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 2019

CONTENTS

HIGHLIGHTS

	30 June 2019 (unaudited)	30 June 2018 (unaudited)	31 December 2018 (audited)
Net assets	£87,702,000	£80,725,000	£76,976,000
Net asset value ("NAV") per Ordinary Share	95.48p	95.84p	90.08p
Share price	92.75p	102.50p	88.00p
(Discount)/premium to NAV	(2.86)%	6.95%	(2.31)%
Profit/(loss) for the period	£7,545,000	£(4,816,000)	£(7,099,000)
Dividend per share declared in respect of the period	3.00p	3.00p	6.00p
Total return per Ordinary Share (based on NAV)[1]	+9.33%	-5.35%	-8.00%
Total return per Ordinary Share (based on share price)[1]	+8.81%	+0.24%	-10.69%
Ordinary Shares in issue	91,852,904	84,228,525	85,452,024

[1] 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") is an authorised closed-ended Guernsey investment company with registered number 61003. Its Ordinary Shares were admitted to the premium listing segment of the FCA's Official List and to trading on the Premium Segment of the Main Market of the London Stock Exchange (the "Premium Segment") on 15 October 2018 ("Admission") (prior to this, the Ordinary Shares traded on the Specialist Fund Segment ("SFS") of the London Stock Exchange.

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 2019.

Results
The Company has performed well in the six months ended 30 June 2019. Taking into account dividends paid, the Company's total return per share over the six months net of all expenses was +9.3%.

In brief, markets continued to unwind their sharp declines of 2018 whilst the restructuring of regulated financial institution balance sheets driven by regulatory change, which the Company was set up to exploit, continued apace. As a result, the Company's performance in the six months to 30 June 2019 was above average for the asset class.

Market activity was high and our investment manager, Axiom Alternative Investments SARL, was energetic 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 3 to 10 of this document and so I refer readers to that for more detail on the events of the period.

The Company reported a net profit after tax for the period ended 30 June 2019 of £7.5 million (30 June 2018: loss of £4.8 million), representing earnings per Ordinary Share of 8.32p (30 June 2018: loss per Ordinary Share of 5.85p).

The Company's NAV at 30 June 2019 was £87.7 million (95.48p per Ordinary Share) (31 December 2018: £77.0 million, 90.08p 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 24 May and the other, declared after the period end, will be paid on 23 August to Shareholders on the register at 2 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 24 May dividend and the 1.50p dividend in respect of the year ended 31 December 2018, which was paid on 22 February 2019.

Placing programme and fundraising
On 4 February 2019, the Company completed a placing of 6,400,880 new Ordinary Shares at a price of 92.81p per new Ordinary Share, raising gross proceeds of £5.94 million. This represents a further incremental step towards improving the return economics of the Company and its attractiveness to those institutional investors who require larger market capitalisation in their investees. The Board remains committed to making further progress in this regard as and when conditions permit.

Outlook
The future has always been notoriously difficult to predict and this is more so when the great forces that will shape market outcomes in the short term are essentially political and not economic in nature. Most readers of this report will immediately think of Brexit and how that will affect regulatory and monetary policy in Europe which, at least geographically, includes both the EU and the UK but it is also the case elsewhere as the US administration and China arm-wrestle future trading relations and domestically, the incumbent US administration seeks re-election. The evolution of such news events clearly move markets. As always, the only certainty is that there will be change. Change is what the Company was created to exploit and our Investment Manager's dynamic approach should position the Company well to exploit these opportunities.

The Board therefore 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
13 August 2019

INVESTMENT MANAGER'S REPORT

1. Market Commentary

January

Investors came back in January in a market which was struck by a lack of liquidity at the end of 2018. Financials led the rise at the beginning of the year despite the persisting economic concerns (Brexit, the recession in Italy, the trade war between China and the United States) offset by the relatively dovish tone of the ECB.

In the ongoing Brexit negotiations, despite the House of Commons voting down the proposed Withdrawal Agreement on 15 January, the amendments passed on 29 January gave Theresa May the credibility to return to Brussels in a further attempt to find a resolution to the backstop issue before the new vote scheduled for 14 February.

The quarter 4 results disappointed despite the solid fundamentals. The lower earnings expectations for quarter 4 resulted in several profit warnings. Société Générale was expecting a 20% drop in its market activities and Metro Bank announced risks were not correctly captured in the bank core capital ratios. Deutsche Bank benefited from the rumours of a possible merger with Commerzbank, which could have been orchestrated by the German authorities. On a more positive note, Bankia and KBC results were in line with the consensus.

The 2018 Transparency Report published by the EBA showed significant progress reducing non-performing exposures of EU banks, which stood at only 3.58%. The ECB continued to maintain pressure on NPL provisioning, targeting particularly Italian banks.

On the regulatory front, the latest updates in the Banking Package (CRD5/CRR2/BRRD2/SRMR) and the minimum coverage requirements of MREL introduced by the SRB continued to provide an attractive set of investment opportunities within the asset class. Interesting to note that a group of investors was publicly challenging HSBC's approach towards the regulatory treatment of their discounted perpetuals ("discos").

Regarding rating revisions, Ageas was upgraded by 2 notches at Moody's (from Baa2 to A3) which led to the Ageas Fresh upgrade to Investment Grade (Baa3) territory within the 3 rating agencies.

Finally, the primary market was focused on the new Senior Non-Preferred format (Tier 3 ("T3") securities, eligible for TLAC/MREL ratios), with only two new Additional Tier 1s ("AT1") from UBS and BCP. The regulatory calls continued with KBC, BBVA and Santander.

February

Credit markets continued their positive trend in February driven by central banks' dovish tone, the progress of the trade discussions between the US and China and the latest economic figures in the US. The SubFin tightened by 24bps ending the month at 149bps.

On Brexit, following the recent developments, markets seemed to believe that the risk of a no-deal was more remote. The prospects of a possible delay to avoid a sudden exit of the European Union benefited the British Pound which returned to its July 2018 levels.

The latest round of bank earnings came out either above expectations or in line with the consensus. Deutsche Bank announced its first profit since 2014. UniCredit, Intesa, Erste and Bawag were among the best performers. After underestimating its capital ratios last month, Metro Bank reassured the market by announcing a capital increase.

The results of the liquidity stress tests being conducted by the ECB were expected in quarter 3. The ECB confirmed it was working on a new refinancing facility program and that details of the new TLTRO 3 would be announced in the coming months.

In respect of banking regulations, the latest updates of the CRR2 confirmed our analysis of the eligibility rules for bank capital, in particular for specific instruments, either issued by SPVs or by non-EU entities or entities under non-EU law, that do not have contractual recognition of write-down powers by the resolution authorities. The final text should have been presented to the European Parliament soon. We closely monitored and analysed these developments as they were a source of opportunities within the asset class. We continued to see regulatory calls of Legacy bonds with Caixa Geral calling its two Legacy Tier 1 ("T1") bonds.

Finally, the primary market was active with six new AT1s. Santander's decision not to call its 6.25% bond on its first call date was the highlight of the month. This was the first time that a European bank had taken such a decision (we published a note on this subject, available on our website). The markets' reaction was moderate without any contagion effects.

March

March ended on a positive note despite all the uncertainty around Brexit and the wait-and-see attitude of the central banks. On 29 March, the UK Parliament rejected Theresa May's withdrawal agreement for the third time by 58 votes and the deadline was extended to 31 October. The risk premium of a "no-deal" however remained limited and the SubFin continued to tighten (-10bps over the month).

On the monetary policy front, the Fed reinforced its easing stance during the latest FOMC. The US central bank put interest rate rises on hold with only one rise expected in 2020. In Europe, the ECB also remained cautious and left its rates unchanged. As expected, a new reduced rate loan scheme for banks (TLTRO 3) would be introduced next September for a period of two years. Several press articles suggested the ECB was studying options to reduce the fees that banks pay on a portion of their cash surplus to offset the side effects of its easing policy and thus improve their profitability.

Deutsche Bank and Commerzbank finally confirmed that they were starting discussions for a merger, but we believed that a significant capital increase seemed necessary to complete this project.

After Danske Bank, money laundering problems affected Nordea and Swedbank.

In regard to banking regulations, the latest updates of the CRR2 confirmed the subordination requirements of the MREL requested by the single resolution board to the banks.

Finally, due to the sharp tightening of spreads since the beginning of the year, the primary market was very active during the month with 11 issues representing more than EUR8 billion. Of particular note were the issues by KBC, UniCredit, BNP, Nordea, BBVA and Barclays. On the Legacy market, three UK issuers made tender offers: Lloyds, Coventry and Standard Life Aberdeen.

April

Financials ended the month on a positive note and spreads continued tightening (SubFin -20bps) on the back of the positive macro data in China, in the USA and in Italy, as well as the extension of Brexit until the end of October.

The banking results stood above expectations. The already high level of capital (14.7% in quarter 4 2018) increased slightly. Deutsche Bank officially announced abandoning the merger with Commerzbank, however, the consolidation in the sector continued with Crédit Agricole and Santander combining their custody and asset-servicing operations. UniCredit agreed to pay a USD1.3 billion fine to settle US sanctions. This came just after Standard Chartered Plc paid USD1.1 billion for similar misconduct.

On the regulatory side, the adoption of the Banking Package on 16 April established the definitive MREL rules: this was a source of catalysts for our Legacy strategies. During the month, three legacy instruments were called: the Santander 6.222%, the UniCredit 3.125% and the Eurobank 6%. In the UK, the regulatory frame was being strengthened with the systemic risk buffer being confirmed for ringfenced entities.

Finally, the primary market remained active. Among the issuers who benefited from the positive market conditions were: Société Générale (AT1), Coventry (AT1), BPM (AT1), Van Lanschot (AT1), Aegon (Restricted T1 ("RT1")), ASR (Tier 2 ("T2")) and Ageas (T2).

May

The European elections did not have a major impact on markets, but risks identified at the end of last year, including the escalation in the Trade War between the US and China, Italy's failure to rein in debt and the increasing probability of a no-deal Brexit, have driven investor sentiment. In addition, the SubFin index widened by 46bps over the month and, after the U-turn of the Fed in February, the 10-year US and German rates have reached historical lows. These important recessive signals make the ECB's June meeting even more important.

The first quarter earnings continued to surprise positively, especially from insurers. UniCredit and Intesa Sanpaolo benefited from better than expected market activities, improving assets quality and a stable capital position.

Among credit ratings, RBS was upgraded by one notch by S&P to BBB resulting in an upgrade of its subordinated bonds. Moody's also changed its outlook on Barclays from stable to positive, reflecting improved profitability prospects and reduced litigation risk.

During the month, rumours about sector consolidation marked a pause. Following the announcement of the end of talks between Deutsche Bank and Commerzbank last month, the press reported that negotiations between Deutsche Bank and UBS about a merger of their asset management subsidiaries would also be halted. UniCredit and ING were said to be still interested in Commerzbank. Finally, Liberbank and Unicaja announced the end of their merger talks.

The primary market continued to offer good premia – the Finnish insurer Sampo issued a T2 with a 30 year maturity (first call in 10 years) for EUR500 million with a coupon of 3.375%. Amongst the calls announced this month we would highlight Aegon 6.5% Perp in USD, Barclays 14% Perp in GBP, RABOBK 11% in USD and Lloyds 7% AT1 in GBP.

June

Central banks confirmed their accommodative stance and Mario Draghi announced another potential quantitative easing. These announcements had a polarising impact on bond assets: a strongly positive effect on fixed-rate assets and a strongly negative impact on floating-rate assets. The Euro 5-year mid-swap rate hit a historical low at -0.23%. The French government's 10-year borrowing rate temporarily moved into negative territory for the first time ever.

On the political front, concerns were dissipating. The market welcomed the resumption of Sino-American negotiations at the G20. In the UK, the campaigns for prime minister took centre stage with less tension around Brexit.

On the regulatory front, CRR2 was officially implemented on 27 June and endorsed the final rules of MREL, expanding our investment scope to new Legacy instruments. Management at CNP and RBS confirmed our analysis of the issuers' policies towards a clean-up of their Legacy debt by 2022 for banks and 2026 for insurers. As an example, Santander announced the call of its 5.75% in July.

Restructuring of the sector continued. Athora funds joined NN to acquire Dutch insurer Vivat, while insurers Caser Seguros and Seguradoras Unidas (Tranquilidade) launched their sale processes. Following the fallout of the merger talks between Commerzbank and Deutsche Bank, the latter announced plans to create a EUR50 billion "Bad Bank" and focus on traditional banking activities. Furthermore, the bank passed the qualitative test in the Fed's CCAR stress test, after having failed the previous year's.

Finally, the primary market continued to offer great opportunities for issuers. New AT1 issuances continued: Barclays 7.125% in GBP and Lloyds 6.75% in USD, but also Commerzbank's long awaited inaugural AT1. The coupon was only 7% in USD, with the German issuer benefiting from a favourable accounting change in the amount of distributable reserves.

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. Company Activity

January

The Company took the opportunity of the January rebound to reduce its risk. Most of the capital raised at the end of the month (7.5% of the Company pre-placing) was used to invest in early February. Only two small purchases were made in January which came at attractive premia: Abanca T2 in the Liquid Relative Value bucket and BCP AT1 in the restructuring bucket. Overall, the exposure to the UK was mitigated as the Brexit negotiation met further complications in an ever-tightening timeline. Within the Less Liquid Relative Value bucket, the Company reduced its exposure to perpetual instruments issued by operating entities of UK banks.

February

Following the call on CXGD (+24.2% on the price) the Company gain was c.70bps on NAV. The Company continued to reduce risk as market conditions improved. It increased its AT1 exposure but reduced significantly its beta via CDS and its exposure to less liquid T2s.

In Liquid Relative Value, the only primary deal it participated in was KBC AT1. In Less Liquid Relative Value, it initiated a position on a rare make-whole bond. In Restructuring, the Company took profits on BCP in Portugal and a regional bank in Italy. In Special Situations, the Company realised its gain on the CXGD position by selling at 100.00 after the call announcement. The Company also switched its exposure to a directly-issued discounted bond into a bank SPV and added some Santander AT1s.

Finally, in Midcap Origination, the Company sold its position on OakNorth Bank, following the capital injection by Softbank and reduced its exposure to CASERS in Spain, after Mapfre confirmed its interest.

March

The Company continued to reduce risk while participating selectively in some new issues.

In Liquid Relative Value, it participated in the new AT1 issued by BBVA, Nordea and CYBG, as well as the new RT1 issued by Aegon.

In Restructuring, the Company sold its Deutsche Bank AT1s after the official confirmation of the merger discussions and realised its gain on the T3 issued by Just Group Plc. The Company added on some Italian and German T2s as well as the new UniCredit AT1s.

In Special Situations, the Company reduced its exposure to UK discounted bonds.

Finally, in Midcap Origination, the Company continued to reduce its position in Caser Seguros in Spain and participated in the two new deals, by Montepio in Portugal and Van Lanschot in the Netherlands.

April

The Company used the positive momentum to continue reducing its risk. In Liquid Relative Value, the Company realised some gains on the recent issues from Nordea, KBC, Clydesdale and Aegon. It also sold its holding in BNP USD AT1s and Rothesay RT1s, in anticipation of a potential acquisition that would weaken the credit metrics.

The Company also reduced its holdings in Spanish AT1s ahead of negative headlines about the IRPH mortgage benchmark, as well as its holding in Liberbank in the Restructuring bucket. In Restructuring, the Company also sold the recent AT1 deal done by UniCredit.

In Special Situations, the Company managed to source some legacy SPV-issued instruments by Greek banks ahead of the call by Eurobank. In Less Liquid Relative Value, the Company benefited marginally from the Santander 6.222% call, a position purchased in April 2017 at 94.

Finally, in Midcap Origination, the Company reduced a position in a UK AT1. The Company ended the month with more than 8% in cash.

May

The Company kept the same amount of liquidity with 8% cash throughout the month. In Liquid Relative Value, it bought some CDS protection on a UK Holdco and took a position on Commerzbank towards a consolidation scenario.

In Less Liquid Relative Value, it reduced its holding of Ecclesiastical preference shares to increase its holding of Achmea fixed-to-fixed at the same yield but in Euros. In Restructuring, it sold its holdings in International Personal Finance and Credito Valtellinese after their rebound. It also reduced its holding in Metro Bank T2s after the capital increase. The size of the position remained less than 1%.

In Special Situations, it purchased some discounted SPV bonds from Austria. Finally, in Midcap Origination, it took a position in Esure after the issuer confirmed the strengthening of its solvency on the back of a reinsurance agreement.

June

The Company reduced its exposure during the strong tightening. In Liquid Relative Value, it took profit on BBVA and Santander AT1s, while, in Less Liquid Relative Value, it reduced its exposure to Ecclesiastical insurance in the UK.

In Restructuring, it reduced its exposure to the Italian insurer Cattolica and sold its position in German lender IKB. It took part in the new T2 issue by Piraeus Bank in Greece, whose progress on NPL reduction should address the regulatory pressure. Finally, the Company protected part of its portfolio at these tight spreads with CDSs on subordinated financials.

4. Portfolio and Liquidity Metrics

Share price and NAV	31 Dec 17	29 Jun 18	31 Dec 18	30 Jun 19
Share price (mid)	105.25	102.50	88.00	92.75
NAV per share (weekly)	104.43	95.84	90.08	95.48
Dividends paid over last 12 months	6.15	6.00	6.00	6.00
Shares in issue	75,999,351	84,228,525	85,452,024	91,852,904
Market capitalisation (GBP mn)	79,989	86,334	75.198	85.194
Total net assets (GBP mn)	79,364	80,725	76.976	87.701
Premium/(Discount)	0.79%	6.95%	(2.31)%	(2.86)%

Portfolio information	31 Dec 17	29 Jun 18	31 Dec 18	30 Jun 19
Modified duration	3.11	1.88	1.63	3.42
Sensitivity to credit	5.21	7.74	7.76	4.48
Positions	89	97	91	85
Average price	96.01	95.03	95.40	101.45
Running yield	5.26%	7.01%	7.52%	5.70%
Yield to perpetuity	6.30%	7.49%	8.12%	6.82%
Yield to call	7.25%	8.41%	10.06%	6.89%
Gross Assets	108.2%	128.3%	127.1%	115.5%
Net gearing = (Gross assets – collateral)/Net Assets	104.2%	119.4%	115.5%	107.2%
Investments/Net Assets	94.7%	115.6%	112.3%	96.0%
Cash	9.5%	3.8%	3.2%	11.3%
Collateral	4.0%	9.0%	11.6%	8.3%
Repo/Net Assets	6.9%	23.4%	19.4%	13.5%
CDS/Net Assets	89.5%	117.3%	103.0%	79.0%
Liquidity – Investments				
Realisable in 1 day			82.29%	70.5%
Realisable in 1 week			27.35%	24.1%
Level 1 assets			100.1%	90.5%
Level 2 assets			9.5%	4.2%

Key Metrics and Risk Analysis (as at 30 June 2019)

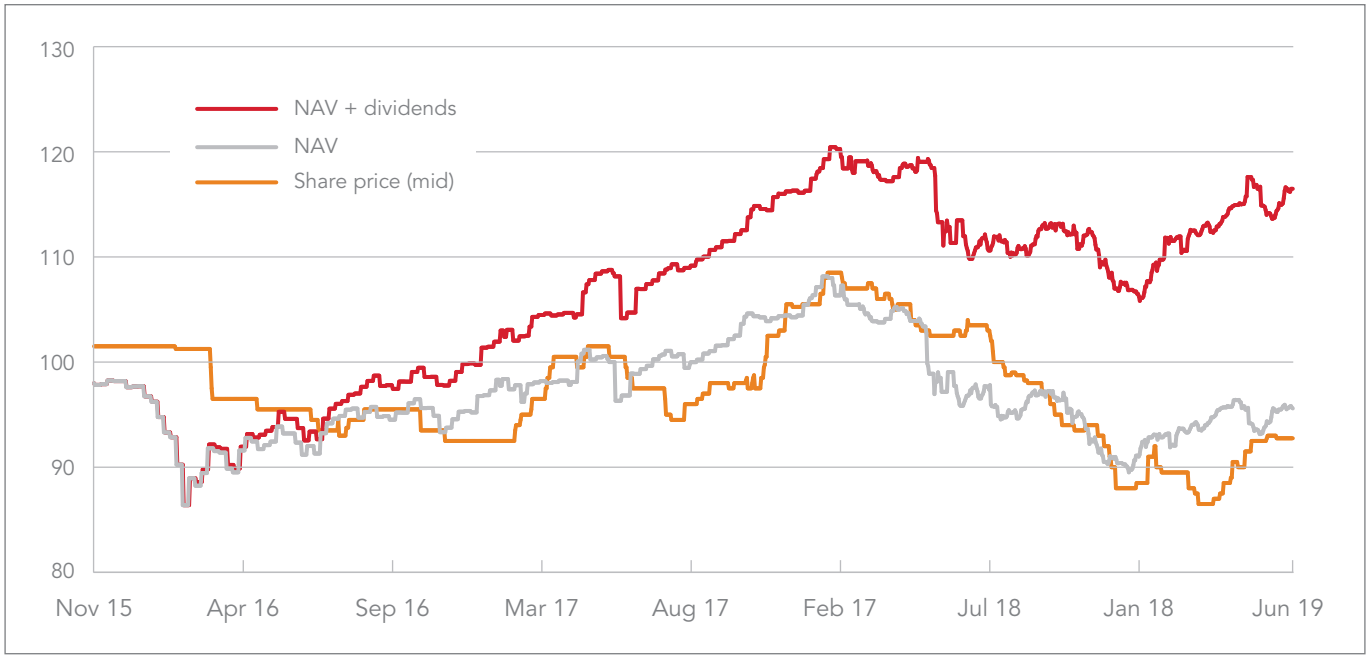
Share price and NAV		Portfolio information	
Share price (mid) (GB pence)	92.75	Modified duration	3.42
NAV per share (daily) (GB pence)	95.48	Sensitivity to credit	4.48
Dividends paid over last 12 months (GB pence)	6.00	Positions	85
Share in issue	91,852,904	Average price at end of the month[1]	101.45
Market capitalisation (GBP mn)	85.194	Running yield	5.70%
Total net assets (GBP mn)	87.701	Yield to perpetuity[2]	6.82%
Premium/(Discount)	(2.86)%	Yield to call[3]	6.89%

Net Return

Total Performance					
1 month	3 months	6 months	1 year	3 years[5]	Since launch[5]
2.29%	3.18%	9.33%	5.43%	7.30%	4.48%

Monthly Performance													
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total
2015											0.19%	-1.48%	-1.29%
2016	-4.02%	-4.59%	3.57%	1.16%	2.62%	-1.97%	2.83%	1.69%	-0.21%	2.06%	-1.60%	1.91%	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%	-0.72%	1.60%	-1.26%	2.43%	-1.54%	-2.68%	-1.44%	-8.00%
2019	3.36%	2.30%	0.29%	2.53%	-1.59%	2.29%							9.33%

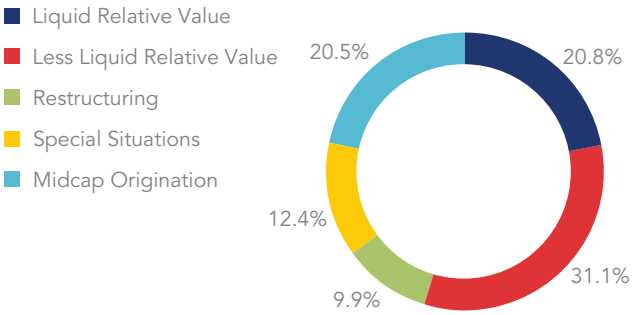
Returns Evolution since inception[4]



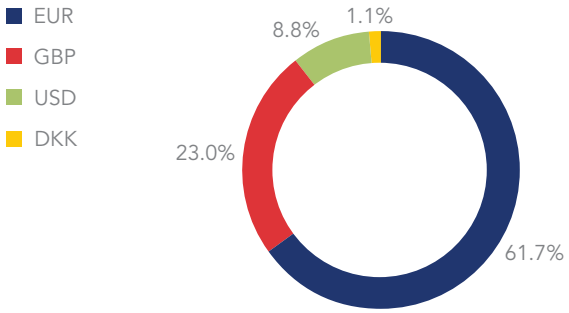
[1] *Bonds only.*
[2] *The yield to perpetuity is the yield of the portfolio with the hypothesis that securities are not reimbursed and kept to perpetuity.*
[3] *The yield to call is the yield of the portfolio at the anticipated reimbursement date of the bonds.*
[4] *Past performance does not guarantee future results.*
[5] *Annualized performance since inception of the unit.*

Top 10 Holdings		
Security	**Strategy**	**% of NAV**
Achmea 6% Perp	Less Liquid Relative Value	6.34%
BNP Paribas 4.875% Perp	Less Liquid Relative Value	5.64%
Shawbrook 7.875% Perp	Midcap Origination	5.08%
HBOS 6.85% Perp	Less Liquid Relative Value	2.75%
Fortis Perp	Special Situation	2.58%
Banco BPM 9% Perp	Less Liquid Relative Value	2.38%
Onesav 9.125% Perp	Midcap Origination	2.31%
Volksbank Wien 7.75% Perp	Less Liquid Relative Value	2.10%
Caixa Economica 10.5%	Midcap Origination	1.99%
Lloyds 13% Perp	Less Liquid Relative Value	1.97%

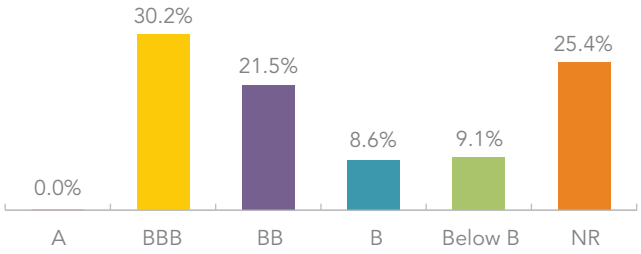
Strategy Allocation (as a % of total net assets)[1]



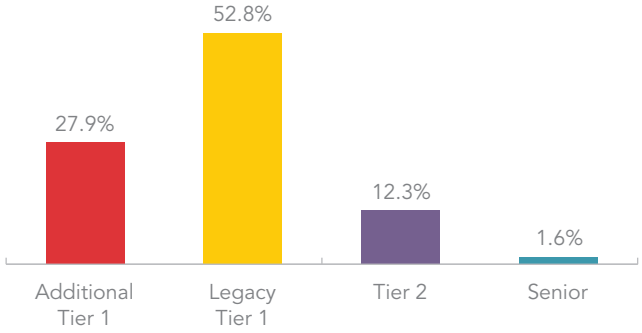
Denomination (as a % of total net assets)[1]



Portfolio Breakdown (as a % of total net assets)[1]

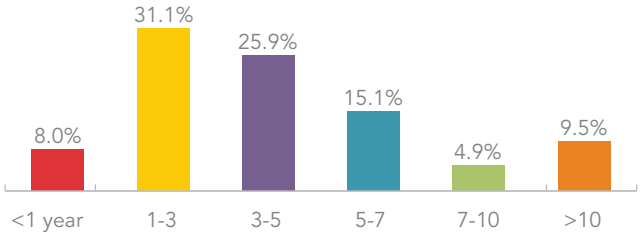


By securities external rating[1]

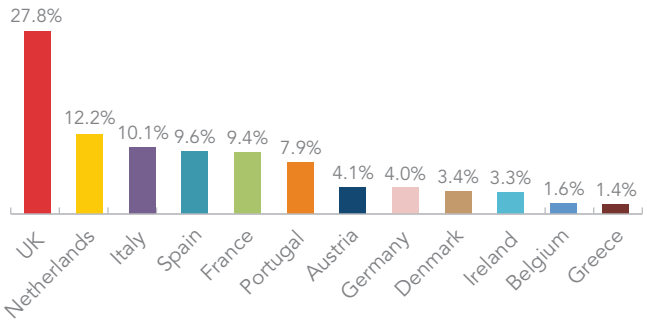


By subordination

By maturity[1]



By country[1]



[1]Splits adjusted for single assets

5. Outlook

The first six months of 2019 have seen a strong rebound in valuations of financial subordinated debt. The central banks' dovish tones eventually more than offset the uncertainties from the macroeconomic outlook in the EU or the UK and general geopolitical developments. Despite seeing the Brexit lead campaigner as new Prime Minister, markets seem to believe that the risk of a no-deal is increasingly remote.

Bank regulations saw a breakthrough with the official implementation on 27 June of CRR2, which covers the final rules of MREL. Bank issuers as well as insurance issuers continue to guide investors towards the clean-up of their legacy debt by 2022 and 2026 respectively. We have seen a number of calls in the portfolio: Caixa Geral in February for example (3.1% weight at the end of January), and more recently Santander Floater step-up (1.4% weight at the end of July). We continue to expect calls, at par but also at the make-whole prices, as well as tenders.

Underlying fundamentals continue to strengthen for credit and hybrid investors. Solvency levels increase while NPL ratios are managed down. Restructuring plans deliver some degree of progress at institutions like Deutsche Bank or Monte Paschi, on a backdrop of very supportive volumes in primary transactions overall.

The Company has reduced risk overall during the last couple of months, by reducing the gearing down to 97.6% for the ratio of investments to NAV while keeping the running yield close to 6%. We believe that the current portfolio construction should benefit from an environment with so many diverging drivers of valuations.

Gildas Surry
Axiom Alternative Investments SARL
13 August 2019

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 2018. The Board believes that these risks are applicable to the six month period ended 30 June 2019 and the remaining six months of the current financial year.

On behalf of the Board.

William Scott
Chairman
13 August 2019

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
13 August 2019

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2019

	Note	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000
Income			
Capital instrument income		2,188	2,227
Credit default swap income		312	444
Bank interest receivable		43	37
Total income		**2,543**	**2,708**
Investment gains and losses on investments held at fair value through profit or loss			
Realised gains on disposal of capital instruments and other investments	*13*	269	1,220
Movement in unrealised gains/(losses) on capital instruments and other investments	*13*	3,897	(5,235)
Realised gains on derivative financial instruments	*16*	387	949
Movement in unrealised gains/(losses) on derivative financial instruments	*16*	1,367	(3,877)
Total investment gains and losses		**5,920**	**(6,943)**
Expenses			
Investment management fee	*8a*	(398)	(363)
Administration fee	*8b*	(63)	(62)
Directors' fees	*8f*	(47)	(47)
Other expenses	*10*	(126)	(125)
Interest payable and similar charges	*9*	(21)	(106)
Total expenses		**(655)**	**(703)**
Profit/(loss) from operating activities before gains and losses on foreign currency transactions		**7,808**	**(4,938)**
(Loss)/gain on foreign currency		(263)	122
Profit/(loss) for the period attributable to the Owners of the Company		**7,545**	**(4,816)**
Earnings/(loss) per Ordinary Share – basic and diluted	*12*	**8.32p**	**(5.85)p**

All of the items in the above statement are derived from continuing operations.
The accompanying notes on pages 18 to 41 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 2019

	Note	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000
Distributable reserves and total:			
At 1 January 2019		76,976	79,364
Profit for the period		7,545	(4,816)
Contributions by and distributions to Owners			
Ordinary Shares issued	*19*	5,941	8,846
Share issue costs		(100)	(266)
Dividends paid	*6*	(2,660)	(2,403)
At 30 June 2019		**87,702**	**80,725**

The accompanying notes on pages 18 to 41 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 2019

	Note	As at 30 June 2019 (unaudited) £'000	As at 31 December 2018 (audited) £'000
Assets			
Investments in capital instruments at fair value through profit or loss	*13, 17*	73,439	81,341
Other investments at fair value through profit or loss	*13, 17*	9,555	3,050
Collateral accounts for derivative financial instruments at fair value through profit or loss	*14*	7,291	8,922
Derivative financial assets at fair value through profit or loss	*16*	4,065	2,574
Other receivables and prepayments	*15*	1,174	2,088
Cash and cash equivalents		9,870	2,612
Total assets		**105,394**	**100,587**
Current liabilities			
Derivative financial liabilities at fair value through profit or loss	*16*	(16,751)	(21,284)
Short positions covered by sale and repurchase agreements	*13*	(615)	(1,451)
Other payables and accruals	*18*	(326)	(710)
Bank overdrafts		–	(166)
Total liabilities		**(17,692)**	**(23,611)**
Net assets		**87,702**	**76,976**
Share capital and reserves			
Share capital	*19*	–	–
Distributable reserves		87,702	76,976
Total equity holders' funds		**87,702**	**76,976**
Net asset value per Ordinary Share: basic and diluted	*20*	**95.48p**	**90.08p**

These unaudited condensed half-yearly financial statements were approved by the Board of Directors on 13 August 2019 and were signed on its behalf by:

William Scott
Chairman
13 August 2019

John Renouf
Director
13 August 2019

The accompanying notes on pages 18 to 41 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 2019

	Note	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000
Cash flows from operating activities			
Net profit/(loss) before taxation		7,545	(4,816)
Adjustments for:			
Foreign exchange movements		263	(122)
Total investment (gains)/losses at fair value through profit or loss		(5,920)	6,943
Cash flows relating to financial instruments:			
Payment from/(to) collateral accounts for derivative financial instruments	*14*	1,631	(4,103)
Purchase of investments at fair value through profit or loss	*13*	(28,957)	(58,175)
Sale of investments at fair value through profit or loss	*13*	35,298	36,590
Premiums received from selling credit default swap agreements	*16*	617	511
Premiums paid on buying credit default swap agreements	*16*	(1,853)	(82)
Purchase of foreign currency derivatives	*16*	(94,747)	(125,056)
Close-out of foreign currency derivatives	*16*	95,679	126,102
Purchase of bond futures	*16*	(2,176)	(2,825)
Sale of bond futures	*16*	1,400	2,372
Proceeds from sale and repurchase agreements	*16*	45,365	87,312
Payments to open reverse sale and repurchase agreements	*16*	–	(350)
Payments for closure of sale and repurchase agreements	*16*	(50,131)	(74,840)
Proceeds from closure of reverse sale and repurchase agreements	*16*	1,576	1,244
Opening of short positions	*13*	760	333
Closure of short positions	*13*	(1,622)	(1,132)
Net cash inflow/(outflow) from operating activities before working capital changes		4,728	(10,094)
Decrease/(increase) in other receivables and prepayments		162	(644)
Decrease in other payables and accruals		(320)	(152)
Net cash inflow/(outflow) from operating activities		**4,570**	**(10,890)**
Cash flows from financing activities			
Proceeds from issue of Ordinary Shares		5,941	8,846
Share issue costs paid	*21*	(164)	(193)
Dividends paid	*6*	(2,660)	(2,403)
Net cash inflow from financing activities		**3,117**	**6,250**
Increase/(decrease) in cash and cash equivalents		**7,687**	**(4,640)**
Cash and cash equivalents brought forward*		2,446	7,559
Effect of foreign exchange on cash and cash equivalents		(263)	122
Cash and cash equivalents carried forward*		**9,870**	**3,041**

* Cash and cash equivalents at the start of the period and 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 2019 *(continued)*

	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	172	637
Cash received during the period for interest	2,752	489
Cash received during the period for dividends	71	114

The accompanying notes on pages 18 to 41 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 2019

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 Premium Segment of the main market of the London Stock Exchange and to the premium listing segment of the FCA's Official List on 15 October 2018 (prior to this, the Ordinary Shares traded on the SFS of the London Stock Exchange).

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 2019. These unaudited condensed half-yearly financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the FCA 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 2019 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 13 August 2019.

b) Going concern

After making reasonable enquiries, and assessing all data relating to the Company's liquidity, including its cash resources, income stream and Level 1 investments, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company. 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 certain financial instruments, which are measured at fair value through profit or loss.

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) 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 2019 were £1/€1.1166, £1/US$1.2696, £1/DKK8.3344, £1/CA$1.6620 and £1/SG$1.7184 (31 December 2018: £1/€1.1122, £1/US$1.2754, £1/DKK8.3033, £1/CA$1.7403 and £1/SG$1.7383).

c) 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.

3. Significant accounting policies *(continued)*

d) 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.

Derivative financial instruments, including credit default swap agreements, foreign currency forward contracts, bond future contracts and sale and repurchase agreements are recognised initially, and are subsequently measured at, fair value. Sale and repurchase agreements are recognised at fair value through profit or loss as they are generally not held to maturity and so are held for trading. Derivative financial instruments are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are offset only if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

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

Recognition

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

Derecognition

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

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

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

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

Initial measurement

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

Subsequent measurement

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

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

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

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

Offsetting of financial instruments

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

e) 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 16 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.

f) 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.

g) Receivables and prepayments

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes in this category other short-term receivables.

h) 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.

i) Payables and accruals

Trade and other payables are carried at payment or settlement amounts. 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.

j) 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.

3. Significant accounting policies *(continued)*

k) 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.

l) 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.

m) 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:

IAS 12	Income Taxes
IAS 23	Borrowing Costs
IFRIC 23	Uncertainty over Income Tax Treatments

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

n) 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 expect that they would not have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IAS 1	Presentation of Financial Statements – amendments regarding the definition of material	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – amendments regarding the definition of material	1 January 2020

4. Use of judgements and estimates

The preparation of the Company's unaudited condensed half-yearly financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the unaudited condensed half-yearly financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in future periods.

Judgements

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

i) Determination of functional currency

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

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

Judgements *(continued)*

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 17.

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.

6. Dividends *(continued)*

The Company declared the following dividends during the period ended 30 June 2019:

	Total dividend declared in respect of earnings in the period		Amount per Ordinary Share	
	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Period from 1 January 2019 to 30 June 2019 (unaudited) pence	Period from 1 January 2018 to 30 June 2018 (unaudited) pence
Dividends declared and paid in the period	2,660	2,403	3.00p	3.00p
Less, dividend declared in respect of the prior period that was paid in the period	(1,282)	(1,140)	(1.50)p	(1.50)p
Add, dividend declared out of the profits for the period but paid after the period end:	1,378	1,263	1.50p	1.50p
Dividends declared in respect of the period	2,756	2,526	3.00p	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 £2,660,000 (30 June 2018: £2,403,000) was recognised in respect of dividends, none of which was outstanding at the reporting date. The second dividend of £1,378,000 in respect of the earnings during the period had not been provided for at 30 June 2019 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 2019, the Company had holdings in the following investments which were managed by the Investment Manager:

	30 June 2019			31 December 2018		
	Holding	Cost £'000	Value £'000	Holding	Cost £'000	Value £'000
Axiom Contingent Capital – Class E	2,450	2,462	2,612	3,119	3,134	3,050
UC AXI Global CoCo Bonds UCITS ETF	70	6,040	6,538	–	–	–
Axiom Global CoCo UCIT ETF	5	394	406	–	–	–

During the period, the Company: sold 669 units in Axiom Contingent Capital – Class E for £700,000, realising a gain of £28,000; purchased 70 units in UC AXI Global CoCo Bonds UCITS ETF for £6,040,000; and purchased 5 units in Axiom Global CoCo UCIT ETF for £394,000.

During the period ended 30 June 2018, the Company sold 1,739 units in Axiom Premium Multi Strategies for £2,315,000, realising a gain of £168,000.

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.

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 £398,000 (30 June 2018: £363,000) was incurred in respect of Investment Management fees, of which £202,000 (31 December 2018: £186,000) 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.

During the period, £13,000 of the Expenses Excess was paid to the Investment Manager (30 June 2018: Expenses Excess for the period of £34,000). At 30 June 2019 the Quarterly Expenses Excess and Annual Expenses Excess which could be payable to the Investment Manager in future periods was £710,000 (31 December 2018: £723,000) (see note 25).

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Performance fee

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

The fee is payable as a share of 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.

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 2018: £nil). On 21 February 2019, the Company paid the Investment Manager £234,000, in settlement of the 2017 performance fee, which was subsequently used to purchase 261,970 shares in the Company.

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 £110,000 per annum, which is subject to an annual adjustment upwards to reflect any percentage change in the retail prices index over the preceding year. In addition, the Company pays the Administrator a fee for 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 £63,000 (30 June 2018: £62,000) was incurred in respect of Administration fees and £32,000 (31 December 2018: £31,000) was payable to the Administrator at the reporting date.

8. Key contracts *(continued)*

c) Broker

Winterflood Securities Limited ("Winterflood") has been appointed to act as Corporate Broker ("Broker") for the Company, for which the Company pays Winterflood an annual retainer fee of £35,000 per annum.

For the period ended 30 June 2019, the Company incurred Broker fees of £18,000 (30 June 2018: £18,000) of which £6,000 was payable at the period end date (31 December 2018: £6,000).

d) Registrar

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

During the period, a total of £10,000 (30 June 2018: £10,000) was incurred in respect of Registrar fees, of which £4,000 was payable at 30 June 2019 (31 December 2018: £3,000).

e) Depositary

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

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

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

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

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

During the period, a total of £18,000 (30 June 2018: £34,000) was incurred in respect of depositary fees, and £7,000 (31 December 2018: £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 £21,000 (30 June 2018: £20,000) was incurred in respect of fees paid to CACEIS Bank Luxembourg, of which £7,000 was payable at 30 June 2019 (31 December 2018: £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 2018: £47,000) was incurred in respect of Directors' fees, of which £nil (31 December 2018: £nil) was payable at the reporting date. No bonus or pension contributions were paid or payable on behalf of the Directors.

9. Interest payable and similar charges

	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000
Bank interest	15	55
Interest payable on sale and repurchase agreements	5	49
Commission	1	2
	21	**106**

10. Other expenses

	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000
Depositary fees (including valuation agent fees) *(note 8e)*	39	53
PR expenses	21	18
Broker fees *(note 8c)*	18	18
Audit fees	18	5
Registrar fees *(note 8d)*	10	10
Other expenses	20	21
	126	**125**

11. 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.

12. Earnings per Ordinary Share

The earnings per Ordinary Share of 8.32p (30 June 2018: loss of 5.85p) is based on a profit attributable to owners of the Company of £7,545,000 (30 June 2018: loss of £4,816,000) and on a weighted average number of 90,650,529 (30 June 2018: 82,273,528) Ordinary Shares in issue since 1 January 2019. There is no difference between the basic and diluted earnings per share.

13. Investments at fair value through profit or loss

	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Investments in capital instruments			
Opening balance	81,341	72,113	72,113
Additions in the period	19,388	55,296	66,951
Sales in the period	(30,708)	(34,795)	(51,068)
Movement in unrealised gains/(losses) in the period	3,151	(4,761)	(7,686)
Realised gains in the period	267	1,009	1,031
Closing valuation	**73,439**	**88,862**	**81,341**
Other investments			
Opening balance	3,050	2,345	2,345
Additions in the period	9,569	2,879	6,771
Sales in the period	(3,838)	(2,315)	(5,436)
Movement in unrealised gains/(losses) in the period	743	(470)	(283)
Realised gains/(losses) in the period	31	168	(347)
Closing valuation	**9,555**	**2,607**	**3,050**
Short positions covered by sale and repurchase agreement			
Opening balance	(1,451)	(838)	(838)
Sales in the period	(760)	(333)	(5,912)
Purchases in the period	1,622	1,132	5,023
Movement in unrealised gains/(losses) in the period	3	(4)	109
Realised (losses)/gains in the period	(29)	43	167
Closing valuation	**(615)**	**–**	**(1,451)**
Total			
Opening balance	82,940	73,620	73,620
Additions in the period	30,579	59,307	78,745
Sales in the period	(35,306)	(37,443)	(62,416)
Movement in unrealised (losses)/gains in the period	3,897	(5,235)	(7,860)
Realised gains in the period	269	1,220	851
Closing valuation	**82,379**	**91,469**	**82,940**

13. 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 2019, the Company had six (31 December 2018: ten) open sale and repurchase agreements, including one (31 December 2018: two) reverse sale and repurchase agreement (see note 16). The reverse sale and repurchase agreement is open ended and was used to cover the sale of a capital instrument (the short position noted above).

The fair value of the capital instruments subject to sale and repurchase agreements (excluding the short position) at 30 June 2019 was £13,063,000 (31 December 2018: £18,628,000). The fair value net of the short position was £13,746,000 (31 December 2018: £17,177,000).

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

With respect to derivatives, the Company pledges cash and/or other liquid securities ("Collateral") to third parties as initial margin and as variation margin. Collateral may be transferred either to the third party or to an unaffiliated custodian for the benefit of the third party. In the case where Collateral is transferred to the third party, the third party pursuant to these 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.

15. Other receivables and prepayments

	30 June 2019 (unaudited) £'000	31 December 2018 (audited) £'000
Accrued capital instrument income receivable	1,137	1,286
Interest due on credit default swaps	20	24
Prepayments	13	13
Interest due on collateral held by brokers	4	7
Due from sale of capital instrument	–	758
	1,174	**2,088**

16. 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.

16. Derivative financial instruments *(continued)*

Credit default swap agreements (continued)

	Period from 1 January 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Opening balance	(2,419)	915	915
Premiums received from selling credit default swap agreements	(617)	(511)	(1,332)
Premiums paid on buying credit default swap agreements	1,853	82	476
Movement in unrealised gains/(losses) in the period	1,879	(2,081)	(2,693)
Realised gains/(losses) in the period	323	(35)	215
Outstanding assets/(liabilities) due on credit default swaps	**1,019**	**(1,630)**	**(2,419)**
Credit default swap assets at fair value through profit or loss	1,413	396	184
Credit default swap liabilities at fair value through profit or loss	(394)	(2,026)	(2,603)
Outstanding assets/(liabilities) due on credit default swaps	**1,019**	**(1,630)**	**(2,419)**

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, £20,000 (31 December 2018: £24,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £5,064,000 (31 December 2018: £8,205,000) 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 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Opening balance	(1,329)	(390)	(390)
Purchase of foreign currency derivatives	94,747	125,056	287,992
Closing-out of foreign currency derivatives	(95,679)	(126,102)	(287,555)
Movement in unrealised losses in the period	(540)	(1,320)	(939)
Realised gains/(losses) in the period	932	1,045	(437)
Net liabilities on foreign currency forwards	**(1,869)**	**(1,711)**	**(1,329)**
Foreign currency forward assets at fair value through profit or loss	1,860	–	–
Foreign currency forward liabilities at fair value through profit or loss	(3,729)	(1,711)	(1,329)
Net liabilities on foreign currency forwards	**(1,869)**	**(1,711)**	**(1,329)**

16. 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 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Opening balance	(7)	5	5
Purchase of bond futures	2,176	2,825	5,390
Sale of bond futures	(1,400)	(2,372)	(4,656)
Movement in unrealised losses in the period	(123)	(246)	(138)
Realised losses in the period	(647)	(214)	(608)
Balance payable on bond futures	**(1)**	**(2)**	**(7)**
Bond future assets at fair value through profit or loss	5	6	4
Bond future liabilities at fair value through profit or loss	(6)	(8)	(11)
Balance payable on bond futures	**(1)**	**(2)**	**(7)**

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 2019 to 30 June 2019 (unaudited) £'000	Period from 1 January 2018 to 30 June 2018 (unaudited) £'000	Year ended 31 December 2018 (audited) £'000
Opening balance	(14,955)	(5,442)	(5,442)
Opening of sale and repurchase agreements	(45,365)	(87,312)	(102,999)
Opening of reverse sale and repurchase agreements	–	350	10,035
Closing-out of sale and repurchase agreements	50,131	74,840	92,398
Closing-out of reverse sale and repurchase agreements	(1,576)	(1,244)	(8,537)
Movement in unrealised gains/(losses) in the period	151	(230)	(353)
Realised (loss)/profit in the period	(221)	153	(57)
Total liabilities on sale and repurchase agreements	**(11,835)**	**(18,885)**	**(14,955)**
Sale and repurchase assets at fair value through profit or loss	787	–	2,386
Sale and repurchase liabilities at fair value through profit or loss	(12,622)	(18,885)	(17,341)
Total liabilities on sale and repurchase agreements	**(11,835)**	**(18,885)**	**(14,955)**

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 2019 £nil (31 December 2018: £6,000) interest on sale and repurchase agreements was payable by the Company.

16. Derivative financial instruments *(continued)*

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 2019 (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	4,065	–	4,065	–	4,065
Collateral accounts for derivative financial instruments *(note 14)*	7,291	–	7,291	(2,621)	4,670
Total assets	**11,356**	**–**	**11,356**	**(2,621)**	**8,735**
Financial liabilities					
Derivatives	(16,751)	–	(16,751)	2,621	(14,130)
Total liabilities	**(16,751)**	**–**	**(16,751)**	**2,621**	**(14,130)**
31 December 2018 (audited)					
Financial assets					
Derivatives	2,574	–	2,574	–	2,574
Collateral accounts for derivative financial instruments *(note 14)*	8,922	–	8,922	(2,799)	6,123
Total assets	**11,496**	**–**	**11,496**	**(2,799)**	**8,697**
Financial liabilities					
Derivatives	(21,284)	–	(21,284)	2,799	(18,485)
Total liabilities	**(21,284)**	**–**	**(21,284)**	**2,799**	**(18,485)**

17. 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 2019 (unaudited)	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Listed capital instruments at fair value through profit or loss	69,796	3,643	–	73,439
Other investments at fair value through profit or loss *(note 7)*	9,555	–	–	9,555
Credit default swap assets	–	1,413	–	1,413
Credit default swap liabilities	–	(394)	–	(394)
Derivative financial assets	5	2,647	–	2,652
Derivative financial liabilities	(6)	(16,351)	–	(16,357)
Short position covered by sale and repurchase agreements	–	(615)	–	(615)
	79,350	**(9,657)**	**–**	**69,693**
31 December 2018 (audited)				
Listed capital instruments at fair value through profit or loss	74,001	7,340	–	81,341
Other investments at fair value through profit or loss *(note 7)*	3,050	–	–	3,050
Credit default swap assets	–	184	–	184
Credit default swap liabilities	–	(2,603)	–	(2,603)
Derivative financial assets	4	2,386	–	2,390
Derivative financial liabilities	(11)	(18,670)	–	(18,681)
Short positions covered by sale and repurchase agreements	–	(1,451)	–	(1,451)
	77,044	**(12,814)**	**–**	**64,230**

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

Level 2 financial instruments include credit default swap agreements, foreign currency forward contracts and sale and repurchase agreements. Each of these financial investments are valued by the Investment Manager using market observable inputs. The fair value of these securities may be based on, but are not limited to, the following inputs: market price of the underlying securities; notional amount; expiration date; fixed and floating interest rates; payment schedules; and/or dividends declared.

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

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

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

Transfers between levels

Transfers between levels during the period are determined and deemed to have occurred at each financial reporting date. There were no investments classified as Level 3 during the period, and no transfers between levels in the period. See notes 13, 14 and 16 for movements in instruments held at fair value through profit or loss.

18. Other payables and accruals

	30 June 2019 (unaudited) £'000	31 December 2018 (audited) £'000
Investment management fee *(note 8a)*	202	186
Administration fee *(note 8b)*	32	31
Other accruals	45	35
Audit fees	18	36
Share issue costs	15	79
Accrued interest payable on capital instrument short position	14	43
Performance fee *(note 8a)*	–	234
Transfer of listing fees	–	60
Interest payable on sale and repurchase agreements *(note 16)*	–	6
	326	**710**

19. Share capital

	30 June 2019 (unaudited)		31 December 2018 (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	91,852,904	–	85,452,024	–

Issued share capital	Number of shares	Price per share	Gross proceeds £'000
Shares in issue as at 31 December 2017	75,999,351		
13 February 2018	8,229,174	107.50p	8,846
Shares in issue as at 30 June 2018	84,228,525		
15 August 2018	1,223,499	98.50p	1,205
Shares in issue as at 31 December 2018	85,452,024		
4 February 2019	6,400,880	92.81p	5,941
Shares in issue as at 30 June 2019 and 13 August 2019	**91,852,904**		

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

20. 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 £87,702,000 (31 December 2018: £76,976,000), and on 91,852,904 (31 December 2018: 85,452,024) Ordinary Shares in issue at the period end.

21. Changes in liabilities arising from financing activities

During the period ended 30 June 2019, the Company raised £5,941,000 (30 June 2018: £8,846,000, 31 December 2018: £10,052,000) through the placing of 6,400,880 (30 June 2018: 8,229,174, 31 December 2018: 9,452,673) new Ordinary Shares of no par value. Share issue costs of £100,000 (30 June 2018: £266,000, 31 December 2018: £391,000) were incurred in relation to the placing, and at the period end £15,000 (30 June 2018: £128,000, 31 December 2018: £79,000) of these costs were outstanding, resulting in cash flows in relation to share issue costs in the period of £164,000 (30 June 2018: £193,000, 31 December 2018: £368,000).

22. Financial instruments and risk management

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

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

Risk management structure

The Investment Manager is responsible for identifying and controlling risks, 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:

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.

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

Market risk

i. Price risk

Price risk exposure arises from the uncertainty about future prices of financial instruments held. It represents the potential loss that the Company may suffer through holding positions in the face of price movements. The investments in capital instruments, unlisted open ended funds and bond futures at fair value through profit or loss (see notes 13, 16 and 17) are exposed to price risk and it is not the intention to mitigate the price risk.

At 30 June 2019, 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 +/- £4,119,000 (31 December 2018: £4,147,000). The fair value of financial instruments exposed to price risk at 30 June 2019 was £82,379,000 (31 December 2018: £82,940,000).

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.

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 2019 (unaudited)	Investments at fair value through profit or loss £'000	Receivables £'000	Cash and cash equivalents £'000	Exposure £'000	Foreign currency forward contracts £'000	Net exposure £'000
Euros	46,674	896	2,357	49,927	(50,617)	(690)
US Dollars	6,939	36	444	7,419	(7,964)	(545)
Danish Krone	860	–	69	929	(880)	49
Canadian Dollars	–	–	–	–	–	–
Singapore Dollars	–	–	4	4	–	4
	54,473	**932**	**2,874**	**58,279**	**(59,461)**	**(1,182)**
31 December 2018 (audited)						
Euros	34,408	951	2,185	37,544	(39,438)	(1,894)
US Dollars	9,044	865	(166)	9,743	(7,470)	2,273
Danish Krone	856	20	–	876	(878)	(2)
Canadian Dollars	–	–	–	–	–	–
Singapore Dollars	–	–	4	4	–	4
	44,308	**1,836**	**2,023**	**48,167**	**(47,786)**	**381**

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 2019, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 30 June 2019 would have decreased/increased by £59,000 (31 December 2018: £19,000).

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

Market risk (continued)

iii. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. A large number of the capital instruments bear interest at a fixed rate, but capital instruments to the value of £50,964,000 (31 December 2018: £50,553,000), cash and cash equivalents, net of overdrafts, of £9,870,000 (31 December 2018: £2,446,000) and collateral account balances of £7,291,000 (31 December 2018: £8,922,000) were the only interest bearing financial instruments subject to variable interest rates at 30 June 2019. 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 £365,000 (31 December 2018: +/- £351,000).

30 June 2019 (unaudited)	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	18,176	50,964	13,854	82,994
Cash and cash equivalents	–	9,870	–	9,870
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	7,291	–	7,291
Derivative financial assets at fair value through profit or loss	2,205	–	1,860	4,065
Other receivables	–	–	1,174	1,174
Total financial assets	**20,381**	**68,125**	**16,888**	**105,394**
Financial liabilities				
Derivative financial liabilities at fair value through profit or loss	(13,022)	–	(3,729)	(16,751)
Short positions covered by sale and repurchase agreements	–	(615)	–	(615)
Other payables and accruals	–	–	(326)	(326)
Total financial liabilities	**(13,022)**	**(615)**	**(4,055)**	**(17,692)**
Total interest sensitivity gap	**7,359**	**67,510**	**12,833**	**87,702**
31 December 2018 (audited)				
Financial assets				
Investments at fair value through profit or loss	22,145	50,553	11,693	84,391
Cash and cash equivalents	–	2,612	–	2,612
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	8,922	–	8,922
Derivative financial assets at fair value through profit or loss	2,574	–	–	2,574
Other receivables	–	–	1,293	1,293
Total financial assets	**24,719**	**62,087**	**12,986**	**99,792**
Financial liabilities				
Bank overdrafts	–	(166)	–	(166)
Derivative financial liabilities at fair value through profit or loss	(19,955)	–	(1,329)	(21,284)
Short positions covered by sale and repurchase agreements	–	(1,451)	–	(1,451)
Other payables and accruals	–	–	(704)	(704)
Total financial liabilities	**(19,955)**	**(1,617)**	**(2,033)**	**(23,605)**
Total interest sensitivity gap	**4,764**	**60,470**	**10,953**	**76,187**

22. 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 2019 would increase/decrease by +/-£548,000 (1.71%) (31 December 2018: +/-£277,000 (0.33%)) 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 2019, credit risk arose principally from investment in capital instruments of £73,439,000 (31 December 2018: £81,341,000), cash and cash equivalents of £9,870,000 (31 December 2018: £2,612,000), balances held as collateral for derivative financial instruments at fair value through profit or loss of £7,291,000 (31 December 2018: £8,922,000) and investments in sale and repurchase assets of £787,000 (31 December 2018: £2,386,000). 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 2019, the capital instrument rating profile of the portfolio was as follows:

	30 June 2019 Percentage	31 December 2018 Percentage
A	–	5.69
BBB	31.91	34.14
BB	22.68	39.14
B	9.09	14.65
CCC and below	9.56	6.38
No rating	26.76	–
	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, all rated A+. At 30 June 2019, the overall net exposure to these counterparties was 7.38% of NAV (31 December 2018: 11.57%).

22. 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 2019 was very low since the ratio of cash and cash equivalents (net of overdrafts) to unmatched liabilities was 30:1 (31 December 2018: 3:1).

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

	30 June 2019 Percentage	31 December 2018 Percentage
Less than 1 year	8.54	4.00
1 to 3 years	32.89	24.30
3 to 5 years	27.42	38.56
5 to 7 years	16.00	15.15
7 to 10 years	5.16	8.80
More than 10 years	9.99	9.19
	100.00	**100.00**

As at 30 June 2019, the Company's liquidity profile was such that 74.5% of investments were realisable within one day (31 December 2018: 75.1%). The remaining 25.5% was realisable within one week (31 December 2018: 24.9%).

As at 30 June 2019, the Company's liabilities fell due as follows:

	30 June 2019 Percentage	31 December 2018 Percentage
1 to 3 months	84.78	43.93
3 to 6 months	–	–
6 to 12 months	–	0.61
1 to 3 years	2.78	10.42
3 to 5 years	12.44	45.04
	100.00	**100.00**

23. 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 2019 the Company had six open sale and repurchase agreements, one being a reverse sale and repurchase agreement, committing the Company to make a total repayment of £12,622,000 post the period end (31 December 2018: £17,341,000). As a result of the reverse sale and repurchase agreement the Company was due to receive £787,000 after the period end (31 December 2018: £2,386,000).

23. Capital management policy and procedures *(continued)*

The raising of capital through the ongoing placing programme forms part of the capital management policy. See note 19 for details of the Ordinary Shares issued since incorporation.

As disclosed in the Unaudited Condensed Statement of Financial Position, at 30 June 2019, the total equity holders' funds were £87,702,000 (31 December 2018: £76,976,000).

24. Capital commitments

The Company holds a number of derivative financial instruments which, by their very nature, give rise to capital commitments post 30 June 2019. These are as follows:

- At the period end, the Company had sold 16 credit default swap agreements for a total of £1,142,000, each receiving quarterly interest (31 December 2018: 17 agreements for £2,023,000). The exposure of the Company in relation to these agreements at the period end date was £1,142,000 (31 December 2018: £2,023,000). Collateral of £5,064,000 for these agreements was held at 30 June 2019 (31 December 2018: £8,205,000).
- At the period end the Company had committed to ten (31 December 2018: three) foreign currency forward contracts dated 16 July 2019 (see note 22), giving rise to a total loss of £1,869,000 (31 December 2018: loss of £1,329,000).
- At the period end the Company held five (31 December 2018: eight) open sale and repurchase agreements (this excludes the one (31 December 2018: two) open reverse sale and repurchase agreement) committing the Company to make a total repayment of £12,425,000 (31 December 2018: £17,006,000).

25. Contingent assets and contingent liabilities

In line with the terms of the Investment Management Agreement, as detailed in note 8a, should the TER reduce to less than 1.5% of the average NAV in a future accounting period then the Quarterly Expenses Excess and Annual Expenses Excess totalling £710,000 at 30 June 2019 (31 December 2018: £723,000) 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.

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

26. Events after the financial reporting date

On 16 July 2019, the Company declared a dividend of 1.50p per Ordinary Share for the period from 1 April 2019 to 30 June 2019, out of the profits for the period ended 30 June 2019, which (in accordance with IFRS) was not provided for at 30 June 2019 (see note 6). This dividend will be paid on 23 August 2019.

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

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