

A large, stylized oak leaf graphic in a lighter shade of blue, positioned on the left side of the page. The leaf has several lobes and a central vein, extending from the top left towards the bottom center.

FAIR OAKS INCOME LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019



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COMPANY OVERVIEW

Highlights

- Fair Oaks Income Limited's (the "Company") Net Asset Value ("NAV") per 2017 Share was down 0.7%¹ (31 December 2018: up 0.5%) for the year ended 31 December 2019 on a total return basis (with dividends reinvested).
- As at 31 December 2019, the Company's total market capitalisation was US\$307 million.
- The Company's 2017 share price closed at a mid-price of US\$0.6775 on 31 December 2019. The 2017 Shares traded at an average discount to NAV of -2.77% during the year.
- On 1 April 2019, the Company completed a final compulsory redemption of all remaining 21,942,137 2014 Shares previously in issue. This was completed via a cash redemption funded by FOMC II LP and (for those so electing) in specie distributions of 2014 Shareholders' pro rata exposure to the Company's interest in FOIF LP.
- The Company declared dividends of 11.2 US cents per 2017 Share in 2019, equivalent to a 16.5% dividend yield on the closing mid-share price on 31 December 2019. Cumulative dividends since the inception of the Company per 2017 Share are 61.0 US cents.

Financial Highlights

	31 December 2019	31 December 2018
2017 Shares		
Net Assets	US\$343,158,910	US\$396,310,795
Net Asset Value per share	US\$0.7580	US\$0.8742
Share price at year end	US\$0.6775	US\$0.7925
Discount to Net Asset Value	(10.62%)	(9.35%)
Ongoing charges figure (Company only) ²	0.22%	0.22%
Ongoing charges figure (look through only) ³	1.31%	1.37%

¹See "Appendix" on page 72.

²Total ongoing charges, calculated in accordance with the AIC guidance, is at the Company level only for the year divided by the average NAV for the period/year. Charges of the underlying Master Funds are not included. See "Appendix" on page 74.

³Total ongoing charges, calculated in accordance with the AIC guidance, including the Company and the underlying funds divided by the average NAV for the period/year. See "Appendix" on page 74.



COMPANY OVERVIEW

Summary Information

Principal Activity

Fair Oaks Income Limited (the “Company”) was registered in Guernsey under the Companies (Guernsey) Law, 2008 on 7 March 2014. The Company’s registration number is 58123 and it is regulated by the Guernsey Financial Services Commission as a registered closed-ended collective investment scheme under The Registered Collective Investment Scheme Rules 2015. The Company is listed and began trading on the Specialist Fund Segment (previously Specialist Fund Market (“SFS”) of the London Stock Exchange on 12 June 2014.

The Company is a feeder fund and during the year under review pursued its investment objective and policy by investing in FOIF LP (“the Master Fund”) and FOMC II LP (“the Master Fund II”). The Company is a direct limited partner in the Master Fund II. The Master Fund II, in turn, is a limited partner in the Master Fund. The Master Fund was registered in Guernsey on 7 May 2014 and the Master Fund II was registered in Guernsey on 24 February 2017 under The Limited Partnerships (Guernsey) Law, 1995, as amended.

At 31 December 2019, the Company had invested US\$38,000,000 of surplus cash in a zero-fee share class of Fair Oaks High Grade Credit Fund, a UCITS fund which is invested in AAA and AA rated securities and for which Fair Oaks Capital Limited acts as investment manager.

At 31 December 2019, the Company on behalf of the 2017 Shares had a 100% (31 December 2018: 100%) holding in the Master Fund II, which in turn had a holding of 66.20% (31 December 2018: 62.82%) in the Master Fund. At 31 December 2018, the Company also had a direct holding on behalf of the 2014 Shares in the Master Fund of 11.31%. This direct holding was sold on 1 April 2019 to fund the final redemption of the 2014 shares. The General Partner of the Master Fund and Master Fund II is Fair Oaks Income Fund GP Limited (the “General Partner” or “GP”).

The Master Fund II is also invested into Cycad Investments LP (“Cycad”). Cycad is a Limited Partnership registered in the United States of America on 2 June 2017. Aligned with the Company’s investment policy, Cycad also invests into CLOs.

Fair Oaks Founder LP, a Guernsey limited partnership, has been established to act as the Founder Limited Partner of the Master Fund and Fair Oaks Founder II LP, a Guernsey limited partnership, has been established to act as the Founder Limited Partner of Master Fund II.

Investment Objective and Policy

The investment objective of the Company is to generate attractive, risk-adjusted returns, principally through income distributions.

The investment policy of the Company is to invest (either directly and/or indirectly through the Master Fund and/or Master Fund II) in US and European Collateralised Loan Obligations (“CLOs”) or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating-rate senior secured loans and which may include non-recourse financing.

If at any time the Company holds any uninvested cash, the Company may also invest on a temporary basis in the following Qualifying Short Term Investments:

- cash or cash equivalents;
- government or public securities (as defined in the Financial Conduct Authority (“FCA”) Rules);
- money market instruments;
- bonds;
- commercial paper; or
- other debt obligations with banks or other counterparties having a single A rating or (if a fund) investing with no leverage in assets rated at least single A, according to at least one internationally recognised rating agency selected by the Board of Directors (the “Board”) (which may or may not be registered in the EU).

The aggregate amount deposited or invested by the Company with any single bank or other non-government counterparty (including their associates) shall not exceed 20% of the Net Asset Value (“NAV”) in aggregate, and also of the NAV of each share class, at the time of investment. The Company cannot make any other types of investments without shareholder consent to a change of investment policy by ordinary resolution at a general meeting of the Company.



STRATEGIC REVIEW

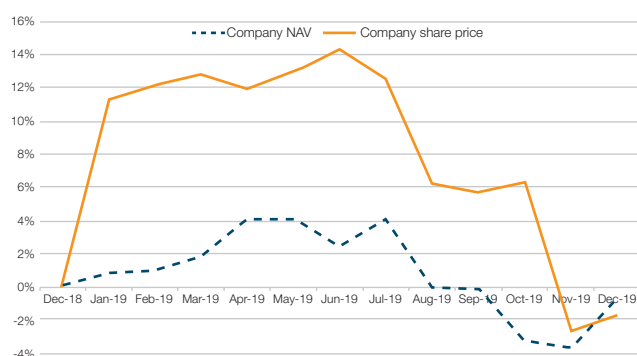
Chairman's Statement

Introduction

The independent Board of the Company is pleased to present its Annual Report and Financial Statements for the financial year ended 31 December 2019.

The Company's NAV and share price generated a total return (with dividends reinvested) of -0.7% and -1.7%¹ respectively (31 December 2018: +0.5% and -13.6%). The Company's shares closed at a mid-price of 67.8 US cents as of 31 December 2019, representing a discount to NAV of -10.6%.

Figure 1.1 – Total return: NAV and share price in 2019



After generating a positive total return during the first half of the year, the NAV declined in the second half as CLO equity valuations fell in response to increased stress and volatility in the loan market. This resulted in a flat performance for the full-year. The NAV performance did not match the returns seen for US loans in 2019, partly because the broader loan market includes lower quality loans that recovered from the low prices at which they traded at the end of December 2018.

Total returns for the year for the JP Morgan US High Yield index, US Leveraged loan index and Post-Crisis CLOIE B index compared to the Company's NAV were:

Table 1.2 – Total returns in 2019

	2019 total return
JP Morgan US High Yield index	+14.1%
JP Morgan US Leveraged Loan index	+8.6%
JP Morgan Post-Crisis CLOIE B index	+4.2%
The Company's NAV	-0.7%

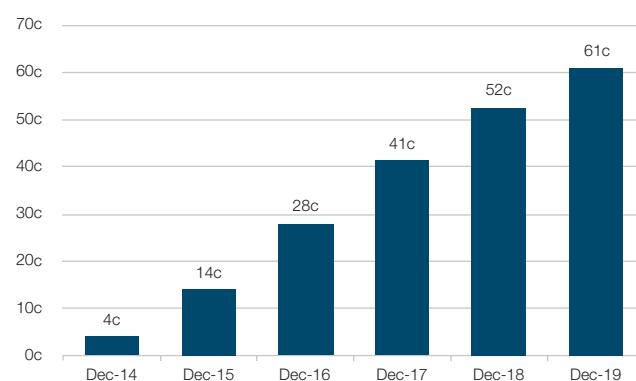
Cash flow and dividends

Within the year ended 31 December 2019, the Company declared dividends of 11.2 US cents per 2017 Share, which includes a dividend of 3.45 US cents declared on 10 January 2019 in relation to the month ended 31 December 2018. This is the equivalent to a 16.5% dividend yield on the closing mid-share price on 31 December 2019. Cumulative dividends since the inception of the Company per 2017 Share are 61.0 US cents.

For each of the twelve months of 2019, the Company declared a 0.70 US cents per 2017 Share. The dividend yield on this basis for 2019 was 12.4% of the December closing share price.

The Company received US\$42.2 million of income distributions on a cash flow basis from the Master Fund II in the year.

Figure 1.3 – Cumulative dividends per share since inception (US cents per 2017 share):



Material events

On 13 March 2019, the Company declared a final compulsory redemption of all 2014 Shares at a price equal to the NAV per 2014 Share as at 28 February 2019 less the dividend to be declared for the month ended 28 February 2019. There was also an option to receive an in specie distribution of a 2014 Shareholder's pro rata exposure to the Company's interest in the Master Fund. A 2014 Shareholder of approximately 70% of the issued 2014 Shares had signed an irrevocable undertaking to elect for the in specie distribution. The cash payment was funded by Master Fund II acquiring at NAV the residual interest in the Master Fund.

¹See "Appendix" on page 73.



STRATEGIC REVIEW

Chairman's Statement (continued)

Material events (continued)

On 15 March 2019, the Company announced the final Redemption Price per 2014 Shares of US\$0.8155 being the NAV per 2014 Share as at 28 February 2019 of US\$0.8225 less the 0.7 US cent dividend declared for that month. All holdings of 2014 Shares on the register at the close of business on the record date, being 1 April 2019, were redeemed.

On 24 May 2019, the Company announced that the General Partner of the Master Fund II had exercised its discretion to extend the commitment period of Master Fund II for one year to 12 June 2020. The General Partner had informed the Company that the exercise of its discretion was consistent with its expectation that attractive risk-adjusted returns will continue to be available from global senior secured bank loans held through CLOs during the extended commitment period. The discretion of the General Partner was exercised in accordance with Master Fund II's limited partnership agreement. There is discretion in that agreement for the General Partner to further extend Master Fund II's commitment period to 12 June 2021. After the end of its commitment period, Master Fund II is required to distribute to the Company all repayments of principal received from the underlying instruments.

On 24 July 2019, the Company announced that Fair Oaks Income Fund (GP) Limited (the general partner of the Master Fund and Master Fund II) had purchased 275,023 2017 Shares in the secondary market, in line with its commitment to reinvest 25% of quarterly management fees in the event the 2017 Shares trade at a discount to NAV on the day the quarter end NAV is published.

On 25 September 2019, the Company announced that pursuant to the general authority granted by shareholders of the Company on 19 June 2019 to make market purchases of its own 2017 Shares ("Shares") it had repurchased 150,000 Shares of no par value on 24 September 2019 at US\$0.745 per Share, to be held in treasury.

On 26 September 2019, the Company announced that it had repurchased 350,000 Shares of no par value on 25 September 2019 at US\$0.744 per Share, to be held in treasury.

On 30 September 2019, the Company announced that it had repurchased 50,000 Shares of no par value on 26 September at US\$0.745 per Share, to be held in treasury.

On 4 October 2019, the Company announced that it had repurchased 100,000 Shares of no par value on 3 October 2019 at US\$0.755 per Share, to be held in treasury. Following this transaction the Company has 452,698,737 Shares in issue, excluding 650,000 Shares held in treasury.

On 23 October 2019, the Company announced that Fair Oaks Income Fund (GP) Limited (the general partner of the Master Fund and Master Fund II) had purchased 289,969 2017 Shares in the secondary market, in line with its commitment to reinvest 25% of quarterly management fees in the event the 2017 Shares trade at a discount to NAV on the day the quarter end NAV is published.

On 14 November 2019, the Company announced the general partner of Master Fund II had informed it of its intention, given the current value, opportunities and risks in the CLO market, to potentially increase the Master Fund II's allocation to tactical investments in US CLO mezzanine notes. Furthermore, the Company announced their intention to declare two further dividends of 0.7 US cents in respect to the remainder of 2019, resulting in aggregate dividends for the year of 8.4 US cents, and twelve monthly dividends of 0.7 US cents for the year ending 31 December 2020.

On 17 December 2019, the Company announced the General Partner of the Master Fund has exercised its discretion to extend the maturity of Master Fund a further, and final, year to 7 May 2021.

Subsequent events

On 22 January 2020, the Company announced that Fair Oaks Income Fund (GP) Limited (the general partner of the Master Fund and Master Fund II) had purchased 271,851 2017 Shares in the secondary market, in line with its commitment to reinvest 25% of quarterly management fees in the event the 2017 Shares trade at a discount to NAV on the day the quarter end NAV is published.

COVID-19

COVID-19 is a developing situation and as of 17 April 2020, the assessment of this situation will need continued attention and will evolve over time. In our view, consistent with many others in our industry, COVID-19 is considered to be a non-adjusting post period event and no adjustment is made in the Financial Statements as a result. The rapid development and fluidity of the COVID-19 virus make it difficult to predict the ultimate impact at this stage. However, we do not underestimate the seriousness of the issue and the inevitable effect it will have on the Global economy and many businesses across the world. The Board, the Investment Adviser and the Company's other service providers, are closely monitoring official governmental guidance on the impact of COVID-19. The Board is also liaising with all parties in an effort to minimise any financial impact on the Company and taking any mitigating steps deemed appropriate.



STRATEGIC REVIEW

Chairman's Statement (continued)

COVID-19 (continued)

As announced on 30 March 2020, in light of these ongoing uncertainty in economies and markets caused by the COVID-19 pandemic, the Board resolved to suspend the declaration of dividend payments.

The Board and the Investment Adviser recognise the importance of dividends for Shareholders but believe that suspension is the appropriate reaction to the unprecedented circumstances. In the near term the uncertainty will lead to rebased market assumptions as to credit performance, which is expected to materially constrain the Company's income calculated using the effective interest rate methodology and therefore would mean that any dividends declared would have to be substantially funded from the Company's capital.

It is premature to seek to quantify the fundamental impact of the pandemic, which will depend on an array of factors including the effectiveness of recently announced government intervention, but over time there is risk of underlying CLO managers being required to divert cash flows from CLO subordinated notes to purchase additional loan collateral in response to increased credit downgrades and defaults. At the portfolio level the Investment Adviser has also taken steps to minimise mark-to-market risk, retaining a prudent reserve of cash to cover any foreign exchange hedge and warehouse financing needs.

The dislocation in the credit markets will create investment opportunities, which is expected to be a factor in the allocation of future cash flows as the Company continues to seek to maximise shareholders' total return over the long term.

On 17 April 2020, the Company announced an issue to satisfy market demand of 7,194,623 new 2017 Shares (the "New Shares") at an issue price of US\$0.372 per New Share, representing a premium of approximately 2% to the latest published NAV.

The net proceeds of the issue will be invested in accordance with the Company's investment policy, with the Master Fund II expected to invest in CLO debt securities in the secondary market, which the Investment Adviser believes offer attractive risk-adjusted returns over the medium term.

Application will be made to the London Stock Exchange for the New Shares to be admitted to trading on the Specialist Fund Segment of the Main Market. Admission of the New Shares is expected on 22 April 2020. Following the issue, the Company will have 459,893,360 2017 Shares in issue.

Professor Claudio Albanese

Chairman

17 April 2020



STRATEGIC REVIEW

Investment Adviser's Report

Portfolio Review

As at 31 December 2019, Master Fund II held nineteen CLO equity positions¹ and three B rated CLO mezzanine investments offering exposure to 1,126 loan issuers² and thirteen CLO managers. Control CLO equity positions¹ represented 93.9% of the portfolio's market value³.

Figure 2.1 – CLO manager diversification of Master Fund II⁴

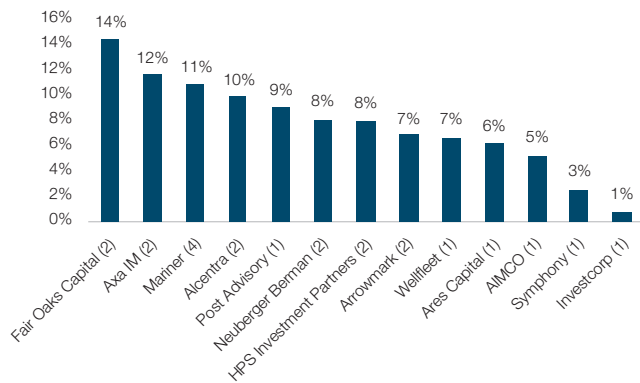
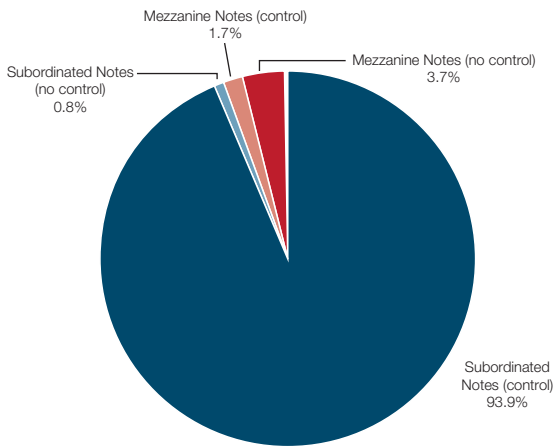
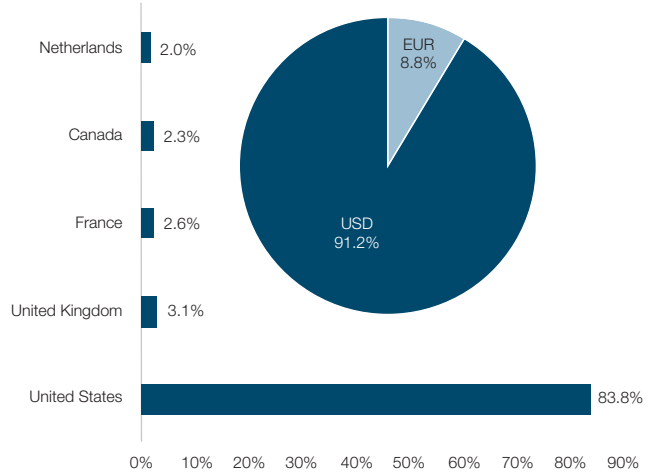


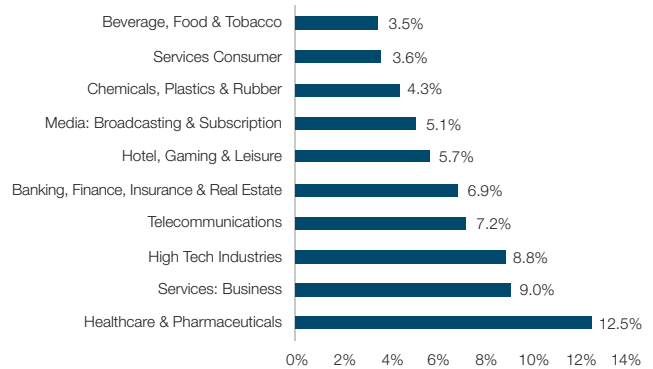
Figure 2.2 – Portfolio composition of Master Fund II⁵



Geographical (top five) and currency breakdown⁶



Industry diversification by Moody's (top 10)⁵



¹Total number of CLO equity positions includes one investment in subordinated notes of a CLO warehouse managed by Fair Oaks Capital (the "Investment Adviser").

²Based on the underlying loans in CLOs in which Master Fund II holds CLO equity. This includes the CLO equity positions in Master Fund and Cycad Investments LP of which Master Fund II holds a percentage ownership. Data as at 31 December 2019.

³Percentage by market value of control CLO equity positions. Data as at 31 December 2019.

⁴Based on market value of the CLO investments, as at 31 December 2019. Analysis excludes any holdings in sub-fee notes. Percentages may not add up to 100% because of rounding errors. The number of investments is shown in parentheses after each manager name.

⁵Breakdown by market value of the CLO investments held by Fund II which includes its share in the Master Fund and Cycad Investments LP. Percentages may not add up to 100% because of rounding errors. Data as at 31 December 2019.

⁶Based on loan par value weighted by Master Fund II's proportional ownership of CLO Income Notes. Source: Intex.



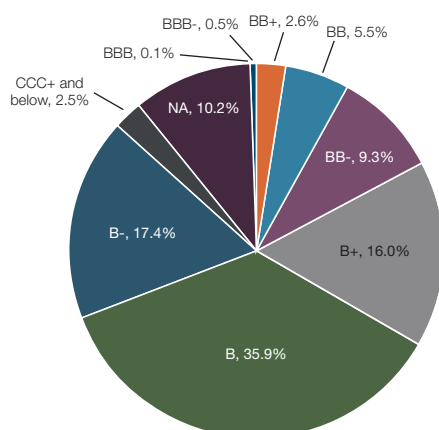
STRATEGIC REVIEW

Investment Adviser's Report (continued)

Portfolio Review (continued)

Figure 2.2 – Portfolio composition of Master Fund II, continued

Rating breakdown^{7,8}



The Master Fund sold five US CLO equity investment in 2019 while Master Fund II purchased one US CLO equity investment in the secondary market and one European CLO equity investment in the primary market. Because the return on primary US CLO equity opportunities was below the Fund's target return in 2019, cash was retained for opportunistic investments, particularly in CLO mezzanine, and the year ended with a higher than usual cash balance.

Table 2.3 – CLO purchases and sales in 2019 by the Master Funds

Trade type	Transaction date	Nominal (US\$)	Deal name	CLO manager
Sale	April 2019	31,000,000	AMMC CLO 15 Limited	American Money Management Company (AMMC)
Sale	August 2019	27,000,000	Arrowpoint CLO 2014-3	Arrowmark
Sale	September 2019	19,350,000	Arrowpoint CLO 2015-4	Arrowmark
Sale	September 2019	21,500,000	TICP CLO IV	TPG Institutional Credit Partners (TICP)
Sale	October 2019	25,000,000	AIMCO CLO Series 2015-A	Allstate Investment Management Co.
Purchase	May 2019	3,787,500	Neuberger Berman CLO XIX	Neuberger Berman Investment Advisers
Purchase	June 2019	28,000,000	Fair Oaks Loan Funding I	Fair Oaks Capital Limited

Master Fund II's CLO "arbitrage" improved slightly during the year, from Libor+1.69% in December 2018 to Libor+1.73% (Figure 2.4). The portfolio's loan spreads widened from Libor+3.36% in Dec-18 to Libor+3.39% in Dec-19 while its CLO liabilities remained fairly flat⁹.

⁷Based on loan par value weighted by Master Fund II's proportional ownership of CLO Income Notes. Source: Intex.

⁸Based on S&P company ratings. Due to rounding errors, the percentages may not sum to 100%.

⁹Source: Intex. The loan spread is based on loan par value weighted by Master Fund II's proportional ownership of CLO income notes. The cost of funding of the CLO liabilities is based on CLO liability spreads weighted by Master Fund II's proportional ownership of CLO income notes.

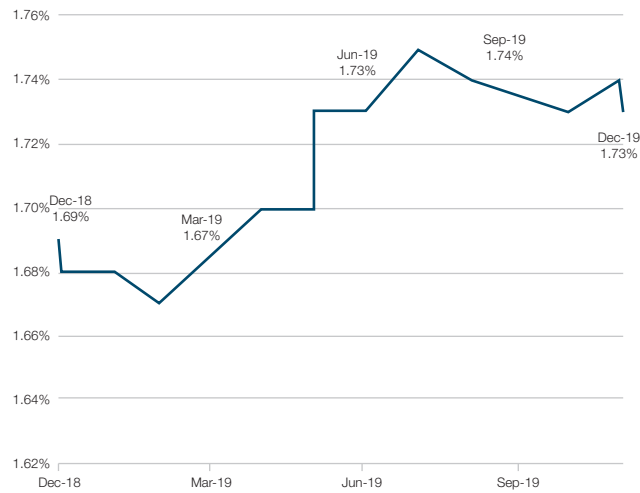


STRATEGIC REVIEW

Investment Adviser’s Report (continued)

Portfolio Review (continued)

Figure 2.4 – CLO arbitrage spread (loan minus liability spreads) for Master Fund II¹⁰

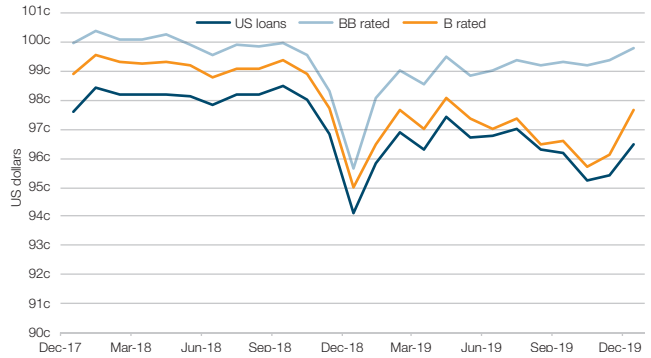


Loan Market Update

US institutional loan issuance was down 28.6% from 2018 to US\$310.1 billion¹¹. The spread of the Credit Suisse Leveraged Loan index fell from Libor+5.50% as at 31 December 2018 to Libor+4.61% as at 31 December 2019¹² while the spread of the BB rated loans (a more appropriate proxy for CLO’s higher average credit quality holdings), tightened from Libor+4.14% to Libor+2.62% in the same period¹³.

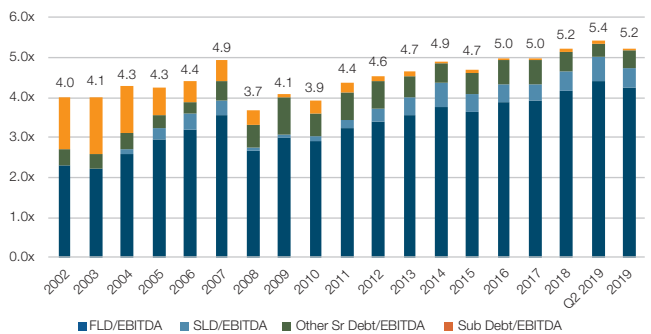
A prominent theme in 2019 was investor demand (including from CLOs) for higher quality assets. This created bifurcation between US BB and B rated loans (Figure 2.5).

Figure 2.5 – Average bid price of US leveraged loans, BB and B rated loans¹⁴



Fundamentals appeared sustainable during 2019 even though EBITDA grew slowly in the first half of the year. The average leverage from US large corporates, defined as corporates with EBITDA of more than US\$50 million, was broadly in line with the end of 2018 after rising to 5.4x in Q2 2019 (Figure 2.6)¹⁵ while interest coverage fell from 3.5x at the end of 2018 to 2.9x (Figure 2.7)¹⁶.

Figure 2.6 – Average debt multiples of large corporate loans¹⁷



¹⁰Source: Intex. The loan spread is based on loan par value weighted by Master Fund II’s proportional ownership of CLO income notes. The cost of funding of the CLO liabilities is based on CLO liability spreads weighted by Master Fund II’s proportional ownership of CLO income notes. Data calculated at month-end. Note that the chart has not been extended to the time of publishing as new issue CLO liability spread data is not reliable in the absence of new issuance in late March 2020.

¹¹Source: S&P Global Intelligence.

¹²Based on 3-year discount margin from Credit Suisse Leveraged loan index.

¹³Based on 3-year discount margin of BB rated loans from Credit Suisse Leveraged loan index.

¹⁴Source: Credit Suisse Leveraged Loan index.

¹⁵Source: LCD’s Quarterly Leveraged Lending Review: Q4 2019 from S&P Global Intelligence. Analysis excludes media and telecom loans prior to 2011. EBITDA adjusted for prospective cost savings or synergies.

¹⁶Source: LCD’s Quarterly Leveraged Lending Review: Q4 2019 from S&P Global Intelligence. Based on non-adjusted EBITDA/Cash interest which excludes media and telecom loans prior to 2011.

¹⁷Source: LCD’s Quarterly Leveraged Lending Review: Q4 2019 from S&P Global Intelligence. EBITDA adjusted for prospective cost savings or synergies.

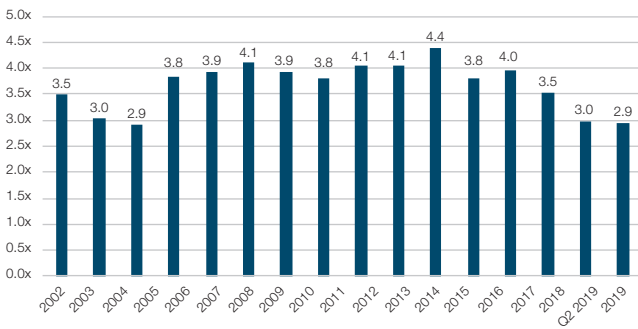


STRATEGIC REVIEW

Investment Adviser’s Report (continued)

Loan Market Update (continued)

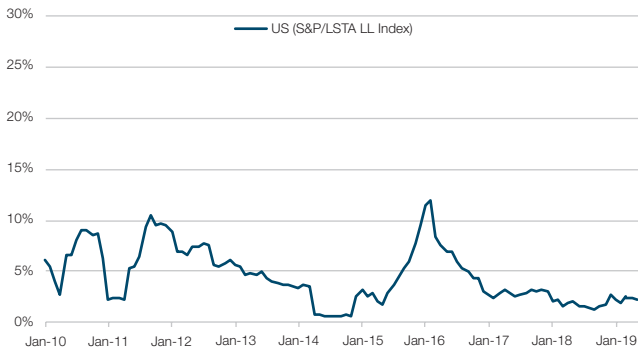
Figure 2.7 – Adjusted EBITDA/Cash interest of large corporates¹⁸



The rolling twelve-month default rate decreased from 1.63% in December 2018 to 1.39% as of 31 December 2019¹⁹. A total of twenty-three loan issuers tracked by the US S&P/LSTA index defaulted in 2019 with retail and energy borrowers continuing to be large contributors with four defaults²⁰.

We continue to be cautious about credit quality and have seen an increase in the number of loans trading at distressed levels this year. The share of performing loans in the S&P/LSTA Leveraged Loan index priced below 80 cents on the dollar increased from 2.68% at the end of December 2018 to 3.75% at the end of December 2019²¹. However, we take comfort that the level still remains below the historical average of 4.53% (Figure 2.8)²².

Figure 2.8 – Distressed ratio on US loans²⁰



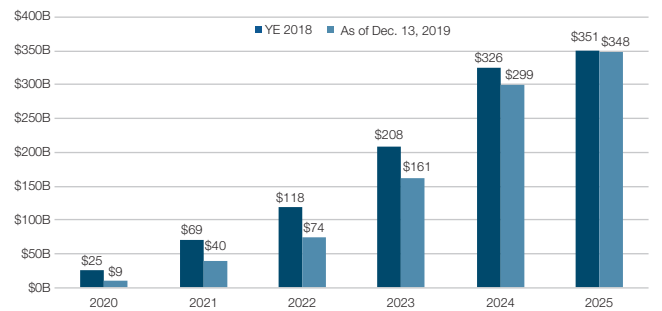
According to a quarterly survey published in early December 2019 by S&P Global Intelligence, loan managers lowered their default rate prediction for December 2020 from 2.79% (in December 2018’s survey) to 2.32% but predict the default rate to rise above the historical average (of 2.88%) by December 2021 (Figure 2.9)²³.

Figure 2.9 – Lagging 12-month default rate: historical and current expectations (forecast through to December 2020)²⁴



The number of loans due to be repaid in the next few years is limited. The notional of loans maturing in 2020-2022 has fallen from US\$213 billion as of year-end 2018 to US\$123 billion as of 13 December 2019 (Figure 2.10)²⁵.

Figure 2.10 – Maturity wall of the US loan market of performing loans (US\$ billion)²⁵



¹⁸Source: LCD’s Quarterly Leveraged Lending Review: Q4 2019 from S&P Global Intelligence. Based on non-adjusted EBITDA/Cash interest which excludes media and telecom loans prior to 2011.

¹⁹S&P/LSTA Leveraged Loan index by principal amount, data as at 31 December 2019.

²⁰Based on S&P/LSTA defaults’ list and Moody’s industry classification. Data as at 31 December 2019.

²¹Distress ratio by par amount from S&P/LSTA Leveraged Loan index. The definition of distressed loans is defined as the percentage of loans trading below 80c.

²²Historical average takes into account the distressed ratio from January 2010 to December 2019.

²³Default survey by LCD, an offering on S&P Global Intelligence. Historical average takes into account defaults going back to January 1999 and December 2019.

²⁴Default survey by LCD, an offering on S&P Global Intelligence. Note that default assumptions are likely to change in 2020 to account for the economic impacts of COVID-19 and the responses to it.

²⁵S&P Global Intelligence, Q4-2019. Distribution by year of maturity.



STRATEGIC REVIEW

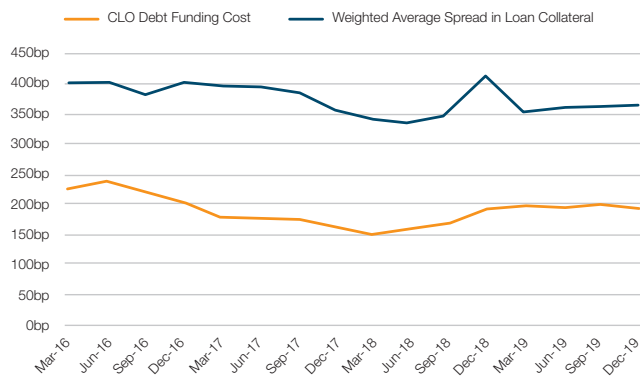
Investment Adviser’s Report (continued)

CLO Market Update

Primary CLO arbitrage in the US remained challenging during 2019 as loan spreads tightened from December 2018 while CLO liabilities remained elevated (see Figure 2.11)²⁶. Despite the unfavourable economics, US CLO new issuance of US\$119 billion in 2019 was only down 10% on 2018²⁷.

We will continue to work to manage the risk in the portfolio, through disposals and opportunistic reinvestment and by working with the managers of CLOs in which the Master Funds hold equity positions, aiming to minimise credit losses in the loan portfolios and take advantage of opportunities appropriately.

Figure 2.11 – US primary CLO liabilities and loan spreads²⁶



Fair Oaks Capital Limited

17 April 2020

Outlook

The outlook for financial markets, and the Master Funds, has changed significantly in the first quarter of 2020 due to the spread of COVID-19 and the impact of the associated mitigation and suppression actions by governments around the world. At the time of writing, it is too early to predict the severity or duration of the economic impact of COVID-19 or how a now likely increase in corporate defaults may be mitigated by government support.

The Master Funds de-risked significantly ahead of the spread of COVID-19, exiting five majority equity positions in 2019 and a further three majority equity positions and a minority equity position in January and early February 2020. Reinvestments were in rated CLO debt and in a European CLO and CLO warehouse which both have portfolios significantly more conservative than the market average.

²⁶Source: Citi. Data as at 31 December 2019.

²⁷Source: JP Morgan CLO issuance volume. Data as at 31 December 2019.



STRATEGIC REVIEW

Strategic Report

Risks and uncertainties

The Board of Directors is responsible for and has in place a rigorous risk management framework and risk matrix to identify, assess, mitigate, manage and review and monitor those risks. This is all reviewed at least quarterly by the Board and on a much more frequent basis by the Investment Adviser.

The Directors have carried out a robust assessment of the principal, secondary and emerging risk areas relevant to the performance of the Company including those that would threaten its business model, future performance, solvency and liquidity. The principal risks are detailed below.

Throughout the year, due regard has been paid to emerging risks although during the period changes to the identified risks can be characterised as being more of an evolving nature than new and previously unidentified risks. As detailed further in the Chairman's Statement and Investment Adviser's Report, the recently emerged COVID-19 coronavirus threat in the first quarter of 2020 has created significant global economic risk. The Board is liaising with the Investment Adviser and will monitor the potential impacts on bank loan and CLO markets. This situation is a global and dynamic changing environment and its impact on the global economy is only just emerging. At the date of this report, it is too early to predict the severity or duration of the economic impact of COVID-19 or how a now likely increase in corporate defaults may be mitigated by government support. The Board will work closely with the Investment Adviser and other service providers to consider the impacts that may arise on the Company as the crisis develops.

In respect to the Company's system of internal controls and reviewing its effectiveness, the Directors:

- are satisfied that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity; and
- have reviewed the effectiveness of the risk management and internal control systems including material financial, operational and compliance controls (including those relating to the financial reporting process) and no significant failings or weaknesses were identified.

The Risk Committee reviews the Company's overall risks at least four times a year and monitors the risk control activity designed to mitigate these risks.

Principal risks

The principal risks associated with the Company include:

- **Operational risk** - The Board is ultimately responsible for all operational facets of performance including cash management, asset management, regulatory and listing obligations. The Company has no employees and so enters into a series of contracts/legal agreements with a series of service providers to ensure that both operational performance and regulatory obligations are met. The Board performs on-going internal monitoring of operational processes and controls and receives regular reports from the administrators of the Company, along with a report from the Auditors.
- **Investment risk** - The Risk Committee formally monitors the investment performance of the Company at least four times a year, including when the Investment Adviser reports on the performance of the Company's portfolio at the Board meetings. The Investment Adviser carries out extensive due diligence on the Master Funds' underlying investments and monitors performance regularly. The investment guidelines and restrictions, as detailed in the prospectus of the Company, ensures adequate diversification of the Master Funds' underlying investments is regularly monitored by the Investment Adviser.
- **Regulatory risk** - The Company is required to comply with the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Directive (as implemented in the UK through Financial Services and Markets Authority). Any failure to comply could lead to criminal or civil proceedings. The Investment Adviser and Administrator monitor compliance with regulatory requirements and the Administrator presents a report at quarterly Board meetings.
- **Financial risk** - The financial risks faced by the Company, including market, credit and liquidity risk, where appropriate, are set out in note 5. These risks and the controls in place to mitigate these risks are reviewed at each Risk Committee meeting.

Going Concern

After a review of the Company's holdings in cash and cash equivalents, investments and a consideration of the income deriving from, and the viability of, those investments the Directors believe that it is appropriate to adopt the going concern basis in preparing the Financial Statements, as the Company has adequate financial resources to meet its liabilities as they fall due.



STRATEGIC REVIEW

Strategic Report (continued)

Viability Statement

The Directors have conducted a robust assessment of the viability of the Company over a three year period from the date of signing this report to April 2023, taking account of the Company's current position and the potential impact of the principal and emerging risks documented above, including the impacts of the recently emerged COVID-19 coronavirus threat.

In making this statement, the Directors have considered the resilience of the Company, taking into account its current position, the principal risks facing the Company in severe but plausible scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The Directors have determined that the three year period to April 2023 is an appropriate period over which to provide its viability statement as this is a reasonable period of which risks relating to the asset class should be considered.

At 31 December 2019, the Company is primarily invested into the Master Fund II. The Master Fund II has a planned end date of June 2024.

In making their three year assessment, various factors were taken into consideration by the Directors, which included the Company's NAV, net income, capital repayments and resulting cash flows and dividend cover over the period. These metrics were subjected to stress tests which, in light of the ongoing uncertainty in economies and markets caused by the COVID-19 pandemic in the post year end period, involved flexing a number of main assumptions underlying the forecast and default rates significantly higher than the five year average. Where appropriate, this analysis was carried out to evaluate the potential impact of the Company's principal risks actually occurring, primarily, severe changes to macro economic conditions, increased defaults, deterioration in underlying credit ratings and downgrading or illiquidity of non-investment grade loans.

Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to April 2023.

Management Arrangements

Investment Adviser

The Directors are responsible for the determination of the Company's investment policy and have overall responsibility for the Company's activities. The Company has, however, entered into an Investment Advisory Agreement with Fair Oaks Capital Limited (the "Investment Adviser") under which the Investment Adviser has been appointed to provide investment advisory services, which include analysing the progress of all assets and investments of the Company and advising the Company on liquidity and working capital retention issues, subject to the overriding supervision of the Directors.

The Directors consider that the interests of shareholders, as a whole, are best served by the continued appointment of the Investment Adviser to achieve the Company's investment objectives. A summary of these terms, including the investment advisory fee and notice of termination period, is set out in note 8 of the Financial Statements.

Custody Arrangements

The Company's underlying assets in the Master Fund and the Master Fund II are held in custody by BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian"), pursuant to an agreement dated 15 December 2015. A summary of the terms, including fees, is set out in note 8 of the Financial Statements.

The Company's underlying assets in the Master Fund and the Master Fund II are registered in the name of the Custodian in each case within a separate account designation and may not be appropriated by the Custodian for its own account.

The Board conducts an annual review of the custody arrangements as part of its general internal control review. The Board also monitors the credit rating of the Custodian, to ensure the financial stability of the Custodian is being maintained to acceptable levels. As at 31 December 2019, the credit rating of the Custodian was Aa3 as rated by Moody's (31 December 2018: Aa3) and A+ by Standard & Poor's (31 December 2018: A).

Administrator

Administration and Company Secretarial services are provided to the Company by Praxis Fund Services Limited (the "Administrator"). The Administrator also provides these services to the Master Fund, Master Fund II, Cycad and the General Partner to these funds. Other services which the Administrator provides the Company include assisting with the AIFMD, Common Reporting Standard and FATCA reporting. A summary of the terms, including fees, is set out in note 8 of the Financial Statements.



GOVERNANCE

Board of Directors

The Directors of the Company, all of whom are non-executive and independent, are listed as follows:

Professor Claudio Albanese (Chairman of the Board and Chairman of the Management Engagement Committee) is the Head of Analytics at IMEX Synchronised Risk and Honorary Professor of Finance at CASS School of Business, London (since Autumn 2008). He received a PhD in Theoretical Physics from ETH Zurich in 1988. He has held faculty positions at numerous academic institutions including ETH Zurich, UCLA, the Courant Institute at NYU, and Princeton University. In 1994 he joined the University of Toronto as Associate Professor of Mathematical Physics and in that year he redirected his career towards Mathematical Finance. In 1998 he spent one year at Morgan Stanley at the credit derivatives trading desk. In 2004 he joined Imperial College London as Professor of Mathematical Finance. Claudio consults for several banks, financial service organisations and hardware manufacturers, speaks at numerous conferences and has published over 50 articles in academic and professional journals. Claudio funded Global Valuation Limited, a software firm dedicated to the simulation of banks' OTC portfolios and XVA metrics. Claudio was non-executive director at Carador Income Fund Plc from 2006 to 2013. Claudio is a UK resident.

Jonathan (Jon) Bridel (Chairman of the Audit Committee) is currently a non-executive chairman or director of various listed and unlisted investment funds and private equity investment managers. Listings include the premium segment of the Official List of the UK Listing Authority and the Specialist Fund Segment of the London Stock Exchange. He was until 2011 Managing Director of Royal Bank of Canada's investment businesses in Guernsey and Jersey. This role had a strong focus on corporate governance, oversight, regulatory and technical matters and risk management. After qualifying as a Chartered Accountant in 1987, Jon worked with Price Waterhouse Corporate Finance in London and subsequently served in a number of senior management positions in Australia and Guernsey in corporate and offshore banking and specialised in credit. He was also chief financial officer of two private multi-national businesses, one of which raised private equity. He holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. He graduated with an MBA from Durham University in 1988. Jon is a chartered marketer and a member of the Chartered Institute of Marketing, a chartered director and fellow of the Institute of Directors and is a chartered fellow of the Chartered Institute for Securities and Investment. Jon is a Guernsey resident.

Nigel Ward (Chairman of the Risk Committee and Chairman of the Nomination and Remuneration Committee) has over 40 years' experience in international investment markets, credit and risk analysis, portfolio management, corporate and retail banking, corporate governance, compliance and the managed funds industry gained at NatWest, TSB Bank, Baring Asset Management and Bank Sarasin. He is currently an independent non-executive chairman or director on the board of several investment funds and companies, including London and The International Stock Exchange ("TISE") listings. Nigel is a founding Commissioner of the Guernsey Police Complaints Commission, and is an Associate of the Institute of Financial Services, a member of the Institute of Directors and holder of the IoD Diploma in Company Direction. Nigel is a Guernsey resident.



GOVERNANCE

Disclosure of Directorships in Public Companies Listed on Recognised Stock Exchanges

The following summarises the Directors' directorships in other public companies:

Company Name	Stock Exchange
Claudio Albanese None	
Jon Bridel DP Aircraft 1 Limited SME Credit Realisation Fund Limited (in run-off) Sequoia Economic Infrastructure Income Fund Limited Starwood European Real Estate Finance Limited (until 31 December 2020) The Renewables Infrastructure Group Limited	London Stock Exchange – SFS London Stock Exchange – Main Market London Stock Exchange – Main Market London Stock Exchange – Main Market London Stock Exchange – Main Market
Nigel Ward Acorn Income Fund Limited Braemar Group PCC Limited Hadrian's Wall Secured Investments Limited	London Stock Exchange – Main Market The International Stock Exchange London Stock Exchange – Main Market



GOVERNANCE

Directors' Report

The Directors of the Company are pleased to submit their Annual Report and the Audited Financial Statements (the "Financial Statements") for the year ended 31 December 2019. In the opinion of the Directors, the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Company

The Company was incorporated and registered in Guernsey on 7 March 2014 under the Companies (Guernsey) Law, 2008. The Company's registration number is 58123 and it is regulated by the Guernsey Financial Services Commission ("GFSC") as a registered closed-ended collective investment scheme. The ordinary shares were listed on the SFS of the London Stock Exchange ("LSE") on 12 June 2014.

Results and Dividends

The results for the year are shown in the Statement of Comprehensive Income on page 34.

The Board declared dividends of US\$51,837,601 during 2019 followed by an additional dividend declaration of US\$3,172,231 declared on 9 January 2020 in relation to the year ended 31 December 2019 (dividends declared in relation to the year ended 31 December 2018: US\$66,266,595). Further details of dividends declared or paid are detailed in note 4.

The Board paid or declared dividends to shareholders representing an amount in aggregate at least equal to the gross income from investments, which are received from the Master Fund II in the relevant financial period attributable to the Company's investment in the Master Fund II, and Qualifying Short Term Investments less expenses of the Company.

Independent Auditor

KPMG Channel Islands Limited were appointed on 12 May 2014 and continued to serve as Auditor during the financial year. A resolution to re-appoint KPMG Channel Islands Limited as Auditor will be put to the forthcoming Annual General Meeting ("AGM").

Directors and Directors' Interests

The Directors, all of whom are independent and non-executive, are listed on page 13.

None of the Directors has a service contract with the Company and no such contracts are proposed. Each independent non-executive Director is entitled to a basic fee of £43,000 (31 December 2018: £43,000) each per annum.

The Directors had the following interests in the Company at 31 December 2019 and 31 December 2018, held either directly or beneficially:

Name	31 December 2019		31 December 2018	
	No. of 2017 Shares	Percentage	No. of 2017 Shares	Percentage
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel	9,697	0.00%	9,697	0.00%
Nigel Ward	60,000	0.01%	44,475	0.01%

On 17 September 2019, Nigel Ward purchased 15,525 2017 Shares in the Company on the SFS of the London Stock Exchange. On 4 December 2018, Nigel Ward purchased 15,000 2017 Shares in the Company on the SFS of the London Stock Exchange.



GOVERNANCE

Directors' Report (continued)

Substantial Shareholdings

As at 19 March 2020, being the date of the latest shareholder analysis prior to the publication of these Financial Statements, the following 2017 shareholders had holdings in excess of 5% of the issued 2017 share capital:

Name	No. of 2017 Shares	Percentage of 2017 Shares
Quilter Investors	57,716,625	12.75%
Coller Investment Management	54,159,716	11.96%
Vidacos Nominees Limited – Master2	43,000,000	9.50%
Fidelity International	27,284,697	6.03%
Seneca Investment Managers	26,657,713	5.89%

On 1 April 2019, the final compulsory redemption of all 2014 Shares was complete, see Note 10 for details.

Related Parties

Details of transactions with related parties are disclosed in note 8 to these Financial Statements.

Listing Requirements

Since being admitted to the SFS of the London Stock Exchange on 12 June 2014, the Company has complied with the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Directive (as implemented in the UK through Financial Services and Markets Authority).

Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act ("FATCA") became effective on 1 January 2013. The legislation is aimed at determining the ownership of US assets in foreign accounts and improving US tax compliance with respect to those assets. On 13 December 2013, the States of Guernsey entered into an intergovernmental agreement ("IGA") with US Treasury, in order to facilitate the requirements under FATCA. The Company registered with the Internal Revenue Service ("IRS") on 21 November 2014 as a Foreign Financial Institution ("FFI").

Common Reporting Standard

The Common Reporting Standard ("CRS"), formerly the Standard for Automatic Exchange of Financial Account Information, became effective on 1 January 2016. CRS is an information standard for the automatic exchange of information developed by the Organisation for Economic Co-operation and Development ("OECD"). CRS is a measure to counter tax evasion and it builds upon other information sharing legislation, such as FATCA, the UK-Guernsey IGA for the Automatic Exchange of Information and the European Union Savings Directive, and has superseded the UK-Guernsey Intergovernmental Agreement for the Automatic Exchange of Information with effect from 1 January 2016. Reporting under CRS in Guernsey is completed on an annual basis.

Alternative Investment Fund Managers Directive ("AIFMD")

The Company is categorised as a non-EU Alternative Investment Fund (as defined in the AIFMD) ("AIF") and the Board of the Company is a non-EU Alternative Investment Fund Manager ("AIFM") (as defined in the AIFMD) for the purposes of the AIFMD and as such neither it nor the Investment Adviser will be required to seek authorisation under the AIFMD. However, following national transposition of the AIFMD in a given EU member state, the marketing of ordinary shares in AIFs (as defined in the AIFMD) that are established outside the EU (such as the Company) to investors in that EU member state will be prohibited unless certain conditions are met. Certain of these conditions are outside the Company's control as they are dependent on the regulators of the relevant third country and the relevant EU member state entering into regulatory co-operation agreements with one another.

The Directors have appointed the Risk Committee to manage the relevant disclosures to be made to investors and the necessary regulators. On 18 February 2015, the FCA confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company complied with Article 22 and 23 of the AIFMD for the year ended 31 December 2019. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.



GOVERNANCE

Directors' Report (continued)

Alternative Investment Fund Managers Directive ("AIFMD") (continued)

The Company issued a new prospectus on 9 March 2017, the Master Fund II was subsequently launched and invested into by the Company during 2017 as discussed further on page 2. New principal documents were entered into during this period and all matters were disclosed to investors as required under Article 23 of AIFMD. As the Board of the Company is the AIFM, the details of the Company's remuneration policy for the Directors is outlined on page 25 and accords with the principles established by AIFMD.

Non-Mainstream Pooled Investments

The Company's ordinary shares are considered as "excluded securities" for the purposes of the FCA Rules regarding the definition and promotion of non-mainstream pooled investments ("NMPI") because the returns to investors holding the Company's ordinary shares are, and are expected to continue to be, predominantly based on the returns from ordinary shares and debentures held indirectly by the Company. The Board therefore believes that independent financial advisers can recommend the Company's ordinary shares to retail investors, although financial advisers should seek their own advice on this issue.

Reporting Fund Regime

The Company was accepted into the UK Reporting Fund regime with effect from 7 March 2014. Under this regime, which effectively replaced the UK Distributor Status regime, an offshore investment fund operates by reference to whether it opts into the reporting regime ("Reporting Funds") or not ("Non-reporting Funds").

A UK investor who disposes of an interest in a Reporting Fund should be subject to tax on any gains realised as capital gains rather than income. Such investors will also be subject to income tax on the distributions received from the offshore fund and their share of the excess of the offshore fund's reported income over the distributions made (i.e. they will be subject to income tax on their share of the offshore fund's income regardless of whether this is distributed or not). Shareholders should seek their own professional advice as to the tax consequences of the UK Reporting Fund regime.

Anti-bribery and Corruption

The Board acknowledge that the Company's international operations may give rise to possible claims of bribery and corruption. In consideration of The Bribery Act 2010, enacted in the UK, at the date of this report the Board had conducted an assessment of the perceived risks to the Company arising from bribery and corruption to identify aspects of business which may be improved to mitigate such risks. The Board has adopted a zero tolerance policy towards bribery and has reiterated its commitment to carry out business fairly, honestly and openly.

Criminal Finances Act

The Board of the Company has a zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion. The Board has satisfied itself in relation to its key service providers that they have reasonable provisions in place to prevent the criminal facilitation of tax evasion by their own associated persons and will not work with service providers who do not demonstrate the same zero tolerance commitment to preventing persons associated with it from engaging in criminal facilitation of tax evasion.

UK Modern Slavery Act

The Board acknowledges the requirement to provide information about human rights in accordance with the UK Modern Slavery Act. The Board conducts the business of the Company ethically and with integrity, and has a zero tolerance policy towards modern slavery in all its forms. As the Company has no employees, all its Directors are non-executive and all its functions are outsourced, there are no further disclosures to be made in respect of employees and human rights.

Employee Engagement & Business Relationships

The Company conducts its core activities through third-party service providers and does not have any employees. The Board recognises the benefits of encouraging strong business relationships with its key service providers and seeks to ensure each is committed to the performance of their respective duties to a high standard and, where practicable, that each provider is motivated to adding value within their sphere of activity. Details on the Board's approach to service provider engagement and performance review are contained in the Management Engagement Committee Report.



GOVERNANCE

Directors' Report (continued)

Whistleblowing

The Board has considered the AIC Code recommendations in respect of arrangements by which staff of the Investment Adviser, Custodian or Administrator may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their organisation.

Environmental and Social Policy

The Company is a closed-ended investment company which has no employees therefore its own direct environmental impact is minimal. The Company operates by outsourcing significant parts of its operations to reputable professional companies, who are required to comply with all relevant laws and regulations and take account of social, environmental, ethical and human rights factors, where appropriate.

The Board notes that the underlying entities which the CLOs are invested in will have a social and environmental impact over which it has no control. The Company has no direct greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources, including those within its underlying CLOs portfolio.

In carrying out its investment activities and in relationship with suppliers, the Company aims to conduct itself responsibly, ethically and fairly.

By order of the Board

Jon Bridel

Director

17 April 2020



GOVERNANCE

Corporate Governance

Compliance

The Board has taken note of the Code of Corporate Governance issued by the Guernsey Financial Services Commission ("Guernsey Code"). The Guernsey Code provides a governance framework for GFSC licensed entities, authorised and registered collective investment schemes. Companies reporting in compliance with the UK Corporate Governance Code (the "UK Code") or the Association of Investment Companies Code of Corporate Governance ("AIC Code"), which was last published in February 2019, are deemed to satisfy the provisions of the Guernsey Code. The UK Code is available on the Financial Reporting Council website, www.frc.org.uk.

As a Guernsey incorporated company and under the SFS Rules for companies, it is not a requirement for the Company to comply with the UK Code. However, the Directors place a high degree of importance on ensuring that high standards of corporate governance are maintained and have considered the principles and recommendations of the AIC Code. The AIC Code addresses all the principles and provisions set out in the UK Code as well as setting out additional provisions on issues that are of specific relevance to the Company. The Board considers that reporting against the principles and provisions of the AIC Code will provide more relevant information to shareholders. The AIC code is available on the AIC website, www.theaic.co.uk.

For the year ended 31 December 2019, the Company complied substantially with the relevant provisions of the AIC Code and it is the intention of the Board that the Company will comply with those provisions throughout the year ending 31 December 2020, with the exception of the provisions listed below:

- *The appointment of a Senior Independent Director:* Given the size and composition of the Board it is not felt necessary to separate the roles of Chairman and Senior Independent Director. The Board considers that all the independent Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed.
- *Internal audit function:* The Board has reviewed the need for an internal audit function and due to the size of the Company and the delegation of day-to-day operations to regulated service providers, an internal audit function is not considered necessary. The Directors will continue to monitor the systems of internal controls in place in order to provide assurance that they operate as intended.
- *The appointment of Executive Directors:* Due to the broad range of experience of the Board and given the nature of the Company's activity and that the majority of Directors are deemed to be independent under the AIC Code, it is not considered necessary to appoint executive Directors.

Composition and Independence of Directors

As at 31 December 2019, the Board of Directors comprised three non-executive and independent Directors as set out below. The Company has no executive Directors or any employees. The biographies of the Board are disclosed on page 13.

Claudio Albanese is the Chairman of the Board and the Management Engagement Committee.

Jon Bridel is the Chairman of the Audit Committee.

Nigel Ward is the Chairman of the Risk Committee and the Nomination and Remuneration Committee.

In considering the independence of the Chairman, the Board has taken note of the provisions of the AIC Code relating to independence and has determined that Claudio Albanese is an Independent Director. As Chairman, Mr Albanese is responsible for the leadership of the Board and ensuring effectiveness in all aspects of its role.

Under the terms of their appointment, all non-executive Directors are subject to re-election annually at the Annual General Meeting ("AGM"). At the Annual General Meeting of the Company on 19 June 2019, shareholders re-elected all the Directors of the Company.

Although no formal training is given to Directors by the Company, the Directors are kept up to date on various matters such as Corporate Governance issues through bulletins and training materials provided from time to time by the Company Secretary, the AIC and other professional firms.



GOVERNANCE

Corporate Governance (continued)

Composition and Independence of Directors (continued)

The Board receives quarterly reports and meets at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its disposal. At these meetings the Board monitors the investment performance of the Company. The Directors also review the Company's activities every quarter to ensure that it adheres to the Company's investment policy. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with.

The Board monitors the level of the share price premium or discount to determine what action is desirable (if any).

The Board and relevant personnel of the Investment Adviser acknowledge and adhere to the Market Abuse Regulation which was implemented on 3 July 2016.

Board diversity

The Board of Directors of the Company comprises three male directors.

The Board is committed to diversity and is supportive of increased gender and ethnic diversity but recognises that it may not always be in the best interest of shareholders to prioritise this above other factors.

The Remuneration and Nominations Committee regularly reviews the structure, size and composition required of the Board, taking into account the challenges and opportunities facing the Company. The Board is also committed to appointing the most appropriate available candidates taking into account the skills and attributes of both existing members and potential new recruits and thereby the balance of skills, experience and approach of the Board as a whole which will lead to optimal Board effectiveness. In considering future candidates, appointments will be based on merit as a primary consideration, with the aim of bringing an appropriate range of the specific skills, experience, independence, and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition.

Directors' Performance Evaluation

The Board has established an informal system for the evaluation of its own performance and that of the Company's individual Directors. It considers this to be appropriate having regard to the non-executive role of the Directors and the significant outsourcing of services by the Company to external providers.

The Directors undertake, on an annual basis by means of an internal questionnaire, an assessment of the effectiveness of the Board, particularly in relation to its oversight and monitoring of the performance of the Investment Adviser and other key service providers. The evaluations consider the balance of skills, experience, independence and knowledge of the Company. The Board also evaluates the effectiveness of each of the Directors. The Company Secretary collates the results of the questionnaires and the consolidated results are reviewed by the Board as a whole.

In respect of the AGM, which will be held on 11 June 2020, the Board is of the view that each Director should be re-elected given their extensive knowledge of international financial markets, funds and risk management. This experience is evidenced within the biographies of the Board as disclosed on page 13. Collectively, the blend of skillsets demonstrates the importance of the contribution of each Director and why they should each be re-elected at the forthcoming AGM.

The Chairman also has responsibility for assessing the individual Board members' training and development requirements.

Directors' Remuneration

With effect from 27 August 2015, it is the responsibility of the Nomination and Remuneration Committee to determine and approve the Directors' remuneration, having regard to the level of fees payable to non-executive Directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities and the time committed to the Company's affairs. The Chairman's remuneration is decided separately and is approved by the Board as a whole.

No Director has a service contract with the Company and details of the Directors' remuneration can be found in the Directors' Remuneration Report on page 25.



GOVERNANCE

Corporate Governance (continued)

Directors' and Officers' Liability Insurance

The Company maintains Directors' and Officers' liability insurance on behalf of the Directors in relation to the performance of their duties as Directors.

Relations with Shareholders

The Company reports to shareholders twice a year by way of the Interim Report and Unaudited Condensed Financial Statements and the Annual Report and Audited Financial Statements. In addition, NAVs are published monthly and the Investment Adviser publishes monthly reports to shareholders on its website www.fairoaksincome.com.

The Board receives quarterly reports on the shareholder profile of the Company and regular contact with major shareholders is undertaken by the Company's corporate brokers and the executives of the Investment Adviser. Any issues raised by major shareholders are reported to the Board on a regular basis.

The Chairman and individual Directors are willing to meet major shareholders to discuss any particular items of concern regarding the performance of the Company. Members of the Board, including the Chairman and the Audit Committee Chairman, and the Investment Adviser are also available to answer any questions which may be raised by any shareholder at the Company's Annual General Meeting.

Stakeholders and Section 172

Whilst directly applicable to UK domiciled companies, the intention of the AIC Code is that matters set out in section 172 of the Companies Act, 2006 ("s172 of the Companies Act") are reported. The Board considers the view of the Company's other key stakeholders as part of its discussions and decision making process. As an investment company, the Company does not have any employees and conducts its core activities through third-party service providers. Each provider has an established track record and, through regulatory oversight and control, are required to have in place suitable policies to ensure they maintain high standards of business conduct, treat customers fairly, and employ corporate governance best practice.

The Board's commitment to maintaining the high-standards of corporate governance recommended in the AIC Code, combined with the directors' duties incorporated into the Companies (Guernsey) Law, 2008, the constitutive documents, the Disclosure Guidance and Transparency Rules, and Market Abuse Regulation, ensures that shareholders are provided with frequent and comprehensive information concerning the Company and its activities.

Whilst the primary duty of the Directors is owed to the Company as a whole, the Board considers as part of its decision making process the interests of all stakeholders. Particular consideration being given to the continued alignment between the activities of the Company and those that contribute to delivering the Board's strategy, which include the Investment Manager and Administrator.

The Board respects and welcomes the views of all stakeholders. Any queries or areas of concern regarding the Company's operations can be raised with the Secretary.

Directors' Meetings and Attendance

The table below shows the attendance at Board and Committee meetings during the year. There were four formal Board meetings, four Audit Committee meetings, four Risk Committee meetings, one Management Engagement Committee meeting, one Nomination & Remuneration Committee meeting and three ad hoc Board meeting held during the year ended 31 December 2019.

Name	Board	Audit	Risk	Management	Nomination &
		Committee	Committee	Engagement	Remuneration
				Committee	Committee
Number of meetings held	7	4	4	1	1
Claudio Albanese (Chairman of the Board and Management Engagement Committee)	6	N/A	4	1	1
Jon Bridel (Audit Committee Chairman)	7	4	4	1	1
Nigel Ward (Risk Committee Chairman and Nomination & Remuneration Committee Chairman)	7	4	4	1	1



GOVERNANCE

Corporate Governance (continued)

Directors' Meetings and Attendance (continued)

The Chairman is responsible for ensuring the Directors receive complete information in a timely manner concerning all matters which require consideration by the Board. Through the Board's ongoing programme of shareholder engagement and the reports produced by each key service provider, the Directors are satisfied that sufficient information is provided so as to ensure the matters set out in s172 of the Companies Act are taken into consideration as part of the Board's decision-making process.

Board Committees

Audit Committee

The Audit Committee comprises Jon Bridel and Nigel Ward, and meets at least three times a year. Jon Bridel is Chairman of the Audit Committee. The key objectives of the Audit Committee include a review of the Financial Statements to ensure they are prepared to a high standard and comply with all relevant legislation and guidelines, where appropriate, and to maintain an effective relationship with the Auditor. With respect to the Auditor, the Audit Committee's role will include the assessment of their independence, review of the Auditor's engagement letter, remuneration, performance and any non-audit services provided by the Auditor. For the principal duties and report of the Audit Committee please refer to the Report of the Audit Committee on page 26.

Risk Committee

The Risk Committee meets at least four times a year. It comprises the entire Board and is chaired by Nigel Ward. The principal function of the Risk Committee is to identify, assess, monitor and, where possible, oversee the management of risks to which the Company's investments are exposed, principally to enable the Company to achieve its target investment objective of a total return of 12% to 14% per annum over the planned life of the Company, with regular reporting to the Board. As the Company is an internally managed non-EU AIFM for the purposes of AIFMD, the Directors have appointed the Risk Committee to manage the additional risks faced by the Company as well as the relevant disclosures to be made to investors and the necessary regulators. On 18 February 2015, the FCA confirmed that the Company was eligible to be marketed via the FCA's National Private Placement Regime and the Company complied with Articles 22 and 23 of the AIFMD for the year ended 31 December 2019. In January 2017, the Company was authorised to market in Sweden, Finland and Luxembourg.

Management Engagement Committee

The Management Engagement Committee ("MEC") meets at least once a year. It comprises the entire Board and is chaired by Claudio Albanese. The MEC is responsible for the regular review of the terms of the Investment Advisory Agreement and the performance of the Administrator and the Investment Adviser and also the Company's other service providers. For the principal duties of the MEC, please refer to the Management Engagement Committee Report on page 29.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee meets at least once a year. It comprises the entire Board and is chaired by Nigel Ward. The Nomination and Remuneration Committee is responsible for reviewing the structure, size and composition of the Board, to consider the succession planning for directors and senior executives, reviewing the leadership needs of the organisation, identifying candidates for appointment to the Board, agreeing a framework for Director remuneration, ensuring management of the Company are appropriately incentivised to enhance performance and reviewing the appropriateness of the remuneration policy on an on-going basis. In order to identify appropriate candidates for appointment to the Board, the Nomination and Remuneration Committee will appoint an independent consultant for the purposes of succession planning.

Internal Control Review and Risk Management System

The Board of Directors is responsible for putting in place a system of internal controls relevant to the Company and for reviewing the effectiveness of those systems. The review of internal controls is an ongoing process for identifying and evaluating the risks faced by the Company, and which are designed to manage risks rather than eliminate the risk of failure to achieve the Company's objectives.

It is the responsibility of the Board to undertake risk assessment and review of the internal controls in the context of the Company's objectives that cover business strategy, operational, compliance and financial risks facing the Company. These internal controls are implemented by the Company's three main service providers: the Investment Adviser, the Administrator and the Custodian. The Board receives periodic updates from these main service providers at the quarterly Board meetings of the Company. The Board is satisfied that each service provider has effective controls in place to control the risks associated with the services that they are contracted to provide to the Company and are therefore satisfied with the internal controls of the Company.



GOVERNANCE

Corporate Governance (continued)

Internal Control Review and Risk Management System (continued)

The Board of Directors considers the arrangements for the provision of Investment Advisory, Administration and Custody services to the Company on an ongoing basis and a formal review is conducted annually. As part of this review the Board considered the quality of the personnel assigned to handle the Company's affairs, the investment process and the results achieved to date.



GOVERNANCE

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Companies (Guernsey) Law, 2008 which give a true and fair view of the state of affairs of the Company and its profit or loss for that period.

In preparing the 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are also responsible for the keeping of proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008 and the Listing Rules of the SFS of the London Stock Exchange. They are also responsible for the system of internal controls, safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors confirm that they have complied with these requirements in preparing the Financial Statements.

The Directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom and Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware, having taken all the steps the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility Statement

Each of the Directors, who are listed on page 13, confirms to the best of their knowledge and belief:

- the Financial Statements, prepared in accordance with IFRS as issued by the IASB, give a true and fair view of the assets, liabilities, financial position and profit of the Company, as required by DTR 4.1.12R;
- the Management Report (comprising the Chairman's Statement, the Investment Adviser's Report, the Directors' Report, the Strategic Report and other Committee Reports) includes a fair review of the development and performance of the business during the year, and the position of the Company at the end of the year, together with a description of the principal risks and uncertainties that the Company faces, as required by DTR 4.1.8R and DTR 4.1.9R; and
- the Annual Report, comprising the Financial Statements, Strategic Review and Governance report, taken as a whole, is fair, balanced and understandable.

Signed on behalf of the Board by:

Jon Bridel

Director

17 April 2020



GOVERNANCE

Directors' Remuneration Report

The Company's policy in regard to Directors' remuneration is to ensure that remuneration is competitive, aligned with shareholder interests, relatively simple and transparent, and compatible with the aim of attracting, recruiting and retaining suitably qualified and experienced directors.

No element of the Directors' remuneration is performance related, nor does any Director have any entitlement to pensions, share options or any long term incentive plans from the Company.

The Company's Articles limit the fees payable to Directors in aggregate to US\$400,000 per annum.

The Directors have received the following remuneration during the year in the form of Directors' fees:

	Per Annum £	For the year from 1 January 2019 to 31 December 2019 Actual £	For the year from 1 January 2018 to 31 December 2018 Actual £
Claudio Albanese (Chairman and Management Engagement Committee Chairman)	43,000	43,000	43,000
Jon Bridel (Audit Committee Chairman)	43,000	43,000	43,000
Nigel Ward (Risk Committee Chairman and the Nomination & Remuneration Committee Chairman)	43,000	43,000	43,000
Total	129,000	129,000	129,000

Each Director is entitled to a fee of £43,000 per annum.

The remuneration policy set out above is the one applied for the years ended 31 December 2019 and 31 December 2018 and is not expected to change in the immediate future.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

The Directors were appointed as non-executive Directors by letters issued in April and May 2014. Each Director's appointment letter provides that, upon the termination of his appointment, he must resign in writing. The Directors' appointments can be terminated in accordance with the Articles and without compensation. The notice period for the removal of Directors is three months as specified in the Director's appointment letter. The Articles provide that the office of director shall be terminated by, among other things: (a) written resignation; (b) unauthorised absences from Board meetings for six months or more; (c) unanimous written request of the other Directors; or (d) an ordinary resolution of the Company.

Under the terms of their appointment, each Director was subject to re-election at the first Annual General Meeting ("AGM") and annually thereafter. At the Annual General Meeting of the Company on 19 June 2019, shareholders re-elected all the Directors for re-election. The Company may terminate the appointment of a Director immediately on serving written notice and no compensation is payable upon termination of office as a director of the Company becoming effective.

The amounts payable to Directors as at 31 December 2019 and 31 December 2018, shown in note 8, related to services as non-executive Directors.

No Director has a service contract with the Company, nor are any such contracts proposed.

Signed on behalf of the Board of Directors on 17 April 2020 by:

Jon Bridel
Director



GOVERNANCE

Report of the Audit Committee

The Company has established an Audit Committee with formally delegated duties and responsibilities within written terms of reference (which are available from the Company's website).

Chairman and Membership

The Audit Committee is chaired by Jon Bridel, a Chartered Accountant. He and the other member, Nigel Ward, are both independent Directors. Only independent Directors serve on the Audit Committee and members of the Audit Committee have no links with the Company's Auditor and are independent of the Investment Adviser. The membership of the Audit Committee and its terms of reference are kept under review. The relevant qualifications and experience of each member of the Audit Committee is detailed on page 13 of these Financial Statements. The Audit Committee's intention is to meet at least three times a year in any full year and meets the Auditor during those meetings.

Duties

The Audit Committee's main role and responsibilities are to provide advice to the Board on whether the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and alongside the Interim Report and Unaudited Condensed Financial Statements provide the information necessary for shareholders to assess the Company's performance, business model and strategy. The Audit Committee gives full consideration and recommendation to the Board for the approval of the contents of the Interim and Annual Financial Statements of the Company, which includes reviewing the Auditor's report.

The other principal duties include to consider the appointment of the Auditor, to discuss and agree with the Auditor the nature and scope of the audit, to keep under review the scope, results and effectiveness of the audit and the independence and objectivity of the Auditor, to review the Auditor's letter of engagement, the Auditor's planning report for the financial year and management letter and to analyse the key procedures adopted by the Company's service providers.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of the Company's internal control and risk management systems as they relate to the financial reporting process. The Audit Committee also focuses particularly on compliance with legal requirements, accounting standards and the relevant Listing Rules and ensuring that an effective system of internal financial and non-financial controls is maintained.

The Audit Committee also reviews, considers and, if thought appropriate, recommends for the purposes of the Company's Financial Statements valuations prepared by the Investment Adviser. These valuations are the most critical element in the Company's Financial Statements and the Audit Committee questions them carefully.

Financial Reporting and Significant Risk

The Audit Committee has an active involvement and oversight in the preparation of both the Interim Report and Unaudited Condensed Financial Statements and the Annual Report and Audited Financial Statements and in doing so is responsible for the identification and monitoring of the principal risks associated with the preparation of the Financial Statements. After discussion with the Investment Adviser and KPMG Channel Islands Limited ("KPMG"), the Audit Committee determined that the key risk of material misstatement of the Company's Financial Statements related to the valuation of investments.

- Valuation of Master Fund II – The Company's investment in the Master Fund II had a fair value of US\$298,598,458 as at 31 December 2019 and represents substantially all the net assets of the Company and as such is the biggest factor in relation to the accuracy of the Financial Statements. This investment is valued in accordance with the Accounting Policies set out in note 2 to the Financial Statements. The Financial Statements of the Master Fund II for the year ended 31 December 2019 were audited by KPMG who issued an unmodified audit opinion dated 17 April 2020. The Audit Committee has reviewed the Audited Financial Statements of the Master Fund II and the accounting policies and determined the Company's fair value of the investment in the Master Fund II as at 31 December 2019 to be reasonable.



GOVERNANCE

Report of the Audit Committee (continued)

Financial Reporting and Audit

The Audit Committee reviews the Company's accounting policies applied in the preparation of its Annual Financial Statements together with the relevant critical judgements, estimates and assumptions and, upon taking the appropriate advice from the Auditor, determined that these were in compliance with IFRS, as issued by the IASB and were reasonable. The Audit Committee reviewed the materiality levels applied by the Auditor to the Financial Statements as a whole and was satisfied that materiality levels were appropriate. The Auditor reports to the Audit Committee all material corrected and uncorrected differences. The Auditor explained the results of their audit and that on the basis of their audit work, there were no uncorrected differences proposed that were material in the context of the Financial Statements as a whole.

The Audit Committee also reviews the Company's financial reports as a whole to ensure that such reports appropriately describe the Company's activities and to ensure that all statements contained in such reports are consistent with the Company's financial results and projections. Accordingly, the Audit Committee was able to advise the Board that the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

External Auditor

The Audit Committee has responsibility for making a recommendation on the appointment, re-appointment and removal of the Auditor. KPMG was appointed as the first Auditor of the Company in 2014. During the year, the Audit Committee received and reviewed the audit plan and strategy from KPMG. It is standard practice for the Auditor to meet privately with the Audit Committee without the Investment Adviser being present at each Audit Committee meeting.

To assess the effectiveness of the Auditor, the Audit Committee will review:

- The Auditor's fulfilment of the agreed audit plan and variations from it;
- The Auditor's assessment of its objectivity and independence as auditor of the Company;
- The Audit Committee Report from the Auditor highlighting the major issues that arose during the course of the audit; and
- Feedback from the Investment Adviser and Administrator evaluating the performance of the audit team.

Where non-audit services are to be provided to the Company by the Auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement will be considered before proceeding. All non-audit services are pre-approved by the Audit Committee after it is satisfied that relevant safeguards are in place to protect the auditors' objectivity and independence.

To fulfil its responsibility regarding the independence of the Auditors, the Audit Committee considered:

- a report from the Auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the Auditor.

During the year ended 31 December 2019, KPMG provided audit services only as listed on page 28. Where non-audit services are to be provided to the Company by the Auditor, full consideration of the financial and other implications on the independence of the Auditor arising from any such engagement will be considered before proceeding. All non-audit services are pre-approved by the Audit Committee if it is satisfied that relevant safeguards are in place to protect the Auditors' objectivity and independence. KPMG did not provide any non-audit services during the year ended 31 December 2019.

In addition, KPMG directors are subject to periodic rotation of assignments on audit clients under applicable laws, regulations and independence rules. Their rotation policies comply with the FRC Revised Ethical Standard 2016 which states that the engagement director should be rotated after serving in this capacity for the relevant period no longer than five years. This rotation policy is continually monitored, Dermot Dempsey served his final year as engagement director for the 31 December 2018 audit. Steven Stormonth was appointed as successor to Dermot Dempsey and is the audit engagement director for these Financial Statements. The Audit Committee considered this appointment during the year and were satisfied with this recommendation.



GOVERNANCE

Report of the Audit Committee (continued)

External Auditor (continued)

The following table summarises the remuneration payable to KPMG and to other KPMG International member firms for audit and non-audit services during the year ended 31 December 2019 and 31 December 2018, translated into the presentation currency at the exchange rate prevailing at 31 December 2019 and 31 December 2018, respectively.

	For the year ended 31 December 2019 US\$	For the year ended 31 December 2018 US\$
KPMG Channel Islands Limited		
– Annual Audit of the Company and related entities	199,650	186,106
– Interim review	49,051	45,978

Internal Controls

As the Company's investment objective is to invest all of its assets into the Master Fund II, the Audit Committee, after consultation with the Investment Adviser and Auditor, considers the key risk of misstatement in its Financial Statements to be the valuation of its investments in the Master Fund II, but is also mindful of the risk of the override of controls by its two main service providers: the Investment Adviser and the Administrator.

The Investment Adviser and the Administrator together maintain a system of internal control on which they report to the Board. The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Investment Adviser and Administrator provide sufficient assurance that a sound system of risk management and internal control, which safeguards shareholders' investment and the Company's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The Audit Committee is responsible for reviewing and monitoring the effectiveness of the internal financial control systems and risk management systems on which the Company is reliant. These systems are designed to ensure proper accounting records are maintained, that the financial information on which the business decisions are made and which is issued for publication is reliable, and that the assets of the Company are safeguarded. Such a system of internal financial controls can only provide reasonable and not absolute assurance against misstatement or loss.

In accordance with the guidance published in the 'Turnbull Report' by the FRC, the Audit Committee has reviewed the Company's internal control procedures. These internal controls are implemented by the Investment Adviser and the Administrator. The Audit Committee has performed reviews of the internal financial control systems and risk management systems during the year. The Audit Committee is satisfied with the internal financial control systems of the Company.

On behalf of the Audit Committee

Jon Bridel

Audit Committee Chairman
17 April 2020



GOVERNANCE

Management Engagement Committee Report

The Company has established a Management Engagement Committee (“MEC”) with formally delegated duties and responsibilities within written terms of reference (which are available from the Company’s website).

Chairman and Membership

The Management Engagement Committee meets at least once a year. It comprises the entire Board and is chaired by Claudio Albanese. Mr Albanese and the other members, Nigel Ward and Jon Bridel, are all independent Directors. Only independent Directors serve on the MEC and members of the MEC have no links with the Investment Adviser or any other service provider. The Management Engagement Committee is responsible for the regular review of the terms of the Investment Advisory Agreement and the performance of the Administrator and the Investment Adviser and also the Company’s other service providers. The membership of the MEC and its terms of reference are kept under review.

Key Objectives

To review performance of all service providers (including the Investment Adviser).

Responsibilities

- To annually review the performance, relationships and contractual terms of all service providers (including the Investment Adviser);
- reviewing the terms of the Investment Advisory Agreement from time to time to ensure that the terms thereof conform with market and industry practice and remain in the best interests of shareholders and making recommendations to the Board on any variation to the terms of the Investment Advisory Agreement which it considers necessary or desirable;
- recommending to the Board whether the continuing appointment of the Adviser is in the best interests of the Company and shareholders, and the reasons for this recommendation;
- monitoring compliance by providers of other services to the Company with the terms of their respective agreements from time to time;
- reviewing and considering the appointment and remuneration of providers of services to the Company; and
- considering any points of conflict which may arise between the providers of services to the Company.

MEC Meetings

Only members of the MEC and the Company Secretary have the right to attend MEC meetings. However, representatives of the General Partner, Investment Adviser and other service providers may be invited by the MEC to attend meetings as and when appropriate.

Main Activities during the year

The MEC met once during the year and reviewed the performance, relationships and contractual terms of all service providers as at 3 December 2019 including the Investment Adviser. The current Terms of Reference are available on the Company’s website www.fairoaksincome.com. Furthermore, the MEC reviewed the approaches to GDPR, Criminal Justice Act, Anti-bribery and cyber security, amongst other matters, by its service providers.

Continued Appointment of the Investment Adviser and other Service Providers

The Board continually evaluates the Investment Adviser and other service providers, it reviews investment performance at each Board meeting and a formal review of all service providers is conducted annually by the MEC. The annual third-party service provider review process includes two-way feedback, which provides the Board with an opportunity to understand the views, experiences and any significant issues encountered by service providers during the year. As part of the Board’s annual performance evaluation, feedback is received on the quality of service and the effectiveness of the working relationships with each of the Company’s key service providers.

As a result of the 2019 annual review it is the opinion of the Directors that the continued appointment of the Investment Adviser and the other current service providers on the terms agreed is in the interest of the Company’s shareholders as a whole. The Board considers that the Investment Adviser has extensive investment management resources and wide experience in managing CLOs investments and is satisfied with the quality and competitiveness of the fee arrangements of the Investment Adviser and the Company’s other service providers.

Claudio Albanese

Management Engagement Committee Chairman
17 April 2020

GOVERNANCE

Independent Auditor's Report to the members of Fair Oaks Income Limited

Our opinion is unmodified

We have audited the financial statements of Fair Oaks Income Limited (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2019, and of the Company's financial performance and cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards; and
- comply with 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards, as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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 forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matter was as follows (unchanged from 2018):

	The risk	Our response
<p>Financial assets at fair value through profit or loss ("Investments")</p> <p>US\$336.7 million; (31 December 2018 US\$385.2 million)</p> <p>Refer to pages 26 to 28 (Report of the Audit Committee), note 2 (Significant accounting policies), note 3 (Use of judgments and Estimates) and note 6 (Financial Assets at Fair Value Through Profit or Loss)</p>	<p>Valuation of investments:</p> <p>Basis:</p> <p>The Company holds investments in Fair Oaks High Grade Credit Fund ("UCITS Fund") and in FOMC II LP ("Master Fund II") which are designated at fair value through profit and loss and represent a significant proportion of the Company's net assets.</p> <p>The fair value of Master Fund II reflects the Company's proportionate share of Master Fund II's net asset value. Master Fund II's net asset value incorporates the fair value of its own investment portfolio which comprises: Mezzanine & Equity Collateralised Loan Obligation ("CLO") positions; a Warehoused pre-CLO position ("Warehouse"); and a proportionate share of FOIF LP and CYCAD Investments LP ("Master Fund" & "CYCAD") which are also invested into CLO positions. The fair value of the CLOs are determined using indicative prices ("Price Quotes") obtained by the Master Fund II from their independent third party valuation provider (the "Valuation Agent").</p>	<p>Our audit procedures included:</p> <p>Control evaluation:</p> <p>We assessed the design and implementation of the control over the valuation of the Company's investment in the Master Fund II.</p> <p>Evaluation of the Valuation Agent:</p> <p>We independently obtained the Valuation Agent's reports. With the assistance of our KPMG valuation specialist we:</p> <ul style="list-style-type: none"> - assessed the objectivity, capabilities and competence of the Valuation Agent engaged by Master Fund, Master Fund II and CYCAD to provide Price Quotes; - assessed the methodology applied by the Valuation Agent in developing fair value Price Quotes; and - agreed the Price Quotes provided by the Valuation Agent to those used in the Valuation of Master Fund, Master Fund II and CYCAD.

GOVERNANCE

Independent Auditor's Report to the members of Fair Oaks Income Limited (continued)

Key Audit Matters: our assessment of the risks of material misstatement (continued)

The risk (continued)	Our response (continued)
<p>The fair value of the UCITS Fund, Master Fund and CYCAD are determined through a proportionate share of their net asset value. The fair value of the Warehouse is determined based on the likelihood of the CLO being printed at a future date.</p>	<p>Valuation procedures including use of a KPMG valuation specialist: Assessed whether the net asset value of Master Fund II was representative of its fair value. Recalculated the Company's proportion of the net asset value of Master Fund II.</p>
<p>Risk: The valuation of the Company's financial assets designated at fair value through profit and loss is considered a significant area of our audit, given that it represents the majority of the net assets of the Company. Inherent in that valuation is the use of significant estimates and judgments in determining the fair value of Master Fund II's underlying CLOs, Warehouse investment and the net asset values of the UCITS Fund, Master Fund and CYCAD.</p>	<p>For 100% of the Mezzanine CLO positions held by Master Fund & Master Fund II, with the support of our KPMG valuation specialist, independently determined reference prices by applying a mark to model valuation technique which utilises inputs such as the current weighted average life of the instrument and market observable discount rates.</p> <p>For 100% of the Equity CLO positions held by Master Fund, Master Fund II & CYCAD, with the support of our KPMG valuation specialist, independently determined reference prices through the use of fundamental cash flow modelling sourcing key inputs and assumptions used, such as default rates, prepayment rates and recovery rates, to observable market data.</p>
	<p>For the sole Warehouse pre-CLO position held by Master Fund II, we utilised, with the support of our KPMG valuation specialist, a Black Scholes option pricing model to assess the probability (as at 31 December 2019) of this position converting to a CLO and assessed the outcome against the Master Fund II's reference price.</p>
	<p>For the investment into Master Fund and CYCAD, we agreed the fair value to a net asset value statement received from that fund's administrator. We also obtained the coterminous audited financial statements and agreed the audited net asset value to the net asset value statement. We also considered the basis of preparation, together with accounting policies applied and whether the audit opinion was unmodified.</p>
	<p>For the investment into the UCITs Fund we, with the help of the KPMG valuation specialist, observed a price quote from an independent pricing provider.</p>
	<p>Assessing disclosures: We also considered the Company's disclosures (Note 3) in relation to use of estimates, the Company's valuation of investments policies (Note 2) and fair value of financial instruments (Note 6) for compliance with IFRS.</p>

GOVERNANCE

Independent Auditor's Report to the members of Fair Oaks Income Limited (continued)

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at US\$6,863,000, determined with reference to a benchmark of net assets of US\$343,158,910, of which it represents approximately 2.0% (31 December 2018: 3.0%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding US\$343,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or 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, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

We have nothing to report on other matters on which we are required to report by exception

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

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 24, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

GOVERNANCE

Independent Auditor's Report to the members of Fair Oaks Income Limited (continued)

The purpose of this report and restrictions on its use by persons other than the Company's members, as a body

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.

Steven Stormonth

For and on behalf of KPMG Channel Islands Limited

Chartered Accountants and Recognised Auditors

Giategny Court
St Peter Port
Guernsey GY1 1WR
Channel Islands

17 April 2020



FINANCIAL STATEMENTS

Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	1 January 2019 to 31 December 2019 US\$	1 January 2018 to 31 December 2018 US\$
Revenue			
Net (losses)/gains on financial assets at fair value through profit or loss	6	(1,659,020)	4,909,405
Interest income	7	172,853	203,850
Net foreign exchange gains		58,553	170,957
Total revenue		(1,427,614)	5,284,212
Expenses			
Investment advisory fees	8	77,776	208,105
Audit and interim review fees		94,494	94,999
Administration fees	8	130,869	149,798
Directors' fees and expenses	8	164,167	179,535
Broker fees		127,500	84,024
Registrar fees		81,000	100,969
Legal and professional fees		49,714	37,060
Other expenses		115,579	200,056
Total expenses		841,099	1,054,546
(Loss)/profit and total comprehensive (loss)/income for the year		(2,268,713)	4,229,666
Basic and diluted (losses)/earnings per 2017 share	11	(0.0046)	0.0052
Basic and diluted (losses)/earnings per 2014 share*	11	(0.0091)	0.0488

*2014 shares were redeemed in full on 1 April 2019.

All items in the above statement are derived from continuing operations.

The accompanying notes on pages 38 to 69 form an integral part of the Financial Statements.



FINANCIAL STATEMENTS

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

Note	Share capital (2017 Shares) US\$	Share capital (2014 Shares) US\$	Retained earnings (2017 Shares) US\$	Retained earnings (2014 Shares) US\$	Total equity US\$
At 1 January 2019	439,888,273	22,716,434	(43,577,478)	(3,408,180)	415,619,049
<i>Total comprehensive loss:</i>					
Loss for the year	–	–	(2,068,953)	(199,760)	(2,268,713)
Total comprehensive loss for the year	–	–	(2,068,953)	(199,760)	(2,268,713)
<i>Transactions with Shareholders:</i>					
2014 share redemptions paid during the year	–	(17,866,496)	–	–	(17,866,496)
Transfer of reserves on closure of 2014 share class	–	(4,849,938)	–	4,849,938	–
2017 Shares acquired during the year	(487,329)	–	–	–	(487,329)
Dividends declared during the year	–	–	(50,595,603)	(1,241,998)	(51,837,601)
Total transactions with Shareholders	(487,329)	(22,716,434)	(50,595,603)	3,607,940	(70,191,426)
At 31 December 2019	439,400,944	–	(96,242,034)	–	343,158,910

Note	Share capital (2017 Shares) US\$	Share capital (2014 Shares) US\$	Retained earnings (2017 Shares) US\$	Retained earnings (2014 Shares) US\$	Total equity US\$
At 1 January 2018	406,185,791	44,713,419	12,761,639	2,289,632	465,950,481
<i>Total comprehensive income:</i>					
Profit and total comprehensive income for the year	–	–	2,306,790	1,922,876	4,229,666
Total comprehensive income for the year	–	–	2,306,790	1,922,876	4,229,666
<i>Transactions with Shareholders:</i>					
Issue of 2017 Shares during the year, net of issue costs	33,627,207	–	–	–	33,627,207
Issue of 2017 Shares for scrip dividend	75,275	–	–	–	75,275
Share redemptions paid during the year	–	(21,996,985)	–	–	(21,996,985)
Dividends declared during the year	–	–	(58,645,907)	(7,620,688)	(66,266,595)
Total transactions with Shareholders	33,702,482	(21,996,985)	(58,645,907)	(7,620,688)	(54,561,098)
At 31 December 2018	439,888,273	22,716,434	(43,577,478)	(3,408,180)	415,619,049

The accompanying notes on pages 38 to 69 form an integral part of the Financial Statements.



FINANCIAL STATEMENTS

Statement of Financial Position

At 31 December 2019

	Note	31 December 2019 US\$	31 December 2018 US\$
Assets			
Cash and cash equivalents		5,340,650	16,552,741
Prepayments		17,899	37,303
Distributions receivable		1,168,089	13,915,728
Financial assets at fair value through profit or loss	6	336,721,957	385,162,356
Total assets		343,248,595	415,668,128
Liabilities			
Trade and other payables	12	89,685	49,079
Total liabilities		89,685	49,079
Net assets		343,158,910	415,619,049
Equity			
Retained earnings		(96,242,034)	(46,985,658)
Share capital	10	439,400,944	462,604,707
Total equity		343,158,910	415,619,049
Total Net Assets attributable to 2017 Shareholders		343,158,910	396,310,795
Number of 2017 Shares	10	452,698,737	453,348,737
Net asset value per 2017 Share		0.7580	0.8742
Total Net Assets attributable to 2014 Shareholders		–	19,308,254
Number of 2014 Shares	10	–	21,942,137
Net asset value per 2014 Share		–	0.8800

The Financial Statements on pages 34 to 69 were approved and authorised for issue by the Board of Directors on 17 April 2020 and signed on its behalf by:

Jon Bridel

Director

The accompanying notes on pages 38 to 69 form an integral part of the Financial Statements.



FINANCIAL STATEMENTS

Statement of Cash Flows

For the year ended 31 December 2019

	Note	1 January 2019 to 31 December 2019 US\$	1 January 2018 to 31 December 2018 US\$
Cash flows from operating activities			
(Loss)/profit for the year		(2,268,713)	4,229,666
Adjustments to reconcile profit to net cash flows:			
Net losses/(gains) on financial assets at fair value through profit or loss	6	1,659,020	(4,909,405)
Net foreign exchange gains		(58,553)	(170,957)
		(668,246)	(850,696)
Decrease in prepayments		19,404	88,618
Increase in trade and other payables		40,606	5,113
Income distributions received from Master Fund		1,147,243	7,211,405
Income distributions received from Master Fund II		42,236,333	62,688,724
Capital distributions received from Master Fund	6	–	17,419,404
Capital distributions received from Master Fund II	6	46,125,096	–
Purchases into Master Fund II during the year	6	(9,782,000)	(70,200,000)
		79,118,436	16,362,568
Cash flows used in investing activities			
Purchase of UCITS investment during the year	6	(38,064,150)	–
		(38,064,150)	–
Cash flows from financing activities*			
Proceeds from 2017 share issuance, net of costs	10	–	33,627,207
Dividends paid during the year	4	(51,837,601)	(66,191,320)
2014 Share redemptions paid during the year	10	–	(21,996,985)
2017 Shares acquired during the year	10	(487,329)	–
		(52,324,930)	(54,561,098)
		(11,270,644)	(38,198,530)
Cash and cash equivalents at beginning of year		16,552,741	54,580,314
Effect of foreign exchange rate changes during the year		58,553	170,957
		5,340,650	16,552,741

*Refer to Note 10 for non-cash transactions.

The accompanying notes on pages 38 to 69 form an integral part of the Financial Statements.



FINANCIAL STATEMENTS

Notes to the Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

Fair Oaks Income Limited (the “Company”) was incorporated and registered in Guernsey under the Companies (Guernsey) Law, 2008 on 7 March 2014. The Company’s registration number is 58123 and it is regulated by the Guernsey Financial Services Commission as a registered closed ended collective investment scheme under The Registered Collective Investment Scheme Rules 2015. The Company is listed and began trading on the Specialist Fund Segment (“SFS”) (previously Specialist Fund Market) of the London Stock Exchange (“LSE”) on 12 June 2014.

The Company makes its investments through FOIF LP (the “Master Fund”) and FOMC II LP (the “Master Fund II”) (the “Master Fund” and the “Master Fund II” together the “Master Funds”), in which the Company is a limited partner. The Master Fund was registered in Guernsey on 7 May 2014 and the Master Fund II was registered in Guernsey on 24 February 2017 under The Limited Partnerships (Guernsey) Law, 1995, as amended. The only other limited partner in the Master Fund II is Fair Oaks Founder II LP, a related entity. On 1 April 2019, the Company sold its direct holding of 11.31% in the Master Fund, but indirectly remains invested in the Master Fund through the Master Fund II.

At 31 December 2019, the Company had 452,698,737 2017 Shares (“2017 Shares”) and nil 2014 Shares (31 December 2018: 453,348,737 2017 Shares and 21,942,137 2014 Shares) in issue. On 1 April 2019, the Company completed a final compulsory redemption of all 21,942,137 2014 Shares previously held (the “2014 Final Redemption”), this was completed via a cash redemption funded by the Master Fund II and in specie distributions of 2014 Shareholders pro rata exposure to the Company’s interest in the Master Fund. The cash payment was funded by the Master Fund II acquiring at the 28 February 2019 NAV the residual interest in the Master Fund owned by the Company in respect of the 2014 Share class. All holdings of 2014 Shares on the register at the close of business on the record date, being 1 April 2019, were redeemed.

The 2014 Shares invested solely into the Master Fund and the 2017 Shares invest solely into Master Fund II. Following the above transaction, at 31 December 2019, the Company had direct holding of 100% (31 December 2018: 100%) in Master Fund II, which in turn had a holding of 66.20% in the Master Fund (31 December 2018: 62.82%). Following the 2014 Final Redemption, the Company no longer has any direct holding in the Master Fund (31 December 2018: 11.31%).

The general partner of the Master Fund and Master Fund II is Fair Oaks Income Fund (GP) Limited (the “General Partner” or “GP”). The Master Funds invest in portfolios consisting primarily of Collateral Loan Obligations (“CLOs”). The Company may also invest in Qualifying Short Term Investments if at any time the Company holds any uninvested cash.

With effect from 15 May 2014, Fair Oaks Capital Limited (the “Investment Adviser”) was appointed as the Investment Adviser.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The Financial Statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and are in compliance with the Companies (Guernsey) Law, 2008 and the Prospectus Rules, the Disclosure Guidance and Transparency Rules and the Market Abuse Directive (as implemented in the UK through the Financial Services and Markets Authority).

Basis of Preparation

The Company’s Financial Statements have been prepared on a historical cost basis, except for financial assets measured at fair value through profit or loss.

The preparation of Financial Statements in conformity with IFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates and judgements are discussed in note 3. The principal accounting policies adopted are set out below.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Preparation (continued)

The Directors believe that the Annual Report and Financial Statements contain all of the information required to enable shareholders and potential investors to make an informed appraisal of the investment activities and profit or loss of the Company for the period to which it relates and does not omit any matter or development of significance.

As explained below, the Company qualifies as an investment entity and is therefore not permitted to prepare consolidated Financial Statements under IFRS.

Going Concern

The Board has assessed the Company's financial position as at 31 December 2019 and the factors that may impact its performance in the forthcoming year and is of the opinion that it is appropriate to prepare these Financial Statements on a going concern basis as the Company has adequate financial resources to meet its liabilities as they fall due.

COVID-19 is a developing situation and as of 17 April 2020, the assessment of this situation will need continued attention and will evolve over time. In our view, consistent with many others in our industry, COVID-19 is considered to be a non-adjusting post period event and no adjustment is made in the Financial Statements as a result. The rapid development and fluidity of the COVID-19 virus make it difficult to predict the ultimate impact at this stage. However, we do not underestimate the seriousness of the issue and the inevitable effect it will have on the Global economy and many businesses across the world. Due to the diversity in our underlying CLO investment portfolio within the Master Funds, it is not practicable to quantify the extent of impact upon the investment valuations. The Board, the Investment Adviser and the Company's other service providers, are closely monitoring official governmental guidance on the impact of COVID-19. The Board is also liaising with all parties in an effort to minimise any financial impact on the Company and taking any mitigating steps deemed appropriate.

New Accounting Standards and interpretations adopted in the reporting period

The following standards and interpretations have been applied in these Financial Statements:

- Amendments to IFRS 9, "Financial Instruments"- Prepayment Features with Negative Compensation (effective for periods commencing on or after 1 January 2019) - amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments;
- Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures (effective for periods commencing on or after 1 January 2019) - clarifies that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied;
- Interpretations 23 Uncertainty over income tax treatments (effective for periods commencing on or after 1 January 2019);
- Annual Improvements to IFRS standards 2015-2017 Cycle effective for periods commencing on or after 1 January 2019);

The adoption of these standards has not had a material impact on these Financial Statements of the Company.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards and interpretations applicable to future reporting periods

At the date of approval of these Financial Statements, the following standards and interpretations, which have not been applied in these Financial Statements, were in issue but not yet effective:

- Amendments to IAS 1 and IAS 8 – Definition of Material (effective for periods commencing on or after 1 January 2020) – The amendments in *Definition of Material (Amendments to IAS 1 and IAS 8)* clarify the definition of ‘material’ and align the definition used in the Conceptual Framework and the standards;
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (effective for periods commencing on or after 1 January 2020) – The amendments in *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.
- Amendments to References to Conceptual Framework in IFRS Standard (effective for periods commencing on or after 1 January 2020).

The Directors expect that the adoption of these amended standards in a future period will not have a material impact on the Financial Statements of the Company.

Interest income

Interest income comprises interest income from cash and cash equivalents. Interest income is recognised on a time-proportionate basis using the effective interest method.

Net Gains on Financial Assets at Fair Value through Profit or Loss

Net gains on financial assets at fair value through profit or loss includes all realised and unrealised fair value changes, foreign exchange gains/(losses) and income and capital distributions received.

Net realised gains from financial assets at fair value through profit or loss are calculated using the average cost method.

Expense

Expenses of the Company are charged through profit or loss in the Statement of Comprehensive Income on an accruals basis.

2014 Shares, 2017 Shares and C Shares

The 2017 shares, 2014 shares (for the period prior to 1 April 2019) and C shares (when in issue) of the Company are classified as equity based on the substance of the contractual arrangements and in accordance with the definition of equity instruments under IAS 32.

The proceeds from the issue of participating shares are recognised in the Statement of Changes in Shareholders’ Equity, net of incremental issuance costs.

Financial Instruments

Classification

The Company classifies its financial assets and financial liabilities into categories in accordance with IFRS 9.

On initial recognition, the Company classifies financial assets as measured at amortised cost or at fair value through profit or loss (“FVTPL”).



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

All other financial assets of the Fund are measured at FVTPL.

In making an assessment of the objective of the business model in which a financial asset is held, the Company considers all of the relevant information about how the business is managed.

The Company has determined that it has two business models.

- Held-to-collect business model: this includes cash and cash equivalents, prepayments and distributions receivable. These financial assets are held to collect contractual cash flow.
- Other business model: this includes investments in the master funds and derivatives. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

The Investment entities exception to consolidation ("Investment entities exception") in IFRS 10 'Consolidated Financial Statements' ("IFRS 10") requires subsidiaries of an investment entity to be accounted for at fair value through profit or loss in accordance with IFRS 9 'Financial Instruments' ("IFRS 9").

Cash comprises current deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investments or other purposes.

A non-derivative financial asset with fixed or determinable payments could be classified as a loan and receivable unless it was quoted in an active market or was an asset for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Financial liabilities at FVTPL:

Held for trading: derivative financial instruments.

Financial liabilities at amortised cost:

This includes trade and other payables.

Recognition and initial measurement

Financial assets and financial liabilities are measured initially at fair value, being the transaction price, including transaction costs for items that will subsequently be measured at amortised cost, on the trade date. Transaction costs on financial assets at fair value through profit or loss are expensed immediately.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent measurement

After initial measurement, the Company measures financial instruments classified at fair value through profit or loss at their fair values. Changes in fair value are recognised in “Net gains on financial assets at fair value through profit or loss” in the Statement of Comprehensive Income.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IFRS 9. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Investment in the Master Fund II

The Board of Directors (the “Board”) has determined that the Company has all the elements of control as prescribed by IFRS 10 in relation to the Master Fund II, and the indirectly the Master Fund, as the Company is the only limited partner, other than the Fair Oaks Founder II LP, in Master Fund II and indirectly (via its investment in the Master Fund II) is the main limited partner in the Master Fund, is exposed and has rights to the returns of the Master Fund II (and indirectly in the Master Fund) and has the ability either directly, or through the Investment Adviser, to affect the amount of its returns from the Master Fund II (and indirectly in the Master Fund).

The Investment entities exemption requires that an investment entity that has determined that it is a parent under IFRS 10 shall not consolidate certain of its subsidiaries; instead it is required to measure its investment in these subsidiaries at fair value through profit or loss in accordance with IFRS 9.

The criteria which defines an investment entity are as follows:

- An entity has obtained funds from one or more investors for the purpose of providing those investors with investment management services;
- An entity has committed to its investors that its business purpose is to invest funds solely for the returns from capital appreciation, investment income or both; and
- An entity measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company provides investment management services and has a number of investors who pool their funds to gain access to these services and investment opportunities that they might not have had access to individually. The Company, being listed on the SFS of the London Stock Exchange, obtains funding from a diverse group of external shareholders.

Consideration is also given to the time frame of an investment. An investment entity should not hold its investments indefinitely but should have an exit strategy for their realisation. As both the Master Fund's and Master Fund II's investments have documented maturity/redemption dates or will be sold if other investments with better risk/reward profile are identified, the Board of Directors consider that this demonstrates a clear exit strategy.

The Master Fund II and Master Fund measure and evaluate the performance of substantially all of their investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to Board of Directors, who use fair value as a significant measurement attribute to evaluate the performance of its investments and to make investment decisions for mature investments.

The Company has determined that the fair value of the Master Fund II is the Master Fund II's Net Asset Value (“NAV”), and incorporated into the Master Fund's NAV is the Master Fund NAV. The Company also determined that the fair value of the Master Fund is the Master Fund's NAV.

The Company has concluded that the Master Fund II, and the indirectly the Master Fund, for which the Company's commitment is detailed further in Note 13, meet the definition of unconsolidated subsidiaries under IFRS 12 ‘Disclosure of Interests in Other Entities’ (“IFRS 12”) and have made the necessary disclosures in notes 5 and 6 of these Financial Statements.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in UCITS

At 31 December 2019, the Company's had an investment into a zero-fee USD share class of Fair Oaks High Grade Credit Fund, an open-ended UCITS fund (the "UCITS investment"). The UCITS investment publishes daily prices which are provided by underlying administrators of the entity on a net asset value basis. The Directors value this UCITS investment at its net asset value at the relevant valuation date, as determined in accordance with the terms of the UCITS investment and as notified to the Company by the underlying administrator. The Directors have determined that the net asset value of the UCITS investment best represents fair value.

Foreign Currency

Functional and presentation currency

The Board of Directors has determined that the functional currency of the Company is US Dollar. In doing so, they have considered the following factors: that US Dollar is the currency of the primary economic environment of the Company, the currency in which the original finance was raised and distributions will be made, the currency that would be returned if the Company was wound up, and the currency to which the majority of the underlying investments are exposed. The Financial Statements of the Company are presented in US Dollars, which has been selected as the presentation currency of the Company.

Transactions and balances

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

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the reporting date when fair value was determined.

Dividends

Dividends payable to the holders of ordinary shares and 2014 and 2017 shares are recorded through the Statement of Changes in Shareholders' Equity when they are declared to shareholders. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by the Companies (Guernsey) Law, 2008.

Segmental Reporting

The Board has considered the requirements of IFRS 8 – "Operating Segments". The Company has entered into an Investment Advisory Agreement with the Investment Adviser under which the Investment Adviser is responsible for the management of the Company's investment portfolio, subject to the overall supervision of the Board of Directors. Subject to its terms and conditions, the Investment Advisory Agreement requires the Investment Adviser to manage the Company's investment portfolio in accordance with the Company's investment guidelines as in effect from time to time, including the authority to purchase and sell securities and other investments and to carry out other actions as appropriate to give effect thereto. However, the Board retains full responsibility to ensure that the Investment Adviser adheres to its mandate. Moreover, the Board is fully responsible for the appointment and/or removal of the Investment Adviser. Accordingly, the Board is deemed to be the "Chief Operating Decision Maker" of the Company.

In the Board of Directors' opinion, the Company is engaged in a single segment of business, being investments into the Master Fund and Master Fund II, which are Guernsey registered limited partnerships.

Segment information is measured on the same basis as that used in the preparation of the Company's Financial Statements.

The Company receives no revenues from external customers, nor holds any non-current assets, in any geographical area other than Guernsey.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

3. USE OF JUDGEMENTS AND ESTIMATES

The preparation of Financial Statements in accordance with IFRS requires the Board of Directors to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses, disclosure of contingent assets and liabilities at the date of the Financial Statements and income and expenses during the year. The estimates and associated assumptions are based on various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The principal estimates and judgements made by the Board are as follows:

Judgements

Investment Entity

In accordance with the Investment Entities exemption contained in IFRS 10, the Board has determined that the Company satisfies the criteria to be regarded as an investment entity and that the Company provides investment related services, and as a result measures its investments in the Master Fund and Master Fund II at fair value. This determination involves a degree of judgement (see note 2).

Estimates

Fair Value

The Company records its investments in the Master Fund and Master Fund II at fair value. Fair value is determined as the Company's share of the Net Asset Value ("NAV") of the investments. This share is net of any notional carried interest due to Fair Oaks Founder LP (the "Founder Partner"), the Founder Partner of the Master Fund or Fair Oaks Founder II LP (the "Founder Partner II"), the Founder Partner II of Master Fund II. The Investment Adviser has reviewed the NAVs of the investments and determined that no adjustments regarding liquidity discounts were required.

4. DIVIDENDS

The Company declares dividends payable to shareholders representing an amount in aggregate at least equal to the gross income from investments received by the Company in the relevant financial period attributable to the Company's investment in the Master Fund, Master Fund II and qualifying short term investments, less expenses of the Company. At 31 December 2019, the Company's retained earnings include unrealised losses of US\$90,163,222 (31 December 2018: US\$62,492,820) (see note 6), gross income from investments excludes these unrealised losses which are capital in nature.

During the year, the Company had declared eleven monthly interim dividends of 0.7 US cents per ordinary share and a larger interim dividend of 3.45 US cents per ordinary share was paid in January 2019. On 14 November 2019, the Company announced its intention to declare twelve monthly dividends of 0.7 US cents per ordinary share from that point onwards and for the year ended 31 December 2020. In the opinion of the Board of Directors, for the year ended 31 December 2019, substantially all net realised income generated by the Company in 2019 has distributed to shareholders.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

4. DIVIDENDS (continued)

The Company declared the following dividends per 2017 Share during the year ended 31 December 2019:

Period to	Payment date	Dividend rate per 2017 share (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
31 December 2018	31 January 2019	3.45	15,670,072	18 January 2019	17 January 2019
31 January 2019	28 February 2019	0.70	3,176,698	15 February 2019	14 February 2019
28 February 2019	28 March 2019	0.70	3,171,938	15 March 2019	14 March 2019
31 March 2019	25 April 2019	0.70	3,171,347	12 April 2019	11 April 2019
30 April 2019	23 May 2019	0.70	3,161,918	10 May 2019	9 May 2019
31 May 2019	27 June 2019	0.70	3,187,915	14 June 2019	13 June 2019
30 June 2019	25 July 2019	0.70	3,173,771	12 July 2019	11 July 2019
31 July 2019	22 August 2019	0.70	3,187,341	9 August 2019	8 August 2019
31 August 2019	26 September 2019	0.70	3,180,779	13 September 2019	12 September 2019
30 September 2019	24 October 2019	0.70	3,200,510	11 October 2019	10 October 2019
31 October 2019	28 November 2019	0.70	3,166,201	15 November 2019	14 November 2019
30 November 2019	27 December 2019	0.70	3,147,113	13 December 2019	12 December 2019
		11.15	50,595,603		

Dividend per 2017 Share declared after 31 December 2019:

31 December 2019	30 January 2020	0.70	3,172,231	17 January 2020	16 January 2020
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The Company declared the following dividends per 2014 Share during the year ended 31 December 2019:

Period to	Payment date	Dividend rate per 2014 share* (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
31 December 2018	31 January 2019	4.26	934,793	18 January 2019	17 January 2019
31 January 2019	28 February 2019	0.70	153,612	15 February 2019	14 February 2019
28 February 2019	28 March 2019	0.70	153,593	15 March 2019	14 March 2019
		5.66	1,241,998		

*2014 Shares fully redeemed on 1 April 2019.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2019****4. DIVIDENDS (continued)**

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

Period to	Payment date	Dividend rate per share (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
Dividend per 2017 share:					
31 December 2017	9 February 2018	5.75	24,267,811	12 January 2018	11 January 2018
31 January 2018	2 March 2018	0.70	2,914,913	16 February 2018	15 February 2018
28 February 2018	22 March 2018	0.70	2,930,793	9 March 2018	8 March 2018
31 March 2018	26 April 2018	0.70	3,166,050	13 April 2018	12 April 2018
30 April 2018	24 May 2018	0.70	3,170,308	11 May 2018	10 May 2018
31 May 2018	28 June 2018	0.70	3,172,794	15 June 2018	14 June 2018
30 June 2018	26 July 2018	0.70	3,169,491	13 July 2018	12 July 2018
31 July 2018	23 August 2018	0.70	3,172,065	10 August 2018	9 August 2018
31 August 2018	27 September 2018	0.70	3,173,181	14 September 2018	13 September 2018
30 September 2018	25 October 2018	0.70	3,164,972	12 October 2018	11 October 2018
31 October 2018	22 November 2018	0.70	3,171,251	9 November 2018	8 November 2018
30 November 2018	28 December 2018	0.70	3,172,278	14 December 2018	13 December 2018
		13.45	58,645,907		

Period to	Payment date	Dividend rate per share (cents)	Net dividend payable (US\$)	Record date	Ex-dividend date
Dividend per 2014 share:					
31 December 2017	9 February 2018	10.02	4,659,889	12 January 2018	11 January 2018
31 January 2018	2 March 2018	0.70	325,491	16 February 2018	15 February 2018
28 February 2018	22 March 2018	0.70	325,512	9 March 2018	8 March 2018
31 March 2018	26 April 2018	0.70	325,479	13 April 2018	12 April 2018
30 April 2018	24 May 2018	0.70	325,497	11 May 2018	10 May 2018
31 May 2018	28 June 2018	0.70	325,497	15 June 2018	14 June 2018
30 June 2018	26 July 2018	0.70	275,335	13 July 2018	12 July 2018
31 July 2018	23 August 2018	0.70	275,346	10 August 2018	9 August 2018
31 August 2018	27 September 2018	0.70	275,343	14 September 2018	13 September 2018
30 September 2018	25 October 2018	0.70	176,845	12 October 2018	11 October 2018
31 October 2018	22 November 2018	0.70	176,861	9 November 2018	8 November 2018
30 November 2018	28 December 2018	0.70	153,593	14 December 2018	13 December 2018
		17.72	7,620,688		

The default currency payment for dividends is US Dollars. However, with effect from 29 June 2016, shareholders could elect to receive their dividends in British Pounds Sterling ("Sterling") by registering under the Company's Dividend Currency Election.

The rate per ordinary share to be used to pay shareholders who elect to receive their dividend in Sterling is announced on the London Stock Exchange each month prior to the payment date.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

4. DIVIDENDS (continued)

Under Guernsey law, companies can pay dividends in excess of accounting profit provided they satisfy the solvency test prescribed by the Companies (Guernsey) Law, 2008. The solvency test considers whether a company is able to pay its debts when they fall due, and whether the value of a company's assets is greater than its liabilities. The Company passed the solvency test for each dividend paid.

Total dividends payable as at 31 December 2019 were US\$Nil (31 December 2018: US\$Nil).

5. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities. Below is a non-exhaustive summary of the risks that the Company is exposed to as a result of its use of financial instruments:

Market Risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and equity prices, affecting the Company's income and/or the value of its holdings in financial instruments.

The Company's exposure to market risk comes mainly from movements in the value of its investments in the Master Fund II (31 December 2018: Master Fund also) and on a look-through basis to the underlying loans in each CLO. Changes in credit spreads may further affect the Company's net equity or net income directly through their impact on unrealised gains or losses on investments within the Master Fund and Master Fund II and on a look-through basis to the underlying loans in each CLO.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on investments. The Company's strategy for the management of market risk mirrors the strategy of the Master Fund II (31 December 2018: Master Fund also), driven by their investment objective to generate attractive, risk-adjusted returns, principally through income distributions, by seeking exposure to US and European CLOs or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating rate senior secured loans and which may include non-recourse financing. The Company's market risk is managed on a daily basis by the Investment Adviser in accordance with policies and procedures in place.

The Company intends to mitigate market risk generally by not making investments that would cause it to have exposure to a single corporate issuer exceeding 5% of the Master Fund II's (31 December 2018: Master Fund also) aggregate gross assets at the time of investment. Special Purpose Vehicles such as CLOs are not considered corporate issuers. The Company's market positions are monitored on a quarterly basis by the Board of Directors.

Interest Rate Risk

The Company is exposed to interest rate risk through the investments held by the Master Fund II (31 December 2018: Master Fund also) and on a look-through basis to the underlying assets in the CLOs.

Interest receivable by the Company on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates, however, the underlying cash positions will not be affected.

A majority of the Company's financial assets comprise investments into the Master Fund II (31 December 2018: Master Fund also), which invest in income notes: Equity Subordinated and Mezzanine tranches of cash flow CLOs. The Master Fund II's (31 December 2018: Master Fund also) exposure to interest rate risk is significantly mitigated by the fact that the majority of the underlying loans in each CLO bear interest at floating Libor-based rates.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT (continued)**Market Risk (continued)***Interest Rate Risk (continued)*

The following table shows the portfolio profile of the Master Fund II and the UCITS investment at 31 December 2019 and 31 December 2018 (Master Fund also):

	31 December 2019	31 December 2018	
	Master Fund II	Master Fund*	Master Fund II
	US\$	US\$	US\$
Investments with exposure to a floating interest rate	285,420,753	20,544,242	370,132,597
Financial assets at fair value through profit or loss (note 6)	285,420,753	20,544,242	370,132,597

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only. From 1 April 2019, the Company no longer retained a direct investment in the Master Fund in respect of 2014 Shares.

The following table shows the Board of Directors' best estimate of the Company's share of the sensitivity of the portfolio of the Master Fund II and the UCITS investment (31 December 2018: the Master Fund also) to stressed changes in interest rates, with all other variables held constant. The table assumes parallel shifts in the respective forward yield curves.

	31 December 2019		31 December 2018		
Possible reasonable change in rate	effect on net assets and profit or loss		Possible reasonable change in rate	effect on net assets and profit or loss	
	US\$			US\$	
-1%	(3,221,616)		-1%	(1,703,394)	
1%	3,133,872		1%	1,720,476	

Currency risk

The Company is exposed to very limited currency risk, as the majority of its assets and liabilities are denominated in US Dollars.

The Company is exposed indirectly to currency risk through its investment into the Master Fund and Master Fund II. Both the Master Fund's and Master Fund II's portfolios are predominantly denominated in US Dollar. However, both the Master Fund and Master Fund II may also invest in underlying assets which are denominated in currencies other than the US Dollar (e.g. Euro). Accordingly, the value of such assets may be affected, favourably or unfavourably, by fluctuations in currency rates which, if unhedged, could have the potential to have a significant effect on returns. To reduce the impact of currency fluctuations and the volatility of returns which may result from currency exposure, the Investment Adviser may hedge the currency exposure of the assets of the Master Fund and Master Fund II.

The Company's share of the Master Fund and Master Fund II's total net foreign currency exposure at the year end was as follows:-

	31 December 2019	31 December 2018	
	Master Fund II	Master Fund*	Master Fund II
	US\$	US\$	US\$
EUR Exposure			
Financial assets at fair value through profit and loss	42,739,623	443,041	28,668,405
Derivatives at fair value through profit or loss	(42,778,704)	(469,351)	(28,818,600)
Trade and other payables	(85,540)	(5,216)	(87,496)
Net EUR Exposure	(124,621)	(31,526)	(237,691)



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Currency risk (continued)

	31 December 2019	31 December 2018	
	Master Fund II	Master Fund*	Master Fund II
	US\$	US\$	US\$
GBP Exposure			
Other receivables	–	564	–
Trade and other payables	(36,822)	–	(4,886)
Net GBP Exposure	(36,822)	564	(4,886)
Net Exposure	(161,443)	(30,962)	(242,577)

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only. From 1 April 2019, the Company no longer retained a direct investment in the Master Fund in respect of 2014 Shares.

	Possible change in exchange rate	31 December 2019 net exposure US\$	31 December 2019 effect on net assets and profit or loss US\$
EUR/US Dollar	+/- 10%	(38,472)	(-/+) 3,847
GBP/US Dollar	+/- 15%	(51,468)	(-/+) 7,720
	Possible change in exchange rate	31 December 2018 net exposure US\$	31 December 2018 effect on net assets and profit or loss US\$
EUR/US Dollar	+/- 10%	(269,217)	(-/+) 26,922
GBP/US Dollar	+/- 15%	(4,322)	(-/+) 648

The sensitivity rate of 10% (31 December 2018: 10%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Euro.

The sensitivity rate of 15% (31 December 2018: 15%) is regarded as reasonable due to the actual volatility over the last year of US Dollar against Sterling.

Other price risks

There is a risk that the fair value of future cash flows, on a look-through basis to the underlying CLOs, will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Board of Directors does not believe that the returns on investments are correlated to any specific index or other price variable.

If the value of the Company's investment in the Master Fund II and the UCITS investment were to increase or decrease by 10% (31 December 2018: 10%), the impact on the NAV of the Company would be +/- US\$33,672,196 (31 December 2018: US\$36,700,525). At 31 December 2019, the sensitivity rate of 10% (31 December 2018: 10%) is regarded as reasonable due to the actual market price volatility experienced on the Master Funds' CLO investments during the year.

For the year ended 31 December 2018, if the value of the Company's investment in the Master Fund had increased or decreased by 10%, the impact on the NAV of the Company would have been +/- US\$1,815,710.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty 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, the Master Fund, Master Fund II or a vehicle in which the Master Fund or Master Fund II invests, resulting in a financial loss to the Company. Credit risk arises principally from debt securities held, and also from derivative financial assets and cash and cash equivalents. For risk management reporting purposes, the Company considers and aggregates all elements of credit risk exposure (such as individual obligation default risk, country risk and sector risk).

The Company's policy on credit risk mirrors that of the Master Fund and Master Fund II, which is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the credit standards set out in the Company's prospectus, and by taking collateral.

The table below analyses the Company's maximum exposure to credit risk in relation to the components of the Statement of Financial Position.

	31 December 2019	31 December 2018
	US\$	US\$
Cash and cash equivalents	5,340,650	16,552,741
Distributions receivable	1,168,089	13,915,728
Financial assets at fair value through profit or loss	336,721,957	385,162,356
	343,230,696	415,630,825

At 31 December 2019, there were no financial assets past due or impaired.

At 31 December 2019, the cash and cash equivalents and other assets of the Company, excluding its investments into the Master Fund, Master Fund II and the UCITS investment, and substantially all of the assets of the Master Fund and Master Fund II are held by BNP Paribas Securities Services S.C.A. (the "Custodian"). Bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to securities held by the Custodian to be delayed or limited. This risk is managed by monitoring the credit quality and financial positions of the Custodian. The long-term rating of the Custodian as at 31 December 2019 was Aa3 as rated by Moody's (31 December 2018: Aa3) and A+ by Standard & Poor's (31 December 2018: A).

At 31 December 2019, the Company's UCITS investment was in Fair Oaks High Grade Credit Fund, a UCITS fund which is invested in AAA and AA rated securities.

Credit risk is assessed from time to time by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser seeks to manage this risk by providing diversification in terms of underlying assets, issuer section, geography and maturity profile. The Master Funds' concentration of credit risk by industry for the CLO investments, on a look-through basis, as at 31 December 2019 and 31 December 2018 are summarised in the table below. The Company's credit risk is monitored on a quarterly basis by the Board of Directors.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

The Master Funds' have diversified their exposure to industry sectors. The top 10 are as follows:

Industry*	31 December 2019	31 December 2018	
	Master Fund II %	Master Fund %	Master Fund II %
Health care & Pharmaceuticals	12.5	11.2	12.3
Services; Business	9.0	8.6	9.6
High Tech Industries	8.8	9.1	8.8
Telecommunications	7.2	7.7	6.3
Bank, Finance, Insurance & Real Estate	6.9	6.4	6.5
Hotel, Gaming & Leisure	5.7	6.0	6.1
Media: Broadcasting & Subscription	5.1	4.5	5.1
Chemical, Plastics and Rubber	4.3	4.6	4.1
Services: Consumer	3.6	3.3	3.7
Beverage, Food and Tobacco	3.5	2.4	3.1
	66.6	63.2	65.6

*The Master Fund II's exposure in the underlying CLO investments includes its exposure through its investment in the Master Fund.

Source: CLO trustee reports. Based on the Master Funds' exposure and weighted by CLO size and Master Funds' ownership percentage

The Master Funds' exposure to credit risk relating to the underlying CLO investments based on the country of registration (not necessarily asset class exposure) as at 31 December 2019 and 31 December 2018 is summarised below. Master Fund II's exposure to credit risk, also summarised below, relates to its directly held CLO investments and its investments into the Master Fund and Cycad based on the country of registration of the CLO investments and the Limited Partnerships (not necessarily asset class exposure) as at 31 December 2019 and 31 December 2018.

	31 December 2019	31 December 2018	
	Master Fund II US\$	Master Fund* US\$	Master Fund II US\$
United States of America	198,635,253	20,101,201	240,617,993
Europe	42,739,623	443,041	28,668,405
Guernsey	44,045,876	–	100,846,199
Master Fund/Master Fund II financial assets at fair value through profit or loss (note 6)	285,420,752	20,544,242	370,132,597

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only. From 1 April 2019, the Company no longer retained a direct investment in the Master Fund in respect of 2014 Shares.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT (continued)**Credit and Counterparty Risk (continued)**

The geographical breakdown of the underlying CLO investments is as follows:

	31 December 2019	31 December 2018	
	Master Fund II*	Master Fund	Master Fund II*
	%	%	%
United States of America	83.8	90.6	90.9
United Kingdom	3.1	1.2	1.5
France	2.6	1.0	1.0
Canada	2.3	2.2	2.2
Luxembourg	2.0	1.8	1.7
Netherlands	1.8	1.2	1.7
Other	4.4	2.0	1.0
Total	100.0	100.0	100.0

*The Master Fund II's exposure in the underlying CLO investments includes its exposure through its investment in the Master Fund.

The table below summarises the Master Fund II's underlying portfolio concentrations as of 31 December 2019 and 31 December 2018 (Master Fund also):

	Maximum portfolio holdings of a single asset % of total portfolio	Average portfolio holdings % of total portfolio
31 December 2019		
Master Fund II*	10.32%	3.70%
31 December 2018		
Master Fund	12.11%	5.88%
Master Fund II*	8.22%	3.33%

*The Master Fund II's exposure in the underlying CLO investments includes its exposure through its investment in the Master Fund.

The tables below summarises the Master Fund's and Master Fund II's portfolio by asset class and portfolio ratings as at 31 December 2019 and 31 December 2018:

By asset class	31 December 2019	31 December 2018	
	Master Fund II US\$	Master Fund*	Master Fund II
		US\$	US\$
Equity Subordinated CLO notes	223,660,448	18,760,293	250,257,485
Mezzanine CLO notes	5,033,751	1,783,949	5,136,632
Limited Partnerships	56,726,553	–	114,738,480
Master Fund/Master Fund II financial assets at fair value through profit or loss (note 6)	285,420,752	20,544,242	370,132,597

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only. From 1 April 2019, the Company no longer retained a direct investment in the Master Fund in respect of 2014 Shares.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT (continued)

Credit and Counterparty Risk (continued)

The breakdown of the underlying CLO investments by rating is as follows:

Rating	31 December 2019		31 December 2018	
	Master Fund II*	%	Master Fund	Master Fund II*
B		35.9	37.1	41.8
B-		17.4	14.3	14.0
B+		16.0	20.4	19.9
BB-		9.3	11.5	11.2
BB		5.5	6.8	6.6
BB+		2.6	3.7	2.9
CCC+		1.7	3.2	1.6
BBB-		0.5	0.8	0.6
CCC		0.4	0.5	0.3
CCC-		0.2	0.1	0.2
D		0.2	0.1	0.0
BBB		0.1	0.0	0.0
CC		0.0	0.0	0.1
NA		10.2	1.5	0.8
Total		100.0	100.0	100.0

*The Master Fund II's exposure in the underlying CLO investments includes its exposure through its investment in the Master Fund.

Activities undertaken by the Company, Master Fund and Master Fund II may give rise to settlement risk. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For the majority of transactions, settlement risk is mitigated by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval and limit monitoring processes.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's policy and the Investment Adviser's approach to managing liquidity is to ensure, as far as possible, that the Company will always have sufficient liquidity to meet its liabilities when due, under both normal and stress conditions, including estimated redemptions of shares, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's liquidity risk is managed on a daily basis by the Investment Adviser on a look-through basis to the underlying loans in each CLO. The Investment Adviser monitors and considers the Company's and the Master Fund II's cash balances, projected expenses and projected income from investments when making any new investment recommendations.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Given the Company's permanent capital structure as a closed-ended fund, it is not exposed to redemption risk. However, the Company's financial instruments include indirect investments in CLOs, and may include over-the-counter derivative contracts, which are not traded in an organised public market and which may be illiquid. The Company's UCITS investment is an open ended fund which has daily dealing, it is therefore a highly liquid asset for the Company.

The Company's overall liquidity risk is monitored on a quarterly basis by the Board of Directors. Shareholders have no right of redemption and must rely, in part, on the existence of a liquid market in order to realise their investment.

All liabilities of the Company are due within one financial year.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's activities relating to financial instruments, either internally or on the part of service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

Operational risk is managed so as to balance the limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility is supported by the development of overall standards for the management of operational risk, which encompasses the controls and processes at the service providers and the establishment of service levels with the service providers.

The Board of Directors' assessment of the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular discussions with the service providers and a review of the service providers' Service Organisation Controls ("SOC") 1 reports on internal controls, if available.

Substantially all of the assets of the Company, Master Fund and Master Fund II are held by BNP Paribas Securities Services S.C.A., Guernsey Branch, in its capacity as the Custodian. The bankruptcy or insolvency of the Custodian may cause the Company's rights with respect to the securities held by the Custodian to be limited. The Investment Adviser monitors the credit ratings and capital adequacy of the Custodian on a quarterly basis, and reviews the findings documented in the SOC 1 report on the internal controls annually.

Capital Management

The Board of Director's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. The Company's capital is represented by the 2017 shares. In the prior year, as well as 2017 Shares, the Company's capital was also represented by 2014 shares. All holdings of 2014 Shares on the register at the close of business on 1 April 2019 were redeemed. Capital is managed in accordance with the investment policy, in pursuit of its investment objectives.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019		
	2014 Shares US\$	2017 Shares US\$	Total Company US\$
Cost of financial assets at fair value through profit or loss at the start of the year	22,491,051	425,164,125	447,655,176
Purchase of investments in Master Fund II at cost during the year	–	9,782,000	9,782,000
Purchase of UCITS investment at cost during the year	–	38,064,150	38,064,150
Capital distribution received from the Master Fund II	–	(46,125,096)	(46,125,096)
Sale of investment in the Master Fund during the year*	(17,536,442)	–	(17,536,442)
Realised loss on sale of investments during the year	(4,954,609)	–	(4,954,609)
Cost of financial assets at fair value through profit or loss at the end of the year	–	426,885,179	426,885,179
Net unrealised losses on financial assets at the end of the year	–	(90,163,222)	(90,163,222)
Financial assets at fair value through profit or loss at the end of the year	–	336,721,957	336,721,957
Realised loss on sale of investment in the Master Fund	(4,954,609)	–	(4,954,609)
Movement in net unrealised loss during the year	4,333,950	(32,004,352)	(27,670,402)
Income distributions declared from the Master Fund during the year	454,996	–	454,996
Income distributions declared from the Master Fund II during the year	–	30,510,995	30,510,995
Net losses on financial assets at fair value through profit or loss	(165,663)	(1,493,357)	(1,659,020)

*Sale of investment in the Master Fund was a non-cash transactions for the Company which, in accordance with the 2014 Final Redemption, was completed via a cash payment funded by the Master Fund II directly to the 2014 Shareholders and non-cash in specie distributions of 2014 Shareholders pro rata exposure to the Company's interest in the Master Fund.

	31 December 2018		
	2014 Shares US\$	2017 Shares US\$	Total Company US\$
Cost of financial assets at fair value through profit or loss at the start of the year	39,910,455	354,964,125	394,874,580
Purchase of investments at cost during the year	–	70,200,000	70,200,000
Capital distributions received from the Master Fund during the year	(17,419,404)	–	(17,419,404)
Cost of financial assets at fair value through profit or loss at the end of the year	22,491,051	425,164,125	447,655,176
Net unrealised losses on financial assets at the end of the year	(4,333,950)	(58,158,870)	(62,492,820)
Financial assets at fair value through profit or loss at the end of the year	18,157,101	367,005,255	385,162,356
Movement in net unrealised loss during the year	(1,972,904)	(47,952,584)	(49,925,488)
Income distributions declared from the Master Fund during the year	4,006,745	–	4,006,745
Income distributions declared from the Master Fund II during the year	–	50,828,148	50,828,148
Net gains on financial assets at fair value through profit or loss	2,033,841	2,875,564	4,909,405

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2019****6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

At 31 December 2019, the Company's 2017 Shareholders were invested into Master Fund II, in which, other than the Fair Oaks Founder II LP, they are the only limited partner. On 1 April 2019, the Master Fund II increased its limited partner interest in the Master Fund by 3.38%, through the partial acquisition of the 2014 Shares direct holding in the Master Fund in exchange for a cash settlement to the 2014 Shareholders. At 31 December 2019, the Master Fund II had a 66.20% holding in the Master Fund (31 December 2018: 62.82%). Prior to the 1 April 2019, the Company's 2014 Shareholders had a 11.31% (31 December 2018: 11.31%) holding in the Master Fund.

At 31 December 2019, the Company also had an investment of US\$38,000,000 in a zero-fee share class of Fair Oaks High Grade Credit Fund, a UCITS fund which is invested in AAA and AA rated securities.

Look-through financial information

The following tables reconcile the Company's proportionate share of the Master Fund's and Master Fund II's financial assets at fair value through profit or loss to the Company's financial assets at fair value through profit or loss:

	31 December 2019		
	Master Fund II	Total Company	
	US\$	US\$	
Financial assets at fair value through profit or loss	285,420,752	285,420,752	
Less: Net current assets	13,177,705	13,177,705	
Total financial assets at fair value through profit or loss	298,598,457	298,598,457	

	31 December 2018		
	Master Fund*	Master Fund II	Total Company
	US\$	US\$	US\$
Financial assets at fair value through profit or loss	20,544,242	370,132,597	390,676,839
Less: Net current liabilities	(2,387,140)	(3,127,343)	(5,514,483)
Total financial assets at fair value through profit or loss	18,157,102	367,005,254	385,162,356

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only. From 1 April 2019, the Company no longer retained a direct investment in the Master Fund in respect of 2014 Shares.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The Company's proportionate share of the unrealised gains/(losses) on investments in the year comprises the following movements within the underlying investments:

	31 December 2019		
	Master Fund* US\$	Master Fund II US\$	Total Company US\$
Net unrealised losses on investments at the beginning of the year	(4,333,950)	(58,158,870)	(62,492,820)
Investment income	969,559	26,532,789	27,502,348
Income distributions received from Master Fund	–	4,585,652	4,585,652
Income distributions received from Cycad	–	1,629,268	1,629,268
Unrealised losses on financial assets at fair value through profit or loss	(1,150,240)	(31,239,221)	(32,389,461)
Realised losses on financial assets at fair value through profit or loss	–	(1,697,606)	(1,697,606)
Net losses on derivative financial instruments and foreign exchange	5,923	1,232,003	1,237,926
Other income	–	487,857	487,857
Expenses	9,095	(3,083,450)	(3,074,355)
Income distributions declared during the year	(454,996)	(30,510,995)	(30,965,991)
Movement in unrealised on sale of the Master Fund	4,954,609	–	4,954,609
Net unrealised losses on investments at the end of the year	–	(90,222,573)	(90,222,573)

	31 December 2018		
	Master Fund* US\$	Master Fund II US\$	Total Company US\$
Net unrealised losses on investments at the beginning of the year	(2,361,046)	(10,206,286)	(12,567,332)
Investment income	131,625	28,934,703	29,066,328
Income distributions received from Master Fund	–	22,254,970	22,254,970
Income distributions received from Cycad	–	1,241,569	1,241,569
Unrealised losses on financial assets at fair value through profit or loss	(65,574)	(49,349,074)	(49,414,648)
Realised gains on financial assets at fair value through profit or loss	2,398,157	1,126,532	3,524,689
Net gains on derivative financial instruments and foreign exchange	35,104	718,465	753,569
Other income	–	64,377	64,377
Expenses	(465,471)	(2,115,978)	(2,581,449)
Income distributions declared during the year	(4,006,745)	(50,828,148)	(54,834,893)
Net unrealised losses on investments at the end of the year	(4,333,950)	(58,158,870)	(62,492,820)

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only. From 1 April 2019, the Company no longer retained a direct investment in the Master Fund in respect of 2014 Shares.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2019****6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

IFRS 13 requires that a fair value hierarchy be established that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are set as follows:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: 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). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement. Observable data is considered to be that market data that is readily available, regularly distributed or updated, reliable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Company's financial assets (by class, excluding cash and cash equivalents, prepayments, distribution receivable, dividends payable and other payables) measured at fair value:

	31 December 2019			
	Level 1	Level 2	Level 3	Total
	US\$	US\$	US\$	US\$
Assets:				
Financial assets at fair value through profit or loss	–	38,123,500	298,598,457	336,721,957
Total	–	38,123,500	298,598,457	336,721,957
	31 December 2018			
	Level 1	Level 2	Level 3	Total
	US\$	US\$	US\$	US\$
Assets:				
Financial assets at fair value through profit or loss	–	–	385,162,356	385,162,356
Total	–	–	385,162,356	385,162,356

The investments in the Master Fund and the Master Fund II, which are fair valued at each reporting date, have been classified within Level 3 as they are not traded and contain unobservable inputs.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

At 31 December 2019, the Company's UCITS investment publishes daily prices which are derived by underlying administrators of the entity on a net asset value basis. The Directors value this UCITS investment at its net asset value at the relevant valuation date, as determined in accordance with the terms of the UCITS investment and as notified to the Company by the underlying administrator. The Directors have determined that the net asset value best represents fair value and have classified the UCITS investment as a level 2 investment.

The following table presents the movement in Level 3 instruments:

	31 December 2019 US\$	31 December 2018 US\$
Opening Balance	385,162,356	382,307,248
Purchases	9,782,000	70,200,000
Sale of investment in the Master Fund during the year*	(17,536,442)	–
Movement in net unrealised loss during the year	(27,729,752)	(49,925,488)
Realised loss on sale during the year	(4,954,609)	–
Capital distributions received from Master Fund	–	(17,419,404)
Capital distributions received from Master Fund II	(46,125,096)	–
Closing Balance	298,598,457	385,162,356

*Sale of investment in the Master Fund was a non-cash transactions for the Company which, in accordance with the 2014 Final Redemption, was completed via a cash payment funded by the Master Fund II directly to the 2014 Shareholders and non-cash in specie distributions of 2014 Shareholders pro rata exposure to the Company's interest in the Master Fund.

Transfers between Level 1, 2 and 3

There have been no transfers between levels during the year ended 31 December 2019 or 31 December 2018. Transfers between levels of the fair value hierarchy are recognised as at the end of the reporting period during which the change has occurred.

On a look-through basis, the following table analyses within the fair value hierarchy the Company's proportionate share of the Master Fund's and Master Fund II's financial assets and derivatives (by class, excluding cash and cash equivalents, other receivables and prepayments, distribution payable, carried interest payable and trade and other payables) measured at fair value:

	Level 1 US\$	Level 2 US\$	Level 3 US\$	Total US\$
31 December 2019				
Master Fund II				
Financial assets at fair value through profit or loss	–	5,033,751	280,387,001	285,420,752
Derivatives at fair value through profit or loss	–	(412,504)	–	(412,504)
Total	–	4,621,247	280,387,001	285,008,248
31 December 2018				
Master Fund*				
Financial assets at fair value through profit or loss	–	1,783,949	18,760,293	20,544,242
Derivatives at fair value through profit or loss	–	(2,054)	–	(2,054)
Total	–	1,781,895	18,760,293	20,542,188

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

	31 December 2018			Total US\$
	Level 1 US\$	Level 2 US\$	Level 3 US\$	
Master Fund II				
Financial assets at fair value through profit or loss	–	5,136,632	364,995,965	370,132,597
Derivatives at fair value through profit or loss	–	(174,300)	–	(174,300)
Total	–	4,962,332	364,995,965	369,958,297

*Shows the Company's proportionate direct share in the Master Fund at 11.31% through 2014 Shares investment only. From 1 April 2019, the Company no longer retained a direct investment in the Master Fund in respect of 2014 Shares.

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2019:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund II	298,598,458	NAV	Zero % discount	N/A
	298,598,458			

The following table summarises the valuation methodologies used for the Company's investments categorised in Level 3 as at 31 December 2018:

Security	Fair Value US\$	Valuation methodology	Unobservable inputs	Ranges
Master Fund	18,157,102	NAV	Zero % discount	N/A
Master Fund II	367,005,254	NAV	Zero % discount	N/A
	385,162,356			



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

The Master Fund II has engaged an independent third party to provide valuations for their CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund II's investments categorised in Level 3 as at 31 December 2019:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Master Fund II					
<u>CLO Income Notes</u>					
United States of America	180,920,825	Prices provided by a third party agent	US\$0.4800 - US\$0.7000	US\$0.6466	10% increase/decrease will have a fair value impact of +/- US\$18,092,083
Europe	42,739,623	Prices provided by a third party agent	€0.0001 - €1.4500	€0.9600	10% increase/decrease will have a fair value impact of +/- US\$4,273,962
<u>Limited Partnerships</u>					
Master Fund*	44,045,876	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US\$4,404,588
Cycad	12,680,677	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US\$1,268,068
	280,387,001				

The Master Fund and Master Fund II have engaged an independent third party to provide valuations for their CLO investments. The following table summarises, in the Company's opinion, the valuation methodologies used by the independent third party to value the Master Fund's and Master Fund II's investments categorised in Level 3 as at 31 December 2018:

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Master Fund					
<u>CLO Income Notes</u>					
United States of America	18,258,270	Prices provided by a third party agent	US\$0.4600 - US\$0.8800	US\$0.6698	10% increase/decrease will have a fair value impact of +/- US\$1,825,827
Europe	443,041	Prices provided by a third party agent	€0.5600	€0.5600	10% increase/decrease will have a fair value impact of +/- US\$44,304
<u>Sub Fee Notes</u>					
United States of America	58,982	Prices provided by a third party agent	US\$0.0100 - US\$0.0160	US\$0.0131	10% increase/decrease will have a fair value impact of +/- US\$5,898
	18,760,293				

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)**

For the year ended 31 December 2019

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Asset Class	Fair Value US\$	Unobservable inputs	Ranges	Average	Sensitivity to changes in significant unobservable inputs
Master Fund II					
<u>CLO Income Notes</u>					
United States of America	221,589,079	Prices provided by a third party agent	US\$0.6900 - US\$0.8953	US\$0.7731	10% increase/decrease will have a fair value impact of +/- US\$22,158,907
Europe	28,668,405	Prices provided by a third party agent	€1.0000	€1.0000	10% increase/decrease will have a fair value impact of +/- US\$2,866,841
<u>Limited Partnerships</u>					
Master Fund*	100,846,199	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US\$10,084,619
Cycad	13,892,282	Zero % discount	N/A	N/A	10% increase/decrease will have a fair value impact of +/- US\$1,389,228
	364,995,965				

*Subject to the Master Fund's inputs detailed immediately above.

7. INTEREST INCOME

	For the year ended 31 December 2019 US\$	For the year ended 31 December 2018 US\$
Interest income on financial assets carried at amortised cost:		
Cash and cash equivalents	172,853	203,850
	172,853	203,850

8. RELATED PARTIES AND OTHER KEY CONTACTS**Transactions with Investment Adviser and Investment Portfolio Investor***Investment Adviser*

Fair Oaks Capital Limited (the "Investment Adviser") is entitled to receive an investment advisory fee from the Company of 1% per annum of the NAV of the Company, in accordance with the Amended and Restated Investment Advisory Agreement dated 9 March 2017 (the "Investment Advisory Agreement"). The investment advisory fee is calculated and payable on the last business day of each month or on the date of termination of the Investment Advisory agreement. The base investment advisory fee will be reduced to take into account any fees received by the Investment Adviser incurred by the Company in respect of its investments in the Master Fund II, and indirectly in the Master Fund, (taking into account any rebates of such management fees to the Company) in respect of the same relevant period.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

Investment Adviser (continued)

The net investment advisory fee during the year is as follows:

	For the year ended 31 December 2019 US\$	For the year ended 31 December 2018 US\$
Company investment advisory fee	3,343,821	4,012,666
Less: Master fund rebate	(846,725)	(1,885,186)
Less: Master fund II rebate	(2,419,320)	(1,919,375)
Net Company investment advisory fee	77,776	208,105

In circumstances where, as at the date the Net Asset Value per share of the 2017 Shares with respect to the last calendar month of a calendar quarter (the "Quarter End 2017 NAV") is published, the price of the 2017 Shares, adjusted for any dividends declared if required, traded at close in the secondary market below their then-prevailing Quarter End 2017 NAV, the Investment Adviser agrees to reinvest and/or procure the reinvestment by an associate of it of (a) 25% of the fee which it received with respect to that quarter from the Company pursuant to the Investment Advisory Agreement which is attributable to the Net Asset Value of the 2017 Shares and (b) 25% of Master Fund II Priority Profit Share which the General Partner received with respect to that quarter from the Master Fund and Master Fund II which is attributable to the Net Asset Value of the 2017 Shares by, in each case, using its best endeavours to purchase or procure the purchase of 2017 Shares in the Company in the secondary market. The obligation to purchase or procure the purchase of such 2017 Shares shall be fulfilled by the Investment Adviser by no later than one month after the end of such calendar quarter. The Investment Adviser will have no obligation to reinvest and/or procure the reinvestment of fees it receives with respect to a calendar quarter in circumstances where: (i) the 2017 Shares did not trade at close in the secondary market at a discount to their then-prevailing Quarter End 2017 NAV; or (ii) where the 2017 Shares did trade at close in the secondary market at a discount to their then-prevailing Quarter End 2017 NAV and it is unable to purchase or procure the purchase of 2017 Shares in the secondary market at a discount to their then-prevailing Quarter End 2017 NAV despite having used its best endeavours to do so; or (iii) Master Fund II commitment period has already expired, and, in each case, the Investment Adviser shall retain all fees it receives for such quarter. On 24 July 2019 and 23 October 2019, the General Partner purchased 285,355 and 289,969 2017 Shares respectively in the secondary market by way of reinvesting 25% of the quarter's investment advisory fees.

The Investment Advisory Agreement can be terminated by either party giving not less than 6 months written notice.

Fair Oaks CLOs

At 31 December 2019, Master Fund II had investments in Fair Oaks Loan Funding I and Fair Oaks Loan Funding II (the "Fair Oaks CLOs") valued at €28,122,957 and €10,000,000 respectively. The Investment Adviser to the Company also has an investment in Fair Oaks Loan Funding I and acts as collateral manager to the Fair Oaks CLOs. In addition, Master Fund II acts as the risk retention holder for the Fair Oaks CLOs. As risk retention holder, Master Fund II is required to retain, on an ongoing basis, a material net economic interest in the Fair Oaks CLOs of not less than 5%.

In addition, during the final quarter of 2019, the Company's uninvested cash was invested, in accordance with the Company's investment policy, into a zero-fee USD share class of Fair Oaks High Grade Credit Fund, an open-ended UCITS fund for which the Investment Adviser to the Company acts as investment manager.

**FINANCIAL STATEMENTS****Notes to the Financial Statements (continued)****For the year ended 31 December 2019****8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)***Founder Partners*

The Master Fund and Master Fund II also pay the Founder Partner and Founder Partner II a carried interest equal to 15 per cent of cash available to be distributed (after payment of expenses and management fees) after Limited Partners have received a Preferred Return. The threshold calculation of the Preferred Return will be based solely on distributions and not on NAV calculations so the Master Fund and Master Fund II will not pay any carried interest until their investors have realised the amounts drawn down for investments and met their Preferred Returns. On 1 April 2019, the Company sold its direct holding of 11.31% in the Master Fund, but indirectly remains invested in the Master Fund through the Master Fund II. At 31 December 2019, US\$14,522,140 (31 December 2018: US\$17,727,677) carried interest was accrued at the Master Fund level, to be apportioned to and payable by all limited partners. At 31 December 2019, US\$nil (31 December 2018: US\$nil) carried interest was accrued at Master Fund II level.

Other Material Contracts*Administrator*

Praxis Fund Services Limited (the "Administrator") is entitled to receive a time-based fee quarterly in arrears for all Company Secretarial services. The Administrator is also entitled to an annual fee of US\$32,320 (31 December 2018: US\$31,000), payable quarterly in arrears for Administration and Accounting services.

The Administrator is also entitled to an additional fee for assisting with reporting under Article 24 of the AIFM Directive. The fee was increased to £2,700 (2018: £2,635) per return, per jurisdiction, with effect from 1 May 2019.

The Administrator is also entitled to an annual fee of £500 in relation to FATCA reporting and acting as Responsible Officer.

Custodian

BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Custodian") waived all fees on the basis that all assets are invested into the Master Fund and Master Fund II.

Directors' Fees

The Company's Board of Directors are entitled to a fee in remuneration for their services as Directors at a rate payable of £43,000 each per annum (31 December 2018: £43,000).

The overall charge for the above-mentioned fees for the Company and the amounts due are as follows:

	For the year ended 31 December 2019 US\$	For the year ended 31 December 2018 US\$
CHARGE FOR THE YEAR		
Investment adviser fee	77,776	208,150
Administration fee	130,869	149,798
Directors' fees and expenses	164,167	179,535
OUTSTANDING FEES		
Investment adviser fee	32,516	13,141
Administration fee	5,401	2,633



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

8. RELATED PARTIES AND OTHER KEY CONTACTS (continued)

Shares held by related parties

The shareholdings of the Directors' in the Company were as follows:

Name	31 December 2019		31 December 2018	
	No. of 2017	Percentage	No. of 2017	Percentage
	Shares		Shares	
Claudio Albanese (Chairman)	9,697	0.00%	9,697	0.00%
Jon Bridel	9,697	0.00%	9,697	0.00%
Nigel Ward	60,000	0.01%	44,475	0.01%

On 17 September 2019, Nigel Ward purchased 15,525 2017 Shares in the Company on the SFS of the London Stock Exchange. On 4 December 2018, Nigel Ward purchased 15,000 2017 Shares in the Company on the SFS of the London Stock Exchange.

As at 31 December 2019, the Investment Adviser, the General Partner and principals of the Investment Adviser and General Partner held an aggregate of 2,566,438 2017 Shares (31 December 2018: 1,976,446 2017 Shares), which is 0.57% (31 December 2018: 0.47%) of the issued 2017 share capital.

9. TAX STATUS

The Company is exempt from Guernsey income tax and is charged an annual exemption fee of £1,200 under The Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989.

10. SHARE CAPITAL

On 9 February 2018, 73,799 2017 Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the LSE.

On 4 April 2018, 35,000,000 2017 Shares were admitted to trading on the Specialist Fund Segment of the Main Market of the LSE. Following the issue, the Company has 453,348,737 2017 Shares in issue.

On 6 July 2018, the Company returned US\$6.5 million to 2014 shareholders by way of compulsory partial redemption of 7,165,688 2014 Shares at US\$0.9071 per share.

On 3 October 2018, the Company returned US\$12.5 million to 2014 shareholders by way of compulsory partial redemption of 14,068,640 2014 Shares at US\$0.8885 per share.

On 28 November 2018, the Company returned US\$3.0 million to 2014 shareholders by way of compulsory partial redemption of 3,324,818 2014 Shares at US\$0.9023 per share.

On 13 March 2019, the Company announced a final compulsory redemption of all 2014 Shares at a price equal to the NAV per 2014 Share as at 28 February 2019 less the dividend to be declared for the month ended 28 February 2019 (the "Redemption Price").

The consideration for the redemption was, as default, a US Dollar cash payment. This cash payment was funded by the Master Fund II acquiring at NAV the residual interest in the Master Fund owned by the Company in respect of 2014 Share class. There was also an option to receive an in specie distribution of a 2014 Shareholder's pro rata exposure to the Company's interest in the Master Fund. All holdings of 2014 Shares on the register at the close of business on the record date, being 1 April 2019, were redeemed.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

10. SHARE CAPITAL (continued)

On 15 March 2019, the Company announced the final Redemption Price per 2014 Share of US\$0.8155 being the NAV per 2014 Share as at 28 February 2019 of US\$0.8225 less the 0.70 US cent dividend declared for that month.

On 3 April 2019, the Company announced with regards to the final redemption of 2014 Shares, as noted above, that the rate per share to be used to pay shareholders who elected to receive their redemption proceeds in sterling will be GBP 0.6191 per share. The proceeds of the redemption were paid through CREST to holders of Shares in uncertificated form, and by cheque to holders of Shares in certificated form on 15 April 2019.

Furthermore, the Company notified that its issued share capital consists of 453,348,737 2017 Shares only, further to the final redemption of 21,942,137 2014 Shares effected on 1 April 2019. None of these 2017 Shares are held in Treasury, therefore, the total number of 2017 Shares with voting rights in the Company is 453,348,737. The 2014 Shares were disabled on CREST and the line of stock cancelled.

The Company's 2017 Shares (previously 2014 Shares also) are classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction in equity and are charged to the share capital account, including the initial set up costs.

The authorised share capital of the Company is represented by an unlimited number of ordinary shares of nil par value and have the following rights:

- (a) Dividends: Shareholders of a particular class or tranche are entitled to receive, and participate in, any dividends or other distributions relating to the assets attributable to the relevant class or tranche which are resolved to be distributed in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.
- (b) Winding Up: On a winding up, the shareholders of a particular class or tranche shall be entitled to the surplus assets attributable to that class or tranche remaining after payment of all the creditors of the Company.
- (c) Voting: Subject to any rights or restrictions attached to any class or tranche of shares, at a general meeting of the Company, on a show of hands, every holder of voting shares present in person or by proxy and entitled to vote shall have one vote, and on a poll every holder of voting shares present in person or by proxy shall have one vote for each share held by him, but this entitlement shall be subject to the conditions with respect to any special voting powers or restrictions for the time being attached to any class or tranche of shares which may be subject to special conditions. Refer to the Memorandum and Articles of Incorporation for further details.
- (d) Buyback: The Company may acquire its own shares (including any redeemable shares). Any shares so acquired by the Company may be cancelled or held as treasury shares provided that the number of shares of any class held as treasury shares must not at any time exceed ten per cent. (or such other percentage as may be prescribed from time to time by the States of Guernsey Committee for Economic Development) of the total number of issued shares of that class. Any shares acquired in excess of this limit shall be treated as cancelled.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

10. SHARE CAPITAL (continued)

Issued Share Capital

2017 Shares

	31 December 2019		31 December 2018	
	Shares	US\$	Shares	US\$
Share capital at the beginning of the year	453,348,737	439,888,273	418,274,938	406,185,791
Own share capital acquired during the year	(650,000)	(487,329)	–	–
Share capital issued during the year	–	–	35,000,000	33,627,207
Share capital issued for scrip dividend	–	–	73,799	75,275
Share capital at the end of the year	452,698,737	439,400,944	453,348,737	439,888,273

2014 Shares

	31 December 2019		31 December 2018	
	Shares	US\$	Shares	US\$
Share capital at the beginning of the year	21,942,137	22,716,434	46,501,283	44,713,419
Share redemptions	(21,942,137)	(17,866,496)*	(24,559,146)	(21,996,985)
Transfer of reserves on final 2014 share redemption	–	(4,849,938)	–	–
Share capital at the end of the year	–	–	21,942,137	22,716,434

*2014 Share redemption was a non-cash transaction for the Company which, in accordance with the 2014 Final Redemption, was completed via a cash redemption funded by the Master Fund II directly to the 2014 Shareholders and non-cash in specie distributions of 2014 Shareholders pro rata exposure to the Company's interest in the Master Fund.

The total number of 2017 Shares in issue, as at 31 December 2019 was 453,348,737 (31 December 2018: 453,348,737), of which 650,000 (31 December 2018: nil) Shares were held in treasury, and the total number of shares in issue excluding treasury shares were 452,698,737 (31 December 2018: 453,348,737). At 31 December 2019, the Company has 452,698,737 (31 December 2018: 453,348,737) total voting rights.

During the year ended 31 December 2019, the Company bought back 650,000 2017 shares, at an average price of £0.7497.

11. (LOSSES)/EARNINGS PER SHARE

	For the year ended 31 December 2019		For the year ended 31 December 2018	
	2014 Shares* US\$	2017 Shares US\$	2014 Shares US\$	2017 Shares US\$
Weighted average number of shares	21,942,137	453,178,052	39,412,384	444,327,153
(Loss)/profit for the financial year	(199,760)	(2,068,953)	US\$1,922,876	US\$2,306,790
Basic and diluted (losses)/earnings per share	(0.0091)	(0.0046)	US\$0.0488	US\$0.0052

*for the period from 1 January 2019 to the date 2014 shares were redeemed in full on 1 April 2019.

The weighted average number of shares as at 31 December 2019 and 31 December 2018 is based on the number of 2014 and 2017 Shares in issue during the period under review, as detailed in Note 10.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

12. TRADE AND OTHER PAYABLES

	31 December 2019 US\$	31 December 2018 US\$
Investment advisory fees payable (note 8)	32,516	13,141
Audit fees payable	46,189	23,508
Administration fees payable (note 8)	5,401	2,633
Sundry expenses payable	5,579	9,797
	89,685	49,079

13. CONTINGENT LIABILITIES AND COMMITMENTS

The Company entered into a subscription agreement with the Master Fund II and agreed to become a Limited Partner and made a commitment to the Master Fund II of US\$435,442,012 (31 December 2018: US\$433,996,752) of which US\$392,777,862 (31 December 2018: US\$429,120,957) had been called. During the year ended 31 December 2019, the Company received recallable capital distributions of US\$46,125,096 from the Master Fund II.

At 31 December 2019 and 31 December 2018, the Company had no further outstanding commitments.

14. SUBSEQUENT EVENTS

On 9 January 2020, the Company declared a monthly interim dividend of 0.7 US cents per 2017 share in respect of the month ended 31 December 2019 to the 2017 Shares, which was paid on 30 January 2020. The ex dividend date was 16 January 2020.

On 22 January 2020, the Company announced a 25% reinvestment of management fees. The 2017 Shares were trading at a discount to the 31 December 2019 published quarter end NAV. The Company's 2017 prospectus stated that in the event that the 2017 Shares trade at discount to any quarter end NAV, calculated on the date that the relevant NAV is published, 25% of that quarter's investment management fees (in respect of the 2017 Shares) would be reinvested to purchase 2017 Shares in the secondary market. Accordingly, the Company was notified that, following the announcement dated 16 January 2020 regarding the NAV as at 31 December 2019, Fair Oaks Income Fund (GP) Limited has purchased 271,851 2017 Shares in the secondary market.

On 6 February 2020, the Company declared a monthly interim dividend of 0.7 US cents per 2017 share in respect of the month ended 31 January 2020 to the 2017 Shares, which was paid on 27 February 2020. The ex dividend date was 13 February 2020.

On 3 March 2020, the Company declared a monthly interim dividend of 0.7 US cents per ordinary share in respect of the month ended 29 February 2020 to the 2017 Shares, which was paid on 26 March 2020. The ex dividend date was 12 March 2020.

COVID-19

COVID-19 is a developing situation and as of 17 April 2020, the assessment of this situation will need continued attention and will evolve over time. In our view, consistent with many others in our industry, COVID-19 is considered to be a non-adjusting post period event and no adjustment is made in the Financial Statements as a result. The rapid development and fluidity of the COVID-19 virus make it difficult to predict the ultimate impact at this stage. However, we do not underestimate the seriousness of the issue and the inevitable effect it will have on the Global economy and many businesses across the world. The Board, the Investment Adviser and the Company's other service providers, are closely monitoring official governmental guidance on the impact of COVID-19. The Board is also liaising with all parties in an effort to minimise any financial impact on the Company and taking any mitigating steps deemed appropriate.

On 30 March 2020, the Company announced in light of this ongoing uncertainty in economies and markets caused by the COVID-19 pandemic, the Board resolved to suspend the declaration of dividend payments.



FINANCIAL STATEMENTS

Notes to the Financial Statements (continued)

For the year ended 31 December 2019

14. SUBSEQUENT EVENTS (continued)

COVID-19 (continued)

The Board and the Investment Adviser recognise the importance of dividends for Shareholders but believe that suspension is the appropriate reaction to the unprecedented circumstances. In the near term the uncertainty will lead to rebased market assumptions as to credit performance, which is expected to materially constrain the Company's income calculated using the effective interest rate methodology and therefore would mean that any dividends declared would have to be substantially funded from the Company's capital.

It is premature to seek to quantify the fundamental impact of the pandemic, which will depend on an array of factors including the effectiveness of recently announced government intervention, but over time there is risk of underlying CLO managers being required to divert cash flows from CLO subordinated notes to purchase additional loan collateral in response to increased credit downgrades and defaults. At the portfolio level the Investment Adviser has also taken steps to minimise mark-to-market risk, retaining a prudent reserve of cash to cover any foreign exchange hedge and warehouse financing needs.

The dislocation in the credit markets will create investment opportunities, which is expected to be a factor in the allocation of future cash flows as the Company continues to seek to maximise shareholders' total return over the long term.

In March 2020, Master Fund II's investment in a new European CLO was postponed due to the effective closure of the CLO new issuance market. Master Fund II invested in the subordinated notes of the intended CLO vehicle in late 2019 and early 2020, during its warehousing phase, and expects to exchange this investment for subordinated notes in the CLO when issued. The pricing of this CLO, and replacement of its warehouse financing facility with longer-term CLO financing is expected to take place later in 2020 or in early 2021, ahead of the September 2021 maturity of the warehouse financing facility.

On 17 April 2020, the Company announced an issue to satisfy market demand of 7,194,623 new 2017 Shares (the "New Shares") at an issue price of US\$0.372 per New Share, representing a premium of approximately 2% to the latest published NAV.

The net proceeds of the issue will be invested in accordance with the Company's investment policy, with the Master Fund II expected to invest in CLO debt securities in the secondary market, which the Investment Adviser believes offer attractive risk-adjusted returns over the medium term.

Application will be made to the London Stock Exchange for the New Shares to be admitted to trading on the Specialist Fund Segment of the Main Market. Admission of the New Shares is expected on 22 April 2020. Following the issue, the Company will have 459,893,360 2017 Shares in issue.

There were no other significant events since the year end which would require revision of the figures or disclosures in the Financial Statements.



ADDITIONAL INFORMATION

Portfolio Statement (unaudited)

As at 31 December 2019

Security	Instrument	Par Value Master Fund II*	Valuation
ALLEG 2014-1X SUB	Subordinated Notes	US\$13,769,400	61.0%
AWPT 2014-3 F	Class F Notes	US\$2,846,559	95.0%
HARVT 7X SUB	Subordinated Notes	€4,038,141	52.0%
NEUB 2015-19X SUB	Subordinated Notes	US\$23,887,183	48.0%
NEUB 2015-20X SUB	Subordinated Notes	US\$25,155,634	48.0%
SHACK 2015-8X SUB	Subordinated Notes	US\$18,535,730	42.0%
SYMP 2013-12A F	Class F Notes	US\$8,605,875	85.5%
AIMCO 2017-AX SUB	Subordinated Notes	US\$27,080,000	56.0%
ALLEG 2017-2X SUB	Subordinated Notes	US\$39,875,000	64.0%
ARES 2015-35RX SUB	Subordinated Notes	US\$26,000,000	69.0%
AWPT 2017-6X SUB	Subordinated Notes	US\$30,050,000	57.0%
ELM 2014-1A SUB	Subordinated Notes	US\$6,324,243	64.0%
HLM 13X-2018 SUB	Subordinated Notes	US\$25,950,000	69.0%
HLM 13X-18 F	Class F Notes	US\$5,737,500	85.7%
MARNR 2015-1A SUB	Subordinated Notes	US\$6,537,420	67.0%
MARNR 2016-3A SUB	Subordinated Notes	US\$6,167,914	70.0%
MARNR 2017-4X SUB	Subordinated Notes	US\$28,890,000	65.0%
POST CLO 2018-1X SUB	Subordinated Notes	US\$39,282,500	67.0%
SHACK 2018-12X SUB	Subordinated Notes	US\$30,000,000	70.0%
WELF 2018-1X SUB	Subordinated Notes	US\$28,875,000	67.0%
FOAKS 1X SUB	Subordinated Notes	€28,000,000	96.0%
FOAKS 1X Z	Subordinated Fee Notes	€857,143	0.0%
FOAKS 1X M	Subordinated Fee Notes	€1,000,000	0.0%
FAIR OAKS LOAN FUNDING II	Equity Notes	€10,000,000	100.0%

*Master fund II holdings include investments held indirectly via Master Fund II's 66.20% interest in the Master Fund and its 14.96% interest in Cycad Investments LP.



ADDITIONAL INFORMATION

Management and Administration

Directors

Claudio Albanese (Independent non-executive Chairman)
Jon Bridel (Independent non-executive Director)
Nigel Ward (Independent non-executive Director)

Registered Office and Business Address

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Legal Advisers in Guernsey

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Custodian and Principal Bankers

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St Peter Port
Guernsey GY1 1WR

Administrator and Secretary

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Sarnia House
Le Truchot
St Peter Port
Guernsey GY1 1GR

Registrar

Link Market Services (Guernsey) Limited
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St Sampson
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Bookrunner, Broker and Financial Adviser

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ADDITIONAL INFORMATION

Appendix

Alternative Performance Measures used in the Financial Statements

- Total NAV return**

Total NAV return is a calculation showing how the NAV per share has performed over a period of time, taking into account dividends paid to shareholders. It is calculated on the assumption that dividends are reinvested, on an accumulative basis from inception of the Company, at the prevailing NAV on the last day of the month that the shares first trade ex-dividend. The performance is evaluated on a original shareholding of 1000 shares on inception of the Company (12 June 2014). This provides a useful measure to allow shareholders to compare performances between investment funds where the dividend paid may differ.

		For the year ended 31 December 2019	For the year ended 31 December 2018
Opening NAV per 2017 share		US\$0.8742	US\$1.0016
Opening accumulated number of 2017 Shares*	(a)	1,672.5 shares	1,451.9 shares
Opening NAV valuation of shares	(b)	US\$1,462.1	US\$1,454.2
Dividends paid during the year		US\$0.1115	US\$0.1345
Dividends converted to shares**	(c)	242.7 shares	220.6 shares
Closing NAV per 2017 share		US\$0.7580	US\$0.8742
Closing accumulated number of 2017 Shares* (d = a + c)	(d)	1,915.3 shares	1,672.5 shares
Closing NAV valuation of shares	(e)	US\$1,451.8	US\$1,462.1
NAV valuation of shares return (f = e – b)	(f)	(US\$10.3)	US\$7.9
Total NAV return (g = (f / b) x 100)	(g)	(0.7%)	0.5%

*with dividends reinvested since inception (12 June 2014)

**converted to 2017 Shares at the prevailing month end NAV ex-dividend for all twelve dividends paid in 2019.



ADDITIONAL INFORMATION

Appendix (continued)

Alternative Performance Measures used in the Financial Statements (continued)

- **Total share price return**

Total share price return is a calculation showing how the share price per share has performed over a period of time, taking into account dividends paid to shareholders. It is calculated on the assumption that dividends are reinvested, on an accumulative basis from inception of the Company, at the prevailing share price on the last day of the month that the shares first trade ex-dividend. The performance is evaluated on a original shareholding of 1000 shares on inception of the Company (12 June 2014). This provides a useful measure to allow shareholders to compare performances between investment funds where the dividend paid may differ.

		For the year ended 31 December 2019	For the year ended 31 December 2018
Opening share price per 2017 share		US\$0.7925	US\$1.0513
Opening accumulated number of 2017 Shares*	(a)	1,642.4 shares	1,432.4 shares
Opening share price valuation of shares	(b)	US\$1,301.6	US\$1,505.9
Dividends paid during the year		US\$0.1115	US\$0.1345
Dividends converted to shares**	(c)	247.0 shares	210.0 shares
Closing share price per 2017 share		US\$0.6775	US\$0.7925
Closing accumulated number of 2017 Shares* (d = a + c)	(d)	1,889.4 shares	1,642.4 shares
Closing share price valuation of shares	(e)	US\$1,280.1	US\$1,301.6
Valuation of shares return (f = e – b)	(f)	(US\$21.6)	(US\$204.3)
Total share price return (g = (f / b) x 100)	(g)	(1.7%)	(13.6%)

*with dividends reinvested since inception (12 June 2014)

**converted to 2017 Shares at the prevailing month end share price ex-dividend for all twelve dividends paid in 2019.

**ADDITIONAL INFORMATION**

Appendix (continued)

Alternative Performance Measures used in the Financial Statements (continued)

- Ongoing charges ratio (“OCR”)**

The ongoing charges ratio of an investment company is the annual percentage reduction in shareholder returns as a result of recurring operational expenditure. Ongoing charges are classified as those expenses which are likely to recur in the foreseeable future, and which relate to the operation of the company, excluding investment transaction costs, gains or losses on investments and performance fees. In accordance with the AIC guidance, the proportionate charges for the period are also incorporated from investments in other funds. As such charges from FOMC II LP at 100% (31 December 2018: 100%), FOIF LP at a weighted average percentage for the period of 65.36% (31 December 2018: 62.82%) and Cycad Investments LP at 14.96% (31 December 2018: 14.96%) are included. Performance fees or carried interest from the underlying funds are not included. The OCR is calculated as the total ongoing charges for a period divided by the average net asset value over that period/year.

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Company US\$	Master Funds* US\$	Total US\$	Company US\$	Master Funds* US\$	Total US\$
Total expenses	805,444	4,213,653	5,019,097	927,725	4,744,807	5,672,532
Non-recurring expenses	(5,103)	(193,502)	(198,605)	–	–	–
Total ongoing expenses	800,341	4,020,151	4,820,492	927,725	4,744,807	5,672,532
Average NAV	366,775,594		366,775,594	414,820,038		414,820,038
Ongoing charges ratio (using AIC methodology)	0.22%		1.31%	0.22%		1.37%

**Master Funds” includes FOMC II LP, FOIF LP and Cycad Investments LP.

