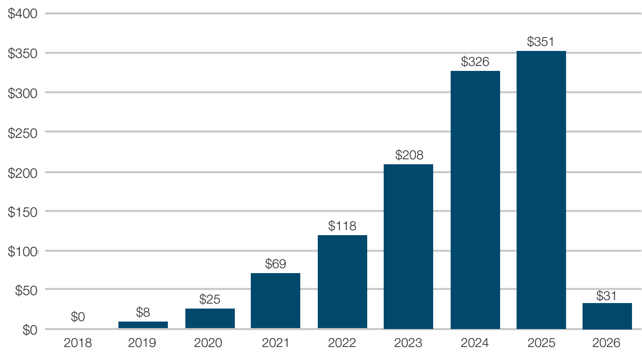


As a consequence, according to a quarterly survey published by S&P Global Intelligence in December 2018[17], loan managers expect the default rate to reach 2.16% in December 2019 (see Figure 2.9). From the same survey performed in December 2017, loan managers had predicted a higher default rate for December 2019 at 2.65%.

Figure 2.9 - Lagging twelve-month default rate: historical and current expectations (forecast through to December 2019)[17]

The market's low default expectations are also supported by the very limited amount of loans set to mature over the next three years. The notional of loans maturing in 2019-2021 has fallen from US$572 billion in 2015 to US$102 billion in 2018[18].

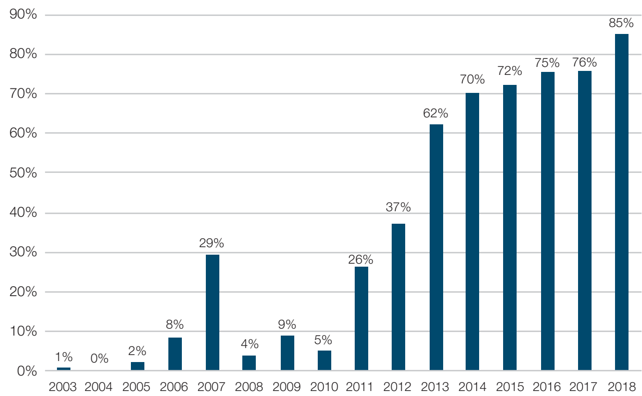
Figure 2.10 – Maturity wall of the US loan market of performing loans in 2018 (US$ billion)[18]



Loan recovery rates, however, will likely be influenced by prevalence of covenant-lite ("cov-lite") loans. The dominance of cov-lite loans and their impact on defaults and recoveries was the subject of significant press coverage in 2018.

Cov-lite loans have become the market standard (Figure 2.11) and unrealistic investment constraints insisting on investment in loans with maintenance covenants may force managers to invest in weaker issuers (which are unable to issue under market standard terms).

Figure 2.11 – Percentage of cov-lite loans in institutional loans[19]



[16]Based on S&P/LSTA Leveraged Loan Index and S&P European Leveraged Loan Index Distress Ratio by principal amount. Date as at Q4 2018.
[17]S&P Global Intelligence default survey as at December 2018.
[18]S&P Global Intelligence, Q4 2018. Distribution by year of maturity.
[19]S&P Global Intelligence.

Investment Adviser's Report (continued)

Loan Market Update (continued)

In our view, the prevalence of cov-lite loans is likely to result in lower default rates, lower recoveries and lower spreads. There will be lower default rates as higher quality companies which may have breached maintenance covenants in previous cycles, do not default. Recoveries will be lower as the higher recovery rates from issuers that do not default are excluded from the average. Finally, a reduced ability to demand margin increases in exchange for covenant waivers will result in lower spreads.

Beyond cov-lite loans, our current concerns on loan documentation include weaker incurrence covenants and excessive EBITDA adjustments, which result in under-reported leverage.

A review of loan markets in 2018 would not be complete without a comment on the volatility experienced in November and December.

A combination of negative credit headlines and a change in investor expectations regarding future US interest rates resulted in large withdrawals from open-ended loan funds in what traditionally are slow weeks around the Thanksgiving holidays and pre-Christmas period.

Bank loan investors are predominantly long-term, closed-ended vehicles such as collateralised loan obligations ("CLOs"). Since August 2012, long-term, non-mark-to-market capital provided by CLOs has represented between 41% and 51% of the US loan market[20]. Open-ended loan funds and ETFs have accounted for between 12% and 23% of the market during the same period[20]. Despite their small relative size, open-ended funds and ETFs have the potential to represent a large percentage of trading volumes at times of volatility because of the shorter-term nature of their investors. This means that they can have an outsized impact on average US loan prices.

Loan fund outflows in November 2018 reached US$4.1 billion, the largest monthly selling volume since December 2015[21]. Outflows then increased to US$11.6 billion in December[21]. As a result, the US loan market total return was -0.82% in November and -2.29% in December 2018[22]. As the size of fund outflows reduced and opportunistic loan investors entered the market, US loans returned +2.30% in January 2019[22].

CLO Market Update[23]

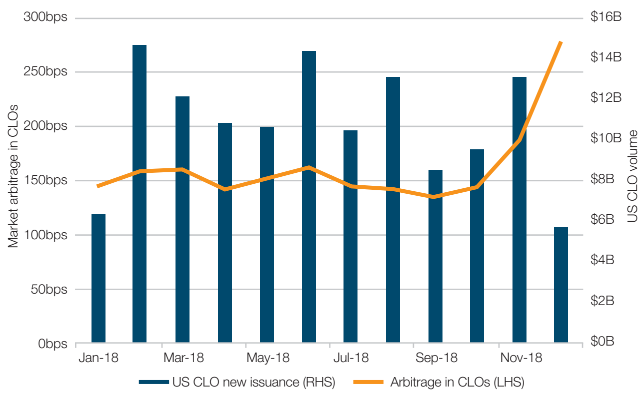
2018 US CLO new issuance was up 10% from 2017 to US$129.7 billion while European CLO new issuance was up 34% from 2017 to €27.0 billion.

The first three quarters of 2018 were unusual in that the expected self-regulating mechanism provided by CLOs (lower arbitrage should reduce CLO issuance, reducing demand for loans and, hence, resulting in a wider arbitrage) seemed to be absent.

The spread of the Credit Suisse Leveraged Loan index fell from Libor+4.16% as at 31 December 2017 to Libor+3.81 as at 28 September 18[24]. The spread of BB rated loans (a more appropriate proxy for CLO's higher average credit quality holdings), also fell from Libor+2.68% to Libor+2.55% in the same period[25].

Strong CLO new issuance, which exceeded $10 billion per month on each month except January and September resulted in wider US CLO AAA liabilities (from Libor+1.15% as at 31 December 2017 to Libor+1.20% as at 28 September 2018[26]) and made CLO arbitrage more challenging in the first three quarters of 2018 (Figure 2.12).

Figure 2.12: US CLO new issuance volume and market arbitrage on BB loan spreads in 2018[27]



Although it is tempting to conclude from Figure 2.12 that the CLO arbitrage was particularly compelling at the end of 2018, this view was largely theoretical given the impossibility of ramping up and pricing a CLO during the last weeks of the year.

[20]Lipper, Refinitiv: Leveraged Loan monthly, November 2018.
[21]Lipper. Refinitiv: Leveraged Loan to December 2018.
[22]Total return of Credit Suisse Leveraged Loan index.
[23]CLO issuance from JP Morgan, as at 31 December 2018.
[24]Based on 3-year loan discount margin from Credit Suisse Leveraged loan index.
[25]Based on 3-year loan discount margin of BB rated loans from Credit Suisse Leveraged loan index.
[26]US CLO AAA spreads from JP Morgan during 2018.
[27]US CLO issuance and primary AAA CLO spreads from JP Morgan. Loan spreads from Credit Suisse Leveraged Loan index.

Investment Adviser's Report (continued)

CLO Market Update (continued)

Master Fund II continued to identify and take advantage of investment opportunities in a very selective manner. All five investments in 2018 benefitted from conservative portfolios with attractive AAA financing levels, as shown earlier in Table 2.5.

As a longer term comparison, the table below illustrates the arbitrage present in the Master Fund's first investment in August 2014 and the last of Master Fund II's investments closed in 2017 and 2018.

Table 2.13 – Historical arbitrage

	First CLO Control Investment	Last 2017 CLO Control Investment	Last 2018 CLO Control Investment
	AWPT 2014-3	**Mariner 2017-4**	**HLM 13X-2018**
Trade date	14 August 2014	3 October 2017	27 September 2018
Initial average loan portfolio spread	3.74%	3.47%	3.39%
Difference vs 2014		**(-27bps)**	**(-35 bps)**
AAA Spread	1.55%	1.22%	1.16%
AA Spread	2.35%	1.72%	1.70%
Weighted average cost of funding	2.32%	1.82%	1.70%
Difference vs 2014		**(-50 bps)**	**(-62 bps)**

Outlook

We will continue to seek the best risk-adjusted opportunities for Master Fund II in the CLO equity and debt primary and secondary markets. Low new issuance in early 2019 has resulted in limited visibility to date in terms of pricing of new issue CLO liabilities while wider spreads, particularly in sub-investment grade CLO liabilities could create buying opportunities for the Company.

We believe that the Company continues to offer a compelling investment opportunity for those investors looking to invest in global senior secured bank loans through CLOs:

One of the most attractive relative value opportunities within private credit markets
CLO equity and debt are effective ways to invest in portfolios of higher quality senior secured loans to established borrowers using long-term, non-recourse, non-mark-to-market financing at attractive levels. A combination of low expected defaults and loan price volatility has the potential to be very supportive of existing CLO equity investments which will benefit from their low fixed cost of financing.

Diverse and high quality existing portfolio
The Company, through its investment in Master Fund II, holds exposure to a seasoned and diversified portfolio of 25 investments in 23 CLOs managed by 15 different managers, giving a total exposure to 1,182 loan issuers[28].

Enhanced returns via active control investments
Investments in control CLO equity positions give the Master Funds the ability to optimise CLO investments, control their lifecycle and actively manage credit risk. CLO investments in more conservative loan portfolios, with lower spreads, can generate higher returns based on reduced CLO manager fees and arranger fees.

Furthermore, a control position combined with independence ensures that CLOs can be refinanced or liquidated at the optimal point for the investors.

Positioned to benefit from market volatility
CLO equity investments benefit from long-term, fixed-spread liabilities and the option to reinvest principal proceeds during the CLO's investment period (typically four to five years). Master Fund II's CLO investments benefit from tight borrowing spreads, which have the potential to enhance the initial arbitrage as higher-spread assets become available. As principal repayments are reinvested in new loans with wider spreads, the incremental interest income over the fixed cost of financing will benefit CLO equity investors.

[28]Based on the underlying loans in CLOs in which Master Fund II holds equity.

Investment Adviser's Report (continued)

Outlook (continued)

Discount management provisions

The Company benefits from the fixed investment period and maturity of Master Fund II. We believe that the limited life of the Company has expanded its shareholder base and supported investments by investors able to hold the shares "to maturity" at times when the shares have traded at a discount to NAV. In addition, the shares benefit from the Company's buy-back program and the investment manager's commitment to reinvest 25% of management fees on a quarterly basis if the shares trade at a discount.

Experienced team and strong alignment of interest

Our senior investment team has an average of over 20 years' corporate credit and securitisation experience dedicated to sourcing, analysing, negotiating, selecting and monitoring corporate credit investments. We believe that our active monitoring of the portfolio and superior access to credit views and analysis has enabled us to outperform, with the Master Fund (earliest vehicle) experiencing annualised default rates since inception in June 2014 to the end of 2018 of 0.22% compared to an annualised default rate for the same period in the US loan market of 1.50% at the end of 2018.

The Company benefits from a meaningful co-investment by the Investment Adviser and the back-ended performance fee which will only be triggered once investors in the Master Fund have received their original investment plus minimum return, in cash, ensuring our focus on performance.

Fair Oaks Capital Limited

10 April 2019

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) 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) 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) 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 Limited	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

**to retire from directorship on 30 June 2019.*

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
Hadrian's Wall Secured Investments Limited	London Stock Exchange – Main Market

Directors' Report

The Directors of the Company are pleased to submit their Annual Report and the Audited Financial Statements (the "Financial Statements") for the year ended 31 December 2018. 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 Funds' 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 Funds' 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 from the date of signing this report to April 2022, 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 April 2022 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 the year ended 31 December 2017, the Company implemented proposals which included shareholders being offered an option 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 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. In addition, during February 2019, the General Partner extended the life of the Master Fund by one year in accordance with the terms of the Limited Partnership Agreement. The Master Fund now has a planned end date of 27 May 2020.

During April 2018, the Company issued 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. The proceeds of this placing were used as funding for a newly originated opportunity in a primary investment of approximately US$35 million in a CLO equity security.

In making their three year assessment, various factors, in addition to the 2017 restructuring, the fund raising event and the Master Fund term extension detailed above, were 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 April 2022.

Results and Dividends

The results for the year are shown in the Statement of Comprehensive Income on page 33.

The Board declared dividends of US$66,266,595 during 2018 followed by an additional dividend declaration of US$16,604,865 declared on 10 January 2019 in relation to the year ended 31 December 2018 (dividends declared in relation to the year ended 31 December 2017: US$45,938,481). 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, 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 2018, the credit rating of the Custodian was Aa3 as rated by Moody's (31 December 2017: A2) and A by Standard & Poor's (31 December 2017: A).

Directors and Directors' Interests

The Directors, all of whom are independent and non-executive, are listed on page 13.

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 2017: £43,000) 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 2018 and 31 December 2017, held either directly or beneficially:

	31 December 2018		31 December 2017	
Name	**No. of 2017 Shares**	**Percentage**	**No. of 2017 Shares**	**Percentage**
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel	9,697	0.00%	9,697	0.00%
Nigel Ward	44,475	0.01%	29,475	0.01%

On 4 December 2018, Nigel Ward purchased 15,000 2017 Shares in the Company on the SFS of the London Stock Exchange.

Directors' Report (continued)

Substantial Shareholdings

As at 21 March 2019, being the date of the latest shareholder analysis prior to the publication of these Financial Statements, the following 2017 shareholders had holdings in excess of 5% of the issued 2017 share capital:

Name	No. of 2017 Shares	Percentage of 2017 Shares
Quilter Investors	70,913,498	15.64%
Coller Investment Management	54,159,716	11.95%
Vidacos Nominees Limited – Master2	43,000,000	9.48%
Fidelity International	28,534,697	6.29%
Smith & Williamson Wealth Management	27,126,772	5.98%

On 1 April 2019, the final compulsory redemption of all 2014 Shares was complete, see the Chairman's Statement and Note 14 for details.

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. Reporting under CRS in Guernsey is completed on a annual basis.

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 2018. 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 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 25 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

10 April 2019

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.

The Board also acknowledges the new AIC Code of Corporate Governance which was issued in February 2019 (the "2019 AIC Code") and notes that the 2019 AIC Code is effective for financial periods beginning on or after 1 January 2019. During the year ended 31 December 2019, the Board intend to review their policies and procedures against the new 2019 Code and comply or explain against the relevant provisions.

For the year ended 31 December 2018, 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, and any additional requirements set out in the 2019 AIC Code, throughout the year ending 31 December 2019, 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 2018, 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 13.

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 22 June 2018, shareholders re-elected all the Directors of the Company.

Corporate Governance (continued)

Composition and Independence of Directors (continued)

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.

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 25.

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.fairoaksincome.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 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 meeting, three ad hoc Board meetings and one extraordinary general meeting ("EGM") held during the year ended 31 December 2018.

Name	Board	Audit Committee	Risk Committee	Management Engagement Committee	Nomination & Remuneration Committee	EGM
Number of meetings held	7	4	4	1	1	1
Claudio Albanese (Chairman of the Board and Management Engagement Committee)	4	4	4	1	1	-
Jon Bridel (Audit Committee Chairman)	7	4	4	1	1	1
Nigel Ward (Risk Committee Chairman and Nomination & Remuneration Committee Chairman)	7	4	4	1	1	-

Board Committees

Audit Committee

The Audit Committee comprises Jon Bridel and Nigel Ward, and meets at least three times a year. Jon Bridel is Chairman of the Audit Committee. Claudio Albanese was a member of the Audit Committee until he resigned from the committee on 27 November 2018. Mr Albanese resignation was to align the Company with the new 2018 UK Corporate Governance Code guidance on this matter and, although this is not a requirement in the 2019 AIC Code, the Audit Committee deemed it best practice for the Chairman of the Board to step down from his responsibilities as a member 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 26.

Risk Committee

The Risk Committee meets at least four times a year. It comprises Nigel Ward, Jon Bridel and Claudio Albanese 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 2018. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.

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.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee meets at least once a year. It comprises the entire Board and is chaired by Nigel Ward. 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 13, 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

10 April 2019

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 year from 1 January 2018 to 31 December 2018 Actual £	For the year from 1 January 2017 to 31 December 2017 Actual £
Claudio Albanese (Chairman and Management Engagement Committee Chairman)	43,000	43,000	41,500
Jon Bridel (Audit Committee Chairman)	43,000	43,000	41,500
Nigel Ward (Risk Committee Chairman and the Nomination & Remuneration Committee Chairman)	43,000	43,000	41,500
Total	**129,000**	**129,000**	**124,500**

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 2018 and 31 December 2017 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 22 June 2018, 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 2018 and 31 December 2017, 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 10 April 2019 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 the other member, Nigel Ward, are both 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 13 of these Financial Statements. The Audit Committee's intention is to meet at least three times a year in any full year and meets the Auditor during those meetings.

Duties

The Audit Committee's main role and responsibilities are 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$18,157,101 as at 31 December 2018. 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 2018 were audited by KPMG who issued an unmodified audit opinion dated 10 April 2019. 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 2018 to be reasonable.

- Valuation of Master Fund II – The Company's investment in the Master Fund II had a fair value of US$367,005,255 as at 31 December 2018 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 2018 were audited by KPMG who issued an unmodified audit opinion dated 10 April 2019. 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 2018 to be reasonable.

Report of the Audit Committee (continued)

Financial Reporting and Audit

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 Auditor's assessment of its objectivity and independence as auditor of the Company;
- 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 2018, KPMG provided audit related services only as listed on page 28. 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 if it is satisfied that relevant safeguards are in place to protect the Auditors' objectivity and independence. KPMG did provide non-audit services for the year ended 31 December 2017, KPMG confirmed that this had not impacted their independence and outlined the reasons for this. These non-audit services complied with the Financial Reporting Council ("FRC") Revised Ethical Standard 2016. The Audit Committee was satisfied that these non-audit services had no bearing on the independence of the Auditor in the prior year.

In addition, KPMG directors are subject to periodic rotation of assignments on audit clients under applicable laws, regulations and independence rules. Their rotation policies comply with the FRC Revised Ethical Standard 2016 which states that the engagement director should be rotated after serving in this capacity for the relevant period no longer than five years. This rotation policy is continually monitored and it has been noted that Dermot Dempsey is serving in his final year as engagement director for these Financial Statements. Steve Stormonth has been identified as successor to Dermot Dempsey as audit engagement director. The Audit Committee considered this proposal and were satisfied with this recommendation.

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 2018 and 31 December 2017, translated into the presentation currency at the exchange rate prevailing at 31 December 2018 and 31 December 2017 respectively.

	For the year ended 31 December 2018 US$	For the year ended 31 December 2017 US$
KPMG Channel Islands Limited		
– Annual Audit of the Company and related entities	186,106	213,575
– Interim review	45,978	52,955
Other KPMG International member firms		
– Reporting accountant services	–	142,071
– Transaction related services - conversion of C shares	–	11,348
– 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
10 April 2019

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 2018 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 2018, 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 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 (unchanged from 2017):

Financial assets at fair value through profit or loss ("Investments")
US$385.2 million (31 December 2017: US$382.3 million)
Refer to pages 26 to 28 (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 of the Company's net assets. The fair value of those Master Funds reflects the Company's proportionate share of the Master Funds' net asset values. The Master Funds' net asset values incorporate the fair value of their own investment portfolios which comprise; Mezzanine & Equity Collateralized Loan Obligation ("CLO") positions; a Warehoused pre-CLO position; and a proportionate share of a third party CLO fund's net asset value. The fair value of the CLOs are determined using indicative prices ("Price Quotes") obtained by the Master Funds from their independent third party valuation provider (the "Valuation Agent"). **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 Master Funds' underlying CLOs.	*Our audit procedures included:* **Control evaluation:** We assessed the design and implementation of the control over the valuation of the Company's investments in the Master Funds. **Evaluation of the Valuation Agent:** Assessed, with the assistance of our 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 positions held by the Master Funds, with the support of our 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 positions held by the Master Funds, with the support of our 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 the sole Warehoused pre-CLO position held by one of the Master Funds we utilised, with the support of our KPMG valuation specialist, a Black Scholes option pricing model to assess the probability of this position converting into a CLO and assessed the outcome against that Master Fund's reference price. For the investment into the third party CLO fund, we agreed the fair value to a net asset value statement received from that fund's administrator. We also obtained the coterminous audited financial statements and agreed the audited net asset value to the net asset value statement. In order to assess whether the fair value required adjustment, we considered the basis of preparation, together with accounting policies applied and whether the audit opinion was unmodified. **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$415,619,049 of which it represents approximately 3% (31 December 2017: 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 24, 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 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

10 April 2019

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	1 January 2018 to 31 December 2018 US$	1 January 2017 to 31 December 2017 US$
Revenue			
Net gains on financial assets at fair value through profit or loss	6	4,909,405	50,660,996
Interest income	7	203,850	41,105
Net foreign exchange gains		170,957	235,235
Total revenue		**5,284,212**	**50,937,336**
Expenses			
Investment advisory fees	8	208,105	210,786
Audit and interim review fees		94,999	171,244
Administration fees	8	149,798	123,776
Directors' fees and expenses	8	179,535	206,164
Legal and professional fees		37,060	353,321
Other expenses		385,049	576,057
Share re-designation costs	10	–	877,172
Total operating expenses		**1,054,546**	**2,518,520**
Profit and total comprehensive income for the year		**4,229,666**	**48,418,816**
Basic and diluted earnings per 2017 share	11	**0.0052**	**0.1330**
Basic and diluted earnings per 2014 share	11	**0.0488**	**0.1435**

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

The accompanying notes on pages 37 to 66 form an integral part of the Financial Statements.

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2018

	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 2018		**406,185,791**	**44,713,419**	**12,761,639**	**2,289,632**	**465,950,481**
Issue of 2017 Shares during the year, net of issue costs		33,627,207	–	–	–	33,627,207
Issue of 2017 Shares for scrip dividend	10	75,275	–	–	–	75,275
Profit and total comprehensive income for the year		–	–	2,306,790	1,922,876	4,229,666
Dividends declared during the year	4	–	–	(58,645,907)	(7,620,688)	(66,266,595)
Share redemptions paid during the year	10	–	(21,996,985)	–	–	(21,996,985)
At 31 December 2018		**439,888,273**	**22,716,434**	**(43,577,478)**	**(3,408,180)**	**415,619,049**

	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**

The accompanying notes on pages 37 to 66 form an integral part of the Financial Statements.

Statement of Financial Position

At 31 December 2018

	Note	31 December 2018 US$	31 December 2017 US$
Assets			
Cash and cash equivalents		16,552,741	54,580,314
Prepayments		37,303	125,921
Distributions receivable		13,915,728	28,980,964
Financial assets at fair value through profit or loss	6	385,162,356	382,307,248
Total assets		**415,668,128**	**465,994,447**
Liabilities			
Trade and other payables	12	49,079	43,966
Total liabilities		**49,079**	**43,966**
Net assets		**415,619,049**	**465,950,481**
Equity			
Retained earnings		(46,985,658)	15,051,271
Share capital	10	462,604,707	450,899,210
Total equity		**415,619,049**	**465,950,481**
Total Net Assets attributable to 2017 Shareholders		**396,310,795**	**418,947,430**
Number of 2017 Shares	10	**453,348,737**	**418,274,938**
Net asset value per 2017 Share		**0.8742**	**1.0016**
Total Net Assets attributable to 2014 Shareholders		**19,308,254**	**47,003,051**
Number of 2014 Shares	10	**21,942,137**	**46,501,283**
Net asset value per 2014 Share		**0.8800**	**1.0108**

The Financial Statements on pages 33 to 66 were approved and authorised for issue by the Board of Directors on 10 April 2019 and signed on its behalf by:

Jon Bridel
Director

The accompanying notes on pages 37 to 66 form an integral part of the Financial Statements.

Statement of Cash Flows

For the year ended 31 December 2018

	Note	1 January 2018 to 31 December 2018 US$	1 January 2017 to 31 December 2017 US$
Cash flows from operating activities			
Profit for the year		4,229,666	48,418,816
Adjustments to reconcile profit to net cash flows:			
Net gains on financial assets at fair value through profit or loss	6	(4,909,405)	(50,660,996)
Net foreign exchange gains		(170,957)	(235,235)
		(850,696)	**(2,477,415)**
Decrease/(increase) in prepayments		88,618	(48,864)
Increase/(decrease) in trade and other payables		5,113	(59,349)
Income distributions received from Master Fund		7,211,405	14,337,385
Income distributions received from Master Fund II		62,688,724	22,327,040
Capital distributions received from Master Fund	6	17,419,404	5,401,064
Purchases into Master Fund II during the year	6	(70,200,000)	(103,214,011)
Net cash flow from/(used in) operating activities		**16,362,568**	**(63,734,150)**
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	33,627,207	84,707,871
Proceeds from C share issuance, net of costs	10	–	67,989,374
Dividends paid during the year	4	(66,191,320)	(45,938,481)
2014 Share redemptions paid during the year	10	(21,996,985)	(910,994)
Net cash flow (used in)/from financing activities		**(54,561,098)**	**105,847,770**
Net increase in cash and cash equivalents		**(38,198,530)**	**42,144,620**
Cash and cash equivalents at beginning of year		54,580,314	12,200,459
Effect of foreign exchange rate changes during the year		170,957	235,235
Cash and cash equivalents at end of year		**16,552,741**	**54,580,314**

The accompanying notes on pages 37 to 66 form an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended 31 December 2018

1. GENERAL INFORMATION

Fair Oaks Income 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.

The Company makes its investments through FOIF LP (the "Master Fund") and FOMC II LP (the "Master Fund II") (the "Master Fund" and the "Master Fund II" together the "Master Funds"), 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.

At 31 December 2018, the Company had 21,942,137 2014 Shares ("2014 Shares") and 453,348,737 2017 Shares ("2017 Shares").The 2014 Shares invest solely into the Master Fund and the 2017 Shares invest solely into Master Fund II. At 31 December 2018, the Company had direct holdings of 11.31% (31 December 2017: 11.31%) holding in the Master Fund and 100% (31 December 2017: 100%) holding in Master Fund II, which in turn had a holding of 62.82% in the Master Fund (31 December 2017: 62.82%). 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 a portfolio 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 not permitted to prepare individual Financial Statements under IFRS.

Going Concern

The Board has assessed the Company's financial position as at 31 December 2018 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 as the Company has adequate financial resources to meet its liabilities as they fall due.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards effective and adopted

- IFRS 9, "Financial Instruments" (effective for periods commencing on or after 1 January 2018);
- 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. This project has amended a number of existing standards and interpretations effective for accounting periods commencing on or after 1 January 2018.

The adoption of IFRS 9 has had no material impact on these Financial Statements, principally for the following reasons:

- the classification and measurement methodology for all of the Company's assets and liabilities has remained the same under IFRS 9 as under IAS 39;
- the Company's investments into the Master Fund and Master Fund II are measured at fair value. As explained further on page 39, 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. The business model of the Company will continue to be managed on the same basis going forward with the performance of the Master Funds being assessed on a fair value basis, and so the changes in IFRS 9 relating to the assessment of credit losses do not apply to these instruments;
- The Company's other receivables and payables are held solely for the collections and payments of contractual cash flows, being payments of principal and interest where applicable. As such these assets and liabilities continue to be held at amortised cost under IFRS 9, the same as under IAS 39; and
- the Company does not apply hedge accounting, and is therefore unaffected by the hedge accounting-related changes introduced in IFRS 9.

The adoption of IFRS 15 has had no material impact on these Financial Statements as the Company has no income within the scope of IFRS 15.

Interest income

Interest 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 on Financial Assets at Fair Value through Profit or Loss

Net gains 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 gainsfrom 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments

Classification

The Company classifies its financial assets and financial liabilities into categories in accordance with IFRS 9.

On initial recognition, the Company classifies financial assets as measured at amortised cost or at fair value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are SPPI.

All other financial assets of the Fund are measured at FVTPL.

In making an assessment of the objective of the business model in which a financial asset is held, the Company considers all of the relevant information about how the business is managed.

The Company has determined that it has two business models.

- *Held-to-collect business model:* this includes cash and cash equivalents, prepayments and distributions receivable. These financial assets are held to collect contractual cash flow.
- *Other business model:* this includes investments in the master funds and derivatives. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

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 IFRS 9.

Classification of financial assets – Policy applicable before 1 January 2018

The Fund classified financial assets into the following categories.

Financial assets at FVTPL:

Investments into the Master Funds

Financial assets at amortised cost:

Loans and receivables: cash and cash equivalents, prepayments and distributions receivable.

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.

A non-derivative financial asset with fixed or determinable payments could be classified as a loan and receivable unless it was quoted in an active market or was an asset for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

For a reconciliation of line items in the statement of financial position to the categories of financial instruments, as defined by IAS 39, see Note 11.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at FVTPL:

Held for trading: derivative financial instruments.

Financial liabilities at amortised cost:

This includes 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 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 IFRS 9. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Investment in the Master Fund and Master Fund II

The Board of Directors (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 IFRS 9.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in the Master Fund and Master Fund II (continued)

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 Board of 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 Board of 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, for which the Company's commitments are detailed further in Note 13, meet the definition of unconsolidated subsidiaries under IFRS 12 and have made the necessary disclosures in notes 5 and 6 of these Financial Statements.

Foreign Currency

Functional and presentation currency

The Board of Directors has 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 reporting 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Segmental Reporting

The Board has considered the requirements of IFRS 8 – "Operating Segments". The Company has entered into an Investment Advisory Agreement with the Investment Adviser under which the Investment Adviser is responsible for the management of the Company's investment portfolio, subject to the overall supervision of the Board of 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.

3. USE OF JUDGEMENTS AND ESTIMATES

The preparation of Financial Statements in accordance with IFRS requires the Board of Directors 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

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 Fair Oaks Founder LP (the "Founder Partner"), the Founder Partner of the Master Fund or Fair Oaks Founder II LP (the "Founder Partner II"), the Founder Partner II of Master Fund II. The Investment Adviser has reviewed the NAVs of the investments and determined that no adjustments regarding liquidity discounts were required.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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. At 31 December 2018, the Company's retained earnings include unrealised losses of US$62,492,820 (31 December 2017: US$12,567,332) (see note 6), gross income from investments excludes these unrealised losses which are capital in nature.

During the year, the Company had declared eleven monthly dividends of 0.7 US cents per ordinary share. A larger twelfth interim dividend was declared on 10 January 2019 in respect of 2018 such that, in the opinion of the Board of Directors, substantially all net realised income generated by the Company in 2018 would be distributed to shareholders.

The Company declared the following dividends to ordinary shareholders during the year ended 31 December 2018:

Period to	Payment date	Dividend rate per share (cents)	Net dividend payable (US$)	Record date	Ex-dividend date
Dividend per 2017 share:					
31 December 2017	9 February 2018	5.75	24,267,811	12 January 2018	11 January 2018
31 January 2018	2 March 2018	0.70	2,914,913	16 February 2018	15 February 2018
28 February 2018	22 March 2018	0.70	2,930,793	9 March 2018	8 March 2018
31 March 2018	26 April 2018	0.70	3,166,050	13 April 2018	12 April 2018
30 April 2018	24 May 2018	0.70	3,170,308	11 May 2018	10 May 2018
31 May 2018	28 June 2018	0.70	3,172,794	15 June 2018	14 June 2018
30 June 2018	26 July 2018	0.70	3,169,491	13 July 2018	12 July 2018
31 July 2018	23 August 2018	0.70	3,172,065	10 August 2018	9 August 2018
31 August 2018	27 September 2018	0.70	3,173,181	14 September 2018	13 September 2018
30 September 2018	25 October 2018	0.70	3,164,972	12 October 2018	11 October 2018
31 October 2018	22 November 2018	0.70	3,171,251	9 November 2018	8 November 2018
30 November 2018	28 December 2018	0.70	3,172,278	14 December 2018	13 December 2018
		13.45	58,645,907		
Dividend per 2017 Share declared after 31 December 2018:					
31 December 2018	31 January 2019	3.45	15,670,072	18 January 2019	17 January 2019

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4. DIVIDENDS (continued)

The Company declared the following dividends to ordinary shareholders during the year ended 31 December 2018, continued:

Period to	Payment date	Dividend rate per share (cents)	Net dividend payable (US$)	Record date	Ex-dividend date
Dividend per 2014 share:					
31 December 2017	9 February 2018	10.02	4,659,889	12 January 2018	11 January 2018
31 January 2018	2 March 2018	0.70	325,491	16 February 2018	15 February 2018
28 February 2018	22 March 2018	0.70	325,512	9 March 2018	8 March 2018
31 March 2018	26 April 2018	0.70	325,479	13 April 2018	12 April 2018
30 April 2018	24 May 2018	0.70	325,497	11 May 2018	10 May 2018
31 May 2018	28 June 2018	0.70	325,497	15 June 2018	14 June 2018
30 June 2018	26 July 2018	0.70	275,335	13 July 2018	12 July 2018
31 July 2018	23 August 2018	0.70	275,346	10 August 2018	9 August 2018
31 August 2018	27 September 2018	0.70	275,343	14 September 2018	13 September 2018
30 September 2018	25 October 2018	0.70	176,845	12 October 2018	11 October 2018
31 October 2018	22 November 2018	0.70	176,861	9 November 2018	8 November 2018
30 November 2018	28 December 2018	0.70	153,593	14 December 2018	13 December 2018
		17.72	7,620,688		
Dividend per 2014 Share declared after 31 December 2018:					
31 December 2018	31 January 2019	4.26	934,793	18 January 2019	17 January 2019

The Company declared the following dividends to ordinary shareholders during 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		

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

4. DIVIDENDS (continued)

The rate per ordinary share to be used to pay shareholders who elect to receive their dividend in Sterling is 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 2018 were US$Nil (31 December 2017: US$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.

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.

A majority of the Company's financial assets comprise investments into the Master Fund and Master Fund II, which invest in income notes: Equity Subordinated 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 2018

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Interest Rate Risk (continued)

The following table shows the portfolio profile of the Master Fund and Master Fund II at 31 December 2018 and 31 December 2017:

	31 December 2018		31 December 2017	
	Master Fund* US$	Master Fund II US$	Master Fund* US$	Master Fund II US$
Investments with exposure to a floating interest rate	20,544,242	370,132,597	42,157,559	339,639,224
Financial assets at fair value through profit or loss (note 6)	**20,544,242**	**370,132,597**	**42,157,559**	**339,639,224**

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

The following table shows the Board of 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 2018		31 December 2017
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%	(1,703,394)	-1%	(4,749,693)
1%	1,720,476	1%	3,004,201

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 2018

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 2018		31 December 2017	
	Master Fund* US$	Master Fund II US$	Master Fund* US$	Master Fund II US$
EUR Exposure				
Financial assets at fair value through profit and loss	443,041	28,668,405	554,729	–
Derivatives at fair value through profit or loss	(469,351)	(28,818,600)	(556,778)	–
Other receivables	–	–	–	–
Trade and other payables	(5,216)	(87,496)	–	–
Net EUR Exposure	**(31,526)**	**(237,691)**	**(2,049)**	**–**

	31 December 2018		31 December 2017	
	Master Fund* US$	Master Fund II US$	Master Fund* US$	Master Fund II US$
GBP Exposure				
Cash and cash equivalents	–	–	135	–
Other receivables	564	–	1,012	–
Trade and other payables	–	(4,886)	(11,326)	(16,381)
Net GBP Exposure	**564**	**(4,886)**	**(10,179)**	**(16,381)**
Net Exposure	**(30,962)**	**(242,577)**	**(12,228)**	**(16,381)**

*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 2018 net exposure US$	31 December 2018 effect on net assets and profit or loss US$
EUR/US Dollar	+/- 10%	(269,217)	(-/+) 26,922
GBP/US Dollar	+/- 15%	(4,322)	(-/+) 648

	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

The sensitivity rate of 10% (31 December 2017: 15%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Euro.

The sensitivity rate of 15% (31 December 2017: 10%) 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 2018

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 Board of Directors does 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 10% (31 December 2017: 1%), the impact on the NAV of the Company would be +/- US$1,815,710 (31 December 2017: US$375,494).

If the value of the Company's investment in the Master Fund II were to increase or decrease by 10% (31 December 2017: 1%), the impact on the NAV of the Company would be +/- US$36,700,525 (31 December 2017: US$3,447,578). At 31 December 2018, the sensitivity rate of 10% (31 December 2017: 1%) is regarded as reasonable due to the actual market price volatility experienced on the Master Funds' CLO investments during the year.

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 2018 US$	31 December 2017 US$
Cash and cash equivalents	16,552,741	54,580,314
Distributions receivable	13,915,728	28,980,964
Financial assets at fair value through profit or loss	385,162,356	382,307,248
	415,630,825	**465,868,526**

At 31 December 2018, there were no financial assets past due or impaired.

At 31 December 2018, 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 Securities 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 2018 was Aa3 as rated by Moody's (31 December 2017: Aa3) and A by Standard & Poor's (31 December 2017: 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. The Master Funds' concentration of credit risk by industry for the CLO investments, on a look-through basis, as at 31 December 2018 and 31 December 2017 are summarised in the table below. 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 2018

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

The Master Funds' have diversified their exposure to industry sectors. The top 10 are as follows:

	31 December 2018		31 December 2017	
	Master Fund %	Master Fund II* %	Master Fund %	Master Fund II %
Industry				
Business equipment and services	12.8	17.2	11.5	13.4
Healthcare	9.5	11.6	8.2	9.6
Electronics and electrical	6.0	3.8	6.2	4.9
Telecommunications	5.4	6.2	5.4	5.9
Financial intermediaries	5.4	5.0	4.8	4.1
Lodging and casinos	4.8	5.4	4.6	5.2
Chemical and plastics	4.7	4.0	4.8	3.9
Utilities	4.5	3.5	4.6	3.9
Broadcast radio and television	4.0	5.9	3.8	3.9
Building and development	3.6	4.2	–	–
Retailers (except food and drug)	–	–	3.8	4.0
	60.7	**66.8**	**57.7**	**58.8**

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

Source: CLO trustee reports. Based on the Master Funds' exposure and weighted by CLO size and Master Funds' ownership percentage

The Master Funds' 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 2018 and 31 December 2017 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 2018 and 31 December 2017.

	31 December 2018		31 December 2017	
	Master Fund* US$	Master Fund II US$	Master Fund* US$	Master Fund II US$
United States of America	20,101,201	240,617,993	41,602,830	131,080,550
Europe	443,041	28,668,405	554,729	–
Guernsey	–	100,846,199	–	208,558,674
Master Fund/Master Fund II financial assets at fair value through profit or loss (note 6)	**20,544,242**	**370,132,597**	**42,157,559**	**339,639,224**

*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 2018

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

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

	31 December 2018		31 December 2017	
	Master Fund %	**Master Fund II* %**	**Master Fund %**	**Master Fund II* %**
United States of America	90.6	90.9	90.7	90.0
Canada	2.2	2.2	2.2	2.3
Luxembourg	1.8	1.7	2.3	2.0
United Kingdom	1.2	1.5	1.2	1.1
Netherlands	1.2	1.7	0.8	0.9
Other	3.0	2.0	2.8	3.7
Total	**100.0**	**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 2018 and 31 December 2017:

	Maximum portfolio holdings of a single asset % of total portfolio	**Average portfolio holdings % of total portfolio**
31 December 2018		
Master Fund	12.11%	5.88%
Master Fund II*	8.22%	3.33%
31 December 2017		
Master Fund	9.07%	2.56%
Master Fund II*	8.73%	2.22%

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

The tables below summarises the Master Fund's and Master Fund II's portfolio by asset class and portfolio ratings as at 31 December 2018 and 31 December 2017:

	31 December 2018		31 December 2017	
By asset class	**Master Fund* US$**	**Master Fund II US$**	**Master Fund* US$**	**Master Fund II US$**
Equity Subordinated CLO notes	18,760,293	250,257,485	25,119,396	115,190,150
Mezzanine CLO notes	1,783,949	5,136,632	17,038,163	–
Limited Partnerships	–	114,738,480	–	224,449,074
Master Fund/Master Fund II financial assets at fair value through profit or loss (note 6)	**20,544,242**	**370,132,597**	**42,157,559**	**339,639,224**

*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 2018

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

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

	31 December 2018		31 December 2017	
	Master Fund	**Master Fund II***	**Master Fund**	**Master Fund II***
Rating	**%**	**%**	**%**	**%**
B	37.1	41.8	38.2	43.1
B+	20.4	19.9	21.4	22.0
B-	14.3	14.0	12.8	12.0
BB-	11.5	11.2	14.2	13.2
BB	6.8	6.6	5.2	4.3
BB+	3.7	2.9	2.8	2.0
CCC+	3.2	1.6	1.8	1.1
BBB-	0.8	0.6	0.7	0.5
CCC	0.5	0.3	0.3	0.2
CCC-	0.1	0.2	0.2	0.1
D	0.1	0.0	0.4	0.2
CC	0.0	0.1	0.0	0.0
NA	1.5	0.8	2.0	1.3
Total	**100.0**	**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.

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.

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 CLOs, and may include over-the-counter derivative contracts, which are not traded in an organised public market and which may be illiquid.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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 Board of 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 2018

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018		
	2014 Shares US$	**2017 Shares US$**	**Total Company US$**
Cost of financial assets at fair value through profit or loss at the start of the year	39,910,455	354,964,125	394,874,580
Purchases of investments at cost during the year	–	70,200,000	70,200,000
Capital distributions received from the Master Fund during the year	(17,419,404)	–	(17,419,404)
Cost of financial assets at fair value through profit or loss at the end of the year	22,491,051	425,164,125	447,655,176
Net unrealised losses on financial assets at the end of the year	(4,333,950)	(58,158,870)	(62,492,820)
Financial assets at fair value through profit or loss at the end of the year	**18,157,101**	**367,005,255**	**385,162,356**
Movement in net unrealised loss during the year	(1,972,904)	(47,952,584)	(49,925,488)
Income distributions declared from the Master Fund during the year	4,006,745	–	4,006,745
Income distributions declared from the Master Fund II during the year	–	50,828,148	50,828,148
Net gains on financial assets at fair value through profit or loss	**2,033,841**	**2,875,564**	**4,909,405**

	31 December 2017		
	2014 Shares US$	**2017 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	39,910,455	354,964,125	394,874,580
Net unrealised losses on financial assets at the end of the year	(2,361,046)	(10,206,286)	(12,567,332)
Financial assets at fair value through profit or loss at the end of the year	**37,549,409**	**344,757,839**	**382,307,248**
Realised gain on sales during the year	–	31,000	31,000
Movement in net unrealised loss during the year	(1,540,190)	(5,648,290)	(7,188,480)
Income distributions declared from the Master Fund during the year	8,462,157	2,198,797	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	**6,921,967**	**43,739,029**	**50,660,996**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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. At 31 December 2018, the Company's 2014 Shareholders had a 11.31% (31 December 2017: 11.31%) holding in the Master Fund and Master Fund II had a 62.82% holding in the Master Fund (31 December 2017: 62.82%). During the year ended 31 December 2018, the 2017 Shareholders invested into Master Fund II, in which, other than the Fair Oaks Founder II LP, they are the only limited partner.

Look-through financial information

The following tables reconcile the Company's proportionate share of the Master Fund's 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 2018		
	Master Fund* US$	Master Fund II US$	Total Company US$
Financial assets at fair value through profit or loss	20,544,242	370,132,597	390,676,839
Less: Net current liabilities	(2,387,140)	(3,127,343)	(5,514,483)
Total financial assets at fair value through profit or loss	**18,157,102**	**367,005,254**	**385,162,356**

	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.

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 2018		
	Master Fund* US$	Master Fund II US$	Total Company US$
Net unrealised losses on investments at the beginning of the year	(2,361,046)	(10,206,286)	(12,567,332)
Investment income	131,625	28,934,703	29,066,328
Income distributions received from Master Fund	–	22,254,970	22,254,970
Income distributions received from Cycad	–	1,241,569	1,241,569
Unrealised losses on financial assets at fair value through profit or loss	(65,574)	(49,349,074)	(49,414,648)
Realised gains on financial assets at fair value through profit or loss	2,398,157	1,126,532	3,524,689
Net gains on derivative financial instruments and foreign exchange	35,104	718,465	753,569
Other income	–	64,377	64,377
Expenses	(465,471)	(2,115,978)	(2,581,449)
Income distributions declared during the year	(4,006,745)	(50,828,148)	(54,834,893)
Net unrealised losses on investments at the end of the year	**(4,333,950)**	**(58,158,870)**	**(62,492,820)**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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

	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 gains/(losses) 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.

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 2018

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 2018			
	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Assets:				
Financial assets at fair value through profit or loss	–	–	385,162,356	385,162,356
Total	**–**	**–**	**385,162,356**	**385,162,356**

	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**

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 2018 US$	31 December 2017 US$
Opening Balance	382,307,248	291,682,780
Purchases	70,200,000	103,214,011
Movement in net unrealised loss during the year	(49,925,488)	(7,188,479)
Capital distributions received from Master Fund	(17,419,404)	(5,401,064)
Closing Balance	**385,162,356**	**382,307,248**

Transfers between Level 1, 2 and 3

There have been no transfers between levels during the year ended 31 December 2018 or 31 December 2017. 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 and Master Fund II'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 2018			
	Level 1 US$	Level 2 US$	Level 3 US$	Total US$
Master Fund*				
Financial assets at fair value through profit or loss	–	1,783,949	18,760,293	20,544,242
Derivatives at fair value through profit or loss	–	(2,054)	–	(2,054)
Total	**–**	**1,781,895**	**18,760,293**	**20,542,188**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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

Transfers between Level 1, 2 and 3 (continued)

	31 December 2018			
	Level 1 US$	**Level 2 US$**	**Level 3 US$**	**Total US$**
Master Fund II				
Financial assets at fair value through profit or loss	–	5,136,632	364,995,965	370,132,597
Derivatives at fair value through profit or loss	–	(174,300)	–	(174,300)
Total	**–**	**4,962,332**	**364,995,965**	**369,958,297**

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

	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**

	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**

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

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2018:

Security	**Fair Value US$**	**Valuation methodology**	**Unobservable inputs**	**Ranges**
Master Fund	18,157,102	NAV	Zero % discount	N/A
Master Fund II	367,005,254	NAV	Zero % discount	N/A
	385,162,356			

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	37,549,409	NAV	Zero % discount	N/A
Master Fund II	344,757,839	NAV	Zero % discount	N/A
	382,307,248			

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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

The Master Fund and the Master Fund II have engaged an independent third party to provide valuations for their CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund's and the Master Fund II's investments categorised in Level 3 as at 31 December 2018:

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	18,258,270	Prices provided by a third party agent	US$0.4600 - US$0.8800	US$0.6698	10% increase/decrease will have a fair value impact of +/- US$1,825,827
Europe	443,041	Prices provided by a third party agent	€0.5600	€0.5600	10% increase/decrease will have a fair value impact of +/- US$44,304
Sub Fee Notes					
United States of America	58,982	Prices provided by a third party agent	US$0.0100 - US$0.0160	US$0.0131	10% increase/decrease will have a fair value impact of +/- US$5,898
	18,760,293				

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	221,589,079	Prices provided by a third party agent	US$0.6900 - US$0.8953	US$0.7731	10% increase/decrease will have a fair value impact of +/- US$22,158,907
Europe	28,668,405	Prices provided by a third party agent	€1.0000	€1.0000	10% increase/decrease will have a fair value impact of +/- US$2,866,841
Limited Partnerships					
Master Fund*	100,846,199	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US$10,084,619
Cycad	13,892,282	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US$1,389,228
	364,995,965				

*Subject to the Master Fund's inputs detailed immediately above.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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

The Master Fund and Master Fund II have engaged an independent third party to provide valuations for their CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund's 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					
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				

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 immediately below.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

7. INTEREST INCOME

	For the year ended 31 December 2018 US$	For the year ended 31 December 2017 US$
Interest income on financial assets carried at amortised cost:		
Cash and cash equivalents	203,850	41,105
	203,850	**41,105**

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 2018 US$	For the year ended 31 December 2017 US$
Company investment advisory fee	4,012,666	3,748,861
Less: Master fund rebate	(1,885,186)	(3,011,317)
Less: Master fund II rebate	(1,919,375)	(526,758)
Net investment advisory fee	**208,105**	**210,786**

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. On 18 October 2018, the General Partner purchased 285,355 2017 Shares in the secondary market by way of reinvesting 25% of the quarter's investment advisory fees.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

8. RELATED PARTIES AND OTHER KEY CONTACTS (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 Partners

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 their investors have realised the amounts drawn down for investments and met their Preferred Returns. At 31 December 2018, US$17,727,677 (31 December 2017: US$16,729,932) carried interest was accrued at the Master Fund level, to be apportioned to and payable by all limited partners. At 31 December 2018, US$nil (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") is entitled to receive a time-based fee quarterly in arrears for all Company Secretarial services. The Administrator is also entitled to an annual fee of US$31,000 (31 December 2017: US$31,000), payable quarterly in arrears for Administration and Accounting services. During the year ended 31 December 2017, the Administrator received 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 2018

8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

Directors' Fees

The Company's Board of Directors are entitled to a fee in remuneration for their services as Directors at a rate payable of £43,000 each per annum (31 December 2017: £43,000). In addition, during the year ended 31 December 2017, a one-off payment of £5,000 was paid to each Director relating to the work performed in respect of the revised Prospectus, with an additional £2,500 due if additional raises total to US$100 million. The additional £2,500 was paid to each Director in the second half of 2017, when the US$100 million additional raises was achieved.

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

	For the year ended 31 December 2018 US$	For the year ended 31 December 2017 US$
CHARGE FOR THE YEAR		
Investment adviser fee	208,150	210,786
Administration fee	149,798	123,776
Directors' fees and expenses	179,535	206,164
OUTSTANDING FEES		
Investment adviser fee	13,141	3,606
Administration fee	2,633	–

Shares held by related parties

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

	31 December 2018		31 December 2017	
Name	**No. of 2017 Shares**	**Percentage**	**No. of 2017 Shares**	**Percentage**
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel	9,697	0.00%	9,697	0.00%
Nigel Ward	44,475	0.01%	29,475	0.01%

On 4 December 2018, Nigel Ward purchased 15,000 2017 Shares in the Company on the SFS of the London Stock Exchange.

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 2018, the Investment Adviser, the General Partner and principals of the Investment Adviser and General Partner held an aggregate of 1,976,446 2017 Shares (31 December 2017: 1,370,344 2014 Shares), which is 0.47% (31 December 2017: 0.41%) of the issued 2017 share capital.

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

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.

On 28 July 2017, the Company returned US$910,994 to 2014 shareholders by way of compulsory partial redemption of 926,919 2014 Shares at US$0.9828 per share.

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.

On 9 February 2018, 73,799 2017 Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the LSE.

On 4 April 2018, 35,000,000 2017 Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the LSE. Following the issue, the Company has 453,348,737 2017 Shares in issue.

On 6 July 2018, the Company returned US$6.5 million to 2014 shareholders by way of compulsory partial redemption of 7,165,688 2014 Shares at US$0.9071 per share.

On 3 October 2018, the Company returned US$12.5 million to 2014 shareholders by way of compulsory partial redemption of 14,068,640 2014 Shares at US$0.8885 per share.

On 28 November 2018, the Company returned US$3.0 million to 2014 shareholders by way of compulsory partial redemption of 3,324,818 2014 Shares at US$0.9023 per share.

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

10. SHARE CAPITAL (continued)

(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 Board of 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.

(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 2018		**31 December 2017**	
	Shares	**US$**	**Shares**	**US$**
Share capital at the beginning of the year	418,274,938	406,185,791	–	–
Share capital issued during the year	35,000,000	33,627,207	85,350,000	84,707,871
Share capital issued for scrip dividend	73,799	75,275	–	–
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	**453,348,737**	**439,888,273**	**418,274,938**	**406,185,791**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

10. SHARE CAPITAL (continued)

Issued Share Capital (continued)

2014 Shares

	31 December 2018		31 December 2017	
	Shares	**US$**	**Shares**	**US$**
Share capital at the beginning of the year	46,501,283	44,713,419	310,938,570	299,112,959
Re-designation to 2017 Shares during the year*	–	–	(263,510,368)	(253,488,546)
Share redemptions	(24,559,146)	(21,996,985)	(926,919)	(910,994)
Share capital at the end of the year	**21,942,137**	**22,716,434**	**46,501,283**	**44,713,419**

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

C shares

	31 December 2017	
	Shares	**US$**
Share capital at the beginning of the year	–	–
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	–	–
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 2018		For the year ended 31 December 2017	
	2014 Shares US$	**2017 Shares US$**	**2014 Shares US$**	**2017 Shares US$**
Weighted average number of shares	39,412,384	444,327,153	47,032,039	313,278,244
Profit for the financial year	US$1,922,876	US$2,306,790	US$6,747,931	US$41,670,885
Basic and diluted earnings per share	**US$0.0488**	**US$0.0052**	**US$0.1435**	**US$0.1330**

The weighted average number of shares as at 31 December 2018 and 31 December 2017 is based on the number of 2014 and 2017 Shares in issue during the period under review, as detailed in Note 10.

12. TRADE AND OTHER PAYABLES

	31 December 2018 US$	31 December 2017 US$
Investment advisory fees payable (note 8)	13,141	3,606
Audit fees payable	23,508	15,960
Administration fees payable (note 8)	2,633	–
Sundry expenses payable	9,797	24,400
	49,079	**43,966**

Notes to the Financial Statements (continued)

For the year ended 31 December 2018

13. CONTINGENT LIABILITIES AND COMMITMENTS

The Company entered into a subscription agreement with the Master Fund and agreed to become a Limited Partner and made a commitment to the Master Fund of US$306,327,883 (31 December 2017: 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 the Master Fund II and agreed to become a Limited Partner and made a commitment to the Master Fund II of US$433,996,752 (31 December 2017: US$407,420,957) of which US$429,120,957 (31 December 2017: US$358,920,957) had been called.

At 31 December 2018 and 31 December 2017, the Company had no further outstanding commitments.

14. SUBSEQUENT EVENTS

On 10 January 2019, the Company declared an interim dividend of 4.26 US cents per 2014 share and 3.45 US cents per 2017 share in respect of the month ended 31 December 2018, which was paid on 31 January 2019. The ex dividend date was 17 January 2019.

On 6 February 2019, the Company declared a monthly dividend of 0.70 US cents per ordinary share in respect of the month ended 31 January 2019 to both the 2017 Shares and the 2014 Shares, which was paid on 28 February 2019. The ex dividend date was 14 February 2019.

On 5 March 2019, the Company declared a monthly dividend of 0.70 US cents per ordinary share in respect of the month ended 28 February 2019 to both the 2017 Shares and the 2014 Shares, which was paid on 28 March 2019. The ex dividend date was 14 March 2019.

On 13 March 2019, the Company announced a final compulsory redemption of all 2014 Shares at a price equal to the NAV per 2014 Share as at 28 February 2019 less the dividend to be declared for the month ended 28 February 2019 (the "Redemption Price").

The consideration for the redemption was, as default, a US Dollar cash payment. This cash payment was funded by the Master Fund II acquiring at NAV the residual interest in the Master Fund owned by the Company in respect of 2014 Share class. There was also an option to receive an in specie distribution of a 2014 Shareholder's pro rata exposure to the Company's interest in the Master Fund. All holdings of 2014 Shares on the register at the close of business on the record date, being 1 April 2019, were redeemed.

On 15 March 2019, the Company announced the final Redemption Price per 2014 Share of US$0.8155 being the NAV per 2014 Share as at 28 February 2019 of US$0.8225 less the 0.70 US cent dividend declared for that month.

On 3 April 2019, the Company announced with regards to the final redemption of 2014 Shares, as noted above, that the rate per share to be used to pay shareholders who elected to receive their redemption proceeds in sterling will be GBP 0.6191 per share. It is expected that the proceeds of the redemption will be paid through CREST to holders of Shares in uncertificated form, and by cheque to holders of Shares in certificated form on 15 April 2019.

Furthermore, the Company notified that its issued share capital now consists of 453,348,737 2017 Shares only, further to the final redemption of 21,942,137 2014 Shares effected on 1 April 2019. None of these 2017 Shares are held in Treasury, therefore, the total number of 2017 Shares with voting rights in the Company is 453,348,737. The 2014 Shares are now disabled on CREST and the line of stock cancelled.

On 4 April 2019, the Company declared a monthly dividend of 0.70 US cents per ordinary share in respect of the month ended 31 March 2019 to the 2017 Shares, which was paid on 25 April 2019. The ex dividend date was 11 April 2019.

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

Portfolio Statement (unaudited)

As at 31 December 2018

Issuer	Instrument	Par Value Master Fund I	Par Value Master Fund II*	Valuation
AIMCO 2015-AX SUB	Subordinated Notes	US$25,000,000	US$21,105,000	88.0%
ALLEG 2014-1X SUB	Subordinated Notes	US$20,800,000	US$13,066,560	75.0%
AMMC 2014-15X SUB	Subordinated Notes	US$31,000,000	US$19,474,200	70.0%
AWPT 2014-3A SUB	Subordinated Notes	US$27,000,000	US$16,961,400	46.0%
AWPT 2014-3 F	Class F Notes	US$4,300,000	US$2,701,260	95.6%
AWPT 2014-3X FEE	Subordinated Fee Notes	US$20,500,000	US$12,878,100	1.6%
AWPT 2015-4X FEE	Subordinated Notes	US$19,350,000	US$12,155,670	60.0%
AWPT 2015-4X SUB	Subordinated Fee Notes	US$19,350,000	US$12,155,670	1.0%
HARVT 7X SUB	Subordinated Notes	€6,100,000	€3,832,020	56.0%
NEUB 2015-19X SUB	Subordinated Notes	US$30,362,500	US$19,073,723	62.0%
NEUB 2015-20X SUB	Subordinated Notes	US$38,000,000	US$23,871,600	72.0%
SHACK 2015-8X SUB	Subordinated Notes	US$28,000,000	US$17,589,600	71.0%
SYMP 2013-12A F	Class F Notes	US$13,000,000	US$8,166,600	89.7%
TICP 2015-1X SUB	Subordinated Notes	US$21,500,000	US$13,506,300	56.0%
AIMCO 2017-AX SUB	Subordinated Notes		US$27,080,000	69.0%
ALLEG 2017-2X SUB	Subordinated Notes		US$39,875,000	79.0%
ARES 2015-35RX SUB	Subordinated Notes		US$26,000,000	74.0%
AWPT 2017-6X SUB	Subordinated Notes		US$30,050,000	79.0%
ELM 2014-1A SUB	Subordinated Notes		US$6,324,243	75.5%
HLM 13X-2018 SUB	Subordinated Notes		US$25,950,000	82.2%
HLM 13X-18 F	Class F Notes		US$5,737,500	89.5%
MARNR 2015-1A SUB	Subordinated Notes		US$6,537,420	77.0%
MARNR 2016-3A SUB	Subordinated Notes		US$6,167,914	82.0%
MARNR 2017-4X SUB	Subordinated Notes		US$28,890,000	80.0%
POST CLO 2018-1X SUB	Subordinated Notes		US$39,282,500	78.0%
SHACK 2018-12X SUB	Subordinated Notes		US$30,000,000	83.0%
WELF 2018-1X SUB	Subordinated Notes		US$28,875,000	82.0%
FAIR OAKS LOAN FUNDING I	Equity Notes		€25,000,000	100.0%

*Master fund II holdings include investments held indirectly via Master Fund II's 62.82% interest in the Master Fund and its 14.96% interest in Cycad Investments LP.

Management and Administration

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Jon Bridel (Independent non-executive Director)
Nigel Ward (Independent non-executive Director)

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