AXIOM
ALTERNATIVE INVESTMENTS

Axiom European Financial Debt Fund Limited

(Registered number 61003)

Annual Report and Financial Statements
for the year ended 31 December 2021

CONTENTS

HIGHLIGHTS[1]

	31 December 2021	31 December 2020
Published net assets	£96,585,000	£87,350,000
Published NAV per Ordinary Share[1]	105.15p	95.10p
Share price	95.50p	88.00p
Discount to Published NAV	(9.18)%	(7.47)%
Profit for the year	£14,746,000	£1,577,000
Dividend per share declared in respect of the year	6.00p	6.00p
Total return per Ordinary Share (based on the Published NAV)	16.88%	1.73%
Total return per Ordinary Share (based on share price)	15.34%	0.59%
Ordinary Shares in issue at year end	91,852,904	91,852,904

[1] These are Alternative Performance Measures. Please see note 22 for a reconciliation of the NAV per Ordinary Share of 105.48p to the Published NAV per Ordinary Share of 105.15p.

www.axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/

An authorised closed-ended investment company, incorporated under the Companies (Guernsey) Law, 2008.

REGISTERED IN GUERNSEY No. 61003

OVERVIEW AND INVESTMENT STRATEGY

General information

The Company is an authorised closed-ended Guernsey investment company with registered number 61003. Its Ordinary Shares were admitted to the premium listing segment of the FCA's Official List and to trading on the Premium Segment on 15 October 2018. Prior to this, the Ordinary Shares traded on the SFS.

Investment objective

The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in the following financial institution investment instruments:

- Regulatory capital instruments, being financial instruments issued by a European financial institution which constitute regulatory capital for the purposes of Basel I, Basel II or Basel III or Solvency I or Solvency II;
- Other financial institution investment instruments, being financial instruments issued by a European financial institution, including without limitation senior debt, which do not constitute regulatory capital instruments; and
- Derivative instruments, being CDOs, securitisations or derivatives, whether funded or unfunded, linked or referenced to regulatory capital instruments or other financial institution investment instruments.

Investment policy

The Company seeks to invest in a diversified portfolio of financial institution investment instruments. The Company focuses primarily on investing in the secondary market, although instruments have been, and may also in the future be, subscribed in the primary market where the Investment Manager, Axiom AI, identifies attractive opportunities.

In February 2022, the Directors approved a minor change to the investment policy in respect of hedging and derivatives. The words in brackets were added to the following sentence: "The Company may implement other hedging and derivative strategies designed to protect investment performance against material movements in (but not limited to) exchange rates and to protect against credit risk".

The Company invests its assets with the aim of spreading investment risk.

For a more detailed description of the investment policy, please see the Company's Prospectus, which is available on the Company's section of the Investment Manager's website (http://www.axiom-ai.com/web/data/prospectus/ENG/AEFD-prospectus-UK.pdf).

CHAIRMAN'S STATEMENT

The Company had a good year in 2021. The total NAV return per share, including dividends and net of all expenses and performance fee, was +16.88%, only marginally below 2019's +16.98%. I am pleased to say that after the sharp market falls in the first half of 2020 as the Covid-19 pandemic took hold, the strong recovery that started in mid-2020 continued through 2021. Taken together, the 2020 net result of +1.73% and this year's +16.88%, equate to +18.90% or +9.04% p.a. which is broadly in line with our long term target of 10% p.a., net of operating expenses. The three year return (excluding reinvestment of dividends) is now +39.09% (+11.63% p.a.), and 12.11% p.a. if dividends are assumed to be reinvested.

Further details on the development of key market events and activity in the portfolio are given in the Investment Manager's report, beginning on page 5.

In aggregate, the Company reported a net profit after tax for the year ended 31 December 2021 of £14.7 million (2020: profit of £1.6 million), representing earnings per Ordinary Share of 16.05p (2020: earnings of 1.72p) and the Company's Published NAV at 31 December 2021 was £96.6 million (105.15p per Ordinary Share) (2020: £87.4 million, 95.10p per Ordinary Share). As is often the case in the closed-ended fund sector, the rise in the Company's share price lagged the strong performance of our NAV and hence, over the full year, the share price discount to Published NAV widened slightly from 7.47% at the end of 2020 to 9.18% at the year end. Although the discount narrowed modestly after the year end and averaged 6.34% in the first two months of 2022, it has subsequently widened from 4.04% on 4 March 2022 to 10.64% as at the time of writing. The Board will monitor the position and assess what action may be necessary or effective.

Dividends

As in prior years, the Company declared four dividends each of 1.50p per Ordinary Share in relation to the year: one was declared after the balance sheet date and was paid on 25 February 2022 to Shareholders on the register at 4 February 2022. During the period, actual payments of 6.00p were made, being the May, August and November dividends of 1.50p each and the 1.50p dividend in respect of the period ended 31 December 2020, which was paid on 26 February 2021.

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Hitherto, the principal use of hedging instruments such as foreign exchange forward contracts has been to mitigate the effect of exchange rate fluctuations on the sterling valuation of our non-sterling denominated holdings. This minor change will allow us to hedge out other risks when otherwise attractive opportunities present themselves. The Board believes that this is a sensible degree of flexibility in the execution of our investment strategy.

Outlook

Rising interest rates are in general good for banks, enabling wider spreads between lending and deposit rates. Although inflationary concerns may be the catalyst that has triggered the move in policy rates, the truth is that they would inevitably revert to more normal levels at some point and have been at historic and extreme lows since the Global Financial Crisis of 2008.

The background to our principal industry sector is therefore positive.

CHAIRMAN'S STATEMENT *(continued)*

There are of course other external events which cannot be controlled such as the developing tragedy in Ukraine and the possibility of further pandemics. We may well be seeing the re-imposition of an Iron Curtain through Europe albeit further east than where it was some 70 years ago. Unless matters spiral out of control, that should have limited impact on the West. That is not to say that there will be no impact on energy and other supplies, but it should not be an existential challenge.

We continue to look forward with optimism for the market for regulatory capital instruments issued by financial institutions in which we operate and where we can benefit from the application of our Investment Manager's specialist skills to a rich opportunity set which is not easily accessible to more generalist managers.

William Scott
Chairman
21 March 2022

INVESTMENT MANAGER'S REPORT

1. Market developments

January

Bank stocks struggled to find a clear direction in January 2021 as the resurgence of reflationary hopes after the Democrats won control of the Senate was mitigated by the prospect of extended lockdowns and the slow pace of vaccination rollouts. On the macro front, the ECB maintained its monetary policy and reiterated its focus on stimulus and the transmission channel to the real economy. The SubFin widened slightly from 111bps to 118bps mainly due to the political climate in Italy following the resignation of Prime Minister Giuseppe Conte.

The start of the reporting season was quite upbeat. In the US, better than expected results by the top 6 banks were driven by the writeback of USD6 billion of COVID-19 provisions, bringing the accumulated provisions down to USD40 billion for 2020. Investment banks slowed down as expected in the quarter but were still up in the year. In Europe, outperformance vs. consensus was driven by better revenues and costs in retail in Spain, very strong wealth and asset management results in Switzerland as well as bets on cost of risk and new lending volumes for the Nordic banks.

There were a few consolidation and restructuring stories as well. The planned exit of NatWest from Ireland continued to attract interest from local competitors and private equity firms, such as Permanent TSB and Lone Star. The appointment of Andrea Orcel as head of UniCredit was expected to accelerate the absorption of Monte dei Paschi. In Germany, Commerzbank announced an aggressive restructuring plan that aimed at a 30% reduction in headcount, coupled with a reduction in the number of branches, half of which were to be closed. In Spain, Unicaja and Liberbank finalised the terms for their merger, creating the fifth largest bank in Spain with circa EUR110 billion in assets.

On the regulatory front, the ECB published the results of its SREP for 2021. It kept capital requirements unchanged, leaving room for manoeuvre for banks. The EBA published its scenarios for the upcoming stress tests. The regulator validated the most aggressive shock assumptions ever tested. In terms of GDP, a 12.9% downward deviation in GDP was assumed compared to a 7.8% deviation in 2018. The review of the restrictions on dividends was expected to take place following the results of the stress tests, expected in July.

The clean-up of the Legacy stock continued on an ongoing basis. The German bank DZ Bank announced on 12 January 2021 it would call 8 Legacy instruments at par. BBVA was authorised to call its CMS in advance. The regulatory capital infection risk (see our note on this subject at https://axiom-ai.com/web/en/2020/10/22/analysis/), as defined at the end of 2020 by the EBA and confirmed since then by the PRA, prompted issuers to clean-up their Legacy instruments, including those with the lowest coupons.

Finally, the primary market for AT1 securities remained active, with Abanca (EUR375 million at 6%), Standard Chartered (USD1.25 billion at 4.75%) and Banco BPM (EUR400 million at 6.5%) issuing the most notable deals.

February

Bank stocks outperformed the market in February on the back of rising growth and inflation expectations. As investors started to question the ability of central banks to maintain ultra low rates for longer, banks were sought for their strong positive sensitivity to a steepening of the curves. The SX7R index was up by 15.76% vs. 1.67% for the SXXR. The SubFin index ended the month flat at 118bps.

Results continued to exceed analysts' expectations with all major banks but one reporting higher adjusted profits than expected. On balance, net interest margins, commissions and provisions surprised materially to the upside. HSBC unveiled a strategic update which focused on growing the global markets and wealth management businesses in Asia.

In Italy, Mario Draghi managed to secure support from the main parties and started to outline key structural reforms, including a revamp of corporate insolvency law, potentially leading to shorter proceedings and ultimately lower NPLs for Italian banks. Political support for a merger between UniCredit and Monte dei Paschi seemed strong.

On the M&A front, Aviva sold its French operations at a higher price than expected (EUR3.2 billion). NatWest confirmed its intention to exit Ireland, leading to a more concentrated local market. AIB seemed interested in the SME loan portfolio while Permanent TSB could buy its mortgage portfolio. In Austria, Bawag acquired Depfa Bank, which specialises in real estate loans. In Greece, Bank of Piraeus' CFO announced they were preparing a capital increase of EUR1 billion.

INVESTMENT MANAGER'S REPORT *(continued)*

The clean-up of Legacy bonds continued. UniCredit Bank Austria, a subsidiary of UniCredit, announced on 19 February 2021 the call of its Legacy BACA bonds, which were priced at 95. This was a perfect illustration of infection risk as raised at the end of 2020 by the EBA and confirmed since by the UK regulatory authority (the PRA) and by the transcription of BRRD II into French law. This risk prompted issuers to recall numerous Legacy securities, including those with the lowest coupons. Issuers were still working on the interpretation of the EBA opinion and the preparation of their Legacy processing plans, which had to be submitted before 31 March 2021.

Finally, UBS (USD1.5 billion at 4.375%) and BNP (USD1.25 billion at 4.625%) came to issue AT1 securities on the primary market.

March

March was a good month for Financials, buoyed by hopes of higher growth due to rapidly advancing vaccine campaigns in several countries. This, combined with the Fed's announcement to let the bank leverage exemption expire, resulted in further upward pressure on rates, which reached 1.75% in March. Large US banks would have to resume holding an additional layer of loss-absorbing capital against US Treasuries and central bank deposits starting in April 2021. The SubFin, before the roll to the 35 series, tightened from 117 to 94bps. The volatile episodes experienced by the Turkish Lira, which had jumped more than 5% in mid-March, only to fall back after President Erdogan fired the central bank governor had a limited impact on prices.

Credit Suisse was back in the headlines after the collapse of Archegos Capital, a highly leveraged US family office which defaulted on margin calls. The poor handling of the fire sales combined with stretched valuations, position concentration and lack of risk limits on nominal exposures led to sizeable losses at the bank. Though this event would certainly lead regulators to review counterparty risk modelling practices, we would highlight that banks did not take extensive losses on hedge fund exposures over the COVID-19 sell-off during 2020, which should bring comfort over their capacity to weather a future market stress.

Early indicators pointed to a very strong first quarter for investment banks, driven by record fees from IPOs, SPACs and high-yield debt issuance activity. We expected an excellent reporting season overall, characterised by low defaults, provisions fine-tuning, further build-up in CET1 as well as strong revenues from asset and wealth management, insurance and capital markets.

On the M&A front, Amundi was emerging as the leading bidder for Lyxor (EUR160 billion assets under management). Chubb, the world largest publicly traded P&C insurer, made an offer for US commercial specialist Hartford, which valued the transaction at USD23.4 billion. Markets expected more M&A activity in Italy in the coming months, involving a game of musical chairs around Banco BPM, BPER, BMPS and UniCredit.

On the regulatory side, the latest consolidated EBA data for quarter 4 2020, showed capital ratios continuing to improve (+40bps to 15.5%). The NPL ratio, which declined by 20bps to 2.6%, also indicated a continued trend of balance sheet strengthening.

In other notable news, the clean-up of the Legacy instruments continued. Cofinoga (a subsidiary of BNP) announced on 15 March 2021 the call at par of its CFNG float legacy, which was worth 95.16 at the previous day's close. NatWest announced a buyback offer on legacy step-up securities with a make-whole, following the offer from October 2019, providing a low premium exit option for these securities, subject to rate volatility.

April

April was another good month for the financial sector, buoyed by good results and signals of inflationary pressure. The SubFin index remained unchanged, closing at 108bps.

Following the heavy losses related to the Archegos bankruptcy, Credit Suisse issued CHF1.7 billion of mandatory convertibles to shore up its CET1 ratio to around 13%. The Swiss bank also had to deal with losses related to the residual exposure of CSAM funds to Greensill amounting to about CHF4.8 billion.

Previously reported results were generally good, including Deutsche Bank and Sabadell. In terms of pre-tax profit, all banks beat the consensus. For the third quarter in a row, provisions were moderate with some reversals. Stage 2 and Stage 3 ratios were generally lower. Investment banking activity was strong, particularly in equity trading, high-yield and equity capital markets activities. We expect these trends to continue to drive positive earnings per share revisions.

On the regulatory side, the Bank of England was proposing a consultation on the CRR to simplify the standard approach for smaller banks.

INVESTMENT MANAGER'S REPORT *(continued)*

After Cofinoga and NatWest the previous month, Deutsche Bank announced the call at par of one of its Legacy bonds, which was paying a variable coupon (CMS formula). This was increasing the call probability for its other two SPVs. Société Générale announced the call of a perpetual "discounted" bond as well as the introduction of a call option on its TMO bond. These operations were part of the trend of Legacy bond buybacks that had been accelerating over the previous few months as the end of the Basel II to Basel III transition period for banks approached.

May

Red hot consumer demand, expanding vaccine coverage and growing unease over the inflation trajectory fuelled the reflation trade further in May. European banks outperformed, with the SX7R delivering +5.83% vs. +3.09% for the SXXR. The 10-year French government bond rose above 0.2%. Risk assets performed very well, especially AT1s which returned to their all-time highs. Central banks reiterated that they were in control of the situation. The SubFin remained unchanged, closing at 108bps.

In Italy, the government requested an extension of tax benefits for M&A transactions. Unipol strengthened its position in Banca Popolare di Sondrio, increasing the chances of a merger between BPER and Sondrio. Generali expressed its interest in buying Cattolica di Assicurazioni in a deal valuing the latter at EUR1.5 billion. On the NPL front, Intesa sold EUR4 billion of NPLs to Bain. In Greece, Alpha Bank was considering a capital increase following the lead of Piraeus Bank.

On the regulatory front, the transition period under MREL was aligned with that under the CRR II directive, which was expected to simplify analysis when considering eligibility. We saw the first Regulatory par call, exercised on an AT1 by Crédit Agricole.

Among other notable news, the clean-up of the Legacy instruments stock continued despite the disappointment on UniCredit Euribor cashes +450bps. The Italian bank announced on 20 May 2021 its decision not to pay a coupon, arguing that the financial year 2020 statutory loss registered at group level allowed them to take such a course of action despite the payment of a dividend. This unexpected decision was contrary to what was announced during the quarterly results investor call and resulted in a drop in the Cashes instruments of about 10 points. To address infection risk, Jyske Bank obtained the authorisation from its regulator to call 2 perpetuals with a CMS coupon. NatWest exercised the call option on a T2.

In the primary market, Permanent TSB and Fidelidade issued new T2s. In AT1s, we noted the issuances of Danske Bank (USD750 million at 4.375%), Santander (USD1 billion at 4.750%) and SocGen (USD1 billion at 4.750%).

June

Financial credit markets extended their upward trajectory throughout the month of June as central banks maintained their accommodating rhetoric. To quote Benoît Coeuré, a former member of the ECB's executive board, "[Central banks] must prepare to support the economy for a long time". The SubFin index closed at 102bps.

Andréa Enria pointed to a rapid lifting of the ECB's cap on banks' dividend payments. An official announcement was expected on 23 July 2021. Following comforting stress test results, American banks were allowed to resume normal distributions, which led to spectacular announcements like that of Morgan Stanley which doubled its dividend and disclosed an ambitious share buyback programme of USD12 billion.

On the regulatory front, the EBA published its "monitoring report" with an important section on Legacy instruments. In short, the EBA advised banks not to simultaneously recognise within the T2 bucket both old T1 instruments that could still qualify as T2, and genuine T2 instruments. They argued that all instruments within the same capital sleeve should have the same ranking in resolution. This was very positive for the Legacy bond asset class, as recalls by issuers of old T1 instruments were increasingly likely. NatWest made a tender offer in May 2021 on several Legacy securities with a premium of around 5 points. Despite the premium, the offer had very little success (only 15% contributed) as investors valued the high yield to perpetuity in a liquidity-rich world.

The primary market continued to be active with T1 issues from MACIF (first issue of RT1), Commerzbank, NatWest and UniCredit. Consolidation of the sector continued both in France, with the takeover of the French HSBC network by My Money Bank (motivated by the search for critical size which would relaunch its activity under the new CCF brand), and in Ireland, with the sale by Permanent TSB of its corporate loan portfolio to AIB.

On a more exotic note, the Basel Committee started to impose a full capital charge on any crypto investment by banks (for EUR1 invested, EUR1 of capital was required).

INVESTMENT MANAGER'S REPORT *(continued)*

July

Spreads were broadly unchanged in July 2021 while rates continued to tighten. Very strong earning trends combined with expectations of persistent excess liquidity resulted in a favourable backdrop for both risk assets and rates. Macro risks remained elevated as record consumption clashed with falling inventories, input shortages and labour market frictions. The SubFin index closed the month at 103bps while US 10-year rates rallied from 1.46% to 1.24%.

Focus had been on bank earnings, which surprised on the upside. Revenues were on average 5% higher than expected, leading to material pre-provision profit beats. Loan losses were also better than expected with most banks improving their guidance on cost of risk. Bouncing commercial activity supported higher fees both on the investment banking side (M&A, capital markets) and the retail side (investment product, payments, life insurance). Interest rate income was broadly in line, as TLTROs helped offset a decline in asset spreads. In insurance, higher sales in life compensated for the loss of COVID-19 related frequency benefits in personal P&C lines.

The ECB repealed the temporary ban on dividends and share buybacks with effect from 30 September 2021. The ECB noted that the economy was recovering and that the ban was no longer justified. This was positive for bank equities with little impact on credit. Results of the EBA stress tests were published at the end of the month. They showed better than expected capital ratios in the adverse scenario, with very few exceptions, supporting the ability of banks to distribute excess capital. Only a handful of banks, such as Crédit Agricole and Deutsche Bank, were expected to be subject to higher capital thresholds given the new framework linking pillar 2 buffers and stress test results.

Primary markets were less active due to the summer season. Novo Banco issued a new EUR300 million senior preferred at 3.5%. Lloyds called two Legacy discos for circa GBP300 million while RBI called its EUR90 million SPV-issued Legacy T1s.

August

Financing conditions remained accommodative in August 2021 as spreads tightened a few basis points further. Global inflation pressures from supply side constraints intensified, weakening the dovish consensus that had prevailed within policy makers in the US and Europe. Partly due to persistently high COVID-19 transmission rates, economists slightly trimmed down their growth expectations for the rest of 2021. The SubFin index closed the month 3bps lower at 100bps while US and German 10-year yields widened by slightly less than 10bps.

The second half of the quarter 2 earnings season confirmed the trends observed in July 2021. Bank results were characterised by strong fees and commissions across the board. In retail, fees were supported by a cyclical recovery in payments, higher demand for savings products and generalised price increases for banking services. In investment banking, record M&A and issuance helped offset a decline in FICC trading while equity trading remained strong. Pressures on net interest margins remained elevated as clients continued to save more than usual. Provisions were also much lower than expected in all geographies. In Greece, despite the end of pandemic moratoria, organic NPL formation was much lower than expected, partially due to continued government support.

In insurance, retail life insurance sales came back sharply. Personal P&C lines were supported by COVID-19 frequency benefits. The impact of European floods would be booked in the second half of 2021 and was expected to be low thanks to reinsurance arrangements.

On the regulatory front, the European Commission was finalising its Basel IV package. Implementation would be gradual, with fully phased-in requirements not expected to come into force before 2028/2029. Though the "parallel stack" approach, for which French and German banks lobbied, seemed unlikely to be adopted, the ultimate impact of Basel IV on distributions would remain very limited. The TRIM programme frontloaded some of the impact of the output floor, and specific European amendments, such as the SME support factor and CVA, would limit RWA inflation. All in all, we expect the aggregate impact on CET1 to be lower than 150bps and be gradually booked over the next 8 years.

Legacy take-outs continued, with ING calling its CMS-style structure and Aegon calling its USD250 million FRN legacy T1.

INVESTMENT MANAGER'S REPORT *(continued)*

September

The month of September saw a rebound in volatility across rates and equities as markets adjusted for broadening supply constraints and a more hawkish Fed. In China, manufacturing activity was hindered by a worsening power crunch due to low coal and gas inventories facing strong global demand. Growth expectations for quarter 4 2021 were unchanged in Europe but lower in the US. The SubFin index closed the month 10bps wider at 110bps while the yield on 10-year US Treasuries was 20bps higher at 1.50%.

The deteriorating health of the Chinese property market led some investors to question European banks' exposures to the sector. Banks with meaningful presence in the region included HSBC, Standard Chartered, UBS and Credit Suisse. All reported no direct balance sheet exposures to Evergrande and less than 1.5% of loans exposed to Mainland Chinese real estate, most of which was IG rated. Similarly, concerns were raised as a wave of defaults hit independent European energy suppliers struggling to manage the sudden increase in prices. However, these companies were often small and capital-light, with close to zero bank financing.

On the M&A front, SocGen was reportedly considering buying ING Retail activities in France, while Groupama announced it would exit the Orange Bank joint-venture. In the Netherlands, ABN hired advisors to identify an acquisition target, presumably in wealth management. Rumours around the future of Monte dei Paschi continued to flow, with a portfolio transfer to Unicredit appearing as the most likely option.

The regulatory agenda remained crowded. The EC sent a draft proposal to extend the State Aid Temporary Framework to 30 June 2022, emphasising the need to avoid any cliff-edge effects. This was expected to be positive for banks' asset quality. In parallel, it put forward directives with regards to the Fundamental Review of Solvency II and the resolution of insurance groups. In aggregate, it was expected to be neutral for insurers' capital, as the short-term relief from lower risk weights for some investments was compensated by the phasing-out of transitory measures on interest rates. Final calibration of Basel IV was still being discussed, with the EC insisting that it should not lead to significant aggregate increases in capital requirements.

October

October delivered strong returns for equities with European stocks reaching record highs on the back of persistent inflows. The SX7R returned +6.49% vs. +4.67% for the broader SXXR. In a remarkable shift, markets started to question central banks' ability to keep ultra-accommodative policies amid broadening inflation. Short-term rates rose dramatically in the UK, Australia and Canada, but also in Europe and the US. The SubFin closed the month 3bps wider at 113bps, while the yield on 10-year US Treasuries rose by 7bps to 1.55%.

With no signs of supply constraints easing, and wage surveys pointing to a pick-up in salaries, the likelihood of having inflation above 2% over a 3-year horizon was such that some central banks were choosing to walk away from the transitory narrative in favour of a more balanced approach. Rising short-term rates strongly benefit banks, especially when levels were close to the lower bound and liquidity was in surplus. European banks' earnings would rise on average by 30% after a 100bps parallel shift in rates, with the most sensitive banks doubling their earnings.

The quarter 3 results released during the month were good, with no bank missing on a profit before tax basis. Net interest income was broadly in line, while fund distribution fees and CIB were much better than expected. There were no negative surprises on the cost side. In aggregate, capital was 25bps higher than expected, due to lower credit migration. Capital return commitments led to good trading performance.

On the regulatory front, the Basel IV full implementation date was pushed further to 2030, while the ultimate impact on risk weighted assets appeared much lower than originally thought, at around 6-8%.

Crédit Agricole cleaned-up its Legacy stock, redeeming its EUR CMS and two smaller USD deals, as well as the old Credit Lyonnais TMOs.

INVESTMENT MANAGER'S REPORT *(continued)*

November

Banks sold off in November 2021 as investors turned to a risk-off mood following rising cases of COVID-19 in Europe and the discovery of a new variant of concern. The SX7R returned -7.64% while the broader SXXR was down by 2.53%. As a result, the P/E discount of European banks versus the broader market widened to circa 45%. The SubFin index widened to 130bps from 113bps, while 10-year US Treasuries rallied from 1.55% to 1.44%.

On the macro front, the Citi Economic Surprise Index returned to positive territory in Europe and elsewhere as economies proved more resilient than expected to increasing price pressures and COVID-19 restrictions. Inflation continued to beat estimates around the world as demand remained strong against tight labour markets and strained supply chains. In the Eurozone, at the end of November, CPI reached +4.9% year-on-year, the highest print ever since the introduction of the common currency. In the US, the chair of the Fed agreed that it was time to drop the "transitory" word. On both sides of the Atlantic, markets were expecting the end of stimulus to happen earlier than previously thought.

On the regulatory front, BNP Paribas moved up a bucket in the list of Global Systemically Important Banks, increasing its capital requirements by 50bps (the move was expected). The new MIFIR legislation introduced a ban on payment for order flow, which was positive for incumbent investment platforms.

December

Risk assets performed well in December 2021 despite central banks turning more hawkish. The Fed doubled the pace of tapering and raised expectations to three rate hikes for 2022, while the Bank of England increased deposit rates for the first time since the start of the pandemic. As the Omicron variant looked increasingly unlikely to result in more lockdowns, investors shifted their focus to the strong growth outlook and excess liquidity. The SX7R returned +6.09% versus +5.49% for the SXXR. The yield on 10-year US Treasuries moved up 7bps to 1.51%. The SubFin index tightened from 129bps to 108bps.

Inflation continued to beat expectations by a high margin. In the US, the inflation trend was very worrying, with November year-on-year CPI approaching 7%. In Europe, the ECB continued to push back against hikes, opening the room for surprises next year. Emerging markets were ahead of the curve, as central banks in Russia, Mexico, Brazil and Central-eastern Europe raised interest rates aggressively to protect their currency and tame inflation. Only Turkey opted for an accommodative policy, triggering a devaluation of the Lira.

On the M&A front, BNP Paribas announced it had reached an agreement with BMO for the sale of Bank of the West for a total consideration of USD16.3 billion (or 1.72x TBV) to be paid in cash. The transaction was expected to generate a net capital gain of EUR2.9 billion and positive impact of 170bps in CET1. BNP was expected to launch a EUR4 billion share buyback to neutralise the earnings per share dilution.

The Bank of England published the results of its 2021 UK Stress Test. Virgin Money was included in the sample for the first time. Overall, all the banks showed good resilience to the stress scenarios with an aggregate low-point CET1 of 10.5%.

2. Investment Objective and Strategy

The Company is a closed-ended fund investing in liabilities issued by European financial institutions, predominantly legacy T1s, T2s, and AT1s across five sub-strategies:

- Liquid Relative Value: instruments issued by large and strong quality institutions, with significant liquidity. These can be purchased on either primary or secondary markets.
- Less Liquid Relative Value: instruments issued by large and strong quality institutions, with limited liquidity due to past tenders or complex features (secondary market).
- Restructuring: instruments issued by institutions in preparation or implementation of a restructuring process (secondary market).
- Special Situations: instruments issued by entities in run-off, under a merger process or split between several entities (secondary market).
- Midcap Origination: instruments issued by small institutions or small subsidiaries of larger institutions (primary market).

INVESTMENT MANAGER'S REPORT *(continued)*

3. Company activity

January

The Company realised gains in Liquid Relative Value and Less Liquid Relative Value to add part of the proceeds to Restructuring and Midcap Origination. The Company took its profits on AT1s issued by FinecoBank, Permanent TSB and Aareal, as well as on MunRe and Sainsbury Bank T2s. It increased its size in French-based My Money Bank (formerly GE Money) as well as British lenders The Co-Operative Bank and Shawbrook. The Company also bought some of the recently issued Abanca AT1 in the secondary market below par. In Midcap Origination, the Company sold its residual exposure in Van Lanschot. In the insurance legacy space, it sold its Ageas Fresh and Fortis Cashes. Finally, the Company added a limited allocation to a basket of European bank equities to take advantage of attractive valuations and positive momentum.

The Company closed the month with a slightly higher gearing of 109% and a slightly higher cash allocation of 4%, constructively positioned in the conducive market conditions while maintaining liquidity.

February

In what was a supportive environment for the Italian financial sector, the Company followed the momentum by taking part in a new T2 issue from Italian life insurer Amissima Vita with a 7% coupon in Euros.

In Restructuring, the Company took a significant exposure to Grenke AG senior bonds after the sell-off related to the departure of the COO. The bonds subsequently partially recovered as additional disclosure reassured investors. The Company remained invested as Axiom AI were strongly convinced default risk was very remote and that any loss would be fully recovered. The Company sold BCP's AT1s due to the risk stemming from adverse legal developments regarding FX loans extended by its Polish subsidiary.

In Midcap Origination, the Company took profits on eSure and Ecclesiastical Insurance and added to its exposure to Nottingham Building Society's PIBS.

March

The Company took advantage of attractive flows to make adjustments to the Restructuring strategy. It reduced its exposure to Piraeus Bank T2s after the bonds rallied on the back of the announcement of the Sunrise risk reduction plan. The Company took profit on Just Group T2s, sold Virgin Money short call AT1s and built a small position on Norddeutsche Landesbank T2s. The Company bought Provident Financial seniors after the group reported its intention to cap losses in its doorstep lending subsidiary through a Scheme of Arrangement or an administrative wind-down if necessary. Both scenarios were highly unlikely to lead to material losses at the group level.

April

In Restructuring, the Company took advantage of positive news flow around the payment of the Contingent Capital Agreement to sell long-dated Novo Banco seniors and reduce portfolio duration. It participated in the tender of Bank of Cyprus EUR9.25 2027 T2s at a 1.5pt premium.

In Midcap Origination, the Company took part in the first AT1 issuance for Kommunalkredit, a small IG-rated Austrian bank specialising in infrastructure finance and lending to the public sector.

The Company also added to its Legacy sleeve as the regulatory calendar around resolution and infection risk accelerated. It bought IKB discos, BNP TMOs and UniCredit Cashes.

INVESTMENT MANAGER'S REPORT *(continued)*

May

In Restructuring, the Company took some profits on Grenke seniors following the issue of an unqualified audit opinion by KPMG. It took part in a first T2 issue from Fidelidade, a leading Portuguese insurer. The Company added to Anacap as NPL collection trends remained robust in Europe. Finally, it closed its position in Provident Financial seniors following the adverse Court ruling on Amigo's scheme of arrangement.

In Liquid Relative Value, after the May coupon was unexpectedly skipped, the Company closed its position in UniCredit Cashes at a loss as it could no longer trust that the management would not try to activate the conversion clause in the future.

June

In Restructuring, the Company continued to reduce its exposure to Grenke senior bonds as the credit normalised. It added to its Piraeus T2 ahead of the issuance of their new AT1. Finally, the Company increased its allocation to West Bromwich CCDS, betting on further coupon increases.

In Liquid Relative Value, the Company bought OTP's SPV-issued legacies, the Opus securities, which combined a decent yield to perpetuity with early take-out optionality.

July

In Restructuring, the Company tendered its zero-coupon Novo Banco seniors to take advantage of the premium and the liquidity window. It also closed its position in Grenke due to the absence of near-term catalysts. Finally, it reduced its exposure to Portuguese life insurance.

In the Relative Value buckets, the Company took its profits on Commerzbank and Volksbank AT1s.

In Midcap Origination, the Company participated in a few primary deals, including the new eSure RT1, OLB AT1 and My Money Bank T2.

August

In Restructuring, the Company built a small position in the newly issued Piraeus AT1 below par.

In the Relative Value buckets, the Company added to its allocation of UK pure perpetuals, buying old-style preferred shares from Santander UK, NatWest, RSA, Lloyds and Standard Chartered. It also increased its holdings of SPV-issued Opus Securities.

September

In Midcap Origination, the Company participated in the new OneSavings Bank AT1 issue and bought some Brit Insurance legacy T2s. It also added to its holdings of OLB AT1s.

In Restructuring, the Company was involved in the DDM senior debt tap issue. It also bought Novo Banco seniors, as Axiom AI expected the conflict with the Resolution Fund to be resolved in favour of the bank.

In the Relative Value buckets, the Company continued to increase its allocation to UK pure perpetuals. It put in place a short on SOCGEN 5.625% 2045 (USF8586CBU56), as the instrument contained a regulatory par call that could be exercised as soon as 2025. Indeed, the bond was governed by English law, and could lose its capital eligibility in 2025 if there was no mutual recognition of bail-in powers by the UK by 2025.

INVESTMENT MANAGER'S REPORT *(continued)*

October

In Midcap Origination, the Company opened a position in specialist mortgage lender Together, as well as in the UK subsidiary of Investec, a wealth manager and private bank with operations mainly in the UK and South Africa.

In Restructuring, the Company took part in the new Piraeus green senior preferred issue, while it reduced its allocation to the T2s.

In the Relative Value buckets, the Company continued adding to its allocation of UK pure perpetuals. It also increased its allocation to some French discos and CMS-like securities. The Company closed its position in Deutsche Bank AT1s.

November

In Midcap Origination, the Company took part in an inaugural T2 issue from Lifetri, an emerging Dutch life insurance consolidator. It also added to its exposures to Co-Operative Bank and OneSavings.

In Liquid Relative Value, the Company opened a position in Spanish banks Abanca and Cajamar.

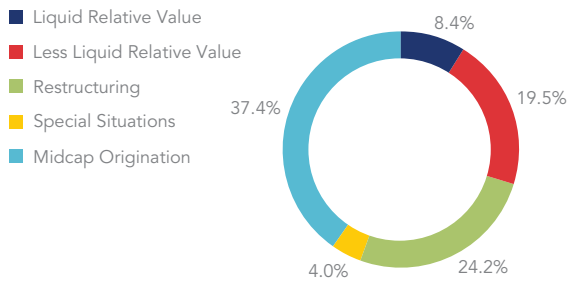
December

In Midcap Origination, the Company reduced its exposure to challenger banks OneSavings and Shawbrook as well as NPL purchaser AnaCap. In Liquid Relative Value, it bought Abanca's 7.5% AT1s.

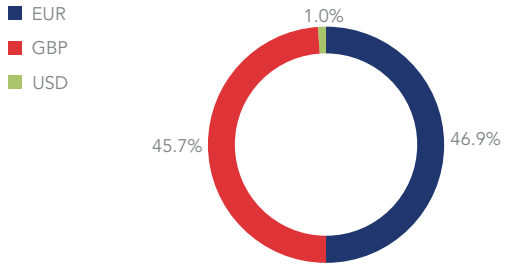
INVESTMENT MANAGER'S REPORT *(continued)*

4. Portfolio (as at 31 December 2021)[1]

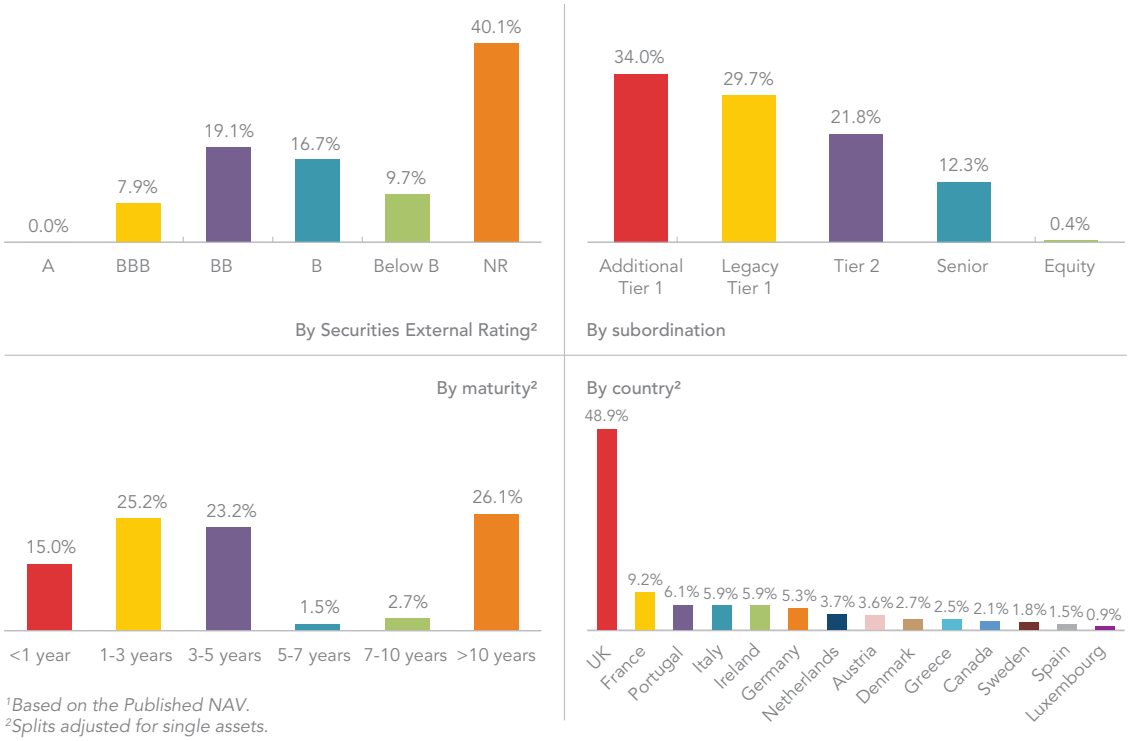
Strategy Allocation (as a % of total net assets)[2]



Denomination (as a % of total net assets)[2]



Portfolio Breakdown (as a % of total net assets)



[1]*Based on the Published NAV.*
[2]*Splits adjusted for single assets.*

INVESTMENT MANAGER'S REPORT *(continued)*

5. Company metrics (as at 31 December 2021)

Share price and NAV	
Share price (mid) (GB pence)	95.50
Published NAV per share (daily) (GB pence)	105.15
Dividends paid over last 12 months (GB pence)	6.00
Shares in issue	91,852,904
Market capitalisation (GBP mn)	87.72
Total Published Net Assets (GBP mn)	96.59
Premium/(Discount)	(9.18)%

Portfolio information (APM)	31 December 2021	31 December 2020
Modified duration	3.08	4.54
Sensitivity to credit	5.56	5.51
Positions	84	85
Average price at end of the month[1]	113.62	104.56
Running yield (GBP)	5.95%	5.76%
Yield to perpetuity (GBP)[2]	6.23%	6.67%
Yield to call (GBP)[3]	6.70%	8.51%
Gross assets	112.7%	121.0%
Net gearing	108.4%	114.2%
Investments/Published net assets	95.7%	104.0%
Cash	7.3%	3.0%
Collateral	4.2%	6.4%
Net Repo/Published net assets	5.3%	-0.1%
CDS/Published net assets	32.9%	56.7%

Net Return[4]

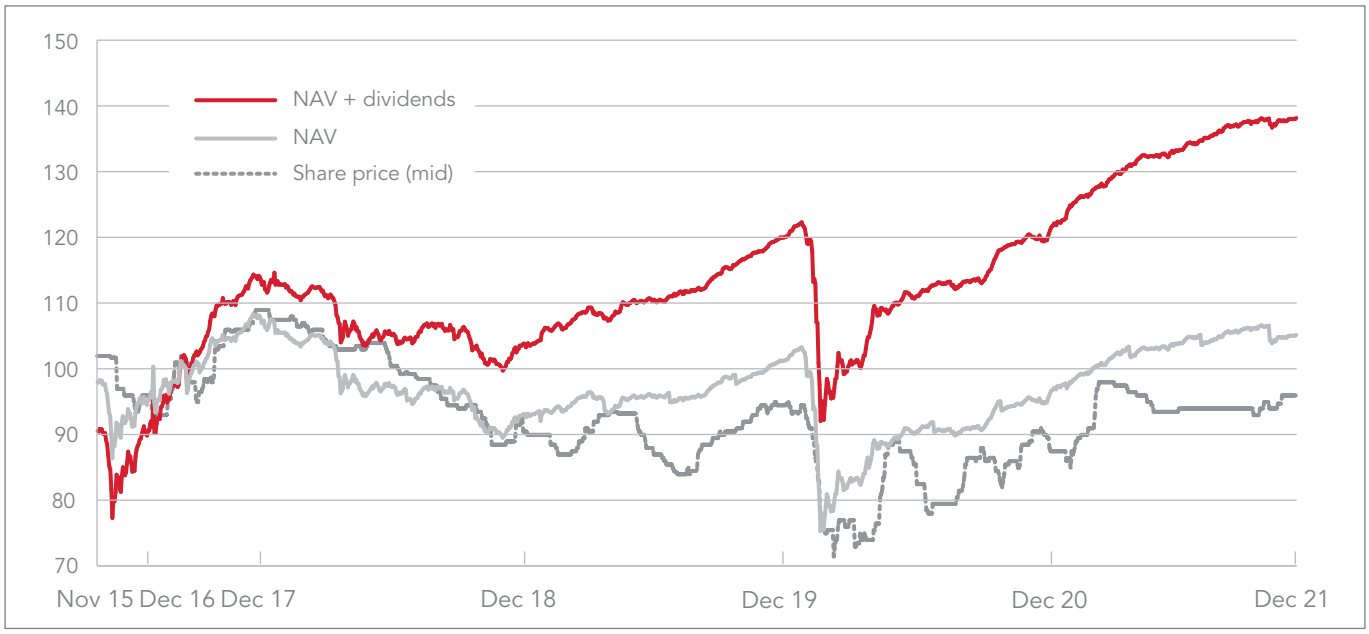
Total Performance					
1 month	3 months[6]	6 months[6]	1 year[6]	3 years[5]	Since launch[5]
1.23%	0.93%	5.03%	17.31%	12.11%	7.26%

Monthly Performance													
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total
2015											0.19%	-1.48%	-1.29%
2016	-4.02%	-4.59%	3.57%	1.16%	2.62%	-1.97%	2.83%	1.69%	-0.21%	2.06%	-1.60%	1.91%	3.10%
2017	2.67%	0.93%	1.12%	2.01%	1.72%	-1.41%	1.86%	0.58%	1.76%	2.72%	1.31%	0.23%	16.14%
2018	3.12%	-0.70%	-1.95%	1.14%	-5.84%	-0.72%	1.60%	-1.26%	2.43%	-1.54%	-2.68%	-1.44%	-8.00%
2019	3.36%	2.30%	0.29%	2.53%	-1.58%	2.29%	0.30%	0.75%	0.97%	2.22%	1.77%	1.12%	16.98%
2020	1.99%	-0.87%	-19.95%	5.24%	3.68%	4.27%	1.90%	1.88%	-0.32%	0.53%	5.03%	1.48%	1.73%
2021	-0.16%	3.78%	2.45%	2.15%	1.65%	1.27%	0.83%	1.19%	1.97%	0.18%	-0.45%	1.23%	16.87%

[1] *Bonds only.*
[2] *The yield to perpetuity is the yield of the portfolio converted in GBP with the hypothesis that securities are not reimbursed and kept to perpetuity.*
[3] *The yield to call is the yield of the portfolio converted in GBP at the anticipated reimbursement date of the bonds.*
[4] *Past performance does not guarantee future results.*
[5] *Annualised performance, dividends reinvested.*
[6] *Performance with dividends reinvested.*

INVESTMENT MANAGER'S REPORT *(continued)*

6. NAV evolution



7. Outlook

The European banking sector ended 2021 with sound prudential buffers and improved profitability metrics. The average CET1 and leverage ratios respectively rose to 15.5% and 5.9%, well above their pre-pandemic levels. The average Liquidity Coverage Ratio reached 174% while the NPL ratios settled at a new low of 2.2%. Aggregate profitability rebounded to a 7.5% Return on Equity. European banks showed progress in revenue diversification, as 2021 saw a 15% increase in net fee and commissions income with 50% coming from asset management. They gained market share in debt capital markets as well as syndicated lending. Their cost-to-income ratio decreased to 64%, the lowest since quarter four 2017. The macroeconomic outlook was robust, with real GDP expected to grow well above its pre-pandemic levels thanks to solid employment gains and a rebound in consumption. Credit demand remained healthy: quarter four 2021 saw the largest net increase in loan demand since March 2020, while credit standards only saw a mild tightening.

Since the escalation of the Ukrainian conflict, investors have been pricing uncertainty over direct and indirect Russian exposures as well as macro implications. Direct exposures to Russian counterparts include sanctioned entities, cross-border loans and European-owned subsidiaries in Russia. Indirect exposures come from heightened financial markets volatility, especially in the commodities complex, as well as higher operational risks (cyberattacks, IT connections, asset freezes, SWIFT ban). The macroeconomic impact is hard to quantify at this point, but we expect somewhat slower real growth due to higher raw input prices and lower investor confidence.

Direct exposures of European banks to credit, securities and derivatives appear contained. There has been no major operational hiccup coming from Russian sanctions so far. Even extreme "walk-away" scenarios from subsidiaries in Russia appear very manageable (most establishments are locally funded). Rising energy and commodity prices introduce downside risk to domestic GDP growth and upside risk to inflation. However, based on current prices, the impact on real growth is likely to be below 1pt of GDP in 2022. In its severe adverse scenario, the ECB still sees a real GDP growth above 2% in 2022 (according to its March 2022 projections). The upside from the gradual normalisation of the interest rate environment is still material as central banks have not deviated from their policy trajectory in light of the new geopolitical environment. Regulators have so far not been too worried about the prudential impact of the Ukrainian conflict. Andrea Enria, Chair of the Supervisory Board of the ECB, characterised the levels of dividends and buybacks as "broadly acceptable". Away from the developments in Ukraine, the regulators are expected to keep the pressure on issuers to streamline their liability stacks: the PRA in the UK with the Resolvability Assessment Framework by June 2022 and the SRB in the EU with its "Expectations for banks" process by the end of 2023.

INVESTMENT MANAGER'S REPORT *(continued)*

While we recognise there is some uncertainty stemming from the wide range of potential geopolitical outcomes, we believe that the conflict will likely stay local, with manageable direct and indirect consequences for European banks. As default risk seems very remote at this point, we continue to view the Company as well positioned to capture the opportunities arising within the sector.

Gildas Surry
Axiom Alternative Investments SARL
21 March 2022

Antonio Roman
Axiom Alternative Investments SARL
21 March 2022

INVESTMENT PORTFOLIO

as at 31 December 2021

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss		
Bonds		
Co-Operative Bank Finance PLC 9.500% 04/25/29	4,119	4.25
West Bromwich Building Society 3.000% Perp	3,674	3.79
Promontia MMB SASu 8.000% Perp	3,627	3.74
Ulster Bank Ireland DAC 11.750% Perp	3,295	3.40
Shawbrook Group PLC 7.875% Perp	3,178	3.28
Cassa di Risparmio di Asti SpA 9.250% Perp	2,922	3.02
Nottingham Building Society 7.875% Perp	2,494	2.57
International Personal Finance PLC 9.750% 11/12/25	2,473	2.55
Coventry Building Society 12.125% Perp	2,323	2.40
Investec PLC 6.650% Perp	1,884	1.94
OSB Group PLC 6.000% Perp	1,722	1.78
IKB Funding Trust I 0.929% Perp	1,721	1.78
Volksbank Wien AG 7.750% Perp	1,656	1.71
NIBC Bank NV 6.000% Perp	1,632	1.68
AnaCap Financial Europe SA 5.000% 08/01/24	1,518	1.57
DDM Debt AB 9.000% 04/19/26	1,517	1.57
Shawbrook Group PLC 9.000% 10/10/30	1,516	1.56
Lifetri Groep BV 5.350% 01/01/32	1,509	1.56
Saxo Bank A/S 8.125% Perp	1,414	1.46
eSure Group PLC 6.000% Perp	1,408	1.45
Bank of Scotland PLC 13.625% Perp	1,398	1.44
Jupiter Fund Management PLC 8.875% Perp	1,356	1.40
Brit Insurance Holdings Ltd 3.676% 12/09/30	1,344	1.39
Bracken MidCo1 PLC 6.750% 11/01/27	1,254	1.29
Novo Banco SA 8.500% 07/06/28	1,198	1.24
Oldenburgische Landesbank AG 6.000% Perp	1,189	1.23
Banco Comercial Portugues SA 3.871% 03/27/30	1,169	1.21
Skipton Building Society 12.875% Perp	1,160	1.20
UnipolSai Assicurazioni SpA 6.375% Perp	1,149	1.19
Novo Banco SA 3.500% 07/07/24	1,080	1.11
Gamalife – Cia de Seguros de Vida SA 1.611% 12/19/22	1,021	1.05
Bank of Ireland 13.375% Perp	995	1.03
Amissima Vita SpA 7.000% 08/16/31	957	0.99
Piraeus Bank SA 3.875% 11/03/27	940	0.97
Banque Federative Credit Mutuel SA 0.117% Perp	929	0.96
Saxo Bank A/S 5.500% 07/03/29	927	0.96
Norddeutsche Landesbank-Girozentrate 6.350% Perp	925	0.95
Royal Bank of Canada London 8.250% 07/05/22	880	0.91
Royal Bank of Canada London 7.600% 06/27/22	876	0.90
Kommunalkredit Austria AG 6.500% Perp	874	0.90
Promontia MMB SASu 5.250% 10/15/41	848	0.88
Virgin Money UK PLC 8.000% Perp	832	0.86
Fidelidade Companhiade Seguros SA 4.250% 09/04/31	811	0.84
BNP Paribas SA Perp	776	0.80
TSB Group Holdings PLC 7.875% Perp	757	0.78
Aareal Bank AG 6.641% Perp	682	0.70
BNP Paribas SA 0.000% Perp	675	0.70
Banco de Credito Social Cooperativo SA 5.250% 11/27/31	612	0.63
Piraeus Bank SA 9.750% 06/26/24	546	0.56

INVESTMENT PORTFOLIO

as at 31 December 2021 *(continued)*

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss *(continued)*		
Bonds *(continued)*		
Abanca Corp Bancaire SA 7.500% Perp	543	0.56
BAWAG Group AG 5.125% Perp	531	0.55
Quintet Private Bank Europe SA 7.500% Perp	520	0.54
Newcastle Building Society 10.750% Perp	509	0.53
National Westminster Bank PLC 11.500% Perp	505	0.52
Caixa Economica Montepio Geral 5.000% Perp	484	0.50
Louvre Bidco SAS 5.375% 09/30/24	482	0.50
GNB Cia de Securos de Vida SA 2.911% Perp	471	0.49
Leeds Building Society 13.375% Perp	275	0.28
Ecology Building Society 9.625% Perp	261	0.27
Piraeus Financial Holdings SA 8.750% Perp	252	0.26
Alpha Group Jersey Ltd 3.250% Perp	241	0.25
Mitsubishi UFJ Investor Services & Banking Luxembourg SA 3.928% 12/15/50	222	0.23
National Westminster Bank PLC 11.500% Perp	221	0.23
West Bromwich Building Society 11.000% 04/12/38	168	0.17
Cheltenham & Gloucester PLC 11.750% Perp	107	0.11
OneSavings Bank PLC 4.601% Perp	59	0.06
Banco Popular Espanol SA 8.000% 07/29/21	–	–
Banco Popular Espanol SA 8.250% 10/19/21	–	–
Popular Capital SA Perp	–	–
Popular Capital SA 6.000% Perp	–	–
	79,613	82.18
Other capital instruments		
Lloyds Banking Group PLC 9.250% Perp	996	1.03
Lloyds Banking Group PLC 9.750% Perp	846	0.87
Standard Chartered PLC 7.375% Perp	792	0.82
Bank of Ireland 12.625% Perp	722	0.74
RSA Insurance Group PLC 7.375% Perp	670	0.69
Standard Chartered PLC 8.250% Perp	433	0.45
Ecclesiastical Insurance Group PLC 8.625% Perp	369	0.38
Jupiter Fund Management PLC	262	0.27
Santander UK PLC 10.375% Perp	231	0.24
National Westminster Bank PLC 9.000% Perp	219	0.23
Santander UK PLC 8.625% Perp	160	0.16
Alpha Services and Holdings SA	136	0.14
	5,836	6.02
Total investments in capital instruments at fair value through profit or loss	85,449	88.20

INVESTMENT PORTFOLIO

as at 31 December 2021 *(continued)*

	£'000	% of NAV
Derivative financial assets at fair value through profit or loss		
Sale and repurchase agreement in respect of Société Générale SA 5.625% 11/24/45	4,194	4.33
GBP/EUR foreign currency forward	132	0.14
BNP Paribas SA Senior CDS 12/20/26	112	0.12
Markit iTraxx Europe Subordinated Financial Index 06/20/22	34	0.03
Danske Bank A/S Subordinated CDS 12/20/23	24	0.02
UniCredit SpA Subordinated CDS 12/20/22	10	0.01
Derivative financial assets at fair value through profit or loss	4,506	4.65
Derivative financial liabilities at fair value through profit or loss		
Sale and repurchase agreement in respect of Shawbrook Group PLC 7.875% Perp	(1,703)	(1.76)
Sale and repurchase agreement in respect of NIBC Bank NV 6.000% Perp	(1,079)	(1.11)
Sale and repurchase agreement in respect of Volksbank Wien AG 7.750% Perp	(1,076)	(1.11)
Sale and repurchase agreement in respect of UnipolSai Assicurazioni SpA 6.375% Perp	(820)	(0.85)
Sale and repurchase agreement in respect of Saxo Bank A/S 5.500% 07/03/29	(647)	(0.67)
Sale and repurchase agreement in respect of BAWAG Group AG 5.125% Perp	(446)	(0.46)
Sale and repurchase agreement in respect of Louvre Bidco SAS 5.375% 09/30/24	(339)	(0.35)
Markit iTraxx Europe Subordinated Financial Index 12/20/24	(266)	(0.27)
GBP/USD foreign currency forward	(125)	(0.13)
United Kingdom of Great Britain and Northern Ireland Senior CDS 06/20/23	(42)	(0.04)
10 year US Treasury Note Futures – March 2022	(12)	(0.01)
Derivative financial liabilities at fair value through profit or loss	(6,555)	(6.76)
Related party fund investments		
Axiom Global CoCo UCIT ETF USD-hedged	3,183	3.29
Axiom Alternative Liquid Rates Z Cap Scv	1,691	1.74
Related party fund investments	4,874	5.03
Other assets and liabilities		
Short position in respect of Société Générale SA 5.625% 11/24/25	(3,932)	(4.06)
Collateral accounts for derivative financial instruments at fair value through profit or loss	4,119	4.25
Cash and cash equivalents	7,713	7.96
Other receivables and prepayments	2,143	2.21
Other payables and accruals	(649)	(0.67)
Bank overdrafts	(693)	(0.72)
Collateral accounts for derivative financial instruments at fair value through profit or loss	(92)	(0.09)
Other assets and liabilities	8,609	8.88
Net assets (as reported in these financial statements (see note 22))	**96,883**	**100.00**

PRINCIPAL RISKS AND UNCERTAINTIES

Risk is inherent in the Company's activities, but it is managed through an ongoing process of identifying and assessing risks and ensuring that appropriate controls are in place. The Board evaluates the Company's principal risks on an ongoing basis, and continuously assesses for future risks that could have a potential impact. During the year, the Board and the Investment Manager had ongoing discussions and reviews to consider the current, emerging, and potential risks of the Company. The discussions generated insights into a range of emerging and potential risks and has helped to focus attention on additional areas for monitoring by the Board and the Investment Manager. The Company's risk register is reviewed by the Board, including the assessment of future risks that may arise.

The Board has carried out a robust assessment of the Company's emerging and principal risks and the key risks faced by the Company, along with controls employed to mitigate those risks. These have not substantially changed in the last year, and are set out below.

Macroeconomic risk

Adverse changes affecting the global financial markets and economy as a whole, and in particular European financial debt markets, may have a material negative impact on the performance of the Company's investments. In addition, the Company's non-Pounds Sterling investments may be affected by fluctuations in currency exchange rates. Prices of financial and derivative instruments in which the Company invests are subject to significant volatility due to market risk.

The Company may use derivatives, including options, short market indices, CDS, and others, to mitigate market-related downside risk, but the Company is not committed to maintaining market hedges at any time.

The Company has a systematic hedging policy with respect to currency risk. Subject only to the availability of suitable arrangements, the assets denominated in currencies other than Pounds Sterling are hedged by the Company (to a certain extent) by using currency forward agreements to buy or sell a specified amount of Pounds Sterling on a particular date in the future.

Historically, FX hedging has undermined many closed-ended investment funds, as a result of sharp movements in the FX rates leaving large hedging losses which could not be met as assets were illiquid and banks were under severe balance sheet strain and could not offer forbearance on facilities in breach.

The Company is exposed to FX hedging risks (see note 24) but this risk is mitigated by the following:

- Based on the worst case scenario observed in monthly spot movements in the past 10 years, our worst case expected hedging loss on expiry would be 4.00% of NAV;
- Our portfolio trading liquidity is such that it would take one day, in normal circumstances, to liquidate sufficient assets to meet such an anticipated worst case loss; and
- In "stressed" markets, we estimate it would take one day to raise such liquidity.

COVID-19 Pandemic

While the impact of COVID-19 continues to be seen across the world, the implications for financial markets has begun to reduce, with rates and equity volatilities improving. Although impeded by the discovery of the new Omicron variant in the fourth quarter of 2021, overall indices were in a better position than at the start of 2021.

At the height of the lockdowns in Guernsey, the UK, France and Luxembourg, the Administrator and Investment Manager showed that they were able to work remotely without any significant negative impact on the Company's operations.

While the ongoing implications of COVID-19 are still unknown, the positive movements in the market are encouraging but, should another new variant lead to further lockdowns this could change again. However, in part due to the successful vaccine roll-out, there is light at the end of the COVID-19 pandemic tunnel, and it is expected that the risk to the Company from it will continue to decrease throughout 2022.

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

Russian Invasion of Ukraine

Russia's invasion of Ukraine is a new emerging risk to the global economy. The invasion itself and resulting international sanctions on Russia are believed to have already caused substantial economic damage to that country, which is likely to worsen the longer the sanctions are in place, and may well have some wider global effect on the supply and prices of certain commodities and consequently on inflation and general economic growth of the global economy. The effects will vary from country to country, depending, for example, on their dependence on Russian energy supplies, particularly gas, which cannot be so easily transported and substituted as oil. Although stock markets initially fell as a result of the Russian invasion, they have largely recovered and in the case of the FTSE100, it is as of 17 March only 1.50% down from its closing level on 23 February 2022, the day prior to the Russian invasion, and 0.01% above where it closed at the end of 2021. European and global banks in general were very strongly capitalised as at the end of 2021 and they have limited direct exposure to Russian credit risk and there is no evidence of meaningful stress in the financial markets. As military and political events unfold, there may well be further price volatility in some instruments, but absent catastrophic tail risk events, the effects on the Company's portfolio are not expected to be significant.

Investment risk

There are certain risks associated with the Company's investment activities that are largely a result of the Company's investment policy (e.g. a portfolio concentrated on European financial debt) and certain investment techniques which are inherently risky (e.g. short selling).

There are numerous risks associated with having a concentrated portfolio and the primary risk management tool used by the Company is the extensive research performed by the Investment Manager prior to investment, along with the ongoing monitoring of a position once held in the Company's portfolio. The Board reviews portfolio concentration and receives a detailed overview of the portfolio positions quarterly, and more frequently if necessary.

Counterparty risk

The Company has credit and operational risk exposure to its counterparties which will require it to post collateral to support its obligations in connection with forwards and other derivative instruments. Cash pending investment or held on deposit will also be held with counterparties. The insolvency of a counterparty would result in a loss to the Company which could be material.

In order to mitigate this risk the Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The Investment Manager negotiates its ISDA agreements to include bilateral collateral agreements. In addition, cash held is only with financial institutions with short term credit ratings of A-1 (Standard & Poor's) or P-1 (Moody's) or better.

Exposure to counterparties is monitored by the Investment Manager and reported to the Board each quarter.

Credit risk

The Company may use leverage to meet its investment objectives. The Company will also use forward contracts to hedge its non-Pounds Sterling assets. In order to do this, it will need to have in place credit lines with one or more financial institutions.

Due to market conditions or other factors, credit lines may be withdrawn and it might not be possible to put in place alternative arrangements. As such, the ability to meet the Company's investment objective and/or hedging strategy may not be met.

The Investment Manager monitors the use of credit lines and reports to the Board each quarter.

Share price risk

The Company is exposed to the risk that its shares may trade at a significant discount to NAV or that the market in the shares will be illiquid. To mitigate this risk the Company increased the frequency of the publication of its NAV to daily and has retained the Broker to maintain regular contact with existing and potential shareholders. In addition, the Company may instigate a share buyback programme in an attempt to reduce the discount. The Board monitors the trading activity of the shares on a regular basis and addresses the premium/discount to NAV at its regular quarterly meetings.

From 1 January 2021 to 31 December 2021, the Company's shares traded at an average discount to NAV of 9.14% (2020: 8.29% discount to NAV). The discount rose to 13.64% on 4 March 2021 as the share price lagged the increase in the NAV as a result of improved market conditions. The discount decreased to 2.98% on 15 April 2021 as the share price recovered slightly. At the year end the shares traded at a 9.18% discount to Published NAV (2020: 7.47% discount). The level of discount continues to be monitored by all parties with a view to introducing methods to improve the position, if necessary.

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

Regulatory risk

Changes in laws or regulations, or a failure to comply with these, could have a detrimental impact on the Company's operations. Prior to initiating a position, the Investment Manager considers any possible legal and regulatory issues that could impact the investment and the Company. The Company's advisers and service providers monitor regulatory changes on an ongoing basis, and the Board is apprised of any regulatory inquiries and material regulatory developments on a quarterly basis.

Reputational risk

Reputational damage to the Company or the Investment Manager as a result of negative publicity could adversely affect the Company. To address this risk, the Company has engaged a public relations firm to monitor media coverage and actively engage with media sources as necessary. The Board also receives updates from the Broker and the Investment Manager on a quarterly basis and considers measures to address concerns as they arise.

ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

As an investment company, the Company does not have any employees or physical property, and most of its activities are performed by other organisations. Therefore, the Company does not combust fuel and does not have any greenhouse gas emissions to report from its operations, nor does it have direct responsibility for any other emission producing sources.

ESG Policy

The Board believes that all companies have a duty to consider their impact on the community and the environment. The Directors, Administrator, Company Secretary and external auditor are all based in Guernsey and Board meetings are held in Guernsey, thus negating the need for long commutes or flights to/from Board meetings, and thereby minimising the negative environmental impact of travel to/from Board meetings.

When making investment decisions, the Investment Manager uses three main mechanisms to integrate ESG criteria:

- Its in-house database and tools dedicated to ESG, as described in its ESG policy which is available on their website https://axiom-ai.com/web/en/regulatory-information/);
- Engagement with management or investor relations teams to get additional information; and
- Information published in annual reports or other regulatory filings (such as TCFD or sustainability reports).

Axiom AI's Investment Committee is ultimately responsible for the progress of ESG integration by the investment teams, under the supervision of Axiom AI's Executive Committee.

In addition to the ESG policy, Axiom AI maintains an exclusion list. Investments in securities issued by a firm on that exclusion list are prohibited. If a name is added to the exclusion list and the securities are already in the portfolios, the portfolio manager must divest the securities, in a way that is not harmful to holders (no fire sale). The list is mainly based on the lists established by recognized key players, such as the Norwegian government pension fund. The list was introduced in order to formalise the Investment Manager's desire not to invest in any company engaged in activities that do not correspond to our values and our requirements in terms of sustainable development. Companies can be excluded, for example because they produce controversial weapons, such as the ones covered by the Ottawa and Oslo Conventions (anti-personnel mines, cluster munitions). This list is regularly reviewed and amended.

GENDER DIVERSITY

The Board of Directors of the Company currently comprises three male Directors. Further information in relation to the Board's policy on diversity can be found in the Directors' Remuneration Report on page 43.

KEY PERFORMANCE INDICATORS

The Board uses the following KPIs to help assess the Company's performance against its objectives. Further information regarding the Company's performance is provided in the Chairman's Statement and the Investment Manager's Report.

Dividends per Ordinary Share
As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company announced dividends of £5,511,000 (6.00p per Ordinary Share) for the year ended 31 December 2021 (2020: £5,511,000, 6.00p per Ordinary Share) (see note 6 for further details). The Company has met the 6.00p dividend per share target each year since inception and expects to continue to be able to pay out dividends of this level in the future.

NAV and total return
In line with the Prospectus, the Company is targeting a net total return on invested capital of approximately 10% p.a. over a seven year period.

The Company achieved a total return of 16.88% in the year ended 31 December 2021 (2020: +2.24%). The total return from inception to 31 December 2021 was 7.26% p.a., which is below the long term target return of 10% p.a. net of operating expenses. Although, the future rate of return and dividends cannot be guaranteed, together with the Investment Manager, the Board believes that the Company's long-term target return will be achievable in the future. The total return for the three years ended 31 December 2021 was +12.11% p.a., which is above the target return supports this assumption.

The Board regularly monitors the premium/discount of the price of the Ordinary Shares to the NAV per share. Should the discount of share price to NAV become unacceptable to the Board, the Company may buy back some of its shares. Accordingly, the Board puts forward a proposal to Shareholders at the Annual General Meeting to renew the authority to buy back shares.

At 31 December 2021 the share price was 95.50p (2020: 88.00p), a 9.18% discount to Published NAV (2020: 7.47% discount).

PROMOTING THE SUCCESS OF THE COMPANY

The following disclosure outlines how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006. Although, as a Guernsey company, the Company is not required to directly comply with the Companies Act 2006, Section 172 is considered as a requirement of the AIC Code with which the Company complies (see page 34 for further details).

The Board considers the needs of a number of stakeholders when considering the long-term future of the Company. The key stakeholders with which the Board has liaised during the year ended 31 December 2021 were:

- Shareholders; and
- Key service providers.

Shareholders
The Company's significant Shareholders at the year end can be found in the Directors' Report on page 31.

When making principal decisions it is considered imperative to analyse the views of the Company's investors, to ensure that there may continue to be a supply of capital enabling the Company to continue to expand its shareholder base, realise its potential for growth and achieve its long-term investment objective (as disclosed on page 2). The KPIs, detailed above, have been considered on an ongoing basis as part of the Board's decision making process.

Details of how the Director's communicate with Shareholders can be found in the Corporate Governance Report, on page 36.

The only engagement with investors in the year was routine regarding strategy and performance.

Key service providers
Details of the Company's key service providers can be found in the material contracts section of the Directors' Report on page 31.

The key service providers, including the Investment Manager, are fundamental to the Company's ability to continue in the same state as any changes could disrupt the expected timeliness of information provided to the markets. In turn this would be likely to have a detrimental impact on the Company's reputation. Reputational risk is discussed further on page 23.

The Board considers the performance of the Investment Manager to be imperative to the success of the Company and therefore reviews the performance of the Investment Manager at each Board meeting. The Investment Manager and Administrator provide the Board with documentation for consideration at the meetings to assist with their review of performance and the Investment Manager also provides a verbal report to the Board. The Directors raise any queries they have at these meetings with the Investment Manager to help to ensure the successful implementation of the investment objective and success of the Company.

The Board has continuous access to all of the Company's key service providers and has open two-way communication with them. Key aspects of discussion with these service providers, other than those regarding Company performance and strategy, were in respect of fees payable to these providers.

Following these discussions, no fee arrangements were amended in the year ended 31 December 2021.

William Scott
Chairman
21 March 2022

BOARD OF DIRECTORS

William Scott ***(Chairman and Chairman of the Management Engagement Committee)***
Bill is an independent non-executive director of a number of investment companies and funds. He was formerly Senior Vice President with FRM Investment Management Limited, a leading manager of institutional funds of hedge funds in Guernsey and now part of Man Group Plc. Prior to this, he was a director at Rea Brothers (which became part of the Close Brothers group in 1999 and where he was a director of Close Bank Guernsey Limited). He is a Chartered Accountant, holds the Securities Institute Diploma and is a Chartered Fellow of the Chartered Institute for Securities and Investment. He is also a Chartered Wealth Manager.

Bill currently serves on two other Premium London listed fund boards, Worsley Investors Limited (where he is chairman) and RTW Venture Fund Limited, and has served continuously on Premium London listed boards for 20 years. He is also a director of a number of unlisted and TISE-listed investment companies and management companies.

John Renouf ***(Chairman of the Audit Committee and Senior Independent Director)***
John is a qualified accountant and was employed by FRM Investment Management Limited, which is now a wholly owned subsidiary of Man Group Plc, as a Director and then Managing Director. Prior to this, John was employed on a part time basis by Collins Stewart to assist in its development of offshore funds and he also spent over ten years with Royal Bank of Canada Offshore Fund Managers Limited in Guernsey. In this role he had overall responsibility for the management and administration of Royal Bank of Canada's offshore funds in the Channel Islands together with funds managed and administered on a third party basis.

John currently holds a number of directorships of funds and fund management companies.

Max Hilton ***(Chairman of the Nomination and Remuneration Committee)***
Max returned to Guernsey from New York in 2008 and formed the predecessor firm to MJ Hudson Quantitative Solutions. He previously worked for JP Morgan Securities Inc in New York within proprietary equities and was responsible for managing a global equities portfolio. Prior to this Max had worked at Ziff Brothers Investments in New York and London as a Senior Associate within the quantitative strategy group. Max has a BSc (Hons) Economics from the University of London and has held the CFA designation since 2001. Between 2009 and 2019 he served as Chair of the CFA UK Performance and Risk Measurement Special Interest Group.

DIRECTORS' REPORT

The Directors of the Company are pleased to present their report and audited financial statements for the year ended 31 December 2021.

Principal activity
The principal activity of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in certain financial institution investment instruments as detailed on page 2.

Results and Dividends
The results of the Company for the year are shown on page 55.

As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company announced dividends of 6.00p per Ordinary Share for the year ended 31 December 2021, of which 4.50p per Ordinary Share were provided for in these financial statements. In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, the fourth dividend of £1,378,000 (1.50p per Ordinary Share) had not been provided for at 31 December 2021 as, in accordance with IFRS, it was not a liability of the Company at that date.

The Directors do not recommend the payment of a final dividend for the financial year.

Net assets
At 31 December 2021, the Company had net assets of £96,883,000 (2020: £87,350,000). The Published NAV of 105.15p per Ordinary Share was lower than the NAV per Ordinary Share of 105.48p in these financial statements as a result of 50% of the accrued performance fee, which is due to be settled through the purchase of shares in the Company, being allocated to the performance fee reserve (see note 8a for further details of the performance fee).

Capital structure and share issues
At the year end and the date of signing this report, there were 91,852,904 Ordinary Shares in issue (2020: 91,852,904 Ordinary Shares).

Further details are provided in note 21 to the financial statements.

Going concern
The Company's investment activities, together with factors likely to affect its future development, performance and position are set out in the Principal Risks and Uncertainties on pages 21 to 23. The Company closely monitors and manages these risks through a process of ongoing identification, measurement and evaluation, and applies risk management procedures to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

While the impact of COVID-19 continues to be seen across the world, the implications for financial markets has begun to reduce, with rates and equity volatilities improving. Although impeded by the discovery of the new Omicron variant in the fourth quarter of 2021, overall indices were in a better position than at the start of 2021.

At the height of the lockdowns in Guernsey, the UK, France and Luxembourg, the Administrator and Investment Manager showed that they were able to work remotely without any significant negative impact on the Company's operations.

While the ongoing implications of COVID-19 are still unknown, the positive movements in the market are encouraging but, should another new variant lead to further lockdowns this could change again. However, in part due to the successful vaccine roll-out, there is light at the end of the COVID-19 pandemic tunnel, and it is expected that the risk to the Company from it will continue to decrease throughout 2022.

DIRECTORS' REPORT *(continued)*

Going concern *(continued)*

Russian Invasion of Ukraine

European and global banks in general were very strongly capitalised as at the end of 2021 and they have limited direct exposure to Russian credit risk and there is no evidence of meaningful stress in the financial markets. As military and political events unfold, there may well be further price volatility in some instruments, but absent catastrophic tail risk events, the effects on the Company's portfolio are not expected to be significant. Consequently, it is not expected to have any impact on the Company's ability to continue as a going concern.

The Board and Investment Manager are monitoring the situations closely and the potential impacts they may have on the Company, its investments, income and intention to distribute all income from investments, net of expenses, by way of dividends on a quarterly basis. As a result, the operations of the Company are and will be kept under constant review to ensure the Company's liquid resources will be sufficient to cover any working capital requirements. In such circumstances, and subject to the availability of opportunities to do so, the options open to the Board could include any or all of the following: selling assets, deferring expenses, reducing dividends, borrowing or raising additional capital.

The Board has considered the financial prospects of the Company for the next twelve months from the date of approval of the Financial Statements and made an assessment of the Company's ability to continue as a going concern. In assessing the going concern status of the Company, the Directors have considered:

- the Company's net assets at 31 December 2021 of £96,883,000 (2020: £87,350,000);
- the predictability of the Company's income and expenses; and
- the liquidity of the Company's assets (at 31 December 2021, 59.5% (2020: 67.4%) of its capital instruments could be liquidated in one day).

After undertaking prudent and robust enquiries, and assessing all data relating to the Company's liquidity, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company. For this reason, they have adopted the going concern basis in preparing the financial statements.

Viability statement

The Directors have assessed the prospects of the Company over the three year period to 31 March 2025. The Directors believe this period to be appropriate as any forecast beyond three years would likely produce figures that are too uncertain to be meaningful.

In their assessment of the viability of the Company, the Directors have considered the Company's principal risks and uncertainties (see pages 21 to 23) together with the Company's income and expenditure projections. The Directors also noted the relatively liquid nature of the Company's portfolio, which could be utilised to meet funding requirements, if necessary.

As part of its strategic planning, the Board considered model scenarios that replicated the impact of a financial crisis on the Company's portfolio, which would cause large NAV declines, mainly due to 20% to 25% reductions in prices of the capital instruments held by the Company. The results of these model scenarios showed that the Company would be able to withstand the impact of these scenarios occurring over the three year period.

The Company has processes for monitoring operating costs, share price discount, the Investment Manager's compliance with the investment objective and policy, asset allocation, the portfolio risk profile, counterparty exposure, liquidity risk, foreign exchange risk and financial controls.

Based on the above evaluation, the Directors concluded that there is a reasonable expectation that the Company will continue in operational existence, be able to pay its liabilities as they fall due, and be viable for the three year period to 31 March 2025.

DIRECTORS' REPORT *(continued)*

Litigation
So far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Company.

Internal control and financial reporting
The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal controls are as follows:

- The Administrator is responsible for the provision of administration and company secretarial duties;
- The duties of investment management, custody of assets, and accounting are segregated. The procedures are designed to complement one another;
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts;
- The Directors of the Company maintain a schedule of items reserved for the Board. This schedule is reviewed on an annual basis;
- The Board reviews financial information produced by the Company's Investment Manager and the Administrator on a regular basis; and
- On an ongoing basis, compliance reports are provided by the Investment Manager and Administrator at each Board meeting.

The Company does not have an internal audit department. All of the Company's management functions are delegated to third parties and it is therefore felt that there is no need for the Company to have an internal audit function.

The Board has considered the FRC guidance on risk management, internal control and related financial and business reporting. The Board is responsible for ensuring the maintenance of a robust system of internal control and risk management and for reviewing the effectiveness of the Company's overall internal control arrangements and processes following recommendations from the Audit Committee.

The appointment of the Investment Manager as the AIFM under the AIFMD means that it is responsible for operating the Company's internal system of control and for initially reviewing its effectiveness. Such systems are however designed to minimise the risk and not entirely eliminate risk; they can provide only reasonable assurance against material misstatement or loss.

Financial risk profile
The Company's financial instruments comprise investments at fair value through profit or loss, cash and cash equivalents, other receivables and other payables that arise directly from the Company's operations.

The Board has ultimate responsibility for risk management. Given that there are certain inherent risks related to the business and operations of the Company, the Board believes that developing an effective risk management strategy is crucial to the ongoing viability of the Company. In connection thereto, the Board carries out a robust assessment of the principal risks and uncertainties facing the Company, including those that would threaten its business model, future performance, solvency, liquidity or reputation. The main financial risks are market risk (comprising price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. Further details are given in note 24 to the financial statements. The principal risks and uncertainties faced by the Company are outlined on pages 21 to 23.

DIRECTORS' REPORT *(continued)*

Material contracts
The Company's material contracts, which are with its key service providers, are with:

- Axiom AI, which acts as Investment Manager and AIFM (note 8a);
- Elysium, which acts as Administrator and Company Secretary (note 8b);
- Winterflood, which acts as Broker (note 8c);
- CACEIS Bank France, which acts as Depositary (note 8e); and
- Link Market Services (Guernsey) Limited, which acts as Registrar (note 8d).

Taxation
The Company is exempt from taxation in Guernsey, and it is the intention to conduct the affairs of the Company to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation. The Company pays a fixed fee of £1,200 per annum to maintain exempt company status.

Substantial shareholdings
As at 31 December 2021, and at the date of signing this report, the Company was aware of the following interests of 3% or more in the Company's voting rights:

Shareholder	Number of Ordinary Shares	Percentage holding
Axiom AI	15,320,649	16.68
Serimnir Fund	13,769,672	14.99
Alvis Asset Management	12,929,915	14.08
Alder Investment Management	10,403,042	11.33
Premier Miton Group PLC	8,475,718	9.23
Capfi Delen Asset Management	8,237,301	8.87
Seven Investment Management	4,087,365	4.45
UBS Wealth Management	3,875,127	4.22

Letters of appointment and election of Directors
Biographies of the Directors are set out on page 27 and demonstrate the wide range of skills and experience each brings to the Board. The Directors were identified and interviewed prior to their appointments and advice was taken in respect of their appointments from the Company's other relevant advisers.

Each Director signed a letter of appointment to formalise their engagement as a Director. Copies of the letters of appointment are available on request from the Company Secretary and will be available at the AGM.

All three of the Directors are independent Non-Executive Directors who were appointed on 7 October 2015 and served throughout the period and to the date of signing this report. In accordance with best practice and the AIC Code, all directors retire at each AGM and, if eligible, may offer themselves for re-election by the Shareholders.

Directors' interests
At 31 December 2021 and at the date of signing this report, the Directors did not have any interests in the shares of the Company.

During the year, no Director had a material interest in a contract to which the Company was a party (other than their own letter of appointment).

Political donations
The Company made no political donations during the year.

DIRECTORS' REPORT *(continued)*

Corporate Governance
The Corporate Governance Report can be found on pages 34 to 36.

Auditor
Grant Thornton has expressed its willingness to continue in office as the Company's auditor (see the Audit Committee Report for further details.

Disclosure of information to auditor
The Directors who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all steps that he ought to have taken as a Director to establish that the Company's auditor is aware of that information.

On behalf of the Board

William Scott
Chairman
21 March 2022

John Renouf
Director
21 March 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable laws and regulations.

The Law requires the Directors to prepare financial statements for each financial period. Under the Law, the Directors have elected to prepare the financial statements in accordance with UK-adopted international accounting standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing these 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 the financial statements have been prepared in accordance with IFRS; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Law. They are also responsible for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

Responsibility Statement
Each of the Directors, whose names and functions are listed in the Directors' Report, confirms that, to the best of each person's knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face;
- the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, position, business model and strategy; and
- the Annual Report and Audited Financial Statements includes information required by the FCA for the purpose of ensuring that the Company comply with the provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the FCA.

This responsibility statement was approved by the Board of Directors on 21 March 2022 and was signed on behalf of the Board.

William Scott
Chairman
21 March 2022

John Renouf
Director
21 March 2022

CORPORATE GOVERNANCE REPORT

The Company is a registered closed-ended investment scheme pursuant to the POI Law, and the Registered Collective Investment Schemes Rules 2015 issued by the GFSC. As a Guernsey regulated entity, the Company is subject to the GFSC's "Finance Sector Code of Corporate Governance". In addition, companies with shares listed on the Premium Segment are required to comply with the UK Code.

The Company is committed to high standards of corporate governance and has sought to comply with those aspects of the UK Code that are considered by the Board to be practical and appropriate for an organisation of its size and nature.

The Company is a member of the AIC. In applying the main principles set out in the UK Code, the Directors have considered the principles and provisions of the AIC Code, which is available at www.theaic.co.uk. The AIC Code addresses all of the principles set out in the UK Code, as well as setting out additional principles and provisions on issues that are of specific relevance to the Company as an investment company. The Board considers that reporting against the principles and provisions of the AIC Code (which incorporates the main principles of the UK Code) will provide better information to Shareholders.

The Directors recognise the value of the AIC Code and have taken appropriate measures to ensure that, the Company has complied and continues to comply, as far as possible given the Company's size and nature of the business, with the AIC Code, except as set out below:

Chairman – The Chairman of the Company is a member of the Audit Committee, but does not chair it. His membership of the Audit Committee is considered appropriate due to: the lack of perceived conflict; the small size of the Board; and because the Directors believe that he continues to be independent.

Internal audit function – No internal audit function is considered necessary because the Company is an externally managed investment company with no employees. Details of the Company's principal outsourced service providers are detailed in note 8.

Training and induction – No formal training or induction is in place for the Directors. However, all of the Directors are professionally qualified and are therefore required to undertake a sufficient amount of continuous professional development by their professional bodies.

The Board and its Committees

The Board has delegated certain responsibilities to its Committees. Given the size and nature of the Board it is felt appropriate that all independent Directors are members of the Committees.

The roles and responsibilities of the Committees are set out in the terms of reference and are summarised below.

Items are discussed and, as appropriate, matters are endorsed, approved or recommended to the Board by the Committees. The chairman of each of the Committees provides the Board with a summary of the main discussion points at the committee meeting and any decisions made by the committee along with any recommendations which require Board approval.

The Board may also delegate certain functions to other parties; in particular the Directors may delegate to the Investment Manager. However, the Directors retain responsibility for exercising overall control and supervision of the Investment Manager. Matters reserved for the Board include, amongst others, approval and oversight of the Company's investment activities by ensuring that the Company has complied with its investment restrictions. The Board also reviews the performance of the Company against its target return (as defined in the Prospectus) and, in light of the current market conditions, considers the strategy taken by the Investment Manager. Approval of the half-yearly report and financial statements, announcements, dividends and annual report and financial statements are also reserved for the Board.

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Committees *(continued)*

Audit Committee

The Company's Audit Committee, comprising all the independent Directors of the Company, meets at least three times a year. John Renouf is the chairman of the Audit Committee.

The Audit Committee:

- Monitors the financial reporting process;
- Monitors the effectiveness of the Company's internal control and risk management systems;
- Monitors the annual statutory audit process;
- Reviews and monitors the independence of the Company's auditor in particular in relation to the auditor's provision of additional services to the Company;
- Reviews the whistleblowing procedures of the Investment Manager; and
- Is responsible for recommending valuations of the Company's investments to the Board.

Details of the internal control and reporting processes can be found in the internal control and financial reporting processes section of the Directors' Report on page 30.

Management Engagement Committee

The Company's Management Engagement Committee, comprising all the independent Directors of the Company, meets at least once a year. William Scott is the chairman of the Management Engagement Committee.

The Management Engagement Committee monitors the performance of the Company's investment manager and other key service providers.

Nomination and Remuneration Committee

The Company's Nomination and Remuneration Committee, comprising all the independent Directors of the Company, meets at least once a year. Max Hilton is the chairman of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee considers the appointment and reappointment of Directors and ensures that the Company maintains fair and appropriate remuneration policies and controls.

The Directors' Remuneration Report and Directors' tenure policy can be found on pages 40 to 43.

Board meeting attendance

During the year, the Company held seven Board meetings, three Audit Committee meetings, one Management Engagement Committee meeting and one Nomination and Remuneration Committee meeting. Attendance at these meetings is detailed below:

	Board meetings	Audit Committee meetings	Management Engagement Committee meetings	Nomination and Remuneration Committee meetings
William Scott	7/7	3/3	1/1	1/1
John Renouf	7/7	3/3	1/1	1/1
Max Hilton	7/7	3/3	1/1	1/1

CORPORATE GOVERNANCE REPORT *(continued)*

Board's performance evaluation
During the year, the Nomination and Remuneration Committee undertook its annual performance evaluation of the Board. The Directors completed a broad-reaching questionnaire produced by the Administrator, whereby each individual evaluated the Board, its committees and the other Directors, the results of which were collated and reviewed in detail by the Nomination and Remuneration Committee and Board. As part of the evaluation, the Directors considered, amongst other things:

- the independence of each Director;
- the skill sets and contribution to the Board of each Director; and
- the Board's culture, including its policies, practices and behaviour;

and it was determined that overall the Board was fit for purpose and that each of the Directors continued to contribute effectively to the Board and its committees.

Review of service providers
During the year the Management Engagement Committee conducted a formal review of the Company's service providers and concluded that each of the Company's service providers had performed either satisfactorily or well. In the opinion of the Management Engagement Committee and Board, the continued appointment of the Investment Manager and the Company's key service providers is in the best interests of the Shareholders as a whole.

Relations with Shareholders and AGM
The Company encourages two-way communication with both its institutional and private investors and intends to respond quickly to queries raised. Details of the topics discussed with Shareholders during the year can be found on page 26.

All Shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM, which will be circulated to all registered Shareholders, sets out the business of the meeting and an explanation of each proposed resolution. Separate resolutions are proposed in respect of each substantive issue.

Shareholders are encouraged to attend the AGM and to participate in the proceedings. The Chairman of the Board and other members of the Board, together with representatives of the Investment Manager, will be available to answer Shareholders' questions at the AGM. Proxy voting figures will be available to Shareholders at the AGM.

The Company has engaged the Broker and a public relations firm to monitor media coverage and actively engage with media sources as necessary. The Board receives an update from the Broker and the Investment Manager on a quarterly basis and considers measures to address concerns as they arise. The Investment Manager holds regular discussions with major Shareholders, the feedback from which is provided to, and greatly valued by, the Board. The Directors are available to enter into dialogue and correspondence with Shareholders regarding the progress and performance of the Company.

On behalf of the Board

William Scott
Chairman
21 March 2022

AUDIT COMMITTEE REPORT

Composition
The Audit Committee comprises all the independent Directors of the Company, all of whom have recent relevant financial and sector experience, and is chaired by John Renouf. John Renouf has substantial business experience together with the necessary experience in accounting and auditing. Both Mr Renouf and Mr Scott are qualified accountants and Mr Hilton has experience in portfolio and risk management.

Responsibilities
The Audit Committee monitors the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regards to matters communicated to it by the external auditor.

The Audit Committee monitors potential changes to the UK Code, AIC Code and relevant legislation relating to the appointment of auditors, restrictions on the non-audit services provided by external auditors and the fees they receive.

The key responsibilities and principal activities of the Audit Committee, as identified in its terms of reference and other than as mentioned above, are as follows:

- To review, and challenge where necessary, the consistency of, and any changes to, significant accounting policies both on a year-on-year basis;
- To review, and challenge where necessary, the methods used to account for significant or unusual transactions where different approaches are possible;
- To review, and challenge where necessary, any significant adjustments resulting from the audit;
- To review, and challenge where necessary, the going concern assumption;
- To review, and challenge where necessary, whether the Company has followed applicable regulatory and legal requirements and appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- To review, and challenge where necessary, the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- To review, and challenge where necessary, any valuations provided in relation to the Company's investments; and
- To review, and challenge where necessary, all material information presented with the financial statements, such as the strategic report and any corporate governance statements relating to audit management.

As the Company has no employees, the Company does not have a whistleblowing policy in place. However, the Audit Committee reviews the whistleblowing procedures of the Investment Manager and the external service providers to ensure that the concerns of their staff may be raised in a confidential manner.

Meetings
The Audit Committee meets at least three times a year at appropriate intervals in the financial reporting and audit cycle. Further meetings will take place should the chairman of the Audit Committee or other members require. Only the Audit Committee members have the right to attend and vote at these meetings. However, other individuals, such as representatives of the Investment Manager, other representatives from the finance function of the Company (including the Administrator), and the external auditor may be invited to attend all or part of any meeting.

Primary areas of judgement in relation to the Annual Report and Financial Statements
The Audit Committee has considered the significant judgements made in the Annual Report and Financial Statements. The Audit Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

AUDIT COMMITTEE REPORT *(continued)*

Primary areas of judgement in relation to the Annual Report and Financial Statements *(continued)*
The Company places reliance on the control environment of its service providers, including its independent administrator and the Investment Manager. The internal controls over financial reporting were considered, together with feedback from the Company's Investment Manager, Company Secretary and the Company's external auditor. The Audit Committee is satisfied with the controls in place.

The Audit Committee has considered the valuation of Level 2 investments at fair value through profit or loss. It is satisfied that the valuations are in accordance with the Company's accounting policies and that the carrying values used in these financial statements represent an appropriate fair value. The Company has no Level 3 investments.

The Audit Committee has also considered the methodology used for revenue recognition and is satisfied that the revenue recognised in these financial statements is in accordance with the Company's accounting policies and the requirements of IFRS.

The Audit Committee met with the audit team during the audit process and, after considering the audit process and various discussions with Grant Thornton, the Investment Manager and the Administrator, are satisfied that the audit was undertaken in an effective manner and addressed the main risks. The Audit Committee received a report and supporting presentation from Grant Thornton on its audit of the financial statements for the financial year ended 31 December 2021.

Fair, balanced and understandable
The Audit Committee read and discussed the Annual Report, with special attention to the considerations included above and the Audit Committee and the Board concluded that it is fair, balanced and understandable. The Audit Committee advised the Board that the Annual Report and Financial Statements are fair, balanced, and understandable and provide the information necessary for Shareholders to assess the Company's performance, position, business model, and strategy.

Viability Statement
The Audit Committee reviewed the Viability Statement and supporting workings and recommended to the Board that the Viability Statement included on page 29 should be approved.

Internal audit
The Audit Committee and the Board have considered the need for an internal audit function and they have decided that the procedures employed by the Investment Manager and Administrator give sufficient assurance that a sound system of internal control is maintained. Therefore, an internal audit function is not considered to be necessary. However, in accordance with the Audit Committee's terms of reference, the requirement will be re-visited annually.

External audit
The Audit Committee met with Grant Thornton twice during the year, firstly on 22 March 2021 to present the audit findings report and discuss the audit of the 31 December 2020 financial statements and then on 17 November 2021 at which Grant Thornton presented the detailed audit plan for the audit of the 31 December 2021 financial statements. No significant issues were noted in the audit findings report presented.

The audit plan sets out the audit scope, the significant audit risks the Company faces, Grant Thornton's position on audit independence, materiality, proposed timetable and audit fee. Following completion of the audit, the Audit Committee reviewed Grant Thornton's effectiveness by:

- Discussing the overall risk-based audit process and the audit procedures taken to address the identified significant audit risks;
- Considering the feedback on the audit provided by the Investment Manager and the Administrator; and
- Considering the experience, involvement of specialists and continuity of the audit team, including the audit partner.

The feedback provided by the Investment Manager and the Administrator regarding the audit team's performance was positive. The Audit Committee acknowledged that the audit team, including the audit partner, comprised staff with appropriate levels of knowledge and experience.

AUDIT COMMITTEE REPORT *(continued)*

External audit *(continued)*
Certain non-audit services may be provided by the external auditor, subject to the level of fees involved, which are not considered to impair the external auditor's independence or objectivity. The Audit Committee considered the safeguards in place to protect the external auditor's independence by taking into account Grant Thornton's report to the Audit Committee that its objectivity had not been compromised. The Audit Committee agreed that the following services are prohibited from being provided by the external auditor: bookkeeping, payroll, administration services, management functions, executive recruiting and human resource services, broker-dealer services, expert services unrelated to their audit function and actuarial services. This list may also include any service that the Audit Committee determines not to be permissible.

For the year ended 31 December 2021, total fees charged by Grant Thornton, together with amounts accrued at 31 December 2021, amounted to £40,850 all of which related to audit services (2020: £37,000, all of which related to audit services).

Having undertaken a formal audit tender process during 2020, the Audit Committee has no immediate plans to conduct another one, but considers the need for a tender at least annually.

A resolution to re-appoint Grant Thornton as Auditor will be proposed at the forthcoming AGM.

On behalf of the Audit Committee

John Renouf
Chairman of the Audit Committee
21 March 2022

DIRECTORS' REMUNERATION REPORT

The Nomination and Remuneration Committee, has been established to consider the appointment and reappointment of Directors and ensure that the Company maintains fair and appropriate remuneration policies and controls. The Nomination and Remuneration Committee comprises all the independent Directors of the Company and is chaired by Max Hilton.

The Company is not required to present a Directors' Remuneration Report, and this report does not purport to meet all of the requirements of a typical listed UK company's Directors' Remuneration Report, but has been provided as the Directors believe that it may be useful to users of this annual report and financial statements.

The Directors, all of whom are independent non-executive Directors, are the only officers of the Company. Copies of the Directors' letters of appointment are available upon request from the Company Secretary and will be available for inspection at the AGM.

Tenure policy
At every AGM any Director:

- who has been appointed by the Board since the previous AGM;
- who held office at the time of the two preceding AGMs and who did not retire at either of them; or
- who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer themselves for re-appointment by the holders.

However, in accordance with the requirements of the AIC Code, all Directors retire at each AGM and, if eligible, may offer themselves for re-election.

In accordance with the AIC Code, if and when any Director has been in office (or upon re-election would at the end of that term, be in office) for more than nine years, or in the case of the Chairman ten years, the Company will consider whether there is a risk that such Director might reasonably be deemed to have lost independence through such long service. The term for the Chairman has been deemed to be ten years (not nine years) to help to ensure some continuity within the Board, as all three of the Directors were appointed on the same date.

Termination policy
Should a Director not be re-elected by Shareholders, or retires from office under the Articles of Incorporation, the appointment shall be terminated with immediate effect and without compensation.

A Director may resign at any time by notice in writing to the Board in accordance with the Articles of Incorporation.

The Company may terminate a Director's appointment with immediate effect should the Director have:

- Committed any serious breach or (after warning in writing) any repeated or continued material breach of their obligations to the Company; or
- Been guilty of any act of dishonesty, fraud or serious misconduct or any conduct which (in the reasonable opinion of the Board) tends to bring the Director or Company into disrepute.

Succession policy
The Board gives full consideration to succession planning, including the succession of the Chairman and Directors in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future.

Overboarding policy
To ensure that each Director has sufficient time to meet their responsibilities to the Company, the Board has adopted an overboarding policy which outlines its expectations regarding the time commitments of the Directors.

Should a Director wish to take on an additional external directorship of a London listed, or equivalent, company, or is anticipating a significant increase in time commitment of an existing appointment, details must be provided to the Chairman (or, if the Chairman is taking on the external directorship, the Chairman of the Audit Committee) for approval prior to accepting the external directorship or additional time commitment.

DIRECTORS' REMUNERATION REPORT *(continued)*

Overboarding policy *(continued)*
The Director should:

- Confirm that the external directorship or change in time commitment is not in conflict with the Company;
- Provide an estimate of the time commitment required;
- Confirm that they have sufficient surplus capacity to meet their commitments to the Company; and
- Confirm that no commercial conflict of interest is likely to arise or be perceived to arise.

To assist in the Chairman's decision, on an ongoing basis, at each Board meeting, the Directors confirm that they continue to have sufficient time capacity.

Remuneration policy
The Directors shall be paid such remuneration for their services as determined by the Board, save that, unless otherwise determined by the Company by ordinary resolution, the Directors' combined remuneration shall not exceed £200,000 per annum.

In setting the level of each non-executive Director's fee, the Company had regard to: the time commitments expected; the level of skill and experience of each Director; and the current market and levels of companies of similar size and complexity. Following this evaluation, the Board determined that the fees set out in this remuneration policy were appropriate.

Under the terms of their appointments as non-executive Directors, the Directors are entitled to the following annual fees:

	£
William Scott – *Chairman*	35,000
John Renouf – *Chairman of the Audit Committee*	32,500
Max Hilton	27,500

All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company. The Directors do not participate in any discussions relating to their own fee, which is determined by the other Directors.

The Company does not pay any remuneration to the Directors for loss of office.

On termination of the appointment, Directors shall only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred prior to that date.

Annual report on remuneration
Service contracts obligations and payment on loss of office
No Director has a service contract with the Company and, as such, no Director is entitled to compensation payments upon termination of their appointment or loss of office.

DIRECTORS' REMUNERATION REPORT *(continued)*

Annual report on remuneration *(continued)*

Total remuneration paid to each Director

The total remuneration of the Directors for the year ended 31 December 2021 was:

	Year ended 31 December 2021 £	Year ended 31 December 2020 £
William Scott	35,000	35,000
John Renouf	32,500	32,500
Max Hilton	27,500	27,500
Total	**95,000**	**95,000**

All of the above remuneration relates to fixed annual fees.

Directors are not eligible for bonuses, share options or long-term incentive schemes or other performance-related benefits. There are no pension arrangements in place for the Directors of the Company. Accordingly, there were no other items in the nature of remuneration, pension entitlements or incentive scheme arrangements which were paid or accrued to the Directors during the year.

During the year, no payments were made to persons who had previously been directors of the Company.

Share price total return

The graph below shows the total shareholder return (Published NAV plus dividend) for Shareholders of the Company, measured against the ICE BofAML GBP Financial Index, which the Company believes is the most appropriate comparative index. Both the total shareholder return and index have been rebased to 100 at the Company's launch on 5 November 2015.

DIRECTORS' REMUNERATION REPORT *(continued)*

Directors' shareholdings in the Company
Directors are not required under the Company's Articles of Incorporation or letters of appointment to hold shares in the Company.

As at 31 December 2021, and at the date of this report the Directors did not hold any shares in the Company.

Board diversity
Currently the Board has three male Directors. The Directors consider the current Board structure, size and composition required, taking into account the challenges and opportunities facing the Company. In considering future candidates, the appointments will be made with regard to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skills, experience and expertise.

The Board is committed to diversity at Board level and is supportive of increased diversity but recognises that it may not always be in the best interests of Shareholders to prioritise this above other factors. The Board will consider diversity, along with all other relevant factors when considering future Board appointments.

On behalf of the Board

Max Hilton
Chairman of the Nomination and Remuneration Committee
21 March 2022

REGULATORY DISCLOSURES

AIFMD disclosures

In accordance with the AIFMD, the Company is classified as an AIF and has appointed the Investment Manager as its AIFM to provide portfolio management and risk management services to the Company in accordance with the investment management agreement.

The Investment Manager is a full-scope AIFM to the Company and therefore must comply with various organisational, operational, reporting, regulatory capital, conduct of business and transparency obligations.

Report on remuneration

The AIFMD requires certain disclosures to be made with regard to the remuneration policy of the Company's AIFM. The total remuneration of the staff of the Investment Manager during the period was £4.662,000 (2020: £4,440,000), comprising £2,655,000 fixed (2020: £2,442,000) and £2,007,000 variable (2020: £1,998,000) remuneration. There were 28 beneficiaries (2020: 26). The aggregate amount of remuneration of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Company during the period was £3,448,000 (2020: £3,152,000).

KID

The Company's KID, which has been prepared in accordance with the requirements of the packaged retail investment products legislation, is available on the Company's section of the Investment Manager's website (http://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

Risk disclosures

The financial risk disclosures relating to the risk framework and liquidity risk, as required by the AIFMD, are set out in note 24.

Pre-investment disclosures

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. The Company's Prospectus, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and Shareholder information, is available on the Company's section of the Investment Manager's website (http://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/). There have been no changes to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange.

SFDR disclosures

In accordance with the SFDR the Company's ESG policy can be found on page 24.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED

Opinion

We have audited the financial statements of Axiom European Financial Debt Fund Limited (the 'Company') for the year ended 31 December 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards (IFRS).

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of 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 under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Challenging the assumptions used in management's base case cash flow forecasts and considered their reasonableness based on other evidence obtained during the audit;
- Evaluation of the appropriateness of stress testing performed by management and the impact of worst case scenarios on the Company's liquidity;
- Performing our own scenario analysis to assess the reasonableness of management's assessment; and
- Considering potential mitigating actions that management could take in response to possible future liquidity risks.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model including effects arising from Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Conclusions relating to going concern *(continued)*
In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

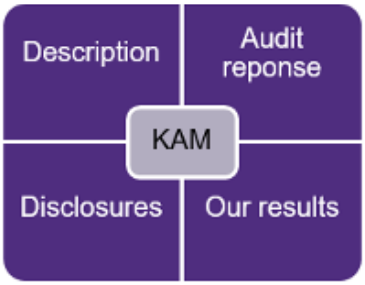
The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit
Overview of our audit approach
Overall materiality: £968,000

This represents 1% of the Company's Net Asset Value ("NAV") as of 31 December 2021.

Key audit matters were identified as:

- Valuation of Level 2 financial instruments at fair value through profit or loss (Same as the previous year)



Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Key Audit Matter	How our scope addressed the matter
Risk 1 Valuation of Level 2 financial instruments at fair value through profit or loss Financial Assets: £4.7m (2020: £5.7m) Financial Liabilities: £10.5m (2020: £14.2m) As per the sum of Level 2 financial assets and liabilities disclosed in note 19 to the financial statements. We identified the valuation of Level 2 financial instruments at fair value through profit or loss as one of the most significant assessed risks of material misstatement due to fraud or error. There is a risk that fair values of Level 2 financial instruments may be misstated due to the application of inappropriate valuation methodologies and/or use of incorrect assumptions and market related inputs.	In responding to the key audit matter, we performed the following audit procedures: • Obtained an understanding of the relevant controls over the valuation of investments to determine whether appropriate oversight had been exercised within the valuation process; • Challenged management on the appropriateness of valuation methodologies, inputs and assumptions and confirmed that Those Charged with Governance took ownership of the valuation process; • Performed a walkthrough of relevant controls in the valuation process to confirm they were appropriately designed and implemented; • Assessed whether valuations had been performed in accordance with the requirements of UK-adopted international accounting standards and industry practice; • In relation to Credit Default Swaps ("CDSs"), we compared the valuation approach adopted in the current year to the approach applied in the prior year which was assessed by our independent valuation expert (the 'Expert') to confirm the appropriateness of the valuation methodology used to value CDSs with consideration to valuation techniques routinely used by market participants to value similar instruments. We tested 100% of CDS population valuation using direct confirmation from the respective counterparty (JP Morgan) and compared it to the values reported by the investment manager; • For foreign exchange forward contracts, we performed 100% testing of instruments held at year end using the foreign exchange rates at the valuation date and independent forward rates for the relevant currency pairs; • In relation to sale and repurchase agreements, we valued 100% of financial liabilities using the contractual terms identified in the contract notes; • For related party funds, we obtained published net asset values per share figures from independent sources (e.g. Stock exchanges/Bloomberg); and • In relation to Level 2 investments in capital instruments at fair value through profit or loss, we challenged management's valuation assumptions through obtaining independent broker quotes and considering historic trade prices and concluded on the appropriateness of valuations.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Relevant disclosures in the Annual Report and Accounts 2021	**Our results**
• Financial statements: Note 3d, Significant accounting policies – Financial assets and liabilities; • Financial statements: Note 4, Use of judgements and estimates; • Financial statements: Note 15, Investments at fair value through profit or loss; • Financial statements: Note 18, Derivative financial instruments; • Financial statements: Note 19, Fair value of financial instruments at fair value through profit or loss; and • Audit committee report: Pages 37 and 38, Primary areas of judgement in relation to the Annual Report and Financial Statements.	Based on our audit work, we are satisfied that the Level 2 financial instruments are fairly stated in accordance with IFRS and the Company's accounting policies.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

Materiality measure	
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£968,000 (2020: £828,000) which is 1% of NAV.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • NAV was considered the most appropriate benchmark as the Company's primary performance measures for internal and external reporting are based on NAV; and • Our materiality threshold was set at the lower level of our acceptable range due to the Company being a public interest entity. Materiality for the current year is higher than the level that was determined for the year ended 31 December 2020 due to the increase of the Company's NAV to 31 December 2021.

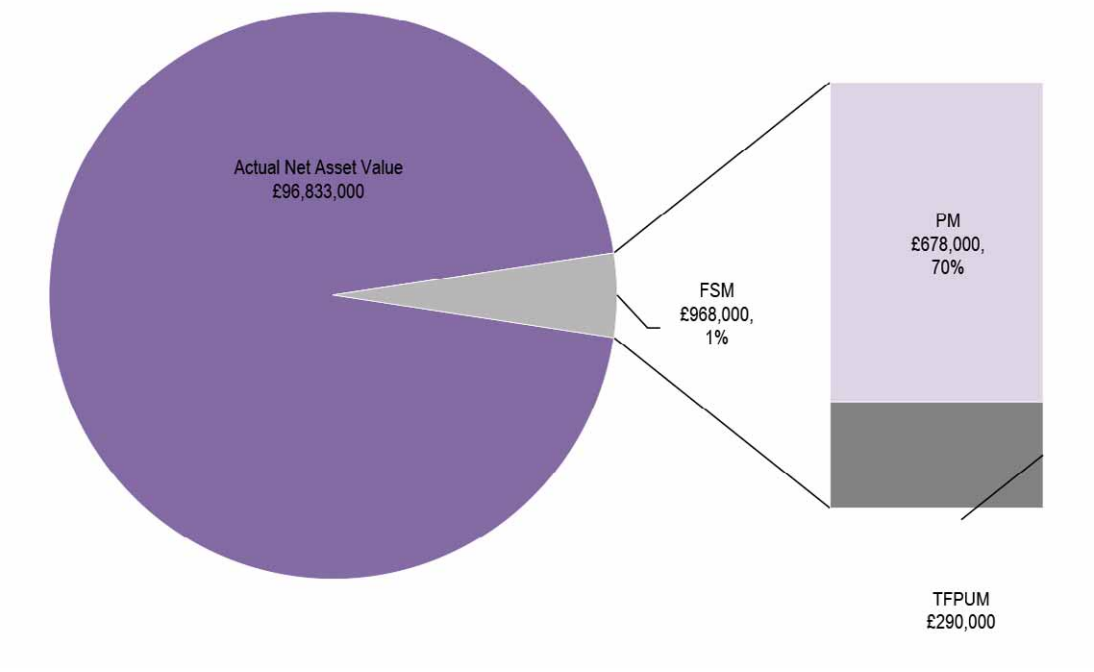
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Materiality measure	
Significant revision of materiality threshold that was made as the audit progressed	Our preliminary assessment of overall materiality was based on net assets as of 30 September 2021. Applying the same basis, using the actual financial information at 31 December 2021 figures, our materiality threshold was revised to £968,000 as a result of the lower NAV.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£678,000 (2020: £538,000) which is 70% of financial statement materiality (2020: 65% of financial statement materiality).
Significant judgements made by auditor in determining the performance materiality	On the basis of our risk assessments, together with our assessment of the Company's overall control environment, we set performance materiality at 70% (2020: 65%) of our materiality. There is no history of material misstatements, based on which our expectation of the likelihood of misstatement in the future is low and we have a strong understanding of the control environment. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in the Financial Statements did not exceed our materiality level.
Significant revision of materiality threshold that was made as the audit progressed	As this was not our first year to audit the Company's financial statements, the performance materiality percentage increased from 65% to 70% as we have a broader understanding of the Company's control environment compared to the prior year and our expectation of the likelihood of misstatements in the future is lower.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Materiality measure	
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality threshold	We have determined a lower level of specific materiality for the following areas: • Directors' remuneration; and • Related party transactions.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£48,400 (2020: £41,400) and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

- Assessment of audit risk, our evaluation of materiality and our allocation of performance materiality to determine our audit scope for the Company. We took into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed;
- The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Company and the third-party service providers, and inspecting records and documents held by these third-party service providers;
- We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks; and
- For subjective estimates made by management on valuing credit default swaps, we engaged an external expert to confirm the appropriateness of the valuation methodology used with consideration to valuation techniques routinely used by market participants to value similar instruments and to value 100% of credit default swaps held at year end.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Matters on which we are required to report by exception

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

- proper accounting records have not been kept by the Company; or
- the Company's financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Corporate governance statement *(continued)*

- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions;
- the directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the Company including the impact of Covid-19 and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated including the impact of Covid-19;
- the section of the annual report that describes the review of the effectiveness of Company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls; and
- the section of the annual report describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and industry in which it operates. We determined that the following laws and regulations were most significant: UK-adopted international accounting standards, Companies (Guernsey) Law, 2008, UK Corporate governance code, FCA Listing Rules, FCA Disclosure Guidance and Transparency Rules, Principles and recommendations of the AIC Code of Corporate Governance and the relevant tax compliance regulations in the jurisdictions in which the Company operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, and bribery and corruption practices;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- We understood how the Company is complying with those legal and regulatory frameworks by making inquiries to management and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - challenging assumptions and judgements made by management in its significant accounting estimates;
  - utilising a valuation specialist to perform stress testing on managements' valuation calculations;
  - identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

No matters regarding non-compliance with laws and regulations and fraud were communicated with the engagement team by management and no key audit matters relating to these have been identified.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Company's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
  - the applicable statutory provisions; and
  - the Company's control environment, including:
  - the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation rules and other regulations of the regulator;
  - the adequacy of procedures for authorisation of transactions, internal review procedures over Company's compliance with regulatory requirements;
  - the authority of, and resources available to the compliance officer; and
  - procedures to ensure that possible breaches of requirements are appropriately investigated and reported.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Other matters which we are required to address

We were appointed by the Board of directors on 11 August 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods.

The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2020 to 31 December 2021.

The non-audit services prohibited by the IESBA Code of Ethics were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Use of our report

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Cyril Swale
For and on behalf of Grant Thornton Limited
Statutory Auditor, Chartered Accountants
Guernsey, Channel Islands
21 March 2022

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Income			
Capital instrument income		5,180	4,975
Credit default swap income		1,107	581
Bank interest receivable		5	15
Total income		**6,292**	**5,571**
Investment gains and losses on investments held at fair value through profit or loss			
Realised gains/(losses) on disposal of capital instruments and other investments	*15*	8,269	(200)
Movement in unrealised (losses)/gains on capital instruments and other investments	*15*	(986)	958
Realised gains/(losses) on derivative financial instruments	*18*	5,223	(713)
Movement in unrealised losses on derivative financial instruments	*18*	(1,294)	(1,346)
Total investment gains and losses		**11,212**	**(1,301)**
Expenses			
Investment management fee	*8a*	(866)	(753)
Loss on foreign currency		(721)	(1,307)
Performance fee	*8a*	(596)	–
Other expenses	*12*	(296)	(267)
Administration fee	*8b*	(132)	(132)
Directors' fees	*8f*	(95)	(95)
Interest payable and similar charges	*11*	(52)	(139)
Total expenses		**(2,758)**	**(2,693)**
Profit for the year attributable to the Owners of the Company		**14,746**	**1,577**
Earnings per Ordinary Share: *basic and diluted*	*14*	**16.05p**	**1.72p**

All of the items in the above statement are derived from continuing operations.
The Company does not have any income or expenses that are not included in profit for the year. Therefore, the profit for the year is also the total comprehensive income for the year.
The accompanying notes on pages 59 to 85 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

	Note	Distributable reserves £'000	Performance fee reserve £'000	Total £'000
Opening balance at 1 January 2020		91,284	–	91,284
Profit for the year ended 31 December 2020		1,577	–	1,577
Contributions by and distributions to Owners				
Dividends paid	*6*	(5,511)	–	(5,511)
At 31 December 2020		**87,350**	**–**	**87,350**
Profit for the year ended 31 December 2021		14,746	–	14,746
50% Performance fee payable in Shares	*8a*	–	298	298
Contributions by and distributions to Owners				
Dividends paid	*6*	(5,511)	–	(5,511)
At 31 December 2021		**96,585**	**298**	**96,883**

The share capital has not been presented separately in the above Statement of Changes in Equity as the Ordinary Shares have no par value, and hence the share capital is £nil.
The Performance fee reserve is also distributable.
The accompanying notes on pages 59 to 85 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2021

	Note	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Current assets			
Investments in capital instruments at fair value through profit or loss	*15, 19*	85,449	83,466
Cash and cash equivalents		7,713	4,297
Other investments at fair value through profit or loss	*15, 19*	4,874	4,766
Derivative financial assets at fair value through profit or loss	*18*	4,506	5,257
Collateral accounts for derivative financial instruments at fair value through profit or loss	*16, 18*	4,119	5,905
Other receivables and prepayments	*17*	2,143	1,995
Total assets		**108,804**	**105,686**
Current liabilities			
Derivative financial liabilities at fair value through profit or loss	*18*	(6,555)	(12,331)
Short position(s) covered by reverse sale and repurchase agreements	*15, 19*	(3,932)	(1,881)
Bank overdrafts		(693)	(1,650)
Other payables and accruals	*20*	(649)	(2,134)
Collateral accounts for derivative financial instruments at fair value through profit or loss	*16, 18*	(92)	(340)
Total liabilities		**(11,921)**	**(18,336)**
Net assets		**96,883**	**87,350**
Share capital and reserves			
Share capital	*21*	–	–
Distributable reserves		96,585	87,350
Performance fee reserve		298	–
Total equity holders' funds		**96,883**	**87,350**
Net asset value per Ordinary Share: *basic and diluted*	*22*	**105.48p**	**95.10p**

These financial statements were approved by the Board of Directors on 21 March 2022 and were signed on its behalf by:

William Scott
Chairman
21 March 2022

John Renouf
Director
21 March 2022

The accompanying notes on pages 59 to 85 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cash flows from operating activities			
Net profit before taxation		14,746	1,577
Adjustments for:			
Foreign exchange movements		721	1,307
Total investment (gains)/losses at fair value through profit or loss		(11,212)	1,301
Capital instrument income		(5,180)	(4,975)
CDS income		(1,107)	(581)
Interest on sale and repurchase agreements		(2)	88
Performance fee reserve		298	–
Cash flows relating to financial instruments:			
Payment from/(to) collateral accounts for derivative financial instruments	*16*	1,538	(1,369)
Purchase of investments at fair value through profit or loss		(87,768)	(62,114)
Sale of investments at fair value through profit or loss		90,710	68,071
Premiums received from selling credit default swap agreements	*18*	274	4,293
Premiums paid on buying credit default swap agreements	*18*	(83)	(4,511)
Purchase of foreign currency derivatives	*18*	(185,824)	(204,876)
Close-out of foreign currency derivatives	*18*	189,680	204,573
Purchase of bond futures	*18*	(4,234)	(1,751)
Sale of bond futures	*18*	4,977	1,735
Proceeds from sale and repurchase agreements	*18*	20,821	34,679
Payments to open reverse sale and repurchase agreements	*18*	(4,166)	(11,999)
Payments for closure of sale and repurchase agreements	*18*	(26,437)	(38,953)
Proceeds from closure of reverse sale and repurchase agreements	*18*	3,898	9,329
Opening of short position(s)		3,844	10,157
Closure of short position(s)		(1,932)	(8,002)
Opening of options	*18*	–	(29)
Cash paid during the year for interest		(1,404)	(1,626)
Cash received during the year for interest		7,751	6,982
Cash received during the year for dividends		363	225
Net cash inflow from operating activities before working capital changes		10,272	3,531
(Increase)/decrease in other receivables and prepayments		(3)	2
Increase/(decrease) in other payables and accruals		336	(170)
Net cash inflow from operating activities		**10,605**	**3,363**
Cash flows from financing activities			
Dividends paid	*6*	(5,511)	(5,511)
Net cash outflow from financing activities		**(5,511)**	**(5,511)**
Increase/(decrease) in cash and cash equivalents		**5,094**	**(2,148)**
Cash and cash equivalents brought forward		2,647	6,102
Effect of foreign exchange on cash and cash equivalents		(721)	(1,307)
Cash and cash equivalents carried forward*		**7,020**	**2,647**

*Cash and cash equivalents at the year end includes bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

The accompanying notes on pages 59 to 85 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021

1. General information

The Company was incorporated as an authorised closed-ended investment Company, under the Companies (Guernsey) Law, 2008 on 7 October 2015 with registered number 61003. Its Ordinary Shares were admitted to trading on the Premium Segment and to the premium listing segment of the FCA's Official List on 15 October 2018 (prior to this, the Ordinary Shares traded on the SFS).

Investment objective

The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in the following financial institution investment instruments:

- Regulatory Capital Instruments, being financial instruments issued by a European financial institution which constitute regulatory capital for the purposes of Basel I, Basel II or Basel III or Solvency I or Solvency II;
- Other financial institution investment instruments, being financial instruments issued by a European financial institution, including without limitation senior debt, which do not constitute Regulatory Capital Instruments; and
- Derivative Instruments, being CDOs, securitisations or derivatives, whether funded or unfunded, linked or referenced to Regulatory Capital Instruments or Other financial institution investment instruments.

Investment policy

The Company seeks to invest in a diversified portfolio of financial institution investment instruments. The Company will focus primarily on investing in the secondary market although instruments may also be subscribed in the primary market where the Investment Manager, Axiom AI, identifies attractive opportunities.

In February 2022, the Directors approved a minor change to the investment policy in respect of hedging and derivatives. The words in brackets were added to the following sentence: "The Company may implement other hedging and derivative strategies designed to protect investment performance against material movements in (but not limited to) exchange rates and to protect against credit risk".

The Company will invest its assets with the aim of spreading investment risk.

2. Statement of compliance

a) Basis of preparation

These financial statements present the results of the Company for the year ended 31 December 2021. The comparative figures stated were for the year ended 31 December 2020. These financial statements have been prepared in accordance with UK-adopted international accounting standards.

These financial statements are presented in Sterling, which is also the Company's functional currency (please see notes 3b and 4 for further details). All amounts are rounded to the nearest thousand.

b) Going concern

After making reasonable enquiries, and assessing all data relating to the Company's liquidity, including its cash resources, income stream and Level 1 investments, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company (see the going concern section and viability statement in the Directors' Report for further information). Therefore, the financial statements have been prepared on a going concern basis.

c) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

2. Statement of compliance *(continued)*

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in note 4.

3. Significant accounting policies

a) Income and expenses

Bank interest, capital instrument income and credit default swap income is recognised on an accruals basis.

Dividend income is recognised when the right to receive payment is established. Capital instrument income comprises bond interest and dividend income. Revenue from fixed interest securities is recognised on an effective interest rate basis. Accrued interest purchased and sold on interest bearing securities is excluded from the capital cost of these securities and dealt with as part of the revenue of the Company.

All expenses are recognised on an accruals basis. All of the Company's expenses (with the exception of share issue costs, which are charged directly to the distributable reserve and the portion of performance fees that are deemed to be a share-based payment) are charged through the Statement of Comprehensive Income in the period in which they are incurred.

b) Foreign currency

Foreign currency transactions are translated into Sterling 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

The exchange rates used by the Company as at 31 December 2021 were £1/€1.1895, £1/US$1.3528, £1/DKK8.8479, £1/CA$1.7096 and £1/SGD1.8249 (2020: £1/€1.1185, £1/US$1.3670, £1/DKK8.3263, £1/CA$1.7422 and £1/SGD1.8061).

c) Taxation

Investment income is recorded gross of applicable taxes and any tax expenses are recognised through the Statement of Comprehensive Income as incurred.

d) Financial assets and liabilities

The financial assets and liabilities of the Company are investments in capital instruments at fair value through profit or loss, other investments at fair value through profit or loss, collateral accounts for derivative financial instruments, cash and cash equivalents, other receivables, derivative financial instruments and other payables.

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities as discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

Financial assets

The Company classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

A financial asset is measured at fair value through profit or loss if:

- Its contractual terms do not give rise to cash flows on specified dates that are SPPI on the principal amount outstanding; or
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- At initial recognition, it is irrevocably designated as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Company includes in this category:

- *Instruments held for trading.* This category includes equity instruments and debt instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative financial assets at fair value through profit or loss.
- *Debt instruments.* These include investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains.

Financial liabilities

A financial liability is measured at fair value through profit or loss if it meets the definition of held for trading.

The Company includes in this category, other payables, derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

Derivative financial instruments, including credit default swap agreements, foreign currency forward contracts, bond future contracts and sale and repurchase agreements are recognised initially, and are subsequently measured at, fair value. Sale and repurchase agreements are recognised at fair value through profit or loss as they are generally not held to maturity but incurred principally for the purpose of repurchasing in the near term and on initial recognition are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative financial instruments are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are offset only if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

These financial instruments are classified at fair value through profit or loss upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with investment strategies and risk management of the Company.

Recognition

The Company recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- Either: (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement) and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. All transaction costs for such instruments are recognised directly in the Statement of Comprehensive Income.

Subsequent measurement

After initial measurement, the Company measures financial assets which are classified at fair value through profit or loss, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at fair value through profit or loss. Interest and dividends earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense.

Net gain or loss on financial assets and financial liabilities at fair value through profit or loss

The Company records its transactions in investments and the related revenue and expenses on a trade date basis. Unrealised gains and losses comprise changes in the fair value of financial instruments at the period end. These gains and losses represent the difference between an instrument's initial carrying amount and disposal amount, or cash payment on, or receipts from derivative contracts.

Offsetting of financial instruments

Financial assets and financial liabilities are reported net by counterparty in the Statement of Financial Position, provided that a legal right of offset exists, and is not offset by collateral pledged to or received from counterparties.

Other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes in this category other short-term receivables. The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience to determine the expected credit losses.

e) Collateral accounts for derivative financial instruments at fair value through profit or loss

Collateral accounts for derivative financial instruments at fair value through profit or loss comprise cash balances held at the Company's depositary and the Company's clearing brokers and cash collateral pledged to counterparties related to derivative contracts. Cash that is related to securities sold, not yet purchased, is restricted until the securities are purchased. Financial instruments held within the margin account consist of cash received from brokers to collateralise the Company's derivative contracts and amounts transferred from the Company's bank account.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

3. Significant accounting policies *(continued)*

f) Cash and cash equivalents

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

g) Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares are recognised as a deduction from equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are classified as Treasury Shares are presented as a deduction from equity. When Treasury Shares are sold or subsequently reissued, the amount received is recognised as an increase in equity and the resulting surplus or deficit is transferred to/from distributable reserves.

Funds received from the issue of Ordinary Shares are allocated to share capital, to the extent that they relate to the nominal value of the Ordinary Shares, with any excess being allocated to distributable reserves.

h) Distributable reserves

All income and expenses, foreign exchange gains and losses and investment gains and losses of the Company are allocated to the distributable reserve.

i) Performance fee reserve

In accordance with IFRS 2, Share-based payments, the portion of the performance fee that is due to be settled in shares, is deemed to be a share-based payment when the fee is settled. As such, 50% of the performance fee accrual at 31 December 2021 (£298,000) has been allocated to the performance fee reserve until the payment, which will be utilised to purchase the shares, has been made.

j) NAV per share and earnings per share

The NAV per share disclosed on the face of the Statement of Financial Position is calculated by dividing the net assets by the number of Ordinary Shares in issue at the year end.

Earnings per share is calculated by dividing the earnings for the year by the weighted average number of Ordinary Shares in issue during the year.

k) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial period. The Company adopted the following new and amended relevant IFRS in the period:

IFRS 7 Financial Instruments: Disclosures *(amendments regarding replacement issues in the context of the IBOR reform)*
IFRS 9 Financial Instruments *(amendments regarding replacement issues in the context of the IBOR reform)*

The adoption of these accounting standards did not have any effect on the Company's Statement of Financial Position or equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

3. Significant accounting policies *(continued)*

l) Accounting standards issued but not yet effective

The IASB has issued/revised a number of relevant standards with an effective date after the date of these financial statements. Any standards that are not deemed relevant to the operations of the Company have been excluded. The Directors have chosen not to early adopt these standards and interpretations and they do not anticipate that they would have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IFRS 9	Financial Instruments *(amendments resulting from Annual Improvements to IFRS Standards 2018-2020)*	1 January 2022
IAS 1	Presentation of Financial Statements *(amendments regarding the classification of liabilities and the disclosure of accounting policies)*	1 January 2023
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors *(amendments regarding the definition of accounting estimates)*	1 January 2023
IAS 37	Provisions, Contingent Liabilities and Contingent Assets *(amendments regarding the costs to include when assessing whether a contract is onerous)*	1 January 2022

4. Use of judgements and estimates

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in future periods.

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.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgement which had a significant effect on the amounts recognised in the financial statements:

i) Determination of functional currency

The performance of the Company is measured and reported to investors in Sterling. Although a significant proportion of the Company's underlying assets are held in currencies other than Sterling, because the Company's capital is raised in Sterling, expenses are paid in Sterling and the Company hedges substantially all of its foreign currency risk back to Sterling, the Directors consider Sterling to be the Company's functional currency.

The Directors do not consider there to be any other judgements that have had a significant impact on the financial statements.

Estimates and assumptions

The Company based its reporting date assumptions and estimates on parameters available when the financial statements were approved. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

i) Valuation of financial assets and liabilities

The Company uses the expertise of the Investment Manager to assess the prices of investments at the valuation date. The majority of the prices can be independently verified with reference to external data sources, however a minority of investments cannot be verified by reference to an external source and the Investment Manager secures an independent valuation with reference to the latest prices traded within the market place. These independent valuations take the form of quotes from brokers.

For further information on the assumptions and inputs used to fair value the financial instruments, please see note 19.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

5. Segmental reporting

In accordance with IFRS 8, *Operating Segments*, it is mandatory for the Company to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board in order to assess each segment's performance.

Management information for the Company as a whole is provided internally for decision making purposes. The Company does compartmentalise different investments in order to monitor compliance with investment restrictions, however the performance of these allocations does not drive the investment decision process. The Directors' decisions are based on a single integrated investment strategy and the Company's performance is evaluated on an overall basis. Therefore, the Directors are of the opinion that the Company is engaged in a single economic segment of business for all decision making purposes and no segmental reporting is required. The financial results of this segment are equivalent to the results of the Company as a whole.

6. Dividends

As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

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

	Total dividend declared in respect of earnings £'000	Amount per Ordinary Share
Dividends declared and paid in the year	5,511	6.00p
Less, dividend declared in respect of the prior year that was paid in 2021	(1,378)	(1.50)p
Add, dividend declared out of the profits of the year but paid after the year end:	1,378	1.50p
Dividends declared in respect of the year	5,511	6.00p

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

	Total dividend declared in respect of earnings £'000	Amount per Ordinary Share
Dividends declared and paid in the year	5,415	6.00p
Less , dividend declared in respect of the prior year that was paid in 2020	(1,282)	(1.50)p
Add , dividend declared out of the profits of the year but paid after the year end:	1,378	1.50p
Dividends declared in respect of the year	5,511	6.00p

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the year a total of £5,511,000 (2020: £5,511,000) was incurred in respect of dividends, none of which was outstanding at the reporting date. The fourth dividend declared out of the profits for the year of £1,378,000 had not been provided for at 31 December 2021 (2020: £1,378,000) as, in accordance with IFRS, it was not a liability of the Company at that date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

7. Related parties

Details of the relationships between the Company and its related parties, being the Investment Manager and the Directors, are disclosed in notes 8a and 8f.

Details of the relationships between the Company and its other advisors and service providers (the Administrator, the Broker, the Registrar and the Depositary) are also disclosed in note 8.

As at 31 December 2021, the Company had holdings in the following investments, which were managed by the Investment Manager:

	31 December 2021			31 December 2020		
	Holding	Cost £'000	Value £'000	Holding	Cost £'000	Value £'000
Axiom Global CoCo UCIT ETF USD-hedged	35	2,984	3,183	35	2,984	3,011
Axiom Alternative Liquid Rates Z Cap Scv	2,000	1,705	1,691	–	–	–
Axiom Equity Class Z	–	–	–	500	467	666
Axiom Global CoCo UCIT ETF GBP-hedged	–	–	–	10	1,000	1,089

During the year, the Company:

- sold 10 units in Axiom Global CoCo UCIT ETF GBP-hedged for £1,106,000, realising a gain of £106,000;
- sold 500 units in Axiom Equity Class Z for £1,035,000, realising a gain of £568,000; and
- purchased 2,000 units in Axiom Alternative Liquid rates Z Cap Scv for £1,705,000.

During the year ended 31 December 2020, the Company:

- purchased 500 units in Axiom Equity Class Z for £467,000;
- sold 2,450 units in Axiom Contingent Capital – Class E for £2,150,000, realising a loss of £312,000; and
- sold 10 units in Axiom Global CoCo UCIT ETF GBP-hedged for £1,033,000, realising a gain of £33,000.

The Directors are not aware of any ultimate controlling party.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

8. Key contracts

a) Investment Manager

The Company has entered into an Investment Management Agreement with Axiom AI under which the Company receives investment advice and management services.

Management fee

Under the terms of the Investment Management Agreement, a management fee is paid to the Investment Manager quarterly in arrears. The quarterly fee is calculated by reference to the following sliding scale:

i. where NAV is less than or equal to £250 million, 1% per annum of NAV;

ii. where NAV is greater than £250 million but less than or equal to £500 million, 1% per annum of NAV on the first £250 million and 0.8% per annum of NAV on the balance; and

iii. where NAV is greater than £500 million, 0.8% per annum of NAV, in each case, plus applicable VAT.

In respect of the management fee calculation above, any related party holdings are deducted from the NAV.

If in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company (excluding performance fees, interest charged on sale and repurchase agreements, bank charges and withholding tax) during such quarter exceed an amount equal to one-quarter of 1.5% of the average NAV of the Company during such quarter (such amount being a "Quarterly Expenses Excess"), then the management fee payable in respect of that quarter shall be reduced by the amount of the Quarterly Expenses Excess, provided that the management fee shall not be reduced to an amount that is less than zero and no sum will be payable by the Investment Manager to the Company in respect of the Quarterly Expenses Excess.

If in the final quarter of any accounting period the aggregate expenses of the Company during such accounting period exceed an amount equal to 1.5% of the average NAV of the Company during such accounting period (such amount being an "Annual Expenses Excess"), then the management fee payable in respect of that quarter shall be reduced by the amount of the Annual Expenses Excess. If such reduction would not fully eliminate the Annual Expenses Excess (the amount of any such shortfall being a "Management Fee Deduction Shortfall"), the Investment Manager shall pay to the Company an amount equal to the Management Fee Deduction Shortfall (a "Management Fee Deduction Shortfall Payment") as soon as is reasonably practicable.

During the year, a total of £866,000 (2020: £753,000) was incurred in respect of Investment Management fees, of which £213,000 was payable at the reporting date (2020: £185,000).

Under the terms of the Investment Management Agreement, if at any time there has been any deduction from the management fee as a result of the Quarterly Expenses Excess or Annual Expenses Excess (a "Management Fee Deduction"), and during any subsequent quarter:

i. all or part of the Management Fee Deduction can be paid; and/or

ii. all or part of the Management Fee Deduction Shortfall payment can be repaid,

by the Company to the Investment Manager without:

iii. in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company during such quarter exceeding an amount equal to one-quarter of 1.5% of the average NAV of the Company during such quarter; or

iv. in the final quarter of any accounting period the aggregate expenses of the Company during such accounting period exceeding an amount equal to 1.5% of the average NAV of the Company during such accounting period,

then such payment and/or repayment shall be made by the Company to the Investment Manager as soon as is reasonably practicable.

The Quarterly Expenses Excess and Annual Expenses Excess for the year was £40,000 (2020: £12,000), and at 31 December 2021 the Quarterly Expenses Excess and Annual Expenses Excess, which could be payable to the Investment Manager in future periods, was £777,000 (2020: £737,000) (see note 27).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Performance fee

The Investment Manager is entitled to receive from the Company a performance fee subject to certain performance benchmarks.

The fee is payable as a share of the Total Shareholder Return ("TSR") where TSR for this purpose is defined as:

i. the NAV (on a per share basis) at the end of the relevant accounting period; plus

ii. the total of all dividends and other distributions made to Shareholders since 5 November 2015 (being the date of the Company's original admission to the SFS) divided by the average number of shares in issue during the period from 5 November 2015 to the end of the relevant accounting period.

The performance fee, if any, is equal to 15% of the TSR in excess of a weighted average hurdle equal to a 7% per annum return. The performance fee is subject to a high water mark. The fee, if any, is payable annually and calculated on the basis of audited accounts of the Company.

50% of the performance fee will be settled in cash. The balance will be satisfied in shares, subject to certain exceptions where settlement in shares would be prohibited by law or would result in the Investment Manager or any person acting in concert with it incurring an obligation to make an offer under Rule 9 of the City Code, in which case the balance will be settled in cash.

Assuming no such requirement, the balance of the performance fee will be settled either by the allotment to the Investment Manager of such number of new shares credited as fully paid as is equal to 50% of the performance fee (net of VAT) divided by the most recent practicable NAV per share (rounded down to the nearest whole share) or by the acquisition of shares in the market, as required under the terms of the Investment Management Agreement. All shares allotted to (or acquired for) the Investment Manager in part satisfaction of the performance fee will be subject to a lock-up until the date that is 12 months from the end of the accounting period to which the award of such shares related.

At 31 December 2021, a performance fee of £596,000 (2020: £1,000) was payable by the Company in respect of the year, of which £298,000 was payable in cash. During the year, the Company paid the Investment Manager £1,000, in settlement of the remainder of the 2019 performance fee due as at 31 December 2020, which was subsequently used to purchase shares in the Company.

50% of the performance fee payable by the Company as at 31 December 2021 (£298,000) will be settled through the purchase or issue of shares in the Company. As such, 50% of the performance fee has been allocated to the performance fee reserve until the payment, which will be utilised to purchase the shares, has been made. This treatment has resulted in an increase to the NAV originally announced to the market on 5 January 2022 of 0.33p per Ordinary Share (see note 22).

The Investment Manager has agreed that it will not dispose of any Ordinary Shares issued to it in respect of the performance fee for at least 12 months from the date of the end of the accounting period for which they were allotted or acquired pursuant to the payment of a performance fee.

b) Administrator and Company Secretary

Elysium has been appointed by the Company to provide day to day administration services to the Company, to calculate the NAV per share as at the end of each calendar month and to provide company secretarial functions required under the Law.

Under the terms of the Administration Agreement, the Administrator is entitled to receive a fee of £110,000 per annum, which is subject to an annual adjustment upwards to reflect any percentage change in the retail prices index over the preceding year. In addition, the Company pays the Administrator a fee for work undertaken in connection with the daily NAV, subject to a maximum aggregate amount of £10,000 per annum.

During the year, a total of £132,000 (2020: £132,000) was incurred in respect of Administration fees of which £33,000 (2020: £33,000) was payable at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

8. Key contracts *(continued)*

c) Broker

Winterflood has been appointed to act as Broker for the Company, in consideration for which the Company pays Winterflood an annual retainer fee of £35,000 per annum.

For the year to 31 December 2021, the Company incurred Broker fees of £37,000 (2020: £37,000) of which £6,000 was payable at the year end date (2020: £6,000).

d) Registrar

Link Market Services (Guernsey) Limited is Registrar of the Company. Under the terms of the Registrar Agreement, the Registrar is entitled to receive from the Company certain annual maintenance and activity fees, subject to a minimum fee of £5,500 per annum.

During the year, a total of £18,000 (2020: £20,000) was incurred in respect of Registrar fees, of which £1,000 was payable at 31 December 2021 (2020: £3,000).

e) Depositary

CACEIS Bank France has been appointed by the Company to provide depositary, settlement and other associated services to the Company.

Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company:

i. an annual depositary fee of 0.03% of NAV, subject to a minimum annual fee of €25,000;

ii. a safekeeping fee calculated using a basis point fee charge based on the country of settlement and the value of the assets; and

iii. an administration fee on each transaction, together with various other payment/wire charges on outgoing payments.

During the year, a total of £37,000 (2020: £39,000) was incurred in respect of depositary fees, of which £22,000 was payable at the reporting date (2020: £6,000).

CACEIS Bank Luxembourg is entitled to receive a monthly valuation agent fee from the Company in respect of the provision of certain accounting services which will, subject to a minimum monthly fee of €2,500, be calculated by reference to the following tiered sliding scale:

i. where NAV is less than or equal to €50 million, 0.05% per annum of NAV;

ii. where NAV is greater than €50 million but less than or equal to €100 million, 0.04% per annum of NAV; and

iii. where NAV is greater than €100 million, 0.03% per annum of NAV, in each case, plus applicable VAT.

During the period, a total of £43,000 (2020: £40,000) was incurred in respect of valuation agent fees paid to CACEIS Bank Luxembourg, of which £11,000 was payable at 31 December 2021 (2020: £10,000).

f) Directors' remuneration

William Scott (Chairman) is paid £35,000 per annum (2020: £35,000), John Renouf (Chairman of the Audit Committee) is paid £32,500 per annum (2020: £32,500), and Max Hilton is paid £27,500 per annum (2020: £27,500).

The Directors are also entitled to reimbursement of all reasonable travelling and other expenses properly incurred in the performance of their duties.

During the year, a total of £95,000 (2020: £95,000) was incurred in respect of Directors' fees, none of which was payable at the reporting date (2020: £nil). No bonus or pension contributions were paid or payable on behalf of the Directors.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

9. Key management and employees

Other than the Non-Executive Directors, the Company has had no employees since its incorporation.

10. Auditor's remuneration

Grant Thornton was appointed to act as the Company's external auditor with effect from 19 August 2020.

For the year ended 31 December 2021, total fees charged by Grant Thornton, together with amounts accrued at 31 December 2021, amounted to £40,850 (2020: £37,000), all of which related to audit services. As at 31 December 2021, £21,000 was due to Grant Thornton (2020: £22,000).

11. Interest payable and similar charges

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Bank interest	42	41
Commission	11	10
Interest payable on sale and repurchase agreements	(1)	88
	52	**139**

12. Other expenses

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
PR expenses	61	41
Other expenses	46	38
Valuation agent fees *(note 8e)*	43	40
Audit fees *(note 10)*	41	37
Depositary fees *(note 8e)*	37	39
Broker fees *(note 8c)*	37	37
Registrar fees *(note 8d)*	18	20
Legal fees	13	15
	296	**267**

13. Taxation

The Company is exempt from taxation in Guernsey, and it is the intention to conduct the affairs of the Company to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation. The Company pays a fixed fee of £1,200 per annum to maintain exempt company status.

14. Earnings per Ordinary Share

The earnings per Ordinary Share of 16.05p (2020: earnings of 1.72p) is based on a profit attributable to owners of the Company of £14,746,000 (2020: profit of £1,577,000) and on a weighted average number of 91,852,904 (2020: 91,852,904) Ordinary Shares in issue since 1 January 2021. There are no dilutive shares and there is no difference between the basic and diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

15. Investments at fair value through profit or loss

Movements in gains/(losses) in the year

	31 December 2021			31 December 2020		
	Unrealised £'000	Realised £'000	Total £'000	Unrealised £'000	Realised £'000	Total £'000
Investments in capital instruments	(781)	7,659	6,878	925	340	1,265
Other investments	(130)	674	544	(3)	(279)	(282)
Short position(s) covered by reverse sale and repurchase agreements	(75)	(64)	(139)	36	(261)	(225)
	(986)	**8,269**	**7,283**	**958**	**(200)**	**758**

Closing valuations

	31 December 2021 £'000	31 December 2020 £'000
Investments in capital instruments	85,449	83,466
Other investments	4,874	4,766
Short position(s) covered by reverse sale and repurchase agreements	(3,932)	(1,881)
Investments at fair value through profit or loss	**86,391**	**86,351**

Investments in capital instruments at fair value through profit or loss comprise mainly of investments in bonds, and also preference shares, structured notes and other securities that have a similar income profile to that of bonds. The other investments at fair value through profit or loss consist of investments in open ended funds managed by the Investment Manager (see note 7) to obtain diversified exposure on bank equities.

As at 31 December 2021, the Company had eight (2020: fourteen) open sale and repurchase agreements, including one (2020: four) reverse sale and repurchase agreement(s) (see note 18). The reverse sale and repurchase agreement was open ended and was used to cover the sale of capital instruments (the short position noted above).

The fair value of the capital instruments subject to sale and repurchase agreements (excluding the short position(s)) at 31 December 2021 was £9,349,000 (2020: £19,582,000). The fair value net of the short position(s) was £5,417,000 (2020: £17,701,000).

16. Collateral accounts for derivative financial instruments at fair value through profit or loss

	31 December 2021 £'000	31 December 2020 £'000
JP Morgan	3,495	4,896
Credit Suisse	112	599
Goldman Sachs International	207	410
CACEIS Bank France	305	–
	4,119	5,905
CACEIS Bank France – *negative balance*	(92)	(340)
Net balance on collateral accounts held by brokers	**4,027**	**5,565**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

16. Collateral accounts for derivative financial instruments at fair value through profit or loss *(continued)*

With respect to derivatives, the Company pledges cash and/or other liquid securities ("Collateral") to third parties as initial margin and as variation margin. Collateral may be transferred either to the third party or to an unaffiliated custodian for the benefit of the third party. In the case where Collateral is transferred to the third party, the third party pursuant to these derivatives arrangements will be permitted to use, reuse, lend, borrow, hypothecate or re-hypothecate such Collateral. The third parties will have no obligation to retain an equivalent amount of similar property in their possession and control, until such time as the Company's obligations to the third party are satisfied. The Company has no right to this Collateral but has the right to receive fungible, equivalent Collateral upon the Company's satisfaction of the Company's obligation under the derivatives.

17. Other receivables and prepayments

	31 December 2021 £'000	31 December 2020 £'000
Accrued capital instrument income receivable	1,064	1,468
Due from sale of capital instrument	1,034	484
Prepayments	24	17
Interest due on credit default swaps	21	26
	2,143	**1,995**

18. Derivative financial instruments

Credit default swap agreements

A credit default swap agreement represents an agreement that one party, the protection buyer, pays a fixed fee, the premium, in return for a payment by the other party, the protection seller, contingent upon a specified credit event relating to an underlying reference asset. If a specified credit event occurs, there is an exchange of cash flows and/or securities designed so the net payment to the protection buyer reflects the loss incurred by holders of the referenced obligation in the event of its default. The ISDA establishes the nature of the credit event and such events include bankruptcy and failure to meet payment obligations when due.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening balance	448	1,016
Premiums received from selling credit default swap agreements	(274)	(4,293)
Premiums paid on buying credit default swap agreements	83	4,511
Movement in unrealised losses in the year	(782)	(465)
Realised gains/(losses) in the year	397	(321)
Outstanding (liability)/asset due on credit default swaps	**(128)**	**448**
Credit default swap assets at fair value through profit or loss	180	595
Credit default swap liabilities at fair value through profit or loss	(308)	(147)
Outstanding (liability)/asset due on credit default swaps	**(128)**	**448**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

18. Derivative financial instruments *(continued)*

Credit default swap agreements (continued)

Interest paid or received on the credit default swap agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred or received. At the year end, £20,000 (2020: £26,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £3,328,000 (2020: £5,905,000) was held in respect of the credit default swap agreements.

Foreign currency forwards

Foreign currency forward contracts are used for trading purposes and are used to hedge the Company's exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. A foreign currency forward contract is a commitment to purchase or sell a foreign currency on a future date and at a negotiated forward exchange rate.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening balance	775	1,219
Purchase of foreign currency derivatives	185,824	204,876
Closing-out of foreign currency derivatives	(189,680)	(204,573)
Movement in unrealised losses in the year	(768)	(444)
Realised gains/(losses) in the year	3,856	(303)
Fair value of net assets on foreign currency forwards	**7**	**775**
Foreign currency forward assets at fair value through profit or loss	132	775
Foreign currency forward liabilities at fair value through profit or loss	(125)	–
Fair value of net assets on foreign currency forwards	**7**	**775**

Bond futures

A bond future contract involves a commitment by the Company to purchase or sell bond futures for a predetermined price, with payment and delivery of the bond future at a predetermined future date.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening balance	–	–
Purchase of bond futures	4,234	1,751
Sale of bond futures	(4,977)	(1,735)
Movement in unrealised losses in the year	(66)	–
Realised gains/(losses) in the year	797	(16)
Balance payable on bond futures	**(12)**	**–**
Bond future assets at fair value through profit or loss	–	–
Bond future liabilities at fair value through profit or loss	(12)	–
Balance payable on bond futures	**(12)**	**–**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

18. Derivative financial instruments *(continued)*

Sale and repurchase agreements

Under the terms of a sale and repurchase agreement one party in the agreement acts as a borrower of cash, using a security held as collateral, and the other party in the agreement acts as a lender of cash. Almost any security may be employed in the sale and repurchase agreement. Interest is paid by the borrower for the benefit of having funds to use until a specified date on which the effective loan needs to be repaid.

When a transfer of assets that are not derecognised in their entirety does not result in derecognition, it is viewed as a secured financing transaction, with any consideration received resulting in a corresponding liability. The Company is not entitled to use these financial assets for any other purposes.

Under the sale and repurchase agreements, the Company may sell securities subject to a commitment to repurchase them. The securities are retained on the balance sheet as the Company retains substantially all the risks and rewards of ownership. The consideration received is accounted for as a financial liability at fair value through profit or loss.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening balance	(8,304)	(14,760)
Opening of sale and repurchase agreements	(20,821)	(34,679)
Opening of reverse sale and repurchase agreements	4,166	11,999
Closing-out of sale and repurchase agreements	26,437	38,953
Closing-out of reverse sale and repurchase agreements	(3,898)	(9,329)
Movement in unrealised gains/(losses) in the year	301	(415)
Realised gains/(losses) in the year	203	(73)
Total liabilities on sale and repurchase agreements	**(1,916)**	**(8,304)**
Sale and repurchase assets at fair value through profit or loss	4,194	3,877
Sale and repurchase liabilities at fair value through profit or loss	(6,110)	(12,181)
Total liabilities on sale and repurchase agreements	**(1,916)**	**(8,304)**

Interest paid on sale and repurchase agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred. At 31 December 2021 £nil (2020: £nil) interest on sale and repurchase agreements was payable by the Company.

Options

An option offers the buyer the opportunity to buy or sell an underlying asset at a stated price within a specified timeframe.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Opening balance	7	–
Opening of options	–	29
Closure of options	–	–
Movement in unrealised gains/(losses) in the year	22	(22)
Realised losses in the year	(29)	–
Balance receivable on options	**–**	**7**
Option assets at fair value through profit or loss	–	10
Option liabilities at fair value through profit or loss	–	(3)
Balance receivable on options	**–**	**7**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

18. Derivative financial instruments *(continued)*

Offsetting of derivative financial instruments

The Company presents the fair value of its derivative assets and liabilities on a gross basis, no such assets or liabilities have been offset in the Statement of Financial Position. Certain derivative financial instruments are subject to enforceable master netting arrangements, such as ISDA master netting agreements, or similar agreements that cover similar financial instruments.

The similar agreements include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements.

The Company's agreements allow for offsetting following an event of default, but not in the ordinary course of business, and the Company does not intend to settle these transactions on a net basis or settle the assets and liabilities on a simultaneous basis.

The table below sets out the carrying amounts of recognised capital instruments and short position(s) which could be offset under the applicable derivative agreements (as described above) as at 31 December 2021:

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
Financial assets					
Derivatives	4,506	–	4,506	(3,932)	574
Collateral accounts for derivative financial instruments *(note 16)*	4,119	–	4,119	(320)	3,799
Total assets	**8,625**	**–**	**8,625**	**(4,252)**	**4,373**
Financial liabilities					
Derivatives	(6,555)	–	(6,555)	5,727	(828)
Collateral accounts for derivative financial instruments *(note 16)*	(92)	–	(92)	–	(92)
Total liabilities	**(6,647)**	**–**	**(6,647)**	**5,727**	**(920)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

18. Derivative financial instruments *(continued)*

The table below sets out the carrying amounts of recognised capital instruments and short position(s) which could be offset under the applicable derivative agreements (as described above) as at 31 December 2020:

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
Financial assets					
Derivatives	5,257	–	5,257	(1,792)	3,465
Collateral accounts for derivative financial instruments *(note 16)*	5,905	–	5,905	(147)	5,758
Total assets	**11,162**	**–**	**11,162**	**(1,939)**	**9,223**
Financial liabilities					
Derivatives	(12,331)	–	(12,331)	11,760	(571)
Collateral accounts for derivative financial instruments *(note 16)*	(340)	–	(340)	–	(340)
Total liabilities	**(12,671)**	**–**	**(12,671)**	**11,760**	**(911)**

19. Fair value of financial instruments at fair value through profit or loss

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving 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) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

At 31 December 2021, the financial assets and liabilities designated at fair value through profit or loss were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Traded/listed capital instruments at fair value through profit or loss	85,208	241	–	85,449
Other investments at fair value through profit or loss *(note 7)*	4,874	–	–	4,874
Credit default swap assets *(note 18)*	–	180	–	180
Credit default swap liabilities *(note 18)*	–	(308)	–	(308)
Other derivative financial assets	–	4,326	–	4,326
Other derivative financial liabilities	(12)	(6,223)	–	(6,235)
Short position covered by sale and repurchase agreements	–	(3,932)	–	(3,932)
	90,070	**(5,716)**	**–**	**84,354**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

19. Fair value of financial instruments at fair value through profit or loss *(continued)*

At 31 December 2020, the financial assets and liabilities designated at fair value through profit or loss were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Traded/listed capital instruments at fair value through profit or loss	83,018	448	–	83,466
Other investments at fair value through profit or loss *(note 7)*	4,766	–	–	4,766
Credit default swap assets *(note 18)*	–	595	–	595
Credit default swap liabilities *(note 18)*	–	(147)	–	(147)
Other derivative financial assets	–	4,662	–	4,662
Other derivative financial liabilities	–	(12,184)	–	(12,184)
Short position covered by sale and repurchase agreement	–	(1,881)	–	(1,881)
	87,784	**(8,507)**	**–**	**79,277**

Level 1 financial instruments include listed capital instruments at fair value through profit or loss, unlisted open ended funds and bond future contracts, which have been valued at fair value by reference to quoted prices in active markets. No unobservable inputs were included in determining the fair value of these investments and, as such, alternative carrying values for ranges of unobservable inputs have not been provided.

Level 2 financial instruments include broker quoted bonds, credit default swap agreements, foreign currency forward contracts, sale and repurchase agreements and options. Each of these financial investments are valued by the Investment Manager using market observable inputs. The fair value of the other investments are based on the market price of the underlying securities.

The model used by the Company to fair value credit default swap agreements prices a credit default swap as a function of its schedule, deal spread, notional value, credit default swap curve and yield curve. The key assumptions employed in the model include: constant recovery as a fraction of par, piecewise constant risk neutral hazard rates and default events being statistically independent of changes in the default-free yield curve.

The fair values of the derivative financial instruments are based on the forward foreign exchange rate curve.

The sale and repurchase agreements have been valued by reference to the notional amount, expiration dates and rates prevailing at the valuation date.

The options were valued using the relevant options prices curve.

Transfers between levels

Transfers between levels during the year are determined and deemed to have occurred at each financial reporting date. There were no investments classified as Level 3 during the year, and no transfers between levels in the year. See notes 15, 16 and 18 for movements in instruments held at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

20. Other payables and accruals

	31 December 2021 £'000	31 December 2020 £'000
Performance fee *(note 8a)*	298	1
Investment management fee *(note 8a)*	213	185
Administration fee *(note 8b)*	33	33
Depositary fees *(note 8e)*	22	6
Audit fees *(note 10)*	21	22
Accrued interest payable on capital instrument short position(s)	17	5
Other accruals	13	16
Share issue costs	14	14
Valuation agent fees *(note 8e)*	11	10
Broker fee *(note 8c)*	6	6
Registrar fees *(note 8d)*	1	3
Due for purchase of capital instrument	–	1,833
	649	**2,134**

21. Share capital

	31 December 2021		31 December 2020	
	Number	£'000	Number	£'000
Authorised:				
Ordinary Shares of no par value	Unlimited	–	Unlimited	–
Allotted, called up and fully paid:				
Ordinary Shares of no par value	91,852,904	–	91,852,904	–

The Ordinary Shares carry the right to receive all dividends declared by the Company. Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the surplus assets of the Company. Shareholders will be entitled to attend and vote at all general meetings of the Company and, on a poll, will be entitled to one vote for each Ordinary Share held.

22. NAV per Ordinary Share

The NAV per Ordinary Share is based on the net assets attributable to owners of the Company of £96,883,000 (2020: £87,350,000), and on 91,852,904 (2020: 91,852,904) Ordinary Shares in issue at the year end.

The NAV of 105.48p per Ordinary Share disclosed in these financial statements is 0.33p higher than the NAV of 105.15p per Ordinary Share announced on 5 January 2022 as a result of 50% of the accrued performance fee, which is due to be settled through the purchase of shares in the Company, being allocated to the performance fee reserve (see note 8a for further details of the performance fee).

23. Changes in liabilities arising from financing activities

The Company did not raise any capital from the placing of new shares in the year ended 31 December 2020 or 31 December 2021. Therefore, there were no cash flows in relation to share issue costs in 2020 or 2021.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

24. Financial instruments and risk management

The Company invests its assets with the aim of spreading investment risk.

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Company is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk from the financial instruments it holds. Risk management procedures are in place to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

Risk management structure

The Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management approach within the Company.

The Company has no employees and is reliant on the performance of third party service providers. Failure by the Investment Manager, Administrator, Depositary, Registrar or any other third party service provider to perform in accordance with the terms of its appointment could have a significant detrimental impact on the operation of the Company.

Risk concentration

Concentration indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Company has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

Within the aim of maintaining a diversified investment portfolio, and thus mitigating concentration risks, the Company has established the following investment restriction in respect of the general deployment of assets:

Concentration

No more than 15% of NAV, calculated at the time of investment, will be exposed to any one financial counterparty. This limit will increase to 20% where, in the Investment Manager's opinion (having informed the Board in writing of such increase) the relevant financial institution investment instrument is expected to amortise such that, within 12 months of the date of the investment, the expected exposure (net of any hedging costs and expenses) will be equal to or less than 15% of NAV, calculated at the time of the investment.

Market risk

i. Price risk

Price risk exposure arises from the uncertainty about future prices of financial instruments held. It represents the potential loss that the Company may suffer through holding positions in the face of price movements. The investments in capital instruments, unlisted open ended funds, and bond futures at fair value through profit or loss (notes 15, 18 and 19) are exposed to price risk and it is not the intention to mitigate the price risk.

At 31 December 2021, if the valuation of these investments at fair value through profit or loss had moved by 5% with all other variables remaining constant, the change in net assets would amount to approximately +/- £4,319,000 (2020: +/- £4,318,000). The fair value of financial instruments exposed to price risk at 31 December 2021 was £86,380,000 (2020: £86,351,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

24. Financial instruments and risk management *(continued)*

Market risk (continued)

ii. Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company invests in securities and other investments that are denominated in currencies other than Sterling. Accordingly, the value of the Company's assets may be affected favourably or unfavourably by fluctuations in currency rates and therefore the Company will necessarily be subject to foreign exchange risks.

In order to limit the exposure to foreign currency risk, the Company entered into hedging contracts during the year. At the year end, the Company held the following foreign currency forward contracts:

31 December 2021 Maturity date	Amount to be sold	Amount to be purchased
27 January 2022	€47,498,000	£40,124,000
27 January 2022	US$7,887,000	£5,711,000

31 December 2020 Maturity date	Amount to be sold	Amount to be purchased
21 January 2021	€43,000,000	£38,889,000
21 January 2021	US$10,500,000	£8,047,000

At the year end a proportion of the net financial assets of the Company were denominated in currencies other than Sterling as follows:

31 December 2021	Investments at fair value through profit or loss £'000	Receivables £'000	Cash and cash equivalents £'000	Exposure £'000	Foreign currency forward contract £'000	Net exposure £'000
Euro	40,361	1,593	(693)	41,261	(39,991)	1,270
US Dollars	4,952	11	371	5,334	(5,835)	(501)
Danish Krone	–	–	–	–	–	–
Canadian Dollars	–	–	–	–	–	–
Singaporean Dollars	–	–	–	–	–	–
	45,313	**1,604**	**(322)**	**46,595**	**(45,826)**	**769**
31 December 2020						
Euro	45,147	936	1,665	47,748	(38,473)	9,275
US Dollars	4,694	2	2,632	7,328	(7,687)	(359)
Danish Krone	–	–	–	–	–	–
Canadian Dollars	–	–	–	–	–	–
Singaporean Dollars	–	–	–	–	–	–
	49,841	**938**	**4,297**	**55,076**	**(46,160)**	**8,916**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

24. Financial instruments and risk management *(continued)*

Market risk (continued)

ii. Foreign currency risk (continued)

Other future foreign exchange hedging contracts may be employed, such as currency swap agreements, futures contracts and options. There can be no certainty as to the efficacy of any hedging transactions.

At 31 December 2021, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 31 December 2021 would have decreased/increased by £38,000 (2020: £446,000).

iii. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. A large number of the capital instruments bear interest at a fixed rate, but capital instruments to the value of £54,572,000 (2020: £59,355,000), cash and cash equivalents, net of overdrafts, of £7,020,000 (2020: £2,647,000), collateral account balances of £4,027,000 (2020: £5,565,000) and short position(s) of £nil (2020: £1,881,000) were the only interest bearing financial instruments subject to variable interest rates at 31 December 2021. Therefore, if interest rates had increased/decreased by 50 basis points, with all other variables remaining constant, the change in the value of interest cash flows of these assets in the year would have been +/-£344,000 (2020: +/-£309,000).

31 December 2021	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	18,363	54,572	17,388	90,323
Cash and cash equivalents	–	7,713	–	7,713
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	4,119	–	4,119
Derivative financial assets at fair value through profit or loss	4,374	–	132	4,506
Other receivables	–	–	2,143	2,143
Total financial assets	**22,737**	**66,404**	**19,663**	**108,804**
Financial liabilities				
Bank overdrafts	–	(693)	–	(693)
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	(92)	–	(92)
Derivative financial liabilities at fair value through profit or loss	(6,418)	–	(137)	(6,555)
Short position covered by sale and repurchase agreements	–	(3,932)	–	(3,932)
Other payables and accruals	–	–	(649)	(649)
Total financial liabilities	**(6,418)**	**(4,717)**	**(786)**	**(11,921)**
Total interest sensitivity gap	**16,319**	**61,687**	**18,877**	**96,883**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

24. Financial instruments and risk management *(continued)*

Market risk (continued)

iii. Interest rate risk (continued)

31 December 2020	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	16,001	59,355	12,876	88,232
Cash and cash equivalents	–	4,297	–	4,297
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	5,905	–	5,905
Derivative financial assets at fair value through profit or loss	4,472	–	785	5,257
Other receivables	–	–	1,995	1,995
Total financial assets	**20,473**	**69,557**	**15,656**	**105,686**
Financial liabilities				
Bank overdrafts	–	(1,650)	–	(1,650)
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	(340)	–	(340)
Derivative financial liabilities at fair value through profit or loss	(12,328)	–	(3)	(12,331)
Short positions covered by sale and repurchase agreements	–	(1,881)	–	(1,881)
Other payables and accruals	–	–	(2,134)	(2,134)
Total financial liabilities	**(12,328)**	**(3,871)**	**(2,137)**	**(18,336)**
Total interest sensitivity gap	**8,145**	**65,686**	**13,519**	**87,350**

It is estimated that the fair value of the fixed interest and non-interest bearing capital instruments of £35,751,000 (2020: £28,877,000) at 31 December 2021 would increase/decrease by +/-£551,000 (0.61%) (2020: +/-£656,000 (0.74%)) if interest rates were to change by 50 basis points.

The Investment Manager manages the Company's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and its own views as to likely movements in interest rates.

Although it has not done so to date, the Company may implement hedging and derivative strategies designed to protect investment performance against material movements in interest rates. Such strategies may include (but are not limited to) interest rate swaps and will only be entered into when they are available, in a timely manner, and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of any hedging transactions.

Credit 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, resulting in a financial loss to the Company.

At 31 December 2021, credit risk arose principally from investment in capital instruments of £85,449,000 (2020: £83,466,000), cash and cash equivalents of £7,713,000 (2020: £4,297,000), balances held as collateral for derivative financial instruments at fair value through profit or loss of £4,119,000 (2020: £5,905,000), foreign currency forward assets of £132,000 (2020: £775,000) and investments in sale and repurchase assets of £4,194,000 (2020: £3,877,000). The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The credit rating of cash and collateral counterparties is sufficient that no expected credit loss or provision for impairment is considered necessary.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

24. Financial instruments and risk management *(continued)*

Credit risk (continued)

The Investment Manager manages the Company's credit risk by investing in a diverse portfolio of capital instruments, in line with the Prospectus. At 31 December 2021, the capital instrument rating profile of the portfolio was as follows:

	31 December 2021 Percentage	31 December 2020 Percentage
A	–	–
BBB	7.93	20.07
BB	19.34	32.28
B	16.90	12.11
Below B	9.89	7.56
No rating	45.94	27.98
	100.00	**100.00**

The investments without a credit rating correspond to issuers that are not rated by an external rating agency. Although no external rating is available, the Investment Manager considers and internally rates the credit risk of these investments, along with all other investments. The internal risk score is based on the Investment Manager's fundamental view (stress test, macro outlook, solvency, liquidity risk, business mix, and other relevant factors) and is determined by the Investment Manager's risk committee. The risk grades are mapped to an external Baseline Credit Assessment, and any discrepancy of more than two notches is monitored closely.

The cash pending investment may be held without limit with a financial institution with a credit rating of A-1 (Standard & Poor's) or P-1 (Moody's) to protect against counterparty failure.

The Company may implement hedging and derivative strategies designed to protect against credit risk. Such strategies may include (but are not limited to) credit default swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of hedging transactions.

Due to the Company's investment in credit default swap agreements the Company is exposed to additional credit risk as a result of possible counterparty failure. The Company has entered into ISDA contracts with Credit Suisse, JP Morgan and Goldman Sachs, all rated A+. At 31 December 2021, the overall net exposure to these counterparties was 3.62% (2020: 5.11%) of NAV. The collateral held at each counterparty is disclosed in note 16.

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The principal liquidity risk is contained in unmatched liabilities. The liquidity risk at 31 December 2021 was low since the ratio of cash and cash equivalents (net of overdrafts) to unmatched liabilities was 11:1 (2020: 17:1).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

24. Financial instruments and risk management *(continued)*

Liquidity risk (continued)

In addition, the Company diversifies the liquidity risk through investment in capital instruments with a variety of maturity dates, as follows:

	31 December 2021 Percentage	31 December 2020 Percentage
Less than 1 year	15.99	7.99
1 to 3 years	26.88	29.24
3 to 5 years	24.75	30.62
5 to 7 years	1.59	9.62
7 to 10 years	2.92	4.15
More than 10 years	27.87	18.38
	100.00	**100.00**

As at 31 December 2021, the Company's liquidity profile was such that 63.6% of capital instruments were realisable within one day (2020: 67.4%), 32.3% was realisable between two days and one week (2020: 29.5%) and 4.1% was realisable between eight days and one month (2020: 3.1%).

As at the year end, the Company's liabilities fell due as follows:

	31 December 2021 Percentage	31 December 2020 Percentage
1 to 3 months	71.52	93.55
3 to 6 months	–	–
6 to 12 months	–	–
1 to 3 years[1]	28.48	6.45
3 to 5 years	–	–
	100.00	**100.00**

[1] This classification assumes that derivative liabilities are held to maturity. However, they have been included as current liabilities in the Statement of Financial Position as they are not always held to maturity but are incurred principally for the purpose of repurchasing in the near term and, on initial recognition, are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

25. Capital management policy and procedures

The Company's capital management objectives are:

- to ensure that it will be able to meet its liabilities as they fall due; and
- to maximise its total return primarily through the capital appreciation of its investments.

Pursuant to the Company's Articles of Incorporation, the Company may borrow money in any manner. However, the Board has determined that the Company should borrow no more than 20% of direct investments.

The Company uses sale and repurchase agreements to increase the gearing of the Company. As at 31 December 2021 the Company had eight (2020: fourteen) open sale and repurchase agreements, one (2020: four) being a reverse sale and repurchase agreement, committing the Company to make a total repayment of £6,110,000 post the year end (2020: £12,182,000). As a result of the reverse sale and repurchase agreement(s) the Company was due to receive £4,194,000 after the year end (2020: £3,877,000).

The raising of capital through the placing of shares forms part of the capital management policy. See note 21 for details of the Ordinary Shares issued since incorporation.

As disclosed in the Statement of Financial Position, at 31 December 2021 the total equity holders' funds were £96,883,000 (2020: £87,350,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2021 (continued)

26. Capital commitments

The Company holds a number of derivative financial instruments, which, by their very nature, give rise to capital commitments post 31 December 2021. These are as follows:

- At 31 December 2021, the Company had sold six (2020: twelve) credit default swap agreements for a total of £457,000 (2020: £677,000), each receiving quarterly interest. The exposure of the Company in relation to these agreements at the year end date was £86,000 (2020: £571,000). Collateral of £3,328,000 for these agreements was held at 31 December 2021 (2020: £5,905,000).
- At the year end the Company had committed to two (2020: two) foreign currency forward contracts dated 27 January 2022 to buy £45,834,000 (2020: £46,936,000). At 31 December 2021, the Company could have effected the same trades and purchased £45,827,000 (2020: £46,161,000), giving rise to a gain of £7,000 (2020: gain of £775,000).
- At the year end, the Company held six (2020: ten) open sale and repurchase agreements (this excludes the one open reverse sale and repurchase agreement (2020: four)) committing the Company to make a total repayment of £6,310,000 (2020: £12,255,000).

27. Contingent assets and contingent liabilities

In line with the terms of the Investment Management Agreement, as detailed in note 8a, should the Company's NAV reach a level at which the TER reduced to less than 1.5% of the average NAV in a future accounting period then the Quarterly Expenses Excess and Annual Expenses Excess totalling £777,000 at 31 December 2021 (2020: £737,000) would become payable to the Investment Manager, to the extent that the total expenses including any repayment did not exceed 1.5% of the average NAV for that period.

For a significant amount of the £777,000 (2020: £737,000) Expenses Excess to become payable within the foreseeable future, the Company's NAV would have to increase considerably from the 31 December 2021 NAV. The Directors consider that it is possible, but not probable, that an increase in the NAV leading to a significant payment of the Expenses Excess will be achieved in the foreseeable future. Accordingly, the possible payment to the Investment Manager has been treated as a contingent liability in the financial statements.

There were no other contingent assets or contingent liabilities in existence at the year end.

28. Events after the financial reporting date

On 25 January 2022, the Company declared a dividend of 1.50p per Ordinary Share for the period from 1 October 2021 to 31 December 2021, which (in accordance with IFRS) was not provided for at 31 December 2021, out of the profits for the year ended 31 December 2021 (note 6). This dividend was paid on 25 February 2022.

As detailed in note 1, in February 2022 the Directors approved a minor change to the Company's investment policy.

GLOSSARY

Defined terms

Administrator	Elysium
AGM	Annual General Meeting
AIB	Allied Irish Bank
AIC	Association of Investment Companies
AIC Code	AIC Code of Corporate Governance
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive
APM	Alternative Performance Measures
AT1	Additional T1
Axiom AI	Axiom Alternative Investments Sarl
BACA	Bank Austria UniCredit
BBVA	Banco Bilbao Vizcaya Argentaria
Broker	Corporate Broker
BRRD II	Bank Recovery and Resolution Directive II
CDS	Credit Default Swap
CET1	Common Equity T1
CFO	Chief Financial Officer
CIB	Cash In Bank
CMS	Constant Maturity Swap
Committees	The Company's Audit Committee, Management Engagement Committee and Nomination and Remuneration Committee
Company	Axiom European Financial Debt Fund Limited
COO	Chief Operating Officer
CPI	Consumer Price Index
CRR	Capital Requirements Regulation
CSAM	Credit Suisse Asset Management
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
Elysium	Elysium Fund Management Limited
ESG	Environmental, Social and Governance
FCA	The Financial Conduct Authority
Fed	Federal Reserve System
FICC	Fixed Income Clearing Corporation
FX	Foreign exchange
GDP	Gross Domestic Product
GFSC	Guernsey Financial Services Commission
Grant Thornton	Grant Thornton Limited
IASB	International Accounting Standards Board
IFRS	UK-adopted international accounting standards
IG	Investment Grade
Investment Manager	Axiom AI
IPO	Initial Public Offering
ISDA	International Swaps and Derivatives Association
KID	Key Information Document
KPIs	Key Performance Indicators
Law	Companies (Guernsey) Law, 2008
LSE	London Stock Exchange
M&A	Mergers and Acquisitions
MIFIR	Markets in Financial Instruments Regulation
MREL	Minimum Requirement for own funds and Eligible Liabilities

NAV	Net asset value
NPL	Non-Performing Loan
P&C	Property and Casualty
PIBS	Permanent Interest Bearing Shares
POI Law	The Protection of Investors (Bailiwick of Guernsey) Law, 2020
PRA	Prudential Regulatory Authority
Premium Segment	The Premium Segment of the Main Market of the LSE
Published NAV	The NAV published on the LSE on 4 January 2022, prior to the adjustments required for these financial statements under IAS 2 (see note 22)
Published net assets	The net assets used to calculate the Published NAV, prior to the adjustments required for these financial statements under IAS 2 (see note 22)
RT1	Restricted T1
SFDR	Sustainability-related disclosures in the financial services sector
SFS	The Specialist Fund Segment of the LSE
SME	Small and Medium-sized Entities
SPAC	Special Purpose Acquisition Company
SPPI	Solely payments of principal interest
SPV	Special Purpose Vehicle
SREP	Supervisory Review and Evaluation Process
SubFin	Markit iTraxx Europe Subordinated Financial Index
SX7R	STOXX Europe 600 Banks Index
SXXR	STOXX Europe 600 Index
T1	Tier 1
T2	Tier 2
TBV	Total Book Value
TCFD	Task Force on Climate-Related Financial Disclosures
TISE	The International Stock Exchange
TLTRO	Targeted Longer-Term Refinancing Operations
TMO	Taux Moyen des Obligations
TRIM	Targeted Review of Internal Models
UK-adopted international accounting standards	International Accounting Standards, International Financial Reporting Standards and interpretations issued by the International Financial Reporting Standards Interpretations Committee, as adopted by the UK
UK Code	UK Corporate Governance Code 2018
Winterflood	Winterflood Securities Limited

Alternative Performance Measures

Cash (%)	Total cash held, including overdrafts, expressed as a percentage of Published net assets
Collateral (%)	Total collateral held, including negative balances, expressed as a percentage of Published net assets
Gross assets (%)	Total assets, expressed as a percentage of Published net assets
Modified duration	The percentage impact on the fair value of investments of a 100bps increase in risk free rates
Net gearing	Total assets, less collateral, expressed as a percentage of Published net assets
Published NAV/Published net assets	Please see the Glossary
Running yield	Expected annualised coupons, expressed as a percentage of the fair value of investments
Sensitivity to credit	The percentage impact on the fair value of investments of a 100bps increase in credit spreads
Share price premium/discount	The amount by which the Ordinary Share price is higher/lower than the Published NAV per Ordinary Share, expressed as a percentage of the Published NAV per Ordinary Share
Total return per Ordinary Share	Total return per Ordinary Share has been calculated by comparing the NAV or share price, as applicable, at the start of the year with the NAV or share price, as applicable, plus dividends paid, at the year end, assuming that dividends are reinvested
Yield to call	The yield of the portfolio, converted into GBP at the anticipated reimbursement date of the bonds
Yield to perpetuity	The yield of the portfolio, converted into GBP, with the hypothesis that securities are not reimbursed and kept to perpetuity

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