

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 to the bottom of the page.

# FAIR OAKS INCOME LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022



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## COMPANY OVERVIEW

# Highlights

- Fair Oaks Income Limited's (the "Company") Net Asset Value ("NAV") return per 2021 Share was -0.9%<sup>1</sup> (31 December 2021: +22.7%) for the year ended 31 December 2022 on a total return basis (with dividends reinvested). The NAV return per Realisation Share was 0.5%<sup>1</sup> (31 December 2021: 22.7%) for the year ended 31 December 2022 on the same basis.
- As at 31 December 2022, the Company's total market capitalisation was US\$228.7 million, comprising US\$197.3 million of 2021 Shares and US\$31.4 million of Realisation Shares.
- The 2021 Shares closed at a mid-price of US\$0.4900 on 31 December 2022. The 2021 Shares traded at an average discount to NAV of -9.88% during the year ended 31 December 2022.
- The Realisation Shares closed at a mid-price of US\$0.5650 on 31 December 2022. The Realisation Shares traded at an average premium to NAV of 1.33% during the year ended 31 December 2022.
- The Company declared dividends of 9.50 US cents per 2021 Share and Realisation Share in the year ended 31 December 2022 (31 December 2021: 9.75 US cents per 2021 Share and Realisation Share).

### Financial Highlights

	<b>31 December 2022</b>	<b>31 December 2021</b>
<b>2021 Shares</b>		
Net Assets	US\$230,390,880	US\$270,738,076
Net Asset Value per share	US\$0.5721	US\$0.6682
Share mid-price at year end	US\$0.4900	US\$0.6225
Discount to Net Asset Value <sup>1</sup>	(14.35%)	(6.84%)
Ongoing charges figure (2021 Shares only) <sup>2</sup>	0.34%	0.25%
Ongoing charges figure (look through basis) <sup>3</sup>	1.38%	1.35%
	<b>31 December 2022</b>	<b>31 December 2021</b>
<b>Realisation Shares</b>		
Net Assets	US\$31,954,409	US\$41,786,970
Net Asset Value per share	US\$0.5749	US\$0.6679
Share mid-price at year end	US\$0.5650	US\$0.7000
(Discount)/premium to Net Asset Value <sup>1</sup>	(1.73%)	4.80%
Ongoing charges figure (Realisation Shares only) <sup>2</sup>	0.35%	0.25%
Ongoing charges figure (look through basis) <sup>3</sup>	1.34%	1.34%

<sup>1</sup>See "Appendix" on pages 77 - 80.

<sup>2</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 pages 77 - 80.

<sup>3</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 pages 77 - 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 2021. The Company began trading on the Specialist Fund Segment (“SFS”) of the London Stock Exchange on 12 June 2014.

### Reorganisation

On 19 April 2021, the Company announced the result of its reorganisation proposal, being that 62,562,883 2017 Shares had been elected for re-designation as Realisation Shares (the “Realisation Shares”), representing 13.4% of the 2017 Shares in issue, and 405,815,477 2017 Shares were redesignated as 2021 Shares (the “2021 Shares”), representing the balance of 86.6% of the 2017 Shares in issue (including 650,000 shares held in Treasury). The Company makes its investments through FOIF II LP (the “Master Fund II”) and FOMC III LP (the “Master Fund III”), in both of which the Company is a limited partner (the “Master Fund II” and the “Master Fund III” together the “Master Funds”). The Master Fund II was registered in Guernsey on 24 February 2017 and the Master Fund III was registered in Guernsey on 10 March 2021 under The Limited Partnerships (Guernsey) Law, 1995. 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 the 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 the new Master Fund III, which has a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of the Master Fund II.

On 12 September 2022, the Company returned US\$3,999,990 by way of a compulsory partial redemption of Realisation Shares, which amounted to 6,984,442 Realisation Shares. At 31 December 2022, the Company has 55,578,441 Realisation Shares (31 December 2021: 62,562,883 Realisation Shares) and 402,709,500 2021 Shares (31 December 2021: 405,165,477 2021 Shares) in issue. The Realisation Shares invest solely into the Master Fund II and the 2021 Shares invest solely into the Master Fund III. At 31 December 2022, the Company had direct holdings of 9.59% (31 December 2021: 9.59%) in the Master Fund II and 95.32% (31 December 2021: 100%) holding in Master Fund III, which in turn had a holding of 62.21% (31 December 2021: 62.21%) in the Master Fund II. Together, the Company held a direct and indirect holding of 68.89% (31 December 2021: 71.80%) in the Master Fund II.

### The Master Funds

At 31 December 2022, the Master Fund II had six limited partners, including Fair Oaks Founder II LP, a related entity. During the year ended 31 December 2022, the Master Fund III allowed one new limited partner to enter the partnership and at 31 December 2022, the Master Fund III had three limited partners, including Fair Oaks Founder VI LP. The General Partner of the Master Fund II and Master Fund III is Fair Oaks Income Fund (GP) Limited (the “General Partner” or “GP”).

### Cycad and Wollemi

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 Collateralised Loan Obligations (“CLOs”). On 9 March 2021, a new Guernsey limited partnership was established called Wollemi Investments I LP (“Wollemi”). On 23 March 2021, the Master Fund II transferred its investment in Cycad to Wollemi in exchange for limited partnership interests in Wollemi. In addition, since 2021, the Master Fund II also transferred its investments in FOAKS 1X CLO, FOAKS 2X CLO, FOAKS 3X CLO and FOAKS 4X CLO (the “Fair Oaks CLOs”) to Wollemi in exchange for limited partnership interests in Wollemi. At 31 December 2022, the Master Fund II holds 100.00% (31 December 2021: 100%) of the commitment capital of Wollemi.

### Founder Partners

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

### 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 II and/or Master Fund III) in US, UK 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.



## COMPANY OVERVIEW

### Summary Information (continued)

#### **Investment Objective and Policy** (continued)

The Company implements its investment policy by:

1. with respect to those assets of the Company attributable to the Realisation Shares: investing in Master Fund II; and
2. with respect to those assets of the Company attributable to the 2021 Shares and any future C Shares: investing in Master Fund III.

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

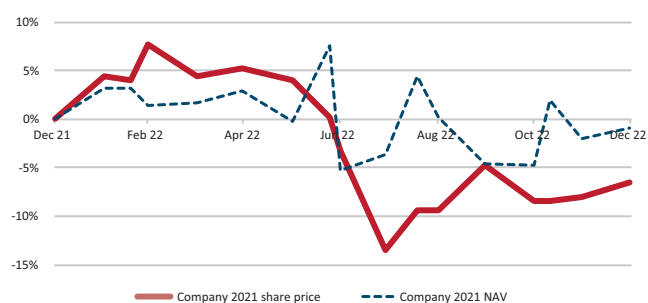
## Chairman's Statement

The independent Board of the Company is pleased to present its Annual Report and Financial Statements for the financial period ended 31 December 2022.

The Company's 2021 Share NAV and share price generated a total return (with dividends reinvested) of -0.9% and -6.5% respectively in 2022. The Company's 2021 Shares closed at a mid-price of 49.0 US cents as of 31 December 2022, representing a discount to NAV of -14.4%.

The Company's Realisation Share NAV and share price generated a total return (with dividends reinvested) of +0.5% and -5.9% respectively. The Company's Realisation Shares closed at a mid-price of 56.5 US cents as of 31 December 2022, representing a discount to NAV of -1.7%.

Figure 1.1 – Total return: 2021 Shares NAV and share price in 2022<sup>1</sup>



By comparison, the total return for the JP Morgan US Leveraged Loan index in 2022 was +0.06%<sup>2</sup>. In the same period, the JP Morgan US High Yield total return was -10.57%<sup>2</sup> while the JP Morgan CLO B rated index returned -6.39%<sup>3</sup>.

Table 1.2 – Total returns in 2022

	FY 2022 total return
Company's 2021 Share price	-6.51%
Company's 2021 NAV	-0.88%
JP Morgan US Leveraged Loan index	+0.06%
JP Morgan US High Yield index	-10.57%
JP Morgan Post-Crisis CLOIE B rated index	-6.39%

<sup>1</sup>Data as at 31 December 2022.

<sup>2</sup>Source: JP Morgan. Data as at 31 December 2022.

<sup>3</sup>Source: JP Morgan. Post-Crisis Single-B rated composite (Unhedged USD). Data as at 31 December 2022.

<sup>4</sup>Fair Oaks' data.

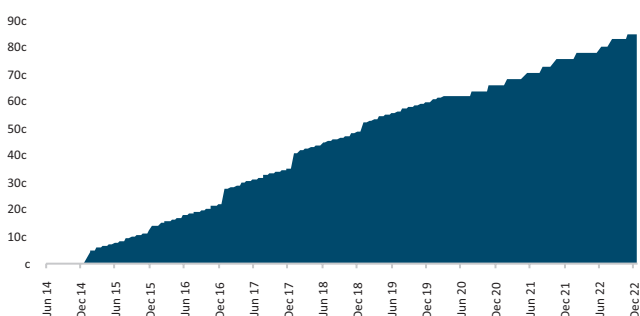
<sup>5</sup>Intex: CCC+, CCC and CCC- rated assets (S&P). Based on loan facility rating (S&P).

## Cash flow and dividends

The CLOs in which the Master Funds hold control CLO equity investments experienced an annualised default rate of 0.17%<sup>4</sup> and had CCC and below exposure of 4.27%<sup>5</sup> as at 31 December 2022, both below the market's average of 0.72% and 5.76%. As a result of the strong fundamental performance of the portfolio, all CLO equity and debt investments made their scheduled distributions in 2022.

The Company paid 9.50 US cents in dividends per 2021 share in respect of the year ending 31 December 2022. Subsequent to the year end, the Company declared a dividend of 2.0 US cents per Realisation Share and 2.0 US cents per 2021 Share in February 2023, consistent with the Q3 2022 dividend amount. The dividend yield for the 2021 Shares and Realisation was +16.3% and 14.2% respectively as of the end of December, based on the closing share prices.

Figure 1.3 – Cumulative dividends per share since inception (US cents per 2021 Share):



All positions are in compliance with their BB over-collateralisation tests, with the average test value for CLO equity positions 4.2% above its threshold. Assuming 70c recovery in case of default, it would require 14% cumulative defaults to generate the par loss required to breach the test, before any cash-flow diversion.



## STRATEGIC REVIEW

### Chairman's Statement (continued)

#### Cash flow and dividends (continued)

The quality of the Master Funds' portfolios and the robustness of the CLO structure are evidenced by its resilience. As an example, the expected gross returns for the Master Funds (based on current NAV) under stress scenarios based on the 2000 and 2008 periods are +8.5% and +12.0% respectively (noting that defaults around 2000 were concentrated in telecom and technology sector so diversified CLOs would have suffered lower default rates). These scenarios apply actual historical defaults, recovery rates, CCC balances/prices, prepayment rates, interest rates and reinvestment assumptions for each period.

#### Material events

On 31 January 2022, the Company announced that Fair Oaks Income Fund (GP) had purchased 200,885 2021 Shares in the secondary market. The Company's 2021 Prospectus states that in the event that the 2021 Shares trade at a discount to any quarter end NAV, calculated on the date the NAV is published, 25% of that quarter's investment management fees (in respect of the 2021 Shares) will be reinvested to purchase 2021 Shares in the secondary market.

On 7 February 2022, the Company declared an interim dividend of 2.50 US cents per 2021 Share and 2.50 US cents per Realisation Share in respect of the quarter ended 31 December 2021. The ex-dividend date was 17 February 2022 and the dividend was paid on 18 March 2022.

On 4 May 2022, the Company announced that Fair Oaks Income Fund (GP) had purchased 197,640 2021 Shares in the secondary market.

On 13 June 2022, the Company declared an interim dividend of 2.50 US cents per 2021 Share and 2.50 US cents per Realisation Share in respect of the quarter ended 31 March 2022. The ex-dividend date was 23 June 2022 and the dividend was paid on 25 July 2022.

On 14 June 2022, the Company was pleased to announce the appointment of Fionnuala Carvill as a non-executive Director of the Company. The Company went on to state that one of the original Directors of the Company, Nigel Ward, intended to retire from the Board by the end of 2022 and, in order to ensure an orderly transfer of responsibilities, Ms Carvill has been appointed as chair of the Risk Committee ahead of Mr Ward's retirement.

Further to the announcement made on 14 June 2022, and in line with the Board's succession plan, the Company announced that Nigel Ward had resigned as a Non-Executive Director of the Company and Chair of the Nomination & Remuneration

Committee effective close of business on 8 December 2022. Jon Bridel has replaced him as Chair of the Nomination & Remuneration Committee with immediate effect.

On 28 July 2022, the Company announced that Fair Oaks Income Fund (GP) had purchased 239,044 2021 Shares in the secondary market.

On 12 August 2022, the Company declared an interim dividend of 2.50 US cents per 2021 Share and 2.50 US cents per Realisation Share in respect of the quarter ended 30 June 2022. The ex-dividend date was 18 August 2022 and the dividend was paid on 15 September 2022.

On 25 August 2022, the Company announced that it would return US\$4 million (equivalent to 6.3936 US cents per share) on 12 September 2022 (the "Redemption Date") by way of a compulsory partial redemption of Realisation Shares (the "First Redemption").

The First Redemption was effected at 57.27 cents per share, being the NAV per Realisation Share as at 29 July 2022 of 59.77 cents per share less the dividend for the period to 30 June 2022 of 2.50 cents per share. The First Redemption was effected pro rata to holdings of Realisation Shares on the register at the close of business on the Redemption Record Date, being 12 September 2022. At the time of the announcement, the Company had 62,562,883 Realisation Shares in issue of which none are held in treasury. On this basis 11.16 per cent. of each registered shareholding was redeemed on the Redemption Date. All shares that were redeemed were cancelled with effect from the Redemption Record Date.

On 20 September 2022, the Board announced that it had resolved to enhance the Company's aggregate distributions to holders of the 2021 Shares, with the objective of being meaningfully accretive to 2021 Shareholders and positively influencing the discount to NAV and trading liquidity of the 2021 Shares.

In relation to this, the Board authorised:

- **Share buyback programme.** The Board resolved to commence buybacks of 2021 Shares in the secondary market, initially for aggregate consideration of up to US\$20 million (equivalent to c.47 million shares at mid-market price at the time of the announcement) funded from the Company's material cash balance. It was also intended that buybacks would be used by the Company on an ongoing basis, subject to the level of the prevailing price relative to NAV.



## STRATEGIC REVIEW

### Chairman's Statement (continued)

#### Material events (continued)

- **Dividend guidance and additional resource for buyback programme.** The Board considers that, in addition to deploying current cash to the buyback programme, it will be accretive to 2021 Shareholder value, for as long as the discount to NAV remains wide, to direct a portion of net income into funding share buybacks rather than fully distributing as dividend. The Board therefore guided that it intended to declare future quarterly dividends on the 2021 Shares at a consistent rate of 2.00 US cents with any excess net income available to fund share buybacks. Establishing a consistent level of dividend provides greater certainty about future income for existing and prospective shareholders; based on the second quarter's portfolio cashflows the 2.00 US cents quarterly dividend was healthily covered.

On 19 October 2022, the Company announced that Fair Oaks Income Fund (GP) had purchased 232,474 2021 Shares and 30,599 Realisation Shares in the secondary market.

On 3 November 2022, the Company declared an interim dividend of 2.00 US cents per 2021 Share and 2.00 US cents per Realisation Share in respect of the quarter ended 30 September 2022. The ex-dividend date was 10 November 2022 and the dividend was paid on 9 December 2022.

Following the Distribution Policy announcement on 20 September 2022 and the general authority granted by shareholders of the Company on 14 June 2022 to make market purchases of its own Ordinary Shares, the Company went on to repurchase 2,455,977 2021 Shares during the period to 31 December 2022, to be held in treasury, at average cost of US\$0.4848 per Share. At 31 December 2022, the Company held 3,105,977 Ordinary Shares in treasury.

#### Subsequent events

On 30 January 2023, the Company announced that following the announcement of the NAV as at 31 December 2022, Fair Oaks Income Fund (GP) had purchased 23,920 Realisation Shares and 211,952 2021 Shares in the secondary market.

On 23 February 2022, the Company declared an interim dividend of 2.00 US cents per 2021 Share and 2.00 US cents per Realisation Share in respect of the quarter ended 31 December 2022. The ex-dividend date was 2 March 2023 and the dividend was paid on 31 March 2023.

Pursuant to the general authority granted by shareholders of the Company on 14 June 2022 to make market purchases of its own Ordinary Shares, the Company went on to repurchase 7,548,317 2021 Shares in the post year end period, to be held in treasury, at average cost of US\$0.4904 per Share.

#### Professor Claudio Albanese

Chairman

17 April 2023





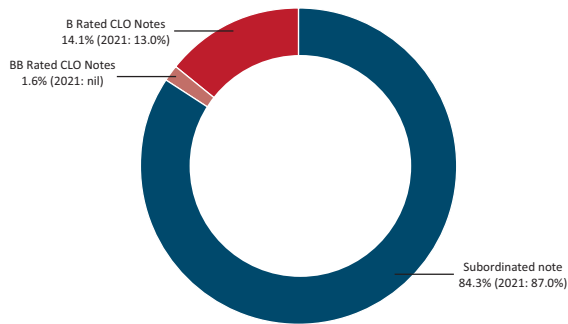
**STRATEGIC REVIEW**

# Investment Adviser’s Report

**Portfolio Review**

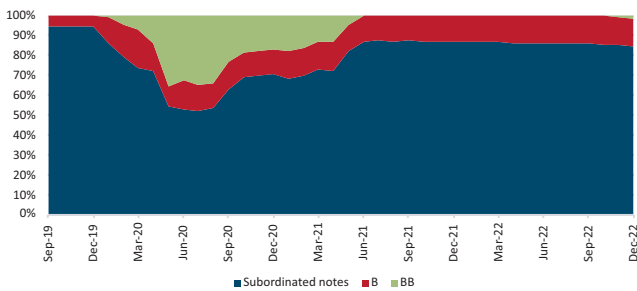
As at 31 December 2022, Master Funds<sup>1</sup> held 19 CLO equity positions and 15 CLO mezzanine investments offering exposure to 1,494 loan issuers and 21 CLO managers. Control CLO equity positions represented 84.3% of the portfolio’s market value.

Figure 2.1 – Portfolio composition of Master Funds<sup>2</sup>



CLO subordinated note exposure decreased from 87.0% at the end of 2021 to 84.3% as of December 2022, with the remaining 15.7% representing BB and B-rated CLO notes. This was due to the opportunistic purchases of BB-rated notes in the secondary market by Master Fund III in late 2022.

Figure 2.2 – Historical rating breakdown (excl. cash)<sup>3</sup>



As reported last year, the CLO notes for Fair Oaks Loan Funding IV were priced in November 2021 and settled in January 2022. There were no other new CLO Equity investments completed in 2022. The Master Fund III purchased two BB-rated mezzanine CLO notes in 2022:

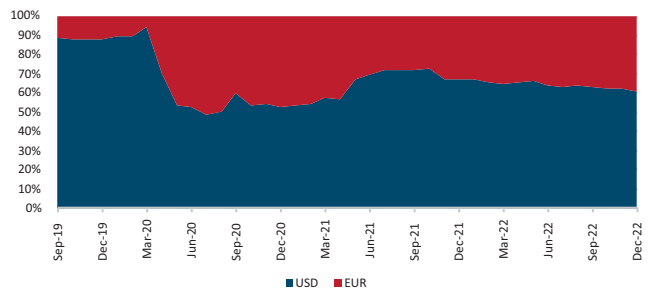
• **Fair Oaks CLO II**

- o CLO backed by a portfolio of European broadly-syndicated secured loans.
- o The manager of this CLO’s portfolio is Fair Oaks Capital Limited, the Investment Adviser to the Company and the Master Funds.
- o This CLO’s portfolio had a principal value of c.€350 million across 129 unique bank loan issuers, with a weighted average exposure per issuer of 0.97%.

• **OakTree Capital CLO 2021-2**

- o CLO backed by a portfolio of US broadly-syndicated secured loans.
- o The manager of this CLO’s portfolio is OakTree Capital.
- o This CLO’s current target portfolio has a principal value of c.US\$400 million across 233 unique bank loan issuers, with a weighted average exposure per issuer of 0.42%.

Figure 2.3 – Currency breakdown (excl. cash)<sup>4</sup>



The active management of the portfolio was instrumental to allow the Master Funds to de-risk while taking advantage of tactical market opportunities in 2016 and 2020, which generated efficient risk-adjusted and asymmetric returns. Going forward we expect this dynamic approach to continue to benefit the Master Funds as volatility increases in broader markets.

<sup>1</sup>The Master Fund II and the Master Fund III together the “Master Funds”.

<sup>2</sup>Breakdown by market value of the CLO investments held by the Master Funds, which includes its share of Wollemi Investments I LP (“Wollemi”). Percentages may not add up to 100% because of rounding errors. Data as at 31 December 2022.

<sup>3</sup>Fair Oaks’ data on Original CLO ratings at month-end. NAV weighted. Historical breakdown excludes cash.

<sup>4</sup>Fair Oaks’ data at month-end. NAV weighted, excluding cash.



## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### Portfolio Review (continued)

ESG considerations also impacted the Master Funds’ asset allocation. All control CLO equity investments (including reset and refinancings) completed since July 2019 have included ESG exclusion criteria in the CLO’s documentation. CLO investments subject to ESG investment criteria represented 69.8% of all CLO equity investments in the portfolio as of the end of 2022.

Figure 2.4 – CLO equity investments subject to ESG investment restrictions<sup>5</sup>

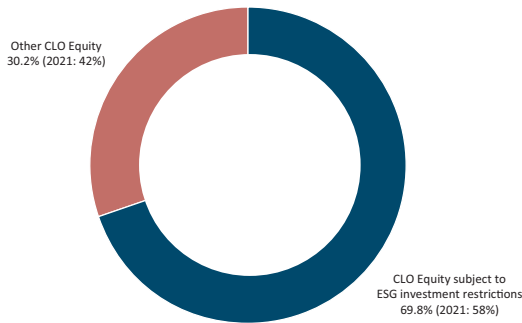


Figure 2.5 – CLO manager diversification of Master Funds<sup>6</sup>

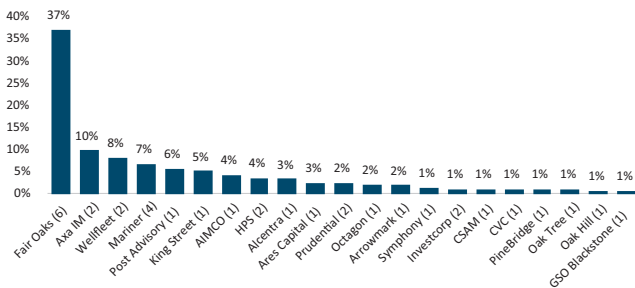
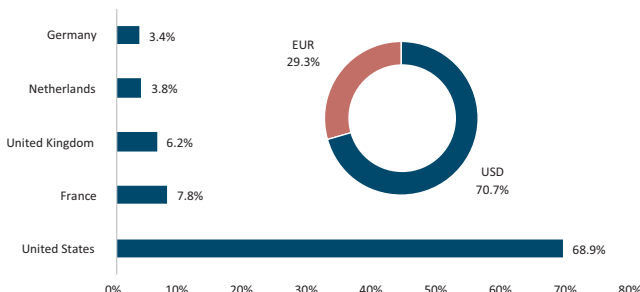


Figure 2.6 – Geographical (top five) and currency breakdown<sup>7</sup>



<sup>5</sup>Fair Oaks’ data.

<sup>6</sup>Based on market value of the CLO investments, as at 31 December 2022. Percentages may not add up to 100% because of rounding. The number of investments is shown in parentheses after each manager name.

<sup>7</sup>Based on loan par value weighted by Master Funds’ ownership of Income Notes. Source: Intex.

<sup>8</sup>Based on Moody’s sectors and loan par value weighted by Master Funds’ ownership of Income Notes. Source: Intex.

<sup>9</sup>Based on loan par value weighted by Master Funds’ proportional ownership of Income Notes. Source: Intex. Based on S&P deal ratings. Due to rounding, the percentages may not sum to 100%.

<sup>10</sup>Master Fund III’s share of distributions received by Master Fund II, Wollemi and Cycad.

Figure 2.7 - Industry diversification by Moody’s (top 10)<sup>8</sup>

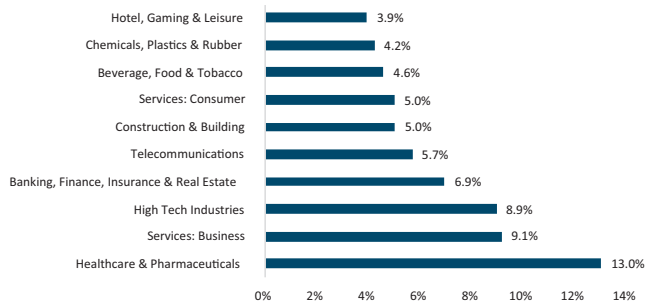
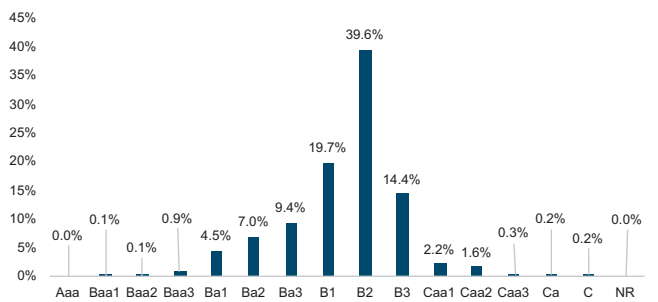


Figure 2.8 – Rating breakdown<sup>9</sup>



The focus on originating and controlling CLO subordinated note investments has resulted in superior fundamental performance. Origination and control allowed the Master Funds 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, the Master Funds have below-average exposure to sectors such as retail or energy.

Quarterly distributions remained strong, totalling US\$57.4 million for in 2022 vs. US\$49.4 million for 2021.<sup>10</sup>



## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### Portfolio Review (continued)

Figure 2.9 highlights the annualised equity distributions for transactions present in the portfolio in Q2 2019 and compares it with the market. In terms of relative performance, the Master Funds’ equity investments produced 15.4% annualised equity distributions in 2022, compared to the market median of 14.5%.

Figure 2.9 – Annualised Equity Distributions (over par)<sup>11</sup>

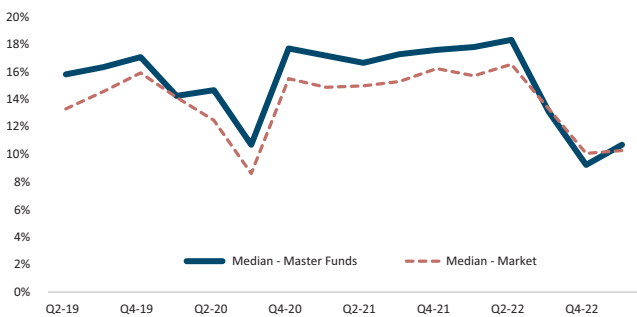
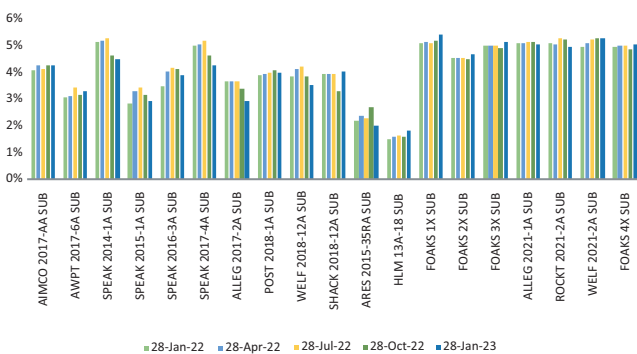


Figure 2.10 – Overcollateralisation (“OC”) test headroom<sup>12</sup>

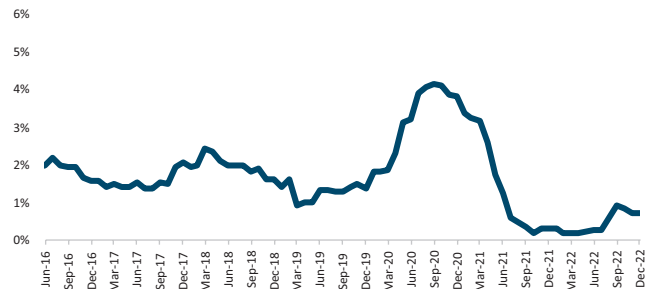


Looking at the sustainability of these cashflows, the OC test headroom, which determines whether distributions may be temporarily diverted from the CLO Equity, remains well covered, reducing the potential for any future cash-flow diversion.

#### US Loan Market Update

The trailing 12-month loan default rate rose to 0.72% in the US (from 0.29% in December 2021). The US distressed ratio (loans trading below 80c, a potential indicator of the direction of future defaults) increased from 1.63% in December 2021 to 8.77% in December 2022.<sup>13</sup>

Figure 2.11 – US loan default rate<sup>13</sup>



The average bid price of the Morningstar US leveraged loan index was 92.44c at the end of 2022, compared with 98.64c at the end of 2021.

Figure 2.12 – US loan price distribution<sup>13</sup>

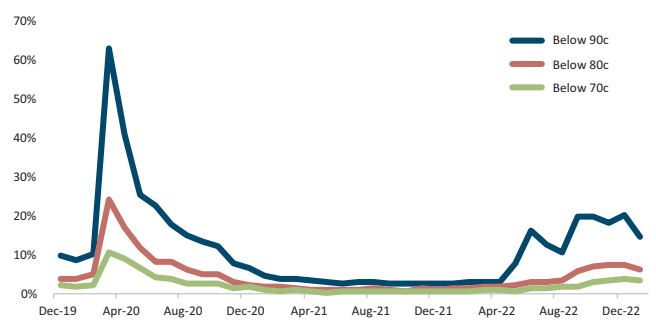
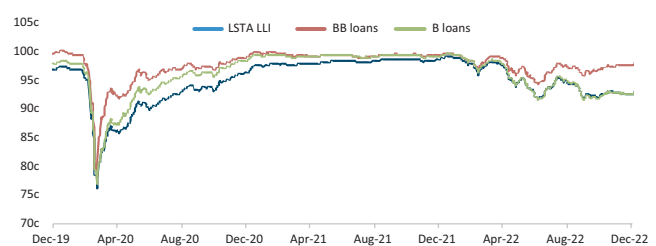


Figure 2.13 – Average bid price of US leveraged loans, BB and B rated loans<sup>14</sup>



2022 saw a return to negative net inflows into Prime loan funds. Total 2022 outflows totalled US\$13.5 billion compared to US\$47.5 billion of inflows in 2021.

<sup>11</sup>Source: Intex, Barclays. Based on annualised quarterly distributions of US equity notes over par.

<sup>12</sup>Source: Intex. Latest available data on OC test headroom to 31 December 2022 is 28 January 2023.

<sup>13</sup>Morningstar PitchBook LCD, LSTA US leveraged loan index. Distress ratio and default rate by principal amount. Data as at 31 December 2022.

<sup>14</sup>Source: Morningstar LSTA US Leveraged Loan Index.

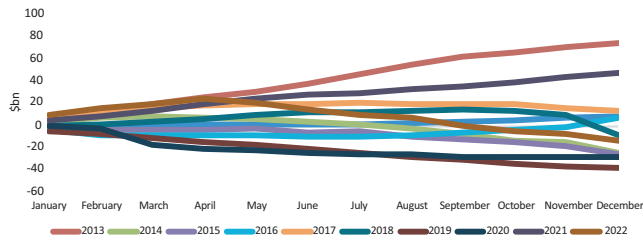


## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

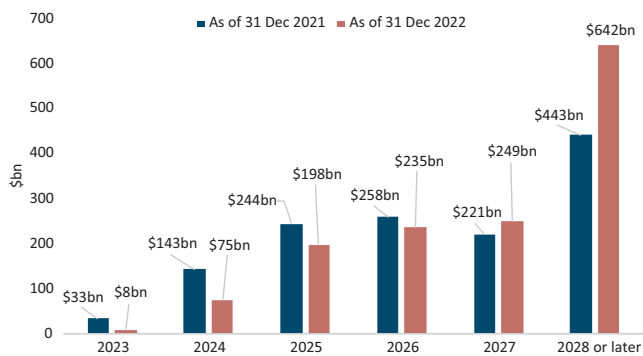
#### US Loan Market Update (continued)

Figure 2.14 – Flows into loan funds by year<sup>15</sup>



The number of loans due to be repaid in the next few years is limited. The notional of US loans maturing in 2023-2024 has fallen from US\$176 billion as of year-end 2021 to US\$83 billion as of year-end 2022 (Figure 2.15).

Figure 2.15 – Maturity wall of the US loan market of performing loans (US\$billions)<sup>16</sup>



#### European Loan Market Update

The number of expected Fed rate hikes over the next 12 months has increased from 1 in December 2021 to over 4 at the end of December 2022 and the market now expects over 5 rate increases in the Eurozone before the end of 2023.<sup>17</sup> According to Morningstar LCD’s December 2022 quarterly survey of market participants, the expectation is that the US loan default rate will be between 2.0% and 2.49% in 2023.<sup>18</sup>

The trailing 12-month loan default rate fell to 0.42% in Europe (from 0.62% in December 2021). The European distressed ratio (loans trading below 80c, a potential indicator of the direction of future defaults) increased from 0.6% in December 2021 to 8.2% in December 2022.<sup>19</sup>

<sup>15</sup>Source: Morningstar PitchBook LCD.

<sup>16</sup>Source Morningstar PitchBook LCD, LSTA US LLI maturity breakdown. Data as at 31 December 2022.

<sup>17</sup>Source: Bloomberg, at at 31 December 2022.

<sup>18</sup>Source: Morningstar PitchBook LCD. LCD’s Quarterly Leverage Finance Survey and 2023 Outlook for European leveraged loans.

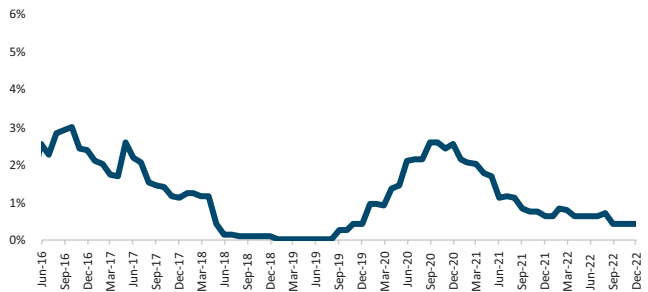
<sup>19</sup>Morningstar PitchBook LCD, European leveraged loan index. Distress ratio and default rate by principal amount. Data as at 31 December 2022.

<sup>20</sup>Source: Morningstar PitchBook LCD. Data as at 31 December 2022.

<sup>21</sup>The distressed ratio (loans trading below 80c, a potential indicator of the direction of future defaults).

<sup>22</sup>Source: Morningstar European Leveraged Loan Index.

Figure 2.16 – European loan default rate<sup>20</sup>



The average bid price of the Morningstar European Leveraged Loan Index was 91.34 on 31 December 2022, compared to 98.77 on 31 December 2021.

Figure 2.17 – European Leveraged Loan Index (“ELLI”) distress ratio<sup>21</sup>

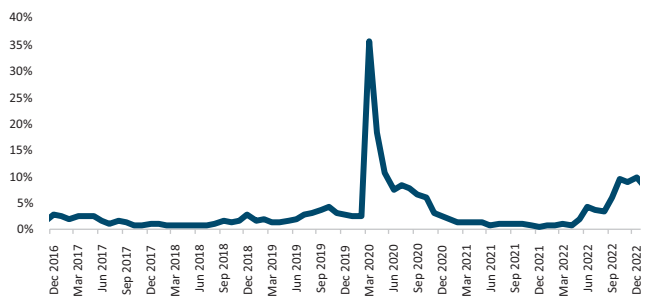
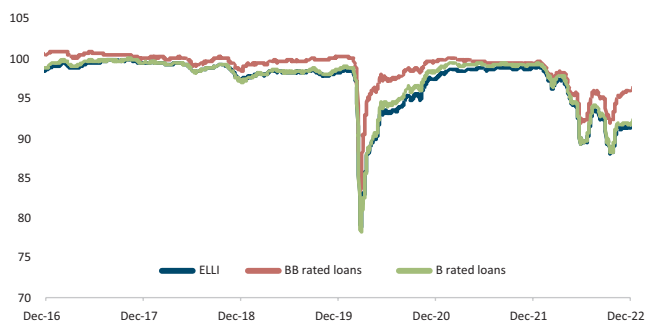


Figure 2.18 – Average bid price of EUR leveraged loans, BB and B rated loans<sup>22</sup>





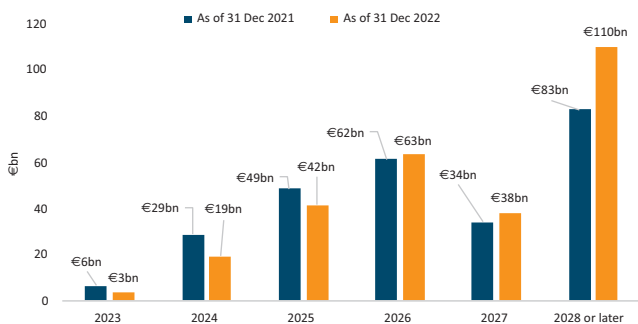
## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### European Loan Market Update (continued)

In Europe, the notional of EUR loans maturing in 2023-2024 has fallen from €35 billion as of year-end 2021 to €22 billion as of year-end 2022 (Figure 2.19).

Figure 2.19 – Maturity wall of the EUR loan market of performing loans (€ billion)<sup>23</sup>



According to Morningstar LCD's, the expectation is that the European loan default rate will be 1.7% and 2.2% in 2023.<sup>24</sup>

#### US CLO Market Update

US primary CLO new issuance was US\$129 billion, 31% below the total new-issue seen in 2021. 2022 refinancings and resets totalled US\$8.4 billion (22 deals) and US\$24.6 billion (45 deals), compared to US\$113.3 billion (285 deals) and US\$137.6 billion (266 deals) in 2021. Forecast for CLO new issuance in 2022 are US\$115 billion – US\$125 billion and forecasts for refi/reset volume are around US\$55 billion.<sup>25</sup>

Figure 2.20 – US CLO new issue volume<sup>26</sup>

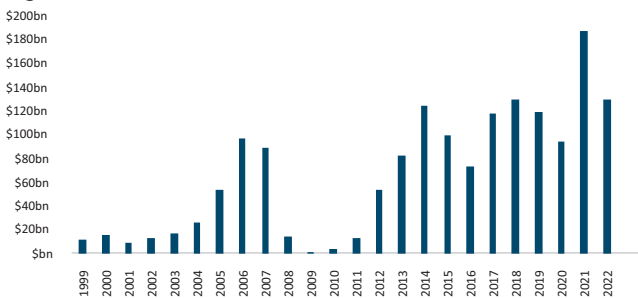
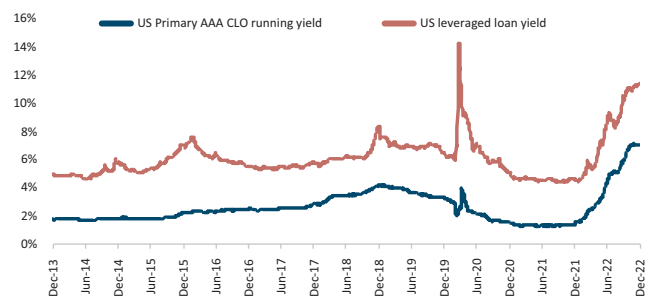


Figure 2.21 – US AAA primary spreads (bps)<sup>27</sup>



Figure 2.22 – USD AAA CLOs vs US bank loans (yield)<sup>28</sup>



#### European CLO Market Update

The European CLO market saw new issuance of €27.8 billion in 2022, compared to €38.6 billion in 2021. 2022 refinancings and resets totalled €1.1 billion (3 deals) and €4.7 billion (11 deals), compared to €19.1 billion (61 deals) and €41.9 billion (99 deals) in 2021.<sup>29</sup> Forecasts for European CLO new issuance in 2023 range from €15 billion - €27 billion and forecasts for refi/resets are €3 billion - €7 billion. There were between 30-40 warehouses open in Europe at the start of 2023 and at least 15 deals currently in the pipeline.<sup>30</sup>

<sup>23</sup>Source: Morningstar PitchBook LCD European Leveraged Loan Index, 31 December 2022. Distribution by year of maturity.

<sup>24</sup>Source: Morningstar PitchBook LCD. LCD's Quarterly Leverage Finance Survey and 2023 Outlook for European leveraged loans.

<sup>25</sup>Source: Bloomberg and Morningstar PitchBook LCD. Barclays, JP Morgan, Deutsche Bank, Credit Suisse, BofA Securities and Morgan Stanley. Reset/Refi forecasts include Mid-market CLOs.

<sup>26</sup>Source: Morningstar PitchBook LCD. LCD's Quarterly Leverage Finance Survey and 2023 Outlook for European leveraged loans.

<sup>27</sup>Source: JP Morgan. US CLO AAA Primary spreads. Data as at 31 December 2022.

<sup>28</sup>Source: JP Morgan. Primary US - CLO AAA. LLI summary yield flat-3yrs. Data as at 31 December 2022.

<sup>29</sup>Source: Morningstar PitchBook LCD CLO databank. Data as at 31 December 2022.

<sup>30</sup>Source: Bloomberg and Morningstar PitchBook LCD. BofA Global Research, BNP Paribas, Barclays, Deutsche Bank, JP Morgan, Morgan Stanley.

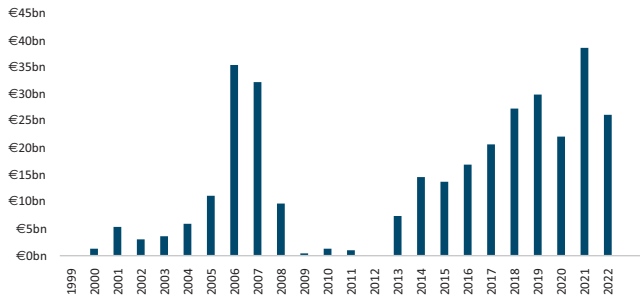


## STRATEGIC REVIEW

### Investment Adviser’s Report (continued)

#### European CLO Market Update (continued)

Figure 2.23 – EUR CLO new issue volume<sup>31</sup>



As in the US, European AAA CLO spreads were stable in 2022, despite decreased issuance.

Figure 2.24 – EUR AAA primary spreads (bps)<sup>32</sup>

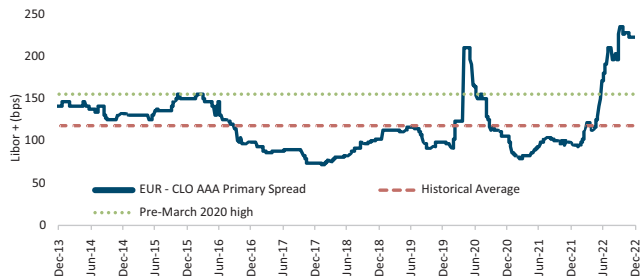
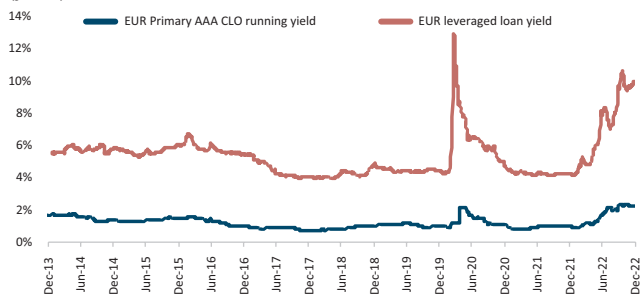


Figure 2.25 – European AAA CLOs vs European bank loans (yield)<sup>33</sup>



We believe that investor interest in floating rate assets will continue to support demand for CLO paper, given its relative value and operational simplicity (whereas CLO notes can be settled on a T+2 basis using Clearstream or DTC, loan settlements are challenging and have been subject to increased delays).

CLO spreads are also likely to be supported by lower primary CLO volumes expected in 2023.

#### Outlook

Despite the impacts of the ongoing war in Ukraine, the challenges of high inflation, rising rates and the bank failures seen in March 2023, we believe that the Company and the Master Funds are well positioned to generate attractive risk-adjusted returns in 2023:

- Stable and attractive dividend yield: current dividend yield of 16.3%.<sup>34</sup>
- Interest rate expectations: Fed and ECB rate hikes will continue to support investor demand for floating rate assets, potentially supporting CLO liabilities. The potential for lower CLO financing rates will support new CLO equity investments and the optimisation of the capital structure of existing CLO equity investments.
- Existing, high-quality portfolio and strong sourcing ability: CLO new issue supply in 2023 could be significantly below levels seen in 2022 and 2021, generating a demand-supply imbalance in CLO equity and debt given increasing demand for floating rate assets. The Master Funds benefit from strong, long-term relationships with CLO managers, including preferential access to Fair Oaks-managed CLOs.
- Structural advantages: Supported by the Master Funds rigorous valuation policy, fixed life of the underlying Master Funds and discount management provisions, including quarterly reinvestment of 25% of management fees if the Company does not trade at or above NAV. The Company will also continue to implement its buy-back program, with the objective of reducing the current discount to NAV and bid-offer spread.

<sup>31</sup>Source: Morningstar PitchBook LCD CLO databank. Data as at 31 December 2022.

<sup>32</sup>Source: JP Morgan. EUR CLO AAA Primary spreads. Data as at 31 December 2022.

<sup>33</sup>Source: JP Morgan. Primary EUR - CLO AAA. ELLI summary yield flat-3yrs. Data as at 30 December 2022.

<sup>34</sup>As at 31 December 2022.



## STRATEGIC REVIEW

### Investment Adviser's Report (continued)

#### **Outlook** (continued)

We continue to believe that the 16.3% dividend yield offered by the Company, supported by a high-quality portfolio of primarily first-lien, senior secured loans with very attractive term, non-mark-to-market financing represents one of the most attractive risk-adjusted opportunities available to investors in the current market environment.

#### **Fair Oaks Capital Limited**

17 April 2023



## 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, 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 Adviser.

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. After considering the risks associated with relevant uncertainties created by emerging risks (including the impact on markets and supply chains of geo-political risks such as the current crisis in Ukraine, and continuing macro-economic factors and inflation), the Board believes that the Company and the Master Funds are well placed to manage its business risks successfully. The Board is in regular communication with the Investment Adviser who continues to closely monitor the performance of the respective investments of the Master Funds 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:

Risk/Description	Control / Mitigation
<p><b>Investment and financial risk - Market risk - Increased</b></p> <p>Market risk is the risk of changes in market prices affecting the Company’s income and/or the value of its investments. This is impacted by a variety of factors including macro-economic conditions, increased default rates, higher interest rate spreads, exchange rates, inflation and general market pricing of similar CLO investments which will all effect the Company and its Net Asset Value.</p> <p>The Company’s exposures to market risk mainly comes from movements in the fair value of its investments in the Master Funds and on a look-through basis to the underlying CLO investments.</p>	<p>This risk cannot be mitigated in full but the impact can be reduced by diversification of the underlying CLO portfolio. The Company’s objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on investments.</p> <p>The Company’s market risk is monitored closely and managed and mitigated as far as possible by the Investment Adviser through active portfolio management and the maintenance of a diversified investment portfolio.</p> <p>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 guidelines and restrictions, as detailed in the prospectus of the Company, ensures adequate diversification of the Master Funds’ underlying investments.</p>





## STRATEGIC REVIEW

### Strategic Report (continued)

#### Principal and emerging risks (continued)

Risk/Description (continued)	Control / Mitigation (continued)
<p><b>Investment and financial risk - Credit risk - Increased</b></p> <p>Credit risk arises principally from debt securities held. The risk is that underlying CLO investments or financial assets held by the Company default, leading to investment losses, a reduction in cash flows receivable by the Master Funds and a fall in the Company's NAV. For the Company this is impacted by a variety of factors including deterioration in underlying credit ratings and credit ratings of counterparties and the secondary market for CLO investments maybe less liquid. The Company considers and aggregates all elements of credit risk exposure, such as individual obligation default risk, country risk and sector risk.</p>	<p>The Company's policy on credit risk mirrors that of the Master Funds', 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.</p> <p>The high rates of global inflation seen in 2022 and early 2023 have increased the cost of raw materials and labour for many companies. While most companies have demonstrated a strong ability to pass costs on to their customers, continued high rates of inflation increase the risk of a drop in profit margins and cash flow and an increase in the risk of default. Simultaneously, the sharp increase in USD and Euro interest rates seen in 2022 and early 2023 has increased the interest cost for borrowers of the loans held by CLOs. This is likely to contribute to an increase in financial distress at borrowers and a resulting increase in the loan default rate. While the valuation and the projected returns of CLO investments always assume some loan defaults, a prolonged period of elevated defaults could have a significant negative impact on the cash flows received from and the valuations of CLO investments held by the Master Funds. The Investment Adviser carries out extensive due diligence on the Master Funds' underlying CLO investments and monitors credit ratings performance regularly. Credit risk is mitigated as far as possible by the Investment Adviser through active portfolio management and the maintenance of a diversified investment portfolio. The Investment Adviser seeks to achieve this diversification of the portfolio for this risk in terms of underlying assets, issuer section, geography and maturity profile, please see the Investment Adviser's Report and the Note 5 of the Financial Statements for further details of this diversification.</p>
<p><b>Financial risk – Counterparty risk – Increased</b></p> <p>Counterparty risk can arise through the Company's exposure to particular counterparties for executing transactions and the risk that the counterparties will not meet their contractual obligations.</p>	<p>Counterparty exposures are monitored by the Investment Adviser and movements reported regularly to the Board. The Company's cash management policy ensures cash and cash equivalents are only to be placed with designated institutions that meet the credit standards set out in the Company's prospectus. In addition, 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 NAV in aggregate, and also of the NAV of each Share class, at the time of investment. Neither the Company nor the Master Funds have any exposure to any banks which experienced financial distress in March 2023 but the Investment Adviser is vigilant for any secondary impacts of bank distress on the Master Funds' investments.</p>

**STRATEGIC REVIEW****Strategic Report (continued)****Principal and emerging risks (continued)**

<b>Risk/Description (continued)</b>	<b>Control / Mitigation (continued)</b>
<p><b>Financial risk – Liquidity risk – Stable</b></p> <p>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.</p> <p>The Master Funds' CLO investments are not publicly traded or freely marketable, and there may be limited or no secondary market liquidity, as a result the realising assets to create liquidity in a timely manner maybe difficult.</p>	<p>The Administrator and Investment Adviser review the Company's income and cash flow forecasts on a monthly or ad hoc basis as required to ensure, as far as possible, the Company will always have sufficient liquidity to meet its liabilities when due.</p> <p>The Board reviews cash flow forecasts quarterly and ad hoc as required for buy-backs and distributions. Solvency tests are required prior to the Company making any distributions.</p>
<p><b>Operational risk – Stable</b></p> <p>This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This can include, but is not limited to, internal/external fraud, business disruption and system failures, data entry errors and damage to physical assets.</p>	<p>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 and other service providers, along with a report from the Auditors.</p>
<p><b>Compliance and regulatory risk – Stable</b></p> <p>Compliance and regulatory risk can arise where processes and procedures are not followed correctly or where incorrect judgement causes the Company to be unable to meet its objectives or obligations, exposing the Company to the risk of loss, sanction or action by Shareholders, counterparties or regulators.</p>	<p>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.</p>
<p><b>Political and economic risk – Increased</b></p> <p>Geopolitical events may have an adverse effect on the Company and its operations.</p> <p>The invasion of Ukraine by Russia in February 2022 has been an emerging risk which has caused increased volatility in global financial markets and increased expectations of supply chain disruption and cost inflation for oil, gas, metals, grains, vegetable oils and other raw materials.</p>	<p>The Risk Committee monitors geopolitical risks on an ongoing basis with independent advice received on emerging developments likely to affect the Company.</p> <p>The Investment Adviser will continue to monitor the economic impacts of the invasion of Ukraine by Russia. As detailed further in the Investment Adviser's Report, while loan and CLO valuations may be impacted by increased risk premiums across financial markets, it is not currently expected the CLOs in which the Master Funds invest to experience a significant increase in credit losses as a result of the invasion and its effect on the global economy.</p>



## STRATEGIC REVIEW

### Strategic Report (continued)

#### Principal and emerging risks (continued)

Risk/Description (continued)	Control / Mitigation (continued)
<p><b>Environmental, Social and Governance (ESG) risk – Stable</b>            Failure of the Company to identify potential future ESG requirements could lead to the Company's shares being less attractive to investors.</p>	<p>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. All CLO equity investments completed by the Master Funds since 2019 have included ESG-related investment criteria that prohibit investment in certain industry sectors which are considered to be environmentally or socially harmful.</p> <p>The Board, the Investment Adviser and all other service providers continue to monitor developments in the ESG regulatory and reporting requirements and is committed to increasing awareness in credit markets.</p>

#### Going Concern

The Directors have assessed the financial position of the Company as at 31 December 2022 and the factors that may impact its performance (including the potential impact on markets and supply chains of geo-political risks such as the current crisis in Ukraine, the continuing macro-economic factors and rising rates of inflation) in the forthcoming year.

#### *Russia/Ukraine crisis*

The Master Funds' CLO investments do not hold any securities in the Russia/Ukraine region and as such the performance or creditworthiness of the underlying CLOs have not been significantly impacted. Commodity prices due to the invasion of Ukraine (mainly oil/gas, metals and wheat) have impacted some of the companies to which the CLOs have loans but many companies were already subject to input price inflation before the Ukraine invasion and it is not expected that the additional cost inflation will significantly impact the performance of the CLOs. The Directors with the Company's Investment Adviser, continue to closely monitor the situation and the resulting disruption to supply chains, particularly with regard to energy prices.

The Investment Adviser continues to carefully monitor the performance of the Master Funds' 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 Funds 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 2026, 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 2026 is an appropriate period over which to provide its viability statement as this is a reasonable period over which risks relating to the asset class should be considered.



## STRATEGIC REVIEW

### Strategic Report (continued)

#### Viability Statement (continued)

At 31 December 2022, the Company is primarily invested into the Master Fund III. The Master Fund III has a planned end date of 12 June 2028. The Company is also invested into the Master Fund II which has a planned end date of June 2026.

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 Ukraine/Russia conflict, continuing macro-economic factors and rising rates of inflation, 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 2026.

#### 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 Master Fund II are held in custody by BNP Paribas Securities Services S.C.A., Guernsey Branch, ("BNP") pursuant to an agreement dated 9 March 2017 and the Company's underlying assets in Master Fund III are held in custody by U.S. Bank Global Corporate Trust Services, UK Branch ("US Bank") (together the "Custodians"), pursuant to an agreement dated 26 March 2021.

The Company's underlying assets in the Master Fund II and the Master Fund III are registered in the name of the respective 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 Custodians, to ensure the financial stability of the Custodians are being maintained to acceptable levels. As at 31 December 2022, the credit rating of BNP was Aa3 as rated by Moody's (31 December 2021: Aa3) and A+ by Standard & Poor's (31 December 2021: A-) and the credit rating of US Bank was A1 (31 December 2021: A1) as rated by Moody's and AA- (31 December 2021: AA-) by Standard & Poor's.

##### Administrator

Administration and Company Secretarial services are provided to the Company by Sanne Fund Services (Guernsey) Limited (the "Administrator"). The Administrator also provides these services to Master Fund II, Master Fund III, Wollemi, 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 an Italian resident.

**Jonathan (Jon) Bridel** (Chairman of the Audit Committee and, with effect from 9 December 2022, Chairman of the Nomination and Remuneration Committee) is currently a non-executive chairman or director of various listed investment funds. 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.

**Fionnuala Carvill** (*appointed 14 June 2022*) (Chair of the Risk Committee with effect from 14 June 2022) is a Non-Executive Director of Investec Bank (Channel Islands) Limited, Princess Private Equity Holding Limited and The Chartered Institute for Securities & Investment Future Foundation. Previous executive positions held include Managing Director of Kleinwort Benson (Channel Islands) Investment Management Limited, Director of Kleinwort Benson (Channel Islands) Limited, Commission Secretary and Head of Innovation at the Guernsey Financial Services Commission, and Director of Rothschild Bank (CI) Limited. She is a former board member of The Chartered Institute for Securities & Investment, a Liveryman of the Worshipful Company of International Bankers, and was granted Freedom of the City of London in 2007.

Fionnuala holds a Master's degree in Corporate Governance (Distinction), is a Chartered Fellow of The Chartered Institute for Securities & Investment; a Fellow of the London Institute of Banking & Finance (Chartered Institute of Bankers); a member of the Institute of Directors; a Fellow of The Chartered Governance Institute and a Chartered Governance Professional. In addition, she sits on the board of several charities, holding roles from fundraising and capacity building to governance and impact assessment. Fionnuala 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	London Stock Exchange – SFS
<b>Fionnuala Carvill</b> ( <i>appointed 14 June 2022</i> ) Princess Private Equity Holding Limited	London Stock Exchange – Main Market



## 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 2022. 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 41.

The Board declared dividends of US\$44,301,785 during 2022 (2021: US\$45,580,951) followed by an additional dividend declaration of US\$7,952,233 declared on 23 February 2023 in relation to the year ended 31 December 2022 (dividends declared in relation to the year ended 31 December 2021: US\$11,250,380). 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 and the Master Fund III in the relevant financial period attributable to the Company's investment in the Master Fund II and the Master Fund III, 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 19.

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 £45,000 (31 December 2021: £43,000) each per annum.

The Directors had the following interests in the Company at 31 December 2022 and 31 December 2021, held either directly or beneficially:

Name	31 December 2022		31 December 2021	
	No. of 2021 Shares	Percentage	No. of 2017 Shares	Percentage
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel <sup>1</sup>	40,000	0.01%	40,000	0.01%
Fionnuala Carvill ( <i>appointed 14 June 2022</i> )	–	–	N/A	N/A
Nigel Ward ( <i>resigned on 8 December 2022</i> )	N/A	N/A	60,000	0.01%

<sup>1</sup>All shares held by a person closely associated to Jon Bridel.



## GOVERNANCE

### Directors' Report (continued)

#### Substantial Shareholdings

As at 31 March 2023, being the date of the latest shareholder analysis prior to the publication of these Financial Statements, the following 2021 Shareholders had holdings in excess of 5% of the issued 2021 Share Capital:

Name	No. of 2021 Shares	Percentage of 2021 Shares
Vidacos Nominees Limited	44,788,005.00	11.04%
Nortrust Nominees Limited	34,412,860.00	8.48%
Vidacos Nominees Limited	27,184,806.00	6.70%

There were no significant shareholder changes in the period from 31 March 2023 and the date of signing this report.

#### 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 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 2022. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg. As the Board of the Company is the AIFM, the details of the Company's remuneration policy for the Directors is outlined on page 31 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

Over the course of the last decade, renewable energy has grown materially as governments and investors started to realise the need for sustainable energy sources. In 2022, countries worldwide continued to pursue decarbonisation plans and the renewable growth trend is expected to continue going forward as more countries join the Paris Climate Accord which aims to achieve the goal of net-zero carbon emissions by 2050.

The Company is a closed-ended investment company which has no employees or offices and 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 limited control. Europe, however, has seen the emergence of CLOs subject to Environmental, Social and Corporate Governance ("ESG") investment criteria. The inclusion of ESG language in CLOs has become more prevalent and is likely to develop from sector-based negative screening towards ESG scoring. The Master Funds have been at the forefront of these developments and, as of the end of December 2022, 69.8% of all CLO equity investments in the Master Funds' 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.

"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

17 April 2023



## 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 2022, 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 2023, 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

On 6 May 2022, the Company announced in the notice of Annual General Meeting for 14 June 2022, that Nigel Ward intended to retire from the Board by the end of 2022. As a result, the Company commenced a recruitment process with the intention to appoint a new Director by the end of the first half of 2022 to allow an orderly transfer of responsibilities prior to Nigel Ward’s retirement.

On 14 June 2022, the Board were subsequently pleased to announce the appointment of Fionnuala Carvill as a non-executive Director of the Company. In order to ensure an orderly transfer of responsibilities, Ms Carvill was appointed as chair of the Risk Committee ahead of Nigel Ward’s retirement. On 8 December 2022, the Company announced that Nigel Ward had resigned as a Non-Executive Director of the Company and Chair of the Nomination & Remuneration Committee effective close of business on 8 December 2022. Jon Bridel replaced him as Chair of the Nomination & Remuneration Committee with immediate effect.

As at 31 December 2022, 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 19.

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

Jon Bridel is the Chairman of the Audit Committee and, with effect from 9 December 2022, the Nomination and Remuneration Committee.

Fionnuala Carvill is, with effect from 14 June 2022, the Chair of the Risk Committee.



## GOVERNANCE

### Corporate Governance (continued)

#### Composition and Independence of Directors (continued)

Nigel Ward was the Chair of the Risk Committee until 13 June 2022 and the Chair of Nomination and Remuneration Committee until 8 December 2022.

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 14 June 2022, shareholders re-elected all the Directors of the Company.

The Board are mindful of the length of service of the Directors, some of whom have been in place since the inception of the Company in 2014. To that end, Nigel Ward announced his intention to retire during 2022 and the Company commenced a recruitment process with the intention to appoint a new Director as his replacement. During the recruitment process, while any new Director appointments are made on merit, the Board was also mindful of the benefits of diversity and looked to ensure that the Board has an appropriate range of skills, knowledge and experience, as well considering factors such as gender. Fionnuala Carvill was subsequently appointed to the Board in June 2022. The Board is committed that there is an equal balance of gender in candidates for final interviews and the Board's objective was that by 30 June 2022 a woman would be appointed to the Board so 33% of the Board comprises women at 31 December 2022. Going forward, Professor Claudio Albanese and Jon Bridel are expected to retire in December 2023 and December 2024 respectively with a succession plan underway to appoint new directors. Within the recruitment process, further consideration will be given to industry best practice and recognised guidance including, but not limited to, the requirements on listed companies arising from the Hampton Alexander review and the Parker Review. The succession planning will continue to be kept under review to ensure an orderly transfer of knowledge and responsibilities as the Directors continue to look to refresh the Board with these new appointments in the coming few years.

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). As detailed further in the Chairman's Statement on page 6, the Board announced that it had resolved to enhance the Company's aggregate distributions to holders of the 2021 Shares, with the objective of being meaningfully accretive to 2021 Shareholders and positively influencing the discount to NAV and trading liquidity of the 2021 Shares.

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

At 31 December 2022, the Board of Directors of the Company comprises two male directors and one female director.

The Board is committed to diversity and is supportive of increased gender and ethnic diversity. As referred to above, during 2022, Fionnuala Carvill was appointed as the Company's first female Director. Going forward the Board will ensure there is an equal balance of gender in candidates for final interviews and, as mentioned above, the Company will also consider industry best practice and recognised guidance including the requirements on listed companies arising from the Hampton Alexander review and the Parker Review.



## GOVERNANCE

### Corporate Governance (continued)

#### **Board Diversity** (continued)

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 8 June 2023, the Board is of the view that each Director seeking re-election should be re-elected and Fionnuala Carvill should be elected for the first time, 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 27. 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.

#### **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 31.

#### **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.



## GOVERNANCE

### Corporate Governance (continued)

#### 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.

#### Directors’ Meetings and Attendance

The table below shows the attendance at Board and Committee meetings during the year. There were four formal Board meetings, three Audit Committee meetings, four Risk Committee meetings, one Management Engagement Committee meetings, three Nomination & Remuneration Committee meeting and one ad hoc Board meeting held during the year ended 31 December 2022.

Name	Board	Audit Committee	Risk Committee	Management Engagement Committee	Nomination & Remuneration Committee
Number of meetings held	5	3	4	1	3
Professor Claudio Albanese (Chair of the Board and Management Engagement Committee)	5	N/A	4	1	N/A
Jon Bridel (Chair of the Audit Committee and the Nomination & Remuneration Committee)	5	3	4	1	3
Fionnuala Carvill (Chair of the Risk Committee) <sup>1</sup>	4	2	3	1	1
Nigel Ward (former Chair of the Risk Committee and the Nomination & Remuneration Committee) <sup>2</sup>	5	3	4	1	3

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.

<sup>1</sup>Appointed to the Board and as Chair of the Risk Committee on 14 June 2022.

<sup>2</sup>Resigned from the Board on 8 December 2022.



## GOVERNANCE

### Corporate Governance (continued)

#### Board Committees

##### *Audit Committee*

During the year ended 31 December 2022, the Audit Committee has comprised of Jon Bridel, Nigel Ward and Fionnuala Carvill, and meets at least three times a year. Fionnuala Carvill became a member of the Audit Committee on her appointment to the Board on 14 June 2022. Nigel Ward resigned from the Board and Audit Committee on 8 December 2022. 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 32.

##### *Risk Committee*

The Risk Committee meets at least four times a year. It comprises the entire Board and was chaired by Nigel Ward up until 14 June 2022 when, in order to ensure an orderly transfer of responsibilities, Fionnuala Carvill was appointed as chair ahead of Nigel Ward's retirement. 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 2022. 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 35.

##### *Nomination and Remuneration Committee*

The Nomination and Remuneration Committee meets at least once a year. It comprises the entire Board and was chaired by Nigel Ward up until his resignation on 8 December 2022 when Jon Bridel replaced him as chair. The Nomination and Remuneration Committee is responsible for reviewing the structure, size and composition of the Board, to consider the succession planning for directors, 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 identifying suitable candidates for the purposes of succession planning.

#### 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 19, 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

17 April 2023





## 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 2022 to 31 December 2022 Actual £	For the year from 1 January 2021 to 31 December 2021 Actual £
Professor Claudio Albanese (Chair of the Board and Management Engagement Committee)	45,000	45,000	43,000
Jon Bridel (Chair of the Audit Committee and the Nomination & Remuneration Committee)	45,000	45,000	43,000
Fionnuala Carvill (Risk Committee Chairman and Nomination) <sup>1</sup>	45,000	24,781	–
Nigel Ward (former Chair of the Risk Committee and the Nomination & Remuneration Committee) <sup>2</sup>	45,000	42,164	43,000
<b>Total</b>	<b>180,000</b>	<b>156,945</b>	<b>129,000</b>

For the year ended 31 December 2022, each Director is entitled to a fee of £45,000 per annum (31 December 2021: £43,000 per annum). The remuneration policy set out above is the one applied for the years ended 31 December 2022 and 31 December 2021. In December 2021, the Board agreed an increase in their remuneration and, with effect from 1 January 2022, each non-executive Director is entitled to a basic fee of £45,000 per annum.

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 on their respective appointments. Each Director's appointment letter provides that, upon the termination of their appointment, they 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 14 June 2022, 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 2022 and 31 December 2021, shown in note 8 to the Financial Statements, 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

17 April 2023

<sup>1</sup>Appointed to the Board and as Chair of the Risk Committee on 14 June 2022.

<sup>2</sup>Resigned from the Board on 8 December 2022.



## 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 members who served during the year, Nigel Ward and Fionnuala Carvill, are all independent Directors. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Company's Auditor and are independent of the Investment Adviser. The membership of the Audit Committee and its terms of reference are kept under review. The relevant qualifications and experience of each member of the Audit Committee is detailed on page 29 of these Financial Statements. The Audit Committee's intention is to meet at least three times a year in any full year and it 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 III – The Company's investment in the Master Fund III had a fair value of US\$203,637,939 as at 31 December 2022 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 III for the year ended 31 December 2022 were audited by KPMG who issued an unmodified audit opinion dated 17 April 2023. The Audit Committee has reviewed the Audited Financial Statements of the Master Fund III and the accounting policies and determined the Company's fair value of the investment in the Master Fund III as at 31 December 2022 to be reasonable.
- Valuation of Master Fund II – The Company's direct investment in the Master Fund II had a fair value of US\$31,346,516 as at 31 December 2022 and represents a substantial portion of the net assets of the Company. 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 2022 were audited by KPMG who issued an unmodified audit opinion dated 17 April 2023. 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 2022 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 2022, KPMG provided non-audit and audit services as listed on page 34. KPMG confirmed that the non-audit services provided during the year had not impacted their independence and outlined the reasons for this. These non-audit services complied with permissible services under the Financial Reporting Council ("FRC") Revised Ethical Standard 2019. The Audit Committee was satisfied that these non-audit services had no bearing on the independence of the Auditor in the prior year.

In addition, KPMG directors are subject to periodic rotation of assignments on audit clients under applicable laws, regulations and independence rules. Their rotation policies comply with the FRC Revised Ethical Standard 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 2022 and 31 December 2021, translated into the presentation currency at the exchange rate prevailing at 31 December 2022 and 31 December 2021, respectively.

	<b>For the year ended 31 December 2022 US\$</b>	<b>For the year ended 31 December 2021 US\$</b>
<b>KPMG Channel Islands Limited</b>		
– Annual Audit of the Company and related entities	297,242	274,970
– Interim review	50,144	62,721
<b>Other KPMG International member firms</b>		
– Reporting accountant services	–	132,810
– Agreed upon procedures – Fair Oaks CLOs <sup>1</sup>	19,139	41,408

#### Internal Controls

As the Company's investment objective is to invest all of its assets into the Master Funds, 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 Funds, 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  
17 April 2023

<sup>1</sup>Fair Oaks CLOs as subsidiaries of the Master Fund II, are classified as affiliates of the Company under the FRC Ethical Standards.



## 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, Fionnuala Carvill 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 8 December 2022 including the Investment Adviser. Furthermore, the MEC reviewed the approaches to GDPR, Criminal Justice Act, Anti-bribery, cyber security, ESG, discrimination and diversity & equality, 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 2022 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

17 April 2023

# 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 2022, the statements of comprehensive income, changes in shareholder's 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 2022, 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 the FRC Ethical Standard as required by the Crown Dependencies' Audit Rules and Guidance. 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 2021):

	The risk	Our response
<p><b>Financial assets at fair value through profit or loss ("Investments")</b></p> <p>US\$234.98 million; (2021 US\$311.7 million)</p> <p>Refer to pages 32 to 34 (Report of the Audit Committee), note 2 (Significant Accounting Policies), note 3 (Use of Judgements and Estimates) and note 6 (Financial Assets at Fair Value Through Profit or Loss)</p>	<p><b>Basis:</b></p> <p>The Company holds investments in FOIF II LP ("Master Fund II") and FOMC III LP ("Master Fund III") (together the "Master Funds") which are held at fair value through profit or loss and represents 89.5% of the Company's net assets.</p> <p>The fair value of the Company's investment in the Master Funds reflects the Company's proportionate share of the Master Funds' net asset value. Master Fund III's net asset value reflects its proportionate share of Master Fund II's net asset value and its own investment portfolio comprising Mezzanine Collateralised Loan Obligation positions ("CLO's"). Master Fund II's net asset value incorporates the fair value of its own investment portfolio which comprises: Mezzanine and Equity CLO's and a proportionate share of the net asset value of Wollemi Investments I LP ("Wollemi"). Wollemi is also invested principally into a portfolio of Equity CLO positions.</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>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 the Master Funds and Wollemi to provide Price Quotes; and</li> <li>• assessed the methodology applied by the Valuation Agent in developing fair value Price Quotes.</li> </ul>

# 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>Basis</b> (continued): The fair value of 65% of the CLO's held by the Master Funds and Wollemi are determined using indicative prices ("Price Quotes") obtained from their independent third party valuation provider (the "Valuation Agent"). 35% of the fair value of CLO's held by the Master Funds and Wollemi are determined using internally generated models.</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 judgements in determining the fair value of the underlying CLOs.</p>	<p><b>Our audit procedures included</b> (continued):</p> <p><b>Valuation procedures, including use of KPMG valuation specialist:</b></p> <ul style="list-style-type: none"> <li>• For the investments valued using the proportionate share of net asset value we: <ul style="list-style-type: none"> <li>– assessed whether the net asset values were representative of their fair values;</li> <li>– recalculated the proportionate share of the net asset values;</li> <li>– agreed the fair value to a net asset value statement received from that fund's administrator;</li> <li>– obtained the coterminous audited financial statements and agreed the audited net asset value to the net asset value statement; and</li> <li>– considered the basis of preparation of the audited financial statements, together with accounting policies applied and whether the audit opinion was unmodified.</li> </ul> </li> <li>• We independently obtained the Valuation Agent's pricing reports and agreed the Price Quotes provided by the Valuation Agent to those used in the Valuation of the CLOs held by the Master Funds and Wollemi.</li> <li>• For 98.9% of the CLO positions held by the Master Funds and Wollemi, 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 and agreed the outcome to the prices used in the valuation of these CLOs.</li> </ul> <p><b>Assessing disclosures:</b> We also considered the Company's disclosures in relation to use of estimates and judgements 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>

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

## **Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements as a whole was set at \$5.5 million, determined with reference to a benchmark of net assets of \$262,345,289, of which it represents approximately 2% (2021: 2%).

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% (2021: 75%) of materiality for the financial statements as a whole, which equates to \$4.1 million. 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 \$275,000, 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.

## **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.



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

## **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.

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 sector experience and through discussion with management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence, if any, 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.

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

## 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.

## 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 30, 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  
Guernsey

17 April 2023



## FINANCIAL REPORT

# Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	1 January 2022 to 31 December 2022 US\$	1 January 2021 to 31 December 2021 US\$
<b>Revenue</b>			
Net gains on financial assets at fair value through profit or loss	6	133,228	65,240,126
Interest income	7	235,886	–
Net foreign exchange (losses)/gains		(54,217)	14,843
<b>Total revenue</b>		<b>314,897</b>	<b>65,254,969</b>
<b>Expenses</b>			
Investment advisory fees	8	139,855	3,820
Audit and interim review fees		176,904	117,092
Administration fees	8	127,533	116,934
Directors' fees and expenses	8	209,522	199,437
Broker fees		136,122	130,015
Registrar fees		73,481	84,735
Listing fees		17,656	15,545
Legal and professional fees		19,008	4,261
Other expenses		102,081	115,672
<b>Total expenses</b>		<b>1,002,162</b>	<b>787,511</b>
<b>(Loss)/profit and total comprehensive (loss)/income for the year</b>		<b>(687,265)</b>	<b>64,467,458</b>
<b>Basic and diluted (losses)/earnings per 2021 Share</b>	11	<b>(0.0016)</b>	<b>0.1377</b>
<b>Basic and diluted (losses)/earnings per Realisation Share</b>	11	<b>(0.0005)</b>	<b>0.1385</b>

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

The accompanying notes on pages 45 to 74 form an integral part of the Financial Statements.



## FINANCIAL REPORT

## Statement of Changes in Shareholders' Equity

For the year ended 31 December 2022

	Note	Share capital (Realisation Shares) US\$	Share capital (2021 Shares) US\$	Retained earnings (Realisation Shares) US\$	Retained earnings (2021 Shares) US\$	Total equity US\$
<b>At 1 January 2022</b>		<b>59,251,697</b>	<b>384,339,570</b>	<b>(17,464,727)</b>	<b>(113,601,494)</b>	<b>312,525,046</b>
<i>Total comprehensive income:</i>						
Loss for the year		–	–	(28,714)	(658,551)	(687,265)
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>–</b>	<b>(28,717)</b>	<b>(658,551)</b>	<b>(687,265)</b>
<i>Transactions with Shareholders:</i>						
Dividends declared during the year	4	–	–	(5,803,857)	(38,497,928)	(44,301,785)
Realisation Share redemptions paid during the year	10	(3,999,990)	–	–	–	(3,999,990)
Share buy-backs	10	–	(1,190,717)	–	–	(1,190,717)
<b>Total transactions with Shareholders</b>		<b>(3,999,990)</b>	<b>(1,190,717)</b>	<b>(5,803,857)</b>	<b>(38,497,928)</b>	<b>(49,492,492)</b>
<b>At 31 December 2022</b>		<b>55,251,707</b>	<b>383,148,853</b>	<b>(23,297,298)</b>	<b>(152,757,973)</b>	<b>262,345,289</b>

	Note	Share capital (Realisation Shares) US\$	Share capital (2021 Shares) US\$	Retained earnings (Realisation Shares) US\$	Retained earnings (2021 Shares) US\$	Total equity US\$
<b>At 1 January 2021</b>		<b>444,922,074</b>	<b>–</b>	<b>(149,952,728)</b>	<b>–</b>	<b>294,969,346</b>
<i>Total comprehensive income:</i>						
Profit for the year		–	–	8,665,218	55,802,240	64,467,458
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>–</b>	<b>8,665,218</b>	<b>55,802,240</b>	<b>64,467,458</b>
<i>Transactions with Shareholders:</i>						
Redesignation of 2017 shares into 2021 Shares during the year, net of issue costs	10	(385,670,377)	384,339,570	–	–	(1,330,807)
Transfer brought forward retained earnings from 2017 Shares to 2021 Shares	10	–	–	129,923,035	(129,923,035)	–
Dividends declared during the year	4	–	–	(6,100,252)	(39,480,699)	(45,580,951)
<b>Total transactions with Shareholders</b>		<b>(385,670,377)</b>	<b>384,339,570</b>	<b>123,822,783</b>	<b>(169,403,734)</b>	<b>(46,911,758)</b>
<b>At 31 December 2021</b>		<b>59,251,697</b>	<b>384,339,570</b>	<b>(17,464,727)</b>	<b>(113,601,494)</b>	<b>312,525,046</b>

The accompanying notes on pages 45 to 74 form an integral part of the Financial Statements.



## FINANCIAL REPORT

# Statement of Financial Position

At 31 December 2022

	Note	31 December 2022 US\$	31 December 2021 US\$
<b>Assets</b>			
Cash and cash equivalents		27,838,142	1,294,271
Other receivables and prepayments		117,989	97,627
Financial assets at fair value through profit or loss	6	234,984,455	311,699,203
<b>Total assets</b>		<b>262,940,586</b>	<b>313,091,101</b>
<b>Liabilities</b>			
Distributions received in advance		482,752	458,709
Trade and other payables		112,545	107,346
<b>Total liabilities</b>		<b>595,297</b>	<b>566,055</b>
<b>Net assets</b>		<b>262,345,289</b>	<b>312,525,046</b>
<b>Equity</b>			
Retained earnings		(176,055,271)	(131,066,221)
Share capital	10	438,400,560	443,591,267
<b>Total equity</b>		<b>262,345,289</b>	<b>312,525,046</b>
<b>Net Assets attributable to 2021 Shareholders</b>		<b>230,390,880</b>	<b>270,738,076</b>
<b>Number of 2021 Shares</b>	10	<b>402,709,500</b>	<b>405,165,477</b>
<b>Net asset value per 2021 Share</b>		<b>0.5721</b>	<b>0.6682</b>
<b>Net Assets attributable to Realisation Shareholders</b>		<b>31,954,409</b>	<b>41,786,970</b>
<b>Number of Realisation Shares</b>	10	<b>55,578,441</b>	<b>62,562,883</b>
<b>Net asset value per Realisation Share</b>		<b>0.5749</b>	<b>0.6679</b>

The Financial Statements on pages 41 to 74 were approved and authorised for issue by the Board of Directors on 17 April 2023 and signed on its behalf by:

**Jon Bridel**

Director

The accompanying notes on pages 45 to 74 form an integral part of the Financial Statements.



## FINANCIAL REPORT

## Statement of Cash Flows

For the year ended 31 December 2022

	Note	1 January 2022 to 31 December 2022 US\$	1 January 2021 to 31 December 2021 US\$
<b>Cash flows from/(used in) operating activities</b>			
(Loss)/profit for the year		(687,265)	64,467,458
Adjustments to reconcile (loss)/profit to net cash flows:			
Net gains on financial assets at fair value through profit or loss	6	(133,228)	(65,240,126)
Net foreign exchange losses/(gains)		54,217	(14,843)
		(766,276)	(787,511)
Increase in other receivables and prepayments		(20,362)	(68,827)
Increase in trade and other payables		5,199	22,986
Income distributions received from Master Fund II	6	7,560,302	15,876,074
Income distributions received from Master Fund III	6	48,658,678	30,750,828
Capital distributions received from Master Fund II	6	20,653,039	–
<b>Net cash flow from operating activities</b>		<b>76,090,580</b>	<b>45,793,550</b>
<b>Cash flows used in financing activities</b>			
Realisation Share redemptions paid	10	(3,999,990)	–
Share buy-backs	10	(1,190,717)	–
Costs of redesignation of 2017 Shares into 2021 Shares and Realisation Shares	10	–	(1,330,807)
Dividends paid	4	(44,301,785)	(45,580,951)
<b>Net cash flow used in financing activities</b>		<b>(49,492,492)</b>	<b>(46,911,758)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>26,598,088</b>	<b>(1,118,208)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>1,294,271</b>	<b>2,397,636</b>
Effect of foreign exchange rate changes during the year		(54,217)	14,843
<b>Cash and cash equivalents at end of year</b>		<b>27,838,142</b>	<b>1,294,271</b>

The accompanying notes on pages 45 to 74 form an integral part of the Financial Statements.



## FINANCIAL REPORT

# Notes to the Financial Statements

For the year ended 31 December 2022

### 1. GENERAL INFORMATION

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 2021. The Company is listed and began trading on the Specialist Fund Segment (“SFS”) of the London Stock Exchange on 12 June 2014.

#### *Reorganisation*

On 19 April 2021, the Company announced the result of its reorganisation proposal, being that 62,562,883 2017 Shares had been elected for re-designation as Realisation Shares (the “Realisation Shares”), representing 13.4% of the 2017 Shares in issue, and 405,815,477 2017 Shares were re-designated as 2021 Shares (the “2021 Shares”), representing the balance of 86.6% of the 2017 Shares in issue (including 650,000 shares held in Treasury). The Company makes its investments through FOIF II LP (the “Master Fund II”) and FOMC III LP (the “Master Fund III”), in both of which the Company is a limited partner (the “Master Fund II” and the “Master Fund III” together the “Master Funds”). The Master Fund II was registered in Guernsey on 24 February 2017 and the Master Fund III was registered in Guernsey on 10 March 2021 under The Limited Partnerships (Guernsey) Law, 1995. 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 the 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 the new Master Fund III, which has a planned end date of 12 June 2028 and an investment objective and policy substantially similar to that of the Master Fund II.

At 31 December 2022, the Company has 55,578,441 Realisation Shares (31 December 2021: 62,562,883) and 402,709,500 2021 Shares (31 December 2021: 405,165,477) in issue. The Realisation Shares invest solely into the Master Fund II and the 2021 Shares invest solely into the Master Fund III. At 31 December 2022, the Company had direct holdings of 9.59% (31 December 2021: 9.59%) in the Master Fund II and 95.32% (31 December 2021: 100%) holding in Master Fund III, which in turn had a holding of 62.21% (31 December 2021: 62.21%) in the Master Fund II. Together, the Company held a direct and indirect holding of 68.89% (31 December 2021: 71.80%) in the Master Fund II.

#### *The Master Funds*

At 31 December 2022, the Master Fund II had six limited partners, including Fair Oaks Founder II LP, a related entity. During the year ended 31 December 2022, the Master Fund III allowed one new limited partner to enter the partnership and at 31 December 2022, the Master Fund III had three limited partners, including Fair Oaks Founder VI LP. The General Partner of the Master Fund II and Master Fund III is Fair Oaks Income Fund (GP) Limited (the “General Partner” or “GP”).

#### *Cycad and Wollemi*

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 Collateralised Loan Obligations (“CLOs”). On 9 March 2021, a new Guernsey limited partnership was established called Wollemi Investments I LP (“Wollemi”). On 23 March 2021, the Master Fund II transferred its investment in Cycad to Wollemi in exchange for limited partnership interests in Wollemi. In addition, since 2021, the Master Fund II also transferred its investments in FOAKS 1X CLO, FOAKS 2X CLO, FOAKS 3X CLO and FOAKS 4X CLO (the “Fair Oaks CLOs”) to Wollemi in exchange for limited partnership interests in Wollemi. At 31 December 2022, the Master Fund II holds 100.00% (31 December 2021: 100%) of the commitment capital of Wollemi.

#### *Founder Partners*

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

#### *General Partner*

The General Partner of the Master Fund II, Master Fund III, Cycad and Wollemi is Fair Oaks Income Fund (GP) Limited (the “General Partner” or “GP”). The Master Funds’ invest in portfolios consisting primarily of 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.



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

## 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 convention, except for financial assets measured at fair value through profit or loss.

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

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

As explained below, the Company qualifies as an investment entity and is therefore not permitted to prepare consolidated Financial Statements under IFRS.

### Going Concern

The Directors have assessed the financial position of the Company as at 31 December 2022 and the factors that may impact its performance (including the potential impact on markets and supply chains of geo-political risks such as the current crisis in Ukraine, continuing macro-economic factors and inflation) in the forthcoming year.

### *Russia/Ukraine crisis*

The Master Funds’ CLO investments do not hold any securities in the Russia/Ukraine region and as such the performance or creditworthiness of the underlying CLOs have not been significantly impacted. Commodity prices due to the invasion of Ukraine (mainly oil/gas, metals and wheat) have impacted some of the companies to which the CLOs have loans but many companies were already subject to input price inflation before the Ukraine invasion and it is not expected that the additional cost inflation will significantly impacted the performance of the CLOs. The Directors with the Company’s Investment Adviser, continue to closely monitor the situation and the resulting disruption to supply chains, particularly with regard to energy prices.

The Investment Adviser continues to carefully monitor the performance of the Master Funds’ 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 investments in the Master Funds, 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.





## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The following standard and interpretation has been applied in these Financial Statements:

- IAS 37 (amended), "Provisions, Contingent Liabilities and Contingent Assets" (amendments regarding the costs to include when assessing whether a contract is onerous, effective for accounting periods commencing on or after 1 January 2022).

The adoption of this amended standard has not had a material impact on the Financial Statements of the Company.

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

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Company. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### Interest income

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

### Net gains on Financial Assets at Fair Value through Profit or Loss

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

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

### Expenses

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

### 2021 Shares, Realisation Shares, 2017 Shares and C Shares

The 2021 shares, Realisation shares, 2017 Shares (when in issue) 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

#### *Financial assets – classification*

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

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

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

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

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



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### Financial assets – classification (continued)

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 and distributions received in advance.

#### Financial Assets and Liabilities - recognition, measurement and gains and losses

##### Recognition and initial measurement

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

##### Subsequent measurement

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



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### *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.

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

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 III'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 III and Master Fund II measure and evaluate the performance of substantially all of their investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to the 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 III is the Master Fund III's Net Asset Value ("NAV"), and incorporated into the Master Fund III's NAV is the Master Fund II NAV. The Company also determined that the fair value of the Master Fund II is the Master Fund II's NAV.

The Company, via its investments in the Master Funds, is also invested into Wollemi and Cycad. The Company has determined that the fair value of the Wollemi is the Wollemi's Net Asset Value ("NAV"), and incorporated into the Wollemi's NAV is the Cycad NAV.



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in the Master Fund III and the Master Fund II (continued)

The Company has concluded that the Master Fund III, and then indirectly the Master Fund II, 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.

### 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 2021 Shares and Realisation Shares are recorded through the Statement of Changes in Shareholders' Equity when they are declared to the respective 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 investments into the Master Fund II and the Master Fund III, which are Guernsey registered limited partnerships.

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

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



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 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 as a result measures its investments in the Master Fund III and Master Fund II at fair value. This determination involves a degree of judgement (see note 2).

#### Estimates

##### *Fair Value*

The Company records its investments in the Master Fund III and the Master Fund II at fair value. Fair value is determined as the Company's share of the NAV of the investment. This share is net of any notional carried interest due to Fair Oaks Founder VI LP (the "Founder Partner VI"), the Founder Partner of Master Fund III and Fair Oaks Founder II LP (the "Founder Partner II"), the Founder Partner 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's policy is to declare dividends to 2021 and Realisation shareholders as follows:

#### 2021 Shares

The Board intends to pay quarterly dividends to holders of 2021 Shares representing an amount in aggregate at least equal to the gross income received by the Company from investments in the relevant financial year that are attributable to the 2021 Shares' interest in Master Fund III and qualifying short term investments, less a proportionate share of the expenses of the Company.

#### Realisation Shares

The Company intends to pay dividends to holders of Realisation Shares 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 Realisation Shares' interest in Master Fund II and qualifying short term Investments, less expenses of the Company.

The Company declared the following dividends per 2021 Share during the year ended 31 December 2022:

Period to	Payment date	Dividend rate per 2021 Share (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
31 December 2021	18 March 2022	2.50	10,059,716	18 February 2022	17 February 2022
31 March 2022	25 July 2022	2.50	10,103,277	24 June 2022	23 June 2022
30 June 2022	15 September 2022	2.50	10,112,955	19 August 2022	18 August 2022
30 September 2022	9 December 2022	2.00	8,221,980	11 November 2022	10 November 2022
		9.50	38,497,928		

**FINANCIAL REPORT****Notes to the Financial Statements (continued)****For the year ended 31 December 2022****4. DIVIDENDS (continued)**

The Company declared the following dividends per Realisation Share during the year ended 31 December 2022:

<b>Period to</b>	<b>Payment date</b>	<b>Dividend rate per Realisation Share (cents)</b>	<b>Net dividend payable (US\$)</b>	<b>Record date</b>	<b>Ex-dividend date</b>
31 December 2021	18 March 2022	2.50	1,564,070	18 February 2022	17 February 2022
31 March 2022	25 July 2022	2.50	1,564,221	24 June 2022	23 June 2022
30 June 2022	15 September 2022	2.50	1,563,990	19 August 2022	18 August 2022
30 September 2022	9 December 2022	2.00	1,111,576	11 November 2022	10 November 2022
		<u>9.50</u>	<u>5,803,857</u>		

The Company declared the following dividends per 2021 Share during the year ended 31 December 2021:

<b>Period to</b>	<b>Payment date</b>	<b>Dividend rate per 2021 Share (cents)</b>	<b>Net dividend payable (US\$)</b>	<b>Record date</b>	<b>Ex-dividend date</b>
31 December 2020	26 February 2021	2.50	10,148,155	12 February 2021	11 February 2021
31 March 2021	25 June 2021	2.25	9,104,882	28 May 2021	27 May 2021
30 June 2021	17 September 2021	2.50	10,108,820	20 August 2021	19 August 2021
30 September 2021	18 November 2021	2.50	10,118,842	5 November 2021	4 November 2021
		<u>9.75</u>	<u>39,480,699</u>		

The Company declared the following dividends per Realisation Share during the year ended 31 December 2021:

<b>Period to</b>	<b>Payment date</b>	<b>Dividend rate per Realisation Share (cents)</b>	<b>Net dividend payable (US\$)</b>	<b>Record date</b>	<b>Ex-dividend date</b>
31 December 2020	26 February 2021	2.50	1,564,499	12 February 2021	11 February 2021
31 March 2021	25 June 2021	2.25	1,407,662	28 May 2021	27 May 2021
30 June 2021	17 September 2021	2.50	1,564,019	20 August 2021	19 August 2021
30 September 2021	18 November 2021	2.50	1,564,072	5 November 2021	4 November 2021
		<u>9.75</u>	<u>6,100,252</u>		

At 31 December 2022, the Company's retained earnings include unrealised losses of US\$173,388,035 (31 December 2021: US\$117,326,326) (see note 6). Gross income from investments excludes these unrealised losses which are capital in nature.

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 2021 Share and Realisation 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 2022 were US\$Nil (31 December 2021: US\$Nil).



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 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 Funds and on a look-through basis to the underlying loans in each CLO.

Changes in credit spreads may further affect the Company's net equity or net income directly through their impact on unrealised gains or losses on investments within the Master Funds 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 Funds, 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 Funds' aggregate gross assets at the time of investment. Special Purpose Vehicles such as CLOs are not considered corporate issuers. The Company's market positions are monitored on a quarterly basis by the Board of Directors.

#### Interest Rate Risk

The Company is exposed to interest rate risk through the investments held by the Master Funds 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 and the Master Fund III, which invest in income notes: Equity Subordinated and Mezzanine tranches of cash flow CLOs. The Master Fund II's exposure, and the Master Fund III's exposure through its direct CLO investments and via its investment in the Master Fund II, 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/Term SOFR-based rates.

#### Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks has been taking place globally. The reform aimed to replace some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as "IBOR reform"). The Master Funds exposure to IBOR reform is through its investment in USD CLOs which hold loans referenced to USD LIBOR with one-month and three-month settings and have rated liabilities referenced to USD LIBOR with three-month settings. These settings will cease to be provided after 30 June 2023 as announced by the Financial Conduct Authority ("FCA") and the alternative reference rate for US dollar LIBOR is the Secured Overnight Financing Rate ("SOFR").

**FINANCIAL REPORT****Notes to the Financial Statements (continued)****For the year ended 31 December 2022****5. FINANCIAL RISK MANAGEMENT (continued)****Market Risk (continued)***Interest Rate Risk (continued)**USD Subordinated CLO Notes*

Subordinated Notes of USD CLOs accounted for 54% of the Partnership's investments, on a look-through basis, as at 31 December 2022 (31 December 2021: 58%). All of these CLOs had rated liabilities that paid interest based on USD LIBOR and the documentation of all but one of these CLOs includes provisions for the liabilities to switch to Term SOFR (as the designated replacement rate) when USD LIBOR is no longer available or when Term SOFR is referenced by over 50% of the loan market. The one CLO held by the Master Fund II which does not include such provisions was issued in 2017. To the extent that the Master Fund II has not exercised its option to liquidate this CLO prior to June 2023 and no amendment has been agreed with its rated noteholders, the CLO's rated liabilities would continue to pay interest based on the last available USD LIBOR rate.

As at 31 December 2022, 80% (31 December 2021: 98%) of the loans held by the CLOs (in which the Partnership holds, on a look-through basis, Subordinated Notes) paid interest based on USD LIBOR and 20% paid interest based on Term SOFR (31 December 2021: 2%). It is expected that the percentage of loans referencing SOFR will gradually increase during the first half of 2023 as new SOFR-based loans are issued and LIBOR-based loans are repaid or amended to reference SOFR ahead of the cessation of all USD LIBOR in June 2023.

The quarterly distributions to holders of Subordinated Notes of a CLO depend primarily on the difference between the interest received on the CLO's loan assets and the interest paid on the CLO's rated liabilities. Distributions on the Master Funds' USD Subordinated Notes during the first half of 2023 may thus be influenced by changes in the basis (difference) between USD LIBOR and Term SOFR.

*USD Mezzanine CLO Notes*

USD CLO Mezzanine Notes accounted for 11% of the Master Funds' investments, on a look-through basis, as at 31 December 2022 (31 December 2021: 9%). All of these notes paid interest based on USD LIBOR as at 31 December 2022. The majority of these notes include provisions for the liabilities to switch to Term SOFR (as the designated replacement rate) when USD LIBOR is no longer available or when Term SOFR is referenced by over 50% of the loan market. The notes which do not include this language will continue to pay interest based on the latest available USD LIBOR rate unless they are redeemed or amended prior to June 2023.

*EUR Subordinated and Mezzanine Notes*

The EUR Subordinated and Mezzanine CLO Notes held by the Master Funds and their underlying loan assets reference Euribor (not Euro LIBOR) so are unaffected by the cessation of LIBOR settings. There are no plans to discontinue Euribor.

The following table shows the portfolio profile of the Master Funds at 31 December 2022 and 31 December 2021:

	<b>31 December 2022</b>		<b>31 December 2021</b>	
	<b>Master Fund III<sup>1</sup></b>	<b>Master Fund II<sup>2</sup></b>	<b>Master Fund III<sup>1</sup></b>	<b>Master Fund II<sup>2</sup></b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Investments with exposure to a floating interest rate	203,637,939	31,346,516	269,884,334	41,814,869
Financial assets at fair value through profit or loss (note 6)	<b>203,637,939</b>	<b>31,346,516</b>	<b>269,884,334</b>	<b>41,814,869</b>

<sup>1</sup>Shows the Master Fund II's exposure in the underlying CLO investments via the Company's Master Fund III share through the 2021 Shares. Source: CLO trustee reports. Based on the Master Funds exposure and weighted by CLO size and Master Funds ownership percentage.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.





## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

##### Market Risk (continued)

##### Interest Rate Risk (continued)

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

Possible reasonable change in rate	31 December 2022 effect on net assets and profit or loss US\$	Possible reasonable change in rate	31 December 2021 effect on net assets and profit or loss US\$
-1%	(980,929)	-1%	7,231,099
1%	983,637	1%	152,694

At 31 December 2021, the CLOs in which the Master Funds held equity, had liabilities with US Dollar Libor/Term SOFR floors at zero and loan assets with Libor floors of up to 1%. With US Dollar Libor/Term SOFR at circa 0.25%, if US Dollar Libor/Term SOFR had gone down, the interest on the liabilities would have dropped by more than the interest on the interest floored loans, producing more residual cash flow for equity.

##### 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 investments into the Master Funds. The Master Funds' portfolios are 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 any significant currency exposure of the assets of the Master Funds.

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

	31 December 2022		31 December 2021	
	Master Fund III <sup>1</sup> US\$	Master Fund II <sup>2</sup> US\$	Master Fund III <sup>1</sup> US\$	Master Fund II <sup>2</sup> US\$
<b>EUR Exposure</b>				
Cash and cash equivalents	31,424	5,082	851,960	131,334
Other receivables	3,349,510	541,683	4,758,568	733,558
Trade and other payables	(8,170)	(1,321)	(50,180)	(7,735)
Derivatives at fair value through profit or loss	(72,206,685)	(11,677,270)	(90,553,336)	(13,959,275)
Financial assets at fair value through profit and loss	77,033,839	12,247,884	91,957,687	14,175,763
<b>Net EUR Exposure</b>	<b>8,199,917</b>	<b>1,116,058</b>	<b>6,964,699</b>	<b>1,073,645</b>

<sup>1</sup>Shows the Master Fund II's exposure in the underlying CLO investments via the Company's 2021 Shares through the Master Fund III and direct exposure in Master Fund III. Source: CLO trustee reports. Based on the Master Funds exposure and weighted by CLO size and Master Funds ownership percentage.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.

**FINANCIAL REPORT****Notes to the Financial Statements (continued)**

For the year ended 31 December 2022

**5. FINANCIAL RISK MANAGEMENT (continued)****Market Risk (continued)***Currency risk (continued)*

	31 December 2022		31 December 2021	
	Master Fund III <sup>1</sup> US\$	Master Fund II <sup>2</sup> US\$	Master Fund III <sup>1</sup> US\$	Master Fund II <sup>2</sup> US\$
<b>GBP Exposure</b>				
Cash and cash equivalents	8,232	–	–	–
Trade and other payables	(152,270)	(17,252)	(110,716)	(17,067)
<b>Net GBP Exposure</b>	<b>(144,038)</b>	<b>(17,252)</b>	<b>(110,716)</b>	<b>(17,067)</b>
<b>NET EXPOSURE</b>	<b>8,055,879</b>	<b>1,098,806</b>	<b>6,853,983</b>	<b>1,056,578</b>

	Possible change in exchange rate	31 December 2022 net exposure US\$	31 December 2022
			effect on net assets and profit or loss US\$
EUR/US Dollar	+/- 20%	9,315,975	(-/+ ) 1,863,195
GBP/US Dollar	+/- 30%	(161,291)	(-/+ ) 48,387

	Possible change in exchange rate	31 December 2021 net exposure US\$	31 December 2021
			effect on net assets and profit or loss US\$
EUR/US Dollar	+/- 10%	8,038,345	(-/+ ) 808,835
GBP/US Dollar	+/- 10%	(127,783)	(-/+ ) 12,778

The sensitivity rate of 20% (31 December 2021: 10%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Euro.

The sensitivity rate of 30% (31 December 2021: 10%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Sterling.

*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 III were to increase or decrease by 25% (31 December 2021: 10%), the impact on the NAV of the Company would be +/- US\$50,909,485 (31 December 2021: US\$26,988,433).

If the value of the Company's investment in the Master Fund II were to increase or decrease by 25% (31 December 2021: 10%), the impact on the NAV of the Company would be +/- US\$7,836,629 (31 December 2021: US\$4,181,487).

At 31 December 2022, the sensitivity rate of 25% (31 December 2021: 10%) is regarded as reasonable due to the actual market price volatility experienced on the Master Funds' CLO investments during the year.

<sup>1</sup>Shows the Master Fund II's exposure in the underlying CLO investments via the Company's 2021 Shares through the Master Fund III and direct exposure in Master Fund III. Source: CLO trustee reports. Based on the Master Funds exposure and weighted by CLO size and Master Funds ownership percentage.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.



## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

##### 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 III, Master Fund II or a vehicle in which the Master Fund III 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 III and the Master Fund II, which is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the Company's prospectus, and by taking collateral.

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

	<b>31 December 2022</b>	<b>31 December 2021</b>
	<b>US\$</b>	<b>US\$</b>
Cash and cash equivalents	27,838,142	1,294,271
Financial assets at fair value through profit or loss	234,984,455	311,699,203
	<b>262,822,597</b>	<b>312,993,474</b>

At 31 December 2022, there were no financial assets past due or impaired (31 December 2021: none).

At 31 December 2022, the cash and cash equivalents and other assets of the Company, excluding its investments into the Master Fund III and Master Fund II, and substantially all of the assets of the Master Fund II are held by BNP Paribas Securities Services S.C.A. (the "Custodian"). The cash and substantially all of the assets of the Master Fund III are held by U.S. Bank Global Corporate Trust Services, UK Branch (the "US Bank"). Bankruptcy or insolvency of the Custodian or US Bank may cause the Company's rights with respect to securities held by the Custodian or US Bank to be delayed or limited. This risk is managed by monitoring the credit quality and financial positions of the Custodian or US Bank. The long-term rating of the Custodian as at 31 December 2022 was Aa3 as rated by Moody's (31 December 2021: Aa3) and A+ by Standard & Poor's (31 December 2021: A+). The long-term rating of US Bank as at 31 December 2022 was A1 (31 December 2021: A1) as rated by Moody's and AA- (31 December 2021: AA-) by Standard & Poor's.

Credit risk is assessed from time to time by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser seeks to manage this risk by providing diversification in terms of underlying assets, issuer section, geography and maturity profile. The Master Funds concentration of credit risk by industry for the CLO investments, on a look-through basis, as at 31 December 2022 and 31 December 2021 are summarised in the table below. The Company's credit risk is monitored on a quarterly basis by the Board of Directors.

**FINANCIAL REPORT****Notes to the Financial Statements (continued)****For the year ended 31 December 2022****5. FINANCIAL RISK MANAGEMENT (continued)****Credit and Counterparty Risk (continued)**

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

<b>Industry<sup>1</sup></b>	<b>31 December 2022</b>	<b>31 December 2021</b>
	<b>%</b>	<b>%</b>
Healthcare & Pharmaceuticals	13.0	14.1
Services: Business	9.1	9.4
High Tech Industries	8.9	8.6
Banking, Finance, Insurance & Real Estate	6.9	6.9
Telecommunications	5.7	5.9
Construction & Building	5.0	4.9
Services: Consumer	5.0	4.9
Beverage, Food & Tobacco	4.6	4.9
Chemicals, Plastics & Rubber	4.2	4.5
Hotel, Gaming & Leisure	3.9	3.8
	<b>66.3</b>	<b>67.9</b>

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 2022 and 31 December 2021 is summarised below. The Master Funds' exposure to credit risk, also summarised below, relates to its directly held CLO investments and its investments into Wollemi 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 2022 and 31 December 2021.

	<b>31 December 2022</b>		<b>31 December 2021</b>	
	<b>Master Fund III<sup>2</sup></b>	<b>Master Fund II<sup>3</sup></b>	<b>Master Fund III<sup>2</sup></b>	<b>Master Fund II<sup>3</sup></b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
United States of America	95,596,568	15,175,183	165,616,113	25,530,599
Europe	25,484,013	3,911,243	27,112,311	4,179,506
Guernsey	70,792,807	11,448,617	64,845,378	9,996,257
<b>Financial assets at fair value through profit or loss (note 6)</b>	<b>191,873,388</b>	<b>30,535,043</b>	<b>257,573,802</b>	<b>39,706,362</b>

<sup>1</sup>Shows the Company's exposure in the underlying CLO investments through its investments in the Master Funds. Source: CLO trustee reports. Based on the Master Funds' exposure and weighted by CLO size and Master Funds' equity ownership percentage.

<sup>2</sup>Shows the Company's 2021 Shares proportionate share in the Master Fund III at 95.32% (31 December 2021: 100%) and through its investment, via the Master Fund III, in the Master Fund II at 59.30% (31 December 2021: 62.21).

<sup>3</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.



## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

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

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

Country	31 December 2022	31 December 2021
	Master Funds <sup>1</sup> %	Master Funds <sup>1</sup> %
United States of America	68.9	72.4
France	7.8	6.1
United Kingdom	6.2	5.5
Netherlands	3.8	3.6
Germany	3.4	3.0
Luxembourg	1.8	1.8
Spain	1.7	1.5
Canada	1.3	1.3
Switzerland	1.0	1.1
Italy	1.0	0.7
Other	3.1	3.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

The table below summarises the Master Funds' underlying portfolio concentrations as of 31 December 2022 and 31 December 2021:

	Maximum portfolio holdings of a single asset % of total portfolio	Average portfolio holdings % of total portfolio
<b>31 December 2022</b>		
Master Funds	7.11%	2.11%
<b>31 December 2021</b>		
Master Funds	7.17%	2.13%

The tables below summarises the Master Funds' portfolio by asset class and portfolio ratings as at 31 December 2022 and 31 December 2021:

By asset class	31 December 2022		31 December 2021	
	Master Fund III <sup>2</sup> US\$	Master Fund II <sup>3</sup> US\$	Master Fund III <sup>2</sup> US\$	Master Fund II <sup>3</sup> US\$
Equity Subordinated CLO notes	93,836,113	15,175,183	162,543,277	25,056,905
Mezzanine CLO notes	27,244,468	3,911,243	30,185,147	4,653,200
Limited Partnerships	70,792,806	11,448,617	64,845,378	9,996,257
<b>Financial assets at fair value through profit or loss (note 6)</b>	<b>191,873,388</b>	<b>30,535,043</b>	<b>257,573,802</b>	<b>39,706,362</b>

<sup>1</sup>Shows the Company's exposure in the underlying CLO investments through its investments in the Master Funds.

<sup>2</sup>Shows the Company's 2021 Shares proportionate share in the Master Fund III at 95.32% (31 December 2021: 100%) and through its investment, via the Master Fund III, in the Master Fund II at 59.30% (31 December 2021: 62.21).

<sup>3</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 5. FINANCIAL RISK MANAGEMENT (continued)

#### Credit and Counterparty Risk (continued)

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

Rating	31 December 2022	31 December 2021
	Master Funds <sup>1</sup>	Master Funds <sup>1</sup>
	%	%
B	34.4	30.7
B-	25.6	27.7
B+	15.4	14.0
BB-	8.7	7.4
BB	6.8	4.3
CCC+	3.8	3.1
BB+	3.1	1.8
CCC	1.0	1.2
BBB-	0.5	0.1
CCC-	0.3	0.3
NA	0.4	9.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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

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

#### Liquidity Risk

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

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

The Company's liquidity risk is managed on a daily basis by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser monitors and considers the Company's and the Master Funds 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.

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.

<sup>1</sup>Shows the Master Funds' exposure in the underlying CLO investments via the Company's Master Fund III share through the 2021 Shares and direct share through the Realisation Shares.



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 5. FINANCIAL RISK MANAGEMENT (continued)

#### 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 and Master Fund II are held by BNP Paribas Securities Services S.C.A., Guernsey Branch, in its capacity as the Custodian. Master Fund III assets are held in custody by U.S. Bank Global Corporate Trust Services, UK Branch (together the "Custodians"). The bankruptcy or insolvency of the Custodians may cause the Company's rights with respect to the securities held by the Custodians to be limited. The Investment Adviser monitors the credit ratings and capital adequacy of the Custodians 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 2021 Shares and Realisation Shares. Capital is managed in accordance with the investment policy, in pursuit of its investment objectives.

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

	1 January 2022 to 31 December 2022		
	2021 Shares	Realisation	Total Company
	US\$	Shares	US\$
	US\$	US\$	US\$
Cost of financial assets at fair value through profit or loss at the start of the period	371,719,138	57,306,391	429,025,529
Capital distributions received from Master Fund III / Master Fund II	(17,949,413)	(2,703,626)	(20,653,039)
Cost of financial assets at fair value through profit or loss at the end of the year	353,769,725	54,602,765	408,372,490
Net unrealised losses on financial assets at the end of the year	(150,131,786)	(23,256,249)	(173,388,035)
Financial assets at fair value through profit or loss at the end of the year	<b>203,637,939</b>	<b>31,346,516</b>	<b>234,984,455</b>
Movement in net unrealised loss during the year	(48,296,982)	(7,764,727)	(56,061,709)
Income distributions declared from the Master Fund II	–	7,840,508	7,840,508
Income distributions declared from the Master Fund III	48,354,429	–	48,354,429
Net gains on financial assets at fair value through profit or loss	<b>57,447</b>	<b>75,781</b>	<b>133,228</b>

**FINANCIAL REPORT****Notes to the Financial Statements (continued)****For the year ended 31 December 2022****6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

	1 January 2021 to 31 December 2021		
	2021 Shares US\$	Realisation Shares US\$	Total Company US\$
Cost of financial assets at fair value through profit or loss at the start of the period	–	429,025,529	429,025,529
Sale of investments in Master Fund II at cost	–	(371,719,138)	(371,719,138)
Purchase of investments in Master Fund III at cost	371,719,138	–	371,719,138
Cost of financial assets at fair value through profit or loss at the end of the year	371,719,138	57,306,391	429,025,529
Net unrealised losses on financial assets at the end of the year	(101,834,804)	(15,491,522)	(117,326,326)
Financial assets at fair value through profit or loss at the end of the year	<b>269,884,334</b>	<b>41,814,869</b>	<b>311,699,203</b>
Movement in net unrealised loss during the year	16,129,058	2,486,550	18,615,608
Income distributions declared from the Master Fund II	9,959,936	6,104,589	16,064,525
Income distributions declared from the Master Fund III	30,559,993	–	30,559,993
Net gains on financial assets at fair value through profit or loss	<b>56,648,987</b>	<b>8,591,139</b>	<b>65,240,126</b>

At 31 December 2022, the Company had a 95.32% (31 December 2021: 100%) holding of the limited partnership interests in the Master Fund III on behalf of the 2021 Shares, which in turn had a holding of 62.21% (31 December 2021: 62.21%) in the Master Fund II. At 31 December 2022, the Company's 2021 Shares indirect holding of the Master II is therefore 59.30% (31 December 2021: 62.21%). The Company also retained a direct holding of 9.59% (31 December 2021: 9.59%) in the Master Fund II on behalf of the Realisation Shares.

During the year ended 31 December 2021, the sale of Master Fund II and purchase of Master Fund III shown in the table above are non-cash transactions following the re-designation of 2017 Shares to 2021 Shares and Realisation Shares on 22 April 2021. On this date, in accordance with the Contribution Agreement dated 26 March 2021, the Company subscribed to a commitment amount equal to the 2021 Shares proportionate ownership of the Company into the Master Fund III. The Company made such an advance in kind, by transferring in specie to the Master Fund III its proportionate share of the Master Fund II.

**Look-through financial information: Master Funds' profit or loss movements**

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

	31 December 2022		Total Company US\$
	Master Fund III <sup>1</sup> US\$	Master Fund II <sup>2</sup> US\$	
Financial assets at fair value through profit or loss	196,833,730	30,535,043	227,368,773
Add: Other net current assets/(liabilities)	6,804,209	811,473	7,615,682
<b>Total financial assets at fair value through profit or loss</b>	<b>203,637,939</b>	<b>31,346,516</b>	<b>234,984,455</b>

<sup>1</sup>Shows the Company's proportionate direct share in the Master Fund III at 95.32% (31 December 2021: 100.00%) through 2021 Shares investment only.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% (31 December 2021: 9.59%) through Realisation Shares investment only.





## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

##### Look-through financial information: Master Funds' profit or loss movements (continued)

	31 December 2021		
	Master Fund III <sup>1</sup>	Master Fund II <sup>2</sup>	Total Company
	US\$	US\$	US\$
Financial assets at fair value through profit or loss	271,170,675	39,706,362	310,877,037
Add: Other net current (liabilities)/assets	(1,286,341)	2,108,507	822,166
<b>Total financial assets at fair value through profit or loss</b>	<b>269,884,334</b>	<b>41,814,869</b>	<b>311,699,203</b>

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

	1 January 2022 to 31 December 2022		
	Master Fund III <sup>1</sup>	Master Fund II <sup>2</sup>	Total Company
	US\$	US\$	US\$
Net unrealised losses on investments at the beginning of the year	(101,834,804)	(15,491,522)	(117,326,326)
Investment income	–	8,596,828	8,596,828
Income distributions received from Master Fund II	43,210,172	–	43,210,172
Unrealised gains on financial assets at fair value through profit or loss	(42,452,889)	(9,173,928)	(51,626,817)
Net gains on derivative financial instruments and foreign exchange	5,218	922,785	928,003
Other income	5,183	70,713	75,896
Expenses	(253,432)	(340,617)	(594,049)
Income distributions declared during the year	(48,811,234)	(7,840,508)	(56,651,742)
Net unrealised losses on investments at the end of the year	<b>(150,131,786)</b>	<b>(23,256,249)</b>	<b>(173,388,035)</b>

	1 January 2021 to 31 December 2021		
	Master Fund III <sup>1</sup>	Master Fund II <sup>2</sup>	Total Company
	US\$	US\$	US\$
Net unrealised losses on investments at the beginning of the year	–	(135,941,934)	(135,941,934)
Unrealised losses attributable to 2021 Shares	(107,852,694)	107,852,694	–
Investment income	–	17,044,052	17,044,052
Income distributions received from Master Fund II	29,465,544	–	29,465,544
Unrealised gains on financial assets at fair value through profit or loss	7,295,057	4,648,628	11,943,685
Realised gains on financial assets at fair value through profit or loss	–	2,128,755	2,128,755
Net gains on derivative financial instruments and foreign exchange	–	5,748,418	5,748,418
Other income	–	3,286	3,286
Expenses	(182,718)	(910,897)	(1,093,615)
Income distributions declared during the year	(30,559,993)	(16,064,525)	(46,624,518)
Net unrealised losses on investments at the end of the year	<b>(101,834,804)</b>	<b>(15,491,522)</b>	<b>(117,326,326)</b>

<sup>1</sup>Shows the Company's proportionate direct share in the Master Fund III at 95.32% (31 December 2021: 100.00%) through 2021 Shares investment only.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% (31 December 2021: 9.59%) through Realisation Shares investment only.

**FINANCIAL REPORT****Notes to the Financial Statements (continued)****For the year ended 31 December 2022****6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)****Look-through financial information: Master Funds' profit or loss movements (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:

	<b>31 December 2022</b>			<b>Total US\$</b>
	<b>Level 1 US\$</b>	<b>Level 2 US\$</b>	<b>Level 3 US\$</b>	
<b>Assets:</b>				
Financial assets at fair value through profit or loss	–	–	234,984,455	234,984,455
<b>Total</b>	<b>–</b>	<b>–</b>	<b>234,984,455</b>	<b>234,984,455</b>
	<b>31 December 2021</b>			<b>Total US\$</b>
	<b>Level 1 US\$</b>	<b>Level 2 US\$</b>	<b>Level 3 US\$</b>	
<b>Assets:</b>				
Financial assets at fair value through profit or loss	–	–	311,699,203	311,699,203
<b>Total</b>	<b>–</b>	<b>–</b>	<b>311,699,203</b>	<b>311,699,203</b>

The investments in the Master Fund III and Master Fund II (31 December 2021: Master Fund II only), which are fair valued at each reporting date, have been classified within Level 3 as they are not traded and contain unobservable inputs.



## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

##### Look-through financial information: Master Funds' profit or loss movements (continued)

The following table presents the movement in Level 3 instruments:

	31 December 2022 US\$	31 December 2021 US\$
Opening Balance	311,699,203	293,083,595
Capital distributions received from Master Funds	(20,653,039)	–
Sale of investments in Master Fund II	–	(371,719,138)
Purchase of investments in Master Fund III	–	371,719,138
Movement in net unrealised gain/(loss) during the year	(56,061,709)	18,615,608
Closing Balance	<b>234,984,455</b>	<b>311,699,203</b>

##### Transfers between Level 1, 2 and 3

There have been no transfers between levels during the year ended 31 December 2022 or 31 December 2021. Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

##### Look-through financial information: Master Funds' fair value hierarchy information

On a look-through basis, the following table analyses within the fair value hierarchy the Company's proportionate share of the Master Funds' 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:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Master Fund III<sup>1</sup></b>				
Financial assets at fair value through profit or loss	–	3,059,201	193,774,529	196,833,730
<b>Total</b>	<b>–</b>	<b>3,059,201</b>	<b>193,774,529</b>	<b>196,833,730</b>

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Master Fund III<sup>1</sup></b>				
Financial assets at fair value through profit or loss	–	–	271,170,675	271,170,675
<b>Total</b>	<b>–</b>	<b>–</b>	<b>271,170,675</b>	<b>271,170,675</b>

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
<b>Master Fund II<sup>2</sup></b>				
Financial assets at fair value through profit or loss	–	471,980	30,063,063	30,535,043
Derivatives at fair value through profit or loss	–	(535,493)	–	(535,493)
<b>Total</b>	<b>–</b>	<b>(63,513)</b>	<b>30,063,063</b>	<b>29,999,550</b>

<sup>1</sup>Shows the Company's proportionate direct share in the Master Fund III at 95.32% (31 December 2021: 100.00%) through 2021 Shares investment only.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.

**FINANCIAL REPORT****Notes to the Financial Statements (continued)**

For the year ended 31 December 2022

**6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)****Look-through financial information: Master Funds' fair value hierarchy information (continued)**

	31 December 2021			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
<b>Master Fund II<sup>1</sup></b>				
Financial assets at fair value through profit or loss	–	4,179,506	35,526,856	39,706,362
Derivatives at fair value through profit or loss	–	84,802	–	84,802
<b>Total</b>	<b>–</b>	<b>4,264,308</b>	<b>35,526,856</b>	<b>39,791,164</b>

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2022:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund III <sup>2</sup>	203,637,939	NAV	Zero % discount	N/A
Master Fund II <sup>1</sup>	31,346,516	NAV	Zero % discount	N/A
	<b>234,984,455</b>			

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2021:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund III <sup>2</sup>	269,884,334	NAV	Zero % discount	N/A
Master Fund II <sup>1</sup>	41,814,869	NAV	Zero % discount	N/A
	<b>311,699,203</b>			

<sup>1</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund III at 95.32% (31 December 2021: 100.00%) through 2021 Shares investment only.



## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

The following table summarises the valuation methodologies used for the Master Fund III's investment in Limited Partnerships categorised in Level 3 as at 31 December 2022:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<b>Master Fund III<sup>1</sup></b>					
<u>Limited Partnerships</u>					25% increase/decrease will have a fair value impact of
Master Fund II	193,774,529	Zero % discount	N/A	N/A	+/- US\$48,443,632
	<b>193,774,529</b>				

The Master Funds have engaged an independent third party to provide valuations for its CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund II's investments categorised in Level 3 as at 31 December 2022:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<b>Master Fund II<sup>2</sup></b>					
<u>Income Notes CLOs</u>					25% increase/decrease will have a fair value impact of
United States of America	18,287,159	Prices provided by a third party agent	US\$0.2900 - US\$0.8810	US\$0.4718	+/- US\$4,571,790
Europe	327,287	Prices provided by a third party agent	US\$0.6703 - US\$0.8152	US\$0.7058	+/- US\$81,822
<u>Limited Partnerships</u>					25% increase/decrease will have a fair value impact of
Wollemi	11,448,617	Zero % discount	N/A	N/A	+/- US\$2,862,154
	<b>30,063,063</b>				

<sup>1</sup>Shows the Company's proportionate direct share in the Master Fund III at 95.32% (31 December 2021: 100.00%) through 2021 Shares investment only.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.



## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

The following table summarises the valuation methodologies used for the Master Fund III's investment in Limited Partnerships categorised in Level 3 as at 31 December 2021:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<b>Master Fund III<sup>1</sup></b>					
<u>Limited Partnerships</u>					10% increase/decrease will have a fair value impact of
Master Fund II	271,170,675	Zero % discount	N/A	N/A	+/- US\$27,117,068
	<b>271,170,675</b>				

The Master Funds have engaged an independent third party to provide valuations for its CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund II's investments categorised in Level 3 as at 31 December 2021:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
<b>Master Fund II<sup>2</sup></b>					
<u>Income Notes CLOs</u>					10% increase/decrease will have a fair value impact of
United States of America	25,530,599	Prices provided by a third party agent	US\$0.0001 - US\$0.9866	US\$0.6437	+/- US\$2,553,060
<u>Limited Partnerships</u>					10% increase/decrease will have a fair value impact of
Wollemi	9,996,257	Zero % discount	N/A	N/A	+/- US\$999,626
	<b>35,526,856</b>				

<sup>1</sup>Shows the Company's proportionate direct share in the Master Fund III at 100.00% through 2021 Shares investment only.

<sup>2</sup>Shows the Company's proportionate direct share in the Master Fund II at 9.59% through Realisation Shares investment only.



## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 7. INTEREST INCOME

	For the year ended 31 December 2022 US\$	For the year ended 31 December 2021 US\$
Interest income on financial assets carried at amortised cost:		
Cash and cash equivalents	235,886	–
	<b>235,886</b>	<b>–</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 III and Master Fund II, (taking into account any rebates of such management fees to the Company) in respect of the same relevant period.

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

	For the year ended 31 December 2022 US\$	For the year ended 31 December 2021 US\$
Company investment advisory fee	2,282,988	2,317,886
Less: Master fund II rebate	(2,046,813)	(2,310,494)
Less: Master fund III rebate	(96,320)	(3,572)
<b>Net Company investment advisory fee</b>	<b>139,855</b>	<b>3,820</b>

In circumstances where, as at the date the Net Asset Value per share of the 2021 Shares with respect to the last calendar month of a calendar quarter (the “Quarter End 2021 NAV”) is published, the price of the 2021 Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End 2021 NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an Associate of it of (a) 25 per cent. of the fees which it shall receive with respect to that quarter from the Company pursuant to the agreement which is attributable to the Net Asset Value of the 2021 Shares and (b) 25 per cent. of the management fee which the General Partner shall receive with respect to that quarter from Master Fund II and Master Fund III which is attributable to the Net Asset Value of the 2021 Shares by, in each case, using its best endeavours to purchase or procure the purchase of 2021 Shares in the Company in the secondary market. The obligation to purchase or procure the purchase of such 2021 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 2021 Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV; or (ii) where the 2021 Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV and it is unable to purchase or procure the purchase of 2021 Shares in the secondary market at a discount to their then-prevailing Quarter End 2021 NAV despite having used its best endeavours to do so; or (iii) the Master Fund III Commitment Period has already expired, and, in each case, the Investment Adviser shall retain all fees it receives for such quarter.



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

#### Transactions with Investment Adviser and Investment Portfolio Investor (continued)

##### *Investment Adviser (continued)*

In circumstances where, as at the date of the Net Asset Value per share of the Realisation Shares with respect to the last calendar month of a calendar quarter (the "Quarter End Realisation NAV") is published, the price of the Realisation Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End Realisation NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an Associate of it of (a) 25 per cent. of the fees which is received with respect to that quarter from the Company pursuant to the agreement which is attributable to the Net Asset Value of the Realisation Shares and (b) 25 per cent. of the Master Fund II Management Fee which the General Partner shall receive in respect to that quarter from Master Fund II which is attributable to the Net Asset Value of the Realisation Shares by, in each case, using its best endeavours to purchase or procure the purchase of Realisation Shares in the secondary market. The obligation to purchase or procure the purchase of Realisation Shares shall be fulfilled by the Investment Adviser by no later than one month after the end of such calendar quarter.

The Investment Adviser will have no obligation to reinvest and/or procure the reinvestment of fees it receives with respect to a calendar quarter in circumstances where either: (i) the Realisation Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV; or (ii) where the Realisation Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV and it is unable to purchase or procure the purchase of Realisation Shares in the secondary market at a discount to their then-prevailing Quarter End Realisation NAV despite having used its best endeavours to do so and, in either case, the Investment Adviser shall retain all fees it receives for such quarter.

On 31 January 2022, 4 May 2022, 28 July 2022 and 19 October 2022, the General Partner purchased 200,885, 197,640, 239,044 and 232,474 2021 Shares respectively in the secondary market by way of reinvesting 25% of the quarter's investment advisory fees. On 21 April 2021, 2 August 2021 and 22 October 2021, the General Partner purchased 231,061, 186,133 and 194,000 2021 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 2022, the Master Fund III had an investment in Fair Oaks CLO IIX valued at €1,273,621. Wollemi had investments in FOAKS 1X CLO, FOAKS 2X CLO, FOAKS 3X CLO and FOAKS 4X CLO Limited valued at €23,023,572, €28,316,443, €25,494,629 and €32,102,608 respectively. At 31 December 2021, Wollemi had investments in FOAKS 1X CLO, FOAKS 2X CLO, FOAKS 3X CLO and FOAKS 4X CLO Limited valued at €22,630,204, €27,537,544, €26,682,043 and €32,947,186 respectively. The Investment Adviser to the Company also acts as collateral manager to the Fair Oaks CLOs.

##### *Founder Partners*

The Master Fund II and Master Fund III also pay the Founder Partner II and Founder Partner VI 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 II and Master Fund III will not pay any carried interest until their investors have realised the amounts drawn down for investments and met their Preferred Returns. At 31 December 2022, no carried interest was accrued at the Master Fund III level. At 31 December 2022, no (31 December 2021: US\$nil) carried interest was accrued at Master Fund II level in respect of the Company's limited partnership interest.





## FINANCIAL REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

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

##### Other Material Contracts

###### Administrator

Sanne Fund Services (Guernsey) 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\$33,888 (31 December 2021: US\$32,320), payable quarterly in arrears for Administration and Accounting services. The Administrator is also entitled to an annual fee of £582 (31 December 2021: £500) in relation to FATCA reporting and acting as Responsible Officer.

###### Custodian

BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") waived all fees on the basis that all assets are invested into the Master Fund 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 £45,000 each per annum (31 December 2021: £43,000). The increase to £45,000 each per annum was with effect from 1 January 2022.

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

	For the year ended 31 December 2022 US\$	For the year ended 31 December 2021 US\$
<b>CHARGE FOR THE YEAR</b>		
Investment adviser fee	139,855	3,820
Administration fee	127,533	116,934
Directors' fees and expenses	209,522	199,437
<b>OUTSTANDING FEES</b>		
Investment adviser fee	16,939	–
Administration fee	21,779	34,375

###### Shares held by related parties

The Directors had the following interests in the Company at 31 December 2022 and 31 December 2021, held either directly or beneficially:

Name	31 December 2022		31 December 2021	
	No. of 2021 Shares	Percentage	No. of 2017 Shares	Percentage
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel <sup>1</sup>	40,000	0.01%	40,000	0.00%
Fionnuala Carvill ( <i>appointed 14 June 2022</i> )	–	–	N/A	N/A
Nigel Ward ( <i>resigned on 8 December 2022</i> )	N/A	N/A	60,000	0.01%

As at 31 December 2022, the Investment Adviser, the General Partner and principals of the Investment Adviser and General Partner held an aggregate of 4,548,868 2021 Shares (31 December 2021: 3,703,825 Shares) and 30,599 Realisation Shares, which is 1.13% (31 December 2021: 0.91%) of the issued 2021 Share capital and 0.06% (31 December 2021: nil) of the issued Realisation Share capital respectively.

#### 9. TAX STATUS

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £1,200 (31 December 2021: £1,200) under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989.

<sup>1</sup>All shares held by a person closely associated to Jon Bridel.



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

For the year ended 31 December 2022

### 10. SHARE CAPITAL

The Company's 2021 Shares and Realisation Shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction in equity and are charged to the share capital account, including the initial set up costs.

During April 2021, of the 468,378,360 original 2017 Shares in issue, 62,562,883 2017 Shares were re-designated as Realisation Shares and 405,815,477 2017 Shares (including 650,000 shares held in Treasury) were re-designated as 2021 Shares.

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.

On 25 August 2022, the Company announced that it will return US\$4,000,000 (equivalent to 6.3936 US cents per share) on 12 September 2022 (the "Redemption Date") by way of a compulsory partial redemption of Realisation Shares (the "First Redemption").

The First Redemption was effected at 57.27 cents per share, being the NAV per Realisation Share as at 29 July 2022 of 59.77 cents per share less the dividend for the period to 30 June 2022 of 2.50 cents per share. The First Redemption was effected pro rata to holdings of Realisation Shares on the register at the close of business on the Redemption Record Date, being 12 September 2022. At the time of the announcement, the Company had 62,562,883 Realisation Shares in issue of which none are held in treasury. On this basis 11.16 per cent. of each registered shareholding was redeemed on the Redemption Date. All shares that were redeemed were cancelled with effect from the Redemption Record Date.

Following the Distribution Policy announcement on 20 September 2022 and the general authority granted by shareholders of the Company on 14 June 2022 to make market purchases of its own Ordinary Shares, the Company went on to repurchase 2,455,977 2021 Shares during the period to 31 December 2022, to be held in treasury, at average cost of US\$0.4848 per Share. At 31 December 2022, the Company held 3,105,977 Ordinary Shares in treasury.

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 REPORT

### Notes to the Financial Statements (continued)

For the year ended 31 December 2022

#### 10. SHARE CAPITAL (continued)

##### Issued Share Capital

2021 Shares

	31 December 2022		31 December 2021	
	Shares	US\$	Shares	US\$
Share capital at the beginning of the year	405,165,477	384,339,570	–	–
Share buy-backs	(2,455,977)	(1,190,717)	–	–
Re-designation from 2017 Shares into 2021 Shares during the year	–	–	405,165,477	385,492,327
Share capital conversion costs	–	–	–	(1,152,757)
Share capital at the end of the year	<b>402,709,500</b>	<b>383,148,853</b>	<b>405,165,477</b>	<b>384,339,570</b>

Realisation Shares

	31 December 2022		31 December 2021	
	Shares	US\$	Shares	US\$
Share capital at the beginning of the year	62,562,883	59,251,697	467,728,360	444,922,074
Realisation Share redemptions paid during the year	(6,984,442)	(3,999,990)	–	–
Re-designation into 2021 Shares during the year	–	–	(405,165,477)	(385,492,327)
Share capital conversion/issued costs	–	–	–	(178,050)
Share capital at the end of the year	<b>55,578,441</b>	<b>55,251,707</b>	<b>62,562,883</b>	<b>59,251,697</b>

The total number of 2021 Shares in issue, as at 31 December 2022 was 405,815,477 (31 December 2021: 405,815,477), of which 3,105,977 (31 December 2021: 650,000) 2021 Shares were held in treasury, and the total number of 2021 shares in issue excluding treasury shares were 402,709,500 (31 December 2021: 405,165,477 2021 Shares). The total number of Realisation Shares in issue, as at 31 December 2022 was 55,578,441 (31 December 2021: 62,562,883), of which no shares were held in treasury.

At 31 December 2022, the Company had 458,287,941 (31 December 2021: 467,728,360) total voting rights.

#### 11. EARNINGS PER SHARE

	For the year ended 31 December 2022	
	2021 Shares	Realisation Shares
Weighted average number of shares	404,951,213	60,457,983
Profit/(loss) for the financial year	(US\$658,551)	(US\$28,714)
Basic and diluted earnings/(losses) per share	(US\$0.0016)	(US\$0.0005)
	For the year ended 31 December 2021	
	2021 Shares	Realisation Shares
Weighted average number of shares	405,165,477	62,562,883
Profit/(loss) for the financial year	US\$55,802,240	US\$8,665,218
Basic and diluted earnings/(losses) per share	US\$0.1377	US\$0.1385



## FINANCIAL REPORT

# Notes to the Financial Statements (continued)

### For the year ended 31 December 2022

#### 11. EARNINGS PER SHARE (continued)

The weighted average number of shares as at 31 December 2022 and 31 December 2021 is based on the number of 2021 Shares and Realisation Shares in issue during the period under review, as detailed in Note 10.

For the year ended 31 December 2021, profits for the year have been allocated as follows:

- Expenses are apportioned 86.6% to 2021 Shares and 13.4% to Realisation Shares;
- Income for the period from 1 January 2021 to 22 April 2021, has been apportioned 86.6% to 2021 Shares and 13.4% to Realisation Shares;
- Income for the period from 23 April 2021 to 31 December 2021, is based on the share classes' respective ownership of, and distributions received from, the Master Fund II and Master Fund III.

#### 12. TRADE AND OTHER PAYABLES

	31 December 2022 US\$	31 December 2021 US\$
Investment advisory fees payable (note 8)	16,939	–
Audit fees payable	28,281	29,476
Administration fees payable (note 8)	21,779	34,375
Sundry expenses payable	45,546	46,495
	<b>112,545</b>	<b>110,346</b>

#### 13. CONTINGENT LIABILITIES AND COMMITMENTS

The Company entered into a Subscription Agreement with Master Fund III and agreed to become a Limited Partner and made a commitment to Master Fund III of US\$264,000,000 (31 December 2021: US\$264,000,000) of which US\$263,875,619 (31 December 2021: US\$263,875,619) had been called.

The Company entered into a Subscription Agreement with Master Fund II and agreed to become a Limited Partner and made a commitment to Master Fund II of US\$452,346,532 (31 December 2021: US\$452,346,532) of which US\$452,346,532 (31 December 2021: US\$432,982,362) had been called.

At 31 December 2022 and 31 December 2021, the Company had no other outstanding commitments.

#### 14. SUBSEQUENT EVENTS

On 30 January 2023, the Company announced that following the announcement of the NAV as at 31 December 2022, Fair Oaks Income Fund (GP) had purchased 23,920 Realisation Shares and 211,952 2021 Shares in the secondary market.

On 23 February 2023, the Company declared an interim dividend of 2.00 US cents per 2021 Share and 2.00 US cents per Realisation Share in respect of the quarter ended 31 December 2022. The ex-dividend date was 2 March 2023 and the dividend was paid on 31 March 2023.

Pursuant to the general authority granted by shareholders of the Company on 14 June 2022 to make market purchases of its own Ordinary Shares, the Company went on to repurchase 7,627,247 2021 Shares in the post year end period, to be held in treasury, at average cost of US\$0.4903 per Share.

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 2022

### CLO Equity

Security	Instrument	Par Value		Valuation
		Master Funds <sup>1</sup>		
AIMCO 2017-A SUB	Subordinated Notes	US\$18,655,412		51.50%
ALLEG 2017-2X SUB	Subordinated Notes	US\$27,469,888		34.00%
ALLEG 2021-1X SUB	Subordinated Notes	US\$18,733,947		69.50%
ARES 2015-35R	Subordinated Notes	US\$17,911,400		33.00%
AWPT 2017-6X SUB	Subordinated Notes	US\$20,701,445		21.00%
FOAKS 1X M	Subordinated Fee Notes	€688,900		0.00%
FOAKS 1X SUB	Subordinated Notes	€19,289,200		77.06%
FOAKS 1X Z	Subordinated Fee Notes	€590,486		168.79%
FOAKS 2X M	Subordinated Fee Notes	€688,900		0.00%
FOAKS 2X SUB	Subordinated Notes	€32,378,300		56.73%
FOAKS 2X Z	Subordinated Fee Notes	€590,486		192.89%
FOAKS 3X M	Subordinated Fee Notes	€688,900		47.48%
FOAKS 3X SUB	Subordinated Notes	€24,111,500		66.42%
FOAKS 3X Z	Subordinated Fee Notes	€590,486		206.83%
FOAKS 4X F	Subordinated Fee Notes	€3,513,390		109.66%
FOAKS 4X M	Subordinated Fee Notes	€688,900		0.00%
FOAKS 4X SUB	Subordinated Notes	€19,289,200		86.68%
FOAKS 4X Z	Subordinated Fee Notes	€590,486		248.25%
HLM 13X-2018 SUB	Subordinated Notes	US\$17,876,955		29.00%
Signal Peak CLO 1, Ltd.	Subordinated Notes	US\$4,356,838		46.00%
Signal Peak CLO 2, LLC	Subordinated Notes	US\$4,503,698		28.00%
Signal Peak CLO 3, Ltd.	Subordinated Notes	US\$4,249,141		38.00%
POST 2018-1X SUB	Subordinated Notes	US\$27,061,714		47.00%
ROCKT 2021-2X SUB	Subordinated Notes	US\$16,878,050		70.00%
SHACK 2018-12 SUB	Subordinated Notes	US\$20,667,000		37.00%
SIGNAL PEAK CLO 4, LTD	Subordinated Notes	US\$25,179,451		42.00%
WELF 2018-1X SUB	Subordinated Notes	US\$19,891,988		39.00%
WELF 2021-2X SUB	Subordinated Notes	US\$19,978,100		55.50%

### CLO Mezzanine

Security	Instrument	Par Value		Valuation
		Master Funds <sup>1</sup>		
APID 2018-18A F	Class F Notes	US\$2,755,600		79.25%
DRSLF 2017-49A F	Class F Notes	US\$3,168,940		78.82%
DRSLF 2017-53A F	Class F Notes	US\$3,444,500		76.58%
EGLXY 2018-6X F	Class F Notes	€2,927,825		65.44%
FOAKS 2X ER	Class E Notes	€1,429,838		83.41%
HARVT 11X FR	Class F Notes	€1,722,250		70.50%
HARVT 7X FR	Class F Notes	€1,205,575		79.60%
HLM 13X-2018 F	Class F Notes	US\$3,952,564		77.94%
JPARK 2016-1A ER	Class E Notes	US\$1,377,800		85.81%
MDPK 2016-20A FR	Class F Notes	US\$2,755,600		81.22%
OAKCL 2021-2A E	Class E Notes	US\$1,906,450		90.04%
OCT39 2018-3A F	Class F Notes	US\$6,200,100		79.96%
OHECP 2015-4X FR	Class F Notes	€1,749,117		67.51%
SYMP 2018-19A F	Class F Notes	US\$3,788,950		77.35%

<sup>1</sup>Shows the Company's 2021 Shares proportionate share, via the Master Fund III, in the Master Fund II at 59.30% (31 December 2021: 62.21%) and the Company's direct holding in the Master Fund II at 9.59%. 2021 Shares and Realisation Shares proportionate share together at 68.89% (31 December 2021: 71.20%). Also includes Master Fund II's 100% share in Wollemi and its 14.96% interest in Cycad.



## ADDITIONAL INFORMATION

# Management and Administration

### Directors

Professor Claudio Albanese (Independent non-executive Chairman)

Jon Bridel (Independent non-executive Director)

Fionnuala Carvill (Independent non-executive Director – *appointed 14 June 2022*)

Nigel Ward (Independent non-executive Director – *resigned 8 December 2022*)

### Registered Office and Business Address

1 Royal Plaza  
Royal Avenue  
St Peter Port  
Guernsey GY1 2HL

### Investment Adviser

Fair Oaks Capital Limited  
1 Old Queen Street  
London SW1H 9JA

### 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

Sanne Fund Services (Guernsey) Limited  
1 Royal Plaza  
Royal Avenue  
St Peter Port  
Guernsey GY1 2HL

### 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 2021 Share and Realisation 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>2021 Shares</b>		<b>For the year ended 31 December 2022</b>	<b>For the year ended 31 December 2021</b>
Opening NAV per 2021 Share		US\$0.6682	US\$0.6306
Opening accumulated number of 2021 Shares*	(a)	2,444.4 shares	2,110.9 shares
Opening NAV valuation of shares	(b)	US\$1,633.4	US\$1,331.1
Dividends paid during the year		US\$0.0950	US\$0.0975
Dividends converted to shares**	(c)	385.4 shares	333.5 shares
Closing NAV per 2021 share		US\$0.5721	US\$0.6682
Closing accumulated number of 2021 Shares* (d = a + c)	(d)	2,829.9 shares	2,444.4 shares
Closing NAV valuation of shares	(e)	US\$1,619.0	US\$1,633.4
NAV valuation of shares return (f = e – b)	(f)	(US\$14.4)	US\$302.2
<b>Total NAV return (g = (f / b) x 100)</b>	<b>(g)</b>	<b>(0.9%)</b>	<b>22.7%</b>

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

\*\*converted to 2021 Shares at the prevailing month end NAV ex-dividend for all dividends paid during the year.

<b>Realisation Shares</b>		<b>For the year ended 31 December 2022</b>	<b>For the year ended 31 December 2021</b>
Opening NAV per Realisation Share		US\$0.6679	US\$0.6306
Opening accumulated number of Realisation Shares*	(a)	2,444.7 shares	2,110.9 shares
Opening NAV valuation of shares	(b)	US\$1,632.8	US\$1,331.1
Dividends paid during the year		US\$0.0950	US\$0.0975
Dividends converted to shares**	(c)	410.6 shares	333.8 shares
Closing NAV per Realisation share		US\$0.5747	US\$0.6679
Closing accumulated number of Realisation Shares* (d = a + c)	(d)	2,855.3 shares	2,444.7 shares
Closing NAV valuation of shares	(e)	US\$1,641.0	US\$1,632.8
NAV valuation of shares return (f = e – b)	(f)	US\$8.2	US\$301.7
<b>Total NAV return (g = (f / b) x 100)</b>	<b>(g)</b>	<b>0.5%</b>	<b>22.7%</b>

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

\*\*converted to Realisation 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 2021 Share and Realisation 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>2021 Shares</b>		<b>For the year ended 31 December 2022</b>	<b>For the year ended 31 December 2021</b>
Opening share price per 2021 Share		US\$0.6225	US\$0.6175
Opening accumulated number of 2021 Shares*	(a)	2,422.0 shares	2,094.4 shares
Opening share price valuation of shares	(b)	US\$1,507.7	US\$1,293.3
Dividends paid during the year		US\$0.0950	US\$0.0975
Dividends converted to shares**	(c)	454.6 shares	327.7 shares
Closing share price per 2021 share		US\$0.4900	US\$0.6225
Closing accumulated number of 2021 Shares* (d = a + c)	(d)	2,876.6 shares	2,422.0 shares
Closing share price valuation of shares	(e)	US\$1,409.6	US\$1,507.7
Valuation of shares return (f = e – b)	(f)	(US\$98.1)	US\$214.5
<b>Total share price return (g = (f / b) x 100)</b>	<b>(g)</b>	<b>(6.5%)</b>	<b>16.6%</b>

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

\*\*converted to 2021 Shares at the prevailing month end share price ex-dividend for all dividends paid during the year.

<b>Realisation Shares</b>		<b>For the year ended 31 December 2022</b>	<b>For the year ended 31 December 2021</b>
Opening share price per Realisation Share		US\$0.7000	US\$0.6175
Opening accumulated number of Realisation Shares*	(a)	2,409.6 shares	2,094.4 shares
Opening share price valuation of shares	(b)	US\$1,686.7	US\$1,293.3
Dividends paid during the year		US\$0.0950	US\$0.0975
Dividends converted to shares**	(c)	392.9 shares	315.3 shares
Closing share price per Realisation share		US\$0.5650	US\$0.7000
Closing accumulated number of Realisation Shares* (d = a + c)	(d)	2,810.0 shares	2,409.6 shares
Closing share price valuation of shares	(e)	US\$1,587.7	US\$1,686.7
Valuation of shares return (f = e – b)	(f)	(US\$99.1)	US\$393.5
<b>Total share price return (g = (f / b) x 100)</b>	<b>(g)</b>	<b>(5.9%)</b>	<b>30.4%</b>

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

\*\*converted to Realisation 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)

- **2021 and Realisation Share (discount)/premium to NAV**

2021 and Realisation Share (discount)/premium to NAV is the amount by which the 2021 and Realisation Share price is lower/higher than the NAV per 2021 and Realisation Share, expressed as a percentage of the NAV per 2021 and Realisation Share, and provides a measure of the Company's share price relative to the NAV.

- **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 for:

1. **2021 Shares** – from the Master Fund III a weighted average percentage for the period of 99.25% (31 December 2021: 100%), the Master Fund II at a weighted average percentage for the period of 61.75% (31 December 2021: 62.21%), Wollemi at a weighted average percentage for the period of 61.75% (31 December 2021: 62.21%), and Cycad Investments LP at a weighted average percentage for the period of 9.24% (31 December 2021: 9.31%) are included.
2. **Realisation Shares** – from the Master Fund II a weighted average percentage for the period of 9.59% (31 December 2021: 9.59%), Wollemi at a weighted average percentage for the period of 9.59% (31 December 2021: 9.59%) and Cycad Investments LP at a weighted average percentage for the period of 1.44% (31 December 2021: 1.44%) 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 year

2021 Shares	For the year ended 31 December 2022		
	Company US\$	Master Funds <sup>1</sup> US\$	Total US\$
Total expenses	868,300	2,579,797	3,448,097
Non-recurring expenses	(16,469)	(3,710)	(20,179)
Total ongoing expenses	851,831	2,576,087	3,427,918
Average NAV	248,414,527		248,414,527
<b>Ongoing charges ratio (using AIC methodology)</b>	<b>0.34%</b>		<b>1.38%</b>

Realisation Shares	For the year ended 31 December 2022		
	Company US\$	Master Funds <sup>1</sup> US\$	Total US\$
Total expenses	133,862	364,345	498,207
Non-recurring expenses	(2,539)	(576)	(3,115)
Total ongoing expenses	131,323	363,769	495,092
Average NAV	37,050,194		37,050,194
<b>Ongoing charges ratio (using AIC methodology)</b>	<b>0.35%</b>		<b>1.34%</b>

<sup>1</sup>Master Funds includes FOMC III LP, FOIF II LP, Wollemi and Cycad.

**ADDITIONAL INFORMATION**

## Appendix (continued)

**Alternative Performance Measures used in the Financial Statements** (continued)• **Ongoing charges ratio (“OCR”)** (continued)

2021 Shares	For the year ended 31 December 2021		
	Company US\$	Master Funds <sup>1</sup> US\$	Total US\$
Total expenses	682,320	3,241,427	3,923,747
Non-recurring expenses	–	(246,520)	(246,520)
Total ongoing expenses	682,320	2,994,907	3,677,227
Average NAV	271,982,050		271,982,050
<b>Ongoing charges ratio (using AIC methodology)</b>	<b>0.25%</b>		<b>1.35%</b>

Realisation Shares	For the year ended 31 December 2021		
	Company US\$	Master Funds <sup>1</sup> US\$	Total US\$
Total expenses	105,191	470,082	575,273
Non-recurring expenses	–	(15,221)	(15,221)
Total ongoing expenses	105,191	454,861	560,052
Average NAV	41,947,976		41,947,976
<b>Ongoing charges ratio (using AIC methodology)</b>	<b>0.25%</b>		<b>1.34%</b>

<sup>1</sup>Master Funds includes FOMC III LP, FOIF II LP, Wollemi and Cycad.

