AXIOM
ALTERNATIVE INVESTMENTS

Axiom European Financial Debt Fund Limited

(Registered number 61003)

Annual Report and Financial Statements
for the year ended 31 December 2019

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HIGHLIGHTS

	31 December 2019	31 December 2018
Net assets	£91,284,000	£76,976,000
Net asset value ("NAV") per Ordinary Share	99.38p	90.08p
Share price	94.00p	88.00p
Discount to NAV	(5.41)%	(2.31)%
Profit/(loss) for the year	£13,882,000	(£7,099,000)
Dividend per share declared in respect of the year	6.00p	6.00p
Total return per Ordinary Share *(based on NAV)*[1]	16.98%	-8.00%
Total return per Ordinary Share *(based on share price)*[1]	13.64%	-10.69%
Ordinary Shares in issue at year end	91,852,904	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 year with the NAV or share price, as applicable, plus dividends paid, at the year end.

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

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

REGISTERED IN GUERNSEY No. 61003

OVERVIEW AND INVESTMENT STRATEGY

General information

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://www.axiom-ai.com/web/data/prospectus/ENG/AEFD-prospectus-UK.pdf).

CHAIRMAN'S STATEMENT

Results
I am pleased to say that the market recovery in the first half of the year, unwinding the declines of 2018, continued through the second half of 2019. On the back of this and some excellent work by our Investment Manager, the Company had a very good year, arithmetically our best so far: taking into account dividends paid, the total NAV return per share was +16.98%[1], net of all expenses (2018: -8.00%). The Company's trailing three-year return to the end of 2019 was therefore just under +25% or +7.27% p.a., again net of all expenses. Given the persistently and extraordinarily low interest rate environment throughout the period, this is a creditable result for a fixed-income based strategy.

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

In aggregate, the Company reported a net profit after tax for the year ended 31 December 2019 of £13.9 million (2018: loss of £7.1 million), representing earnings per Ordinary Share of 15.21p (2018: loss of 8.48p) and the Company's NAV at 31 December 2019 was £91.3 million (99.38p per Ordinary Share) (2018: £77.0 million, 90.08p per Ordinary Share).

Notwithstanding the excellent NAV performance during the year, the increase in the Company's share price failed to keep pace fully with the rise in NAV with the consequence that the share price discount to NAV widened slightly over the year from 2.31% at the end of the previous year to 5.41% at the year end.

Dividends
As in prior years, the Company declared four dividends each of 1.50p per Ordinary Share in relation to the year: one was declared after the balance sheet date and was paid on 28 February 2020 to Shareholders on the register at 7 February 2020. During the period, actual payments of 6.00p were made, being the May, August and November dividends of 1.50p each and the 1.50p dividend in respect of the period ended 31 December 2018, which was paid on 22 February 2019.

Placing programme and fundraising
Shareholders will recall that we completed an incremental placing of shares on 4 February 2019 raising gross proceeds of £5.94 million from the placing of 6,400,880 new Ordinary Shares at 92.81p per New Ordinary Share. We remain committed to expanding the size of the Company to improve the return economics for Shareholders by spreading the burden of the operational costs of the Company over a larger asset base and also improving trading liquidity in our shares as and when circumstances permit.

Outlook
At the time of writing, markets in general have begun to react to the developing threat from COVID-19. In origin, it is a public health crisis but it will also and inevitably have significant economic and market consequences as a result of both the voluntary choices exercised by individuals and those imposed by public authorities. These behavioural changes have already been felt among those sectors most exposed to the free circulation and congregation of people. Hotel companies, eateries, cinemas, cruise companies and airlines are all obvious candidates. Where such exposure is combined with aggressive financing, some companies will not survive at least in their current forms. It can come as no surprise that in the UK, the regional airline Flybe was an early casualty. Already fragile, the drop in passenger numbers, perhaps partly as a result of changing consumer behaviour, may well have been the final straw that broke that camel's back. Others may well follow if, as expected, the virus changes public behavioural patterns for several months to come.

In the commercial world, there is likely to be increasing dispersion of outcomes depending on the nature of customer exposure, operational gearing and financing structures. While this may very well lead to a rise in defaults by borrowers, it should not have an existential impact on most banking and other financial issuers. In general, the financial sectors are much better capitalised and more resilient than they were going into the last great market shock, the global financial crisis of 2008 and 2009. That has been the core goal of the regulatory capital changes since then, which changes the Company was set up to exploit.

1. Net return has been calculated by comparing the NAV at the start of the period with the NAV, plus dividends paid, at the period end.

CHAIRMAN'S STATEMENT *(continued)*

Nonetheless, it is reasonable to expect that some issuers will fare better than others and that there will be a greater dispersion of returns on individual instruments over the next couple of years than might otherwise have been the case as a result of the continuing evolution of regulatory change outlined by our Investment Manager on page 16 and other changes such as Brexit in its final form, whatever that form of future relationship may eventually turn out to be. The relative opportunities that this implies will present proactive investment managers who have the appropriate specialist skills to play to their competitive advantages. This is particularly the case in a specialist asset class such as that in which we invest. With our Investment Manager, Axiom, we therefore remain positive and continue to believe the Company is well positioned to capture such opportunities and we thank Shareholders for their continued support.

William Scott
Chairman
6 April 2020

INVESTMENT MANAGER'S REPORT

1. Market developments

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 2019, the amendments passed on 29 January 2019 gave Theresa May the credibility to return to Brussels in a further attempt to find a resolution to the backstop issue.

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 had 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 non-performing loans ("NPL") provisioning, particularly targeting Italian banks.

On the regulatory front, the latest updates in the banking regulations with the Banking Package implemented by the EU and the Minimum Requirement of Eligible Liabilities introduced by the Single Resolution Board 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 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.

INVESTMENT MANAGER'S REPORT *(continued)*

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. 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 central banks. On 29 March 2019, the UK Parliament rejected Theresa May's withdrawal agreement for the third time by 58 votes and the deadline was extended to 31 October 2019. 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, 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 2019.

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).

INVESTMENT MANAGER'S REPORT *(continued)*

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, drove investor sentiment. In addition, the SubFin index widened by 46bps over the month and, after the U-turn of the Fed in February 2019, the 10-year US and German rates reached historical lows. These important recessive signals made the ECB's June 2019 meeting even more important.

The first quarter earnings were positively surprising, especially from insurers. UniCredit and Intesa Sanpaolo benefited from better than expected market activities, improving asset 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 the previous 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 interested in Commerzbank still. 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 2019 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 2019.

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 years.

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.

INVESTMENT MANAGER'S REPORT *(continued)*

July

Facing the deteriorating economic outlook, central banks proved prepared to act, which triggered a new rally on the markets. Mario Draghi said he was considering a tiering of deposits to offset the negative effects of his policy on banks' profitability. The Fed lowered its funds rate by a quarter of a point to 2-2.25%, a largely anticipated move not as dovish as the market had hoped for. In Europe, the 5-year mid-swap rate continued to fall, reaching a new historical low of -0.32%. Persistent political uncertainty in the UK, combined with deteriorating corporate data, heightened fears of an economic slowdown, despite Boris Johnson's confidence in his capacity to sign a Brexit agreement with Brussels. On the more positive side, the commercial tensions eased between China and the US as the negotiations restarted.

With 42% of the results above expectations, the banking sector had a strong earnings season. The French and Irish banks came out on top, and Bank of Ireland posted a sharp reduction of its NPL ratio to 5%. Société Générale surprised with a 50bps increase in its CET1 ratio, reaching its target ahead of schedule alongside some significant progress in its cost cutting programme. BNP also released a strong set of results across all its divisions.

Deutsche Bank announced its strategic plan: a new "Bad Bank" to reduce trading of RWAs by 40%, exit equities and add a new ambitious target of return on equity of 8% towards 2022. UniCredit announced significant job cuts for 10% of the bank's total workforce. The ongoing restructuring and continuous risk reduction by the Italian bank resulted in the upward revision of its Moody's rating from Ba1 to Baa3.

Banking consolidation continued in the sector with excess liquidity reaching EUR2 trillion. The main announcement of the month was the proposed acquisition of Refinitiv by the London Stock Exchange for a total of USD27 billion.

Ahead of the results season, the primary market remained active, with some Italian issuers such as Fineco in AT1, Banca Popolare Sondrio and Monte Di Paschi in T2. The latter also issued a Senior Preferred in EUR with a 4% coupon.

August

August was dominated by political developments, with the escalation of tariffs between China and the US, progress (or lack thereof) towards Brexit, accelerated by news of a possible suspension of parliament, and the fall of the coalition in Italy followed by the set-up of a new M5S/PD alliance. Interest rates also fell sharply, driven by monetary policy expectations in a context of adverse economic prospects. The SubFin tightened by about 30bps from its peak at 160bps to end the month at 130bps.

Second quarter results were supported by low levels of provisions. Consensus beats came from Credit Suisse, StanChart and SocGen, while UniCredit and Commerzbank disappointed.

After the implementation of CRR2, HSBC and Barclays updated the capital recognition of certain perpetual Legacy bonds: the "discos" in particular would no longer be eligible as capital after June 2025. Deutsche Bank confirmed that its legacy securities would no longer qualify as capital after 2022. Santander announced the call of its T1 legacy issued in 2004, paying a coupon of 3m EUR +160, which quoted 92 before the announcement.

The primary market remained quiet. The total volume of issues at the end of August 2019 stood flat compared to last year. In the AT1 universe, Credit Suisse, Swedbank and BBVA issued in USD, as well as UBS in AUD. Barclays, Crédit Agricole and Nordea called their AT1s issued in 2014. Interestingly the Nordea 5.5% bond had a must pay clause in the event of disqualification. Crédit Agricole, like BPCE and Société Générale, also announced the calls of their legacy T1 step-ups.

INVESTMENT MANAGER'S REPORT *(continued)*

September

September saw the announcement of further accommodative measures by the ECB, well anticipated by the market, in a context of uncertainties around the Brexit process, China-US trade tariffs and impeachment proceedings in the US. A collateral bottleneck unsettled the US repo markets, before the intervention of the Fed. The SubFin index tightened by 10bps.

Among the ECB's measures, bank deposit tiering would reduce the amount of cash charged at a negative rate. The portion of banks' excess reserves below 6 times the requirement would be charged at the main refinancing rate (MRO), currently 0%. The relief was expected to improve the banks' interest margins and support their profitability.

On the regulatory front, the EBA announced that in mid-2020 it would publish a clarification of the treatment of Legacy instruments at the end of the transition period in December 2021. This announcement coupled with the call announcements of Santander CMS, Achmea 6% and BNP 4.875%, once again demonstrated that banks were incentivised to call instruments that lose their eligibility as capital. After the implementation of CRR2 on 27 June 2019, issuers were reviewing the eligibility of their capital stock. We noted that BBVA disqualified three of its legacy instruments.

Ratings continued to improve. Crédit Agricole saw their senior rating move from A1 to Aa3 at Moody's, triggering an upgrade of their capital instruments: their AT1 was Investment Grade at the three rating agencies.

October

October was a positive month for financials, driven by the progress on Brexit, postponed to 31 January 2020, and the easing tensions between China and the US.

On the monetary policy front, beyond Mario Draghi's departure, the minutes of the ECB meetings revealed dissenting views on the package announced in September 2019. The 10-year Euro swap rate moved into positive territory (from -0.20% to +0.02%). As anticipated, the Fed cut its main rate by 25bps. The SubFin index tightened 15bps to 124bps over the month.

October was also busy with quarter 3 results' publications. Thirty banks released their quarter 3 results which were in line or above expectations overall. Among the "best in class" we can mention Sabadell, Barclays, DNB and Standard Chartered. Deutsche Bank, for its part, continued to disappoint.

The cleaning up of bank balance sheets continued, particularly in Italy, where UniCredit was preparing to sell a portfolio of NPLs with a nominal value of EUR6 billion, thus accelerating its new strategic plan. In Greece, the establishment of the "Hercules" plan was approved by the European Commission, on similar terms to the GACS guarantee on securitisations of NPLs implemented in 2017 in Italy.

On the regulatory side, some banks continued to update their Pillar 3 disclosures with further legacy instruments being confirmed as disqualified. After the Santander call, the tender on State Street legacies, added to the rebound of CMS10, had a very positive impact on CMS and discos.

The primary market was active, especially on AT1/RT1 with La Mondiale, My Money Bank and AIB, and with Landesbank BadenWürttemberg launching its inaugural AT1 deal to refinance its legacy instruments.

INVESTMENT MANAGER'S REPORT *(continued)*

November

November was another positive month for financial stocks, driven by the prospects for a US-China agreement in early 2020 and the absence of further developments on the British side, whose fate depended on the elections on 12 December 2019. Reassuring macroeconomic publications (lower unemployment in Germany, higher Consumer Price Index and better growth in the US) and a slight rise in interest rates have comforted investors. The spread of financial subordinated debt tightened slightly ending the month at 118bps – close to its level at the end of October 2019 (124bps).

The quarterly publication season was good with 19 out of 37 banks' releases above expectations. Among the "best in class" were UBS, Barclays, Sabadell and Santander, whose income had increased significantly.

In terms of restructuring, Deutsche Bank was continuing its efforts. The German bank was the only one to have its G-SIB capital requirement reduced by the Financial Stability Board. Unicaja and Liberbank confirmed with the Spanish regulator (CNMV) that they were looking into a merger project. Money laundering investigations were continuing with new revelations at SEB, whose share price fell by 12% in one day on 15 November 2019.

On the regulatory side, banks continued to clean up their stocks of legacy securities. After the Santander call and State Street's tender offer last month, Commerzbank announced the call of a hybrid instrument issued by a Dresdner legacy entity, and Ageas offered to buy back its perpetual bonds at a premium of 11% to the listed price. Ageas was among the important positions in our portfolio. These various tenders and call actions had a very positive impact on legacy securities as a whole and in particular on CMS and discos.

The primary market for AT1 bonds remained active. Issuers such as DNB ASA (4.875%), Lloyds (5.125%), Saxobank (8.125%), La Banque Postale (3.875%) and BIL (5.25%) benefited from this buoyant market.

December

The financial bonds market registered a solid performance at the end of the year, with the SubFin index ending the month at 114bps. The very good US employment figures, the decreased uncertainty around Brexit post the UK elections, the slight rise in sovereign rates (-0.20% in Germany and +0.12% in France) and the confirmation of a first agreement between China and the US provided a very supportive market environment.

On the regulatory front, in his speech to the European Parliament, Andrea Enria, Chairman of the ECB's prudential Supervisory board, confirmed the possibility of using AT1 and T2 securities to satisfy the Pillar 2 capital requirements. This was in line with UniCredit's announcements made earlier in the month (until then only CET1 was allowed). This new break down of Pillar 2 (56.25% CET1, 18.75% AT1 and 25% T2) as per Article 104a, was an important change and was expected to result in an average reduction of CET1 requirements of 90bps. Regulation was also being made more flexible for French insurers, with the inclusion of the PPE (provision for surplus participations) in the Solvency Margin.

At its Investor Day, Deutsche Bank reaffirmed its strategic plan objectives but reduced its revenue growth target for 2022. UniCredit confirmed its "Single Point of Entry" resolution plan and announced a share buyback program. NordLB strengthened its capital by avoiding the constraints linked to State support and Banca Popolare di Bari received an injection of EUR900 million to urgently meet its capital requirements at the end of December 2019. Hamburg Commercial Bank, ex-HSH Nordbank, announced a tender on its legacy instruments.

The tender announced last month by the Belgian insurer Ageas on its perpetual bonds was accepted by 65% of the holders, which continued to support legacy instruments securities as a whole and in particular CMS and discos.

In response to this success, Ageas issued a new RT1 for EUR750 million with a coupon of 3.875%.

INVESTMENT MANAGER'S REPORT *(continued)*

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's gain was circa 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.

INVESTMENT MANAGER'S REPORT *(continued)*

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.

July

In Liquid Relative Value, the Company took its profit in Abanca AT1 to take part in the new issue by Fineco. In Less Liquid Relative Value, the Company added a rare instrument issued by RBS, ringfenced entity, with an attractive make-whole provision.

The Company further reduced its holdings by taking its profit on Cattolica and Piraeus in Restructuring, and reduced its holding of Fortis perpetual floater, whose catalyst was not likely to come in the near future.

Finally, in Midcap Origination, the Company added on its holding of Permanent TSB and took part in the new T2 issued by BPSOIM.

August

The Company held 1.4% within the Liquid Relative Value bucket of the Santander legacy T1 whose call was announced in August 2019.

The Company benefited from the rebound to take profits on Italy:

- in the Restructuring bucket, the holding in Italian insurers Cattolica, at a yield to 2027 call of 4%; and
- in the Midcap Origination bucket, the holding in Italian bank Popolare Sondrio (4% increase in less than a month).

INVESTMENT MANAGER'S REPORT *(continued)*

Finally, in Restructuring, the Company initiated a position on a 2021 bond issued by International Personal Finance, whose price reached a 2-year low. We believe the short-term nature of their loans, with an 88% ratio of borrowings to short-term receivables, will allow them to refinance the upcoming maturities.

September

The Company benefited from the rally in CMS and discos on the back of the Santander call: the portfolio had circa 9.6% of CMS/discos, of which 1.4% was in the BBVA that got disqualified.

In Less Liquid Relative Value, the Company's holdings in Achmea 6% and BNP 4.875% converged to par after their call announcements. The Company redeployed the proceeds on Lloyds 13% long dated callable, whose record high make-whole margin made the early repayment option compelling for the issuer by 2021, and smaller line items in UK prefs.

In Liquid Relative Value, the Company captured the issue premium in the new Nationwide 5.875% AT1 and bought some ABN AT1s on a dip following general Anti-Money Laundering headlines.

In Special Situations, the Company realised its gains on the dated bonds issued by Novo Banco's life insurer and redeployed on an SPV-issued legacy T1 that BNP confirmed as ineligible.

In Restructuring, the Company added to its holdings on IPF and Novo Banco while taking part in the new issue by Just Retirement.

Lastly, in Midcap Origination, the Company sold its holding in Metro Bank as it failed to launch its senior issue at 7.5% and added on its position on eSure Group insurer.

The Company closed the month with a cash gearing contained at 104.7%.

October

The Company continued to benefit from the rally in CMS and discos. It added marginally on some CMS disqualified in the Pillar 3 reports, in the Less Liquid Relative Value bucket. It sold the Fixed-to-Fixed Achmea 6% and redeployed in the Liquid Relative Value on the new La Mondiale RT1 and added on Van Lanschot AT1.

In Restructuring, the Company re-entered into its new senior issue with Metro Bank and benefited from the press speculations on a possible take-over by Lloyds. The Company trimmed down its exposure as the latter refrained from confirming its intention.

Lastly, in Midcap Origination, the Company invested in My Money Bank's new subordinated bond offering 8% return in EUR. The bank, which was acquired from General Electric by the private equity firm Cerberus, was active in mortgages and car loans. The bank's fundamentals were stable, and the level of capitalisation was high (CET1 ratio of 16.6%).

The Company closed the month with a cash gearing slightly down at 104.2%.

November

The Company continued to benefit from the rally in legacy instruments, with approximately 10% allocated to CMS/discos. It held 1.4% of Ageas perpetual bonds in the Special Situations bucket. During the month, in the same bucket, it marginally added some SPV-issued discounted bonds.

In the Restructuring bucket, the Company realised part of its gains on Metro Bank T2s and added a T2 recently issued by a Greek bank whose NPL exposures were being drastically reduced. It took part in the new AT1 issue by La Banque Postale in Liquid Relative Value.

Finally, in Midcap Origination, the Company took part in the new Saxobank AT1 and added on eSure insurance while realising its gains on a small Danish savings bank.

INVESTMENT MANAGER'S REPORT *(continued)*

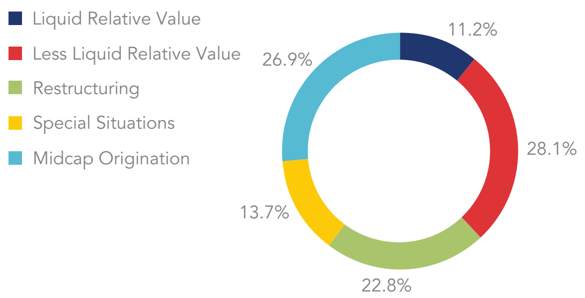
December

The Company trimmed its risk across its different buckets. In Liquid Relative Value, it realised its gains on La Mondiale RT1 and Nationwide AT1. In Less Liquid Relative Value, it reduced its exposure to Lloyds 6.85%. In Special Situations, it switched out of BBVA floaters into Lloyds Bank discos.

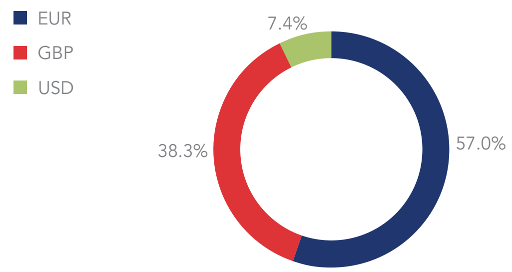
Finally, the Company held out from the tender by Ageas to capture the upside in the untendered bonds, despite the smaller liquidity in the reduced amount: the bonds which were not repurchased were then trading at 64.00 for a tender price of 59.00.

4. Portfolio (as at 31 December 2019)

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]*Splits adjusted for single assets.*

INVESTMENT MANAGER'S REPORT *(continued)*

5. Company metrics (as at 31 December 2019)

Share price and NAV		Portfolio information	
Share price (mid) (GB pence)	94.00	Modified duration	4.53
NAV per share (daily) (GB pence)	99.38	Sensitivity to credit	5.51
Dividends paid over last 12 months (GB pence)	6.00	Positions	93
Shares in issue	91,852,904	Average price	105.63
Market capitalisation (GBP mn)	86.342	Running yield	5.36%
Total net assets (GBP mn)	91.284	Yield to perpetuity[1]	6.51%
Premium/(Discount)	(5.41)%	Yield to call[2]	6.26%

Net Return[3]

Total Performance					
1 month	3 months	6 months	1 year	3 years[4]	Since launch[4]
1.12%	5.18%	7.23%	16.98%	7.27%	5.39%

Monthly Performance	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total
2015											0.19%	-1.48%	-1.29%
2016	-4.02%	-4.59%	3.57%	1.16%	2.62%	-1.97%	2.83%	1.69%	-0.21%	2.06%	-1.60%	1.91%	3.10%
2017	2.67%	0.93%	1.12%	2.01%	1.72%	-1.41%	1.86%	0.58%	1.76%	2.72%	1.31%	0.23%	16.14%
2018	3.12%	-0.70%	-1.95%	1.14%	-5.84%	-0.72%	1.60%	-1.26%	2.43%	-1.54%	-2.68%	-1.44%	-8.00%
2019	3.36%	2.30%	0.29%	2.53%	-1.59%	2.29%	0.30%	0.75%	0.97%	2.22%	1.77%	1.12%	16.98%

[1] The yield to perpetuity is the yield of the portfolio with the hypothesis that securities are not reimbursed and kept to perpetuity.
[2] The yield to call is the yield of the portfolio at the anticipated reimbursement date of the bonds.
[3] Net return has been calculated by comparing the NAV at the start of the period with the NAV, plus dividends paid, at the period end. Past performance does not guarantee future results.
[4] Annualised performance.

6. NAV evolution

INVESTMENT MANAGER'S REPORT *(continued)*

7. Outlook

2019 saw a sharp decline in long-term interest rates across our three investment currencies in anticipation of another easing round of monetary policies. The banking sector also benefited from a shift in the regulatory climate between the ECB as Single Supervisor and the European banks. The handovers of Mario Draghi to Christine Lagarde and Danièle Nouy to Andrea Enria came alongside new monetary tools and regulatory considerations such as deposit tiering and cross-border consolidation. All these developments provided a favourable environment for our investment strategy.

The major milestone on the legislative front was the EU Banking Package implemented in June 2019. This publication clarified the rules for capital and MREL eligibility. In the last six months of 2019, institutions announced the redemption of legacy instruments either through calls at par or through tender offers (Santander, Commerzbank, HSH but also Ageas) as new bonds were being disqualified from regulatory capital and a significant proportion of T1 bonds issued since 2014 lost their eligibility.

2020 started on a strong note. Emboldened by the strength of its ever improving fundamentals (out of the 113 banks supervised by the ECB, the average CET1 ratio stood at 14.37% as of Quarter 3 2019 and the average NPL ratio reduced to below 3.5%), the banking sector saw a number of institutions formally announcing returns of capital to shareholders by increasing cash dividends and implementing share buybacks.

Now, as of April 2020, the financial sector, together with the world economy, is facing the threat of a global pandemic triggered by the COVID-19 virus. The impact, and its immediate consequences on sectors such as aviation, shipping or tourism, remains difficult to assess in its magnitude as well as its timing. While it could eliminate a significant share of banks' 2020 profits, it does not, in our opinion, represent a significant risk to banks' capital. In order to mitigate these risks, the unprecedented measures announced by the ECB and the Bank of England put the banks in the strongest solvency position possible to keep supporting the economy. Still, were some institutions to face a coupon risk on their hybrid bonds, we would expect opportunities to arise for the Company's investment strategy. Finally, despite the uncertainty arising from COVID-19, we continue to expect regulators to press on banks in the recycling of their legacy instruments, as the transition period to Basel III has only two years left before the December 2021 deadline.

Gildas Surry
Axiom Alternative Investments SARL
6 April 2020

INVESTMENT PORTFOLIO

as at 31 December 2019

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss		
Bonds		
Lloyds Bank PLC 13.000% Perp	4,535	4.97
Shawbrook Group PLC 7.875% Perp	4,514	4.94
Van Lanschot NV 6.750% Perp	2,757	3.02
eSure Group PLC 6.750% 12/19/24	2,517	2.76
Just Group PLC 8.125% 10/26/29	2,114	2.32
OneSavings Bank PLC 9.125% 05/25/22	2,101	2.30
Banco BPM SPA 9.000% Perp	1,973	2.16
CYBG PLC 8.750% Perp	1,956	2.14
Volksbank Wien AG 7.750% Perp	1,862	2.04
Banca Monte dei Paschi SPA 5.375% 01/18/28	1,731	1.90
Promontia MMB SASu 8.000% Perp	1,721	1.89
National Westminster Bank PLC 2.063% Perp	1,660	1.82
Caixa Economica Montepio Geral Caixa Economica Bancaria SA 10.500% 04/03/29	1,654	1.81
NIBC Bank NV 6.000% Perp	1,648	1.81
Saxo Bank 9.750% Perp	1,549	1.70
Permanent TSB PLC 8.625% Perp	1,545	1.69
Unicredit SPA 6.625% Perp	1,514	1.66
International Personal Finance PLC 5.750% 07/04/21	1,504	1.65
Metro Bank PLC 9.500% 10/08/25	1,431	1.57
Ageasfinlux SA 0.947% Perp	1,431	1.57
BNP Paribas Fortis SA 1.602% Perp	1,379	1.51
Bank of Scotland PLC 13.625% Perp	1,362	1.49
Ibercaja Banco, SA 7.000% Perp	1,256	1.38
Cofinga Funding Two LP 1.180% Perp	1,228	1.35
FinecoBank Banca Fineco SPA 5.875% Perp	1,206	1.32
Novo Banco SA 3.500% 02/19/43	1,100	1.21
Bawag Group AG 5.000% Perp	1,089	1.19
Caixa Terrassa Societat de Participacions Preferents SA 0.000% Perp	1,045	1.14
ASR Nederland NV 4.625% Perp	1,040	1.14
Skipton Building Society 12.875% Perp	1,036	1.13
HBOS Capital Funding LP 6.850% Perp	999	1.09
Banco Comercial Portugues SA 9.250% Perp	942	1.03
Caixa Sabadell Preferentes SA 1.532% Perp	942	1.03
BA-CA Finance Cayman Ltd 0.112% Perp	936	1.03
Banco Santander SA 1.000% Perp	900	0.99
Caixabank SA 5.250% Perp	866	0.95
Louvre Bidco SAS 5.375% 09/30/24	865	0.95
La Banque Postale SA 3.875% Perp	861	0.94
Saxo Bank A/S 8.125% Perp	849	0.93
Deutsche Postbank Funding Trust I 0.059% Perp	845	0.93
Unicredit SPA 8.000% Perp	825	0.90
Piraeus Bank SA 9.750% 06/26/24	817	0.90
HSH N Funding II via Banque de Luxembourg 7.250% Perp	779	0.85
IKB Deutsche Industriebank AG 4.000% 01/31/28	760	0.83
Deutsche Bank Capital Finance Trust I 1.750% Perp	737	0.81
Novo Banco SA 8.500% 07/06/28	718	0.79
Bank of Ireland 13.375% Perp	701	0.77
ABN Amro Bank NV 5.750% Perp	701	0.77
UniCredit SPA 7.500% Perp	694	0.76
HSBC Capital Funding LP 5.844% Perp	683	0.75

INVESTMENT PORTFOLIO

as at 31 December 2019 *(continued)*

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss *(continued)*		
Bonds *(continued)*		
Caixa Economica Montepio Geral 5.000% Perp	681	0.75
HSB Group Inc 2.911% 07/15/27	675	0.74
Novo Banco SA Luxembourg 0.000% 04/16/46	645	0.71
Novo Banco SA 02/12/49	616	0.67
Banco de Credito Social Cooperativo SA 7.750% 06/07/22	602	0.66
Metro Bank PLC 5.500% 06/26/28	532	0.58
Sainsburys Bank PLC 6.000% 11/23/27	519	0.57
Lloyds Bank PLC 2.135% Perp	511	0.56
RZB Finance Jersey III Ltd 0.181% Perp	497	0.54
Lloyds Bank PLC 2.188% Perp	467	0.51
GNB Cia de Securos de Vida SA 3.100% Perp	467	0.51
Newcastle Building Society 12.625% Perp	426	0.47
Newcastle Building Society 10.750% Perp	388	0.42
Bank of Scotland PLC 9.375% Perp	358	0.39
Coventry Building Society 12.125% Perp	354	0.39
Leeds Building Society 13.375% Perp	276	0.30
Caja de Seguras Reunidos Cia de Seguros y Reaseguros SA 8.000% 02/17/26	268	0.29
BA-CA Fin Cayman 2 Ltd 0.735% Perp	267	0.29
HSBC Bank PLC 2.500% Perp	264	0.29
DZ Bank Perpetual Funding Issuer Jersey Ltd 0.084% Perp	216	0.24
Aegon NV 1.506% Perp	178	0.19
Alpha Group Jersey Ltd 3.280% Perp	178	0.19
Deutsche Postbank Funding Trust III 0.427% Perp	170	0.19
National Westminster Bank PLC 11.500% Perp	127	0.14
Bank of Scotland PLC 12.000% Perp	115	0.13
National Westminster Bank PLC 11.500% Perp	113	0.12
IKB Funding Trust I 1.110% Perp	109	0.12
Ulster Bank Ireland DAC 11.750% Perp	65	0.07
Banco Popular Espanol SA 8.000% 07/29/21	48	0.05
Banco Pinto & Sotto Mayor, SA 1.055% Perp	42	0.05
Banco Popular Espanol SA 8.250% 10/19/21	10	0.01
Popular Capital SA 6.000% Perp	–	–
Popular Capital SA Perp	–	–
	80,062	87.72
Other capital instruments		
National Westminster Bank PLC 9.000% Perp	1,967	2.15
Lloyds Banking Group PLC 9.250% Perp	1,228	1.34
Lloyds Banking Group PLC 9.750% Perp	738	0.81
Bank of Ireland 12.625% Perp	722	0.79
Ecclesiastical Insurance Group PLC 8.625% Perp	564	0.62
Standard Chartered PLC 7.375% Perp	484	0.53
Standard Chartered PLC 8.250% Perp	159	0.17
	5,862	6.41
Total investments in capital instruments at fair value through profit or loss	85,924	94.13

INVESTMENT PORTFOLIO

as at 31 December 2019 *(continued)*

	£'000	% of NAV
Derivative financial assets at fair value through profit or loss		
Sale and repurchase agreement in respect of Banque Federative du Credit Mutuel SA 0.181% Perp	1,292	1.42
Markit iTraxx Europe Subordinated Financial Index 06/20/22	204	0.22
Markit iTraxx Europe Subordinated Financial Index 12/20/21	193	0.21
Intesa Sanpaolo SpA Subordinated CDS 12/20/24	188	0.21
BNP Paribas SA Senior CDS 12/20/26	155	0.17
Markit iTraxx Europe Subordinated Financial Index 06/20/22	102	0.11
Markit iTraxx Europe Subordinated Financial Index 12/20/21	96	0.11
Markit iTraxx Europe Subordinated Financial Index 12/20/22	89	0.10
Lloyds Bank PLC Senior CDS 06/20/22	84	0.09
Markit iTraxx Europe Subordinated Financial Index 12/20/24	82	0.09
Standard Chartered Bank Senior CDS 12/20/21	74	0.08
ING Bank NV Subordinated CDS 12/20/21	41	0.04
Lloyds Bank PLC Subordinated CDS 12/20/21	34	0.04
Intesa Sanpaola SpA Senior CDS 12/20/21	30	0.03
Deutsche Bank AG Other CDS 12/20/24	11	0.01
Intesa Sanpaolo SpA Subordinated CDS 12/20/21	10	0.01
Royal Bank of Scotland Group PLC Subordinated CDS 12/20/24	5	0.01
GBP/EUR foreign currency forward	863	0.95
GBP/USD foreign currency forward	250	0.27
GBP/EUR foreign currency forward	82	0.09
GBP/DKK foreign currency forward	17	0.02
GBP/USD foreign currency forward	7	0.01
Derivative financial assets at fair value through profit or loss	3,909	4.29
Derivative financial liabilities at fair value through profit or loss		
Sale and repurchase agreement in respect of Lloyds Bank PLC 13.000% Perp	(3,883)	(4.25)
Sale and repurchase agreement in respect of Shawbrook Group PLC 7.875% Perp	(3,713)	(4.07)
Sale and repurchase agreement in respect of Volksbank Wien AG 7.750% Perp	(1,543)	(1.69)
Sale and repurchase agreement in respect of Banco BPM SPA 9.000% Perp	(1,506)	(1.65)
Sale and repurchase agreement in respect of UniCredit SPA 6.625% Perp	(1,359)	(1.49)
Sale and repurchase agreement in respect of National Westminster Bank 2.063% Perp	(1,227)	(1.34)
Sale and repurchase agreement in respect of BNP Paribas Fortis SA 2.063% Perp	(993)	(1.09)
Sale and repurchase agreement in respect of Cofinga Funding Two LP 1.180% Perp	(918)	(1.01)
Sale and repurchase agreement in respect of ASR Nederland NV 4.625% Perp	(910)	(1.00)
Markit iTraxx Europe Senior Financial Index 12/20/24	(162)	(0.18)
United Kingdom of Great Britain and Northern Ireland Senior CDS 06/20/23	(86)	(0.09)
Lloyds Banking Group PLC Senior CDS 06/20/22	(74)	(0.08)
Lloyds Banking Group PLC Senior CDS 06/20/22	(44)	(0.05)
UniCredit SpA Subordinated CDS 12/20/22	(16)	(0.02)
Danske Bank A/S Subordinated CDS 12/20/23	–	(0.00)
Derivative financial liabilities at fair value through profit or loss	(16,434)	(18.01)

INVESTMENT PORTFOLIO

as at 31 December 2019 *(continued)*

	£'000	% of NAV
Related party fund investments		
Axiom Global CoCo UCIT ETF USD-hedged	2,898	3.17
Axiom Capital Contingent – Class E	2,774	3.04
Axiom Global CoCo UCIT ETF GBP-hedged	2,092	2.29
ther payables and accruals	(466)	(0.51)
Related party fund investments	7,764	8.50
Other assets and liabilities		
Short position in respect of Banque Federative du Credit Mutuel SA 0.181% Perp covered by sale and repurchase agreement	(1,336)	(1.46)
Cash and cash equivalents	6,102	6.68
Collateral accounts for derivative financial instruments at fair value through profit or loss	4,999	5.48
Other receivables and prepayments	1,625	1.78
Collateral accounts for derivative financial instruments at fair value through profit or loss	(803)	(0.88)
Other payables and accruals	(466)	(0.51)
Other assets and liabilities	10,121	11.09
Net assets	**91,284**	**100.00**

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, along with controls employed to mitigate those risks, are set out below.

Macroeconomic risk

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

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

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

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

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

- Based on the worst case scenario observed in monthly spot movements in the past 10 years, our worst case expected hedging loss on expiry would be 2.64% of NAV;
- Our portfolio trading liquidity is such that it would take one day, in normal circumstances, to liquidate sufficient assets to meet such an anticipated worst case loss; and
- In "stressed" markets, we estimate it would take four days to raise such liquidity.

While our economic scenarios were used to calculate a range of outcomes, the potential economic impact of the COVID-19 was not explicitly considered at the year end due to the limited information and emergent nature of the outbreak.

Following the UK's exit from the EU on 31 January 2020, and until trade agreements are signed, there may be some uncertainty in UK and European markets as they adjust to the new relationship between the UK and the EU and the rest of the world. Although the exact impact of Brexit is not known, the Board believes that the Company is well placed to deal with future impacts from it.

The COVID-19 outbreak is a new emerging risk to the global economy. The Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions help to ensure business resilience. The situation is changing so rapidly that the full impact cannot yet be understood, but the Company will continue to monitor the situation closely.

Investment risk

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

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

PRINCIPAL RISKS *(continued)*

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

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

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

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

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

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

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

From 1 January 2019 to 31 December 2019, the Company's shares traded at an average discount to NAV of 6.26% (2018: 1.73% premium). The discount rose to 12.66% on 12 September 2019 as the NAV increased as a result of corporate bond markets delivering positive returns. The discount decreased to 0.50% on 3 June 2019 as trade tensions influenced market returns. At the year end the shares traded at a 5.41% discount to NAV (2018: 2.31% discount).

Regulatory risk
Brexit may, in time, lead to divergence in regulatory regimes between the UK and the EU and may create additional investment and trading opportunities. However, in a process which is yet to be determined, it is too early to fully appreciate what these opportunities will be or when they will present themselves.

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

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

ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

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

When making investment decisions, the Investment Manager does not consider the impact that an entity in which the Company invests may have on the community. However, the Board believes that all companies have a duty to consider their impact on the community and the environment. The Directors, Administrator, Company Secretary and external auditor are all based in Guernsey and Board meetings are held in Guernsey, thus negating the need for long commutes or flights to/from Board meetings, and thereby minimising the negative environmental impact of travel to/from Board meetings.

GENDER DIVERSITY

The Board of Directors of the Company currently comprises three male Directors. Further information in relation to the Board's policy on diversity can be found in the Directors' Remuneration Report on page 40.

KEY PERFORMANCE INDICATORS

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

Dividends per Ordinary Share

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

The Company announced dividends of £5,511,000 (6.00p per Ordinary Share) for the year ended 31 December 2019 (2018: 6.00p per Ordinary Share) (see note 6 for further details). The Company has met the 6.00p dividend per share target each year since inception and expects to continue to be able to pay out dividends of this level in the future.

NAV and total return

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

The Company achieved a total return of 16.98% in the year ended 31 December 2019 (2018: -8.00%). The total return from inception to 31 December 2019 was 5.39% p.a., which is below the long term target return of 10% p.a. net of operating expenses. Although, the future rate of return and dividends cannot be guaranteed, together with the Investment Manager, the Board believes that the Company's long-term target return will be achievable in the future.

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

At 31 December 2019 the share price was 94.00p (2018: 88.00p), a 5.41% discount to NAV (2018: 2.31% discount).

PROMOTING THE SUCCESS OF THE COMPANY

The following disclosure outlines how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006. Although, as a Guernsey company, the Company is not required to directly comply with the Companies Act 2006, Section 172 is considered as a requirement of the AIC Code of Corporate Governance with which the Company complies (see page 32 for further details).

The Board considers the needs of a number of stakeholders when considering the long-term future of the Company. The key stakeholders with which the Board has liaised during the year ended 31 December 2019 were:

- Shareholders; and
- Key service providers.

Shareholders
The Company's significant Shareholders at the year end can be found in the Directors' Report on page 29.

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

Details of how the Director's communicate with Shareholders can be found in the Corporate Governance Report, on page 34.

Other than the routine engagement with investors regarding strategy and performance, Board composition and absence of a nomination committee were discussed with investors. Following these discussions, the Board considered its current size and structure in detail and concluded that it was not currently appropriate to expand the Board or establish additional committees although this would be kept under review.

Key service providers
Details of the Company's key service providers can be found in the Directors' Report on page 29.

The key service providers are fundamental to the Company's ability to continue in the same state as any changes could disrupt the expected timeliness of information provided to the markets. In turn this would be likely to have a detrimental impact on the Company's reputation. Reputational risk is discussed further on page 22.

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

Following these discussions, no fee arrangements were amended in the year ended 31 December 2019.

William Scott
Chairman
6 April 2020

BOARD OF DIRECTORS

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

Bill currently serves on two other Premium London listed fund boards, Pershing Square Holdings, Ltd. and Worsley Investors Limited, and has served continuously on Premium London listed boards for over 18 years. He is also a director of RTW Venture Fund Limited which is listed on the Specialist Fund Segment of the London Stock Exchange's Main Market.

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

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

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

DIRECTORS' REPORT

The Directors of the Company are pleased to present their report and audited financial statements for the year ended 31 December 2019.

Principal activity

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

Results and Dividends

The results of the Company for the year are shown on page 48.

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

The Company announced dividends of 6.00p per Ordinary Share for the year ended 31 December 2019, of which 4.50p per Ordinary Share were provided for in these financial statements. In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, the fourth dividend of £1,377,000 (1.50p per Ordinary Share) had not been provided for at 31 December 2019 as, in accordance with IFRS, it was not a liability of the Company at that date.

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

Net assets

At 31 December 2019, the Company had net assets of £91,284,000 (2018: £76,976,000).

Capital structure and share issues

On 4 February 2019, the Company issued 6,400,880 new Ordinary Shares at 92.81p per new Ordinary Share, raising gross proceeds of £5.94 million (£5.84 million net of issue costs).

At the date of signing this report, there were 91,852,904 Ordinary Shares in issue.

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

Going concern

The Company's investment activities, together with factors likely to affect its future development, performance and position are set out in the Principal Risks on pages 21 and 22. The Company closely monitors and manages these risks through a process of ongoing identification, measurement and evaluation, and applies risk management procedures to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

The COVID-19 outbreak is impacting virtually all businesses and the Board expects that it will continue to impact economies over the coming weeks and months. The Board and Investment Manager are monitoring this closely and the potential impact this may have on the Company, its investments, income and intention to distribute all income from investments, net of expenses, by way of dividends on a quarterly basis. As a result, the operations of the Company are and will be kept under constant review to ensure the Company's liquid resources will be sufficient to cover any working capital requirements. In such circumstances, and subject to the availability of opportunities to do so, the options open to the Board could include any or all of the following: selling assets, deferring expenses, reducing dividends, borrowing or raising additional capital.

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

- the Company's net assets at 31 December 2019 of £91,284,000 (2018: £76,976,000);
- the predictability of the Company's income and expenses;
- the liquidity of the Company's assets (at 31 December 2019, 66.5% of its capital instruments could be liquidated in one day); and

DIRECTORS' REPORT *(continued)*

Going concern *(continued)*

- that the Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations.

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

Viability statement

The Directors have assessed the prospects of the Company over the three year period to 31 March 2023. The Directors believe this period to be appropriate as any forecast beyond three years would likely produce figures that are too uncertain to be meaningful.

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

As part of its strategic planning, the Board considered model scenarios that replicated the impact of a financial crisis on the Company's portfolio, which would cause large NAV declines, mainly due to 20% to 25% reductions in prices of the capital instruments held by the Company. While our economic scenarios were used to calculate a range of outcomes, the potential economic impact of the COVID-19 was not explicitly considered at the year end due to the limited information and emergent nature of the outbreak at that time. However, due to the COVID-19 outbreak, the model scenarios have been expanded to reflect an additional extreme and sustained market downturn of 35% per annum falls in prices for three consecutive years. The results of these model scenarios showed that the Company would be able to withstand the impact of these scenarios occurring over the three year period.

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

Based on the above evaluation, the Directors concluded that there is a reasonable expectation that the Company will be viable for the three year period to 31 March 2023.

Litigation

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

Internal control and financial reporting

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

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

DIRECTORS' REPORT *(continued)*

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

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

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

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

The Board has ultimate responsibility for risk management. Given that there are certain inherent risks related to the business and operations of the Company, the Board believes that developing an effective risk management strategy is crucial to the ongoing viability of the Company. In connection thereto, the Board carries out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The main financial risks are market risk (comprising price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. Further details are given in note 24 to the financial statements. The principal risks faced by the Company are outlined on pages 21 to 22.

Material contracts
The Company's material contracts are with:

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

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

DIRECTORS' REPORT *(continued)*

Substantial shareholdings
As at 31 December 2019, and at the date of signing this report, the Company was aware of the following interests of 3% or more in the Company's voting rights:

Shareholder	Number of Ordinary Shares	Percentage holding
Axiom Alternative Investments SARL	14,242,758	15.51
Serimnir Fund	13,769,672	14.99
Alvis Asset Management	10,491,000	11.42
Alder Investment Management	10,403,042	11.33
Premier Miton Group PLC	8,475,718	9.23
Seven Investment Management	8,274,319	9.01
Capfi Delen Asset Management	8,130,000	8.85
Fidelity International	5,796,314	6.31
UBS Wealth Management	3,040,000	3.31

Letters of appointment and election of Directors
Biographies of the Directors are set out on page 26 and demonstrate the wide range of skills and experience each brings to the Board. The Directors were identified and interviewed prior to their appointments and advice was taken in respect of their appointments from the Company's other relevant advisers.

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

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

Directors' interests
At 31 December 2019 and at the date of signing this report, the Directors did not have any interests in the shares of the Company.

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

Political donations
The Company made no political donations during the year to organisations either within or outside of the EU.

Corporate Governance
The Corporate Governance Report can be found on pages 32 to 34.

Auditor
It is intended that the Company will put the audit out for tender in the first half of 2020 (see the Audit Committee Report for further details).

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

On behalf of the Board

William Scott
Chairman
6 April 2020

John Renouf
Director
6 April 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Companies (Guernsey) Law, 2008 (the "Law") requires the Directors to prepare financial statements for each financial period. Under the Law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are required by law to give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the financial statements have been prepared in accordance with IFRS; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

This responsibility statement was approved by the Board of Directors on 6 April 2020 and was signed on behalf of the Board.

William Scott
Chairman
6 April 2020

John Renouf
Director
6 April 2020

CORPORATE GOVERNANCE REPORT

As a Guernsey regulated entity, the Company is subject to the Guernsey Financial Services Commission's "Finance Sector Code of Corporate Governance". In addition, companies with shares listed on the Premium Segment are required to comply with the UK Corporate Governance Code 2018 (the "Code").

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

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

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

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

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

Remuneration Committee, Nomination Committee and Management Engagement Committee – Due to the size and composition of the Board, the Directors deemed it inappropriate to establish a Remuneration Committee, Nomination Committee or a Management Engagement Committee. Instead, the functions of those committees are performed by the Board as a whole, which is comprised wholly of independent Non-Executive Directors.

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

Tenure policy – The Board's previous policy on tenure, which was in line with the Company's Articles of Incorporation, was for all Directors to submit themselves for re-election by Shareholders at each Annual General Meeting. The tenure policy, which expands on the annual re-election to include details of the Director appointment process, tenure of the chair, the Board's approach to succession planning and the Board's diversity policy, was adopted at the 25 March 2020 Board meeting.

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Committees

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

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

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

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

Audit Committee

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

The Audit Committee:

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

Board meeting attendance

During the year, the Company held eight Board meetings and three Audit Committee meetings. Attendance at these meetings is detailed below:

	Scheduled Board meetings	Transactional Board meetings	Audit Committee meetings
William Scott	5/5	1/3	3/3
John Renouf	5/5	3/3	3/3
Max Hilton	5/5	3/3	3/3

Board's performance evaluation

During the year, the Board undertook its annual performance evaluation. The Board completed a broad-reaching questionnaire, the results of which were collated and reviewed in detail. As part of the evaluation, the Board considered, amongst other things:

- the independence of each Director;
- its culture, including its policies, practices and behaviour;

and it was determined that overall the Board was fit for purpose.

CORPORATE GOVERNANCE REPORT *(continued)*

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

Relations with Shareholders and AGM
The Company encourages two-way communication with both its institutional and private investors and intends to respond quickly to queries raised. All Shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM, which will be circulated to all registered Shareholders sets out the business of the meeting and an explanation of each proposed resolution. Separate resolutions are proposed in respect of each substantive issue.

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

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

On behalf of the Board

William Scott
Chairman
6 April 2020

AUDIT COMMITTEE REPORT

Composition

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

Responsibilities

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

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

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

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

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

Meetings

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

Primary areas of judgement in relation to the Annual Report and Financial Statements

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

AUDIT COMMITTEE REPORT *(continued)*

Primary areas of judgement in relation to the Annual Report and Financial Statements *(continued)*

The Company places reliance on the control environment of its service providers, including its independent administrator and the Investment Manager. The internal controls over financial reporting were considered, together with feedback from the Company's Investment Manager, Company Secretary and the Company's external auditor. The Audit Committee is satisfied with the controls in place.

The Audit Committee has considered the valuation of unquoted investments. It is satisfied that the valuations are in accordance with the Company's accounting policies and that the carrying values used in these financial statements represent an appropriate fair value.

The Audit Committee has also considered the methodology used for revenue recognition and is satisfied that the revenue recognised in these financial statements represents the true value of revenue received in the year.

The Audit Committee met with the audit team during the audit process and, after considering the audit process and various discussions with Ernst & Young LLP ("EY"), the Investment Manager and the Administrator, are satisfied that the audit was undertaken in an effective manner and addressed the main risks. The Audit Committee received a report and supporting presentation from EY on its audit of the financial statements for the period.

Fair, balanced and understandable

The Audit Committee read and discussed the Annual Report, with special attention to the considerations included above and the Audit Committee and the Board concluded that it is fair, balanced and understandable. The Audit Committee advised the Board that the Annual Report and Financial Statements are fair, balanced, and understandable.

Viability Statement

The Audit Committee reviewed the Viability Statement and supporting workings and recommended to the Board that the Viability Statement included on pages 27 and 28 should be approved.

Internal audit

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

External audit

The Audit Committee met twice with EY during the year, firstly on 3 April 2019 to present the audit findings report and discuss the audit of the 31 December 2018 financial statements and then on 20 November 2019 at which EY presented the detailed audit plan for the audit of the 31 December 2019 financial statements. No significant issues were noted in the audit findings report presented on 3 April 2019. The audit plan sets out the audit scope, the significant audit risks the Company faces, EY's position on audit independence, materiality, proposed timetable and audit fee. Following completion of the audit, the Audit Committee reviewed EY's effectiveness by:

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

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

AUDIT COMMITTEE REPORT *(continued)*

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

For the year ended 31 December 2019, total fees charged by EY, together with amounts accrued at 31 December 2019, amounted to £43,000 all of which related to audit services (2018 total fee £53,000: £36,000 audit fee less an over accrual for 2017 of £12,000 and £29,000 reporting accountant work on the transfer of listing and the issue of the new Prospectus in October 2018).

EY has been appointed to provide audit services to the Company and has acted as the Company's Auditor since it was appointed to audit the Company's first financial statements for the period ended 31 December 2016. A tender was conducted prior to EY's initial appointment. The Audit Committee considers the need for a tender at least annually and, for good corporate governance, it is intended that the Company will put the audit out for tender in the first half of 2020.

On behalf of the Audit Committee

John Renouf
Chairman of the Audit Committee
6 April 2020

DIRECTORS' REMUNERATION REPORT

Due to the size and composition of the Board, the Directors deemed it inappropriate to establish a Remuneration Committee and a Nomination Committee.

The Directors, all of whom are independent non-executive Directors, are the only officers of the Company. Copies of the Directors' letters of appointment are available upon request from the Company Secretary and will be available for inspection at the AGM. In accordance with best practice, all directors retire at each AGM and, if eligible, may offer themselves for re-election.

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

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

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

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

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

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

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

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

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

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

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

DIRECTORS' REMUNERATION REPORT *(continued)*

Annual report on remuneration

Service contracts obligations and payment on loss of office

No Director has a service contract with the Company and, as such, no Director is entitled to compensation payments upon termination of their appointment or loss of office.

Total remuneration paid to each Director

The total remuneration of the Directors for the year ended 31 December 2019 was:

	Year ended 31 December 2019 £	Year ended 31 December 2018 £
William Scott	35,000	35,000
John Renouf	32,500	32,500
Max Hilton	27,500	27,500
Total	**95,000**	**95,000**

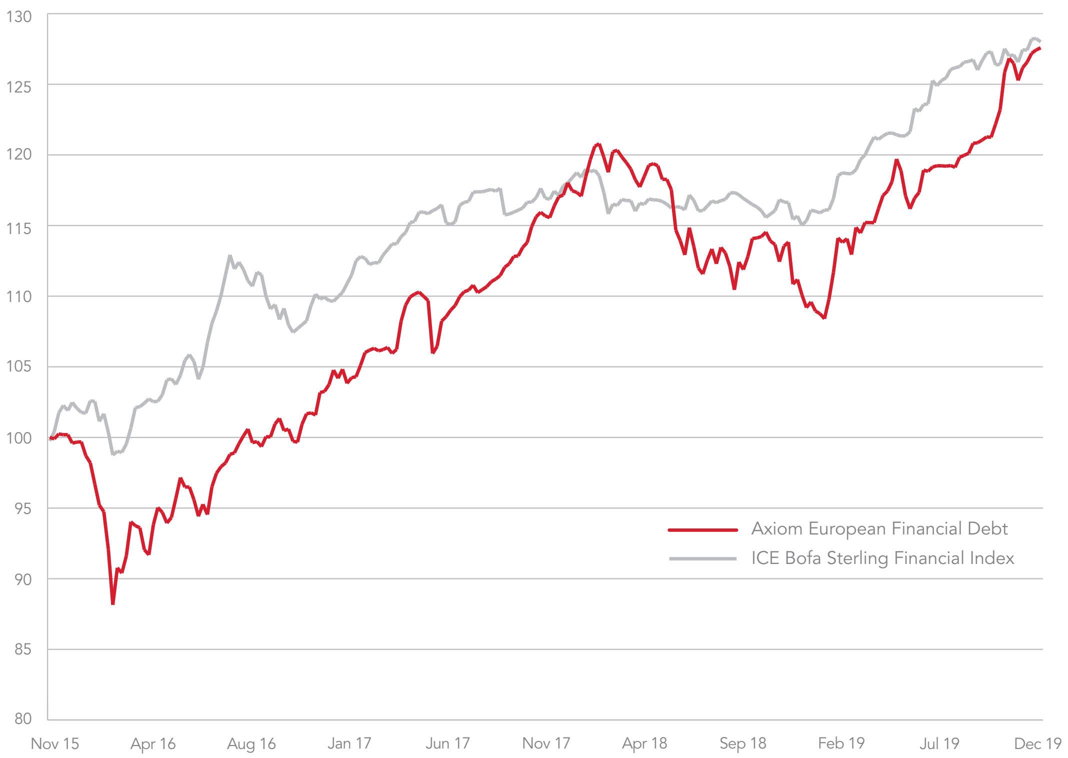
All of the above remuneration relates to fixed annual fees.

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

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

Share price total return

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



DIRECTORS' REMUNERATION REPORT *(continued)*

Directors' shareholdings in the Company

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

As at 31 December 2019, and at the date of this report the Directors did not hold any shares in the Company.

Board diversity

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

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

On behalf of the Board

William Scott
Chairman
6 April 2020

REGULATORY DISCLOSURES

AIFMD disclosures

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

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

Report on remuneration

The AIFMD requires certain disclosures to be made with regard to the remuneration policy of the Company's AIFM. The total remuneration of the staff of the Investment Manager during the period was £3,663,000 (2018: £2,855,000), comprising £1,969,000 fixed (2018: £1,793,000) and £1,694,000 variable (2018: £1,062,000) remuneration. There were 23 beneficiaries (2018: 20). The aggregate amount of remuneration of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Company during the period was £3,115,000 (2018: £2,212,000).

Key Information Document ("KID")

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

Risk disclosures

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

Pre-investment disclosures

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

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

Opinion

We have audited the financial statements of Axiom European Financial Debt Fund Limited (the "Company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 21 to 22 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 27 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' Report set out on page 27 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 27 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters

- Valuation of Level 2 financial instruments at fair value through profit or loss
- COVID-19

Materiality

- Overall materiality of £913,000 (2018: £770,000) which represents 1% (2018: 1%) of the Company's net asset value ("NAV") as at 31 December 2019

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of Level 2 financial instruments at fair value through profit or loss **Assets £12.0m (2018: £9.9m)** **Liabilities £17.8m (2018: £22.7m)** There is the risk that the fair value of Level 2 financial instruments may be misstated due to the application of inappropriate methodologies or inputs to the valuations and/or inappropriate judgmental factors or management override.	We confirmed our understanding of the processes, policies and methodologies used to value the Company's Level 2 financial instruments at fair value through profit or loss. We assessed whether such valuations had been performed in accordance with IFRS and the Company's accounting policies. In relation to the derivative instruments we engaged our own internal valuation specialists to independently value the Credit Default Swaps held at 31 December 2019 using the standard ISDA Model and CDS index curves obtained from independent sources (e.g. Bloomberg); For foreign exchange forward contracts we used the foreign exchange rates at the valuation date and independent forward rates for the relevant currency pairs in order to reperform the valuation of 100% of the open positions; For 100% of the repurchase agreements we reperformed the calculation of the liabilities using the contractual terms identified in the contract notes; For related party funds we obtained published net asset value per share figures from the relevant stock exchanges; and For the remaining financial instruments we challenged Management's valuation assumptions by obtaining independent broker quotes, evidence of historical trading records and, for a sample of instruments, we engaged our internal valuation specialists to independently assess the fair value of the financial instruments.	We confirmed that there were no material matters arising from our audit work that we needed to bring to the attention of the Audit Committee. We confirmed that the valuation of the Level 2 financial instruments are fairly stated in accordance with IFRS.

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

Key audit matters *(continued)*

Risk	Our response to the risk	Key observations communicated to the Audit Committee
COVID-19 Since the balance sheet date there has been a global COVID-19 pandemic which continues to affect all business across the world in different ways. The governments of the countries affected have designed measures to mitigate the resulting adverse economic impact of this pandemic. There is a risk that this COVID-19 pandemic may impact company liquidity and investment returns in the short to medium term which could impact Going Concern and in the longer term the viability of the Company. There is also a risk that management has not appropriately disclosed the impact of COVID-19 in the annual report.	We obtained an understanding of the process followed by management to make its going concern and viability assessment as result of the impact of COVID-19. We reviewed cashflow forecast to ensure there are no unidentified or undisclosed events that could have an impact on going concern. We challenged management on the appropriateness of the key assumptions and considered their reasonableness in the context of other supporting evidence gained from our audit work. We evaluated the appropriateness of stress test scenarios including considering the actions that management could take and their impact on the cashflow/liquidity position. We performed our own scenario analysis to assess the reasonableness of management's assessment. We reviewed minutes of board meetings with a view to identifying any matters which may impact the going concern assessment. We reviewed the disclosures in the annual report in relation to COVID-19 and ensured these adequately disclose the risk, impact on the Company and mitigation actions adopted. We considered the potential actions which management could take in response to the crisis by specifically assessing how the business continuity plans of the Investment Manager and Administrator have already been invoked to ensure business operations are maintained.	We confirm that the matter has been appropriately evaluated and reflected in the annual report.

In the current year, revenue recognition has been removed from key audit matters as we concluded that the level of subjectivity relating to revenue recognition was minimal and our resultant audit work no longer took up a significant portion of our overall audit effort. COVID-19 was added as a result of the global pandemic which occurred after the year end.

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

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. Audit work was performed by the audit team and internal valuation experts.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £913,000 (2018: £770,000), which is 1% of the Company's NAV as at 31 December 2019 (2018: 1% of NAV). We believe this provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We used NAV as a basis for determining planning materiality because the Company's primary performance measures for internal and external reporting are based on NAV.

Performance materiality

Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £685,000 (2018: £577,500).

Reporting threshold

Reporting threshold is an amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £46,000 (2018: £38,500), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 41, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

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

Other information *(continued)*
We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee is materially inconsistent with our knowledge obtained in the audit; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Le Tissier
For and on behalf of Ernst & Young LLP
Guernsey
9 April 2020

Notes:

1. The maintenance and integrity of the Axiom European Financial Debt Fund Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Income			
Capital instrument income		4,445	4,493
Credit default swap income		600	882
Bank interest receivable		71	80
Total income		**5,116**	**5,455**
Investment gains and losses on investments held at fair value through profit or loss			
Realised gains on disposal of capital instruments and other investments	*15*	1,179	851
Movement in unrealised gains/(losses) on capital instruments and other investments	*15*	4,815	(7,860)
Realised losses on derivative financial instruments	*18*	(439)	(887)
Movement in unrealised gains/(losses) on derivative financial instruments	*18*	5,299	(4,123)
Total investment gains and losses		**10,854**	**(12,019)**
Expenses			
Investment management fee	*8a*	(796)	(549)
Other expenses	*12*	(279)	(269)
Performance fee	*8a*	(136)	–
Administration fee	*8b*	(128)	(125)
Directors' fees	*8f*	(95)	(95)
Interest payable and similar charges	*11*	(51)	(180)
Transfer of listing fees		–	(192)
Total expenses		**(1,485)**	**(1,410)**
Profit/(loss) from operating activities before gains and losses on foreign currency transactions		**14,485**	**(7,974)**
(Loss)/gain on foreign currency		(603)	875
Profit/(loss) for the year attributable to the Owners of the Company		**13,882**	**(7,099)**
Earnings/(loss) per Ordinary Share: ***basic and diluted***	*14*	**15.21p**	**(8.48)p**

All of the items in the above statement are derived from continuing operations.
There were no other comprehensive income items in the year.
The accompanying notes on pages 52 to 78 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Note	Distributable reserves and total £'000
Opening balance at 1 January 2018		79,364
Loss for the year ended 31 December 2018		(7,099)
Contributions by and distributions to Owners		
Ordinary Shares issued	*21*	10,051
Share issue costs		(391)
Dividends paid	*6*	(4,949)
At 31 December 2018		**76,976**
Profit for the year ended 31 December 2019		13,882
Contributions by and distributions to Owners		
Ordinary Shares issued	*21*	5,941
Share issue costs		(100)
Dividends paid	*6*	(5,415)
At 31 December 2019		**91,284**

The accompanying notes on pages 52 to 78 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Note	As at 31 December 2019 £'000	As at 31 December 2018 £'000
Assets			
Investments in capital instruments at fair value through profit or loss	*15, 19*	85,924	81,341
Other investments at fair value through profit or loss	*15, 19*	7,764	3,050
Collateral accounts for derivative financial instruments at fair value through profit or loss	*16, 18*	4,999	8,922
Derivative financial assets at fair value through profit or loss	*18*	3,909	2,574
Other receivables and prepayments	*17*	1,625	2,088
Cash and cash equivalents		6,102	2,612
Total assets		**110,323**	**100,587**
Current liabilities			
Derivative financial liabilities at fair value through profit or loss	*18*	(16,434)	(21,284)
Short positions covered by reverse sale and repurchase agreements	*15*	(1,336)	(1,451)
Collateral accounts for derivative financial instruments at fair value through profit or loss	*16, 18*	(803)	–
Other payables and accruals	*20*	(466)	(710)
Bank overdrafts		–	(166)
Total liabilities		**(19,039)**	**(23,611)**
Net assets		**91,284**	**76,976**
Share capital and reserves			
Share capital	*21*	–	–
Distributable reserves		91,284	76,976
Total equity holders' funds		**91,284**	**76,976**
Net asset value per Ordinary Share: ***basic and diluted***	*22*	**99.38p**	**90.08p**

These financial statements were approved by the Board of Directors on 6 April 2020 and were signed on its behalf by:

William Scott
Chairman
6 April 2020

John Renouf
Director
6 April 2020

The accompanying notes on pages 52 to 78 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	Note	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Cash flows from operating activities			
Net profit/(loss) before taxation		13,882	(7,099)
Adjustments for:			
Foreign exchange movements		603	(875)
Total investment (gains)/losses at fair value through profit or loss		(10,854)	12,019
Cash flows relating to financial instruments:			
Payment from/(to) collateral accounts for derivative financial instruments	*16*	4,727	(5,780)
Purchase of investments at fair value through profit or loss	*15*	(65,848)	(73,722)
Sale of investments at fair value through profit or loss	*15*	63,417	55,752
Premiums received from selling credit default swap agreements	*18*	1,658	1,332
Premiums paid on buying credit default swap agreements	*18*	(2,982)	(476)
Purchase of foreign currency derivatives	*18*	(324,487)	(287,992)
Close-out of foreign currency derivatives	*18*	325,345	287,555
Purchase of bond futures	*18*	(2,336)	(5,390)
Sale of bond futures	*18*	1,384	4,656
Proceeds from sale and repurchase agreements	*18*	63,360	102,999
Payments to open reverse sale and repurchase agreements	*18*	(2,678)	(10,035)
Payments for closure of sale and repurchase agreements	*18*	(64,283)	(92,398)
Proceeds from closure of reverse sale and repurchase agreements	*18*	3,694	8,537
Opening of short positions	*15*	3,374	5,912
Closure of short positions	*15*	(3,609)	(5,023)
Net cash outflow from operating activities before working capital changes		4,367	(10,028)
Increase in other receivables and prepayments		(290)	(664)
Decrease in other payables and accruals		(179)	(31)
Net cash inflow/(outflow) from operating activities		**3,898**	**(10,723)**
Cash flows from financing activities			
Proceeds from issue of Ordinary Shares		5,941	10,051
Share issue costs paid	*23*	(165)	(368)
Dividends paid	*6*	(5,415)	(4,948)
Net cash inflow from financing activities		**361**	**4,735**
Increase/(decrease) in cash and cash equivalents		**4,259**	**(5,988)**
Cash and cash equivalents brought forward		2,446	7,559
Effect of foreign exchange on cash and cash equivalents		(603)	875
Cash and cash equivalents carried forward*		**6,102**	**2,446**
Supplemental disclosure of cash flow information			
Cash paid during the year for interest		(819)	(930)
Cash received during the year for interest		5,290	5,319
Cash received during the year for dividends		228	289

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

The accompanying notes on pages 52 to 78 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. General information

The Company was incorporated as an authorised closed-ended investment Company, under the Companies (Guernsey) Law, 2008 on 7 October 2015 with registered number 61003. Its Ordinary Shares were admitted to trading on the Premium Segment 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 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 will focus 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 will invest its assets with the aim of spreading investment risk.

2. Statement of compliance

a) Basis of preparation

These financial statements present the results of the Company for the year ended 31 December 2019. The comparative figures stated were for the year ended 31 December 2018. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

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

b) Going concern

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

c) Basis of measurement

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

d) Use of estimates and judgements

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

3. Significant accounting policies

a) Income and expenses

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

Dividend income is recognised when the right to receive payment is established. Capital instrument income comprises bond interest and dividend income.

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 31 December 2019 were £1/€1.1825, £1/US$1.3257, £1/DKK8.8323, £1/CA$1.7226 and £1/SGD1.7841 (2018: £1/€1.1122, £1/US$1.2754, £1/DKK8.3033, £1/CA$1.7403 and £1/SGD1.7383).

c) Taxation

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

d) Financial assets and liabilities

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

Financial assets

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

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

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

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

The Company includes in this category:

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

Financial liabilities

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

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

Derivative financial instruments, including credit default swap agreements, foreign currency forward contracts, bond future contracts and sale and repurchase agreements are recognised initially, and are subsequently measured at, fair value. Sale and repurchase agreements are recognised at fair value through profit or loss as they are generally not held to maturity 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

Derecognition

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

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

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

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

Initial measurement

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

Subsequent measurement

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

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

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

Offsetting of financial instruments

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

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

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

f) 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.

g) 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

3. Significant accounting policies *(continued)*

h) 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 year end date.

i) 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.

j) Distributable reserves

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

k) NAV per share and earnings per share

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

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

l) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial period. The Company adopted the amendments to IAS 12, *Income Taxes*, IAS 23, *Borrowing Costs* and IFRIC 23, *Uncertainty over Income Tax Treatments*. The adoption of these accounting standards did not have any effect on the Company's Statement of Financial Position or equity.

m) Accounting standards issued but not yet effective

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

		Effective date
IFRS 7	Financial Instruments: Disclosures *(amendments regarding pre-replacement issues in the context of the IBOR reform)*	1 January 2020
IFRS 9	Financial Instruments *(amendments regarding pre-replacement issues in the context of the IBOR reform)*	1 January 2020
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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

4. Use of judgements and estimates

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

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

Judgements

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

i) Determination of functional currency

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

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

Estimates and assumptions

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

i) Valuation of financial assets and liabilities

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

6. Dividends

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

The Company has declared the following dividends during the year ended 31 December 2019:

	Total dividend declared in respect of earnings £'000	**Amount per Ordinary Share**
Dividends declared and paid in the year	5,415	6.00p
Less, dividend declared in respect of the prior year that was paid in 2019	(1,282)	(1.50)p
Add, dividend declared out of the profits of the year but paid after the year end:	1,378	1.50p
Dividends declared in respect of the year	5,511	6.00p

The Company declared the following dividends during the year ended 31 December 2018:

	Total dividend declared in respect of earnings £'000	**Amount per Ordinary Share**
Dividends declared and paid in the year	4,949	6.00p
Less, dividend declared in respect of the prior year that was paid in 2018	(1,140)	(1.50)p
Add, dividend declared out of the profits of the year but paid after the year end:	1,282	1.50p
Dividends declared in respect of the year	5,090	6.00p

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the year a total of £5,415,000 (2018: £4,949,000) was incurred in respect of dividends, none of which was outstanding at the reporting date. The fourth dividend declared out of the profits for the year of £1,378,000 had not been provided for at 31 December 2019 as, in accordance with IFRS, it was not a liability of the Company at that date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

7. Related parties

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

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

As at 31 December 2019, the Company had holdings in the following investments which were managed by the Investment Manager:

	31 December 2019			31 December 2018		
	Holding	Cost £'000	Value £'000	Holding	Cost £'000	Value £'000
Axiom Global CoCo UCIT ETF USD-hedged	35	2,984	2,898	–	–	–
Axiom Contingent Capital – Class E	2,450	2,462	2,774	3,119	3,134	3,050
Axiom Global CoCo UCIT ETF GBP-hedged	20	2,000	2,092	–	–	–

During the year, the Company purchased:

- 70 units in UC AXI Global CoCo Bonds UCITS for £6,040,000;
- 35 units in Axiom Global CoCo UCIT ETF USD-hedged for £2,984,000; and
- 20 units in Axiom Global CoCo UCIT ETF GBP-hedged for £2,000,000.

During the year, the Company sold:

- 669 units in Axiom Contingent Capital – Class E for £703,000, realising a gain of £31,000; and
- 70 units in UC AXI Global CoCo Bonds UCITS for £6,679,000, realising a gain of £639,000.

During the year ended 31 December 2018, the Company:

- purchased 3,110 units in Long Short – Class C for £2,880,000;
- purchased 1,000 units in Axiom Equity – Class C for £758,000;
- purchased 3,119 units in Axiom Contingent Capital – Class E for £3,134,000;
- sold 1,739 units in Axiom Premium Multi Strategies for £2,315,000, realising a gain of £168,000;
- sold 3,110 units in Axiom Long Short – Class C for £2,562,000 realising a loss of £318,000; and
- sold 1,000 units in Axiom Equity – Class C for £560,000 realising a loss of £198,000.

The Directors are not aware of any ultimate controlling party.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

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.

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

If in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company (excluding 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 year, a total of £796,000 (2018: £549,000) was incurred in respect of Investment Management fees, of which £189,000 was payable at the reporting date (2018: £186,000).

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

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

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

by the Company to the Investment Manager without:

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

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

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

The Quarterly Expenses Excess and Annual Expenses Excess for the year was £2,000 (2018: £259,000), and at 31 December 2019 the Quarterly Expenses Excess and Annual Expenses Excess which could be payable to the Investment Manager in future periods was £725,000 (2018: £723,000) (see note 27).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Performance fee

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

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

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

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

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

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

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

At 31 December 2019, a performance fee of £136,000 (2018: £nil) was payable by the Company in respect of the year then ended. 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 has been appointed by the Company to provide day to day administration services to the Company, to calculate the NAV per share as at the end of each calendar month and to provide company secretarial functions required under the Law.

Under the terms of the Administration Agreement, the Administrator is entitled to receive a fee of £110,000 per annum, which is subject to an annual adjustment upwards to reflect any percentage change in the retail prices index over the preceding year. In addition, the Company pays the Administrator a fee for work undertaken in connection with the daily NAV, subject to a maximum aggregate amount of £10,000 per annum. In 2018, the Administrator was also paid £5,000 in respect of the work undertaken on the transfer of listing and £33,000 in respect of the new Prospectus. The new Prospectus fees are included in share issue costs in the Statement of Changes in Equity.

During the year, a total of £128,000 (2018: £125,000) was incurred in respect of Administration fees of which £32,000 (2018: £31,000) was payable at the reporting date.

c) Broker

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

For the year to 31 December 2019, the Company incurred Broker fees of £37,000 (2018: £35,000) of which £6,000 was payable at the year end date (2018: £6,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

8. Key contracts *(continued)*

c) Broker *(continued)*

In the year ended 2018, Winterflood was paid £50,000 for its work on the transfer of listing and £191,000 for its work on the placings and new Prospectus. The Prospectus and placing fees are included in share issue costs in the Statement of Changes in Equity.

d) Registrar

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

During the year, a total of £19,000 (2018: £19,000) was incurred in respect of Registrar fees, of which £1,000 was payable at 31 December 2019 (2018: £3,000).

In the year ended 31 December 2018, Link was also paid £4,000 for its work on the General Meeting required to effect the changes to enable the Company to be listed on the Premium Segment.

e) Depositary

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

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

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

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

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

During the year, a total of £34,000 (2018: £38,000) was incurred in respect of depositary fees, of which £13,000 was payable at the reporting date (2018: £6,000).

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

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

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

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

During the period, a total of £42,000 (2018: £39,000) was incurred in respect of valuation agent fees paid to CACEIS Bank Luxembourg, of which £14,000 was payable at 31 December 2019 (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 year, a total of £95,000 (2018: £95,000) was incurred in respect of Directors' fees, none of which was payable at the reporting date (2018: £nil). No bonus or pension contributions were paid or payable on behalf of the Directors.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

9. Key management and employees

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

10. Auditor's remuneration

For the year ended 31 December 2019, total fees charged by EY, together with amounts accrued at 31 December 2019, amounted to £43,000 (2018: £53,000), all of which related to audit services (2018 fee: £36,000, less 2017 over accrual: £12,000, and £29,000 reporting accountant work on the transfer of listing and the issue of the new Prospectus in October 2018). As at 31 December 2019, £30,000 (2018: £36,000) was due to EY.

11. Interest payable and similar charges

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Bank interest	48	100
Interest payable on sale and repurchase agreements	2	77
Commission	1	3
	51	**180**

12. Other expenses

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Other expenses	53	54
Audit fees *(note 10)*	43	24
PR expenses	43	39
Valuation agent fees	42	39
Broker fees *(note 8c)*	37	35
Depositary fees *(note 8e)*	34	38
Registrar fees *(note 8d)*	19	19
Legal fees	8	21
	279	**269**

13. Taxation

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

14. Earnings per Ordinary Share

The earnings per Ordinary Share of 15.21p (2018: loss of 8.48p) is based on a profit attributable to owners of the Company of £13,882,000 (2018: loss of £7,099,000) and on a weighted average number of 91,256,658 (2018: 83,724,996) Ordinary Shares in issue since 1 January 2019. There is no difference between the basic and diluted earnings/(loss) per share.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

15. Investments at fair value through profit or loss

Movements in gains/(losses) in the year

	31 December 2019			31 December 2018		
	Unrealised £'000	**Realised £'000**	**Total £'000**	**Unrealised £'000**	**Realised £'000**	**Total £'000**
Investments in capital instruments	4,575	467	5,042	(7,686)	1,031	(6,655)
Other investments	402	670	1,072	(283)	(347)	(630)
Short positions covered by reverse sale and repurchase agreements	(162)	42	(120)	109	167	276
	4,815	1,179	5,994	(7,860)	851	(7,009)

Closing valuations

	31 December 2019 £'000	**31 December 2018 £'000**
Investments in capital instruments	85,924	81,341
Other investments	7,764	3,050
Short positions covered by reverse sale and repurchase agreements	(1,336)	(1,451)
Investments at fair value through profit or loss	**92,352**	**82,940**

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

As at 31 December 2019, the Company had ten (2018: ten) open sale and repurchase agreements, including one (2018: two) reverse sale and repurchase agreement (see note 18). The reverse sale and repurchase agreement was 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 31 December 2019 was £19,596,000 (2018: £18,628,000). The fair value net of the short position was £18,260,000 (2018: £17,177,000).

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

	31 December 2019 £'000	**31 December 2018 £'000**
JP Morgan	3,660	6,290
Goldman Sachs International	754	1,819
Credit Suisse	585	616
CACEIS Bank France	–	197
	4,999	8,922
CACEIS Bank France – *negative balance*	(803)	–
Net balance on collateral accounts held by brokers	**4,196**	**8,922**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

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

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

17. Other receivables and prepayments

	31 December 2019 £'000	31 December 2018 £'000
Accrued capital instrument income receivable	1,591	1,286
Interest due on credit default swaps	15	24
Prepayments	15	13
Interest due on collateral held by brokers	4	7
Due from sale of capital instrument	–	758
	1,625	**2,088**

18. Derivative financial instruments

Credit default swap agreements

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Opening balance	(2,419)	915
Premiums received from selling credit default swap agreements	(1,658)	(1,332)
Premiums paid on buying credit default swap agreements	2,982	476
Movement in unrealised gains/(losses) in the year	1,972	(2,693)
Realised gains in the year	139	215
Outstanding asset/(liability) due on credit default swaps	**1,016**	**(2,419)**
Credit default swap assets at fair value through profit or loss	1,398	184
Credit default swap liabilities at fair value through profit or loss	(382)	(2,603)
Outstanding asset/(liability) due on credit default swaps	**1,016**	**(2,419)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

18. Derivative financial instruments *(continued)*

Credit default swap agreements (continued)

Interest paid or received on the credit default swap agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred or received. At the year end, £15,000 (2018: £24,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £4,999,000 (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.

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Opening balance	(1,329)	(390)
Purchase of foreign currency derivatives	324,487	287,992
Closing-out of foreign currency derivatives	(325,345)	(287,555)
Movement in unrealised gains/(losses) in the year	2,548	(939)
Realised gains/(losses) in the year	858	(437)
Net assets/(liabilities) on foreign currency forwards	**1,219**	**(1,329)**
Foreign currency forward assets at fair value through profit or loss	1,219	–
Foreign currency forward liabilities at fair value through profit or loss	–	(1,329)
Net assets/(liabilities) on foreign currency forwards	**1,219**	**(1,329)**

Bond futures

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Opening balance	(7)	5
Purchase of bond futures	2,336	5,390
Sale of bond futures	(1,384)	(4,656)
Movement in unrealised gains/(losses) in the year	88	(138)
Realised losses in the year	(1,033)	(608)
Balance payable on bond futures	**–**	**(7)**
Bond future assets at fair value through profit or loss	–	4
Bond future liabilities at fair value through profit or loss	–	(11)
Balance payable on bond futures	**–**	**(7)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

18. Derivative financial instruments *(continued)*

Sale and repurchase agreements

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

	Year ended 31 December 2019 £'000	Year ended 31 December 2018 £'000
Opening balance	(14,955)	(5,442)
Opening of sale and repurchase agreements	(63,360)	(102,999)
Opening of reverse sale and repurchase agreements	2,678	10,035
Closing-out of sale and repurchase agreements	64,283	92,398
Closing-out of reverse sale and repurchase agreements	(3,694)	(8,537)
Movement in unrealised gains in the year	691	(353)
Realised losses in the year	(403)	(57)
Total liabilities on sale and repurchase agreements	**(14,760)**	**(14,955)**

Sale and repurchase assets at fair value through profit or loss	1,292	2,386
Sale and repurchase liabilities at fair value through profit or loss	(16,052)	(17,341)
Total liabilities on sale and repurchase agreements	**(14,760)**	**(14,955)**

Interest paid on sale and repurchase agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred. At 31 December 2019 £nil (2018: £6,000) interest on sale and repurchase agreements was payable by the Company.

Offsetting of derivative financial instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

18. Derivative financial instruments *(continued)*

Offsetting of derivative financial instruments (continued)

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

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
31 December 2019					
Financial assets					
Derivatives	3,909	–	3,909	(1,292)	2,617
Collateral accounts for derivative financial instruments *(note 16)*	4,999	–	4,999	(352)	4,647
Total assets	**8,908**	**–**	**8,908**	**(1,644)**	**7,264**
Financial liabilities					
Derivatives	(16,434)	–	(16,434)	16,404	(30)
Collateral accounts for derivative financial instruments *(note 16)*	(803)	–	(803)	–	(803)
Total liabilities	**(17,237)**	**–**	**(17,237)**	**16,404**	**(833)**
31 December 2018					
Financial assets					
Derivatives	2,574	–	2,574	(1,451)	1,123
Collateral accounts for derivative financial instruments *(note 16)*	8,922	–	8,922	(2,799)	6,123
Total assets	**11,496**	**–**	**11,496**	**(4,250)**	**7,246**
Financial liabilities					
Derivatives	(21,284)	–	(21,284)	20,003	(1,281)
Total liabilities	**(21,284)**	**–**	**(21,284)**	**20,003**	**(1,281)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

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

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

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

At 31 December 2019, the financial assets and liabilities designated at fair value through profit or loss were as follows:

31 December 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Traded/listed capital instruments at fair value through profit or loss	83,460	2,464	–	85,924
Other investments at fair value through profit or loss *(note 7)*	2,092	5,672	–	7,764
Credit default swap assets	–	1,398	–	1,398
Credit default swap liabilities	–	(382)	–	(382)
Other derivative financial assets	–	2,511	–	2,511
Other derivative financial liabilities	–	(16,052)	–	(16,052)
Short positions covered by sale and repurchase agreements	–	(1,336)	–	(1,336)
	85,552	**(5,725)**	**–**	**79,827**
31 December 2018				
Traded/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)
Other derivative financial assets	4	2,386	–	2,390
Other derivative financial liabilities	(11)	(18,670)	–	(18,681)
Short position covered by sale and repurchase agreement	–	(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, an unlisted open ended fund and bond future contracts, which have been valued at fair value by reference to quoted prices in active markets. No unobservable inputs were included in determining the fair value of these investments and, as such, alternative carrying values for ranges of unobservable inputs have not been provided.

Level 2 financial instruments include broker quoted bonds, 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 the other investments are based on the market price of the underlying securities.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

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

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

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

Transfers between levels

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

20. Other payables and accruals

	31 December 2019 £'000	31 December 2018 £'000
Investment management fee *(note 8a)*	189	186
Performance fee *(note 8a)*	136	234
Audit fees *(note 10)*	30	36
Administration fee *(note 8b)*	32	31
Other accruals	31	14
Share issue costs	14	79
Valuation agent fees *(note 8e)*	14	6
Depositary fees *(note 8e)*	13	6
Broker fee *(note 8c)*	6	6
Registrar fees *(note 8d)*	1	3
Transfer of listing fees	–	60
Accrued interest payable on capital instrument short positions	–	43
Interest payable on sale and repurchase agreements *(note 18)*	–	6
	466	**710**

21. Share capital

	31 December 2019		31 December 2018	
	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
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 31 December 2019 and 6 April 2020	91,852,904		

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

21. Share capital *(continued)*

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

22. 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 £91,284,000 (2018: £76,976,000), and on 91,852,904 (2018: 85,452,024) Ordinary Shares in issue at the year end.

23. Changes in liabilities arising from financing activities

During the year the Company raised £5,941,000 (2018: £10,052,000) through the placing of 6,400,880 (2018: 9,452,673) new Ordinary Shares of no par value. Share issue costs of £100,000 (2018: £391,000) were incurred in relation to the placings, and at the year end £14,000 (2018: £79,000) of the issue costs were outstanding, resulting in cash flows in relation to share issue costs in the year of £165,000 (2018: £368,000).

24. Financial instruments and risk management

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

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

Risk management structure

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

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

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 positions in several currencies that tend to move together.

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

Concentration

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

24. 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 (notes 15, 18 and 19) are exposed to price risk and it is not the intention to mitigate the price risk.

At 31 December 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 +/-£4,618,000 (2018: +/-£4,147,000). The fair value of financial instruments exposed to price risk at 31 December 2019 was £92,352,000 (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 year. At the year end, the Company held the following foreign currency forward contracts:

31 December 2019 **Maturity date**	**Amount** **to be sold**	**Amount** **to be purchased**
16 January 2020	€40,470,000	£35,146,000
16 January 2020	US$11,175,000	£8,686,000
16 January 2020	€8,000,000	£6,859,000
16 January 2020	DKK7,297,000	£845,000
16 January 2020	US$1,012,000	£771,000

31 December 2018 **Maturity date**	**Amount** **to be sold**	**Amount** **to be purchased**
16 January 2019	€43,812,000	£38,405,000
16 January 2019	US$9,523,000	£7,197,000
16 January 2019	DKK7,275,000	£855,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

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

Market risk (continued)

ii. Foreign currency risk (continued)

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

31 December 2019	Investments at fair value through profit or loss £'000	Receivables £'000	Cash and cash equivalents £'000	Exposure £'000	Foreign currency forward contract £'000	Net exposure £'000
Euro	41,044	1,024	1,156	43,224	(41,060)	2,164
US Dollars	8,746	34	1,118	9,898	(9,200)	698
Danish Krone	–	–	832	832	(827)	5
Canadian Dollars	–	–	–	–	–	–
Singaporean Dollars	–	–	–	–	–	–
	49,790	1,058	3,106	53,954	(51,087)	2,867
31 December 2018						
Euro	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	–	–	–	–	–	–
Singaporean 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 31 December 2019, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 31 December 2019 would have decreased/increased by £143,000 (2018: £19,000).

iii. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. A large number of the capital instruments bear interest at a fixed rate, but capital instruments to the value of £61,945,000 (2018: £50,553,000), cash and cash equivalents, net of overdrafts, of £6,102,000 (2018: £2,446,000), collateral account balances of £4,196,000 (2018: £8,922,000) and short positions of £1,336,000 (2018: £1,451,000) were the only interest bearing financial instruments subject to variable interest rates at 31 December 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 year would have been +/-£352,000 (2018: +/-£351,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

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

Market risk (continued)

iii. Interest rate risk (continued)

31 December 2019	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	13,822	61,945	17,920	93,687
Cash and cash equivalents	–	6,102	–	6,102
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	4,999	–	4,999
Derivative financial assets at fair value through profit or loss	2,690	–	1,219	3,909
Other receivables	–	–	1,621	1,621
Total financial assets	**16,512**	**73,046**	**20,760**	**110,318**
Financial liabilities				
Bank overdrafts	–	–	–	–
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	(803)	–	(803)
Derivative financial liabilities at fair value through profit or loss	(16,434)	–	–	(16,434)
Short positions covered by sale and repurchase agreements	–	(1,336)	–	(1,336)
Other payables and accruals	–	–	(466)	(466)
Total financial liabilities	**(16,434)**	**(2,139)**	**(466)**	**(19,039)**
Total interest sensitivity gap	**78**	**70,907**	**20,294**	**91,279**

31 December 2018	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
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**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

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

Market risk (continued)

iii. Interest rate risk (continued)

It is estimated that the fair value of the fixed interest and non-interest bearing capital instruments of £31,742,000 (2018: £33,838,000) at 31 December 2019 would increase/decrease by +/-£721,000 (0.77%) (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 31 December 2019, credit risk arose principally from investment in capital instruments of £85,924,000 (2018: £81,341,000), cash and cash equivalents of £6,102,000 (2018: £2,612,000), balances held as collateral for derivative financial instruments at fair value through profit or loss of £4,999,000 (2018: £8,922,000), foreign currency forward assets of £1,219,000 (2018: £nil) and investment in sale and repurchase assets of £1,292,000 (2018: £2,386,000). The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The credit rating of cash and collateral counterparties is sufficient that no expected credit loss or provision for impairment is considered necessary.

The Investment Manager manages the Company's credit risk by investing in a diverse portfolio of capital instruments, in line with the Prospectus. At 31 December 2019, the capital instrument rating profile of the portfolio was as follows:

	31 December 2019 Percentage	31 December 2018 Percentage
A	–	5.69
BBB	19.22	34.14
BB	38.33	39.14
B	9.15	14.65
Below B	8.21	6.38
No rating	25.09	–
	100.00	**100.00**

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

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

Credit risk (continued)

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

Due to the Company's investment in credit default swap agreements the Company is exposed to additional credit risk as a result of possible counterparty failure. The Company has entered into ISDA contracts with Credit Suisse, JP Morgan and Goldman Sachs, all rated A+. At 31 December 2019, the overall net exposure to these counterparties was 7.01% (2018: 11.57%) of NAV. The collateral held at each counterparty is disclosed in note 16.

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The principal liquidity risk is contained in unmatched liabilities. The liquidity risk at 31 December 2019 was low since the ratio of cash and cash equivalents (net of overdrafts) to unmatched liabilities was 13:1 (2018: 3:1).

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

	31 December 2019 Percentage	**31 December 2018 Percentage**
Less than 1 year	4.91	4.00
1 to 3 years	36.37	24.30
3 to 5 years	27.85	38.56
5 to 7 years	7.80	15.15
7 to 10 years	6.47	8.80
More than 10 years	16.60	9.19
	100.00	**100.00**

As at 31 December 2019, the Company's liquidity profile was such that 66.5% of investments were realisable within one day (2018: 75.1%). The remaining 33.5% was realisable within one week (2018: 24.9%). As at the year end, the Company's liabilities fell due as follows:

	31 December 2019 Percentage	**31 December 2018 Percentage**
1 to 3 months	54.99	43.93
3 to 6 months	–	–
6 to 12 months	–	0.61
1 to 3 years	15.73	10.42
3 to 5 years	29.28	45.04
	100.00	**100.00**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

25. Capital management policy and procedures

The Company's capital management objectives are:

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

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

The Company uses sale and repurchase agreements to increase the gearing of the Company. As at 31 December 2019 the Company had ten (2018: ten) open sale and repurchase agreements, one (2018: two) being a reverse sale and repurchase agreement, committing the Company to make a total repayment of £16,052,000 post the year end (2018: £17,341,000). As a result of the reverse sale and repurchase agreement the Company was due to receive £1,292,000 after the year end (2018: £2,386,000).

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

As disclosed in the Statement of Financial Position, at 31 December 2019 the total equity holders' funds were £91,284,000 (2018: £76,976,000).

26. Capital commitments

The Company holds a number of derivative financial instruments which, by their very nature, give rise to capital commitments post 31 December 2019. These are as follows:

- At 31 December 2019, the Company had sold 14 (2018: 16) credit default swap agreements for a total of £931,000 (2018: £2,023,000), each receiving quarterly interest. The exposure of the Company in relation to these agreements at the year end date was £1,096,000 (2018: £2,339,000). Collateral of £4,999,000 for these agreements was held at 31 December 2019 (2018: £8,205,000).
- At the year end the Company had committed to five (2018: three) foreign currency forward contracts dated 16 January 2020 to buy £52,306,000 (2018: £46,457,000). At 31 December 2019, the Company could have affected the same trades and purchased £51,087,000 (2018: £47,786,000), giving rise to a gain of £1,219,000 (2018: loss of £1,329,000).
- At the year end, the Company held nine (2018: eight) open sale and repurchase agreements (this excludes the one open reverse sale and repurchase agreement (2018: two)) committing the Company to make a total repayment of £16,405,000 (2018: £17,006,000).

27. Contingent assets and contingent liabilities

In line with the terms of the Investment Management Agreement, as detailed in note 8a, should the Company's NAV reach a level at which the TER reduced to less than 1.5% of the average NAV in a future accounting period then the Quarterly Expenses Excess and Annual Expenses Excess totalling £725,000 at 31 December 2019 (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.

For the £725,000 (2018: £723,000) Expenses Excess to start becoming payable, based on the 2019 expense level, the Company's NAV would need to increase by at least 10% from the 31 December 2019 NAV (2018: 78% from the 31 December 2018 NAV). A 10% increase in the NAV would result in only a small claw back of the Expenses Excess, for a more significant amount to become payable the NAV would have to increase significantly. The Directors consider that it is possible, but not probable, that an increase in the NAV leading to a significant payment of the Expenses Excess will be achieved in the foreseeable future. Accordingly, the possible payment to the Investment Manager has been treated as a contingent liability in the financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019 *(continued)*

28. Events after the financial reporting date

On 28 January 2020, the Company declared a dividend of 1.50p per Ordinary Share for the period from 1 October 2019 to 31 December 2019, which (in accordance with IFRS) was not provided for at 31 December 2019, out of the profits for the year ended 31 December 2019 (note 6). This dividend was paid on 28 February 2020.

As described on pages 4, 21 and 27, the COVID-19 outbreak is a new emerging risk to the global economy. The Company's net asset value has been materially impacted by the volatility in the investment markets. At 31 March 2020, the NAV of the Company was 79.23p per Ordinary Share, a decline of 20.28% from 31 December 2019. The Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions help to ensure business resilience. The situation is changing so rapidly that the full impact cannot yet be understood, but the Company will continue to monitor the situation closely.

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

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