AXIOM
ALTERNATIVE INVESTMENTS

Axiom European Financial Debt Fund Limited

(Registered number 61003)

Half-Yearly Report and Unaudited Condensed Financial Statements
for the six months ended 30 June 2018

CONTENTS

HIGHLIGHTS

	30 June 2018 (unaudited)	30 June 2017 (unaudited)	31 December 2017 (audited)
Net assets	£80,725,000	£60,246,000	£79,364,000
Net asset value ("NAV") per Ordinary Share	95.84p	98.88p	104.43p
Share price	102.50p	97.50p	105.25p
Premium/(discount) to NAV	6.95%	(1.40)%	0.79%
(Loss)/profit for the period	£(4,816,000)	£4,394,000	£9,743,000
Dividend per share declared in respect of the period[1]	3.00p	3.00p	6.00p
Total return per Ordinary Share (based on NAV)[2]	-5.35%	+7.16%	+16.15%
Total return per Ordinary Share (based on share price)[2]	+0.24%	+8.81%	+20.43%
Ordinary Shares in issue	84,228,525	60,930,764	75,999,351

[1] *Only 1.50p of the 3.00p per Ordinary Share dividends declared out of the profits for the period ended 30 June 2018 had been deducted from the 30 June 2018 NAV as the dividend of 1.50p per Ordinary Share announced on 18 July 2018, payable to Shareholders on record at 3 August 2018, and which will be paid on 24 August 2018, had not been provided for in these unaudited condensed half-yearly financial statements at 30 June 2018 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 the start of the period 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.

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

For a more detailed description of the investment policy, please see the Company's Prospectus, which is available on the Company's section of the Investment Manager's website (http://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 2018.

Results

The results for the first half of the year were disappointing, largely the result of a severe market correction in May, itself the consequence of perceived political risks around election results in Germany, Italy and Turkey and, of course, Brexit. Regulatory developments also contributed to a degree with the possibility that, on the margin, some legacy capital instruments might still serve a useful purpose at least for an extended period and therefore might not be called or refinanced as soon as had been hoped. Most of these concerns have abated to some extent since and consequently both the markets and the Company's performance have continued to recover post the half-year end to date.

Our investment managers, Axiom Alternative Investments SARL, were active on the Company's behalf across the full range of sub-strategies and, as is their practice, they give a detailed, comprehensive report on both the markets and portfolio composition on pages 4 to 12 of this document and so I refer readers to that for more detail on the events of the period.

Taking into account dividends paid, the Company's net assets per share over the six months net of all expenses decreased by 5.3%. The Company reported a net loss after tax for the period ended 30 June 2018 of £4.8 million (30 June 2017: profit of £4.4 million), representing a loss per Ordinary Share of 5.85p (30 June 2017: earnings per Ordinary Share of 7.21p).

The Company's NAV at 30 June 2018 was £80.7 million (95.84p per Ordinary Share) (31 December 2017: £79.4 million, 104.43p 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 24 August to Shareholders on the register at 3 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 3.00p were made, being the 12 May dividend and the 1.50p dividend in respect of the year ended 31 December 2017, which was paid on 23 February 2018.

Placing programme and fundraising

On 13 February 2018, the Company completed a further placing of 8,229,174 new Ordinary Shares at a price of 107.50p per new Ordinary Share, raising gross proceeds of £8.85 million. On 15 August 2018, the Company completed an additional placing of 1,223,499 new Ordinary Shares at a price of 98.50p per new Ordinary Share, raising gross proceeds of £1.21 million.

Although the performance over the first half of the year was below what we would like it to be and below our long-term target of 10% p.a. net of expenses, the consequence is that the current level of both markets and our share price present attractive entry points for new investors, and I refer readers to Section 5 of the Investment Manager's report on page 10 where the Investment Manager sets out the key metrics of the portfolio. The Company's portfolio now yields in excess of our target dividend. The Company's share price continues at a modest premium to net assets per share.

Shareholders will note that on 26 July 2018 we announced that following the Company's AGM earlier that month, the Investment Manager had conducted update meetings with our principal Shareholders. The Company is pleased with the response to these meetings and is aware that a number of investors are potentially interested in buying shares in the Company. Recognising the limited liquidity available in the secondary market, the Board will consider issuing new shares to satisfy demand. The share price premium to net assets should allow this at levels which are fair and reasonable both to existing Shareholders, who would benefit from the improved economics of a larger asset base and a marginal accretion to net asset value per share, and to new Shareholders who would have the advantage of an attractive entry point at the current lower market levels.

We are working on refreshing the Company's Placing Programme Prospectus to enable the Company to continue 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.

We are also actively considering a transition of the Company's listing from the Specialist Fund Segment of the London Stock Exchange to a Premium Listing which may make the Company's shares more accessible to some categories of investor and improve trading liquidity for all Shareholders.

Outlook

The markets in which the Company operates improved in July and as a result the Company's net assets increased by 1.60% to 97.37p per Ordinary Share as at 31 July 2018. The current month to date has been more challenging and the Company's estimated net asset value per Ordinary Share at 17 August 2018 (after deducting the dividend of 1.50p per Ordinary Share which went ex on 2 August 2018) was 94.74p (a decrease of 1.15% from the 30 June 2018 net asset value). More information can be found in the Investment Manager's report on page 11.

The Board believes that the volatility in the markets will stabilise in the future and as a result looks forward to the future with confidence and we thank Shareholders for their continued support and confidence as we look to develop the Company further.

William Scott
Chairman
21 August 2018

INVESTMENT MANAGER'S REPORT

1. Market developments

In **January**, subordinated financials started on a very strong tone despite new MiFID 2 rules impacting trading conditions. In a context of rates steadily increasing on the back of the "broadest synchronised global growth upsurge since 2010" as observed by the IMF's Christine Lagarde on her way to Davos, banks were in strong demand and investors kept searching for yield with limited duration. Additional Tier 1s ("AT1s") rallied strongly in the first three weeks followed by legacy instruments, floaters in particular.

On Non-Performing Loans, the ECB pressure found some positive response in Italy with banks such as Intesa, UBI and Banco BPM raising their targeted NPL sales.

The start of the quarter 4 earnings season was more mixed with poor performance in Investment Banking (UBS), the impact of one-offs (like IFRS 9) and provisions from specific corporates: Carillion for UK banks or Duro Felguera in Spain (Santander). Still, capital ratios remained stable overall and asset quality continued to improve.

Consolidation remained a wishful thought from regulators as UniCredit CEO dismissed it and Arkéa confirmed its plan to exit Crédit Mutuel. In restructurings, NordLB confirmed it would keep Deutsche Hypo and Cerberus together with JC Flowers having been selected as bidders for HSH Nordbank.

Three new AT1s were issued by RBI, UBS and Belfius. Monte dei Paschi and IKB issued a Tier 2 ("T2"), while BFCM, Santander, Unicredit, SocGen and BPCE issued new Non-Preferred Seniors. Santander UK called the rump of its 6.984 Perp step-up, and Intesa launched a tender on government guaranteed senior bonds.

In ratings, we would highlight the upgrade of RBS's ringfenced entity at Moody's, and the positive outlook of Unicredit.

In **February**, subordinated financials saw a negative trend in valuations driven by investor concerns towards rate increases, Italian elections, the formation of a government in Germany and a lack of progress in the Brexit negotiations. Still, the quarter 4 earnings season showed some fundamental improvements: annual profits for RBS; resumption of dividends for RBI, Standard Chartered and Bank of Ireland; and mitigation of IFRS 9 and Basel IV impacts. An emerging theme was capital return and some, like Lloyds and Barclays, discussed share buybacks.

Intesa, Sabadell and Bankia presented their strategic plans and others like Mediobanca and Banco BPM received the approval of their internal capital models, confirming the trend towards regulatory forbearance. The EBA stress tests were announced for November but were not expected to bring any surprises. Lastly, the EIOPA released a report that provided enough clarity for insurers to contemplate new RT1 issues.

In corporate actions: the sale of HSH was announced within the deadline set by the EC; Credito Valtellinese launched its highly dilutive capital raise; and Provident announced a rights issue. In addition, Credit Mutuel Arkéa was leading an initiative to split from its parent, and Vivat's shareholder was facing governance issues in China. On the IPO front, NIBC was about to launch and Deutsche Bank was selling down its asset management unit (DWS). Rating actions were mixed: Barclays and HSBC Bank were on review for downgrading for the impact of ringfencing and Caixa Geral in Portugal was upgraded to Ba3.

Unipol and BNP issued T2s and SCOR announced an insurance RT1 deal. Lastly, Nordea announced the call of its EUR CMS, a situation we followed since November.

In **March**, European financials had a negative month in line with the rest of the markets, while outflows accelerated in High Yield funds (EUR18 billion since the beginning of the year). European long-term rates fell in fear of a new trade war, while concerns rose about the pace of tightening led by the Fed. On a positive note, Spain's rating was upgraded to A- by S&P for the rebound of its economy.

European authorities published their proposals on NPLs. Draghi widened the debate to Level 3 or hard-to-value assets, diverting the attention away from the Italian sector. Still, BPER launched its NPL securitisation, Banco BPM announced it could dispose more and UBI Banca got its NPL reduction plan approved.

Litigation risk resurfaced with RBS and SocGen indicating they were within weeks of settling with the US on mortgages and US sanctions respectively.

Deutsche Bank successfully completed the IPO of its asset management arm but communicated poorly about its performance this year so far. Barclays got the approval of its ringfencing plans and Credito Valtellinese successfully completed its IPO.

Consolidation continued. 15 bidders were interested in Banco Caixa Geral in Spain. Bankia considered itself a perfect fit for a would-be acquirer and, in Italy, Credito Emiliano was ready for acquisitions. In insurance, Axa surprised the consensus by announcing a transformational acquisition of XL and Prudential announced a demerger of their European asset management M&G.

Aviva also moved aggressively against its preference share investor base by threatening a repayment at nominal value. After unprecedented political and investor pressure, management backtracked but the broader UK preference share market had been rattled.

MACIF announced the call of its floater perp, BBVA and CS the call of their first AT1s. Santander, Unicaja Banco and Caixabank each issued AT1s but it was HSBC and Axa who repriced down the market with generous pricing terms in their new issues.

In **April**, European financials had a constructive month after geopolitical tensions eased around Syria, and Brexit softened towards a bespoke customs union, which offset the impact from US rate increases.

Ratings were upgraded for Spanish banks and other issuers like SocGen or de Volksbank in the Netherlands. NPL de-risking continued to be a priority for lawmakers in Europe, especially in Germany, and banks in Italy: Intesa announced a large disposal of its NPLs with Intrum. The earnings season started rather well with strong results in IB equities for Barclays and UBS, and in UK retail banking for Lloyds and RBS. On governance, there were management changes at SocGen, Natixis, BPCE and more importantly Deutsche Bank, where the IB would be rightsized and the franchise refocused on Germany. Credit Mutuel Arkéa in France went against the flow of bank consolidation – a wishful thinking by European regulators – by voting for the separation from its central body, to the unprecedented risk of seeing its management dismissed.

New AT1s were issued by SocGen, Pfandbriefbank, KBC and Bawag. Phoenix issued a new RT1, while Aegon, Leeds, Quilter and Caixabank issued new T2s.

In calls, UBS confirmed the call of its USD 4.75 low trigger coco issued in 2013, DB called its 8% Fixed-to-Fixed and Aegon announced it would call its legacy instruments by 2026.

Last but not least, investors in Aviva prefs would receive a compensation if they sold their position on the back of the contentious comments by the CEO last month.

During **May**, European financials went through a severe correction and a flight to quality due to the newly formed populist Italian government, the change of prime minister in Spain, the lack of progress on Brexit preparations in the UK and concerns about the Turkish economy.

Quarter 1 results were resilient as banks reported an improvement in asset quality and stable costs, offsetting a slowdown in revenues. More positively, RBS confirmed the resolution of its litigation on US RMBS and SocGen announced that it was near a settlement on LIBOR and Libya transactions. Deutsche Bank completed its integration with Postbank but was downgraded one notch by S&P.

On the regulatory front, the EU released a new proposal for CRR2 with some new grandfathering provisions towards 2024 for non-EU instruments in line with the draft from March. This new context prompted HSBC to requalify some legacy T2 instruments. The extension risk led to a market wide repricing of the disco instruments. Unicredit was also challenged by an investor with respect to the recognition of its Cashes (equity-linked instruments) as regulatory capital.

Issuers continued to call their legacy perpetuals: HSBC 8% and 8.125%, Aegon 6%, BNP 7.781% and DB 8% Fixed-to-Fixed, and Intesa 8.047% step-up.

The subordinated debt market experienced much volatility in June amid a fickle political environment: the EU cohesion and the German coalition both threatened by migration policies, the lack of significant progress on Brexit and the elections in Turkey.

Despite all this, the ECB aimed to reassure with its decision to keep interest rates unchanged until at least the end of summer 2019. The Itraxx Sub Fin Index tightened slightly and ended the month at 180 bps (compared to 205bps at the end of May).

All bar one of the 35 establishments tracked by the FED passed the US stress tests (results as at 21 June). Only the American subsidiary of Deutsche Bank failed. This was a warning that should result in an acceleration of the restructuring already initiated by the bank.

On the regulatory front, several recent changes were a source of new opportunities for our strategies. The European Parliament published its CRR2/BRR2 bill at the end of June, which followed the European Council's bill published at the end of May. There were divergent views on the existence of a transitional period for instruments issued by non-EU member states. Both bodies must now agree on the final CRR2/BRR2 text by the end of the year. The Bank of England published its latest rules on MREL which go against HSBC's decision to requalify some of the Legacy instruments into T2, pushing up the prices of some "discos".

Capital transactions continued despite market volatility with Standard Chartered, Bawag and even Novo Banco launching buybacks or exchange offers on their legacy Instruments.

2. Investment Objective and Strategy

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

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

3. Trade activity and positioning

January

- In Liquid Relative Value, the Company increased its exposure to the AT1 segment in the early part of the month but refrained from taking part in the new issues as valuations got stretched.
- In Less Liquid Relative Value, the Company selectively added on some defensive carry positions such as Fixed-to-Fixed bonds from BNP Paribas and Rabobank's insurer. The Company held a small position in the Santander UK bond being called.
- In Special Situations, the Company added a perpetual ex-convertible hybrid issued by the Belgian insurer Ageas with a floating rate coupon at a significant discount. After the strong appreciation, some positions on CMS-linked perpetuals were reduced.
- In Restructuring, the Company took part in the new T2 issued by IKB, reduced its exposure to legacy T1s issued by another German lender (bought at 47.00, sold at 52.00) and sold its legacy T1 issued by a Greek bank (bought at 29.00, sold at 56.50).

February

The Company increased its size by 11% following a successful fifth placing on 13 February and deployed its new capital as follows:

- Liquid Relative Value: It bought two defensive AT1s that underperformed in the correction (CS 7.5, and BNP 7.375). It also benefited from the appreciation of its Vivat T2 position as the issues impacting its shareholder made it an acquisition target, and sold the Nordea called bond above par (1% bought at 91 in November).
- Less Liquid Relative Value: It continued to add carry positions in Fixed-to-Fixed bonds from the largest UK banks, insurance and building societies and a Dutch insurer. It took profit on its Crédit Logement hybrid.
- Special Situation: It increased its exposure to an equity-linked hybrid issued by a French bank and a discounted Perp issued by HSBC, while reducing its exposure to French CMS.
- Restructuring: It sold its Valtellinese bond at 105 (bought at 84 in January), reduced its exposure to HSH hybrids above 60 (bought at 52) and bought a small hybrid issued by a Portuguese bank.
- Midcap Origination: It increased its holding in an illiquid issue from a Spanish mutual.

March

The Company traded the market context with a defensive approach by proceeding to selective switches of positions.

- Liquid Relative Value: The Company sold its holdings in Vivat and Santander 5.25 AT1 and, to capture the new issue premia, took part in the new AT1s by Santander and Caixabank, the new Scor RT1 and the new Axa T2.
- Less Liquid Relative Value: At the time of Aviva's warning for a redemption of its preference shares at nominal value, the Company had a marginal exposure of 0.40% only and, after reducing slightly its overall exposure, it opportunistically increased its holding in Ecclesiastical as well as in preferred shares issued by an opco within RBS group. These securities have more protective language because the bylaws prevent ordinary shareholders from diluting the vote of preferential shareholders. It also tactically added on some Aviva preference shares at discounted levels.
- Special Situations: The Company added on Standard Life which, following the sale of its insurance business to Phoenix, should see the guarantee of its bonds trigger a tender.
- Restructuring: The Company reduced further its holding in NDB and added on HSH Nordbank.
- Midcap Origination: Finally, the Company invested in the new Ibercaja AT1.

April

The Company continued to trade with selective switches of positions.

- Liquid Relative Value: The Company reduced its holdings in insurance RT1s (Direct Line and SCOR) and bank AT1s (Nordea, Credit Suisse, Baer and Virgin Money) that had held well, and invested into the new KBC and Bawag AT1s.
- Less Liquid Relative Value: The Company reduced its holdings in Prudential Fixed-to-Fixed, and added on RBS and Lloyds preference shares.
- Special Situations: The Company added on discounted Perps issued by Aegon.
- Restructuring: The Company sold its holdings in NDB following the reinstatement of coupons.
- Midcap Origination: The Company invested in Quilter and Leeds new issues, and increased its holding in the Spanish mutual, Caser.

May

In the correction, the Company remained underweight on Italian bonds and covered its shorts on SocGen discos and Bankinter AT1s. More specifically:

- Liquid Relative Value: The Company sold its remaining position in Virgin Money AT1s after CYBG had been confirmed as a potential acquirer. It also sold its holdings in USD Fixed-to-Fixed BNPs given the cost of hedging back into GBP.
- Less Liquid Relative Value: The Company reduced its holdings in Aviva and Ecclesiastical preference shares after the recent rebound, reduced its exposure to UK discos (HSBC and Barclays) and sourced a rare T1 step-up issued by Banco BPM in Italy.
- Special Situations: The Company sold its residual position in Unicredit Cashes around 65.00.
- Restructuring: The Company started a position in IPF and added on Caixa Geral legacy step-ups.
- Midcap Origination: The Company sold Quilter's recent issue and took part in new issues: Provident GBP 7% Senior, Oaknorth Bank GBP 7.75%, Sydbank 5.25% EUR AT1, and added on PTSB AT1s.

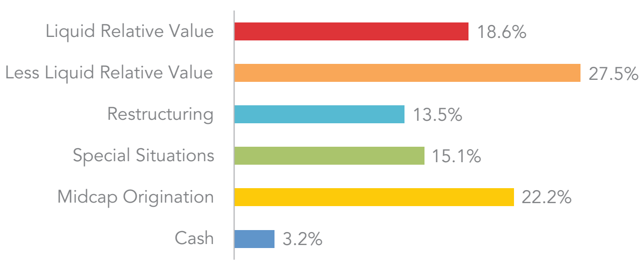
June

Overall, the Company added risk selectively throughout the month:

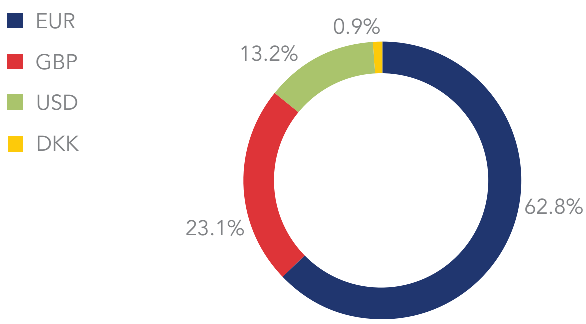
- Liquid Relative Value: The Company initially sold its Lloyds AT1 and then took part in the new insurance RT1 deals from CNP and Vivat. It later sold its Vivat position on M&A speculation more than 3pts above new issue price.
- Less Liquid Relative Value: The Company reduced its holding in RBS 5.25% and CMZB 8.151% in USD, for its hedging cost and lower likelihood of take-out, and added on BBVA's subsidiary in Turkey.
- Special Situations: Benefiting from the opportunities brought by the BoE MREL update, the Company added some Legacy bonds issued by ring-fenced retail entities, towards a call or tender by 2021. The Company increased its holding of a rare Caixa Geral legacy which could be called anytime following the issuance of T2. The Company invested in a Prudential long dated bond with an attractive make-whole call.
- Restructuring: The Company reduced its UK exposure by selling its Co-Operative Bank equity and bought some Monte T2 bonds at the lows.
- Midcap Origination: The Company sold its remaining position in Provident seniors at a gain and invested in T2s issued by Metro Bank in the UK and a regional bank in Denmark.

4. Portfolio (as at 30 June 2018)

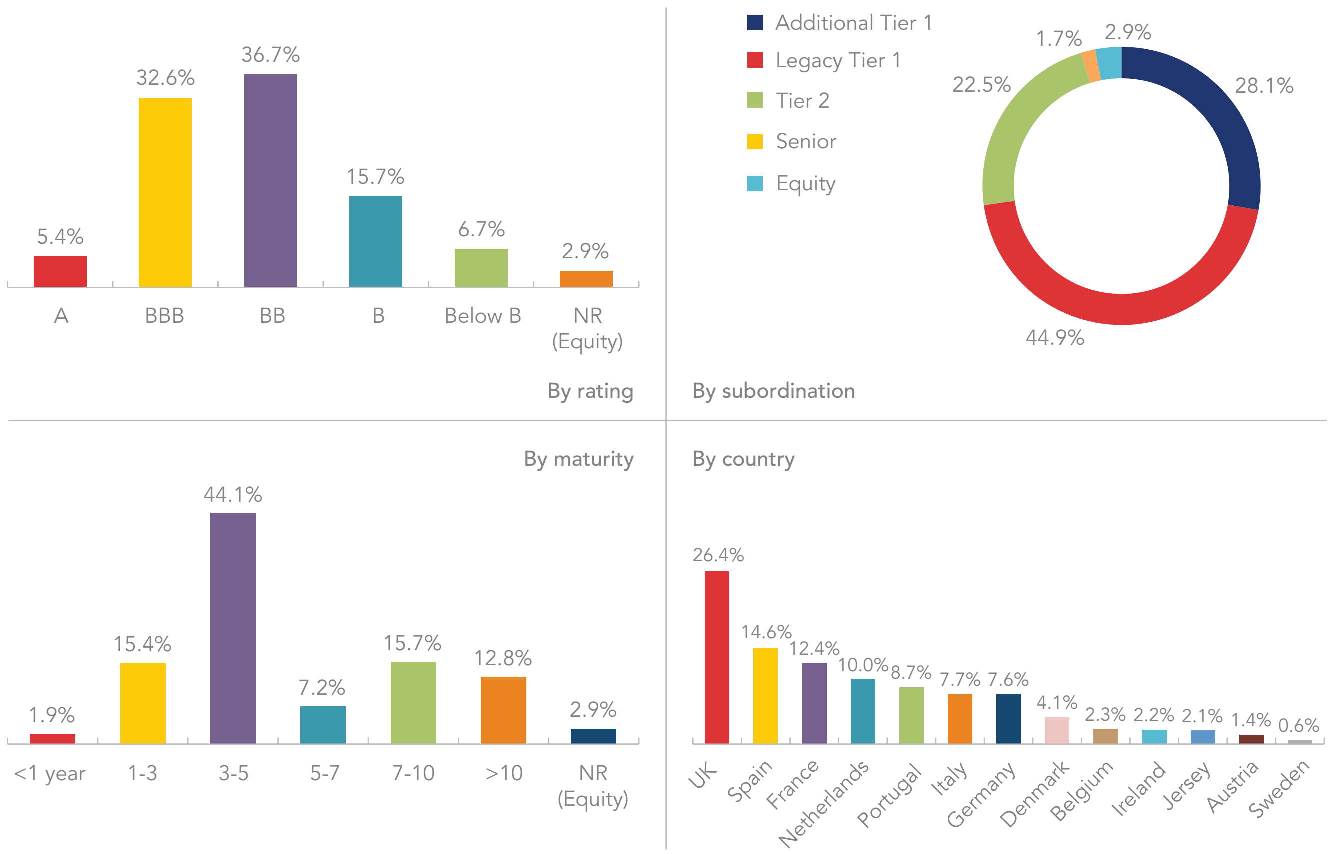
4.1 Strategy Allocation (as a % of investments held)



4.2 Currency breakdown (as a % of investments held)



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



4.4 Specific exposures

Top 10 Holdings		
Security	**Strategy**	**% of NAV**
Achmea 6% Perp	Less Liquid Relative Value	6.2%
BNP Paribas 4.9% Perp	Less Liquid Relative Value	6.0%
Shawbrook Perp-22	Midcap Origination	5.7%
BNP Fortis frn Perp	Special Situation	3.5%
Caser 8 2025	Midcap Origination	3.1%
Caixa Geral Perp	Special Situation	2.9%
HBOS 6.85% Perp	Less Liquid Relative Value	2.9%
Banco BPM 9%	Less Liquid Relative Value	2.6%
OSB 9.1 Perp-22	Midcap Origination	2.6%
HSBC FRN Perp	Special Situation	2.3%

5. Company metrics (as at 30 June 2018)

Share price and NAV	29 Sep 17	31 Dec 17	29 Mar 18	30 Apr 18	31 May 18	29 Jun 18
Share price (mid)	98.00	105.25	106.00	105.50	102.50	102.50
NAV per share (daily)	101.56	104.43	103.38	104.56	96.95	95.84
Dividends paid over last 12months	6.15	6.15	6.00	6.00	6.00	6.00
Shares in issue	60,930,764	75,999,351	84,228,525	84,228,525	84,228,525	84,228,525
Market capitalisation (GBP mn)	59.712	79.989	89.282	88.861	86.334	86.334
Total net assets (GBP mn)	61.880	79.364	87.097	88.066	81.656	80.725
Premium/(Discount)	(3.51)%	0.79%	2.53%	0.90%	5.72%	6.95%

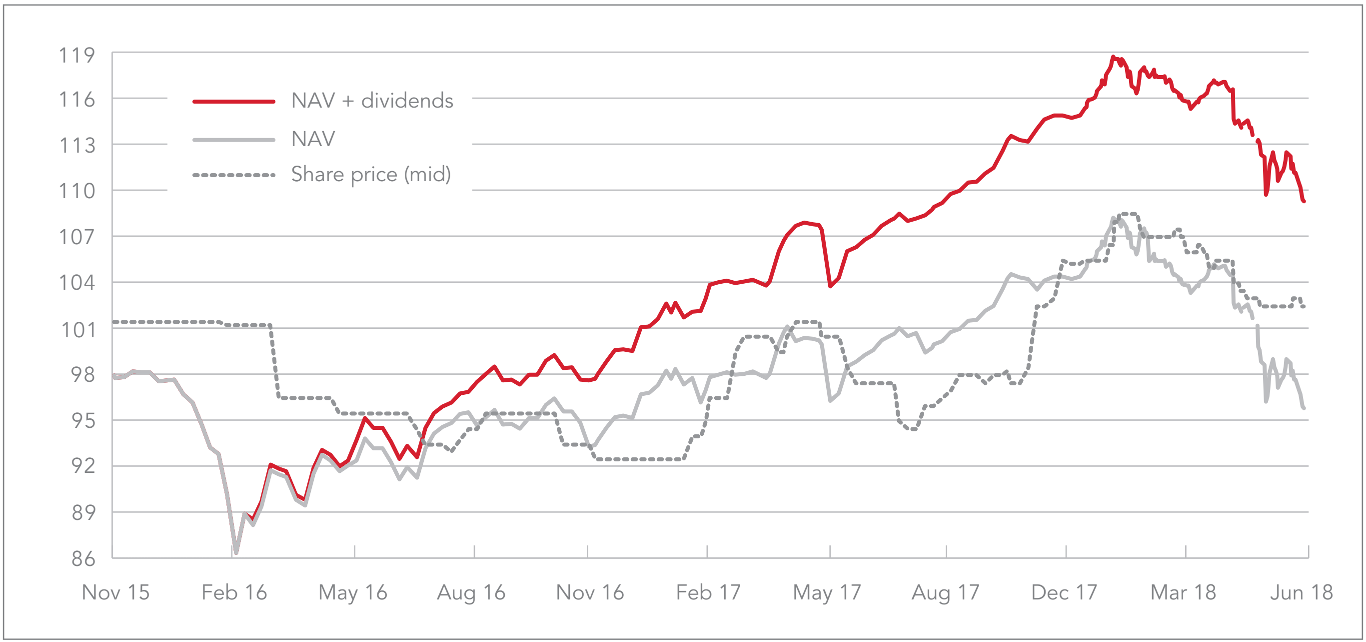
Portfolio information	29 Sep 17	31 Dec 17	29 Mar 18	30 Apr 18	31 May 18	29 Jun 18
Modified duration*	1.77	3.11	2.75	2.54	1.92	1.88
Sensitivity to credit*	3.20	5.21	7.69	7.66	7.68	7.74
Positions	83	89	108	103	98	97
Average price	95.84	96.01	97.33	96.99	96.15	95.03
Running yield	5.48%	5.26%	5.99%	5.94%	6.85%	7.01%
Yield to perpetuity*	5.42%	6.30%	6.46%	6.31%	7.16%	7.49%
Yield to call*	8.94%	7.25%	6.65%	6.34%	7.92%	8.41%
Gross Assets		108.2%	120.4%	118.4%	130.2%	128.3%
Net gearing = (Gross assets – collateral)/Net Assets	101.7%	104.2%	114.0%	112.0%	121.6%	119.4%
Investments/Net Assets	101.3%	94.7%	113.7%	111.6%	117.4%	115.6%
Cash	0.4%	9.5%	0.4%	0.5%	4.2%	3.8%
Collateral	8.5%	4.0%	6.4%	6.4%	8.5%	9.0%
Repo/Net Assets	10.0%	6.9%	17.2%	16.4%	23.2%	23.4%
CDS/Net Assets	89.3%	89.5%	96.7%	105.6%	114.1%	117.3%

"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 perpetuity" is the yield of the portfolio assuming that securities are not repaid but kept outstanding to perpetuity
"Yield to call" is the yield of the portfolio at the expected repayment date of the bonds

Total Performance			
3 months	6 months	1 year	Annualised Since inception
-5.84%	-5.35%	2.99%	4.22%

Monthly Performance	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Annual
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%	1.86%	0.58%	1.76%	2.72%	1.31%	0.23%	16.14%
2018	3.12%	-0.70%	-1.95%	1.14%	-5.84%	-1.14%							-5.35%

6. NAV evolution



7. Outlook

The first six months of 2018 have seen a strong correction in valuations of financial subordinated debt. Geopolitical risks acted as a catalyst to the repricing, with the formation of the new government in Italy at the end of May, the slow progress of Brexit negotiations, and the resulting long-term challenges brought to the integrity of the European Union and its currency. The sector was impacted by a general spread widening.

Legacy instruments were also impacted by extension risk, after one issuer, HSBC, announced in its annual disclosure that its discounted perpetuals could retain some capital recognition beyond 2021. However, this move, in our view, will soon be challenged by the new resolution strategies outlined by regulators like the BoE and the ECB's SSM, and the Financial Stability Board, and the implementation of the ringfencing in the UK by 2019.

The new AT1 segment was also impacted by extension risk as investors took notice of the negative convexity in the spread widening, and a number of issuers tried to prefinance the first calls coming up over the near term. Some like Credit Suisse ended paying significant premia and we expect more issuers to try, despite the difficult market conditions.

As the trading activity showed, the Company remained active in the correction, in order to continuously exploit the dislocation of prices across all five strategies. We believe the Company continues to be ideally positioned after adding risk selectively since mid-May and that the current environment will continue to present attractive opportunities over the coming quarters. On the secondary market, some illiquid positions are being offered at levels not seen since the start of 2017, while, on the primary market, issuers are increasingly sounding investors to issue large but also sub-benchmark transactions, under the scope of our Midcap Origination sub-strategy.

Gildas Surry
Axiom Alternative Investments SARL
21 August 2018

Notes

Share price and NAV	31 Jan 18	28 Feb 18	29 Mar 18	30 Apr 18	31 May 18	29 Jun 18
Share price (mid)	108.50	107.00	106.00	105.50	102.50	102.50
NAV per share (daily)	107.69	105.44	103.38	104.56	96.95	95.84
Dividends paid over last 12months	6.15	6.00	6.00	6.00	6.00	6.00
Shares in issue	75,999,351	84,228,525	84,228,525	84,228,525	84,228,525	84,228,525
Market capitalisation (GBP mn)	82.459	90.125	89.282	88.861	86.334	86.334
Total net assets (GBP mn)	81.841	88.811	87.097	88.066	81.656	80.725
Premium/(Discount)	0.75%	1.48%	2.53%	0.90%	5.72%	6.95%

Portfolio information	31 Jan 18	28 Feb 18	29 Mar 18	30 Apr 18	31 May 18	29 Jun 18
Modified duration	1.97	2.71	2.75	2.54	1.92	1.88
Sensitivity to credit	5.80	7.09	7.69	7.66	7.68	7.74
Positions	101	105	108	103	98	97
Average price	98.47	99.18	97.33	96.99	96.15	95.03
Running yield	5.75%	5.70%	5.99%	5.94%	6.85%	7.01%
Yield to perpetuity	6.26%	6.13%	6.46%	6.31%	7.16%	7.49%
Yield to call	6.57%	6.03%	6.65%	6.34%	7.92%	8.41%
Gross Assets	117.9%	117.9%	120.4%	118.4%	130.2%	128.3%
Net gearing = (Gross assets – collateral)/Net Assets	112.3%	111.8%	114.0%	112.0%	121.6%	119.4%
Investments/Net Assets	114.8%	109.4%	113.7%	111.6%	117.4%	115.6%
Cash	-2.4%	2.4%	0.4%	0.5%	4.2%	3.8%
Collateral	5.6%	6.1%	6.4%	6.4%	8.5%	9.0%
Repo/Net Assets	17.4%	17.0%	17.2%	16.4%	23.2%	23.4%
CDS/Net Assets	86.8%	104.8%	96.7%	105.6%	114.1%	117.3%

PRINCIPAL RISKS

Risk is inherent in the Company's activities, but it is managed through an ongoing process of identifying and assessing risks and ensuring that appropriate controls are in place. The key risks faced by the Company, are set out below:

- macroeconomic risk;
- investment risk;
- counterparty risk;
- credit risk;
- share price risk;
- regulatory risk; and
- reputational risk.

Further details of each of these risks and how they are mitigated are discussed in the Principal Risks section of the Strategic Report within the Company's Annual Report for the year ended 31 December 2017. The Board believes that these risks are applicable to the six month period ended 30 June 2018 and the remaining six months of the current financial year.

On behalf of the Board.

William Scott
Chairman
21 August 2018

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
21 August 2018

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2018

	Note	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000
Income			
Capital instrument income		2,227	1,251
Credit default swap income		444	364
Bank interest receivable		37	5
Total income		**2,708**	**1,620**
Investment gains and losses on investments held at fair value through profit or loss			
Realised gains on disposal of capital instruments	*12*	1,220	2,571
Movement in unrealised losses on capital instruments	*12*	(5,235)	(2,142)
Realised gains on derivative financial instruments	*15*	949	431
Movement in unrealised (losses)/gains on derivative financial instruments	*15*	(3,877)	2,010
Total investments gains and losses		**(6,943)**	**2,870**
Expenses			
Investment management fee	*8a*	(363)	(213)
Administration fee	*8b*	(62)	(61)
Directors' fees	*8f*	(47)	(47)
Other expenses	*9*	(231)	(137)
Total expenses		**(703)**	**(458)**
(Loss)/profit from operating activities before gains and losses on foreign currency transactions		**(4,938)**	**4,032**
Gain on foreign currency		122	395
(Loss)/profit from operating activities after gains and losses on foreign currency transactions and before taxation		**(4,816)**	**4,427**
Taxation	*10*	–	(33)
(Loss)/profit for the period attributable to the Owners of the Company		**(4,816)**	**4,394**
(Loss)/earnings per Ordinary Share – *basic and diluted*	*11*	**(5.85)p**	**7.21p**

All of the items in the above statement are derived from continuing operations.
The accompanying notes on pages 20 to 44 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 2018

	Note	Distributable reserves and total (unaudited) £'000
At 1 January 2018		79,364
Loss for the period		(4,816)
Contributions by and distributions to Owners		
Ordinary Shares issued	*18*	8,846
Share issue costs	*18*	(266)
Dividends paid	*6*	(2,403)
At 30 June 2018		**80,725**

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017

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

The accompanying notes on pages 20 to 44 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 2018

	Note	As at 30 June 2018 (unaudited) £'000	As at 31 December 2017 (audited) £'000
Assets			
Investment in capital instruments at fair value through profit or loss	*12, 16*	88,862	72,113
Other investments at fair value through profit or loss	*12, 16*	2,607	2,345
Collateral accounts for derivative financial instruments at fair value through profit or loss	*13*	7,246	3,143
Derivative financial assets at fair value through profit or loss	*15*	402	2,046
Other receivables and prepayments	*14*	1,836	672
Cash and cash equivalents		3,897	16,808
Total assets		**104,850**	**97,127**
Current liabilities			
Bank overdrafts		(856)	(9,249)
Derivative financial liabilities at fair value through profit or loss	*15*	(22,630)	(6,958)
Short position covered by sale and repurchase agreements	*12*	–	(838)
Other payables and accruals	*17*	(639)	(718)
Total liabilities		**(24,125)**	**(17,763)**
Net assets		**80,725**	**79,364**
Share capital and reserves			
Share capital	*18*	–	–
Distributable reserves		80,725	79,364
Total equity holders' funds		**80,725**	**79,364**
Net asset value per Ordinary Share: ***basic and diluted***	*19*	**95.84p**	**104.43p**

These unaudited condensed half-yearly financial statements were approved by the Board of Directors on 21 August 2018 and were signed on its behalf by:

William Scott
Chairman
21 August 2018

John Renouf
Director
21 August 2018

The accompanying notes on pages 20 to 44 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 2018

	Note	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000
Cash flows from operating activities			
Net (loss)/profit before taxation		(4,816)	4,427
Adjustments for:			
Foreign exchange movements		(122)	(395)
Total investment losses/(gains) at fair value through profit or loss		6,943	(2,870)
Cash flows relating to financial instruments:			
Payment to collateral accounts for derivative financial instruments	*13*	(4,103)	(826)
Purchase of investments at fair value through profit or loss	*12*	(58,175)	(76,856)
Sale of investments at fair value through profit or loss	*12*	36,590	66,565
Premiums received from selling credit default swap agreements	*15*	511	1,402
Premiums paid on buying credit default swap agreements	*15*	(82)	(1,705)
Purchase of foreign currency derivatives	*15*	(125,056)	(90,777)
Close-out of foreign currency derivatives	*15*	126,102	90,279
Purchase of bond futures	*15*	(2,825)	(990)
Sale of bond futures	*15*	2,372	1,068
Proceeds from sale and repurchase agreements	*15*	87,312	8,043
Payments to open reverse sale and repurchase agreements	*15*	(350)	–
Payments for closure of sale and repurchase agreements	*15*	(74,840)	(5,078)
Proceeds from closure of reverse sale and repurchase agreements	*15*	1,244	–
Opening of short positions	*12*	333	–
Closure of short positions	*12*	(1,132)	–
Net cash outflow from operating activities before working capital changes		(10,094)	(7,713)
Increase in other receivables and prepayments		(644)	(13)
(Decrease)/increase in other payables and accruals		(152)	43
Taxation paid	*10*	–	(33)
Net cash outflow from operating activities		**(10,890)**	**(7,716)**
Cash flows from financing activities			
Proceeds from issue of Ordinary Shares		8,846	–
Share issue costs paid	*22*	(193)	(192)
Dividends paid	*6*	(2,403)	(1,919)
Net cash inflow/(outflow) from financing activities		**6,250**	**(2,111)**
Decrease in cash and cash equivalents		**(4,640)**	**(9,827)**
Cash and cash equivalents brought forward		7,559	6,152
Effect of foreign exchange on cash and cash equivalents		122	395
Cash and cash equivalents carried forward*		**3,041**	**(3,280)**

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

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2018 *(continued)*

	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000
Supplemental disclosure of cash flow information		
Interest purchased during the period	617	989
Interest sold during the period	2,630	2,595

The accompanying notes on pages 20 to 44 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 2018

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.

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 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 2018. 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 2018 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 21 August 2018.

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.

2. Statement of compliance *(continued)*

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 4.

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. Capital instrument income comprises bond interest and dividend income.

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 2018 were £1/€1.1303, £1/US$1.3207, £1/DKK8.4212, £1/CA$1.7347 and £1/SG$1.8003.

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.

3. Significant accounting policies *(continued)*

e) Financial assets and liabilities

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

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.

3. Significant accounting policies *(continued)*

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.

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.

3. Significant accounting policies *(continued)*

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 period:

IFRS 2	Share-based payments
IFRS 9	Financial instruments
IFRS 15	Revenue from Contracts with Customers

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

The adoption of IFRS 9 has not impacted the financial position or performance of the Company as:

- It continued to measure investments at fair value;
- No investments were impaired; and
- The Company does not designate any hedges as effective hedging relationships.

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 9	Financial Instruments – *amendments regarding prepayment features with negative compensation and modifications of financial liabilities*	1 January 2019
IAS 12	Income Taxes – *amendments resulting from annual improvements*	1 January 2019

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.

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

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. These independent valuations take the form of quotes from brokers.

For further information on the assumptions and inputs used to fair value the financial instruments, please see note 16.

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 declared the following dividends during the period ended 30 June 2018:

Announcement date	Pay date	Total dividend declared in respect of earnings in the period £'000	Amount per Ordinary Share
17 January 2018	23 February 2018	1,140	1.50p
11 April 2018	25 May 2018	1,263	1.50p
Dividends declared and paid in the period		2,403	3.00p
Less, dividend declared in respect of the prior period that was paid in 2018		(1,140)	(1.50)p
Add, dividend declared out of the profits for the period but paid after the period end: 18 July 2018	24 August 2018	1,263	1.50p
Dividends declared in respect of the period		2,526	3.00p

The Company declared the following dividends during 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	3.15p
Less, dividend declared in respect of the prior period that was paid in 2017		(1,005)	(1.65)p
Add, dividend declared out of the profits for the period but paid after the period end: 19 July 2017	25 August 2017	914	1.50p
Dividends declared in respect of the period		1,828	3.00p

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 £2,403,000 was recognised in respect of dividends, none of which was outstanding at the reporting date. The second dividend of £1,263,000 in respect of the earnings during the period had not been provided for at 30 June 2018 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 and its related parties, being the Investment Manager and the Directors are disclosed in notes 8a and 8f.

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

As at 30 June 2018, the Company had holdings in the following investments which were managed by the Investment Manager:

	30 June 2018			31 December 2017		
	Holding	**Cost £'000**	**Value £'000**	**Holding**	**Cost £'000**	**Value £'000**
Axiom Long Short C FCP	3,110	2,879	2,607	–	–	–
Axiom Premium Multi Strategies	–	–	–	1,739	2,146	2,345

During the period, the Company sold 1,739 units in Axiom Premium Multi Strategies for £2,315,000, realising a gain of £168,000 (30 June 2017 and 31 December 2017: £nil).

During the period ended 30 June 2017, the Company sold 2,000 units in Axiom Contingent Capital for £1,985,000, realising a gain of £526,000.

During the period ended 30 June 2017, the Company sold 740 units in Axiom Equity C FCP for £545,000, generating a realised gain of £125,000.

Following the period end, the Company sold 2,073 units in Axiom Long Short C FCP for £1,961,000, generating a realised loss of £185,000.

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

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Management fee (continued)

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

During the period, a total of £363,000 (30 June 2017: £213,000) was incurred in respect of Investment Management fees, of which £174,000 (31 December 2017: £83,000) was payable at the reporting 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.

The Quarterly Expenses Excess and Annual Expenses Excess for the period was £35,000, and at 30 June 2018 the Quarterly Expenses Excess and Annual Expenses Excess which could be payable to the Investment Manager in future periods was £499,000 (31 December 2017: £464,000) (see note 24).

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 for this purpose is defined as:

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

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

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

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Performance fee (continued)

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 payable by the Company (30 June 2017: £nil). £234,000 of the £469,000 performance fee for the year ended 31 December 2017 that is to be settled in shares remained payable at the period end date, although an agreement of how this would be settled had been reached.

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 as at the end of each calendar month and to provide company secretarial functions required under the Law.

Under the terms of the Administration Agreement, the Administrator is entitled to receive a fee of £115,000 per annum, which is subject to an annual adjustment upwards to reflect any percentage change in the retail prices index over the preceding year. In addition, the Company pays the Administrator a fee for any work undertaken in connection with the daily NAV, subject to a maximum aggregate amount of £10,000 per annum.

During the period, a total of £62,000 (30 June 2017: £61,000) was incurred in respect of Administration fees and £31,000 (31 December 2017: £31,000) was payable to the Administrator at the reporting date.

c) Broker

Winterflood Securities Limited ("Winterflood") was appointed to act as Corporate Broker ("Broker") for the Company with effect from 31 October 2017. In consideration of Winterflood agreeing to act as Broker, the Company pays Winterflood an annual retainer fee of £35,000 per annum.

Prior to Winterflood's appointment, Liberum Capital Limited ("Liberum") had been appointed to act as Broker for the Company. In consideration of Liberum agreeing to act as Broker, the Company paid Liberum an annual retainer fee of £75,000 per annum.

For the period ended 30 June 2018, the Company incurred Broker fees of £18,000 (30 June 2017: £38,000) of which £6,000 was payable at the period end date (31 December 2017: £6,000).

d) Registrar

Link Market Services (Guernsey) Limited (previously 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 2017: £10,000) was incurred in respect of Registrar fees, of which £4,000 was payable at 30 June 2018 (31 December 2017: £3,000).

8. Key contracts *(continued)*

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 £34,000 (30 June 2017: £11,000) was incurred in respect of depositary fees, and £6,000 (31 December 2017: £6,000) 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 €2,500, be calculated by reference to the following tiered sliding scale:

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

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

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

During the period, a total of £20,000 (30 June 2017: £12,000) was incurred in respect of fees paid to CACEIS Bank Luxembourg, of which £10,000 was payable at 30 June 2018 (31 December 2017: £6,000).

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 2017: £47,000) was incurred in respect of Directors' fees, of which £nil (31 December 2017: £nil) 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 2018 to 30 June 2018 (unaudited) £'000	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000
Bank charges and interest	55	8
Depositary fees (including valuation agent fees) *(note 8e)*	53	35
Interest on sale and repurchase agreements	49	1
Broker fees *(note 8c)*	18	38
PR expenses	18	21
Registrar fees *(note 8d)*	10	10
Audit fees	5	12
Other expenses	23	10
	231	**137**

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 of £1,200 per annum to maintain exempt company status.

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. Loss per Ordinary Share

The loss per Ordinary Share of 5.85p (30 June 2017: earnings of 7.21p) is based on a loss attributable to owners of the Company of £4,816,000 (30 June 2017: profit of £4,394,000) and on a weighted average number of 82,273,528 (30 June 2017: 60,930,764) Ordinary Shares in issue since 1 January 2018. There is no difference between the basic and diluted earnings per share.

12. Investments at fair value through profit or loss

	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	**Period from 1 January 2017 to 30 June 2017 (unaudited) £'000**	**Year ended 31 December 2017 (audited) £'000**
Investments in capital instruments			
Opening balance	72,113	49,145	49,145
Additions in the period	55,296	76,857	126,942
Sales in the period	(34,795)	(66,564)	(108,075)
Movement in unrealised (losses)/gains in the period	(4,761)	(2,142)	250
Realised gains in the period	1,009	2,571	3,851
Closing valuation	**88,862**	**59,867**	**72,113**
Other investments			
Opening balance	2,345	–	–
Additions in the period	2,879	–	2,147
Sales in the period	(2,315)	–	–
Movement in unrealised gains in the period	(470)	–	198
Realised gains in the period	168	–	–
Closing valuation	**2,607**	**–**	**2,345**
Short position covered by sale and repurchase agreement			
Opening balance	(838)	–	–
Sales in the period	(333)	–	(842)
Purchases in the period	1,132	–	–
Movement in unrealised gains in the period	(4)	–	4
Realised gains in the period	43	–	–
Closing valuation	**–**	**–**	**(838)**

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 30 June 2018 *(continued)*

12. Investments at fair value through profit or loss *(continued)*

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

As at 30 June 2018, the Company had nine open sale and repurchase agreements (see note 15). The reverse sale and repurchase agreement in place at 31 December 2017 was open ended and was used to cover the sale of a capital instrument (the short position noted above). The reverse sale and repurchase agreement was closed in the period.

The fair value of the capital instruments subject to sale and repurchase agreements (excluding the short position) at 30 June 2018 was £22,002,000 (31 December 2017: £7,234,000, net of the short position £6,395,000).

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

	30 June 2018 (unaudited) £'000	31 December 2017 (audited) £'000
JP Morgan	3,860	1,370
Goldman Sachs International	2,476	1,066
Credit Suisse	602	598
CACEIS Bank France	308	109
Total collateral held by brokers	**7,246**	**3,143**

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 2018 (unaudited) £'000	31 December 2017 (audited) £'000
Accrued capital instrument income receivable	1,269	634
Sale of capital instrument not due to settle until after period end	520	–
Interest due on credit default swaps	26	22
Other receivables and prepayments	21	16
	1,836	**672**

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 2018 to 30 June 2018 (unaudited) £'000	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Year ended 31 December 2017 (audited) £'000
Opening balance	915	(2,238)	(2,238)
Premiums received from selling credit default swap agreements	(511)	(1,402)	(1,877)
Premiums paid on buying credit default swap agreements	82	1,705	1,838
Movement in unrealised (losses)/gains in the period	(2,081)	1,660	2,100
Realised (losses)/gains in the period	(35)	802	1,092
Outstanding (liabilities)/assets due on credit default swaps	**(1,630)**	**527**	**915**
Credit default swap assets at fair value through profit or loss	396	936	1,093
Credit default swap liabilities at fair value through profit or loss	(2,026)	(409)	(178)
Outstanding (liabilities)/assets due on credit default swaps	**(1,630)**	**527**	**915**

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, £26,000 (31 December 2017: £22,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £6,938,000 (31 December 2017: £3,034,000) was held in respect of the credit default swap agreements.

Foreign currency forwards

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

	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Period from 1 January 2017 to 30 June 2017 (unaudited) £'000	Year ended 31 December 2017 (audited) £'000
Opening balance	(390)	(190)	(190)
Purchase of foreign currency derivatives	125,056	90,777	189,706
Closing-out of foreign currency derivatives	(126,102)	(90,279)	(190,792)
Movement in unrealised (losses)/gains in the period	(1,320)	460	(200)
Realised gains/(losses) in the period	1,045	(498)	1,086
Net (liabilities)/assets on foreign currency forwards	**(1,711)**	**270**	**(390)**
Foreign currency forward assets at fair value through profit or loss	–	271	54
Foreign currency forward liabilities at fair value through profit or loss	(1,711)	(1)	(444)
Net (liabilities)/assets on foreign currency forwards	**(1,711)**	**270**	**(390)**

15. Derivative financial instruments *(continued)*

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 2018 to 30 June 2018 (unaudited) £'000	**Period from 1 January 2017 to 30 June 2017 (unaudited) £'000**	**Year ended 31 December 2017 (audited) £'000**
Opening balance	5	9	9
Purchase of bond futures	2,825	990	1,906
Sale of bond futures	(2,372)	(1,068)	(1,954)
Movement in unrealised (losses)/gains in the period	(246)	2	50
Realised (losses)/gains in the period	(214)	70	(6)
Balance (payable)/receivable on bond futures	**(2)**	**3**	**5**
Bond future assets at fair value through profit or loss	6	7	5
Bond future liabilities at fair value through profit or loss	(8)	(4)	–
Balance receivable on bond futures	**(2)**	**3**	**5**

Sale and repurchase agreements

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

	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	**Period from 1 January 2017 to 30 June 2017 (unaudited) £'000**	**Year ended 31 December 2017 (audited) £'000**
Opening balance	(5,442)	–	–
Opening of sale and repurchase agreements	(87,312)	(8,043)	(38,670)
Opening of reverse sale and repurchase agreements	350	–	893
Closing-out of sale and repurchase agreements	74,840	5,078	32,367
Closing-out of reverse sale and repurchase agreements	(1,244)	–	–
Movement in unrealised (losses)/gains in the period	(230)	(113)	5
Realised profit/(loss) in the period	153	56	(37)
Total liabilities on sale and repurchase agreements	**(18,885)**	**(3,022)**	**(5,442)**
Sale and repurchase assets at fair value through profit or loss	–	–	894
Sale and repurchase liabilities at fair value through profit or loss	(18,885)	(3,022)	(6,336)
Total liabilities on sale and repurchase agreements	**(18,885)**	**(3,022)**	**(5,442)**

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 2018 £12,000 interest (31 December 2017: £5,000) on sale and repurchase agreements was payable by the Company.

15. Derivative financial instruments *(continued)*

Sale and repurchase agreements (continued)

The fair value of the capital instruments subject to sale and repurchase agreements (excluding the short position) at 30 June 2018 was £22,002,000 (31 December 2017: £7,234,000). The fair value of the short position at 31 December 2017 was £6,395,000.

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.

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 2018 (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	402	–	402	–	402
Collateral accounts for derivative financial instruments *(note 13)*	7,246	–	7,246	(2,333)	4,913
Total assets	**7,648**	**–**	**7,648**	**(2,333)**	**5,315**
Financial liabilities					
Derivatives	(22,630)	–	(22,630)	2,333	(20,297)
Total liabilities	**(22,630)**	**–**	**(22,630)**	**2,333**	**(20,297)**
31 December 2017 (audited)					
Financial assets					
Derivatives	2,046	–	2,046	–	2,046
Collateral accounts for derivative financial instruments *(note 13)*	3,143	–	3,143	(287)	2,856
Total assets	**5,189**	**–**	**5,189**	**(287)**	**4,902**
Financial liabilities					
Derivatives	(6,958)	–	(6,958)	287	(6,671)
Total liabilities	**(6,958)**	**–**	**(6,958)**	**287**	**(6,671)**

15. Derivative financial instruments *(continued)*

Offsetting of credit default swap agreements (continued)

Of the £20,297,000 net derivative liabilities as at 30 June 2018 (31 December 2017: £6,671,000):

- £1,412,000 (31 December 2017: £336,000) was in respect of derivative positions held through CACEIS Bank France, for which the cash at bank and investments at fair value through profit or loss totalling £72,508,000 (31 December 2017: £74,784,000) and derivative assets of £6,000 (31 December 2017: £59,000) were used as collateral;
- £10,164,000 (31 December 2017: £1,369,000) was in respect of derivative positions held through JP Morgan, for which derivative assets of £186,000 (31 December 2017: £674,000) and capital instruments totalling £12,637,000 (31 December 2017: £1,727,000) were used as collateral; and
- £8,721,000 (31 December 2017: £4,966,000) was in respect of derivative positions held through BRED Banque Populaire, for which capital instruments totalling £9,365,000 (31 December 2017: £5,507,000) were used as collateral.

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 2018 (unaudited)	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed capital instruments at fair value through profit or loss	84,691	4,171	–	88,862
Other investments at fair value through profit or loss *(note 12)*	2,607	–	–	2,607
Credit default swaps	–	(1,630)	–	(1,630)
Derivative financial instruments	(2)	(20,596)	–	(20,598)
Short position covered by sale and repurchase agreements	–	–	–	–
	87,296	**(18,055)**	**–**	**69,241**
31 December 2017 (audited)				
Listed capital instruments at fair value through profit or loss	69,620	2,493	–	72,113
Other investments at fair value through profit or loss *(note 12)*	2,345	–	–	2,345
Credit default swaps	–	915	–	915
Derivative financial instruments	5	(5,832)	–	(5,827)
Short position covered by sale and repurchase agreements	–	(838)	–	(838)
	71,970	**(3,262)**	**–**	**68,708**

Level 1 financial instruments include listed capital instruments at fair value through profit or loss, an unlisted open ended fund 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.

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

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

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

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 2018 (unaudited) £'000	31 December 2017 (audited) £'000
Performance fee *(note 8a)*	234	469
Investment management fee *(note 8a)*	174	83
Other accruals	149	72
Administration fee *(note 8b)*	31	31
Audit fees	23	35
Interest payable on sale and repurchase agreements *(note 17)*	12	5
Depositary fees *(note 8e)*	6	6
Broker fee *(note 8c)*	6	6
Registrar fees *(note 8d)*	4	3
Accrued interest payable on capital instrument short position	–	8
	639	**718**

18. Share capital

	30 June 2018 (unaudited)		31 December 2017 (audited)	
	Number	**£'000**	**Number**	**£'000**
Authorised:				
Ordinary shares of no par value	Unlimited	–	Unlimited	–
Allotted, called up and fully paid:				
Ordinary Shares of no par value	84,228,525	–	75,999,351	–

On 13 February 2018 the Company completed a further placing of 8,229,174 new Ordinary Shares of no par value at 107.50p per share, raising £8,846,000.

At 30 June 2018, the total number of Ordinary Shares in issue was 84,228,525 (31 December 2017: 75,999,351).

On 15 August 2018, the Company completed an additional placing of 1,223,499 new Ordinary Shares at a price of 98.50p per new Ordinary Share, raising gross proceeds of £1.21 million. Following this placing, the total number of Ordinary Shares in issue was 85,452,024.

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 £80,725,000 (31 December 2017: £79,364,000), and on 84,228,525 (31 December 2017: 75,999,351) Ordinary Shares in issue at the period end.

20. Changes in liabilities arising from financing activities

During the period ended 30 June 2018, the Company raised £8,846,000 (year ended 31 December 2017: £15,989,000) through the placing of 8,229,174 (31 December 2017: 15,068,587) new Ordinary Shares of no par value. In addition, during the period, the Company commenced the work required to update its Prospectus. Share issue costs were incurred in relation to the placing and renewal of the Prospectus, and at the period end £128,000 (31 December 2017: £56,000) of these costs were outstanding, resulting in cash flows in relation to share issue costs in the period of £193,000 (31 December 2017: £624,000).

21. 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.

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.

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:

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

Risk concentration (continued)

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 capital instruments, an unlisted open ended fund 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 2018, if the valuation of these investments at fair value through profit or loss had moved by 5% with all other variables remaining constant, the change in net assets would amount to approximately +/- £4,573,000 (31 December 2017: £3,681,000). The fair value of financial instruments exposed to price risk at 30 June 2018 was £91,469,000 (31 December 2017: £73,625,000).

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 2018, the Company held the following foreign currency forward contracts:

Maturity date	Amount to be sold	Amount to be purchased
12 July 2018	€66,075,000	£58,017,000
12 July 2018	US$24,693,000	£17,528,000
12 July 2018	SG$1,042,000	£579,000

At 31 December 2017, the Company held the following foreign currency forward contracts:

Maturity date	Amount to be sold	Amount to be purchased
16 January 2018	€47,192,000	£41,546,000
16 January 2018	US$12,452,000	£9,292,000

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

Market risk (continued)

ii. Foreign currency risk (continued)

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 2018 (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	40,060	951	903	41,914	(58,535)	(16,621)
US Dollars	12,209	147	2,341	14,697	(18,706)	(4,009)
Danish Krone	855	–	(855)	–	–	–
Canadian Dollars	–	–	–	–	–	–
Singapore Dollars	–	–	581	581	(579)	2
	53,124	1,098	2,970	57,192	(77,820)	(20,628)

31 December 2017 (audited)						
Euros	40,980	412	(4,125)	37,267	(41,990)	(4,723)
US Dollars	13,038	110	(5,123)	8,025	(9,238)	(1,213)
Danish Krone	–	–	417	417	–	417
Canadian Dollars	–	–	688	688	–	688
	54,018	522	(8,143)	46,397	(51,228)	(4,831)

The net exposure to Euros and US Dollars at 30 June 2018 was predominantly as a result of the open sale and repurchase agreements. At 30 June 2018, the liabilities arising from the Euro and US Dollar denominated sale and repurchase agreements were valued at £16,430,000 and £4,280,000 respectively.

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 2018, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 30 June 2018 would have decreased/increased by £1,031,000 (31 December 2017: £242,000).

iii. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. A large number of the capital instruments bear interest at a fixed rate, but capital instruments to the value of £59,055,000 (31 December 2017: £43,298,000), cash and cash equivalents, net of overdrafts, of £3,042,000 (31 December 2017: £7,559,000) and collateral account balances of £7,246,000 (31 December 2017: £3,143,000) were the only interest bearing financial instruments subject to variable interest rates at 30 June 2018. 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 £383,000 (31 December 2017: +/- £286,000).

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 30 June 2018 *(continued)*

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

Market risk (continued)

iii. Interest rate risk (continued)

30 June 2018 (unaudited)	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	24,309	59,055	8,105	91,469
Cash and cash equivalents	–	3,897	–	3,897
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	6,938	308	7,246
Derivative financial assets at fair value through profit or loss	402	–	–	402
Other receivables	–	–	1,836	1,836
Total financial assets	**24,711**	**69,890**	**10,249**	**104,850**
Financial liabilities				
Bank overdrafts	–	(856)	–	(856)
Derivative financial liabilities at fair value through profit or loss	(22,630)	–	–	(22,630)
Short positions covered by sale and repurchase agreements	–	–	–	–
Other payables and accruals	–	–	(627)	(627)
Total financial liabilities	**(22,630)**	**(856)**	**(627)**	**(24,113)**
Total interest sensitivity gap	**2,081**	**69,034**	**9,622**	**80,737**

31 December 2017	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	24,170	43,298	6,990	74,458
Cash and cash equivalents	–	16,808	–	16,808
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	3,143	–	3,143
Derivative financial assets at fair value through profit or loss	1,987	–	59	2,046
Other receivables	–	–	650	650
Total financial assets	**26,157**	**63,249**	**7,699**	**97,105**
Financial liabilities				
Bank overdrafts	–	(9,249)	–	(9,249)
Derivative financial liabilities at fair value through profit or loss	(6,514)	–	(444)	(6,958)
Short positions covered by sale and repurchase agreements	–	–	(838)	(838)
Other payables and accruals	–	–	(713)	(713)
Total financial liabilities	**(6,514)**	**(9,249)**	**(1,995)**	**(17,758)**
Total interest sensitivity gap	**19,643**	**54,000**	**5,704**	**79,347**

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

Market risk (continued)

iii. Interest rate risk (continued)

It is estimated that the fair value of the capital instruments at 30 June 2018 would increase/decrease by +/-£305,000 (0.94%) (31 December 2017: +/-£486,000 (0.65%)) 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 2018, credit risk arose principally from investment in capital instruments of £91,469,000 (31 December 2017: £72,113,000), cash and cash equivalents of £3,897,000 (31 December 2017: £16,808,000), balances held as collateral for derivative financial instruments at fair value through profit or loss of £7,246,000 (31 December 2017: £3,143,000) and investments in sale and repurchase assets of £nil (31 December 2017: £894,000). The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy.

The Investment Manager manages the Company's credit risk by investing in a diverse portfolio of capital instruments, in line with the Prospectus. At 30 June 2018, the capital instrument rating profile of the portfolio was as follows:

	30 June 2018 Percentage	**31 December 2017 Percentage**
A	5.40	4.76
BBB	32.60	32.69
BB	36.73	36.74
B	15.69	13.53
CCC and below	6.73	4.77
No rating	2.85	7.51
	100.00	**100.00**

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. At 30 June 2018, the overall net exposure to these counterparties was 9.09% of NAV (31 December 2017: 5.44%). The collateral held at each counterparty is disclosed in note 13.

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

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 2018 was low since the ratio of cash and cash equivalents (net of overdrafts) to unmatched liabilities was 5:1 (31 December 2017: 11:1).

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

	30 June 2018 Percentage	31 December 2017 Percentage
Less than 1 year	1.92	1.16
1 to 3 years	15.45	13.79
3 to 5 years	44.15	51.74
5 to 7 years	7.17	6.95
7 to 10 years	15.67	11.82
More than 10 years	12.79	14.54
No maturity	2.85	–
	100.00	**100.00**

As at 30 June 2018, the Company's liabilities fell due as follows:

	30 June 2018 Percentage	31 December 2017 Percentage
1 to 3 months	53.94	86.72
3 to 6 months	0.25	–
6 to 12 months	–	–
1 to 3 years	0.77	–
3 to 5 years	45.04	13.28
	100.00	**100.00**

22. 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 2018 the Company had nine open sale and repurchase agreements, committing the Company to make a total repayment of £18,885,000 post the period end (31 December 2017: £6,336,000 and receive £894,000 as a result of the reverse sale and repurchase agreement).

The raising of capital through the ongoing placing programme forms part of the capital management policy. See note 18 for details of the Ordinary Shares issued since incorporation.

As disclosed in the Unaudited Condensed Statement of Financial Position, at 30 June 2018, the total equity holders' funds were £80,725,000 (31 December 2017: £79,364,000).

23. Capital commitments

The Company holds a number of derivative financial instruments which, by their very nature, give rise to capital commitments post 30 June 2018. These are as follows:

- At the period end, the Company had sold 19 credit default swap agreements for a total of £1,846,000, each receiving quarterly interest (31 December 2017: 16 agreements for £1,489,000). The exposure of the Company in relation to these agreements at the period end date was £1,846,000 (31 December 2017: £1,489,000). Collateral of £6,938,000 for these agreements was held at 30 June 2018 (31 December 2017: £3,034,000).
- At the period end the Company had committed to three (31 December 2017: two) foreign currency forward contracts dated 12 July 2018 to buy £76,109,000 (31 December 2017: buy £50,838,000). At 30 June 2018, the Company could have effected the same trades and purchased £77,820,000 (31 December 2017: buy £51,228,000), giving rise to a loss of £1,711,000 (31 December 2017: loss of £390,000).
- At the period end the Company held nine open sale and repurchase agreements committing the Company to make a total repayment of £18,660,000 (31 December 2017: £6,340,000).

24. Contingent assets and contingent liabilities

In line with the terms of the Investment Management Agreement, as detailed in note 8a, should the Company's NAV reach a level at which the TER reduced to less than 1.5% of the average NAV in a future accounting period then the Quarterly Expenses Excess and Annual Expenses Excess totalling £499,000 at 30 June 2018 (31 December 2017: £464,000) would become payable to the Investment Manager, to the extent that the total expenses including any repayment did not exceed 1.5% of the average NAV for that period.

For the £499,000 Expenses Excess to become payable, based on the 2018 expense level to date, the Company's NAV would need to increase by at least 24% from the 30 June 2018 NAV (31 December 2017: 34%). The Directors consider that it is possible, but not probable, that this ratio will be achieved in the foreseeable future. Accordingly, the possible payment to the Investment Manager has been treated as a contingent liability in the financial statements.

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

25. Events after the financial reporting date

On 18 July 2018, the Company declared a dividend of 1.50p per Ordinary Share for the period from 1 April 2018 to 30 June 2018, out of the profits for the period ended 30 June 2018, which (in accordance with IFRS) was not provided for at 30 June 2018 (see note 6). This dividend will be paid on 24 August 2018.

On 15 August 2018, the Company completed an additional placing of 1,223,499 new Ordinary Shares at a price of 98.50p per new Ordinary Share, raising gross proceeds of £1.21 million. Following this placing, the total number of Ordinary Shares in issue was 85,452,024.

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John Renouf *(non-executive Director)*
Max Hilton *(non-executive Director)*

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