

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

# FAIR OAKS INCOME LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



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## COMPANY OVERVIEW

# Highlights

- Fair Oaks Income Limited's (the "Company") Net Asset Value ("NAV") per 2017 Share was down 8.3%<sup>1</sup> (31 December 2019: down 0.7%) for the year ended 31 December 2020 on a total return basis (with dividends reinvested).
- As at 31 December 2020, the Company's total market capitalisation was US\$289 million<sup>2</sup>.
- The Company's 2017 share price closed at a mid-price of US\$0.6175 on 31 December 2020. The 2017 Shares traded at an average discount to NAV of -6.1% during the year.
- During April 2020, the Company announced an issue to satisfy market demand of 15,029,623 new 2017 Shares at an issue price of US\$0.372 per new 2017 Share.
- The Company declared dividends of 5.8 US cents per 2017 Share in 2020, equivalent to a 9.4% dividend yield on the closing mid-share price on 31 December 2020. Cumulative dividends since the inception of the Company per 2017 Share are 66.8 US cents.

### Financial Highlights

	31 December 2020	31 December 2019
<b>2017 Shares</b>		
Net Assets	US\$294,969,346	US\$343,158,910
Net Asset Value per share	US\$0.6306	US\$0.7580
Share price at year end	US\$0.6175	US\$0.6775
Discount to Net Asset Value	(2.08%)	(10.62%)
Ongoing charges figure (Company only) <sup>1,3</sup>	0.32%	0.22%
Ongoing charges figure (look through basis) <sup>1,4</sup>	1.47%	1.31%

<sup>1</sup>Alternative Performance Measure ("APM") - see "Appendix" on page 78 to 80.

<sup>2</sup>All references in these financial statements to "US\$", "USD", "US Dollar", "US cent", "cent" or "c" are to the lawful currency of the United States.

<sup>3</sup>Total ongoing charges, calculated in accordance with the AIC guidance, is at the Company level only for the year divided by the average NAV for the year. Charges of the underlying Master Funds are not included. See "Appendix" on page 80.

<sup>4</sup>Total ongoing charges, calculated in accordance with the AIC guidance, including the Company and the underlying funds divided by the average NAV for the year. See "Appendix" on page 80.



## COMPANY OVERVIEW

# 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 (“SFS”) of the London Stock Exchange on 12 June 2014.

The Company makes its investments through FOIF II LP (formerly FOMC II LP) (the “Master Fund II”), in which the Company is a limited partner, and indirectly through FOIF LP (the “Master Fund”) (the “Master Fund” and the “Master Fund II” together the “Master Funds”). The Master Fund II was registered in Guernsey on 24 February 2017 and the Master Fund was registered in Guernsey on 7 May 2014 under The Limited Partnerships (Guernsey) Law, 1995, as amended. During the year ended 31 December 2020, the General Partner of the Master Fund II, allowed three new limited partners to enter the partnership and at 31 December 2020, the Master Fund II had five limited partners, including Fair Oaks Founder II LP, a related entity. At 31 December 2020, following the admission of the three new limited partners, the Company had a 71.80% holding in the Master Fund II. On 1 April 2019, the Company sold its direct holding of 11.31% in the Master Fund, but indirectly remains invested in the Master Fund through the Master Fund II. On 23 March 2021, the Master Fund II changed its name from FOMC II LP to FOIF II LP.

At 31 December 2020, the Company on behalf of the 2017 Shares had a 71.80% (31 December 2019: 100%) holding in the Master Fund II, which in turn had a holding of 66.20% (31 December 2019: 66.20%) in the Master Fund. The General Partner of the Master Fund II is Fair Oaks Income Fund GP Limited (the “General Partner” or “GP”).

The Master Fund II is also invested into Cycad Investments LP (“Cycad”). Cycad is a Limited Partnership registered in the United States of America on 2 June 2017. Aligned with the Company’s investment policy, Cycad also invests into CLOs. On 9 March 2021, a new Guernsey limited partnership was established called Wollemi Investments I LP (the “Wollemi Fund”). On 23 March 2021, the Master Fund II transferred its investment in Cycad to the Wollemi Fund in exchange for limited partnership interests in the Wollemi Fund.

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.

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 rating or (if a fund) investing with no leverage in assets rated at least single A, according to at least one 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.



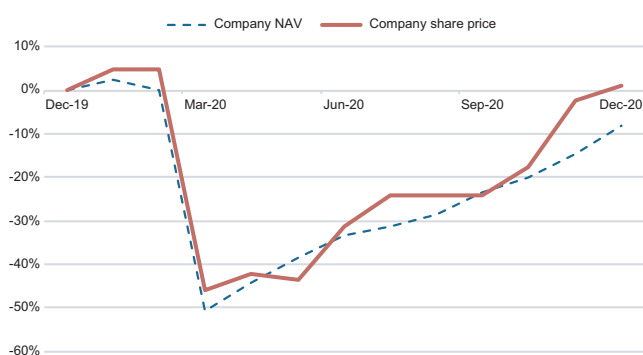
## STRATEGIC REVIEW

# Chairman’s Statement

The independent Board of the Company is pleased to present its Annual Report and Financial Statements for the financial year ended 31 December 2020 (the “Financial Statements”).

The Company’s NAV and share price generated a total return (with dividends reinvested) of -8.3% and +1.0%<sup>1</sup> respectively. The Company’s shares closed at a mid-price of 61.8 US cents as of 31 December 2020, representing a discount to NAV of -2.1%.

Figure 1.1 – Total return: NAV and share price in 2020



CLOs were not immune to the unprecedented market volatility experienced by all credit assets in March 2020. The economic slowdown caused by the restrictions imposed to mitigate the impact of COVID-19 led to expectations of increased loan defaults and downgrades and these impacted CLO equity and debt valuations. A high level of uncertainty as to the effectiveness of government intervention kept CLO debt and equity valuations under pressure in the period between March and May.

The Company benefitted from a quick and effective risk reduction in the Master Fund, which took advantage of the early market dislocation to build a high quality portfolio of primarily European BB rated CLOs at attractive prices, offering more resilience and high risk-adjusted returns.

After generating a negative total return during the first half of the year, the NAV increased in the second half, resulting in an -8.3% performance for the full-year.

Total returns for the year for the JP Morgan US High Yield index, US Leveraged loan index and Post-Crisis CLOIE B index compared to the Company’s NAV were:

Figure 1.2 – Total returns in 2020

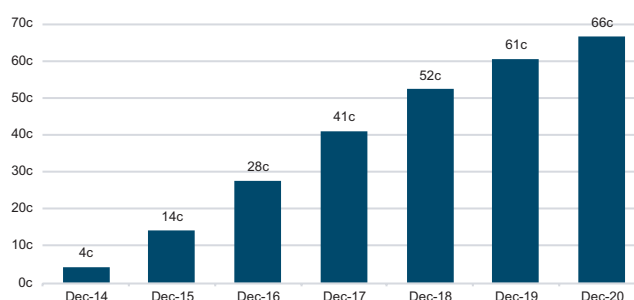
	2020 total return
JP Morgan US High Yield index	+5.2%
JP Morgan US Leveraged Loan index	+3.2%
JP Morgan Post-Crisis CLOIE B index	+6.2%
The Company’s NAV	-8.3%

### Cash flow and dividends

All of the Master Fund II’s CLO equity and debt investments made their scheduled distributions in 2020. The Company declared 0.70 US cents per 2017 Share dividends in respect of January and February 2020 but, as detailed below, in April 2020 the Board resolved to suspend dividends in light of uncertainty caused by the COVID-19 pandemic. In July 2020, the Company resumed the payment of dividends, on a quarterly basis and at a variable rate, and declared a 1.50 US cents per 2017 Share dividend in respect of the quarter ending June 2020. A dividend of 2.20 US cents per 2017 Share dividend in respect of the quarter ending September 2020, was declared in October 2020. The dividend yield for 2020 was 9.4% of the December closing mid-share price.

Subsequent to the year end, a dividend of 2.50 US cents per 2017 Share in respect of the quarter ending December 2020 was declared in February 2021.

Figure 1.3 – Cumulative dividends per share since inception (US cents per 2017 share):



### Material events

On 9 January 2020, the Company declared a monthly interim dividend of 0.7 US cents per 2017 share in respect of the month ended 31 December 2019 to the 2017 Shares, which was paid on 30 January 2020. The ex dividend date was 16 January 2020.

<sup>1</sup>APM – see “appendix” on page 79.



## STRATEGIC REVIEW

### Chairman's Statement (continued)

#### Material events (continued)

On 22 January 2020, the Company announced a 25% reinvestment of management fees. The 2017 Shares were trading at a discount to the 31 December 2019 published quarter end NAV. The Company's 2017 prospectus stated that in the event that the 2017 Shares trade at discount to any quarter end NAV, calculated on the date that the relevant NAV is published, 25% of that quarter's investment management fees (in respect of the 2017 Shares) would be reinvested to purchase 2017 Shares in the secondary market. Accordingly, the Company was notified that, following the announcement dated 16 January 2020 regarding the NAV as at 31 December 2019, Fair Oaks Income Fund (GP) Limited has purchased 271,851 2017 Shares in the secondary market.

On 6 February 2020, the Company declared a monthly interim dividend of 0.7 US cents per 2017 share in respect of the month ended 31 January 2020 to the 2017 Shares, which was paid on 27 February 2020. The ex dividend date was 13 February 2020.

On 3 March 2020, the Company declared a monthly interim dividend of 0.7 US cents per ordinary share in respect of the month ended 29 February 2020 to the 2017 Shares, which was paid on 26 March 2020. The ex dividend date was 12 March 2020.

On 30 March 2020, the Company announced in light of the ongoing uncertainty in economies and markets caused by the COVID-19 pandemic, that the Board had resolved to suspend the declaration of dividend payments.

The Board and Fair Oaks Capital Limited (the "Investment Adviser") recognised the importance of dividends for Shareholders but believed that suspension was the appropriate reaction to the unprecedented circumstances. In the near term the uncertainty led to rebased market assumptions as to credit performance, which was expected to materially constrain the Company's income calculated using the effective interest rate methodology and therefore would have meant that any dividends declared would have to be substantially funded from the Company's capital.

It was premature to seek to quantify the fundamental impact of the pandemic, which was dependent on an array of factors including the effectiveness of government intervention, but over time there was the risk of underlying CLO managers being required to divert cash flows from CLO subordinated notes to purchase additional loan collateral in response to increased credit downgrades and defaults. At the portfolio level the Investment Adviser also took steps to minimise mark-to-market risk, retaining a prudent reserve of cash to cover any foreign exchange hedge and warehouse financing needs.

The dislocation in the credit markets created investment opportunities, which was a factor in the allocation of future cash flows as the Company continues to seek to maximise shareholders' total return over the long term.

On 17 April 2020, the Company announced an issue to satisfy market demand of 7,194,623 new 2017 Shares (the "New Shares") at an issue price of US\$0.372 per New Share, representing a premium of approximately 2% to the latest published NAV.

On 24 April 2020, the Company announced an issue to satisfy market demand of 4,900,000 new 2017 Shares (the "New Shares") at an issue price of US\$0.372 per New Share, representing a premium of approximately 2% to the latest published NAV.

On 27 April 2020, the Company announced an issue to satisfy market demand of 2,935,000 new 2017 Shares (the "New Shares") at an issue price of US\$0.372 per New Share, representing a premium of approximately 2% to the latest published NAV.

The net proceeds of the New Share issue were invested in accordance with the Company's investment policy, with the Master Fund II investing in CLO debt securities in the secondary market, which the Investment Adviser believes offer attractive risk-adjusted returns over the medium term.

On 20 July 2020, in light of the continued performance and the increased resilience of Master Fund II's investments, the Board decided to resume the payment of dividends, on a quarterly basis and at a variable rate.

On 30 July 2020, the Company declared an interim dividend of 1.5 US cents per 2017 share in respect of the quarter ended 30 June 2020 to the 2017 Shares, which was paid on 20 August 2020. The ex dividend date was 6 August 2020.

On 20 October 2020, the Company declared an interim dividend of 2.20 US cents per 2017 share in respect of the quarter ended 30 September 2020 to the 2017 Shares, which was paid on 19 November 2020. The ex dividend date was 5 November 2020.

On 21 October 2020, the Company announced the appointment of Liberum Capital Limited as joint Corporate Broker to act alongside Numis Securities Limited, the Company's existing Corporate Broker.



## STRATEGIC REVIEW

### Chairman's Statement (continued)

#### Material events (continued)

On 23 October 2020, the Company announced that, in accordance with the 2017 prospectus, in the event that the 2017 Shares trade at discount to any quarter end NAV, calculated on the date that the relevant NAV is published, 25% of that quarter's investment management fees (in respect of the 2017 Shares) would be reinvested to purchase 2017 Shares in the secondary market. Accordingly, the Company was notified that, following the announcement dated 20 October 2020 regarding the NAV as at 30 September 2020, Fair Oaks Income Fund (GP) Limited had purchased 266,842 2017 Shares in the secondary market.

#### Subsequent events

On 2 February 2021, the Company declared an interim dividend of 2.50 US cents per 2017 share in respect of the quarter ended 31 December 2020 to the 2017 Shares, which was paid on 26 February 2021. The ex dividend date was 11 February 2021.

On 23 March 2021, the Master Fund II changed its name from FOMC II LP to FOIF II LP.

On 29 March 2021, the Company announced the publication of a prospectus (the "Prospectus") and circular (the "Circular") in relation to the Reorganisation Proposal and Placing Programme Proposal.

The Board was pleased to put forward the Proposals, which facilitate an extension of Shareholders' investments through a new class of 2021 Shares deployed through a new Guernsey limited partnership called FOMC III LP (the "Master Fund III"), while also offering an option to elect for Realisation Shares and establishing a twelve-month placing programme.

Master Fund III is characterised by a fixed investment period and life, during which Fair Oaks will continue to utilise its tactical approach to investing across the CLO capital structure, seeking to take advantage of well-defined investment opportunities in both control equity and secondary mezzanine securities.

The investment opportunity leverages Fair Oaks' in-depth fundamental research, long track record and experience in structuring and negotiating investments and ongoing monitoring of the underlying portfolios. In addition to improving corporate fundamentals, the potential for attractive risk-adjusted returns for Shareholders is supported by the compelling financing levels currently available to CLO equity investors, which have the potential to benefit both new investments and the refinance or reset of existing investments.

On 19 April 2021, at the Extraordinary General Meeting of the Company, resolutions 1 and 2 were passed but resolution 3 was not passed.

The Board acknowledges that Resolution 3 did not pass by a small margin and will consult with major shareholders ahead of proposing a resolution to disapply pre-emption rights at the forthcoming Annual General Meeting.

The full text of each resolution is detailed below:

1. **THAT**, conditional upon the passing of Resolution 2, the articles of incorporation in the form produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification be and are hereby approved and adopted as the articles of incorporation of the Company in substitution for, and to the exclusion of, the existing articles of incorporation of the Company.
2. THAT on the Effective Date (as defined in the circular issued by the Company to the Shareholders dated 26 March 2021 (the "**Circular**")) all ordinary shares of no par value each in the capital of the Company designated as "2017 shares" ("**2017 Shares**") shall be re-designated on a one-for-one basis as ordinary shares of no par value each in the capital of the Company designated as "2021 shares" ("**2021 Shares**") pursuant to the proposals set out in the Circular, EXCEPT THAT where and to the extent that a shareholder has made a valid election for the re-designation of some or all of their 2017 Shares as ordinary shares of no par value each in the capital of the Company designated as "Realisation Shares" ("**Realisation Shares**") pursuant to an election contemplated under the Circular (and provided that the aggregate net asset value (as at 31 March 2021) of the 2017 Shares elected for Realisation Shares exceeds US\$30 million), such 2017 Shares shall instead be re-designated on a one-for-one basis as Realisation Shares.
3. THAT the Directors of the Company be and are hereby empowered to issue the following shares in the Company or rights to subscribe for such shares in the Company for cash as if the pre-emption provisions contained under Article 6.2 did not apply to any such issues provided that this power shall be limited to the issue of the below-mentioned shares or of rights to subscribe for the below-mentioned shares:
  - (i) up to a maximum number of 350 million C Shares under the Placing Programme ("**Placing Programme**" as defined in the Circular); and
  - (ii) up to such number of 2021 Shares under the Placing Programme as represents 20 per cent. of the 2021 Shares then in issue following the Effective Date, and



## STRATEGIC REVIEW

### Chairman's Statement (continued)

#### Subsequent events (continued)

subject to any issues of 2021 Shares and/or C Shares under the Placing Programme being capped at an aggregate issue value of US\$350 million, and that such power shall expire on the earlier of the 2022 AGM Date (as defined in the Circular) or on the expiry of 15 months from the passing of this Resolution except that the Company may before such expiry make offers or agreements which would or might require C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company to be issued after such expiry and notwithstanding such expiry the Directors may issue C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company in pursuance of such offers or agreements as if the power conferred hereby had not expired.

On 19 April 2021, the Company announced the results of the Elections as referred to above. The purpose of the reorganisation was to allow those Shareholders who wished to extend the life of their investment in the Company beyond the planned end date of Master Fund II, to be able to do so by having their 2017 Shares re-designated as 2021 Shares, with such 2021 Shares investing in a new master fund, Master Fund III, which will have a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of Master Fund II. Shareholders who did not wish to extend the life of their investment to participate in Master Fund III were able to make an express election to have their existing 2017 Shares re-designated as Realisation Shares, which will continue to participate solely in Master Fund II.

#### Results of Elections

The Company announced that 62,562,883 2017 Shares have been elected for re-designation as Realisation Shares at the effective date, representing 13.4% of the 2017 Shares currently in issue.

Consequently, 405,815,477 2017 Shares were re-designated as 2021 Shares, representing the balance of 86.6% of the 2017 Shares currently in issue (including 650,000 shares held in Treasury). Based on the above election results and the 2017 Share price as at close of business on 16 April 2021, the 2021 Share class had an opening market capitalisation of approximately US\$266 million.

On 22 April 2021, 405,815,477 2021 Shares and 62,562,883 Realisation Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange.

#### Professor Claudio Albanese

Chairman

23 April 2021





**STRATEGIC REVIEW**

# Investment Adviser’s Report

**Portfolio Review**

As at 31 December 2020, Master Fund II<sup>1</sup> held 15 CLO equity positions and 29 CLO mezzanine investments offering exposure to 1,063 loan issuers<sup>2</sup> and 26 CLO managers. Control CLO equity positions represented 69.9% of the portfolio’s market value<sup>3</sup>.

CLO investments subject to Environmental, Social and Corporate Governance (“ESG”) investment criteria represented 40% of all CLO equity investments in the portfolio<sup>4</sup>.

Figure 2.1 – Portfolio composition of Master Fund II<sup>5</sup>

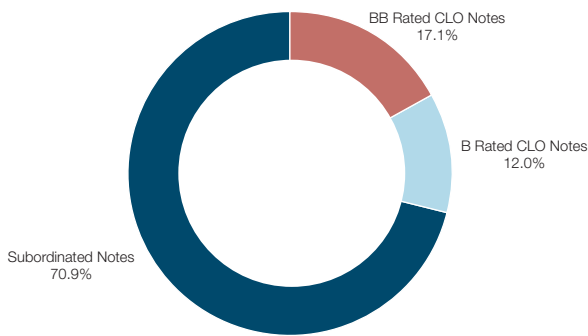


Figure 2.2 – CLO manager diversification of Master Fund II<sup>6,7</sup>

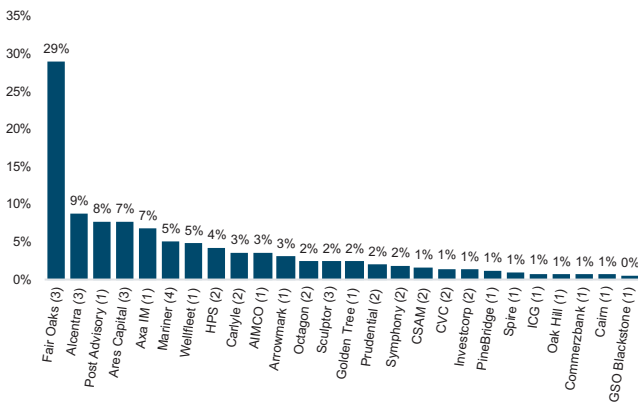


Figure 2.3 – Geographical (top five) and currency breakdown<sup>8,9</sup>

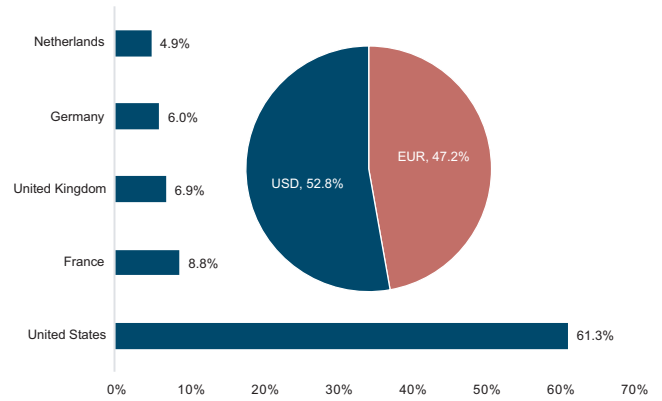
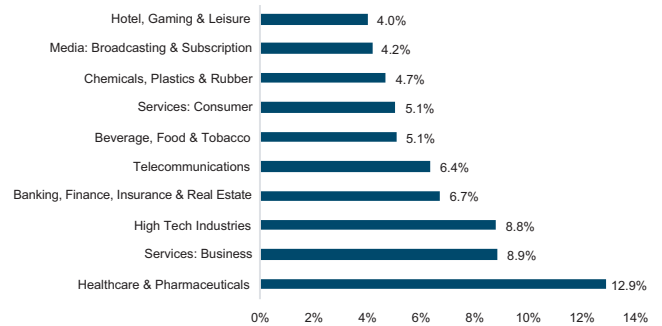


Figure 2.4 – Industry diversification by Moody’s (top 10)<sup>8</sup>



<sup>1</sup>References to Master Fund II refer to FOIF II LP (formerly FOMC II LP) (the “Master Fund II”), which launched in April 2017 to continue the investment strategy of the Company. The Company via the 2017 Shares invests through Master Fund II.

<sup>2</sup>Based on the underlying loans in CLOs in which Master Fund II holds equity. Data as at 31 December 2020.

<sup>3</sup>Percentage by market value of control CLO equity positions. Data as at 31 December 2020.

<sup>4</sup>FOLF I, FOLF II and FOLF III, CLOs which include ESG investment restrictions represented, as of 31 December 2020, 40% of FOMC II's control CLO equity portfolio (US\$113.5 million out of a total of US\$281.2 million)

<sup>5</sup>Breakdown by market value of the CLO investments held by Master Fund II. Percentages may not add up to 100% because of rounding errors. Data as at 31 December 2020.

<sup>6</sup>Based on market value of the CLO investments, as at 31 December 2020. Percentages may not add up to 100% because of rounding errors. The number of investments is shown in parentheses after each manager name.

<sup>7</sup>Fair Oaks (3) – references to “Fair Oaks” is Fair Oaks Capital Limited, the investment adviser to the Company. See Note 8, page 67, for details of Related Party transactions relating to Fair Oaks CLOs.

<sup>8</sup>Based on loan par value weighted by Master Fund II's proportional ownership of Income Notes. Source: Intex.

<sup>9</sup>All references in these financial statements to “Euro”, “EUR”, “€”, or “€ cent” are to the lawful currency of the European Union.

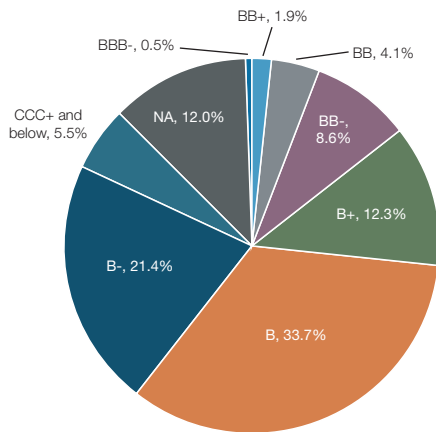


## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### Portfolio Review (continued)

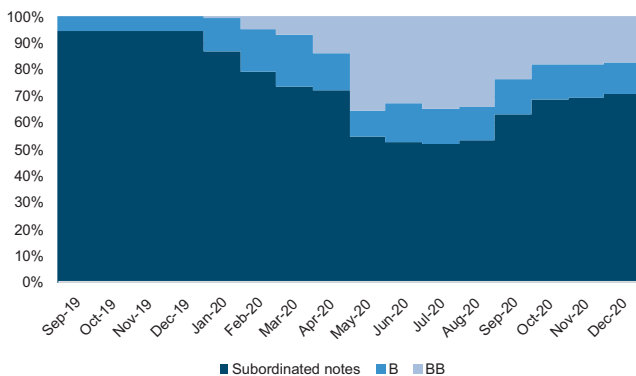
Figure 2.5 – Rating breakdown<sup>10,11</sup>



Master Fund II took advantage of its flexible investment strategy in 2020 to ensure an effective asset allocation and continuing in early 2020 the de-risking that had begun in late 2019, selling CLO subordinated notes and reinvesting proceeds in CLO rated notes.

As a result, at the end of February 2020, the portfolio had 79% exposure to CLO equity, down from 95% at the end of 2019. This exposure continued to fall as the fund favoured investments in CLO rated notes after March 2020. In the fourth quarter of 2020, Master Fund II started to take profits on the CLO mezzanine investments, increasing again its exposure to CLO equity.

Figure 2.6 – Historical rating breakdown (excl. cash)<sup>12</sup>



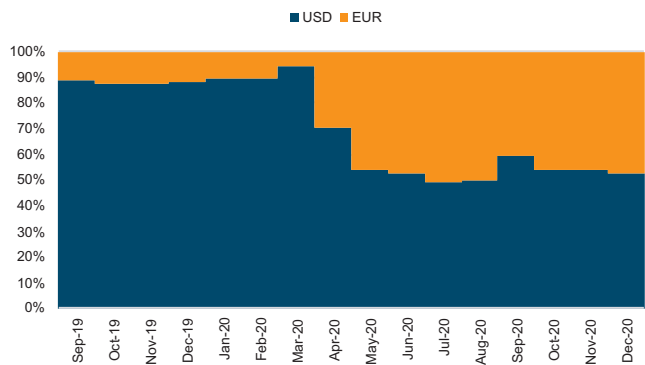
<sup>10</sup>Based on loan par value weighted by Master Fund II’s proportional ownership of Income Notes. Source: Intex.

<sup>11</sup>Based on S&P deal ratings. Due to rounding errors, the percentages may not sum to 100%.

<sup>12</sup>Fair Oaks’ data at month-end. NAV weighted, excluding cash. Source: Fair Oaks Income Fund monthly reports, RNS statements, trustee reports; as at 29 January 2021. Source: Intex

The Master Fund II also increased its exposure to European CLO notes in 2020 based on the quality of the underlying portfolios, the higher overcollateralisation of European CLO debt and the benefit of Euribor floors. All the exposure to European assets was hedged back to USD.

Figure 2.7 – Currency breakdown (excl. cash)<sup>12</sup>



The active portfolio allocation allowed Master Fund II to benefit from the lower risk of CLO mezzanine notes while realising attractive returns. Beginning in March 2020, Master Fund II purchased over €110 million par worth of B/BB rated CLO mezzanine investments at an average price of 74.7 € cents (range of 47.2 € cents to 84.0 € cents). All CLO rated debt investments made their scheduled interest payments in 2020 and, since March 2020, 12 positions were totally or partially sold, generating non-annualised total returns ranging from 19% to 59%. Based on sale prices or 31 December 2020 valuations still in the portfolio, the mezzanine investments completed since March 2020 generated a gross IRR of 60%.

The focus on originating and controlling CLO subordinated note investments has paid dividends in the form of superior fundamental performance. Origination and control allowed Master Fund II to veto specific loans when the transactions were launched and to monitor and influence the CLOs over time. Lower fees in primary investments also allowed CLO managers to construct more conservative portfolios with no need to “stretch for yield”. As a result, Master Fund II has benefitted from underexposure to sectors such as retail or energy.



## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### Portfolio Review (continued)

CLO equity prices have generally lagged other credit assets. The average price for CLO subordinated notes in Master Fund II’s portfolio ended the year at 57.4 US cents compared to an average valuation of 67.7 US cents in December 2019<sup>13</sup>.

Figure 2.8 – Master Fund II monthly valuation (USD CLO equity)<sup>13</sup>

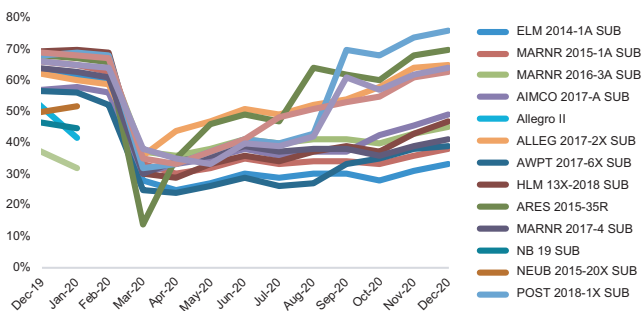
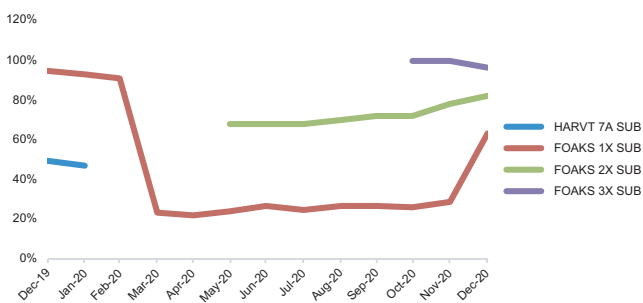


Figure 2.9 – Master Fund II monthly valuation (EUR CLO equity)<sup>13</sup>



Given the low default rates in the portfolio, we do not believe that this valuation lag is due to fundamental performance or the portfolio’s ability to generate cashflows, which were uninterrupted in 2020. In fact, distributions improved in the second half of 2020 compared to the period before the March 2020 market dislocation: the Master Fund II received US\$12.9 million worth of distributions in October 2020 from CLO equity investments present in Master Fund II’s portfolio in October 2019, compared to US\$11.8 million in October 2019 (+9.1%) and received US\$12.8m in January 2021, up from US\$10.7m in January 2020. The key drivers of these improvements were higher CLO loan portfolio spreads as managers reinvest available cash in higher yielding loans and Libor floors which are now “in the money”.

In terms of relative performance, even the investments in Master Fund II’s lowest quartile in terms of performance outperformed the market median.

Figure 2.10 – Annualised Equity Distributions (over par)<sup>14,15</sup>

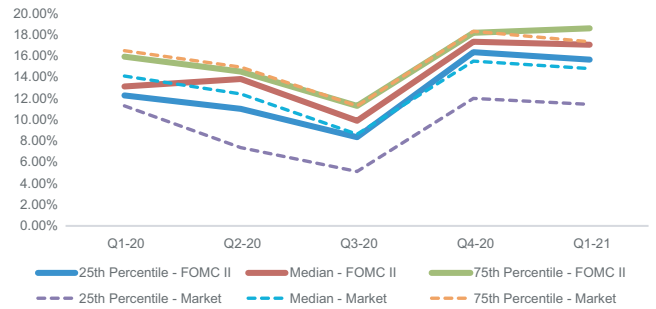
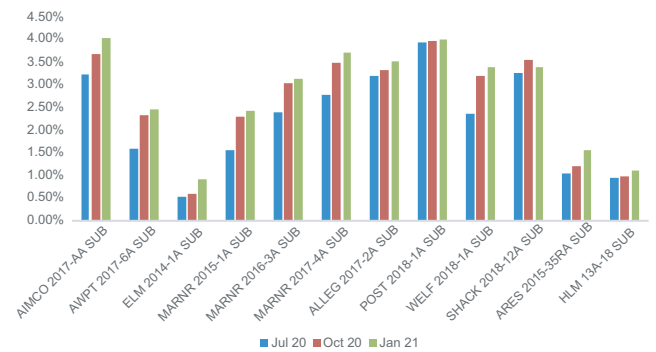


Figure 2.11 – Overcollateralization test headroom<sup>16</sup>



Looking at the sustainability of these cashflows, the overcollateralization (“OC”) test and OC test headroom which determined whether distributions may be temporarily diverted from the CLO Equity, have shown a continuous improvement since July, reducing the potential for any future cash-flow diversion.

<sup>13</sup>Fair Oaks’ data as of 31 December 2020.  
<sup>14</sup>Source: Intex, Barclays.  
<sup>15</sup>Based on annualised quarterly distributions over par.  
<sup>16</sup>Source: S&P Global Intelligence. Data as at 31 December 2020.



## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### European Loan Market Update

The European leveraged loan market suffered from the impact of COVID-19 and lockdowns, but recovered in the second half of 2020. The average bid price of the S&P European Leveraged Loan Index (“ELLI”) closed at 97.55 € cents on 31 December 2020 compared to 98.28 € cents on 31 December 2019 and an intra-year low of 78.92 € cents on 24 March 2020.

The continued recovery in the loan market was driven by expectations (and then the approval) of COVID-19 vaccines which signalled a potential end to the pandemic and expectations for a more normalised 2021.

Figure 2.12 – European loan default rate<sup>17</sup>

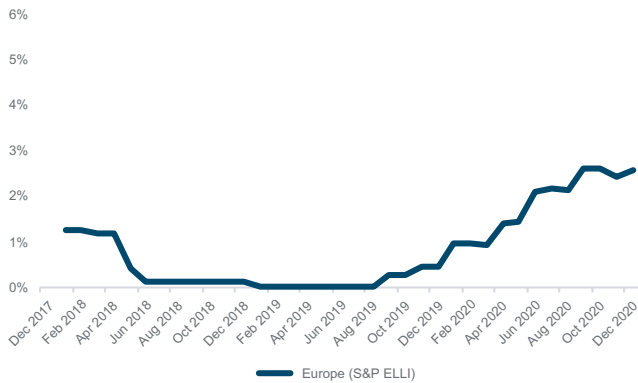
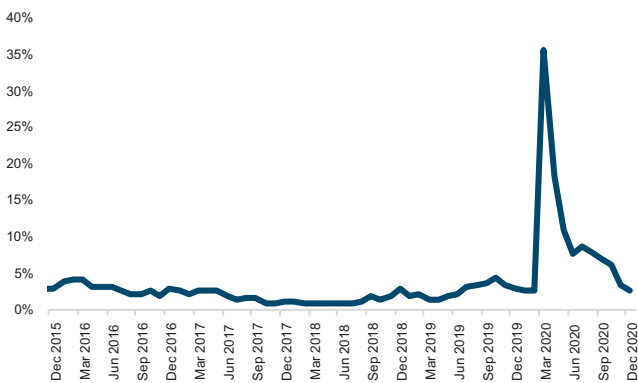


Figure 2.13 – ELLI distress ratio<sup>18,19</sup>



<sup>17</sup>Source: S&P Global Intelligence. Data as at 31 December 2020.

<sup>18</sup>Source: S&P Global Intelligence. Data as at 31 December 2020.

<sup>19</sup>Distressed loans are loans trading below 80 € cents.

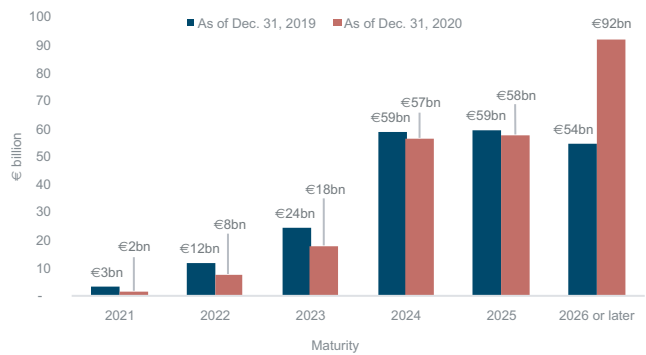
<sup>20</sup>Source: S&P Global Intelligence. Data as at 31 December 2020.

<sup>21</sup>Source: Credit Suisse Leveraged Loan index.

The trailing 12-month loan default rate increased to 2.6% in Europe (compared to 0.4% in December 2019). The market expects default rates to stabilise. The distressed ratio (loans trading below 80 € cents, a potential indicator of the direction of future defaults) decreased from 35.6% in March 2020 to 2.6% in December in Europe. Furthermore, financial sponsor “dry powder” combined with loose monetary conditions may curb defaults in 2021.

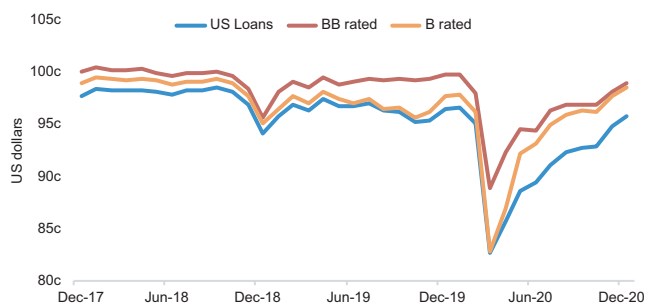
In Europe, the notional of EUR loans maturing in 2021-2023 has fallen from €39 billion as of 31 December 2019 to €28 billion as of 31 December 2020 (Figure 2.14)<sup>20</sup>.

Figure 2.14 – Maturity wall of the EUR loan market of performing loans (EUR billion)<sup>20</sup>



#### US Loan Market Update

Figure 2.15 – Average bid price of US leveraged loans, BB and B rated loans<sup>21</sup>



The US loan market also suffered significant volatility in 2020. The average bid price of the S&P US Leveraged Loan Index closed at 95.73 US cents on 31 December 2020 compared to 96.51 US cents on 31 December 2019 and an intra-year low of 76.48 US cents on 23 March 2020<sup>21</sup>.



## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### US Loan Market Update (continued)

The fourth quarter of 2020 also saw a continued deceleration in outflows from the leveraged loan asset class with outflows for loan funds totalling appropriately US\$700 million and December seeing inflows of US\$453 million. Total 2020 outflows were US\$26.9 billion. This trend has continued in 2021, with net inflows of US\$4 billion in January.

The trailing 12-month loan default rate increased to 3.83% in December 2020 in the US (compared to 1.39% in December 2019). The distressed ratio (loans trading below 80 US cents, a potential indicator of the direction of future defaults) decreased from 56.8% in March 2020 to 2.2% in December in the US.

Figure 2.16 – Projected default rate US loans<sup>22,23,24</sup>

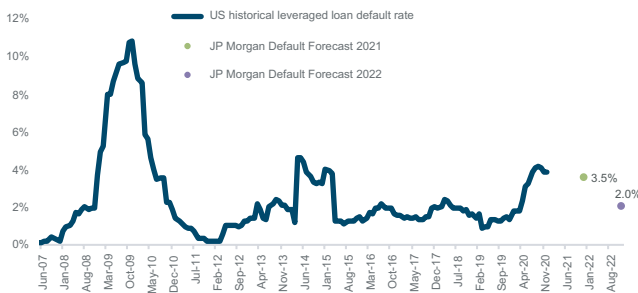
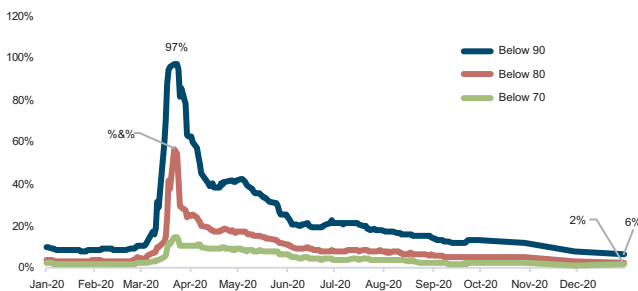


Figure 2.17 – US loan price distribution<sup>25</sup>

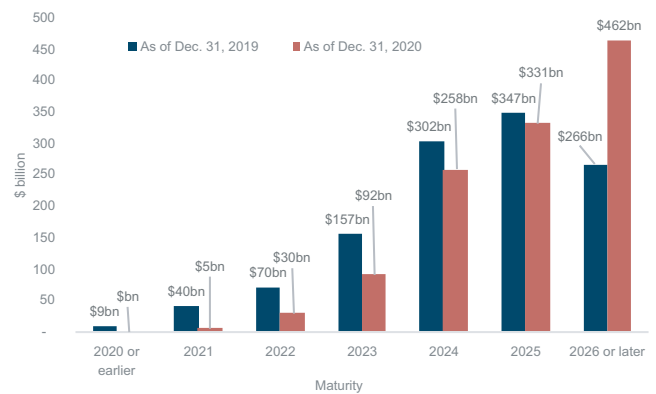


With US elections over, and a vaccine rollout underway, we see limited near term risks to the leveraged loan market, as we expect to see continued support from the Fed, coupled with a more accommodative fiscal environment.

This supportive macro environment, along with ample liquidity at most companies, should lead to a decrease in defaults in 2020 to 2-3%. JP Morgan, for example, is projecting a US bank loan default rate of 3.5% in 2021 and 2% in 2022.

The number of loans due to be repaid in the next few years is limited. The notional of US loans maturing in 2021-2023 has fallen from US\$267 billion as of 31 December 2019 to US\$127 billion as of 31 December 2020 (Figure 2.18)<sup>25</sup>.

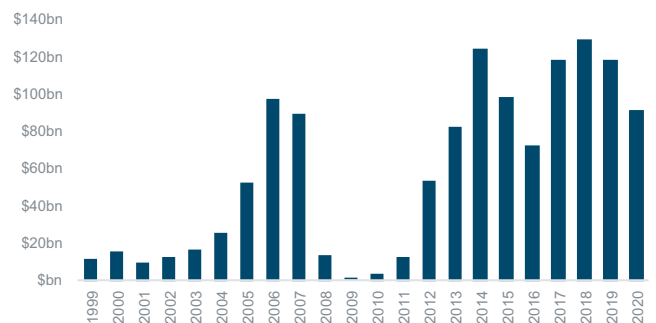
Figure 2.18 – Maturity wall of the US loan market of performing loans (US\$billion)<sup>25</sup>



#### US CLO Market Update

New issuance in the US CLO market in 2020 was US\$88 billion, lagging previous years due to fewer new issues during COVID lockdowns<sup>26</sup>. Forecast for CLO new issuance in 2021 are US\$90-100 billion and forecasts for refi/reset volume are in a very wide range of US\$40 billion to US\$140 billion<sup>25</sup>.

Figure 2.19 – US CLO new issue volume<sup>25</sup>



<sup>22</sup>S&P Global Intelligence and JP Morgan. Data as at 31 December 2020 unless otherwise stated. Based on S&P/LSTA Leveraged Loan Index.

<sup>23</sup>Source: JP Morgan – Default Monitor – 01 October 2020.

<sup>24</sup>Source: JP Morgan – Credit Strategy Weekly Update – 20 November 2020.

<sup>25</sup>Source: S&P Global Intelligence. Data as at 31 December 2020.

<sup>26</sup>Source: BAML CLO Weekly, 8 January 2021.



## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### US CLO Market Update (continued)

Total bids wanted in competition (“BWIC”) volumes ended the year at US\$65 billion for 2020 vs. US\$45 billion in 2019 and US\$35 billion in 2018<sup>27</sup>. The significant increase demonstrates the CLO market’s ability to maintain liquidity even in dislocated markets.

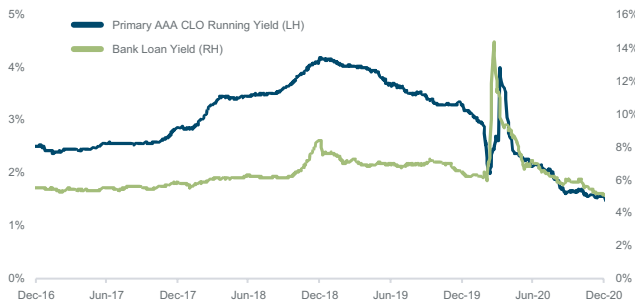
We believe that investors’ search for yield will fuel demand for CLO paper as we see the continued reach for high-yield and risk-on sentiment extending into 2021. While the Federal Reserve has committed to keeping short-term interest rates low for the next few years, in the last few months of 2020 higher longer term rates resulted in demand flowing away from long-duration, fixed-rate credit assets to floating-rate alternatives such as bank loans and CLOs.

Figure 2.20 – USD AAA CLOs vs US AAA corporates (yield)<sup>28</sup>



Primary CLO arbitrage in the US is attractive given current relative value between bank loan and CLO financing yields. (see Figure 2.21)<sup>28</sup>.

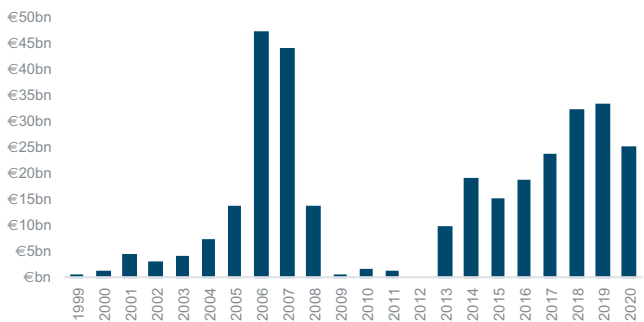
Figure 2.21 – USD AAA CLOs vs US bank loans (yield)<sup>28</sup>



#### European CLO Market Update

In Europe, the primary CLO market saw €22.1 billion of new issuance in 2020, which was a 26% decline from 2019, and €0.9 billion of reset volume<sup>33</sup>. Forecasts for European CLO new issuance in 2021 are €25-30 billion<sup>29</sup>. The quarter one pipeline for EU CLOs includes 28 deals, equivalent to a €40 billion annualised run-rate.

Figure 2.22 – EUR CLO new issue volume<sup>29</sup>



Demand for floating-rate assets in Europe is also supported by expectations of higher interest rates, making long-duration investments less attractive. In addition, the differential between the yield offered by longer duration corporate assets and the floating yield of AAA CLO notes ended 2020 offering significant relative value and potential for further tightening.

Figure 2.23 – EUR AAA CLOs vs EUR AAA corporates (yield)<sup>30</sup>



We believe that demand for rated EUR CLO notes and wide EUR bank loan spreads have the potential to support a compelling CLO equity arbitrage.

<sup>27</sup>Citi Velocity.

<sup>28</sup>Source: JP Morgan. Primary CLO running yield, AAA non-financial corporate index yield and bank loan yield to 3 year call.

<sup>29</sup>S&P Global Intelligence. Data as at 31 December 2020.

<sup>30</sup>Source: JP Morgan. Primary CLO running yield, AAA non-financial corporate index yield and bank loan yield to 3 year call.



## STRATEGIC REVIEW

### Investment Adviser's Report (continued)

#### European CLO Market Update (continued)

Figure 2.24 – EUR AAA CLOs vs EUR bank loans (yield)<sup>31</sup>



Europe saw the emergence of a number of new CLOs subject to ESG investment criteria. The inclusion of ESG language in CLOs is likely to become more prevalent and to develop from sector-based negative screening towards ESG scoring.

As discussed in the previous section, we have been at the forefront of these developments and, as of the end of December 2020, 40% of all CLO equity investments in the Master Fund II's portfolio included ESG investment restrictions. These restrictions exclude any underlying collateral debt obligation whose primary business activity is, amongst others, oil, gas or thermal coal extraction, upstream palm oil production, trade in weapons or firearms, hazardous chemicals, pesticides and wastes, ozone-depleting substances, endangered or protected wildlife or wildlife products, tobacco and predatory lending.

#### Outlook

We believe that the CLO market has the potential to benefit from an attractive arbitrage in 2021 as CLO liability spreads have normalised and are likely to benefit from demand driven by higher inflation expectations, lack of positive-yielding assets and risk of steeper yield curves and higher medium-term interest rates.

We expect accommodative monetary policy to continue to be supportive of CLO equity cash flows as loan portfolios continue to benefit from Libor floors.

The Company is invested in Master Fund II, a limited partnership whose investment period will end in June 2021. After this date, the Master Fund II will not be able to make any new investments and any principal receipts will be distributed to limited partners, including the Company on or before the final maturity of Master Fund II on 21 June 2026.

Given the opportunities we see in the market, we believe that Master Fund II's investment strategy continues to be attractive. Consequently, the Company, as it did in 2017, has put forward proposals, which facilitate an extension of Shareholders' investments through a new class of 2021 Shares deployed through a new Guernsey limited partnership called FOMC III LP (the "Master Fund III"), while also offering an option to elect for Realisation Shares and establishing a twelve-month placing programme. The 2021 share class will reinvest principal receipts received from the Master Fund II in the Master Fund III, with a new investment period and extended maturity.

Those shareholders who preferred to maintain exposure to the existing Master Fund II were able to remain in a Realisation Share class which will return principal as it is received from the current market fund until its maturity in 2026.

#### Fair Oaks Capital Limited

23 April 2021

<sup>31</sup>Source: JP Morgan. Primary CLO running yield, AAA non-financial corporate index yield and bank loan yield to 3 year call.





## STRATEGIC REVIEW

# Strategic Report

### Risks and uncertainties

The Board of Directors is responsible for and has in place a rigorous risk management framework and risk matrix to identify, assess, mitigate, manage and review and monitor those risks. This is all reviewed at least quarterly by the board and on a much more frequent basis by the Investment Advisor.

The Directors have carried out a robust assessment of the principal, secondary and emerging risk areas relevant to the performance of the Company including those that would threaten its business model, future performance, solvency and liquidity. The principal risks are detailed below.

Throughout the year, due regard has been paid to emerging risks, although during the period changes to the identified risks can be characterised as being more of an evolving nature than new and previously unidentified risks. The COVID-19 pandemic in 2020 created a significant emerging global economic risk during the year. The Board is in regular communication with the Investment Adviser who continues to closely monitor the performance of the Master Fund II's investments and update the Company on current and emerging risks.

In respect of 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.

### Principal and emerging risks

The principal and emerging 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 ongoing 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 at least four times a year, including 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, which ensures adequate diversification of the Master Funds' underlying investments is regularly monitored by the Investment Adviser.
- **Pandemic (COVID-19)** - The COVID-19 pandemic was an emerging risk during the year. The economic disruption related to COVID-19 in 2020 has had significant short-term impacts, increasing the number of defaults in the loan markets and depressing valuations of the Master Fund II's investments. While all the Master Fund II's investments continue to comply with their over-collateralisation tests and make cash distributions to the Master Fund II, the medium and long-term impacts of COVID-19 disruption on the fundamental performance of the Master Fund II's investments and on their valuation will depend on the future development of the virus and potential vaccines, restrictions on, and changes in, consumer behaviour and mitigating actions taken by governments. In addition to the portfolio de-risking that took place in the first half of 2020 (increasing the proportion of rated CLO investments at that time), the Investment Adviser continues to closely monitor the performance of the Master Fund II's investments and update the Company on current and emerging risks. The Investment Adviser also carries out extensive due diligence on Master Fund II's underlying investments before acquisition and they will ensure adequate diversification of the underlying assets is achieved.
- **Regulatory risk** - The Company is required to comply with the Prospectus Rules, the Disclosure Guidance 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.





## STRATEGIC REVIEW

### Strategic Report (continued)

#### Going Concern

The Directors have assessed the financial position of the Company as at 31 December 2020 and the factors that may impact its performance, including the potential impact as a result of the COVID-19 pandemic, in the forthcoming year. The Directors are aware that the economic disruption caused by COVID-19 means there is an increased chance that the Master Fund II's CLO investments, will experience higher loan defaults and CCC ratings, breach over-collateralisation tests and, as a result, withhold some quarterly distributions from some CLO noteholders. Furthermore, the Directors are well aware of the risk of cash flow diversion of the Master Fund II's CLO investments so will not fully invest all available capital without leaving available liquidity for expenses. Despite this the Master Fund II has continued to make income distributions to the Company throughout 2020, as the Master Fund II's CLO investments continue to comply with their over-collateralisation tests and make cash distributions. The medium and long-term impacts of COVID-19 disruption on the fundamental performance of the Company and on the valuation of its investment in the Master Fund II will depend on the future development of the virus, the effectiveness of the vaccines and efficiency of the vaccine roll outs, restrictions on, and changes in, consumer behaviour and mitigating actions taken by governments. In addition, the Master Fund II went through a portfolio de-risking process in the first half of 2020 (increasing the proportion of rated CLO investments at that time) and the Investment Adviser continues to carefully monitor the performance of the Master Fund II's investments, working closely with the Directors on current and emerging risks to the Company.

Following due consideration and 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, the investment in the Master Fund II the Directors believe that it is appropriate to adopt the going concern basis in preparing the Financial Statements, as the Company has adequate financial resources to meet its liabilities as they fall due.

#### Viability Statement

The Directors have conducted a robust assessment of the viability of the Company over a three year period from the date of signing this report to April 2024, taking account of the Company's current position and the potential impact of the principal and emerging 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 2024 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.

At 31 December 2020, the Company is primarily invested into the Master Fund II. The Master Fund II has a planned end date of June 2026. In addition, on 29 March 2021, the Company published a Prospectus and Circular in relation to a Reorganisation Proposal and Placing Programme Proposal. The Company put forward the Proposals, which facilitate an extension of Shareholders' investments through a new class of 2021 Shares deployed through a new Guernsey limited partnership, FOMC III LP (the "Master Fund III"), while also offering an option to elect for Realisation Shares and establishing a twelve-month placing programme. On 19 April 2021, the Company announced that 86.6% of Shareholders had elected to re-designate their 2017 Shares to 2021 Shares and participate in the new Master Fund III. The Master Fund III has a planned end date of 12 June 2028.

In making their three year assessment, various factors were taken into consideration by the Directors, which 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, in light of the ongoing uncertainty in economies and markets caused by the COVID-19 pandemic in the post year end period, involved flexing a number of main assumptions underlying the forecast and default rates significantly 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 2024.



## STRATEGIC REVIEW

### Strategic Report (continued)

#### Management Arrangements

##### 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 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 2020, the credit rating of the Custodian was Aa3 as rated by Moody's (31 December 2019: Aa3) and AA- by Standard & Poor's (31 December 2019: A+).

##### Administrator

Administration and Company Secretarial services are provided to the Company by Praxis Fund Services Limited (the "Administrator"). The Administrator also provides these services to the Master Fund, Master Fund II, Cycad and the General Partner to these funds. Other services which the Administrator provides the Company include assisting with the AIFMD, Common Reporting Standard and FATCA reporting. A summary of the terms, including fees, is set out in note 8 of the Financial Statements.



## GOVERNANCE

# 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 Global Valuation. 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 and has then been Honorary Professor at King's College and the CASS School of Business. Claudio consults for several banks, speaks at numerous conferences and has published over 50 articles in academic and professional journals. Claudio founded Global Valuation, a software firm dedicated to the simulation of banks' OTC portfolios, XVA metrics, stress testing and model risk. 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) is an IoD qualified self-employed management consultant and non-executive director. He has over 40 years' experience in international investment markets, credit and risk analysis, portfolio management, corporate and retail banking, corporate governance, compliance and the managed funds industry. He is an independent non-executive chairman or director on the board of several offshore funds and companies covering a broad range of asset classes. These appointments include listings on the premium segment of the Official List of the UK Listing Authority and the Specialist Fund Segment Market. Nigel was a founding Commissioner of the Guernsey Police Complaints Commission, and is an Associate of the Institute of Financial Services, a member of the Institute of Directors and the Guernsey Investment Funds Association and holder of the IoD Diploma in Company Direction. Nigel is a Guernsey resident.



## GOVERNANCE

# Disclosure of Directorships in Public Companies Listed on Recognised Stock Exchanges

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

<b>Company Name</b>	<b>Stock Exchange</b>
<b>Professor Claudio Albanese</b> None	
<b>Jon Bridel</b> DP Aircraft 1 Limited SME Credit Realisation Fund Limited (in run-off) Sequoia Economic Infrastructure Income Fund Limited The Renewables Infrastructure Group Limited	London Stock Exchange – SFS London Stock Exchange – Main Market London Stock Exchange – Main Market London Stock Exchange – Main Market
<b>Nigel Ward</b> Acorn Income Fund Limited Braemar Group PCC Limited	London Stock Exchange – Main Market The International Stock Exchange



## GOVERNANCE

# 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 2020. 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 Company's ordinary shares were listed on the Specialist Fund Segment ("SFS") of the London Stock Exchange ("LSE") on 12 June 2014.

### Results and Dividends

The results for the year are shown in the Statement of Comprehensive Income on page 40.

The Board declared dividends of US\$26,722,079 during 2020 followed by an additional dividend declaration of US\$11,253,030 declared on 2 February 2021 in relation to the year ended 31 December 2020 (dividends declared in relation to the year ended 31 December 2019: US\$51,837,601). 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 II in the relevant financial period attributable to the Company's investment in the Master Fund II, and Qualifying Short Term Investments less expenses of the Company.

### Independent Auditor

KPMG Channel Islands Limited were appointed on 12 May 2014 and continued to serve 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").

### Directors and Directors' Interests

The Directors, all of whom are independent and non-executive, are listed on page 17.

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 2019: £43,000) each per annum.

The Directors had the following interests in the Company at 31 December 2020 and 31 December 2019, held either directly or beneficially:

Name	31 December 2020		31 December 2019	
	No. of 2017 Shares	Percentage	No. of 2017 Shares	Percentage
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel	40,000	0.01%	9,697	0.00%
Nigel Ward	60,000	0.01%	60,000	0.01%

On 9 September 2020, Nicole Bridel, a person closely associated with Jon Bridel, purchased 30,303 2017 Shares in the Company on the SFS of the London Stock Exchange. During January 2021, Jon Bridel transferred all shares registered in his name to Nicole Bridel.



## GOVERNANCE

### Directors' Report (continued)

#### Substantial Shareholdings

As at 24 March 2021, 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
Vidacos Nominees Limited	27,184,806	5.80%
Nortrust Nominees Limited	28,799,906	6.15%
BBHSL Nominees Limited	35,975,565	7.68%
Vidacos Nominees Limited	44,788,005	9.56%
Nortrust Nominees Limited	54,159,716	11.56%

#### Related Parties

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

#### Regulatory 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 Guidance 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").

#### 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, and has superseded the UK-Guernsey Intergovernmental Agreement for the Automatic Exchange of Information with effect from 1 January 2016. Reporting under CRS in Guernsey is completed on an annual basis.

#### 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 2020. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.

The Company issued a 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 30 and accords with the principles established by AIFMD.



## GOVERNANCE

### Directors' Report (continued)

#### 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.

#### 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 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.

#### Employee Engagement & Business Relationships

The Company conducts its core activities through third-party service providers and does not have any employees. The Board recognises the benefits of encouraging strong business relationships with its key service providers and seeks to ensure each is committed to the performance of their respective duties to a high standard and, where practicable, that each provider is motivated to adding value within their sphere of activity. Details on the Board's approach to service provider engagement and performance review are contained in the Management Engagement Committee Report.

#### Whistleblowing

The Board has considered the AIC Code recommendations in respect of arrangements by which staff of the Investment Adviser, Custodian or Administrator may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their organisation.





## GOVERNANCE

### Directors' Report (continued)

#### **Environmental and Social Policy**

The Company is a closed-ended investment company which has no employees therefore its own direct environmental impact is minimal. The Company operates by outsourcing significant parts of its operations to reputable professional companies, who are required to comply with all relevant laws and regulations and take account of social, environmental, ethical and human rights factors, where appropriate.

The Board notes that the underlying entities which the CLOs are invested in will have a social and environmental impact over which it has no control. Europe, however, saw the emergence of a number of new CLOs subject to Environmental, Social and Corporate Governance ("ESG") investment criteria. The inclusion of ESG language in CLOs is likely to become more prevalent and to develop from sector-based negative screening towards ESG scoring. The Master Fund II has been at the forefront of these developments and, as of the end of December 2020, 40% of all CLO equity investments in the Master Fund II's portfolio included ESG investment restrictions. These restrictions exclude any underlying collateral debt obligation whose primary business activity is, amongst others, oil, gas or thermal coal extraction, upstream palm oil production, trade in weapons or firearms, hazardous chemicals, pesticides and wastes, ozone-depleting substances, endangered or protected wildlife or wildlife products, tobacco and predatory lending.

The Company has no direct greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources, including those within its underlying CLOs portfolio.

In carrying out its investment activities and in relationship with suppliers, the Company aims to conduct itself responsibly, ethically and fairly.

In addition, the Investment Adviser has been a signatory to the UN Principles for Responsible Investment ("UN PRI") since July 2016 and is committed to applying the UN PRI to all stages of its investment criteria and to increasing awareness in credit markets.

#### *EU Sustainable Finance Disclosure Regulation – Article 6 – Sustainability risk*

A sustainability risk is an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment. The Investment Adviser integrates sustainability risks into its investment decisions in two ways. Firstly, its analysis of the managers of the CLOs in which the Company/Master Funds invest considers any sustainability risks at the manager level that could impact either the effective management of the CLO or the secondary market value of the CLO securities. Secondly, the Investment Adviser considers sustainability risks at the level of the borrowers of the loans in the CLOs' portfolios. The realisation of sustainability risks at these borrowers could increase the probability of borrowers defaulting on loans held by the CLOs and a consequent erosion of the CLOs' collateral pools.

The Investment Adviser has determined that sustainability risks, while relevant to the Company's and Master Funds' portfolio, present a very limited risk to the value of its investments. The manager-related sustainability risks are mitigated by the tight controls enforced on CLO managers by the CLO indenture and trustee, the manager replacement provisions in the indenture and the fact that CLO investors are ultimately protected by their security over the CLO collateral. The sustainability risks related to the borrowers of loans in the CLO portfolios are mitigated by the diversification of the CLO portfolios and by the analysis undertaken on the loan borrowers by equity investors, lenders and rating agencies.





## GOVERNANCE

### Directors' Report (continued)

#### **Environmental and Social Policy** (continued)

##### *EU Sustainable Finance Disclosure Regulation – Article 6 – Sustainability risk (continued)*

“Sustainability factors” are environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Due to a current lack of detailed relevant information available from the borrowers of loans in CLO portfolios, the Investment Adviser does not consider the adverse impacts of investment decisions on sustainability factors. The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

By order of the Board

#### **Jon Bridel**

Director

23 April 2021



## GOVERNANCE

# 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 last published in February 2019, 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](http://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. The AIC Code addresses all the principles and provisions set out in the UK Code as well as setting out additional provisions on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and provisions of the AIC Code will provide more relevant information to shareholders. The AIC code is available on the AIC website, [www.theaic.co.uk](http://www.theaic.co.uk).

For the year ended 31 December 2020, the Company complied substantially with the relevant provisions of the AIC Code and it is the intention of the Board that the Company will comply with those provisions throughout the year ending 31 December 2021, 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 2020, 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 17.

Professor 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 Professor Claudio Albanese is an Independent Director. As Chairman, Professor Albanese is responsible for the leadership of the Board and ensuring effectiveness in all aspects of its role.

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 11 June 2020, shareholders re-elected all the Directors of the Company.

The Board intends during the course of 2021 to announce and commence implementation of a succession plan to refresh the Board composition over time and to introduce a greater degree of diversity.



## GOVERNANCE

### 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.

#### **Board Diversity**

The Board of Directors of the Company comprises three male directors.

The Board is committed to diversity and is supportive of increased gender and ethnic diversity but recognises that it may not always be in the best interest of shareholders to prioritise this above other factors.

The Nomination and Remuneration Committee regularly reviews the structure, size and composition required of the Board, taking into account the challenges and opportunities facing the Company. The Board is also committed to appointing the most appropriate available candidates taking into account the skills and attributes of both existing members and potential new recruits and thereby the balance of skills, experience and approach of the Board as a whole which will lead to optimal Board effectiveness. In considering future candidates, appointments will be based on merit as a primary consideration, with the aim of bringing an appropriate range of the specific skills, experience, independence, and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition.

#### **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 by means of an internal questionnaire, 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 Company Secretary collates the results of the questionnaires and the consolidated results are reviewed by the Board as a whole.

In respect of the AGM, which will be held on 16 June 2021, the Board is of the view that each Director should be re-elected given their extensive knowledge of international financial markets, funds and risk management. This experience is evidenced within the biographies of the Board as disclosed on page 17. Collectively, the blend of skillsets demonstrates the importance of the contribution of each Director and why they should each be re-elected at the forthcoming AGM.

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



## GOVERNANCE

### Corporate Governance (continued)

#### 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 30.

#### 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](http://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.

#### Stakeholders and Section 172

Whilst directly applicable to UK domiciled companies, the intention of the AIC Code is that matters set out in section 172 of the Companies Act, 2006 ("s172 of the Companies Act") are reported. The Board considers the view of the Company's other key stakeholders as part of its discussions and decision making process. As an investment company, the Company does not have any employees and conducts its core activities through third-party service providers. Each provider has an established track record and, through regulatory oversight and control, are required to have in place suitable policies to ensure they maintain high standards of business conduct, treat customers fairly, and employ corporate governance best practice.

The Board's commitment to maintaining the high-standards of corporate governance recommended in the AIC Code, combined with the directors' duties incorporated into the Companies (Guernsey) Law, 2008, the constitutive documents, the Disclosure Guidance and Transparency Rules, and Market Abuse Regulation, ensures that shareholders are provided with frequent and comprehensive information concerning the Company and its activities.

Whilst the primary duty of the Directors is owed to the Company as a whole, the Board considers as part of its decision making process the interests of all stakeholders. Particular consideration being given to the continued alignment between the activities of the Company and those that contribute to delivering the Board's strategy, which include the Investment Manager and Administrator.

The Board respects and welcomes the views of all stakeholders. Any queries or areas of concern regarding the Company's operations can be raised with the Secretary.



## GOVERNANCE

### 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, two Management Engagement Committee meetings, one Nomination & Remuneration Committee meeting and four ad hoc Board meeting held during the year ended 31 December 2020.

Name	Board	Audit Committee	Risk Committee	Management Engagement Committee	Nomination & Remuneration Committee
Number of meetings held	8	4	4	1	2
Professor Claudio Albanese (Chairman of the Board and Management Engagement Committee)	7	N/A	4	1	2
Jon Bridel (Audit Committee Chairman)	8	4	4	1	2
Nigel Ward (Risk Committee Chairman and Nomination & Remuneration Committee Chairman)	8	4	4	1	2

The Chairman is responsible for ensuring the Directors receive complete information in a timely manner concerning all matters which require consideration by the Board. Through the Board's ongoing programme of shareholder engagement and the reports produced by each key service provider, the Directors are satisfied that sufficient information is provided so as to ensure the matters set out in s172 of the Companies Act are taken into consideration as part of the Board's decision-making process.

#### 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. 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, performance 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 31.

##### *Risk Committee*

The Risk Committee meets at least four times a year. It comprises the entire Board 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 2020. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.

##### *Management Engagement Committee*

The Management Engagement Committee ("MEC") meets at least once a year. It comprises the entire Board and is chaired by Professor Claudio Albanese. The MEC 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. For the principal duties of the MEC, please refer to the Management Engagement Committee Report on page 34.

##### *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. In order to identify appropriate candidates for appointment to the Board, the Nomination and Remuneration Committee will appoint an independent consultant for the purposes of succession planning.



## GOVERNANCE

### 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.



## GOVERNANCE

# 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.

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 17, 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, the Strategic 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, Strategic Review and Governance report, taken as a whole, is fair, balanced and understandable.

Signed on behalf of the Board by:

**Jon Bridel**

Director

23 April 2021



## GOVERNANCE

# 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 2020 to 31 December 2020 Actual £	For the year from 1 January 2019 to 31 December 2019 Actual £
Professor Claudio Albanese (Chairman and Management Engagement Committee Chairman)	43,000	43,000	43,000
Jon Bridel (Audit Committee Chairman)	43,000	43,000	43,000
Nigel Ward (Risk Committee Chairman and the Nomination & Remuneration Committee Chairman)	43,000	43,000	43,000
<b>Total</b>	<b>129,000</b>	<b>129,000</b>	<b>129,000</b>

Each Director is entitled to a fee of £43,000 per annum.

The remuneration policy set out above is the one applied for the years ended 31 December 2020 and 31 December 2019 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 11 June 2020, shareholders voted in favour of re-electing all of the Directors. 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 2020 and 31 December 2019, 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.

**Jon Bridel**

Director

23 April 2021





## GOVERNANCE

# 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 17 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 Master Fund II – The Company's investment in the Master Fund II had a fair value of US\$293,083,595 as at 31 December 2020 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 2020 were audited by KPMG who issued an unmodified audit opinion dated 23 April 2021. The Audit Committee has reviewed the Audited 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 2020 to be reasonable.



## GOVERNANCE

### 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 2020, KPMG provided non-audit and audit services as listed on page 33.

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 2019 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, Steven Stormonth was first appointed as the audit engagement director for the year ended 31 December 2019 audit.



## GOVERNANCE

### 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 2020 and 31 December 2019, translated into the presentation currency at the exchange rate prevailing at 31 December 2020 and 31 December 2019, respectively.

	<b>For the year ended 31 December 2020 US\$</b>	<b>For the year ended 31 December 2019 US\$</b>
<b>KPMG Channel Islands Limited</b>		
– Annual Audit of the Company and related entities	209,698	199,650
– Interim review	51,946	49,051

#### Internal Controls

As the Company's investment objective is to invest all of its assets into the 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 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  
23 April 2021



## GOVERNANCE

# Management Engagement Committee Report

The Company has established a Management Engagement Committee (“MEC”) with formally delegated duties and responsibilities within the written terms of reference (which are available from the Company’s website [www.fairoaksincome.com](http://www.fairoaksincome.com)).

### Chairman and Membership

The MEC meets at least once a year. It comprises the entire Board and is chaired by Professor Claudio Albanese. Professor Albanese and the other members, Nigel Ward and Jon Bridel, are all independent Directors. Only independent Directors serve on the MEC and members of the MEC have no links with the Investment Adviser or any other service provider. The MEC is responsible for the regular review of the terms of the Investment Advisory Agreement and the performance of the Administrator and the Investment Adviser and also the Company’s other service providers. The membership of the MEC and its terms of reference are kept under review.

### Key Objectives

To review performance of all service providers (including the Investment Adviser).

### Responsibilities

- To annually review the performance, relationships and contractual terms of all service providers (including the Investment Adviser);
- reviewing the terms of the Investment Advisory Agreement from time to time to ensure that the terms thereof conform with market and industry practice and remain in the best interests of Shareholders and making recommendations to the Board on any variation to the terms of the Investment Advisory Agreement which it considers necessary or desirable;
- recommending to the Board whether the continuing appointment of the Advisor is in the best interests of the Company and Shareholders, and the reasons for this recommendation;
- monitoring compliance by providers of other services to the Company with the terms of their respective agreements from time to time;
- reviewing and considering the appointment and remuneration of providers of services to the Company; and
- considering any points of conflict which may arise between the providers of services to the Company.

### MEC Meetings

Only members of the MEC and the Company Secretary have the right to attend MEC meetings. However, representatives of the General Partner, Investment Adviser and other service providers may be invited by the MEC to attend meetings as and when appropriate.

### Main Activities during the year

The MEC met once during the year and reviewed the performance, relationships and contractual terms of all service providers as at 9 December 2020 including the Investment Adviser. Furthermore, the MEC reviewed the approaches to GDPR, Criminal Justice Act, Anti-bribery and cyber security, amongst other matters, by its service providers.

### Continued Appointment of the Investment Adviser and other Service Providers

The Board continually evaluates the Investment Adviser and other service providers, it reviews investment performance at each Board meeting and a formal review of all service providers is conducted annually by the MEC. The annual third-party service provider review process includes two-way feedback, which provides the Board with an opportunity to understand the views, experiences and any significant issues encountered by service providers during the year. As part of the Board’s annual performance evaluation, feedback is received on the quality of service and the effectiveness of the working relationships with each of the Company’s key service providers.

As a result of the 2020 annual review it is the opinion of the Directors that the continued appointment of the Investment Adviser and the other current service providers on the terms agreed is in the interest of the Company’s shareholders as a whole. The Board considers that the Investment Adviser has extensive investment management resources and wide experience in managing CLOs investments and is satisfied with the quality and competitiveness of the fee arrangements of the Investment Adviser and the Company’s other service providers.

### Professor Claudio Albanese

Management Engagement Committee Chairman  
23 April 2021

## GOVERNANCE

# 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 2020, 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 2020, and of the Company's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards; 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 was as follows (unchanged from 2019):

	The risk	Our response
Financial assets at fair value through profit or loss ("Investments")	<p><b>Valuation of investments:</b></p> <p><b>Basis:</b></p> <p>The Company holds an investment in FOIF II LP (formerly known as FOMC II LP) ("Master Fund II") which is designated at fair value through profit or loss and represents 99.4% of the Company's net assets.</p> <p>The fair value of Master Fund II reflects the Company's proportionate share of Master Fund II's net asset value. Master Fund II's net asset value incorporates the fair value of its own investment portfolio which comprises: Mezzanine and Equity Collateralised Loan Obligation ("CLO") positions and a proportionate share of the net asset value of CYCAD Investments LP ("CYCAD") which is also invested into Equity CLO positions. The fair value of the CLOs are determined using indicative prices ("Price Quotes") obtained by the Master Fund II and CYCAD from their independent third party valuation provider (the "Valuation Agent").</p>	<p><b>Our audit procedures included:</b></p> <p><b>Control evaluation:</b></p> <p>We assessed the design and implementation of the control over the valuation of the Company's Investments.</p> <p><b>Evaluation of the Valuation Agent:</b></p> <p>We independently obtained the Valuation Agent's reports. With the assistance of our KPMG valuation specialist we:</p> <ul style="list-style-type: none"> <li>• assessed the objectivity, capability and competence of the Valuation Agent engaged by Master Fund II and CYCAD to provide Price Quotes; and</li> <li>• assessed the methodology applied by the Valuation Agent in developing fair value Price Quotes.</li> </ul> <p><b>Assessing fair value of the Investments:</b></p> <p>We:</p> <ul style="list-style-type: none"> <li>• Assessed whether the net asset value of Master Fund II was representative of its fair value and recalculated the Company's proportion of the net asset value of Master Fund II.</li> </ul>
US\$293.1 million; (31 December 2019 US\$336.7 million)		
Refer to pages 31 to 33 (Report of the Audit Committee), note 2 (Significant Accounting Policies), note 3 (Use of Judgments and Estimates) and note 6 (Financial Assets at Fair Value Through Profit or Loss)		

## GOVERNANCE

# 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 (continued)	Our response (continued)
<p><b>Valuation of investments</b> (continued):</p> <p><b>Risk:</b> The valuation of the Company's Investments is considered a significant area of our audit, given that it represents the majority of the net assets of the Company. Inherent in that valuation is the use of significant estimates and judgments in determining the fair value of the underlying CLOs.</p>	<p><b>Assessing fair value of the Investments</b> (continued):</p> <ul style="list-style-type: none"><li>• Agreed the Price Quotes provided by the Valuation Agent to those used in the Valuation of Master Fund II and CYCAD.</li><li>• For 100% of the Mezzanine and Equity CLO positions held by Master Fund II and the Equity CLO positions held by CYCAD, with the support of our KPMG valuation specialist, we determined independent 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 from observable market data, while also considering the impact of COVID-19 and the resultant increase in uncertainty on these inputs and assumptions.</li><li>• For the investment into CYCAD, we agreed the fair value to a net asset value statement received from CYCAD's administrator. We also obtained the coterminous audited financial statements and agreed the audited net asset value to the net asset value statement. We also considered the basis of preparation, together with accounting policies applied and whether the audit opinion was unmodified.</li></ul> <p><b>Assessing disclosures:</b> We also considered the Company's disclosures in relation to use of estimates and judgments in determining the fair value of Investments (Note 3), the Company's Investment valuation policies (Note 2) and fair value disclosures (Note 6) for compliance with IFRS.</p>

### 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\$5,899,000, determined with reference to a benchmark of net assets of US\$294,969,346, of which it represents approximately 2.0% (31 December 2019: 2.0%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality for the Company was set at 75% (31 December 2019: 75%) of materiality for the financial statements as a whole, which equates to US\$4,424,000. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding US\$294,000, 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.

## GOVERNANCE

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

### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (the "going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to affect the Company's financial resources or ability to continue operations over this period were:

- Availability of capital to meet operating costs and other financial commitments; and
- The recoverability of financial assets subject to credit risk.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in the notes to the financial statements to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

### Fraud and breaches of laws and regulations – ability to detect

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Company's policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's revenue streams are simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.



## GOVERNANCE

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

### **Fraud and breaches of laws and regulations – ability to detect** (continued)

We performed procedures including

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

#### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence, and discussed with management the policies and procedures regarding compliance with laws and regulations. As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or impacts on the Company's ability to operate. We identified financial services regulation as being the area most likely to have such an effect, recognising the regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. 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.

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



## GOVERNANCE

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

### **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 29, 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](http://www.frc.org.uk/auditorsresponsibilities).

### **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.

### **Steven Stormonth**

#### **For and on behalf of KPMG Channel Islands Limited**

Chartered Accountants and Recognised Auditors

Gategny Court  
St Peter Port  
Guernsey GY1 1WR  
Channel Islands

23 April 2021



## FINANCIAL STATEMENTS

## Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	1 January 2020 to 31 December 2020 US\$	1 January 2019 to 31 December 2019 US\$
<b>Revenue</b>			
Net losses on financial assets at fair value through profit or loss	6	(26,086,364)	(1,659,020)
Interest income	7	3,215	172,853
Net foreign exchange (losses)/gains		(94,218)	58,553
<b>Total revenue</b>		<b>(26,177,367)</b>	<b>(1,427,614)</b>
<b>Expenses</b>			
Investment advisory fees	8	106,768	77,776
Audit and interim review fees		101,753	94,494
Administration fees	8	144,580	130,869
Directors' fees and expenses	8	166,652	164,167
Broker fees		42,573	127,500
Registrar fees		38,715	81,000
Listing fees		64,133	11,517
Legal and professional fees		36,506	49,714
Other expenses		109,568	104,062
<b>Total expenses</b>		<b>811,248</b>	<b>841,099</b>
<b>Loss and total comprehensive loss for the year</b>		<b>(26,988,615)</b>	<b>(2,268,713)</b>
<b>Basic and diluted losses per 2017 share</b>	11	<b>(0.0583)</b>	<b>(0.0046)</b>
<b>Basic and diluted losses per 2014 share*</b>	11	<b>N/A</b>	<b>(0.0091)</b>

\*2014 shares were redeemed in full on 1 April 2019.

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

The accompanying notes on pages 44 to 74 form an integral part of the Financial Statements.



## FINANCIAL STATEMENTS

# Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020

	Note	Share capital (2017 Shares) US\$	Retained earnings (2017 Shares) US\$	Total equity US\$
<b>At 1 January 2020</b>		<b>439,400,944</b>	<b>(96,242,034)</b>	<b>343,158,910</b>
<i>Total comprehensive loss:</i>				
Loss for the year		–	(26,988,615)	(26,988,615)
<b>Total comprehensive loss for the year</b>		<b>–</b>	<b>(26,988,615)</b>	<b>(26,988,615)</b>
<i>Transactions with Shareholders:</i>				
Issue of 2017 shares during the year, net of issue costs	10	5,521,130	–	5,521,130
Dividends declared during the year	4	–	(26,722,079)	(26,722,079)
<b>Total transactions with Shareholders</b>		<b>5,521,130</b>	<b>(26,722,079)</b>	<b>(21,200,949)</b>
<b>At 31 December 2020</b>		<b>444,922,074</b>	<b>(149,952,728)</b>	<b>294,969,346</b>

	Note	Share capital (2017 Shares) US\$	Share capital (2014 Shares) US\$	Retained earnings (2017 Shares) US\$	Retained earnings (2014 Shares) US\$	Total equity US\$
<b>At 1 January 2019</b>		<b>439,888,273</b>	<b>22,716,434</b>	<b>(43,577,478)</b>	<b>(3,408,180)</b>	<b>415,619,049</b>
<i>Total comprehensive loss:</i>						
Loss for the year		–	–	(2,068,953)	(199,760)	(2,268,713)
<b>Total comprehensive loss for the year</b>		<b>–</b>	<b>–</b>	<b>(2,068,953)</b>	<b>(199,760)</b>	<b>(2,268,713)</b>
<i>Transactions with Shareholders:</i>						
2014 share redemptions paid during the year	10	–	(17,866,496)	–	–	(17,866,496)
Transfer of reserves on closure of 2014 share class		–	(4,849,938)	–	4,849,938	–
2017 Shares acquired during the year	10	(487,329)	–	–	–	(487,329)
Dividends declared during the year	4	–	–	(50,595,603)	(1,241,998)	(51,837,601)
<b>Total transactions with Shareholders</b>		<b>(487,329)</b>	<b>(22,716,434)</b>	<b>(50,595,603)</b>	<b>3,607,940</b>	<b>(70,191,426)</b>
<b>At 31 December 2019</b>		<b>439,400,944</b>	<b>–</b>	<b>(96,242,034)</b>	<b>–</b>	<b>343,158,910</b>

The accompanying notes on pages 44 to 74 form an integral part of the Financial Statements.



## FINANCIAL STATEMENTS

## Statement of Financial Position

At 31 December 2020

	Note	31 December 2020 US\$	31 December 2019 US\$
<b>Assets</b>			
Cash and cash equivalents		2,397,636	5,340,650
Prepayments		28,800	17,899
Distributions receivable		–	1,168,089
Financial assets at fair value through profit or loss	6	293,083,595	336,721,957
<b>Total assets</b>		<b>295,510,031</b>	<b>343,248,595</b>
<b>Liabilities</b>			
Distributions prepaid		456,325	–
Trade and other payables	12	84,360	89,685
<b>Total liabilities</b>		<b>540,685</b>	<b>89,685</b>
<b>Net assets</b>		<b>294,969,346</b>	<b>343,158,910</b>
<b>Equity</b>			
Retained earnings		(149,952,728)	(96,242,034)
Share capital	10	444,922,074	439,400,944
<b>Total equity</b>		<b>294,969,346</b>	<b>343,158,910</b>
<b>Total Net Assets attributable to 2017 Shareholders</b>		<b>294,969,346</b>	<b>343,158,910</b>
<b>Number of 2017 Shares</b>	10	<b>467,728,360</b>	<b>452,698,737</b>
<b>Net asset value per 2017 Share</b>		<b>0.6306</b>	<b>0.7580</b>

The Financial Statements on pages 40 to 74 were approved and authorised for issue by the Board of Directors on 23 April 2021 and signed on its behalf by:

**Jon Bridel**

Director

The accompanying notes on pages 44 to 74 form an integral part of the Financial Statements.



## FINANCIAL STATEMENTS

# Statement of Cash Flows

For the year ended 31 December 2020

	Note	1 January 2020 to 31 December 2020 US\$	1 January 2019 to 31 December 2019 US\$
<b>Cash flows (used in)/from operating activities</b>			
Loss for the year		(26,988,615)	(2,268,713)
Adjustments to reconcile profit to net cash flows:			
Net losses on financial assets at fair value through profit or loss	6	26,086,364	1,659,020
Net foreign exchange losses/(gains)		94,218	(58,553)
		<b>(808,033)</b>	<b>(668,246)</b>
(Increase)/decrease in prepayments		(10,901)	19,404
(Decrease)/increase in trade and other payables		(5,325)	40,606
Income distributions received from Master Fund		–	1,147,243
Income distributions received from Master Fund II		24,381,039	42,236,333
Capital distributions received from Master Fund II	6	–	46,125,096
Capital contributions into Master Fund II during the year	6	(40,204,500)	(9,782,000)
		<b>(16,647,720)</b>	<b>79,118,436</b>
<b>Cash flows from/(used in) investing activities</b>			
Sale of UCITS investment during the year		34,999,873	–
Purchase of UCITS investment during the year	6	–	(38,064,150)
		<b>34,999,873</b>	<b>(38,064,150)</b>
<b>Cash flows from/(used in) financing activities</b>			
Proceeds from 2017 share issuance, net of costs	10	5,521,130	–
Dividends paid during the year	4	(26,722,079)	(51,837,601)
2017 Shares acquired during the year	10	–	(487,329)
		<b>(21,200,949)</b>	<b>(52,324,930)</b>
		<b>(2,848,796)</b>	<b>(11,270,644)</b>
<b>Net decrease in cash and cash equivalents</b>			
		<b>(2,848,796)</b>	<b>(11,270,644)</b>
<b>Cash and cash equivalents at beginning of year</b>			
		5,340,650	16,552,741
Effect of foreign exchange rate changes during the year		(94,218)	58,553
		<b>2,397,636</b>	<b>5,340,650</b>
<b>Cash and cash equivalents at end of year</b>			

The accompanying notes on pages 44 to 74 form an integral part of the Financial Statements.



## FINANCIAL STATEMENTS

# Notes to the Financial Statements

For the year ended 31 December 2020

### 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 II LP (formerly FOMC II LP) (the “Master Fund II”), in which the Company is a limited partner, and indirectly through FOIF LP (the “Master Fund”) (the “Master Fund” and the “Master Fund II” together the “Master Funds”). The Master Fund II was registered in Guernsey on 24 February 2017 and the Master Fund was registered in Guernsey on 7 May 2014 under The Limited Partnerships (Guernsey) Law, 1995, as amended. During the year ended 31 December 2020, the Master Fund II allowed three new limited partners to enter the partnership and at 31 December 2020, the Master Fund II had five limited partners, including Fair Oaks Founder II LP, a related entity. At 31 December 2020, following the admission of the three new limited partners, the Company had a 71.80% holding in the Master Fund II. By 31 December 2020, the Master Fund had distributed the majority of its remaining assets to its limited partners, including the Master Fund II, with only an immaterial residual net asset balance remaining on the Master Fund’s statement of financial position.

The Master Fund II is also invested into Cycad Investments LP (“Cycad”). Cycad is a Limited Partnership registered in the United States of America on 2 June 2017. Aligned with the Company’s investment policy, Cycad also invests into CLOs.

At 31 December 2020, the Company had 467,728,360 2017 Shares (“2017 Shares”) in issue excluding treasury shares (31 December 2019: 452,698,737 2017 Shares). At 31 December 2020, the Company on behalf of the 2017 Shares had a 71.80% (31 December 2019: 100%) holding in the Master Fund II, which in turn had a holding of 66.20% (31 December 2019: 66.20%) in the Master Fund.

On 1 April 2019, the Company completed a final compulsory redemption of all 21,942,137 2014 Shares previously held (the “2014 Final Redemption”), this was completed via a cash redemption funded by the Master Fund II and in specie distributions of 2014 Shareholders pro rata exposure to the Company’s interest in the Master Fund. The cash payment was funded by the Master Fund II acquiring at the 28 February 2019 NAV the residual interest in the Master Fund owned by the Company in respect of the 2014 Share class. All holdings of 2014 Shares on the register at the close of business on the record date, being 1 April 2019, were redeemed.

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 Funds invest in portfolios consisting primarily of Collateral Loan Obligations (“CLOs”). The Company may also invest in Qualifying Short Term Investments if at any time the Company holds any uninvested cash.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of Compliance

The Financial Statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and are in compliance with the Companies (Guernsey) Law, 2008 and the Prospectus Rules, the Disclosure Guidance 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.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Basis of Preparation (continued)

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 consolidated Financial Statements under IFRS.

##### Going Concern

The Board has assessed the financial position of the Company as at 31 December 2020 and the factors that may impact its performance, including the potential impact as a result of the COVID-19 pandemic, in the forthcoming year. The Directors are aware that the economic disruption caused by COVID-19 means there is an increased chance that the Master Fund II's CLO investments, will experience higher loan defaults and CCC ratings, breach over-collateralisation tests and, as a result, withhold some quarterly distributions from some CLO noteholders. Furthermore, the Directors are well aware of the risk of cash flow diversion of the Master Fund II's CLO investments so will not fully invest all available capital without leaving available liquidity for expenses. Despite this the Master Fund II has continued to make income distributions to the Company throughout 2020, as the Master Fund II's CLO investments continue to comply with their over-collateralisation tests and make cash distributions. The medium and long-term impacts of COVID-19 disruption on the fundamental performance of the Company and on the valuation of its investment in the Master Fund II will depend on the future development of the virus, the effectiveness of the vaccines and efficiency of the vaccine roll outs, restrictions on, and changes in, consumer behaviour and mitigating actions taken by governments. In addition, the Master Fund II went through a portfolio de-risking process in the first half of 2020 (increasing the proportion of rated CLO investments at that time) and the Investment Adviser continues to carefully monitor the performance of the Master Fund II's investments, working closely with the Company on current and emerging risks to the Company.

Following due consideration and 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, the investment in the Master Fund II, 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 for at least the 12 month period from the date of the approval of the Financial Statements.

##### New Accounting Standards and interpretations adopted in the reporting period

The following standards and interpretations have been applied in these Financial Statements:

- Amendments to IAS 1 and IAS 8 – Definition of Material (effective for periods commencing on or after 1 January 2020) – The amendments in *Definition of Material (Amendments to IAS 1 and IAS 8)* clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (effective for periods commencing on or after 1 January 2020) – The amendments in *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform; and
- Amendments to References to Conceptual Framework in IFRS Standards (effective for periods commencing on or after 1 January 2020).

The adoption of these standards has not had a material impact on these Financial Statements of the Company.





## FINANCIAL STATEMENTS

# Notes to the Financial Statements (continued)

For the year ended 31 December 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### New Accounting Standards and interpretations applicable to future reporting periods

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

- IAS 1 (amended), "Presentation of Financial Statements" (amendments regarding the classification of liabilities, effective for periods commencing on or after 1 January 2023).

In addition, the IASB has completed the following projects during the period:

- 'Annual Improvements to IFRS Standards 2018-2020', published in May 2020. This project has amended certain existing standards effective for accounting periods commencing on or after 1 January 2022.
- 'Replacement issues in the context of the IBOR reform', published in August 2020. This project has amended certain existing standards effective for accounting periods commencing on or after 1 January 2021.

The Directors expect that the adoption of these amended standards in a future period will not have a material impact on the Financial Statements of the Company.

### 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 losses on Financial Assets at Fair Value through Profit or Loss

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

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

### Expense

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 2017 shares, 2014 shares (for the period prior to 1 April 2019) 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.

### 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").



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial Instruments (continued)

##### Classification (continued)

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 solely payments of principal and interest ("SPPI").

All other financial assets of the Company 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 'Financial Instruments' ("IFRS 9").

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.

##### 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 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.



## FINANCIAL STATEMENTS

# Notes to the Financial Statements (continued)

For the year ended 31 December 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *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 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 II, and then indirectly the Master Fund, as the Company is the main limited partner in the 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 II (and indirectly in the Master Fund) and has the ability either directly, or through the Investment Adviser, to affect the amount of its returns from the Master Fund II (and indirectly in the Master Fund).

The Investment entities exemption 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.

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 II and Master Fund 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 II is the Master Fund II's Net Asset Value (“NAV”), and incorporated into the Master Fund's NAV is the Master Fund NAV. The Company also determined that the fair value of the Master Fund is the Master Fund's NAV.

The Company has concluded that the Master Fund II, and then indirectly the Master Fund, for which the Company's commitment is detailed further in Note 13, meet the definition of unconsolidated subsidiaries under IFRS 12 ‘Disclosure of Interests in Other Entities’ (“IFRS 12”) and have made the necessary disclosures in notes 5 and 6 of these Financial Statements.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Investment in UCITS

At 31 December 2019, the Company's had an investment into a zero-fee USD share class of Fair Oaks High Grade Credit Fund, an open-ended UCITS fund (the "UCITS investment") which was sold during the year ended 31 December 2020. The UCITS investment publishes daily prices which are provided by underlying administrators of the entity on a net asset value basis. The Directors valued this UCITS investment at its net asset value at the relevant valuation date, as determined in accordance with the terms of the UCITS investment and as notified to the Company by the underlying administrator. The Directors determined that the net asset value of the UCITS investment best represents fair value.

##### 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 2017 shares are recorded through the Statement of Changes in Shareholders' Equity when they are declared to shareholders. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by the Companies (Guernsey) Law, 2008.

##### Segmental Reporting

The Board 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 investment into the Master Fund II, which is a Guernsey registered limited partnership.

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

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



## FINANCIAL STATEMENTS

# Notes to the Financial Statements (continued)

For the year ended 31 December 2020

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

### 4. DIVIDENDS

The Company declares dividends payable to shareholders representing an amount in aggregate at least equal to the gross income from investments received by the Company in the relevant financial period attributable to the Company's investment in the Master Fund II and qualifying short term investments, less expenses of the Company. At 31 December 2020, the Company's retained earnings include unrealised losses of US\$135,941,934 (31 December 2019: US\$90,163,222) (see note 6), gross income from investments excludes these unrealised losses which are capital in nature.

Prior to March 2020, the Company declared monthly dividends of 0.7 US cents per 2017 Share (previously 2014 Share also) and a twelfth interim dividend such that, in the opinion of the Board of Directors, substantially all net income generated by the Company in 2019 will be distributed to shareholders.

On 30 March 2020, the Company announced that in light of ongoing uncertainty in economies and markets caused by the COVID-19 pandemic, the Board resolved to suspend the declaration of dividend payments.

On 20 July 2020, in light of the continued performance and the increased resilience of Master Fund II's investments, the Board decided to resume the payment of dividends, on a quarterly basis and at a variable rate. The Company announced the first quarterly dividend at the end of July in an amount of 1.5 cents per share and another quarterly dividend during October 2020 in an amount of 2.2 cents per share. In the opinion of the Board of Directors, for the year ended 31 December 2020, substantially all net realised income generated by the Company in 2020 has been distributed to shareholders.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

#### For the year ended 31 December 2020

#### 4. DIVIDENDS (continued)

The Company declared the following dividends per 2017 Share during the year ended 31 December 2020:

Period to	Payment date	Dividend rate per 2017 share (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
31 December 2019	30 January 2020	0.70	3,172,231	17 January 2020	16 January 2020
31 January 2020	27 February 2020	0.70	3,160,025	14 February 2020	13 February 2020
29 February 2020	26 March 2020	0.70	3,118,598	13 March 2020	12 March 2020
Quarter to 30 June 2020	20 August 2020	1.50	7,014,282	7 August 2020	6 August 2020
Quarter to 30 September 2020	19 November 2020	2.20	10,256,943	6 November 2020	5 November 2020
		5.80	26,722,079		

The Company declared the following dividends per 2017 Share during the year ended 31 December 2019:

Period to	Payment date	Dividend rate per 2017 Share (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
31 December 2018	31 January 2019	3.45	15,670,072	18 January 2019	17 January 2019
31 January 2019	28 February 2019	0.70	3,176,698	15 February 2019	14 February 2019
28 February 2019	28 March 2019	0.70	3,171,938	15 March 2019	14 March 2019
31 March 2019	25 April 2019	0.70	3,171,347	12 April 2019	11 April 2019
30 April 2019	23 May 2019	0.70	3,161,918	10 May 2019	9 May 2019
31 May 2019	27 June 2019	0.70	3,187,915	14 June 2019	13 June 2019
30 June 2019	25 July 2019	0.70	3,173,771	12 July 2019	11 July 2019
31 July 2019	22 August 2019	0.70	3,187,341	9 August 2019	8 August 2019
31 August 2019	26 September 2019	0.70	3,180,779	13 September 2019	12 September 2019
30 September 2019	24 October 2019	0.70	3,200,510	11 October 2019	10 October 2019
31 October 2019	28 November 2019	0.70	3,166,201	15 November 2019	14 November 2019
30 November 2019	27 December 2019	0.70	3,147,113	13 December 2019	12 December 2019
		11.15	50,595,603		

*Dividend per 2017 Share declared after 31 December 2019:*

31 December 2019	30 January 2020	0.70	3,172,231	17 January 2020	16 January 2020
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The Company declared the following dividends per 2014 Share during the year ended 31 December 2019:

Period to	Payment date	Dividend rate per 2014 Share* (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
31 December 2018	31 January 2019	4.26	934,793	18 January 2019	17 January 2019
31 January 2019	28 February 2019	0.70	153,612	15 February 2019	14 February 2019
28 February 2019	28 March 2019	0.70	153,593	15 March 2019	14 March 2019
		5.66	1,241,998		

\*2014 Shares fully redeemed on 1 April 2019.



## FINANCIAL STATEMENTS

# Notes to the Financial Statements (continued)

For the year ended 31 December 2020

### 4. DIVIDENDS (continued)

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.

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 2020 were US\$Nil (31 December 2019: 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 II and on a look-through basis to the underlying loans in each CLO. By 31 December 2020, the Master Fund had distributed the majority of its remaining assets to its limited partners, including the Master Fund II, with only a residual net asset balance remaining on the Master Fund’s statement of financial position. As a result, at 31 December 2020, the Master Fund is not included in all the look-through information within this note. The Master Fund is, however, included in the comparative information within this note.

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 Master Fund II (31 December 2019: the Master Fund also) 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 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 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.





## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 5. FINANCIAL RISK MANAGEMENT (continued)

##### Market Risk (continued)

###### Interest Rate Risk

The Company is exposed to interest rate risk through the investments held by the 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 II, which invest in income notes: Equity Subordinated and Mezzanine tranches of cash flow CLOs. The 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.

The following table shows the portfolio profile of the Master Fund II at 31 December 2020 and 31 December 2019:

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Master Fund II</b>	<b>Master Fund II</b>
	<b>US\$</b>	<b>US\$</b>
Investments with exposure to a floating interest rate	293,083,595	285,420,752
Financial assets at fair value through profit or loss (note 6)	<b>293,083,595</b>	<b>285,420,752</b>

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 II to stressed changes in interest rates, with all other variables held constant. The table assumes parallel shifts in the respective forward yield curves.

	<b>31 December 2020</b>		<b>31 December 2019</b>
<b>Possible</b>	<b>effect on net assets</b>	<b>Possible</b>	<b>effect on net assets</b>
<b>reasonable</b>	<b>and profit or loss</b>	<b>reasonable</b>	<b>and profit or loss</b>
<b>change in rate</b>	<b>US\$</b>	<b>change in rate</b>	<b>US\$</b>
-1%	1,067,458	-1%	(3,221,616)
1%	(1,401,974)	1%	3,133,872

###### 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 II (31 December 2019: the Master Fund also). The Master Fund II's portfolio (31 December 2019: the Master Fund also) is denominated in US Dollar and 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 hedges the currency exposure of the assets of the Master Fund II.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2020****5. FINANCIAL RISK MANAGEMENT (continued)****Market Risk (continued)***Currency risk (continued)*

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Master Fund II</b>	<b>Master Fund II</b>
	<b>US\$</b>	<b>US\$</b>
<b>EUR Exposure</b>		
Financial assets at fair value through profit and loss	136,128,705	42,739,623
Derivatives at fair value through profit or loss	(122,085,234)	(42,778,704)
Trade and other payables	(75,093)	(85,540)
<b>Net EUR Exposure</b>	<b>13,968,378</b>	<b>(124,621)</b>

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Master Fund II</b>	<b>Master Fund II</b>
	<b>US\$</b>	<b>US\$</b>
<b>GBP Exposure</b>		
Other receivables	-	-
Trade and other payables	(40,433)	(36,822)
<b>Net GBP Exposure</b>	<b>(40,433)</b>	<b>(36,822)</b>
<b>NET EXPOSURE</b>	<b>13,927,944</b>	<b>(161,443)</b>

	<b>Possible change</b>	<b>31 December 2020</b>	<b>31 December 2020</b>
	<b>in exchange rate</b>	<b>net exposure</b>	<b>effect on net assets</b>
		<b>US\$</b>	<b>and profit or loss</b>
			<b>US\$</b>
EUR/US Dollar	+/- 15%	13,968,377	(-/+) 2,109,454
GBP/US Dollar	+/- 20%	(40,433)	(-/+) 8,087

	<b>Possible change</b>	<b>31 December 2019</b>	<b>31 December 2019</b>
	<b>in exchange rate</b>	<b>net exposure</b>	<b>effect on net assets</b>
		<b>US\$</b>	<b>and profit or loss</b>
			<b>US\$</b>
EUR/US Dollar	+/- 10%	(38,472)	(-/+) 3,847
GBP/US Dollar	+/- 15%	(51,468)	(-/+) 7,720

The sensitivity rate of 15% (31 December 2019: 10%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Euro.

The sensitivity rate of 20% (31 December 2019: 15%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Sterling.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 5. FINANCIAL RISK MANAGEMENT (continued)

##### Market Risk (continued)

###### Other price risks

There is a risk that the fair value of 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 II (31 December 2019: the UCITS investment also) were to increase or decrease by 50% (31 December 2019: 10%), the impact on the NAV of the Company would be +/- US\$146,541,798 (31 December 2019: US\$33,672,196). At 31 December 2020, the sensitivity rate of 50% (31 December 2019: 10%) is regarded as reasonable due to the actual market price volatility experienced as a result of the economic impact of the COVID-19 pandemic 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 II (31 December 2019: the Master Fund also), 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.

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>US\$</b>	<b>US\$</b>
Cash and cash equivalents	2,397,636	5,340,650
Distributions receivable	–	1,168,089
Financial assets at fair value through profit or loss	293,083,595	336,721,957
	<b>295,481,231</b>	<b>343,230,696</b>

At 31 December 2020, there were no financial assets past due or impaired (31 December 2019: none).

At 31 December 2020, 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 2020 was Aa3 as rated by Moody's (31 December 2019: Aa3) and AA- by Standard & Poor's (31 December 2019: A+).

At 31 December 2019, the Company's UCITS investment was in Fair Oaks High Grade Credit Fund, a UCITS fund which is invested in AAA and AA rated securities.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2020****5. FINANCIAL RISK MANAGEMENT (continued)****Credit and Counterparty Risk (continued)**

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 Fund II's (31 December 2019: the Master Fund also) concentration of credit risk by industry for the CLO investments, on a look-through basis, as at 31 December 2020 and 31 December 2019 are summarised in the table below. The Company's credit risk is monitored on a quarterly basis by the Board of Directors.

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Master Fund II</b>	<b>Master Fund II*</b>
	<b>%</b>	<b>%</b>
<b>Industry</b>		
Healthcare & Pharmaceuticals	12.9	12.5
Services: Business	8.9	9.0
High Tech Industries	8.8	8.8
Bank, Finance, Insurance & Real Estate	6.7	6.9
Telecommunications	6.4	7.2
Services: Consumer	5.1	3.6
Beverage, Food & Tobacco	5.1	3.5
Chemical, Plastics & Rubber	4.7	4.3
Media: Broadcasting & Subscription	4.2	5.1
Hotel, Gaming & Leisure	4.0	5.7
	<b>66.8</b>	<b>66.6</b>

\* At 31 December 2019, 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 2020 and 31 December 2019 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 2020 and 31 December 2019.

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Master Fund II*</b>	<b>Master Fund II</b>
	<b>US\$</b>	<b>US\$</b>
United States of America	155,963,615	198,635,253
Europe	136,128,705	42,739,623
Guernsey	6,148	44,045,876
<b>Master Fund II financial assets at fair value through profit or loss (note 6)</b>	<b>292,098,468</b>	<b>285,420,752</b>

\*Shows the Company's proportionate direct share in the Master Fund II at 71.80% (31 December 2019: 100%).



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 5. FINANCIAL RISK MANAGEMENT (continued)

##### Credit and Counterparty Risk (continued)

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Master Fund II</b>	<b>Master Fund II*</b>
	<b>%</b>	<b>%</b>
United States of America	61.3	83.8
France	8.8	2.6
United Kingdom	6.9	3.1
Germany	6.0	1.8
Netherlands	4.9	1.8
Spain	2.8	0.5
Canada	1.6	2.3
Switzerland	1.4	0.3
Italy	1.3	0.3
Luxembourg	1.2	2.0
Other	3.8	1.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* At 31 December 2019, 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 II's underlying portfolio concentrations as of 31 December 2020 and 31 December 2019 (Master Fund also):

	<b>Maximum portfolio</b>	<b>Average portfolio</b>
	<b>holdings of a single</b>	<b>holdings % of</b>
	<b>asset % of total</b>	<b>total portfolio</b>
	<b>portfolio</b>	
<b>31 December 2020</b>		
Master Fund II	11.58%	1.92%
<b>31 December 2019</b>		
Master Fund II*	10.32%	3.70%

\* At 31 December 2019, the Master Fund II's exposure in the underlying CLO investments includes its exposure through its investment in the Master Fund.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2020****5. FINANCIAL RISK MANAGEMENT (continued)****Credit and Counterparty Risk (continued)**

The tables below summarises the Master Fund II's portfolio by asset class and portfolio ratings as at 31 December 2020 and 31 December 2019:

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Master Fund II*</b>	<b>Master Fund II</b>
	<b>US\$</b>	<b>US\$</b>
<b>By asset class</b>		
Equity Subordinated CLO notes	196,722,183	223,660,448
Mezzanine CLO notes	89,966,369	5,033,751
Limited Partnerships	5,409,916	56,726,553
	<hr/>	<hr/>
<b>Master Fund/Master Fund II financial assets at fair value through profit or loss (note 6)</b>	<b>292,098,468</b>	<b>285,420,752</b>

\*Shows the Company's proportionate direct share in the Master Fund II at 71.80% (31 December 2019: 100%).

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>Master Fund II</b>	<b>Master Fund II*</b>
<b>Rating</b>	<b>%</b>	<b>%</b>
B	33.7	35.9
B-	21.4	17.4
B+	12.3	16.0
BB-	8.6	9.3
BB	4.1	5.5
CCC+	3.7	1.7
BB+	1.9	2.6
CCC	1.3	0.4
BBB-	0.5	0.5
CCC-	0.3	0.2
D	0.2	0.2
BBB	0.0	0.1
CC	0.0	0.0
NA	12.0	10.2
	<hr/>	<hr/>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* At 31 December 2019, 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.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 5. FINANCIAL RISK MANAGEMENT (continued)

##### Liquidity Risk

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

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

The Company's liquidity risk is managed on a daily basis by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser monitors and considers the Company's 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. At 31 December 2019, the Company's UCITS investment was in an opened ended fund which had daily dealing, it was therefore a highly liquid asset for the Company.

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 2017 shares. In the prior year, as well as 2017 Shares, the Company's capital was also represented by 2014 shares. All holdings of 2014 Shares on the register at the close of business on 1 April 2019 were redeemed. Capital is managed in accordance with the investment policy, in pursuit of its investment objectives.



**FINANCIAL STATEMENTS**

## Notes to the Financial Statements (continued)

For the year ended 31 December 2020

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

	<b>31 December 2020</b>
	<b>2017 Shares</b>
	<b>US\$</b>
Cost of financial assets at fair value through profit or loss at the start of the year	426,885,179
Purchase of investments in Master Fund II at cost during the year	40,204,500
Sale of UCITS investment during the year	(34,999,873)
Realised loss on sale of UCITS investments during the year	(3,064,277)
<b>Cost of financial assets at fair value through profit or loss at the end of the year</b>	<b>429,025,529</b>
Net unrealised losses on financial assets at the end of the year	(135,941,934)
<b>Financial assets at fair value through profit or loss at the end of the year</b>	<b>293,083,595</b>
Realised loss on sale of UCITS investments during the year	(3,064,277)
Movement in net unrealised loss during the year	(45,778,713)
Income distributions declared from Master Fund II during the year	22,756,626
<b>Net losses on financial assets at fair value through profit or loss</b>	<b>(26,086,364)</b>

	<b>31 December 2019</b>		
	<b>2014 Shares</b>	<b>2017 Shares</b>	<b>Total Company</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Cost of financial assets at fair value through profit or loss at the start of the year	22,491,051	425,164,125	447,655,176
Purchase of investments in Master Fund II at cost during the year	–	9,782,000	9,782,000
Purchase of UCITS investment at cost during the year	–	38,064,150	38,064,150
Capital distribution received from the Master Fund II	–	(46,125,096)	(46,125,096)
Sale of investment in the Master Fund during the year*	(17,536,442)	–	(17,536,442)
Realised loss on sale of investments during the year	(4,954,609)	–	(4,954,609)
<b>Cost of financial assets at fair value through profit or loss at the end of the year</b>	<b>–</b>	<b>426,885,179</b>	<b>426,885,179</b>
Net unrealised losses on financial assets at the end of the year	–	(90,163,222)	(90,163,222)
<b>Financial assets at fair value through profit or loss at the end of the year</b>	<b>–</b>	<b>336,721,957</b>	<b>336,721,957</b>
Realised loss on sale of investment in the Master Fund	(4,954,609)	–	(4,954,609)
Movement in net unrealised loss during the year	4,333,950	(32,004,352)	(27,670,402)
Income distributions declared from the Master Fund during the year	454,996	–	454,996
Income distributions declared from the Master Fund II during the year	–	30,510,995	30,510,995
<b>Net losses on financial assets at fair value through profit or loss</b>	<b>(165,663)</b>	<b>(1,493,357)</b>	<b>(1,659,020)</b>

\*Sale of investment in the Master Fund was a non-cash transaction for the Company which, in accordance with the 2014 Final Redemption, was completed via a cash payment funded by the Master Fund II directly to the 2014 Shareholders and non-cash in specie distributions of 2014 Shareholders pro rata exposure to the Company's interest in the Master Fund.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

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

At 31 December 2020, the Company's 2017 Shareholders were 100% invested into Master Fund II. During the year ended 31 December 2020, the Master Fund II allowed three new limited partners to enter the partnership and at 31 December 2020, the Master Fund II had five limited partners, including Fair Oaks Founder II LP, a related entity. At 31 December 2020, following the admission of the three new limited partners, the Company had a 71.80% (31 December 2019: 100%) holding in the Master Fund II.

On 1 April 2019, the Master Fund II increased its limited partner interest in the Master Fund by 3.38%, through the partial acquisition of the 2014 Shares direct holding in the Master Fund in exchange for a cash settlement to the 2014 Shareholders. At 31 December 2020, the Master Fund II had a 66.20% holding in the Master Fund (31 December 2019: 66.20%). By 31 December 2020, the Master Fund had distributed the majority of its remaining assets to its limited partners, including the Master Fund II, with only an immaterial residual net asset balance remaining on the Master Fund's statement of financial position. As a result, at 31 December 2020, the Master Fund is not included in all the look-through information within this note. The Master Fund is, however, included in the comparative information within this note.

At 31 December 2019, the Company also had an investment of US\$38,000,000 in a zero-fee share class of Fair Oaks High Grade Credit Fund, a UCITS fund which is invested in AAA and AA rated securities, which was sold during the year ended 31 December 2020.

#### Look-through financial information

The following tables reconcile the Company's proportionate share of the 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:

	<b>31 December 2020</b>
	<b>Master Fund II*</b>
	<b>US\$</b>
Financial assets at fair value through profit or loss	292,098,468
Less: Net current assets	985,127
Total financial assets at fair value through profit or loss	<b>293,083,595</b>

\*Shows the Company's proportionate direct share in the Master Fund II at 71.80% (31 December 2019: 100%).

	<b>31 December 2019</b>
	<b>Master Fund II</b>
	<b>US\$</b>
Financial assets at fair value through profit or loss	285,420,752
Less: Net current assets	13,177,705
Total financial assets at fair value through profit or loss	<b>298,598,457</b>

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2020****6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

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

	<b>31 December 2020</b>
	<b>Master Fund II</b>
	<b>US\$</b>
Net unrealised losses on investments at the beginning of the year	(90,222,573)
Investment income	41,425,839
Income distributions received from Master Fund	1,195,154
Income distributions received from Cycad	302,367
Unrealised losses on financial assets at fair value through profit or loss	(51,289,064)
Realised losses on financial assets at fair value through profit or loss	(1,274,359)
Net losses on derivative financial instruments and foreign exchange	(11,024,561)
Other income	223,135
Expenses	(2,521,247)
Income distributions declared during the year	(22,756,625)
<b>Net unrealised losses on investments at the end of the year</b>	<b>(135,941,934)</b>

\*Shows the Company's proportionate direct share in the Master Fund II at 71.80% (31 December 2019: 100%).

	<b>31 December 2019</b>		
	<b>Master Fund*</b>	<b>Master Fund II</b>	<b>Total Company</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Net unrealised losses on investments at the beginning of the year	(4,333,950)	(58,158,870)	(62,492,820)
Investment income	969,559	26,532,789	27,502,348
Income distributions received from Master Fund	–	4,585,652	4,585,652
Income distributions received from Cycad	–	1,629,268	1,629,268
Unrealised losses on financial assets at fair value through profit or loss	(1,150,240)	(31,239,221)	(32,389,461)
Realised losses on financial assets at fair value through profit or loss	–	(1,697,606)	(1,697,606)
Net losses on derivative financial instruments and foreign exchange	5,923	1,232,003	1,237,926
Other income	–	487,857	487,857
Expenses	9,095	(3,083,450)	(3,074,355)
Income distributions declared during the year	(454,996)	(30,510,995)	(30,965,991)
Movement in unrealised on sale of the Master Fund	4,954,609	–	4,954,609
<b>Net unrealised losses on investments at the end of the year</b>	<b>–</b>	<b>(90,222,573)</b>	<b>(90,222,573)</b>

\*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only. From 1 April 2019, the Company no longer retained a direct investment in the Master Fund in respect of 2014 Shares.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

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

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.

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 2020			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
<b>Assets:</b>				
Financial assets at fair value through profit or loss	–	–	293,083,595	293,083,595
<b>Total</b>	<b>–</b>	<b>–</b>	<b>293,083,595</b>	<b>293,083,595</b>
	31 December 2019			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
<b>Assets:</b>				
Financial assets at fair value through profit or loss	–	38,123,500	298,598,457	336,721,957
<b>Total</b>	<b>–</b>	<b>38,123,500</b>	<b>298,598,457</b>	<b>336,721,957</b>

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

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2020****6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

At 31 December 2019, the Company had a UCITS investment which published daily prices derived by underlying administrators of the entity on a net asset value basis. This UCITS investment was sold during the year ended 31 December 2020. The Directors valued this UCITS investment at its net asset value at the relevant valuation date, as determined in accordance with the terms of the UCITS investment and as notified to the Company by the underlying administrator. At 31 December 2019, the Directors determined that the net asset value best represents fair value and have classified the UCITS investment as a level 2 investment.

The following table presents the movement in Level 3 instruments:

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>US\$</b>	<b>US\$</b>
<b>Opening Balance</b>	298,598,457	385,162,356
Purchases	40,204,500	9,782,000
Sale of investment in the Master Fund during the year*	–	(17,536,442)
Movement in net unrealised loss during the year	(45,719,362)	(27,729,752)
Realised loss on sale during the year	–	(4,954,609)
Capital distributions received from Master Fund II	–	(46,125,096)
<b>Closing Balance</b>	<b>293,083,595</b>	<b>298,598,457</b>

\*Sale of investment in the Master Fund was a non-cash transaction for the Company which, in accordance with the 2014 Final Redemption, was completed via a cash payment funded by the Master Fund II directly to the 2014 Shareholders and non-cash in specie distributions of 2014 Shareholders pro rata exposure to the Company's interest in the Master Fund.

*Transfers between Level 1, 2 and 3*

There have been no transfers between levels during the year ended 31 December 2020 or 31 December 2019. 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 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:

	<b>31 December 2020</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Master Fund II</b>				
Financial assets at fair value through profit or loss	–	54,562,173	237,536,295	292,098,468
Derivatives at fair value through profit or loss	–	(3,093,679)	–	(3,093,679)
<b>Total</b>	<b>–</b>	<b>51,468,494</b>	<b>237,536,295</b>	<b>289,004,789</b>
	<b>31 December 2019</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Master Fund II</b>				
Financial assets at fair value through profit or loss	–	5,033,751	280,387,001	285,420,752
Derivatives at fair value through profit or loss	–	(412,504)	–	(412,504)
<b>Total</b>	<b>–</b>	<b>4,621,247</b>	<b>280,387,001</b>	<b>285,008,248</b>

\*Shows the Company's proportionate direct share in the Master Fund II at 71.80% (31 December 2019: 100%).



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

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

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2020:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund II	293,083,595	NAV	Zero % discount	N/A
	<b>293,083,595</b>			

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2019:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund II	298,598,457	NAV	Zero % discount	N/A
	<b>298,598,457</b>			

The Master Fund II has engaged an independent third party to provide valuations for the 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 II's investments categorised in Level 3 as at 31 December 2020:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<b>Master Fund II*</b>					
<u>CLO Income Notes</u>					
United States of America	150,559,848	Prices provided by a third party agent	US\$0.3900 - US\$0.9958	US\$0.6638	50% increase/decrease will have a fair value impact of +/- US\$75,279,924
Europe	78,783,736	Prices provided by a third party agent	€0.6300 - €0.9600	€0.8162	50% increase/decrease will have a fair value impact of +/- US\$39,391,861
<u>CLO Sub Fee Notes</u>					
Europe	2,782,795	Prices provided by a third party agent	€1.2500 - €2.7700	€1.6114	50% increase/decrease will have a fair value impact of +/- US\$1,391,398
<u>Limited Partnerships</u>					
Master Fund*	6,148	Zero % discount	N/A	N/A	50% increase/decrease will have a fair value impact of +/- US\$3,074
Cycad	5,403,768	Zero % discount	N/A	N/A	50% increase/decrease will have a fair value impact of +/- US\$2,701,884
	<b>237,536,295</b>				

\*Shows the Company's proportionate direct share in the Master Fund II at 71.80% (31 December 2019: 100%).

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2020****6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

The Master Fund II has 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 II's investments categorised in Level 3 as at 31 December 2019:

<b>Asset Class</b>	<b>Fair Value US\$</b>	<b>Unobservable inputs</b>	<b>Ranges</b>	<b>Average</b>	<b>Sensitivity to changes in significant unobservable inputs</b>
<b>Master Fund II</b>					
<u>CLO Income Notes</u>					
United States of America	180,920,825	Prices provided by a third party agent	US\$0.4800 - US\$0.7000	US\$0.6466	10% increase/decrease will have a fair value impact of +/- US\$18,092,083
Europe	42,739,623	Prices provided by a third party agent	€0.0001 - €1.4500	€0.9600	10% increase/decrease will have a fair value impact of +/- US\$4,273,962
<u>Limited Partnerships</u>					
Master Fund*	44,045,876	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US\$4,404,588
Cycad	12,680,677	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US\$1,268,068
	<b>280,387,001</b>				

**7. INTEREST INCOME**

	<b>For the year ended 31 December 2020 US\$</b>	<b>For the year ended 31 December 2019 US\$</b>
Interest income on financial assets carried at amortised cost:		
Cash and cash equivalents	3,215	172,853
	<b>3,215</b>	<b>172,853</b>

**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 II, and indirectly in the Master Fund, (taking into account any rebates of such management fees to the Company) in respect of the same relevant period.





## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

*Investment Adviser (continued)*

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

	<b>For the year ended 31 December 2020 US\$</b>	<b>For the year ended 31 December 2019 US\$</b>
Company investment advisory fee	2,117,962	3,343,821
Less: Master fund II rebate	(1,967,530)	(2,419,320)
Less: Master fund rebate	(43,664)	(846,725)
Net Company investment advisory fee	<b>106,768</b>	<b>77,776</b>

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 22 January 2020 and 23 October 2020, the General Partner purchased 271,851 and 266,842 2017 Shares respectively in the secondary market by way of reinvesting 25% of the quarter's investment advisory fees. On 24 July 2019 and 23 October 2019, the General Partner purchased 285,355 and 289,969 2017 Shares respectively in the secondary market by way of reinvesting 25% of the quarter's investment advisory fees.

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

*Fair Oaks CLOs*

At 31 December 2020, Master Fund II had investments in FOAKS 1X CLO, FOAKS 2X CLO and FOAKS 3X CLO (the "Fair Oaks CLOs") valued at €22,417,985, €48,412,123 and €42,772,670 (31 December 2019: FOAKS 1X CLO at €28,122,957 and Fair Oaks Loan Funding II at €10,000,000) respectively. The Investment Adviser to the Company also acts as collateral manager to the Fair Oaks CLOs. In addition, the Master Fund II acts as the risk retention holder for the Fair Oaks CLOs. As risk retention holder, the Master Fund II is required to retain, on an ongoing basis, a material net economic interest in the Fair Oaks CLOs of not less than 5%.

In addition, during the final quarter of 2019, the Company's uninvested cash was invested, in accordance with the Company's investment policy, into a zero-fee USD share class of Fair Oaks High Grade Credit Fund, an open-ended UCITS fund for which the Investment Adviser to the Company acts as investment manager. This UCITS investment was sold in the first quarter of 2020.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

##### *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. On 1 April 2019, the Company sold its direct holding of 11.31% in the Master Fund, but indirectly remains invested in the Master Fund through the Master Fund II. At 31 December 2020, US\$48,656 (31 December 2019: US\$14,522,140) carried interest was accrued at the Master Fund level, to be apportioned to and payable by all limited partners. At 31 December 2020, US\$nil (31 December 2019: US\$nil) carried interest was accrued at Master Fund II level in respect of the Company's limited partnership interest.

##### **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\$32,320 (31 December 2019: US\$32,320), payable quarterly in arrears for Administration and Accounting services. The Administrator is also entitled to an annual fee of £500 in relation to FATCA reporting 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.

###### *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 2019: £43,000). In addition, as detailed in the Prospectus announced by the Company on 29 March 2021, a one-off payment of £5,000 ("one-off payment") is payable to the Directors relating to work performed in connection with the publication of Prospectus, such fee increasing by an additional £2,500 (i.e. bringing this one-off payment to £7,500) if the total gross amounts raised under the Placing Programme exceed US\$100 million.

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

	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2019</b>
	<b>US\$</b>	<b>US\$</b>
<b>CHARGE FOR THE YEAR</b>		
Investment adviser fee	106,768	77,776
Administration fee	144,580	130,869
Directors' fees and expenses	166,652	164,167
<b>OUTSTANDING FEES</b>		
Investment adviser fee	1,563	32,516
Administration fee	2,806	5,401



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

*Shares held by related parties*

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

Name	31 December 2020		31 December 2019	
	No. of 2017 Shares	Percentage	No. of 2017 Shares	Percentage
Professor Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel	40,000	0.01%	9,697	0.00%
Nigel Ward	60,000	0.01%	60,000	0.01%

On 9 September 2020, Nicole Bridel, a person closely associated with Jon Bridel, purchased 30,303 2017 Shares in the Company on the SFS of the London Stock Exchange. During January 2021, Jon Bridel transferred all shares registered in his name to Nicole Bridel. On 17 September 2019, Nigel Ward purchased 15,525 2017 Shares in the Company on the SFS of the London Stock Exchange.

As at 31 December 2020, the Investment Adviser, the General Partner and principals of the Investment Adviser and General Partner held an aggregate of 1,988,946 2017 Shares (31 December 2019: 2,566,438 2017 Shares), which is 0.42% (31 December 2019: 0.57%) of the issued 2017 share capital.

#### 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

On 17 April 2020, the Company announced an issue to satisfy market demand of 7,194,623 new 2017 Shares (the "New Shares") at an issue price of US\$0.372 per New Share, representing a premium of approximately 2% to the latest published NAV.

On 24 April 2020, the Company announced an issue to satisfy market demand of 4,900,000 new 2017 Shares (the "New Shares") at an issue price of US\$0.372 per New Share, representing a premium of approximately 2% to the latest published NAV.

On 27 April 2020, the Company announced an issue to satisfy market demand of 2,935,000 new 2017 Shares (the "New Shares") at an issue price of US\$0.372 per New Share, representing a premium of approximately 2% to the latest published NAV.

The net proceeds of the New Share issue were invested in accordance with the Company's investment policy, with the Master Fund II investing in CLO debt securities in the secondary market, which the Investment Adviser believes offer attractive risk-adjusted returns over the medium term.

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.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 10. SHARE CAPITAL (continued)

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. The proceeds of the redemption were 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 consists of 453,348,737 2017 Shares only, further to the final redemption of 21,942,137 2014 Shares effected on 1 April 2019. The 2014 Shares were disabled on CREST and the line of stock cancelled.

The Company's 2017 Shares (previously 2014 Shares also) are classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction in equity and are charged to the share capital account, including the initial set up costs.

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

- (a) Dividends: Shareholders of a particular class or tranche are entitled to receive, and participate in, any dividends or other distributions relating to the assets attributable to the relevant class or tranche which are resolved to be distributed in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.
- (b) Winding Up: On a winding up, the shareholders of a particular class or tranche shall be entitled to the surplus assets attributable to that class or tranche remaining after payment of all the creditors of the Company.
- (c) Voting: Subject to any rights or restrictions attached to any class or tranche of shares, at a general meeting of the Company, on a show of hands, every holder of voting shares present in person or by proxy and entitled to vote shall have one vote, and on a poll every holder of voting shares present in person or by proxy shall have one vote for each share held by him, but this entitlement shall be subject to the conditions with respect to any special voting powers or restrictions for the time being attached to any class or tranche of shares which may be subject to special conditions. Refer to the Memorandum and Articles of Incorporation for further details.
- (d) Buyback: The Company may acquire its own shares (including any redeemable shares). Any shares so acquired by the Company may be cancelled or held as treasury shares provided that the number of shares of any class held as treasury shares must not at any time exceed ten per cent. (or such other percentage as may be prescribed from time to time by the States of Guernsey Committee for Economic Development) of the total number of issued shares of that class. Any shares acquired in excess of this limit shall be treated as cancelled.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 10. SHARE CAPITAL (continued)

##### Issued Share Capital

###### 2017 Shares

	31 December 2020		31 December 2019	
	Shares	US\$	Shares	US\$
Share capital at the beginning of the year	452,698,737	439,400,944	453,348,737	439,888,273
Own share capital acquired during the year	–	–	(650,000)	(487,329)
Share capital issued during the year	15,029,623	5,591,020	–	–
Share capital issued costs	–	(69,890)	–	–
Share capital at the end of the year	<b>467,728,360</b>	<b>444,922,074</b>	<b>452,698,737</b>	<b>439,400,944</b>

###### 2014 Shares

	31 December 2020		31 December 2019	
	Shares	US\$	Shares	US\$
Share capital at the beginning of the year	–	–	21,942,137	22,716,434
Share redemptions	–	–	(21,942,137)	(17,866,496)*
Transfer of reserves on final 2014 share redemption	–	–	–	(4,849,938)
Share capital at the end of the year	–	–	–	–

\*2014 Share redemption was a non-cash transaction for the Company which, in accordance with the 2014 Final Redemption, was completed via a cash redemption funded by the Master Fund II directly to the 2014 Shareholders and non-cash in specie distributions of 2014 Shareholders pro rata exposure to the Company's interest in the Master Fund.

The total number of 2017 Shares in issue, as at 31 December 2020 was 468,378,360 (31 December 2019: 453,348,737), of which 650,000 (31 December 2019: 650,000) shares were held in treasury, and the total number of shares in issue excluding treasury shares were 467,728,360 (31 December 2019: 452,698,737). At 31 December 2020, the Company has 467,728,360 (31 December 2019: 452,698,737) total voting rights.

During the year ended 31 December 2019, the Company bought back 650,000 2017 shares, at an average price of £0.7497.

#### 11. LOSSES PER SHARE

	For the year ended 31 December 2020		For the year ended 31 December 2019*	
	2017 Shares US\$	2014 Shares* US\$	2017 Shares US\$	2017 Shares US\$
Weighted average number of shares	462,946,236	21,942,137	453,178,052	
Loss for the financial year	(26,988,615)	(199,760)	(2,068,953)	
Basic and diluted losses per share	(0.0583)	(0.0091)	(0.0046)	

\*for the period from 1 January 2019 to the date 2014 shares were redeemed in full on 1 April 2019.

The weighted average number of shares as at 31 December 2020 and 31 December 2019 is based on the number of 2014 and 2017 Shares in issue during the period under review, as detailed in Note 10.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2020****12. TRADE AND OTHER PAYABLES**

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>US\$</b>	<b>US\$</b>
Investment advisory fees payable (note 8)	1,563	32,516
Audit fees payable	51,946	46,189
Administration fees payable (note 8)	2,806	5,401
Sundry expenses payable	28,045	5,579
	<b>84,360</b>	<b>89,685</b>

**13. CONTINGENT LIABILITIES AND COMMITMENTS**

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\$452,346,532 (31 December 2019: US\$435,442,012) of which US\$432,982,362 (31 December 2019: US\$392,777,862) had been called.

At 31 December 2020 and 31 December 2019, the Company had no further outstanding commitments.

**14. SUBSEQUENT EVENTS**

On 2 February 2021, the Company declared an interim dividend of 2.50 US cents per 2017 share in respect of the quarter ended 31 December 2020 to the 2017 Shares, which was paid on 26 February 2021. The ex dividend date was 11 February 2021.

On 23 March 2021, the Master Fund II changed its name from FOMC II LP to FOIF II LP.

On 9 March 2021, a new Guernsey limited partnership was established called Wollemi Investments I LP (the "Wollemi Fund"). On 23 March 2021, the Master Fund II transferred its investment in Cycad to the Wollemi Fund in exchange for limited partnership interests in the Wollemi Fund.

On 29 March 2021, the Company announced the publication of a prospectus (the "Prospectus") and circular (the "Circular") in relation to the Reorganisation Proposal and Placing Programme Proposal.

The Board was pleased to put forward the Proposals, which facilitate an extension of Shareholders' investments through a new class of 2021 Shares deployed through a new Guernsey limited partnership called FOMC III LP (the "Master Fund III"), while also offering an option to elect for Realisation Shares and establishing a twelve-month placing programme.

Master Fund III is characterised by a fixed investment period and life, during which Fair Oaks will continue to utilise its tactical approach to investing across the CLO capital structure, seeking to take advantage of well-defined investment opportunities in both control equity and secondary mezzanine securities.

The investment opportunity leverages Fair Oaks' in-depth fundamental research, long track record and experience in structuring and negotiating investments and ongoing monitoring of the underlying portfolios. In addition to improving corporate fundamentals, the potential for attractive risk-adjusted returns for Shareholders is supported by the compelling financing levels currently available to CLO equity investors, which have the potential to benefit both new investments and the refinancing or reset of existing investments.

On 19 April 2021, at the Extraordinary General Meeting of the Company, resolutions 1 and 2 were passed but resolution 3 was not passed.

The Board acknowledges that Resolution 3 did not pass by a small margin and will consult with major shareholders ahead of proposing a resolution to disapply pre-emption rights at the forthcoming Annual General Meeting.



## FINANCIAL STATEMENTS

### Notes to the Financial Statements (continued)

For the year ended 31 December 2020

#### 14. SUBSEQUENT EVENTS (continued)

The full text of each resolution is detailed below:

1. **THAT**, conditional upon the passing of Resolution 2, the articles of incorporation in the form produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification be and are hereby approved and adopted as the articles of incorporation of the Company in substitution for, and to the exclusion of, the existing articles of incorporation of the Company.
2. THAT on the Effective Date (as defined in the circular issued by the Company to the Shareholders dated 26 March 2021 (the "**Circular**")) all ordinary shares of no par value each in the capital of the Company designated as "2017 shares" ("**2017 Shares**") shall be re-designated on a one-for-one basis as ordinary shares of no par value each in the capital of the Company designated as "2021 shares" ("**2021 Shares**") pursuant to the proposals set out in the Circular, EXCEPT THAT where and to the extent that a shareholder has made a valid election for the re-designation of some or all of their 2017 Shares as ordinary shares of no par value each in the capital of the Company designated as "Realisation Shares" ("**Realisation Shares**") pursuant to an election contemplated under the Circular (and provided that the aggregate net asset value (as at 31 March 2021) of the 2017 Shares elected for Realisation Shares exceeds US\$30 million), such 2017 Shares shall instead be re-designated on a one-for-one basis as Realisation Shares.
3. THAT the Directors of the Company be and are hereby empowered to issue the following shares in the Company or rights to subscribe for such shares in the Company for cash as if the pre-emption provisions contained under Article 6.2 did not apply to any such issues provided that this power shall be limited to the issue of the below-mentioned shares or of rights to subscribe for the below-mentioned shares:
  - (i) up to a maximum number of 350 million C Shares under the Placing Programme ("**Placing Programme**" as defined in the Circular); and
  - (ii) up to such number of 2021 Shares under the Placing Programme as represents 20 per cent. of the 2021 Shares then in issue following the Effective Date, and

subject to any issues of 2021 Shares and/or C Shares under the Placing Programme being capped at an aggregate issue value of US\$350 million, and that such power shall expire on the earlier of the 2022 AGM Date (as defined in the Circular) or on the expiry of 15 months from the passing of this Resolution except that the Company may before such expiry make offers or agreements which would or might require C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company to be issued after such expiry and notwithstanding such expiry the Directors may issue C Shares and/or 2021 Shares or rights to subscribe for such shares in the Company in pursuance of such offers or agreements as if the power conferred hereby had not expired.

On 19 April 2021, the Company announced the results of the Elections as referred to above. The purpose of the reorganisation was to allow those Shareholders who wished to extend the life of their investment in the Company beyond the planned end date of Master Fund II, to be able to do so by having their 2017 Shares re-designated as 2021 Shares, with such 2021 Shares investing in a new master fund, Master Fund III, which will have a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of Master Fund II. Shareholders who did not wish to extend the life of their investment to participate in Master Fund III were able to make an express election to have their existing 2017 Shares re-designated as Realisation Shares, which will continue to participate solely in Master Fund II.





## FINANCIAL STATEMENTS

# Notes to the Financial Statements (continued)

For the year ended 31 December 2020

### 14. SUBSEQUENT EVENTS (continued)

#### Results of Elections

The Company announced that 62,562,883 2017 Shares had been elected for re-designation as Realisation Shares at the effective date, representing 13.4% of the 2017 Shares currently in issue.

Consequently, 405,815,477 2017 Shares were re-designated as 2021 Shares, representing the balance of 86.6% of the 2017 Shares currently in issue (including 650,000 shares held in Treasury). Based on the above election results and the 2017 Share price as at close of business on 16 April 2021, the 2021 Share class had an opening market capitalisation of approximately US\$266 million.

On 22 April 2021, 405,815,477 2021 Shares and 62,562,883 Realisation Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange.

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



## ADDITIONAL INFORMATION

# Portfolio Statement (unaudited)

As at 31 December 2020

### CLO Equity

Security	Instrument	Par Value Master Fund II*	Valuation
AIMCO 2017-A SUB	Subordinated Notes	US\$19,443,440	49.00%
ALLEG 2017-2X SUB	Subordinated Notes	US\$28,630,250	65.00%
ARES 2015-35R	Subordinated Notes	US\$18,668,000	70.00%
AWPT 2015-4 SFN	Subordinated Fee Notes	US\$9,197,231	0.01%
AWPT 2017-6X SUB	Subordinated Notes	US\$21,575,900	39.00%
ELM 2014-1A SUB	Subordinated Notes	US\$4,540,807	33.00%
FOAKS 1X M	Subordinated Fee Notes	€718,000	0.01%
FOAKS 1X SUB	Subordinated Notes	€20,104,000	63.00%
FOAKS 1X Z	Subordinated Fee Notes	€182,127	277.00%
FOAKS 2X M	Subordinated Fee Notes	€718,000	0.01%
FOAKS 2X SUB	Subordinated Notes	€33,746,000	82.00%
FOAKS 2X Z	Subordinated Fee Notes	€615,429	125.00%
FOAKS 3X M	Subordinated Fee Notes	€718,000	0.01%
FOAKS 3X SUB	Subordinated Notes	€25,130,000	96.00%
FOAKS 3X Z	Subordinated Fee Notes	€615,429	163.00%
HLM 13X-2018 SUB	Subordinated Notes	US\$18,632,100	47.00%
MARNR 2015-1A SUB	Subordinated Notes	US\$4,693,868	38.00%
MARNR 2016-3A SUB	Subordinated Notes	US\$4,428,562	45.00%
MARNR 2017-4 SUB	Subordinated Notes	US\$20,743,020	41.00%
POST 2018-1X SUB	Subordinated Notes	US\$28,204,835	76.00%
SHACK 2018-12 SUB	Subordinated Notes	US\$21,540,000	63.00%
WELF 2018-1X SUB	Subordinated Notes	US\$20,732,250	64.00%

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

**ADDITIONAL INFORMATION****Portfolio Statement (unaudited) (continued)****As at 31 December 2020****CLO Mezzanine**

<b>Security</b>	<b>Instrument</b>	<b>Par Value Master Fund II*</b>	<b>Valuation</b>
ACLO 2X ER	Class E Notes	€1,687,300	100.00%
APID 2018-18A F	Class F Notes	US\$2,872,000	84.83%
ARESE 2013-6X ER	Class E Notes	€3,159,200	100.16%
ARESE 9X E	Class E Notes	€3,661,800	96.10%
BOPHO 4X E	Class E Notes	€1,436,000	97.80%
CADOG 6A ER	Class E Notes	€1,436,000	98.30%
CEDF 2014-4A ER	Class E Notes	US\$1,436,000	98.32%
CGMSE 2017-1X E	Class E Notes	€1,436,000	90.36%
CGMSE 2018-1X D	Class D Notes	€7,180,000	93.41%
CORDA 10X E	Class E Notes	€1,436,000	97.73%
CRNCL 2018-9X E	Class E Notes	€1,436,000	94.76%
DRSLF 2017-49A F	Class F Notes	US\$3,302,800	88.15%
DRSLF 2017-53A F	Class F Notes	US\$3,590,000	87.49%
EGLXY 2018-6X F	Class F Notes	€3,051,500	77.24%
GLM 2019-5A E	Class E Notes	US\$7,180,000	93.99%
HARVT 11X FR	Class F Notes	€1,795,000	82.27%
HARVT 7X FR	Class F Notes	€1,256,500	84.69%
HLM 13X-2018 F	Class F Notes	US\$4,119,525	82.72%
JPARK 2016-1A ER	Class E Notes	US\$1,436,000	88.18%
JUBIL 2016-17X ER	Class E Notes	€2,872,718	97.62%
JUBIL 2017-19X E	Class E Notes	€6,462,000	95.31%
MDPK 2016-20A FR	Class F Notes	US\$2,872,000	85.60%
OCT39 2018-3A E	Class E Notes	US\$2,154,000	96.49%
OCT39 2018-3A F	Class F Notes	US\$6,462,000	89.27%
OHECP 2015-4X FR	Class F Notes	€1,823,002	75.64%
OZLME 2X F	Class F Notes	€4,458,780	183.10%
OZLME 3X E	Class E Notes	€1,436,000	96.18%
SPAUL 5X ER	Class E Notes	€1,543,700	98.23%
SYMP 2018-19A F	Class F Notes	US\$3,949,000	81.02%

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



## ADDITIONAL INFORMATION

# Management and Administration

### Directors

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

### Registered Office and Business Address

Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

### Investment Adviser

Fair Oaks Capital Limited  
1 Albemarle Street  
London W1S 4HA

### Legal Advisers in Guernsey

Carey Olsen (Guernsey) LLP  
Carey House  
Les Banques  
St Peter Port  
Guernsey GY1 4BZ

### Custodian and Principal Bankers

BNP Paribas Securities Services S.C.A.  
BNP Paribas House  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 1WA

### Joint Bookrunners, Joint Brokers and Joint Financial Advisers

Numis Securities Limited  
10 Paternoster Square  
London EC4M 7LT

Liberum Capital Limited  
Ropemaker Place, Level 12  
Ropemaker Street  
London EC2Y 9LY

### Administrator and Secretary

Praxis Fund Services Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey GY1 1GR

### Registrar

Link Market Services (Guernsey) Limited  
Mont Crevelt House  
Bulwer Avenue  
St Sampson  
Guernsey GY2 4LH

### Legal Advisers in United Kingdom

Stephenson Harwood LLP  
1 Finsbury Circus  
London EC2M 7SH

### Independent Auditor

KPMG Channel Islands Limited  
Gategny Court  
Gategny Esplanade  
St Peter Port  
Guernsey GY1 1WR



## ADDITIONAL INFORMATION

# Appendix

### Alternative Performance Measures used in the Financial Statements

- Total NAV return**

Total NAV return is a calculation showing how the NAV per share has performed over a period of time, taking into account dividends paid to shareholders. It is calculated on the assumption that dividends are reinvested, on an accumulative basis from inception of the Company, at the prevailing NAV on the last day of the month that the shares first trade ex-dividend. The performance is evaluated on a original shareholding of 1000 shares on inception of the Company (12 June 2014). This provides a useful measure to allow shareholders to compare performances between investment funds where the dividend paid may differ.

		<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2019</b>
Opening NAV per 2017 share		US\$0.7580	US\$0.8742
Opening accumulated number of 2017 Shares*	(a)	1,915.3 shares	1,672.5 shares
Opening NAV valuation of shares	(b)	US\$1,451.8	US\$1,462.1
Dividends paid during the year		US\$0.0580	US\$0.1115
Dividends converted to shares**	(c)	195.6 shares	242.8 shares
Closing NAV per 2017 share		US\$0.6306	US\$0.7580
Closing accumulated number of 2017 Shares* (d = a + c)	(d)	2,110.9 shares	1,915.3 shares
Closing NAV valuation of shares	(e)	US\$1,331.1	US\$1,451.8
NAV valuation of shares return (f = e – b)	(f)	(US\$120.7)	(US\$10.3)
<b>Total NAV return (g = (f / b) x 100)</b>	<b>(g)</b>	<b>(8.3%)</b>	<b>(0.7%)</b>

\*with dividends reinvested since inception (12 June 2014)

\*\*converted to 2017 Shares at the prevailing month end NAV ex-dividend for all dividends paid during the year.



## ADDITIONAL INFORMATION

### Appendix (continued)

#### Alternative Performance Measures used in the Financial Statements (continued)

- **Total share price return**

Total share price return is a calculation showing how the share price per share has performed over a period of time, taking into account dividends paid to shareholders. It is calculated on the assumption that dividends are reinvested, on an accumulative basis from inception of the Company, at the prevailing share price on the last day of the month that the shares first trade ex-dividend. The performance is evaluated on a original shareholding of 1000 shares on inception of the Company (12 June 2014). This provides a useful measure to allow shareholders to compare performances between investment funds where the dividend paid may differ.

		<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2019</b>
Opening share price per 2017 share		US\$0.6775	US\$0.7925
Opening accumulated number of 2017 Shares*	(a)	1,889.4 shares	1,642.4 shares
Opening share price valuation of shares	(b)	US\$1,280.1	US\$1,301.6
Dividends paid during the year		US\$0.0580	US\$0.1115
Dividends converted to shares**	(c)	205.0 shares	247.0 shares
Closing share price per 2017 share		US\$0.6175	US\$0.6775
Closing accumulated number of 2017 Shares* (d = a + c)	(d)	2,094.4 shares	1,889.4 shares
Closing share price valuation of shares	(e)	US\$1,293.3	US\$1,280.1
Valuation of shares return (f = e – b)	(f)	US\$13.2	(US\$21.5)
<b>Total share price return (g = (f / b) x 100)</b>	<b>(g)</b>	<b>1.0%</b>	<b>(1.7%)</b>

\*with dividends reinvested since inception (12 June 2014)

\*\*converted to 2017 Shares at the prevailing month end share price ex-dividend for all dividends paid during the year.

**ADDITIONAL INFORMATION**

## Appendix (continued)

**Alternative Performance Measures used in the Financial Statements** (continued)

- Ongoing charges ratio (“OCR”)**

The ongoing charges ratio of an investment company is the annual percentage reduction in shareholder returns as a result of recurring operational expenditure. Ongoing charges are classified as those expenses which are likely to recur in the foreseeable future, and which relate to the operation of the company, excluding investment transaction costs, gains or losses on investments and performance fees. In accordance with the AIC guidance, the proportionate charges for the period are also incorporated from investments in other funds. As such charges from the Master Fund II a weighted average percentage for the year of 80.32% (31 December 2019: 100%), the Master Fund at a weighted average percentage for the year of 53.17% (31 December 2019: 65.36%) and Cycad Investments LP at weighted average percentage for the year of 12.02% (31 December 2019: 14.96%) are included. Performance fees or carried interest from the underlying funds are not included. The OCR is calculated as the total ongoing charges for a period divided by the average net asset value over that period/year.

	For the year ended 31 December 2020			For the year ended 31 December 2019		
	Company US\$	Master Funds* US\$	Total US\$	Company US\$	Master Funds* US\$	Total US\$
Total expenses	811,248	2,512,992	3,324,240	805,444	4,213,653	5,019,097
Non-recurring expenses	(3,303)	412,776	409,473	(5,103)	(193,502)	(198,605)
Total ongoing expenses	807,945	2,925,768	3,733,713	800,341	4,020,151	4,820,492
Average NAV	254,338,231		254,338,231	366,775,594		366,775,594
Ongoing charges ratio (using AIC methodology)	<b>0.32%</b>		<b>1.47%</b>	<b>0.22%</b>		<b>1.31%</b>

\*“Master Funds” includes FOIF II LP (formerly FOMC II LP), FOIF LP and Cycad Investments LP.





