AXIOM
ALTERNATIVE INVESTMENTS

Axiom European Financial Debt Fund Limited

Half-Yearly Report and Unaudited Condensed Financial Statements
for the six months ended 30 June 2017

CONTENTS

HIGHLIGHTS

	30 June 2017 (unaudited)	30 June 2016 (unaudited)	31 December 2016 (audited)
Net assets	£60,246,000	£50,319,000	£58,010,000
Net asset value ("NAV") per Ordinary Share	98.88p	92.02p	95.21p
Share price at 30 June 2017	97.50p	95.50p	92.50p
(Discount)/premium to NAV	(1.40)%	3.78%	(2.85)%
Profit/(loss) for the period	£4,394,000	£(2,166,000)	£1,339,000
Dividend per share declared in respect of the period[1]	3.00p	2.85p	6.00p
Total return per Ordinary Share (based on NAV)[2]	+7.16%	-4.70%	+1.59%
Total return per Ordinary Share (based on share price)[2]	+8.81%	-3.15%	-3.15%
Ordinary Shares in issue	60,930,764	54,683,222	60,930,764

[1] Only 1.50p of the 3.00p per Ordinary Share dividends declared out of the profits for the period ended 30 June 2017 had been deducted from the 30 June 2017 NAV as the dividend of 1.50p per Ordinary Share announced on 19 July 2017, payable to Shareholders on record at 3 August 2017, and which will be paid on 25 August 2017, had not been provided for in these unaudited condensed half-yearly financial statements at 30 June 2017 as, in accordance with IFRS, it was not deemed to be a liability of the Company at that date.

[2] Total return per Ordinary Share has been calculated by comparing the NAV or share price, as applicable, at launch with the NAV or share price, as applicable, plus dividends paid, at the period end.

www.axiom-ai.com

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

REGISTERED IN GUERNSEY No. 61003

OVERVIEW AND INVESTMENT STRATEGY

General information

Axiom European Financial Debt Fund Limited (the "Company") was incorporated as an authorised closed-ended investment company, under the Companies (Guernsey) Law, 2008 (the "Law") on 7 October 2015 with registered number 61003. Its Ordinary Shares were admitted to trading on the Specialist Fund Segment ("SFS") (formerly the Specialist Fund Market) of the London Stock Exchange on 5 November 2015 ("Admission").

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.

Following the change of investment policy, the Company is permitted to invest in instruments issued by, or referenced to, (i) financial institutions in the EEA (i.e. including countries other than the UK and the members of the EU, as per the Company's original investment mandate) and Switzerland and (ii) entities which are not financial institutions in the EEA or Switzerland, but which are subsidiaries, at the time of investment, of such institutions.

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 Alternative Investments SARL ("Axiom"), identifies attractive opportunities.

The Investment Manager identified a number of instruments issued by (i) financial institutions in the EEA (i.e. including countries other than the UK and the members of the EU, as per the Company's original investment mandate) and Switzerland and (ii) entities which are not financial institutions but which are subsidiaries of such institutions in which it considered that the Company ought to be permitted to invest. At the AGM it was resolved that the Company's investment policy be amended to allow the Company to invest in such instruments.

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 website (http://axiom-ai.com/web/data/prospectus/ENG/AEFD-prospectus-UK.pdf).

CHAIRMAN'S STATEMENT

I am pleased to present our report for the half-year to 30 June 2017.

Results
It was a successful half-year. Taking into account dividends paid, the increase in net assets per share over the six months net of all expenses was 7.16%. This equates to an annualised rate of 14.83% p.a., which is comfortably ahead of our long-term target return of 10% p.a. net of operating expenses.

In brief, the markets continued their recovery after their difficult start to 2016. The regulatory background remained stable and financial institutions were busy in the process of restructuring their capital instruments to meet their future regulatory requirements. Our investment managers, Axiom Alternative Investments SARL, were active on the Company's behalf and they give a detailed, comprehensive report on both the markets and portfolio composition on pages 3 to 10 of this document and so I shall not repeat that here.

The Company reported a net profit after tax for the period ended 30 June 2017 of £4.4 million (30 June 2016: loss of £2.2 million), representing earnings per Ordinary Share of 7.21p (30 June 2016: loss per Ordinary Share of 4.11p).

The Company's NAV at 30 June 2017 was £60.2 million (98.88p per Ordinary Share) (31 December 2016: £58.0 million, 95.21p per Ordinary Share).

Dividends
The Company has declared two dividends each of 1.50p per Ordinary Share in relation to the half-year: one was paid on 12 May and the other, declared after the balance sheet date, will be paid on 25 August to Shareholders on the register at 4 August. Together, they total 3.00p per Ordinary Share and the Company is therefore well on track against its target of at least 6.00p for the year. During the period, actual payments of 3.15p were made, being the 12 May dividend and the 1.65p balancing dividend in respect of the period from incorporation to 31 December 2016 which was paid on 24 February 2017.

Placing Programme
On 8 May 2017, we refreshed the Placing Programme prospectus to enable the Company to expand by placing new shares at not less than the prevailing NAV (cum income) per share at the time of issue plus a premium to cover the costs and expenses of the relevant placing.

Minor amendment to investment policy at AGM 6 April 2017
A minor change to the Company's investment policy was proposed at the Annual General Meeting on 6 April 2017 to expand slightly the universe of eligible investments by broadening the definition of European Financial Institutions to include instruments that are issued by (i) financial institutions in the EEA (i.e. including countries other than the UK and the members of the EU, as per the Company's original investment mandate) and Switzerland and (ii) entities which are not financial institutions but which are subsidiaries of such institutions. I am pleased to say that the proposal achieved unanimous support from those Shareholders who voted at the AGM.

Outlook
The markets in which the Company operates continue to normalise and regulatory pressure has moderated, leaving financial institutions with a clearer path to follow. The process of transitioning to the new capital bases therefore continues and generates further opportunities as our investment manager notes on page 10.

The Board accordingly continues to look forward with confidence for the foreseeable future.

William Scott
Chairman
10 August 2017

INVESTMENT MANAGER'S REPORT

1. Market developments

In **January**, a strong rebound of the banking sector continued to be driven by a favourable environment.

As the new Trump administration sets a tone of greater forbearance, if not a repeal of the regulatory framework, the Basel Committee struggled to reach a consensus on RWA floors and postponed its meeting to March. Objections came from European regulators as output floors risked undermining some national models.

Fundamentals improved also as higher rates boosted bank revenues and market volatility from Q4 2017, which helped IBs to perform; Unicredit launched a record €13bn capital raise and BCP in Portugal announced a €1.3bn rights issue.

Valuations also received further support from M&A headlines. In Italy, UBI reached a deal to purchase three regional banks. Intesa was rumoured to mount a bid for Generali operations, together with Allianz. The Novo Banco sale to Lone Star progressed, the HSH Nordbank sale process was launched, and BAWAG bid for a German private bank.

In January, new issuance was very active, with two Additional Tier 1 transactions (Intesa and Standard Chartered) and one issue of Mutual Certificates by Rabobank. Six Tier 2 deals were launched and new Tier 3s were printed by banks in France and, despite the absence of the relevant law, in Spain.

Danske Bank, Irish Life and Permanent and DNB called their step-up legacy Tier 1s at the first call date. Tender offers were announced by Groupama and Old Mutual.

February was mixed as debt markets suffered from a widening of French and Italian Treasury yields. Bank subordinated debt however, remained in strong demand: legacy instruments, and later in the month Additional Tier 1s.

Fundamentals continued to improve throughout February and the annual earnings season showed better asset quality (loan provisions down, NPL ratios down), controlled costs (down on an underlying basis) and sustained revenues despite the 2016 low rate environment. Highlights included the excellent results of ABN Amro, De Volksbank, Coventry Building Society and Erste Bank, though in Italy, the restructuring process of ailing institutions was taking more time as the ECB locked horns with the EC on the scope of Monte dei Paschi's capital plan and a merger plan was finalised for Veneto Banca and Vicenza.

Regulation reforms were paused in February as banks and regulators waited for the outcome of the Basel meeting in early March and the proposal by EBA chairman Enria of a new Europe-wide Asset Management Company for NPLs which did not find any consensus.

In February, new issuances were quiet with one Barclays AT1 in Sterling at a 7.25% coupon, one PBB Tier 2 in Euros and Spanish issuers exploring Tier 2 issuance. However, call activity in relation to legacy instruments was very high: Barclays (7.1% Pref, 6.375% UT2), ING (7.2% Pref), SocGen (5.922%, floating rate T1s), BNP (5.019% T1), Aareal Bank (7.125% TruPS) and, last but not least, BBVA (two step-up T1s that had passed their first call date and traded in the high 80s).

March was a strong month. The Subfin index tightened by more than 30bp reducing the lag on AT1s, rates fell back slightly after Trump's failure in repealing Obamacare, and geopolitical risks towards French elections receded.

Credit fundamentals continued their progress. Deutsche Bank announced plans to raise €8bn to address all remaining concerns about its viability, and Raiffeisen in Austria released strong financials of its new structure following the merger of RZB and RBI before AIB closed the earnings season by showing 200bp of CET1 generated since June, paving the way for a future IPO.

On the restructuring front, Monte dei Paschi received approval for its precautionary recapitalisation, alongside a reduction of the capital to be injected. Co-operative Bank launched a sale process, Popular in Spain explored asset sales to strengthen capital, the sale of Novo Banco became subject to an LME and Caixa Geral received EC approval to proceed with its recapitalisation.

Regulatory pressure continued to ease as the Basel Committee got closer to a compromise on the "output floors" initially expected to constrain capital ratios.

In March primary issuance was prevalent with c. USD20bn of senior Holdcos, nine T2s, five AT1s, including the first one in Portugal, and the first Restricted T1 by an insurer.

Prices were again supported by a number of par calls (Bank of Ireland UK, RBS 5.6457%, BBVA 5.919%, Lloyds 4.385%) and tenders from Commerzbank, Credit Suisse, Banco BPM and more importantly Credit Agricole targeting six legacy T1s, including its 6.637% reset at a cheap USD3mL+123bp at a EUR10y+2.5bp.

Macron's victory in the first round of the French elections was the catalyst for **April's** strong relief rally.

While the uncertainty of the polls kept the Subfin above 200bp, it tightened by more than 30bp in the last week. Bank equities jumped 6% and AT1s, led by French names, surged above their historical highs. Even if the recent move was quick, financials maintained their lag against corporates. As a comparison, in April, EUR HY Corpo (BEUH) stood at 2.7% while EUR HY Fins (BEUHFI) was 3.7%.

The surprise announcement of general elections in the UK to strengthen Theresa May's government triggered a reaction of cohesion across the 27 other EU members and adding further uncertainty to Brexit negotiations. Despite this however, cash began to be deployed as, driven by fundamentals taking precedence over political uncertainties, valuations found new clearing levels.

The Q1 earnings season contributed to support the rally with profit increases from Swedish banks and strong top-line revenues from Santander, BBVA and Lloyds, while Credit Suisse confirmed its plan to raise CHF 4bn of new equity.

Deutsche Bank completed its €8bn raise and looked to turn its focus towards profits and growth. Banco Popular however was forced to restate some provisions related to its NPLs and, following management changes, undertook a structural review to maintain its capital flexibility via asset sales or even a possible merger. In Italy, the sector benefited from precautionary recapitalisations being rumoured for Veneto Banca and Popolare di Vicenza as the framework was increasingly seen by regulatory authorities as an alternative tool to resolution, under the condition that the affected banks are solvent.

In April, primary issuance was limited to two new AT1 deals by Erste Bank and Santander, both limited in size, and one Tier 2 by Credito Valtellinese. Credit Suisse called two legacy T1s in USD.

May started with Emmanuel Macron's victory in the second round of the French elections, continuing April's positive trend and supporting the banking sector overall.

The primary pipeline was active in AT1s with HSBC, BBVA, Unicredit and Sabadell's inaugural deal. In the last week of the month, AT1 valuations dropped from their highs as the EBA released an opinion, although purely consultative, on the redrafting of the CRD/CRR package to prevent any the distribution priority for AT1s under a breach of the Combined Buffer.

At the instrument level, developments were more mixed. Legacy instruments benefited from redemptions of bonds trading below par (Deutsche Pfandbriefbank, Banco BPM and Deutsche Postbank) and the announcement by French mutual BPCE of its MREL issuance policy and the subsequent call of its discounted legacy bonds. RBI and Crédit Logement though refrained from clarifying their capital strategy towards their legacy T1s.

Towards the end of month, in Spain, the situation of Banco Popular deteriorated further as the poor handling of the provision needs combined with the lack of concrete actions towards asset sales or capital raising, increased the pressure on its management to deliver on the M&A process.

Shortly after at the start of **June**, the Single Resolution Board decided to trigger the resolution based on rapidly deteriorating liquidity and transfer the bank to Banco Santander. To address the capital shortfall, all the shares and the AT1 instruments were written down and the Tier 2 converted into shares to be transferred to Banco Santander S.A. for a nil consideration. Santander will integrate Popular's operations after booking €7.9bn of provisions and raising €7bn of equity.

As recently as the week before, Banco Popular had communicated its needs for additional provisions towards the low end of the €1.5-2.0bn range. Our estimates stood significantly higher between €3.5bn and €4bn and our base scenario assumed the conversion of the two Coco AT1s only, but excluding the legacy T1s and the T2s, alongside a low bid from Santander around 0.15% of Banco Popular's book value.

The actual amount of €7.9bn in provisions, and the undifferentiated treatment between the various debt formats (T2 treated similarly as AT1 with a value reduced to zero) was a heavy downside outcome to an extent which had been largely unexpected by analysts. The ECB's view on the liquidity was also controversial in light of a €20bn portfolio of securities available for central bank funding and the Liquidity Coverage ratio of 146% released with Q1 results on 5 May. Santander leveraged its sole bidder position, without any competition, to impose its terms on Popular bondholders, ultimately extracting the maximum value from the acquisition: c. €950 million of additional net profit is expected by 2020 alongside a 3.4% increase in RoTE to 13%.

June saw two further resolutions in Italy with Veneto Banca and Popolare di Vicenza; ending with adverse moves in interest rates triggered by further tapering rhetoric from central bankers.

While AT1s and equities rebounded in a sign of relief after Banco Popular, subordinated debt saw a strong dispersion with a risk-off move on subordinated instruments issued by medium-sized banks with significant NPL ratios and limited market access.

The most significant moves took place in the senior debt. Not only were senior unsecured bonds not impacted by either resolution but the announcement of other restructurings like the Co-operative Bank in the UK, or Monte dei Paschi in Italy, confirmed the protection of senior liabilities.

Senior debt valuations got further supported by the EU council's decision to fast track legislation aimed at the creation of non-preferred senior bank debt. This results in a buffer protecting the existing senior debt, alongside a structural protection for the operational subsidiaries.

At the same time, the announcement that Holdcos will replace Opcos in the Itraxx financials index from September onwards created a technical squeeze where Snrfin and Subfin indices tightened both by a historical 20bp over the month.

Fundamentals continued to improve with rating upgrades (RBS, Sabadell, Bank of Ireland, AIB, de Volksbank), new IPOs like AIB or Unicaja and more bad loan disposals, in Italy in particular with Banco BPM, Credito Valtellinese and Banca Carige. This provided a favourable backdrop for the issue of a new AT1 by HSBC and two inaugural AT1s by Caixabank and RBI. Legacy instruments were also supported by the call of BPCE EUR CMS, after a cryptic announcement in their Q1 results, which triggered a lagging rally in CMS-linked and other floating discounted instruments such as Crédit Logement.

2. Investment Objective and Strategy

AEFD is a closed-ended fund investing in liabilities issued by European financial institutions, predominantly legacy Tier 1s, Tier 2s, and Additional Tier 1s 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).

3. Trade activity and positioning

January: exposure to floating rate instruments increases

- Liquid Relative Value: the Company took part in the new issues by Intesa, StanChart and Rabobank, and bought French AT1s. The Company held Groupama and Old Mutual into the exchanges.
- Less Liquid Relative Value: the Company sold long-duration Sterling legacy instruments as Sterling rate increases had not impacted cash prices yet.
- Special Situations: the Company increased its holdings of discount perpetuals on banks in Austria, Netherlands and Germany and insurance in France.
- Restructuring: the Company sold Monte seniors at 98.25 (bought at 94.75 in December) and bought Deutsche Bank Additional Tier 1 as litigations were resolved.
- Midcap Origination: the Company bought a rare Tier 2 instrument issued by a mutual insurer in Spain.

February: SocGen Floating Perp redeems

The Company continued to benefit from calls (SocGen FRN was in the top 3 holdings), the rally in both legacy Tier 1 instruments (floaters in particular) and AT1s (30% in the portfolio), and lost on its exposures to Italian banks.

- Liquid Relative Value: the Company sold its positions on French AT1s and switched into UK and German issuers, as the uncertainty around the French elections grew.
- Less Liquid Relative Value: following the redemptions by Barclays and BBVA, the Company sold its Barclays preference shares (above par) and increased its holding in Santander (the same format as BBVA's that were called). The Company sold its position on HSBC discounted bonds.
- Special Situations: the Company increased its holding in Aareal FRN, as the issuer announced the active management of its legacy capital structure.
- Restructuring: the Company reduced its holdings in Deutsche Bank AT1s (at 91.5 bought at 87) and Unicredit AT1s, following the execution of the capital raise.
- Midcap Origination: the Company bought a new Tier 2 issued by Deutsche Pfandbriefbank, which came to the market ahead of the expected redemption of its legacy Tier 1.

March: Bank of Ireland call

The Company continued to benefit from calls: it held the next RBS T1s approaching their call, the BBVA 5.919% and the rare Bank of Ireland UK instrument (only £32 million outstanding).

- Liquid Relative Value: the Company participated in the new AT1 issue by Santander UK and also purchased Spanish Tier 2 instruments.
- Less Liquid Relative Value: the Company increased its holdings of Fixed-to-Fixed Perpetuals and legacy Tier 1s issued by smaller UK issuers.
- Special Situations: the Company again increased its exposure to specific instruments whose capital recognition had been confirmed in the latest annual disclosure by banks.
- Restructuring: the Company remained exposed to Monte dei Paschi, Banco Popular and Novo Banco's insurer but no longer exposed to Co-operative Bank.
- Midcap Origination: the Company participated in the new AT1 issue by Caixa Geral.

April: French banks post Macron's election perform

The Company benefited strongly from the market performance through its cash being fully deployed and the appreciation of its CDS positions on French banks.

- Liquid Relative Value: the Company reduced its holdings in Commerzbank and Groupama and participated in the new AT1 issue by Erste Bank. It sold its remaining position in Barclays AT1 at 102 (bought at 99.10 in November 2015).
- Less Liquid Relative Value: the Company increased further its holdings of a French Fixed-to-Fixed and a legacy step-up issued by a retail bank in Hungary.
- Special Situations: the Company increased slightly its exposure to RBI in Austria, in anticipation of a future exchange.
- Restructuring: the Company sold a legacy Tier 1 in Deutsche Post Bank coming up for call above 99.00 (bought at 94.00 in February 2016) and increased its holding on Liverpool Victoria subordinated bonds.
- Midcap Origination: the Company participated in the new T2 issue by Credito Valtellinese.

May: redemptions continue and BPCE tenders its CMS linkers

The Company continued to benefit strongly from the market performance while keeping its AT1 exposure in the Liquid Relative Value bucket at a low level of 18.6%. Specifically:

- Liquid Relative Value: the Company sold its Lloyds AT1s and participated in the new AT1 issues in Unicredit and Sabadell, as well as BPER T2s.
- Less Liquid Relative Value: the Company built a holding in BPCE CMS ahead of their future call.
- Special Situations: the Company sold its holding in Old Mutual the day after the AGM presentation where management suggested the bonds could stay under a new South Africa-listed sub-holding.
- Restructuring: the Company started managing down its exposure to Banco Popular on 11 May.
- Midcap Origination: the Company participated as one of the anchor investors in the AT1 issued by One Savings.

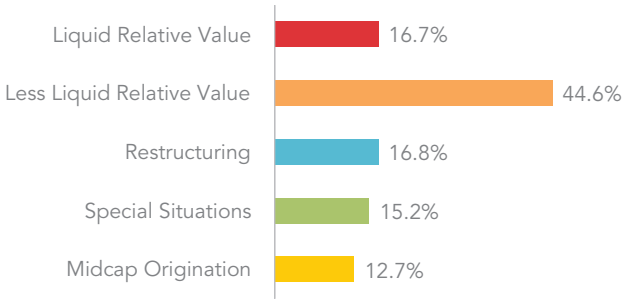
June: resolutions get implemented

The Company offset its exposure to Banco Popular's resolution with significant gains on senior and sub Opco positions that were put in place via CDS on single names (including Banco Popular) and Itraxx indices, in anticipation of the preferential treatment of seniors, whether through a resolution or the new non-preferred legislation. Specifically:

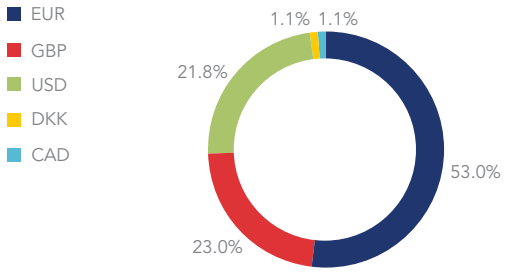
- Liquid Relative Value: the Company sold its AT1 and T2 positions in medium sized issuers in Spain and Italy (Sabadell, Caixabank, Popolare Emilia Romagna) and took part in RBI's inaugural AT1.
- Less Liquid Relative Value: the Company increased its holding in BPCE CMS ahead of its future call, and increased its portion of Fixed-to-Fixed instruments.
- Special Situations: the Company increased its holding in HSBC discos and DPB bonds issued via SPVs. After the new RBI AT1, it sold RZB CMS above 92.00 (bought between 63.00 and 85.50 over the last year).
- Restructuring: the Company closed the month with c. 4% exposure to Popolare di Vicenza seniors, ahead of their transfer to Intesa. It switched its exposure to Co-operative Bank seniors around 98.00 (bought at 86.5 late May) into a smaller amount of Co-operative Bank subordinated bonds.

4. Portfolio (as at 30 June 2017)

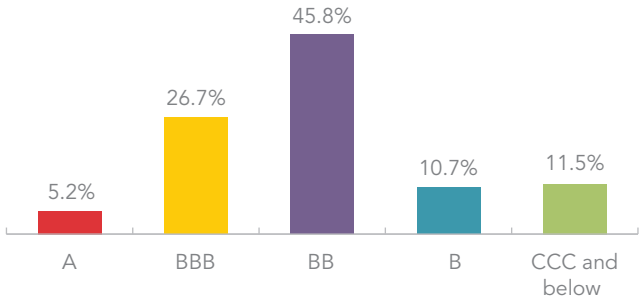
Strategy Allocation (as a % of investments held)



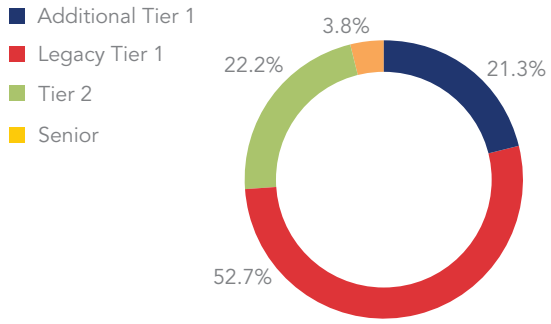
Currency breakdown (as a % of investments held, excluding cash)



Portfolio Breakdown (as a % of non-cash investments held, excluding cash)

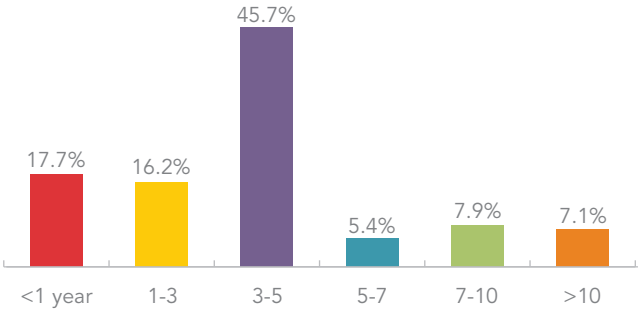


By rating

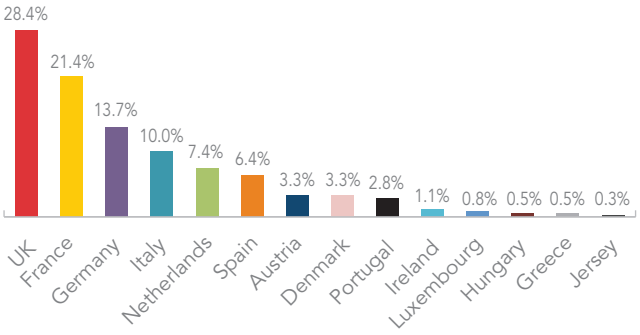


By subordination

By maturity



By country



Specific exposures

Top 10 Holdings		
Security	**Strategy**	**% of NAV**
BPCE cms Perp	Less Liquid Relative Value	6.5%
Onesavings Perp-22	Midcap Origination	5.3%
Achmea 6% Perp	Less Liquid Relative Value	4.6%
BNP Paribas 4.875% Perp	Less Liquid Relative Value	4.5%
Coventry BS Perp-19	Liquid Relative Value	3.4%
Aareal FRN Perp	Special Situation	3.3%
Commerzbank 2031	Liquid Relative Value	3.2%
HSBC frn Perp	Special Situation	2.8%
Onesavings Perp-16	Less Liquid Relative Value	2.7%
Credit Logement frn	Less Liquid Relative Value	2.4%

5. Company metrics

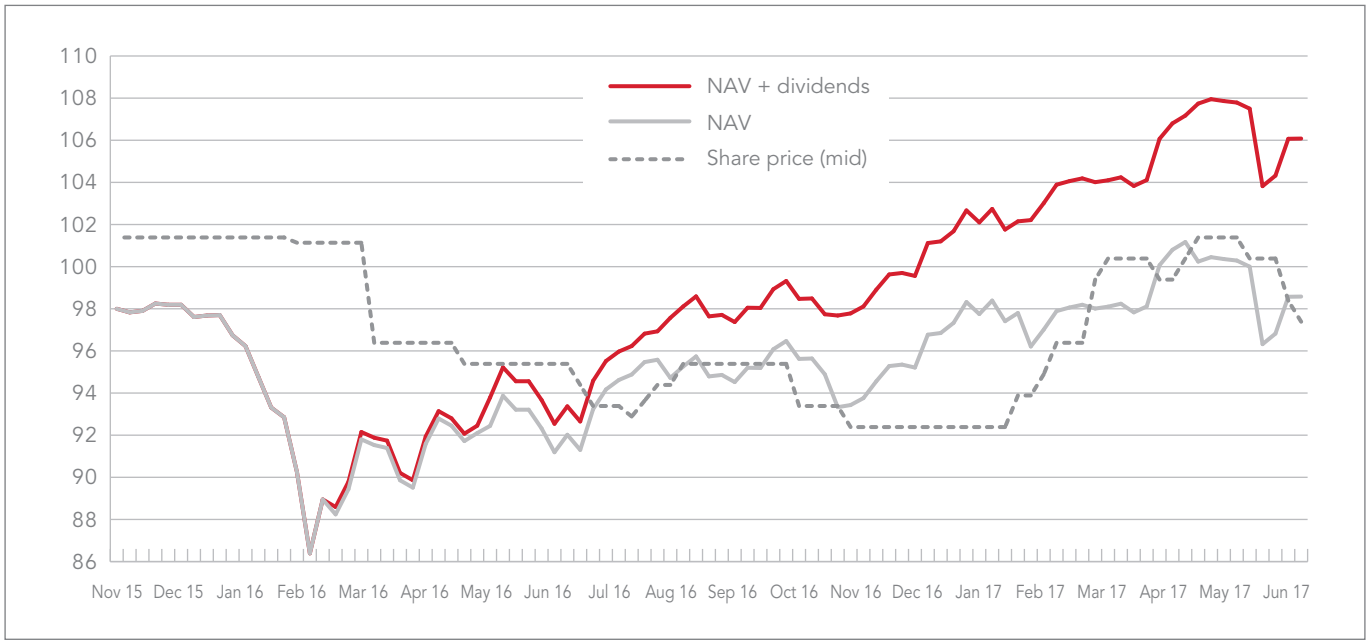
Share price and NAV	GBp	Portfolio information	
Share price (mid)	97.50	Modified duration*	1.26
NAV per share (weekly)	98.88	Sensitivity to credit*	2.97
Dividends paid over last 12 months	6.15	Positions	82
Share in issue	60,930,764	Average price	94.58
Market capitalisation (GBP mn)	59.407	Running yield	5.60%
Total net assets (GBP mn)	60.246	Yield to perpetuity*	4.85%
Premium/(Discount)	(1.40)%	Yield to call*	10.21%

As of 30 June 2017:
**"Modified duration" measures the sensitivity of bond prices to interest rates*
"Sensitivity to credit" measures the sensitivity of bond prices to credit spreads
"Yield to call" is the yield of the portfolio at the expected repayment date of the bonds
"Yield to perpetuity" is the yield of the portfolio assuming that securities are not repaid but kept outstanding to perpetuity.

Performance – Total Shareholder Return (growth in NAV plus dividends, per share paid in the period)			
3 months	6 months	1 year	Since inception
2.32%	7.16%	14.14%	8.55%

Monthly Performance – Total Shareholder Return (growth in NAV plus dividends, per share paid in the period)													
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Annual perf.
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%	2.92%
2017	2.67%	0.93%	1.12%	2.01%	1.72%	-1.41%							7.16%

6. NAV evolution



7. Outlook

Over the last six months, several risks have receded in the banking sector: rates have started to increase, the Eurozone breakup premium disappeared after Macron's election and certain issues with the riskiest banks have been resolved. All these developments point towards a sustained normalisation of the banking sector in a context of historic levels as well as types of bank capital.

The recycling of old capital structures continues. Legacy instruments are either called, as we saw for Socgen, Bank of Ireland, Banco BPM, BBVA, and BPCE, or tendered like Groupama, Old Mutual, and Credit Agricole. Furthermore, new instruments are issued: AT1s or T2s by frequent issuers but also smaller names like OneSavings Bank, Deutsche Pfandbriefbank, Credito Emiliano.

Our outlook for the sector remains constructive, even after the strength of the first half of 2017. Calls (RBI expected in Q4), tenders (HSBC), and new issuance will continue. A number of issuers in the banking sector, whether incumbent or disruptive players, have been identified as willing to issue hybrid capital instruments.

Insurers have also begun to share their capital strategy towards Solvency 2 through their Solvency and Financial Condition Reporting disclosure. We expect further attractive opportunities to come from this sector over the medium term.

Gildas Surry
Axiom Alternative Investments SARL
10 August 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the unaudited half-yearly report and condensed financial statements, which have not been audited or reviewed by an independent auditor, and are required to:

- prepare the unaudited half-yearly financial statements in accordance with Disclosure and Transparency Rules ("DTR") 4.2.4R and International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union;
- include a fair review of the information required by DTR 4.2.7R, being important events that have occurred during the period and their impact on the unaudited half-yearly report and condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- include a fair review of information required by DTR 4.2.8R, being related party transactions that have taken place during the period which have had a material effect on the financial position or performance of the Company.

The Directors confirm that the unaudited half-yearly report and condensed financial statements comply with the above requirements.

On behalf of the Board.

William Scott
Chairman
10 August 2017

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2017

	Note	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Period from 7 October 2015 to 30 June 2016 (unaudited) £'000
Income			
Bond income		1,251	2,067
Credit default swap income		364	18
Bank interest receivable		5	–
Total income		**1,620**	**2,085**
Investment gains and losses on investments held at fair value through profit or loss			
Realised gains on disposal of bonds	*12*	2,571	71
Movement in unrealised (losses)/gains on bonds	*12*	(2,142)	1,637
Realised gains/(losses) on derivative financial instruments	*15*	431	(2,016)
Movement in unrealised gains/(losses) on derivative financial instruments	*15*	2,010	(2,979)
Total investments gains and losses		**2,870**	**(3,287)**
Expenses			
Investment management fee	*8a*	(213)	(210)
Administration fee	*8b*	(61)	(80)
Directors' fees	*8f*	(47)	(62)
Other expenses	*9*	(137)	(214)
Total expenses		**(458)**	**(566)**
Profit/(loss) from operating activities before gains and losses on foreign currency transactions		**4,032**	**(1,768)**
Gain/(loss) on foreign currency		395	(385)
Profit/(loss) from operating activities after gains and losses on foreign currency transactions and before taxation		**4,427**	**(2,153)**
Taxation	*10*	(33)	(13)
Profit/(loss) for the period attributable to the Owners of the Company		**4,394**	**(2,166)**
Earnings/(loss) per Ordinary Share – *basic and diluted*	*11*	**7.21p**	**(4.11)p**

All of the items in the above statement are derived from continuing operations.
The accompanying notes on pages 16 to 40 form an integral part of these unaudited condensed half-yearly financial statements.
These financial statements are unaudited and are not the Company's statutory financial statements.

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017

	Note	Share capital (unaudited) £'000	Distributable reserves (unaudited) £'000	Total (unaudited) £'000
At 1 January 2017		–	58,010	58,010
Profit for the period		–	4,394	4,394
Contributions by and distributions to Owners				
Share issue costs	*18*	–	(239)	(239)
Dividends paid	*6*	–	(1,919)	(1,919)
At 30 June 2017		**–**	**60,246**	**60,246**

The accompanying notes on pages 16 to 40 form an integral part of these unaudited condensed half-yearly financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

for the period from 7 October 2015 (date of incorporation) to 30 June 2016

	Note	Share capital (unaudited) £'000	Distributable reserves (unaudited) £'000	Total (unaudited) £'000
Opening balance at 7 October 2015		–	–	–
Loss for the period from incorporation to 30 June 2016		–	(2,166)	(2,166)
Contributions by and distributions to Owners				
Ordinary Shares issued	*18*	–	54,289	54,289
Share issue costs		–	(1,080)	(1,080)
Dividends paid	*6*	–	(724)	(724)
At 30 June 2016		**–**	**50,319**	**50,319**

The accompanying notes on pages 16 to 40 form an integral part of these unaudited condensed half-yearly financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June 2017

	Note	30 June 2017 (unaudited) £'000	31 December 2016 (audited) £'000
Non-current assets			
Investment in bonds at fair value through profit or loss	*12, 16*	59,867	49,145
Current assets			
Collateral accounts for derivative financial instruments at fair value through profit or loss	*13*	5,374	4,548
Derivative financial assets at fair value through profit or loss	*15*	800	207
Other receivables and prepayments	*14*	838	825
Cash and cash equivalents		–	6,152
Total current assets		7,012	11,732
Total assets		**66,879**	**60,877**
Current liabilities			
Derivative financial liabilities at fair value through profit or loss	*15*	(3,022)	(2,626)
Other payables and accruals	16	(331)	(241)
Cash and cash equivalents		(3,280)	–
Total liabilities		**(6,633)**	**(2,867)**
Net assets		**60,246**	**58,010**
Share capital and reserves			
Share capital	*18*	–	–
Distributable reserves		60,246	58,010
Total equity holders' funds		**60,246**	**58,010**
Net asset value per Ordinary Share: *basic and diluted*	*19*	**98.88p**	**95.21p**

These unaudited condensed half-yearly financial statements were approved by the Board of Directors on 10 August 2017 and were signed on its behalf by:

William Scott
Chairman
10 August 2017

John Renouf
Director
10 August 2017

The accompanying notes on pages 16 to 40 form an integral part of these unaudited condensed half-yearly financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2017

	Note	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Period from 7 October 2015 to 30 June 2016 (unaudited) £'000
Cash flows from operating activities			
Net profit/(loss) before taxation		4,427	(2,153)
Adjustments for:			
Foreign exchange movements		(395)	385
Realised gains on bonds	*12*	(2,571)	(71)
Movement in unrealised losses/(gains) on bonds	*12*	2,142	(1,637)
Realised (gains)/losses on derivative financial instruments	*15*	(431)	2,016
Movement in unrealised (gains)/losses on derivative financial instruments	*15*	(2,010)	2,979
Increase in operating assets:			
Payment to collateral accounts for derivative financial instruments	*13*	(826)	(1,714)
Purchase of bonds	*12*	(76,856)	(85,517)
Sale of bonds	*12*	66,565	36,563
Increase in operating liabilities:			
Premiums received from selling credit default swap agreements	*15*	1,402	634
Premiums paid on buying credit default swap agreements	*15*	(1,705)	–
Purchase of foreign currency derivatives	*15*	(90,777)	(73,920)
Close-out of foreign currency derivatives	*15*	90,279	72,018
Purchase of bond futures	*15*	1,068	1,377
Sale of bond futures	*15*	(990)	(1,343)
Proceeds from sale and repurchase agreements	*15*	8,043	5,918
Payments to close out sale and repurchase agreements	*15*	(5,078)	(3,554)
Net cash outflow from operating activities before working capital changes		(7,713)	(48,019)
Increase in other receivables and prepayments		(13)	(815)
Increase in other payables and accruals		43	236
Taxation paid	*10*	(33)	(13)
Net cash outflow from operating activities		**(7,716)**	**(48,611)**
Cash flows from financing activities			
Proceeds from issue of Ordinary Shares		–	54,289
Share issue costs paid		(192)	(1,080)
Dividends paid	*6*	(1,919)	(724)
Net cash (outflow)/inflow from financing activities		**(2,111)**	**52,485**
(Decrease)/increase in cash and cash equivalents		**(9,827)**	**3,874**
Cash and cash equivalents brought forward		6,152	–
Effect of foreign exchange on cash and cash equivalents		395	(385)
Cash and cash equivalents carried forward		**(3,280)**	**3,489**
Supplemental disclosure of cash flow information			
Cash paid during the period for interest		989	1,386
Cash received during the period for interest		2,595	2,614

The accompanying notes on pages 16 to 40 form an integral part of these unaudited condensed half-yearly financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 30 June 2017

1. General information

The Company was incorporated as an authorised closed-ended investment Company, under the Law on 7 October 2015 with registered number 61003. Its Ordinary Shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 5 November 2015.

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.

Following the change of investment policy, the Company is permitted to invest in instruments issued by, or referenced to, (i) financial institutions in the EEA (i.e. including countries other than the UK and the members of the EU, as per the Company's original investment mandate) and Switzerland and (ii) entities which are not financial institutions in the EEA or Switzerland, but which are subsidiaries, at the time of investment, of such institutions.

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 may also be subscribed in the primary market where the Investment Manager, Axiom, identifies attractive opportunities.

The Investment Manager identified a number of instruments issued by (i) financial institutions in the EEA (i.e. including countries other than the UK and the members of the EU, as per the Company's original investment mandate) and Switzerland and (ii) entities which are not financial institutions but which are subsidiaries of such institutions in which it considered that the Company ought to be permitted to invest. At the AGM it was resolved that the Company's investment policy be amended to allow the Company to invest in such instruments.

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

2. Statement of compliance

a) Basis of preparation

These unaudited condensed half-yearly financial statements present the results of the Company for the six months ended 30 June 2017. These unaudited condensed half-yearly financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

The unaudited condensed half-yearly financial statements for the period ended 30 June 2017 have not been audited or reviewed by the Company's auditors and do not constitute statutory financial statements. They have been prepared on the same basis as the Company's annual financial statements.

These unaudited condensed half-yearly financial statements were authorised for issuance by the Board of Directors on 10 August 2017.

2. Statement of compliance *(continued)*

b) Going concern

After making reasonable enquiries, and assessing all data relating to the Company's liquidity, including its 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. Therefore, the unaudited condensed half-yearly financial statements have been prepared on a going concern basis.

c) Basis of measurement

These unaudited condensed half-yearly financial statements have been prepared on a historical cost basis, except for financial instruments (including derivative financial instruments), which are measured at fair value through profit or loss. These unaudited condensed half-yearly financial statements have been prepared on a going concern basis.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs 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. 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. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the unaudited condensed half-yearly financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

3. Significant accounting policies

a) Income and expenses

Bank interest, bond income and credit default swap income is recognised on a time-proportionate basis.

Dividend income is recognised when the right to receive payment is established.

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) are charged through the Statement of Comprehensive Income in the period in which they are incurred.

b) Transaction costs

Transaction costs incurred on the acquisition or disposal of a financial investment designated at fair value through profit or loss will be charged through the Statement of Comprehensive Income in the period in which they are incurred.

c) 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 30 June 2017 were £1/€1.1398, £1/US$1.3025, £1/DKK8.4792, £1/CA$1.6883 and £1/SEK10.9745.

3. Significant accounting policies *(continued)*

d) Taxation

The Directors intend to conduct the Company's affairs such that the Company continues to qualify for exemption from Guernsey taxation.

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

The Company holds investments in several European countries, in some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Company presents the withholding tax separately from the gross investment income in the Statement of Comprehensive Income. For the purpose of the Statement of Cash Flows, cash inflows from investments are presented net of withholding taxes when applicable.

e) Financial assets and liabilities

The financial assets and liabilities of the Company are investments in bonds 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. These financial instruments are designated 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.

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 dividend earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense.

3. Significant accounting policies *(continued)*

e) Financial assets and liabilities *(continued)*

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

The Company records its transactions in bonds 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 the legal right of offset exists, and is not offset by collateral pledged to or received from counterparties.

f) Derivative financial instruments

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. 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.

Fair value movements on derivative financial instruments are recognised in the Statement of Comprehensive Income in the period in which they arise.

g) Offsetting of derivative assets and liabilities

IFRS 7, Financial Instruments: Disclosures, requires an entity to disclose information about offsetting rights and related arrangements. The disclosures in note 15 provide users with information to evaluate the effect of netting arrangements on an entity's financial position. The disclosures are required for all recognised financial instruments that could be offset in accordance with International Accounting Standard ("IAS") 32, Financial Instruments Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether these are offset in accordance with IAS 32.

h) 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 comprises 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.

i) Receivables and prepayments

Receivables are carried at the original invoice amount, less allowance for doubtful receivables. Provision is made when there is objective evidence that the Company will be unable to recover balances in full. Balances are written-off when the probability of recovery is assessed as being remote.

There are instruments in the portfolio that do not pay any distributions because the payment remains at the discretion of the issuer, or is under regulatory or state aid restrictions. These are not classified as "bad debts".

With respect to senior debt only:

- If bond interest has not been received within 30 calendar days of the expected pay date, unless there is good reason, 50% of the interest will be provided against; and
- If bond interest has not been received within 60 calendar days of the expected pay date, unless there is good reason, 100% of the interest will be provided against.

Bad debts will be considered on an investment by investment basis and no general provision will be made.

3. Significant accounting policies *(continued)*

j) 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.

k) Payables and accruals

Trade and other payables are carried at payment or settlement amounts. Where the time value of money is material, payables are carried at amortised cost. When payables are received in currencies other than the reporting currency, they are carried forward, translated at the rate prevailing at the period end date.

l) 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 retained earnings.

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.

m) Distributable and non-distributable reserves

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

n) 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 period end.

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

o) Changes in accounting policy and disclosures

New and amended standards and interpretations

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

IAS 7 Statement of Cash Flows

The adoption of the above standard did not have an impact on the financial position or performance of the Company.

p) Accounting standards issued but not yet effective

The International Accounting Standards Board ("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 2	Share-based payments	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

3. Significant accounting policies *(continued)*

p) Accounting standards issued but not yet effective *(continued)*

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* that replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. During 2016, the Company performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its statement of financial position and equity, and will perform a more detailed assessment in 2017.

i. Classification and measurement

The Company does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets and liabilities currently held at fair value.

ii. Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all investment income and other receivables. Given that investment income and other receivables have not been impaired to date, the Company does not expect there to be a significant impact on its equity from reviewing the expected credit losses on investment income and other receivables over their lifetimes, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

iii. Hedge accounting

The Company does not currently designate any hedges as effective hedging relationships which qualify for hedge accounting. Therefore, the Company does not expect there to be any impact with respect to hedge accounting on the Company as a result of applying IFRS 9.

The impact that IFRS 15 will have on the Company's financial statements is also considered to be immaterial because the Company does not have any contracts with customers which meet the definition under IFRS 15.

4. Use of judgements and estimates

The preparation of the Company's unaudited condensed half-yearly financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the unaudited condensed half-yearly financial statements and disclosure of contingent liabilities. 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.

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 unaudited condensed half-yearly financial statements:

i) Determination of functional currency

The performance of the Company is measured and reported to investors in Sterling. Although the majority 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.

4. Use of judgements and estimates *(continued)*

Estimates and assumptions

The Company based its assumptions and estimates on parameters available when the unaudited condensed half-yearly 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.

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. 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 which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company has declared the following dividends in respect of the earnings for the period ended 30 June 2017:

Announcement date	Pay date	Total dividend declared in respect of earnings in the period £'000	Amount per Ordinary Share
19 January 2017	24 February 2017	1,005	1.65p
11 April 2017	12 May 2017	914	1.50p
Dividends declared and paid in the period		1,919	
Dividends declared and paid after the period end			
19 July 2017	25 August 2017	914	1.50p

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the period a total of £1,919,000 was incurred in respect of dividends, none of which was outstanding at the reporting date. The second dividend of £914,000 in respect of the earnings during the period had not been provided for at 30 June 2017 as, in accordance with IFRS, it was not deemed to be a liability of the Company at that date.

7. Related parties

Details of the relationships between the Company, the Investment Manager, the Administrator, the Broker, the Registrar, the Depositary and the Directors are disclosed in note 8.

As at 30 June 2017, the Company had holdings in the following investments which were managed by the Investment Manager:

	30 June 2017			31 December 2016		
	Holding	Cost £'000	Value £'000	Holding	Cost £'000	Value £'000
Axiom Premium Multi Strategies	1,739	2,146	2,226	–	–	–
Axiom Contingent Capital	–	–	–	2,000	1,459	1,831
Axiom Equity C FCP	–	–	–	740	420	556

During the period, the Company sold 2,000 units in Axiom Contingent Capital for £1,985,000, realising a gain of £526,000 (30 June 2016 and 31 December 2016: sold 910 units realising £9,000).

During the period, the Company sold 740 units in Axiom Equity C FCP for £545,000, generating a realised gain of £125,000.

The Directors are not aware of any ultimate controlling party.

8. Key contracts

a) Investment Manager

The Company has entered into an Investment Management Agreement with Axiom Alternative Investments SARL ("Axiom") 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.

If in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company 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.

During the period, a total of £213,000 (30 June 2016: £210,000) was incurred in respect of Investment Management fees, of which £113,000 (31 December 2016: £72,000) was payable at the reporting date.

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 Total Shareholder Return ("TSR") where TSR is defined as growth in NAV per share plus dividends per share paid.

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Performance fee (continued)

The performance fee, if any, is equal to 15% of TSRs in excess of a hurdle equal to a 7% per annum cumulative return since Admission, compounded annually. The performance fee is subject to a high watermark. The fee, if any, is payable annually and calculated on the basis of audited annual accounts.

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.

During the period, no performance fee was incurred by the Company and there was no balance accrued at the period end date.

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.

In the period ended 30 June 2017 the Quarterly Expenses Excess and annual expenses excess which would be repayable was £300,000 (31 December 2016: £231,000).

b) Administrator and Company Secretary

Elysium Fund Management Limited has been appointed by the Company to provide day to day administration services to the Company, to calculate the NAV per share on a weekly basis 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 time-based fee for any work undertaken in connection with the calculation of the weekly NAV, up to a maximum of £400 per NAV calculation, subject to a maximum aggregate amount of £10,000 per annum. The Administrator is also to be paid a one-off fee of £35,000 in relation to the new Prospectus issued in March 2017. The £35,000 is included in share issue costs in the Unaudited Condensed Statement of Changes in Equity.

8. Key contracts *(continued)*

b) Administrator and Company Secretary *(continued)*

During the period, a total of £61,000 (30 June 2016: £80,000) was incurred in respect of Administration fees and £65,000 (31 December 2016: £30,000) was payable to the Administrator at the reporting date.

c) Broker

Liberum Capital Limited ("Liberum") has been appointed to act as Corporate Broker ("Broker") for the Company. In consideration of Liberum agreeing to act as Broker the Company pays Liberum an annual retainer fee of £75,000 per annum, paid equally in two instalments on 1 January and 1 July each year. For the period ended 30 June 2017, the Company had paid £38,000 (30 June 2016: £49,000) in respect of Broker fees. At the period end date there was no outstanding balance due to or from Liberum.

d) Registrar

Capita Registrars (Guernsey) Limited has been appointed 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 period, a total of £10,000 (30 June 2016: £12,000, 31 December 2016: £20,000) was incurred in respect of Registrar fees, of which £4,000 was payable at 30 June 2017 (30 June 2016: £2,000, 31 December 2016: £4,000).

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 period, a total of £11,000 (30 June 2016: £12,000) was incurred in respect of depositary fees, and £21,000 (31 December 2016: £11,000) was payable to the Depositary at the reporting date.

CACEIS Bank Luxembourg is entitled to receive a monthly fee from the Company in respect of the provision of certain accounting services which will, subject to a minimum monthly fee of €1,800, be calculated by reference to the following sliding scale:

i. where NAV is less than or equal to €50 million, 0.04% per annum of NAV;

ii. where NAV is greater than €50 million but less than or equal to €100 million, 0.04% per annum on the first £50 million of the NAV and 0.03% per annum of the remainder of the NAV; and

iii. where NAV is greater than €100 million, 0.04% per annum on the first €50 million of the NAV, 0.03% per annum on the NAV from €50 million to €100 million and 0.02% per annum of NAV above €100 million, in each case, plus applicable VAT.

During the period, a total of £12,000 (30 June 2016: £14,000) was incurred in respect of fees paid to CACEIS Bank Luxembourg, of which £9,000 was payable at 30 June 2017 (31 December 2016: £9,000).

8. Key contracts *(continued)*

f) Directors' remuneration

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

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

During the period, a total of £47,000 (30 June 2016: £62,000) was incurred in respect of Directors' fees, of which £24,000 (31 December 2016: £24,000) was payable at the reporting date. No bonus or pension contributions were paid or payable on behalf of the Directors.

9. Other expenses

	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Period from 7 October 2015 to 30 June 2016 (unaudited) £'000
Broker fees *(note 8c)*	38	49
Depositary fees (including valuation agent fees) *(note 8e)*	35	40
PR expenses	21	43
Audit fees	12	14
Registrar fees *(note 8d)*	10	12
Bank charges and interest	8	26
Other expenses	11	30
	137	**214**

10. 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 for the exemption of £1,200 per annum.

The Company has a number of investments in bonds issued in Italy. Until 6 September 2016, as a Guernsey registered Company, any income received on Italian bonds suffered Italian withholding tax at 26%. In addition, Italian withholding tax was calculated, by the Depositary, and either charged or received on the purchase or sale of bond interest bought or sold with bonds at a rate of 26%. From 6 September 2016, foreign investors resident in Guernsey became entitled to benefit from exemption on interests on Italian Government and Corporate bonds and therefore no further Italian withholding tax should be payable.

11. Earnings per Ordinary Share

The earnings per Ordinary Share of 7.21p (30 June 2016: loss of 4.11p) is based on a profit attributable to owners of the Company of £4,394,000 (30 June 2016: loss of £2,166,000) and on a weighted average number of 60,930,764 (30 June 2016: 52,702,190) Ordinary Shares in issue since 1 January 2017. There is no difference between the basic and diluted earnings per share.

12. Investments in bonds at fair value through profit or loss

	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Period from 7 October 2015 to 30 June 2016 (unaudited) £'000	Period from 7 October 2015 to 31 December 2016 (audited) £'000
Opening balance	49,145	–	–
Additions in the period	76,857	85,517	124,470
Sales in the period	(66,564)	(36,563)	(80,520)
Movement in unrealised (losses)/gains in the period	(2,142)	1,637	2,197
Movement in realised gains in the period	2,571	71	2,998
	59,867	**50,662**	**49,145**
Closing book cost	62,009	49,025	46,948
Closing unrealised (loss)/gain on bonds at fair value through profit or loss	(2,142)	1,637	2,197
	59,867	**50,662**	**49,145**

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

	30 June 2017 (unaudited) £'000	31 December 2016 (audited) £'000
Goldman Sachs International	1,221	2,723
JP Morgan	3,440	1,550
Credit Suisse	602	162
CACEIS Bank France	111	116
Total collateral held by brokers	**5,374**	**4,548**

With respect to derivatives, the Company pledges to third parties cash and/or other liquid securities ("Collateral") 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 derivative 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 in respect of the derivatives.

14. Other receivables and prepayments

	30 June 2017 (unaudited) £'000	31 December 2016 (audited) £'000
Accrued bond interest receivable	804	794
Interest due on credit default swaps	18	18
Other receivables and prepayments	16	13
	838	**825**

15. 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 International Swaps and Derivatives Association ("ISDA") establishes the nature of the credit event and such events include bankruptcy and failure to meet payment obligations when due.

	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Period from 7 October 2015 to 30 June 2016 (unaudited) £'000	Period from 7 October 2015 to 31 December 2016 (audited) £'000
Opening balance	(2,238)	–	–
Premiums received from selling credit default swap agreements	(1,402)	(634)	(3,675)
Premiums paid on buying credit default swap agreements	1,705	–	1,035
Movement in unrealised gains/(losses) in the period	1,660	(141)	304
Realised gains in the period	802	–	98
Outstanding asset/(liability) due on credit default swaps	**527**	**(775)**	**(2,238)**
Credit default swap assets at fair value through profit or loss	936	–	137
Credit default swap liabilities at fair value through profit or loss	(409)	(775)	(2,375)
Outstanding asset/(liability) due on credit default swaps as at the period end	**527**	**(775)**	**(2,238)**

Interest paid or received on the credit default swap agreements has been accounted for in the Unaudited Condensed Statement of Comprehensive Income as it has been incurred or received. At the period end, £18,000 (30 June 2016: £4,000, 31 December 2016: £18,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £5,263,000 (30 June 2016: £1,598,000, 31 December 2016: £4,435,000) was held in respect of the credit default swap agreements.

15. Derivative financial instruments *(continued)*

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.

	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Period from 7 October 2015 to 30 June 2016 (unaudited) £'000	Period from 7 October 2015 to 31 December 2016 (audited) £'000
Opening balance	(190)	–	–
Purchase of foreign currency derivatives	90,777	73,920	159,249
Closing-out of foreign currency derivatives	(90,279)	(72,018)	(153,270)
Movement in unrealised gains/(losses) in the period	460	(2,840)	(190)
Realised losses in the period	(498)	(1,902)	(5,979)
Outstanding asset/(liability) due on credit default swaps at the period end	**270**	**(2,840)**	**(190)**
Foreign currency forward assets at fair value through profit or loss	271	–	60
Foreign currency forward liabilities at fair value through profit or loss	(1)	(2,840)	(250)
Net assets/(liabilities) on foreign currency forwards	**270**	**(2,840)**	**(190)**

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.

	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Period from 7 October 2015 to 30 June 2016 (unaudited) £'000	Period from 7 October 2015 to 31 December 2016 (audited) £'000
Opening balance	9	–	–
Purchase of bond futures	990	1,343	2,552
Sale of bond futures	(1,068)	(1,377)	(2,596)
Movement in unrealised gains in the period	2	92	–
Realised gains in the period	70	(53)	53
Balance receivable on bond futures	**3**	**5**	**9**
Bond future assets at fair value through profit or loss	7	10	10
Bond future liabilities at fair value through profit or loss	(4)	(5)	(1)
Balance receivable on bond futures	**3**	**5**	**9**

15. Derivative financial instruments *(continued)*

Sale and repurchase agreements

Under the terms of a sale and repurchase agreement ("repo") 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 repo. 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.

	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Period from 7 October 2015 to 30 June 2016 (unaudited) £'000	Period from 7 October 2015 to 31 December 2016 (audited) £'000
Opening balance	–	–	–
Opening of sale and repurchase agreements	(8,043)	(5,918)	(5,918)
Closing-out of sale and repurchase agreements	5,078	3,554	6,077
Movement in unrealised gains in the period	(113)	(90)	–
Realised profit/(loss) in the period	56	(61)	(159)
Total liabilities on sale and repurchase agreements	**(3,022)**	**(2,515)**	**–**

Interest paid on sale and repurchase agreements has been accounted for in the Unaudited Condensed Statement of Comprehensive Income as it has been incurred. At 30 June 2017 £nil interest (30 June 2016: £2,000, 31 December 2016: £nil) on sale and repurchase agreements was payable by the Company.

Offsetting of credit default swap agreements

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 Unaudited Condensed 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.

15. Derivative financial instruments *(continued)*

Offsetting of credit default swap agreements (continued)

The table below sets out the carrying amounts of recognised financial assets and liabilities that are subject to the above arrangements, together with amounts held or pledged against these assets and liabilities:

30 June 2017 (unaudited)	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Unaudited Condensed Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Unaudited Condensed Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
Financial assets					
Derivatives	800	–	800	–	800
Collateral held	5,374	–	5,374	–	5,374
Total assets	**6,174**	**–**	**6,174**	**–**	**6,174**
Financial liabilities					
Derivatives	(3,022)	–	(3,022)	–	(3,022)
Total liabilities	**(3,022)**	**–**	**(3,022)**	**–**	**(3,022)**
31 December 2016 (audited)					
Financial assets					
Derivatives	207	–	207	–	207
Collateral held	4,548	–	4,548	(2,559)	1,989
Total assets	**4,755**	**–**	**4,755**	**(2,559)**	**2,196**
Financial liabilities					
Derivatives	(2,626)	–	(2,626)	2,559	(67)
Total liabilities	**(2,626)**	**–**	**(2,626)**	**2,559**	**(67)**

16. 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 the period end, the financial assets and liabilities designated at fair value through profit or loss were as follows:

30 June 2017 (unaudited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed bonds	55,840	4,027	–	59,867
Credit default swaps	–	527	–	527
Derivative financial instruments	3	270	–	273
Sale and repurchase agreements	–	(3,022)	–	(3,022)
	55,843	**1,802**	**–**	**57,645**
31 December 2016 (audited)				
Listed bonds	47,467	1,678	–	49,145
Credit default swaps	–	(2,238)	–	(2,238)
Derivative financial instruments	9	(190)	–	(181)
	47,476	**(750)**	**–**	**46,726**

Level 1 financial instruments include listed bonds 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 credit default swap agreements, foreign currency forward contracts and sale and repurchase agreements. Each of these financial investments are valued by the Investment Manager using market observable inputs. The fair value of these securities may be based on, but are not limited to, the following inputs: market price of the underlying securities; notional amount; expiration date; fixed and floating interest rates; payment schedules; and/or dividends declared.

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 foreign currency forward contracts are based on the forward foreign exchange rate curve.

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

Transfers between levels

Transfers between levels during the period are determined and deemed to have occurred at each financial reporting date. There were no investments classified as Level 3 during the period, and no transfers between levels in the period. See notes 12, 13 and 15 for movements in instruments held at fair value through profit or loss.

17. Other payables and accruals

	30 June 2017 (unaudited) £'000	31 December 2016 (audited) £'000
Investment management fee *(note 8a)*	113	72
Other accruals	76	75
Administration fee *(note 8b)*	65	30
Depositary fees *(note 8e)*	30	11
Directors' fees *(note 8f)*	24	24
Audit fees	19	25
Registrar fees *(note 8d)*	4	4
	331	**241**

18. Share capital

	30 June 2017 (unaudited) Number	£'000
Authorised:		
Ordinary shares of no par value	Unlimited	–
Allotted, called up and fully paid:		
Ordinary Shares of no par value	60,930,764	–

	31 December 2016 (audited) Number	£'000
Authorised:		
Ordinary shares of no par value	Unlimited	–
Allotted, called up and fully paid:		
Ordinary Shares of no par value	60,930,764	–

In May 2017, the Company renewed the Placing Programme for a period of one year. The £239,000 costs associated with this have been taken directly to distributable reserves through the Statement of Changes in Equity. If no shares are issued within the duration of the Placing Programme, these costs will be re-allocated to profit and loss in the Statement of Comprehensive Income.

At the initial placing, on 3 November 2015 the Company issued 50,737,667 Ordinary Shares of no par value for £1.00 each, raising proceeds of £50.74 million.

On 4 March 2016 the Company raised £3.55 million through the placing of 3,945,555 new Ordinary Shares of no par value. The Ordinary Shares were issued at a price of 90.00p per share. The NAV per share at close of business on 4 March 2016 was 89.49p per share.

18. Share capital *(continued)*

On 4 October 2016 the Company raised a further £6.03 million through the placing of 6,247,542 new Ordinary Shares of no par value. The Ordinary Shares were issued at a price of 96.50p per share. The NAV per share on 30 September 2016 (the closest NAV date prior to the date of issue of the Ordinary Shares) was 94.52p per share.

At 30 June 2017, the total number of Ordinary Shares in issue was 60,930,764 (31 December 2016: 60,930,764).

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 Share held.

19. Net asset value per Ordinary Share

The net asset value per Ordinary Share is based on the net assets attributable to owners of the Company of £60,246,000 (31 December 2016: £58,010,000), and on 60,930,764 (31 December 2016: 60,930,764) Ordinary Shares in issue at the period end.

20. Financial instruments and risk management

The Investment Manager manages the Company's portfolio to provide Shareholders with 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.

Following the change of investment policy, the Company is permitted to invest in instruments issued by, or referenced to, (i) financial institutions in the EEA (i.e. including countries other than the UK and the members of the EU, as per the Company's original investment mandate) and Switzerland and (ii) entities which are not financial institutions in the EEA or Switzerland, but which are subsidiaries, at the time of investment, of such institutions.

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, and the Board of Directors receives regular risk reports from the Investment Manager.

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.

The market in which the Company participates is competitive and rapidly changing.

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

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 position 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 investments, 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 bonds and bond futures at fair value through profit or loss (see notes 12, 15 and 16) are exposed to price risk and it is not the intention to mitigate the price risk.

At 30 June 2017, 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 +/- £2,993,000 (31 December 2016: £2,458,000). The maximum price risk resulting from financial instruments is equal to the £59,867,000 (31 December 2016: £49,145,000) carrying value of investments at fair value through profit or loss.

The Investment Manager manages price risk by investing in a diverse portfolio of bonds, in line with the Prospectus. At 30 June 2017, the bond rating profile of the portfolio as detailed in the Investment Manager's Report was as follows:

	30 June 2017 Percentage	31 December 2016 Percentage
A	5.23	2.82
BBB	26.74	17.07
BB	45.82	54.11
B	10.66	14.10
CCC and below	11.55	6.49
No rating	–	5.40
	100.00	**100.00**

20. 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 period. At 30 June 2017, the Company held the following foreign currency forward contracts:

Maturity date	Amount to be sold	Amount to be purchased
14 September 2017	€27,388,000	£24,113,000
14 September 2017	US$16,541,000	£12,915,000
14 September 2017	DKK5,737,000	£678,000
14 September 2017	CA$1,147,000	£678,000

As at the period end a proportion of the net financial assets of the Company were denominated in currencies other than Sterling, as follows:

30 June 2017 (unaudited)	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
Euros	29,661	440	(4,418)	25,683	(24,077)	1,606
US Dollars	14,521	169	(2,525)	12,165	(12,681)	(516)
Danish Krone	631	43	–	674	(678)	(4)
Canadian Dollars	674	9	–	683	(679)	4
	45,487	661	(6,943)	39,205	(38,115)	1,090
31 December 2016 (audited)						
Euros	20,651	495	2,613	23,759	(22,902)	857
US Dollars	15,318	137	92	15,547	(16,938)	(1,391)
Danish Krone	1,084	19	457	1,559	(1,548)	11
Canadian Dollars	646	10	39	695	(670)	25
	37,699	661	3,201	41,561	(42,058)	(497)

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 30 June 2017, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 30 June 2017 would have decreased/increased by £54,000 (31 December 2016: £25,000).

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

Market risk (continued)

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. However, due to the fixed rate nature of some of the bonds, cash and cash equivalents of £(3,280,000) (31 December 2016: £6,152,000) and investment in bonds of £32,443,000 (31 December 2016: £7,878,000) were the only interest bearing financial instruments subject to variable interest rates at 30 June 2017. 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 period would have been £51,000/£(31,000) (31 December 2016: £41,000/£(64,000)).

30 June 2017 (unaudited)	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments in bonds at fair value through profit or loss	14,914	32,443	12,510	59,867
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	–	5,374	5,374
Derivative financial assets at fair value through profit or loss	527	–	273	800
Other receivables	–	–	804	804
Total financial assets	**15,441**	**32,443**	**18,961**	**66,845**
Financial liabilities				
Derivative financial liabilities at fair value through profit or loss	(3,022)	–	–	(3,022)
Other payables and accruals	–	–	(331)	(331)
Cash and cash equivalents	–	(3,280)	–	(3,280)
Total financial liabilities	**(3,022)**	**(3,280)**	**(331)**	**(6,633)**
Total interest sensitivity gap	**12,419**	**29,163**	**18,630**	**60,212**
31 December 2016 (audited)				
Financial assets				
Investments in bonds at fair value through profit or loss	34,796	7,878	6,471	49,145
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	–	4,548	4,548
Other receivables	–	–	812	812
Cash and cash equivalents	–	6,152	–	6,152
Total financial assets	**34,796**	**14,030**	**11,831**	**60,657**
Financial liabilities				
Derivative financial liabilities at fair value through profit or loss	(2,238)	–	(181)	(2,419)
Other payables and accruals	–	–	(241)	(241)
Total financial liabilities	**(2,238)**	**–**	**(422)**	**(2,660)**
Total interest sensitivity gap	**32,558**	**14,030**	**11,409**	**57,997**

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

Market risk (continued)

iii. Interest rate risk (continued)

It is estimated that the fair value of the bonds at 30 June 2017 would increase/decrease by +/-£377,000 (0.63%) (31 December 2016: +/-£521,000 (1.06%)) 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 30 June 2017, credit risk arose principally from cash and cash equivalents of nil (as overdrawn) (31 December 2016: £6,152,000) and balances held as collateral for derivative financial instruments at fair value through profit or loss of £5,374,000 (31 December 2016: £4,548,000). The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy.

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 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, rated A-, A+ and A respectively by Fitch Ratings Inc. At 30 June 2017, the overall net exposure to these counterparties was 10.25% of NAV (31 December 2016: 3.79%). The collateral held at each counterparty is disclosed in note 13.

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 30 June 2017 was low because of the liquid nature of the investment portfolio.

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

	30 June 2017 Percentage	31 December 2016 Percentage
Less than 1 year	17.73	23.90
1 to 3 years	16.20	26.97
3 to 5 years	45.73	15.79
5 to 7 years	5.38	12.30
7 to 10 years	7.86	13.54
More than 10 years	7.10	7.50
	100.00	**100.00**

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

As at 30 June 2017, the Company's liabilities fell due as follows:

	30 June 2017 Percentage	31 December 2016 Percentage
1 to 3 months	44.82	17.14
3 to 6 months	–	–
6 to 12 months	–	–
1 to 3 years	7.17	6.06
3 to 5 years	48.01	76.80
	100.00	**100.00**

21. 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 30 June 2017 the Company had two open sale and repurchase agreements committing the Company to make a total repayment of £3,022,000 post the period end (31 December 2016: £nil).

As disclosed in the Unaudited Condensed Statement of Financial Position, at 30 June 2017, the total equity holders' funds were £60,246,000 (31 December 2016: £58,010,000).

22. Capital commitments

The Company holds a number of derivative financial instruments which, by their very nature, give rise to capital commitments post 30 June 2017. These are as follows:

- At the period end, the Company had sold 18 credit default swap agreements for a total of £1,438,000, each receiving quarterly interest (31 December 2016: 17 agreements for £2,541,000). The exposure of the Company in relation to these agreements at the period end date was £1,438,000 (31 December 2016: £2,541,000). Collateral of £5,374,000 at 30 June 2017 (31 December 2016: £4,435,000) for these agreements was held.
- At the period end the Company had committed to 4 foreign currency forward contracts dated 14 September 2017 to buy £38,385,000 (31 December 2016: buy £41,849,000 and €7,154,000 (£6,098,000)). At 30 June 2017, the Company could have affected the same trades and purchased £38,115,000 (31 December 2016: buy £42,059,000 and €7,131,000 (£6,079,000)), giving rise to a gain of £270,000 (31 December 2016: loss of £190,000).
- At 30 June 2017, the Company had taken a long position maturing on 27 September 2017, committing the Company to a purchase of a gilt future for £3,204,000 (31 December 2016: £3,088,000).
- At the period end the Company held 2 open sale and repurchase agreements committing the Company to make a total repayment of £3,022,000 (31 December 2016: £nil).

23. Contingent assets and contingent liabilities

There were no contingent assets or contingent liabilities in existence at the period end (31 December 2016: nil).

24. Events after the financial reporting date

On 19 July 2017, the Company declared a dividend of 1.50p per Ordinary Share for the period from 1 April 2017 to 30 June 2017, out of the profits for the period ended 30 June 2017, which (in accordance with IFRS) was not provided for at 30 June 2017 (see note 6). This dividend will be paid on 25 August 2017.

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William Scott *(non-executive Chairman)*
John Renouf *(non-executive Director)*
Max Hilton *(non-executive Director)*

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