Alcentra European Floating Rate Income Fund Limited

Annual Report and Audited Financial Statements for the Year Ended 31 March 2019

Index

Strategic Report

Financial Highlights and Performance Summary

Financial Highlights

The NAV total return since inception achieved by the Alcentra European Floating Rate Income Fund Limited (the "Company") was 40.82%, an annualised return of 4.95%. The NAV total return details the change in NAV from the start of the relevant period and assumes that dividends paid to shareholders are reinvested at NAV.

The Company repurchased and cancelled 28,195,844 Ordinary Shares during the year for a total cost of €31,609,204 (£27,844,835) (Year ended 31 March 2018: 11,277,425 Ordinary Shares were repurchased for a total cost of €12,739,819 (£11,272,921)).

Performance Summary

(In millions, except per share data and the number of Ordinary Shares in issue)	**At 31 March 2019**	**At 31 March 2018**
Number of Ordinary Shares in issue	130,137,627	158,333,471
Market capitalisation[1]		
– *Ordinary Shares (in Sterling)*	£126.2	£156.5
– *Ordinary Shares (in Euro)*	€146.2	€178.2
Net Asset Value ("NAV") attributable to Sterling shareholders		
– *Ordinary Shares*	€156.1	€188.5
NAV per share attributable to Sterling shareholders		
– *Ordinary Shares (in Sterling)*	£1.0361	£1.0455
– *Ordinary Shares (in Euro)*	€1.1997	€1.1905
Published NAV per share attributable to Sterling shareholders[2]		
– *Ordinary Shares (in Sterling)*	£1.0405	£1.0498
– *Ordinary Shares (in Euro)*	€1.2048	€1.1972
Ordinary Share price (bid price)[1]		
In Sterling	£0.9701	£0.9886
In Euro	€1.1232	€1.1257
Ordinary Share price discount to NAV		
In Sterling	£0.0660	£0.0569
In Euro	€0.0765	€0.0648
Ordinary Share price discount to NAV %		
As at year end	6.37%	5.44%
Average discount for the year	4.80%	3.94%
Investment in Alcentra European Floating Rate Income S.A. at fair value	€156.9	€186.5
Cash and cash equivalents	€1.1	€0.1
Dividend yield – Ordinary Shares	4.60%	4.31%

1 Source: London Stock Exchange

2 Published NAV per Ordinary Share as at 29 March 2019 (29 March 2018). Based on mid price (bid pricing used in financial statements)

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Financial Highlights and Performance Summary (continued)

Ongoing Charges

The ongoing charge for the year ended 31 March 2019 was 1.15% (31 March 2018: 1.08%).

The ongoing charge reflects those expenses of a type which are likely to recur in the foreseeable future and which relate to the operation of the Company, excluding the costs of acquisition or disposal of investments, finance charges, gains or losses arising on investments and Ordinary Shares.

The ongoing charge is a measure, expressed as a percentage of NAV, based on actual costs incurred in the year as being the best estimate of future costs excluding any non-recurring fees divided by the average NAV of the Company during the year, in accordance with the Association of Investment Companies (the “AIC”) methodology.

Dividend History

Please refer to note 10 for details on dividends paid during the year.

Strategic Report

Chairman's Statement

Dear Shareholder,

I'm pleased to present the Annual Report of the Company for the year ended 31 March 2019.

Despite difficult markets your Company maintained NAV per Ordinary Share levels showing only a modest decline over the past year with the NAV per share decreasing from 104.55p as at 31 March 2018 to 103.61p as at 31 March 2019 based on bid prices as provided in the financial statements; with the NAV per share based on mid prices published daily on the Regulatory News Service (the "RNS") moving from 104.98p to 104.05p.

The Company declared and paid dividends of 4.46p per Ordinary Share giving a dividend yield of 4.60%. Subsequent to the period end, the Company declared and paid a further dividend of 1.13p per Ordinary Share. As at the year end, total dividend paid since inception is 33.95p per Ordinary Share, giving an overall total return since inception of 40.82%. There was an annualised return of 4.95%.

Alcentra Limited (the "Investment Manager") continues to hold a defensive, well diversified portfolio of secured loans as more fully described in the Investment Manager's Report on pages 11 to 17. Significantly the portfolio has experienced no defaults since inception.

The Board adopts an active discount management programme in accordance with the Company's Articles of Association. The Board works closely with Company's brokers to actively monitor the share price within an agreed framework. We have maintained the buyback programme with the aim of limiting the discount to NAV. During the year, 28,195,844 Ordinary Shares were repurchased and cancelled, bringing the issued share capital of the Company to 130,137,627 Ordinary Shares. Subsequent to the year end, a further 4,283,637 Ordinary Shares have been repurchased and cancelled. In January 2019 the Company announced that it would cancel all shares held in treasury and any repurchased shares from that date would be cancelled immediately on buy back. The active buy back policy has been successful in limiting the rolling 12 month discount to less than 5% to NAV.

Under its Articles of Association the Company also faces an annual continuation vote, the Board has commenced a successful dialogue with major shareholders who continue to support the Company, its investment policy and discount management. Following these discussions, the Board is confident that the proposed continuation vote will pass. The Company will continue its dialogue with shareholders to elicit their views on the future direction of the Company.

The Company invests predominantly in senior secured loans and senior secured bonds issued by European corporates and has additional capacity to invest in mezzanine loans and other debt securities. The highly diversified portfolio of well managed credits has yielded stable dividends over the last five years. The Company targets long term returns (net of fees and expenses) in excess of 5% per annum, with the income component distributed through quarterly dividends. The spread compression experienced throughout global credit markets in 2016 and 2017 has halted and spreads have improved over the past two years. At the same time, market default rates remain very low despite the muted economic growth in the Eurozone. The Board continues to monitor investment markets and maintains confidence in the asset class owing to its floating rate nature and its having the ability to gain from future interest rate rises.

The Board closely monitors political factors affecting markets in the current environment, including the consequences of the Brexit vote. Whilst the impact of Brexit remains unknown, loan markets have historically been far less volatile than bond or equity markets. Moreover, your Board remains confident in the Company's portfolio comprised of well-selected, robust credits which have a global exposure. (i.e. the portfolio is defensively positioned in the event of the UK leaving the European Union.)

The Investment Manager believes that the loan market performance over 2018, given the heightened level of financial market volatility, demonstrates that the loan market continues to provide attractive risk adjusted returns compared to other asset classes. A strong pipeline of M&A activity in 2018 provided plenty of loan issuance,

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Chairman's Statement (continued)

which alongside robust demand for the asset class resulted in new issue margins slightly increasing. Your Board continues to be satisfied with the portfolio's performance to date, the diversity of the portfolio, and the strategy that is being applied by the Investment Manager.

On behalf of the Board, I would like to close by thanking shareholders for your continued commitment and I look forward to updating you on the Company's progress later on this year.

Ian Fitzgerald
Chairman
27 June 2019

Strategic Report

Executive Summary

This report is designed to provide information about the business and results of the Company for the year ended 31 March 2019. It should be read in conjunction with the Chairman's Statement and the Investment Manager's Report which give a detailed review of investment activities for the year and an outlook for the future.

Corporate Summary

The Company is a non-cellular company limited by shares incorporated in Guernsey on 3 November 2011 under the Companies (Guernsey) Law, 2008, (as amended) (the "Companies Law"), with registration number 54200. The Company has been authorised by the Guernsey Financial Services Commission (the "GFSC") as an authorised closed-ended collective investment scheme.

The Initial Public Offering of the Company took place on 29 February 2012 and the Company commenced business on 6 March 2012, when its Ordinary Shares were admitted to the premium segment of the Financial Conduct Authority's (the "FCA") Official List and to trading on the Main Market of the London Stock Exchange (the "LSE").

The issued share capital of the Company as at 31 March 2019 was 130,137,627 (31 March 2018: 158,333,471) Ordinary Shares, which are denominated in Sterling. For details of the Company's share capital refer to note 9.

The Company has a wholly-owned subsidiary Alcentra European Floating Rate Income S.A., which is incorporated in Luxembourg (the "Subsidiary").

The Company is a member of the AIC.

Significant Events During the Year Ended 31 March 2019

The Company repurchased and cancelled 28,195,844 Ordinary Shares during the year for a total cost of €31,609,204 (£27,844,835) (Year ended 31 March 2018: 11,277,425 Ordinary Shares were repurchased for a total cost of €12,739,819 (£11,272,921)).

Trudi Clark was appointed as a Director of the Company on 1 November 2018 and as Chairman of the Management Engagement Committee on 16 November 2018.

Jonathan Bridel will retire from the Board on 30 June 2019.

Culture of the Company

The Board recognises the importance of a strong corporate governance culture that meets the requirements of the UK Governance framework, including the UK Listing Authority as well as other relevant bodies such as the GFSC and the AIC.

Investment Manager

The Investment Manager was incorporated in England and Wales on 4 March 2003, with registration number 2958399. The Investment Manager is regulated by the UK's FCA and registered as an investment adviser with the US Securities and Exchange Commission.

Investment Objective

The investment objective of the Company is to provide its shareholders with regular quarterly dividends and the opportunity for capital growth by utilising the skills of the Investment Manager in selecting suitable investments.

The Company, together with the Subsidiary, as advised by the Investment Manager, invests either directly or, through sub-participation, indirectly in floating rate, secured loans or high-yield bonds issued by European and US corporate entities predominantly rated below investment grade or deemed by the Investment Manager to be of a corresponding credit quality.

The Company aims to satisfy the guideline in its investment policy that at least 80% of its investments are to be in debt obligations of corporate entities with significant operations, or which are domiciled, in Western Europe (including the UK). Investments are expected to be denominated in Euro, Sterling or US Dollars.

Investment Policy

The Investment Manager will select, from the primary and secondary markets, investments for the Company in the following asset classes (which may be considered to be non-investment grade):

- secured loans, including senior loans, mezzanine loans and second lien loans;
- senior secured floating-rate notes; and

Strategic Report

Executive Summary (continued)

Investment Policy (continued)

- senior secured and senior unsecured high-yield bonds.

The Investment Manager will seek to identify investment opportunities that combine an attractive current return with a strong probability of ultimate return of capital.

Diversification

The Company expects to maintain a diversified portfolio by asset class, issuer concentration, industry concentration and geographical exposure (the "Portfolio"). The Company does not include in its investment policy any exclusion of particular industry sectors. The Portfolio complies with the following restrictions (at each date an investment is made by the Company):

- at least 80% of the Company's NAV in senior loans, senior secured floating-rate notes and cash;
- no more than 20% of the Company's NAV in second lien loans and mezzanine loans; and
- no more than 5% exposure to any single obligor.

In addition, the Company will aim to satisfy the following guideline criteria for the Portfolio:

- no more than 15% of the Company's NAV in unsecured floating-rate notes, secured or unsecured fixed rate bonds or structured credit instruments;
- no more than 20% exposure to any single industry sector; and
- at least 80% exposure to corporate entities with significant operations, or which are domiciled, in Western Europe (including the UK).

Key Performance Indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of the Investment Manager, the Directors take into account the following performance indicators:

Returns and NAV

The Board reviews and compares, at each meeting, the NAV and Ordinary Share price of the Company. The Directors regard the Company's NAV total return as being the overall measure of value delivered to shareholders over the long term. Total return reflects both NAV growth of the Company and also dividends paid to shareholders. The Company targets a total return in excess of 5% per annum over the longer term.

The NAV total return of the Company's Ordinary Shares is 40.82% since inception to 31 March 2019. Please refer to the Financial Highlights and Performance Summary for NAV and share price analysis.

Discount/Premium to NAV

At each Board meeting, the Board monitors the level of the Company's discount or premium to NAV and reviews the average discount/premium for the Company's peer company. The Company publishes its NAV per share on a daily basis via the RNS of the LSE. This figure is calculated in accordance with the AIC formula which includes current financial year revenue. Please refer to the Financial Highlights and Performance Summary for NAV and share price analysis.

Dividend Yield

The Board examine the revenue forecast quarterly and consider the yield on the Portfolio and the amount available for distribution. The dividend yield is detailed in the Financial Highlights and Performance Summary.

Benchmark Performance

The Board considers the peer company performance of other income funds at each quarterly Board meeting. Please refer to the Investment Manager's Report for performance summary, market review and outlook.

Key Risks and Uncertainties

The Board is responsible for the Company's system of internal controls and for reviewing its effectiveness. The Board also monitors the investment limits and restrictions set out in the Company's investment objective and policy.

The key risks that have been identified and the steps taken by the Board to mitigate these are as follows:

Investment Activity and Performance

An inappropriate investment strategy may result in under-performance against the Company's objectives. The Board manages these risks by ensuring a diversification of

Strategic Report

Executive Summary (continued)

Key Risks and Uncertainties (continued)

Investment Activity and Performance (continued)

investments. The Investment Manager operates in accordance with the investment limits and restrictions policy determined by the Board. The Board review the limits and restrictions on a regular basis and BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Administrator" and the "Custodian") monitors adherence to the limits and restrictions every month and will notify any breaches to the Board.

The Investment Manager provides the Board with management information including performance data and reports. The Directors monitor the implementation and results of the investment process with the Investment Manager at each Board meeting and monitor risk factors in respect of the portfolio. Investment strategy is reviewed at each meeting. Please refer to the Investment Manager's Report for performance summary, market review and outlook.

Level of discount or premium

A discount or premium to NAV can occur for a variety of reasons, including market conditions or to the extent investors undervalue the management activities of the Investment Manager or discount their valuation methodology and judgement. While the Board may seek to mitigate any discount to NAV per Ordinary Share through the discount management mechanisms set out in the Prospectus, there can be no guarantee that they will do so or that such mechanisms will be successful and the Directors accept no responsibility for any failure of any such strategy to effect a reduction in any discount or premium.

Market price risk

The market value of the Portfolio may vary because of a number of factors, including, but not limited to, the financial condition of the underlying borrowers, the industry in which a borrower operates, general economic or political conditions, interest rates, the condition of the debt trading markets and certain other financial markets, developments or trends in any particular industry and changes in prevailing interest rates. The Investment Manager carries out extensive due diligence on each borrower which is subsequently assessed by its credit committee to mitigate this risk.

Accounting, legal and regulatory

The Company must comply with the provisions of the Companies Law. The Companies Law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and applicable law. Under the Companies Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

Since the Company's shares are admitted to listing on the FCA's Official List and to trading on the Main Market of the LSE, the Company is subject to the Listing Rules of the FCA (the "Listing Rules") and the Disclosure Guidance and Transparency Rules of the FCA (the "DTR"). A breach of the legislation could result in the Company and/or the Directors being fined or subject to criminal proceedings. A breach of the Listing Rules could result in the suspension of the Company's shares. The Board relies on its Company Secretary and advisers to ensure adherence to the Guernsey legislation and the FCA's rules.

The Investment Manager is contracted to provide investment services and the Administrator, company secretarial, administration and accounting services through qualified professionals. The Board receives regular internal control reports from the Administrator that confirm compliance. The Subsidiary, must comply with the regulatory and statutory rules and requirements in Luxembourg. The Board relies on the Investment Manager and advisers to the Subsidiary to ensure the Subsidiary adheres to Luxembourg legislation.

Operational

Disruption to, or the failure of, either the Investment Manager's or the Administrator's accounting, dealings or payment systems, or the custodian's records could prevent

Strategic Report

Executive Summary (continued)

Key Risks and Uncertainties (continued)

Operational (continued)

the accurate reporting or monitoring of the Company's financial position.

Details of how the Board monitors the services provided by the Investment Manager and the Administrator, and the key elements designed to provide effective internal control are explained further in the *Internal Controls and Risk Management* section in the Directors' Report on pages 18 to 19.

Viability Statement

Under the AIC Code of Corporate Governance issued in July 2016 (the "AIC Code"), the Directors are required to make a viability statement which explains how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, taking into account the Company's current position and principal risks. The key risks faced by the Company are described on pages 6 to 8. The AIC Code was updated in February 2019 (the "2019 AIC Code"). The Company has been in compliance with the AIC Code during the year ended 31 March 2019 and the 2019 AIC Code since 1 April 2019.

The Directors have conducted a robust assessment of the viability of the Company over a five year period, taking account of the Company's current position and the potential impact of the principal risks outlined above. This statement is made on the assumption that continuation votes will be passed throughout the period under assessment.

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 reasonable 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 a five year period is an appropriate period over which to provide its viability statement as this best suits the average weighted life of the portfolio.

In making their assessment, factors taken into consideration by the Directors included the Company's NAV, net income, resulting cash flows and dividend cover over the period. These factors were subjected to stress tests which involved sensitivity analysis of the key assumptions underlying the forecast. 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 and counterparty risks.

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 five year period to 27 June 2024.

Discount Control Mechanism

As per the Articles of Incorporation, under the discount control mechanism, if, as at 31 March, 30 June, 30 September or 31 December in any calendar year, the Ordinary Shares of any class in issue have, on average over the last twelve calendar months preceding such date (a "Discount Calculation Period"), traded at an average discount in excess of 5% of the NAV per share of that class[1], the Directors will, subject to any legal or regulatory requirements, implement a redemption offer (a "Redemption Offer") pursuant to which each shareholder of the relevant class shall be permitted to redeem up to 50% of their Ordinary Shares of that class. No more than one Redemption Offer shall be made in respect of any class of Ordinary Share in a twelve month period.

The Company's Ordinary Shares traded at an average discount of 4.8% of the NAV per Ordinary Share during the year ended 31 March 2019.

[1] Calculated by reference to the middle market quotations (mid price) of the shares of that class on the Daily Official List of the LSE on each trading day in the relevant Discount Calculation Period and the most recently published NAV per share of the relevant class for each such trading day. In accordance with the Company's accounting policies, the financial statements have been prepared using bid price.

Strategic Report

Executive Summary (continued)

Share Buybacks

The Directors operate an active discount management policy through the use of share buybacks. At the Annual General Meeting (the "AGM") held on 27 September 2018 the Directors were granted authority to repurchase 23,635,898 Ordinary Shares for cancellation or to be held as treasury shares. During the year, the Directors resolved to cancel existing treasury shares and for any further shares bought back. Treasury shares held by the Company were cancelled on 22 February 2019. Subsequent to the year-end, at the Extraordinary General Meeting (the "EGM") held on 3 April 2019, the Directors were granted authority to repurchase a further 20,106,191 Ordinary Shares for cancellation or to be held as treasury shares. This authority will expire at the next AGM which will be held on 26 September 2019. The Directors intend to seek annual renewal of this authority from the shareholders.

Pursuant to this authority, and subject to the Companies Law and the discretion of the Directors, the Company may purchase Ordinary Shares in the market on an on-going basis with a view to addressing any imbalance between the supply of and demand for Ordinary Shares to assist in controlling the discount to NAV per Ordinary Share in relation to the price at which the Ordinary Shares may be trading.

Please refer to note 9 for details of Ordinary Share buybacks during the year ended 31 March 2019.

Environmental and Social Issues

The Company is a closed-ended investment company which has no employees and therefore its own direct environmental impact is minimal. The Board notes that the companies in which the Company invests in will have a social and environmental impact over which it has no control. The Board, the majority of whom are based in Guernsey, have held all their meetings in Guernsey and therefore the Company's greenhouse gas emissions and environmental footprint are negligible.

Responsible investing is often referred to as Environmental, Social and Governance, sustainable and or socially responsible investing. In formulating and implementing a responsible investment policy, the Investment Manager takes into account its responsibilities towards protecting all stakeholders including its clients, shareholders and employees with regard to investment and performance as well as its position as an agent acting on behalf of these clients.

Responsible investment forms an integral part of the investment research process. The Investment Manager believes that responsibly managed companies are better placed to achieve sustainable competitive advantage and provide strong long-term growth.

The Company is not within scope of the Modern Slavery Act 2015 ("the Act"), because it has no turnover as defined by the Act and is therefore not obliged to make a human trafficking statement.

Gender Metrics

The Board consists of two women and two men. More information on the Board's consideration of diversity is given in the Corporate Governance Report on page 26.

Life of the Company

The Company does not have a fixed life. In accordance with the Articles of Incorporation, a continuation resolution to propose that the Company continues its business as a closed-ended investment company was passed by 100% of the shareholders who voted at the AGM on 27 September 2018.

The Directors will convene a general meeting to propose a further continuation resolution annually. The next continuation resolution will be considered at the AGM on 26 September 2019.

If a continuation resolution is not passed, the Directors shall put proposals to shareholders for the reconstruction or reorganisation of the Company.

Future Strategy

While the future performance of the Company is dependent, to a large degree, on the performance of international financial markets which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective as outlined on page 5. Further comments on the

Strategic Report

Executive Summary (continued)

Future Strategy (continued)

outlook for the Company for the next twelve months are set out in both the Chairman's Statement and the Investment Manager's Report.

Going Concern

Under the AIC Code and applicable regulations, the Directors are required to satisfy themselves that it is reasonable to assume that the Company is a going concern from the date of approval of the audited financial statements.

After analysing the following, the Directors believe that it is appropriate to adopt the going concern basis in preparing these audited financial statements:

1. *Working capital* – As at 31 March 2019, the working capital deficit in the Company was approximately €0.80 million. The Company has the ability to sell bonds in the Subsidiary and/or request repayment of accrued interest. The Subsidiary has a working capital surplus of approximately €12.62 million. The Directors noted that as at 31 March 2019, the Company had no borrowings. As such it has sufficient capital in hand to cover all expenses (which mainly consist of Investment Manager's fees, administration fees and professional fees) and to meet all of its obligations as they fall due.

2. *Closed-ended company* – The Company has been registered with the GFSC as a registered closed-ended collective investment scheme, as such shareholders have no right to have their Ordinary Shares redeemed, and therefore no cash flows out of the Company in this respect.

3. In accordance with the Articles of Incorporation a continuation resolution was passed at the AGM on 27 September 2018. The next continuation resolution will be considered at the AGM on 26 September 2019 and the Directors' going concern assessment assumes that the continuation vote will be passed. If a continuation resolution is not passed, the Directors shall put proposals to the shareholders for the reconstruction and reorganisation of the Company.

4. *Discount Control Mechanism* – the Company's Ordinary Shares did not trade at an average discount in excess of 5% of the NAV per share over the Discount Calculation Period ended 31 March 2019 and as a result the Discount Control Mechanism has not been triggered. The Company has repurchased Ordinary Shares in the market for cancellation to assist in controlling the discount in the Ordinary Share price to NAV per Ordinary Share. Although the Board operates an active discount management policy to mitigate any discount to NAV per share, there can be no guarantee that they will do so or that such mechanisms will be successful. Please refer to pages 8 and 9 for details regarding the Discount Control Mechanism and Redemption Offer and note 9 for details of Ordinary Share buybacks.

Taking into consideration the analysis detailed above, the Company's ability to meet its liabilities as they fall due and reasonably manage any uncertainties as they arise, and after making enquiries of the Company's Investment Manager and Corporate Brokers, the Directors who are also in regular contact with a range of investors, are satisfied that it is appropriate to continue to prepare the financial statements on a going concern basis.

This Strategic Report was approved by the Board of Directors on 27 June 2019 and signed on its behalf by:

Ian Fitzgerald
Chairman

Jonathan Bridel
Audit Committee Chairman

Investment Manager's Report

Summary

The Sterling NAV per Ordinary Share posted a marginal decline during the 12 months to 31 March 2019, from 104.98p to 104.05p as published on the RNS. This was predominantly driven by market specific conditions during the year:

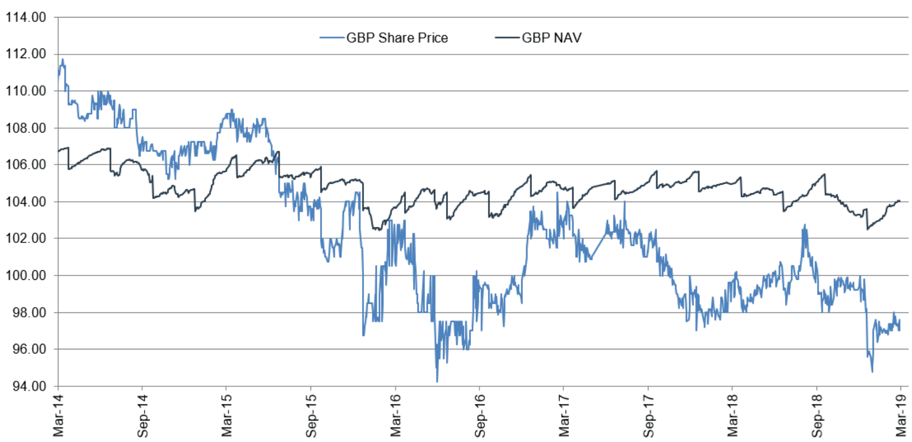
- The NAV per Ordinary Share saw some weakness in Q2 2018, when higher than average issuance in the European leveraged loan market meant investors could be more selective in choosing which deals to invest in, and demand higher margins for these new issue loans. This put pressure on secondary trading levels as investors sold existing lower margin loans to buy the more attractively priced new issue loans.
- Q3 2018 saw lower loan issuance volumes, which when coupled with continued strong demand, mean the market saw a strong recovery and NAV per Ordinary Share was higher.
- Q4 2018 saw contagion from broader financial market volatility impact demand for European Leverage Loans and the market saw weakness, with the NAV per Ordinary Share declining. Q1 2019 has seen a strong rebound, as the concerns that drove the Q4 2018 weakness saw improvement (e.g. Global Trade, Politics etc.).

The dividend has grown from 4.26p for the 12 months ended 31 March 2018 to 4.46p for the 12 months ended 31 March 2019. This was predominantly driven by the GBP base rate increase in August 2018 from 0.5% to 0.75%. The weighted average spread of the assets in the Company has been broadly stable over the year.

The Ordinary Share price has fallen from 98.86p to 97.01p over the year, with the discount to NAV as of 31 March 2019 standing at (6.37%). We believe the share price will be partly linked to investors' views on the prospects for UK interest rate rises. At present, UK interest rates of 0.75% do not make a significant contribution to floating rate returns, or indeed have a significant negative impact on fixed rate returns in other credit portfolios. With the continued uncertainty around Brexit, the probability for a near term rate hike remains low. Economists do however believe that there is scope for rate rises post a Brexit solution, due to strong underlying fundamentals. The most immediate boost to the share price of the Company is likely to come from the development of this rate rise scenario.

European Leverage Loan Defaults hit an all-time low in January 2019 of 0.0% and have remained at this level through March 2019.

AEFS Daily NAV and Discount/Premium[1]



[1] AEFS is the Bloomberg ticker for the Fund.

Alcentra Floating Rate Income Fund Ltd – daily prices and NAVs per share.

Source: Bloomberg Company share price and NAV per share as at 29 March 2019.

Past performance is not a guide to future performance.

Investment Manager's Report (continued)

Note on Foreign Exchange Hedging in period

The Company maintains its account in EUR and with the outstanding Ordinary Shares in issue solely denominated in GBP, the Company activity hedges foreign exchange risk by utilising foreign exchange forward contracts.

Over the year, the Company generated a small net hedging gain due to GBP strengthening against EUR.

Portfolio and Performance

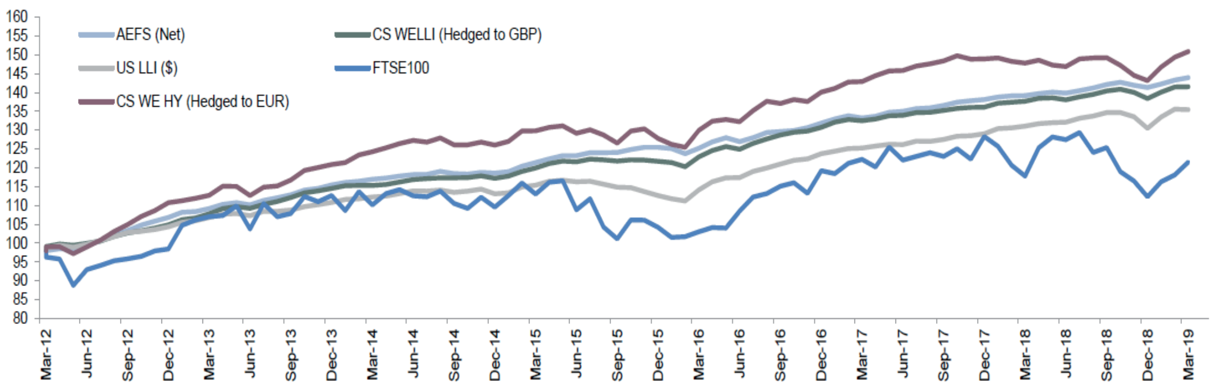
As at 31 March 2019, the portfolio was invested in line with the Company's investment policy and was diversified by obligor and industry with 97 issuers/borrowers across 28 different industry sectors and no individual borrower representing an exposure of more than 5% of the portfolio.

Against a volatile financial markets backdrop over the past few years, the Company's performance has been strong and with lower volatility than HY and equity markets.

The Company remains relatively conservatively positioned, with low exposure to USD assets (6% of the Company) and Fixed Rate Bonds (3.5%). USD and fixed rate assets were particularly weak in Q4 2018, when broader financial market volatility led to higher investor outflows in these asset classes. European Loans, the core focus of the Company, held up relatively well due to a lesser selling pressure from redemptions.

The strong performance relative to the Loan Index was predominantly driven by strong asset selection within the fund during the period, partially offset by a small element of cash drag.

Total return of AEFS versus the indices



CS WELLI – Credit Suisse Western European Leveraged Loan Index

US LLI – Credit Suisse US Leveraged Loan Index

FTSE100 – share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation.

Key Portfolio Statistics and Positioning as at 29 March 2019

The Company remains relatively conservatively positioned but with an attractive current floating rate margin of 4.42% and yield to maturity of 6.53%:

- The Company's current exposure to junior debt at 5.17% remains low as we do not currently believe that the risk adjusted return for junior debt is attractive.
- Similarly, exposure to fixed rate assets remains low at 3.5% for the same reason.
- The Company maintains a low exposure to USD debt at 6.0% as the cost of hedging these assets means the returns for a Euro NAV fund are not attractive, while volatility for USD Loans is higher than for EUR loans.

Investment Manager's Report (continued)

Key Portfolio Statistics and Positioning as at 29 March 2019 (continued)

From a sector point of view we are focussed on investing in more defensive sectors, with the largest sector exposure being Services, Healthcare and Drugs. We remain underweight on sectors such as Retail, which is experiencing structural changes away from the high street as well as more cyclical and capex intensive sectors such as Autos and Shipping.

While headline UK exposure at 21% appears high, a large portion of the issuers classified as UK are actually more global or pan-European in nature. As such, the Company's direct exposure to the UK economy is lower, with limited exposure to businesses at risk from Export tariffs. The remaining direct exposure to the UK economy is focused on more defensive sectors like media, telecommunications, gaming and information technology.

Key Statistics	
Number of Issuers	96
Number of Assets	117
Number of Industries	26
Weighted Average Mid Price of the Portfolio	97.45
Portfolio Current Yield	5.01%
Yield to Maturity (Legal)	6.53%
Percentage of Portfolio in Floating Rate Assets	89.61%
Weighted Average Floating Rate Plus Margin	4.42%
Weighted Average Coupon	5.97%
Weighted Average Maturity (Years)	5.00

5 Largest Holdings			
Issuer	**% of NAV**	**Currency**	**Country**
ERM	2.25	USD	UK
Busy Bees	2.21	GBP	UK
Stada	2.00	EUR/GBP	DE
Stiga	1.91	USD	UK
Infinitas	1.88	EUR	NL

5 Largest Industry Positions	
Issuer	**% of NAV**
Business Equipment and Services	13.83
Health Care	11.91
Drugs	8.11
Financial Intermediaries	7.30
Retailers (other than food/drug)	6.15

Asset Breakdown	% of NAV
Senior secured loans	83.44
Senior secured FRNs	1.00
Mezzanine loans/Junior debt	5.17
Senior secured bonds	3.53
Cash	6.86

Currency Breakdown	% of NAV
Euro	66.21
Pound Sterling	20.06
US Dollar	6.02
Swiss Franc	0.85
Cash	6.86

Geographical Region	% of NAV
UK	21.42
France	19.66
Germany	12.95
Netherlands	9.30
USA	7.14
Luxembourg	5.79
Spain	4.75
Italy	2.30
Sweden	2.22
Other	7.61
Cash	6.86

Investment Manager's Report (continued)

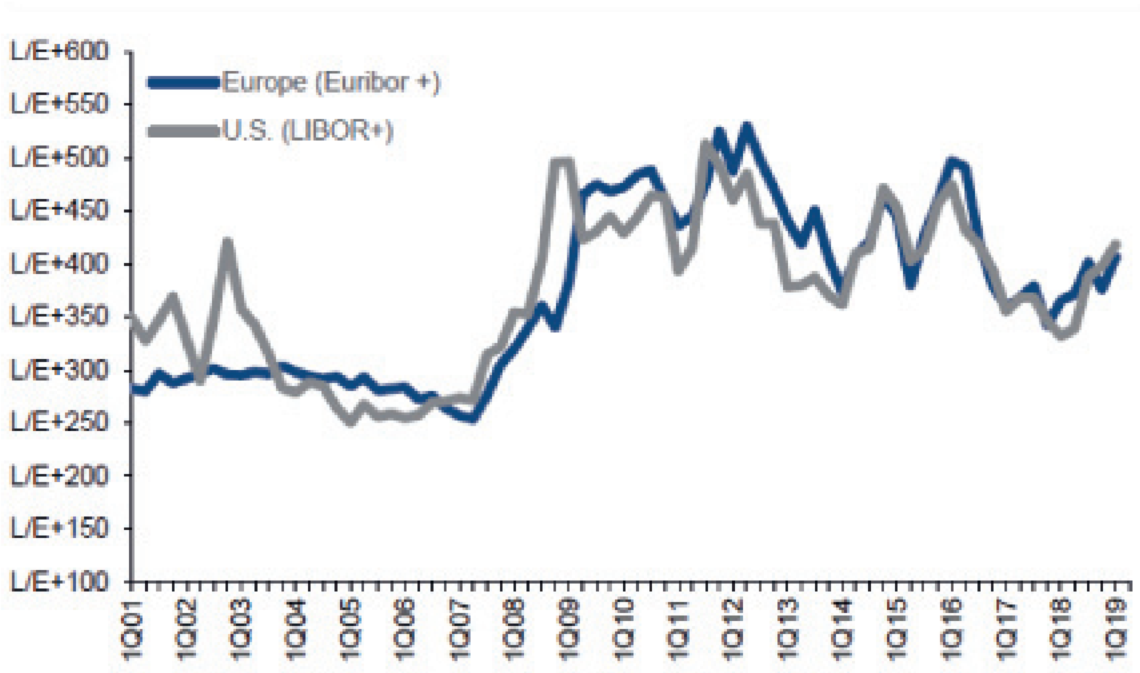
Senior Secured Loans – An Investment Opportunity

Key attractions of loans

Senior Secured Loans offer attractive risk adjusted return relative to other asset classes with low volatility and default rates.

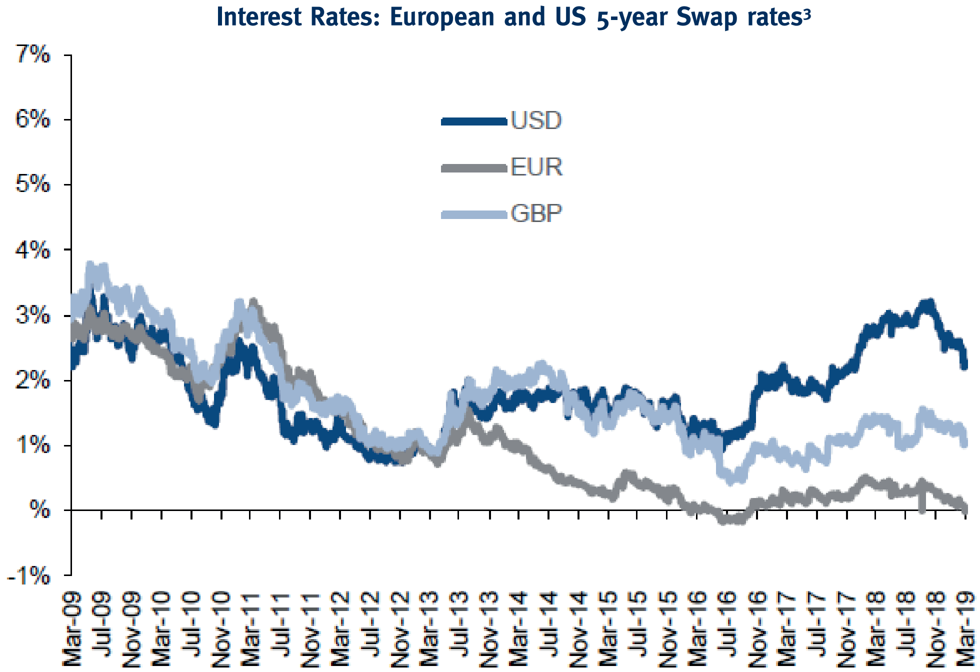
- In Q1 2019, the average new issue spread was E 4.06%.[2]
- Senior secured loans – lower risk of loss in the event of default compared to unsecured asset classes.
- Low market default rates of 0.00%.[2]
- Low secondary market price volatility compared to other asset classes.
- Floating rate income benefiting from an interest rate increase.

New issue spreads[2]



[2] Standard & Poor's LCD Global Leveraged Lending Review Q1 2019.

Investment Manager's Report (continued)



European Loan Market Commentary

Robust Fundamentals

- Despite a continued low growth environment in Europe, defaults have stayed low, with the S&P's default rate at 0.00% in March 2019, versus 1.18% in March 2018. The Company has had no impairments from defaults since inception.
- The US has seen a strong GDP recovery since the Financial Crisis and there is much current debate about US being late cycle.
- Core European economies have seen a shallower recovery and growth differs by country.

Supportive Technicals

After strong net issuance growth in 2018, Q1 2019 European loan issuance volumes were down 42%, however this was versus a record quarterly issuance in the prior year, and the total issuance of €20.4 billion in the quarter was broadly in-line with quarterly averages in recent years.

Q1 2019 saw the 2018 trend of gradual widening of new issue spreads continue. Despite solid demand, with CLO issuance +11% in the quarter, and lower issuance, the market remains disciplined. Q1 2019 average new issue margin stood at 406bps.

[3] Bloomberg, US Dollar, EURO and GBP 5-Year Swap Rates, 28 March 2019.

Investment Manager's Report (continued)

European Loan Market Size (billion)[4]

Institutional new-issue loan volume[5]

4 Credit Suisse Western European Leveraged Loan Index March 2019.

5 Standard & Poor's Global Interactive Report March 2019.

Investment Manager's Report (continued)

Outlook for 2019

Credit markets performed strongly in the first quarter of 2019 as prices rebounded from the Q4 2018 weakness. The more volatile credit markets performed particularly well after trading lower in Q4 2018, with US loans up 3.78%[6] and Euro HY up 5.18%[7], while the Credit Suisse Western European Leveraged Loan Index ("CS WELLI") (hedged to EUR) returned 2.01%[8] for the same period.

We continue to expect issuance of €70 billion to €80 billion for the full year, lower than the €96 billion[9] level seen in 2018. Issuance is expected to remain robust given private equity sponsors still have excess capital to put to work, however we do not expect as many jumbo deals as were seen in 2018.

On the demand side we expect appetite for European loans to remain solid. We expect the CLO market, a large part of the European investor base, to see slower issuance over the full year as the cost of leverage has risen (particularly AAA spreads). A recovery in this market would help further support demand for European Loans.

We continue to expect low default rates and we would anticipate 1.5%-2% for 2019. There remains some scope for volatility with Brexit, more European elections, QE and Trump all likely to feature in the headlines.

However, we would still expect the core European Loan market to continue to be relatively well insulated in comparison to other asset classes. New CLOs, unlevered loan funds and to a lesser extent banks, will all continue to drive demand and the underlying, senior secured borrowers are more resilient to the macro factors mentioned above.

For 2019 we would expect a coupon return year, with the potential for some capital upside if market conditions remain positive.

Alcentra Limited

27 June 2019

6 US HY (HoAo)
7 EU HY (HPoo)
8 Credit Suisse Western European Leveraged Loan Index, 31 December 2018
9 Standard & Poor's Global Interactive Report December 2018

Director's Report

The Directors present the Annual Report and audited financial statements of the Company for the year ended 31 March 2019.

Board of Directors

The Directors of the Company who served during the year and their biographies are detailed on pages 20 and 21.

Directors' Interests

None of the Directors had a material interest in any contract, which is significant to the Company's business. The Directors had the following interest in the Company's share capital during the year ended 31 March 2019 as follows:

Director	Number of Ordinary Shares
Ian Fitzgerald	15,000
Jonathan Bridel	5,000
Anne Ewing	5,000
Trudi Clark	7,500

There have been no changes in the interests of the Directors since the year-end.

Statement of Disclosure of Information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and that they have taken the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Internal Controls and Risk Management

The Risk Committee has established a process for identifying, evaluating and managing any major risks faced by the Company. The process is subject to regular review by the Board and accords with the AIC Code.

The Risk Committee is responsible in ensuring that all risks affecting the Company are identified through a robust assessment and that a policy is implemented to mitigate, monitor and manage these risks which should include:

- Market risk;
- Liquidity risk;
- Counterparty risk;
- Operational risk; and
- Conflicts of interest.

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board receives reports from the Investment Manager on the Company's risk evaluation process and reviews changes to key risks identified. The Board has undertaken a full review of the Company's business risks, which have been analysed and recorded in a risk report, which is reviewed and updated regularly. Each quarter the Board receives a formal report from the Investment Manager which details the steps taken to monitor the areas of risk including those that are not directly the responsibility of the Investment Manager and which reports the details of any known internal control failures. The Administrator provides the Board with an annual report on its internal controls which includes a report from the Administrator's auditor on the control policies and procedures in operation.

The Investment Manager has established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Investment Manager's compliance and risk department on an on-going basis. The Investment Manager's controls processes have also been outlined to the Board.

The Management Engagement Committee conducted a review of the Investment Manager, the Administrator and the Custodian during the year ended 31 March 2019 and had concluded that the performance of all had been satisfactory and no internal control issues were noted.

Director's Report (continued)

Internal Controls and Risk Management (continued)

The Board's assessment of the Company's key risks and uncertainties is set out on pages 6 to 8.

By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of internal controls for the year ended 31 March 2019 and to the date of approval of this Annual Report and that no issues have been noted.

Share Capital

The share capital of the Company consists of an unlimited number of shares which the Directors may classify as Ordinary Shares, B Shares, or C Shares of such classes denominated in such currencies as the Directors may determine. Since inception of the Company, no B or C Shares have been issued.

Notifications of Shareholdings

The Company had been notified in accordance with Chapter 5 of the DTR (which covers the acquisition and disposal of major shareholdings and voting rights), of the following shareholders that had an interest of greater than 5% in the Company's issued share capital.

31 March 2019	**Number of voting rights**	**Percentage of total voting rights (%)**
CCLA Investment Management Limited (UK)	19,488,930	12%
FIL Limited	14,405,742	9%
Alder Investment Management Ltd (UK)	9,572,174	6%

There were no new notifications received between 1 April 2019 and 26 June 2019.

Borrowing Limits

The Company does not and will not utilise leverage to achieve its investment objective, save that it is anticipated that the Company may seek access to a revolving credit facility to allow it to take advantage of opportunities to purchase whole portfolios of assets should these become available. Any such borrowing would be intended to be short term until such time as it could be repaid through the issuance by the Company of new shares and will at all times be subject to a maximum leverage level equal to 20% of the Company's NAV at the time of drawdown of any such borrowing.

There were no borrowings as at 31 March 2019 (31 March 2018: £nil).

Global Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from its operations for the year to 31 March 2019, nor does it have responsibility for any other emission-producing sources.

Independent Auditor

KPMG Channel Islands Limited ("KPMG"), has indicated its willingness to continue in office as auditor and a resolution proposing its re-appointment and to authorise the Directors to determine its remuneration will be proposed at the forthcoming AGM.

Events After the Reporting Date

The Directors are not aware of any developments that might have a significant effect on the operations of the Company in subsequent financial periods that are not already disclosed in this report or the attached audited financial statements. Note 15 details the events after the reporting date.

For and on behalf of the Board

Ian Fitzgerald
Chairman
27 June 2019

Directors' Biographies

Ian Fitzgerald (Non-Executive Chairman and Chairman of the Risk Committee)

Ian is currently a Director and Chief Executive Officer of Loans Specialist Advisory Services Limited, a company established to provide specialist loan product business services. Ian held senior management positions within Lloyds Bank Capital Markets from 1997 to 2011. From 2004 he was Managing Director and Head of Loan Markets, responsible for the bank's primary and secondary loan market businesses globally, including all corporate, acquisition, leveraged, project, infrastructure and property-related loan finance.

Ian joined Lloyds from Hill Samuel as Head of Loan Syndication and Distribution, upon Lloyds' merger with Hill Samuel TSB Bank plc in 1997. Prior to joining Hill Samuel in 1992, Ian held senior lending and syndicate roles at Chemical Bank, Manufacturers Hanover Limited, Bankers Trust International Limited, and other financial institutions. Ian commenced his banking career with Barclays Bank International in 1975. Ian was formerly a non-executive Director of the Loan Market Association and chairman from 2009 to 2011.

Jonathan Bridel (Non-Executive Director and Chairman of the Audit Committee)

Jonathan is a Guernsey resident and is currently a non-Executive Director of the Renewables Infrastructure Group Limited (FTSE 250), Starwood European Real Estate Finance Limited, SME Credit Realisation Fund Limited and Sequoia Economic Infrastructure Income Fund Limited (FTSE 250) which are listed on the Main Market of the London Stock Exchange. Other companies for which Jonathan acts as a Director include DP Aircraft I Limited and Fair Oaks Income Fund Limited. Jonathan was previously Managing Director of Royal Bank of Canada's ("RBC") investment businesses in the Channel Islands and served as a Director on other RBC companies including RBC Regent Fund Managers Limited. Prior to joining RBC, Jonathan served in a number of senior management positions in banking, specialising in credit and corporate finance and private businesses as Chief Financial Officer in London, Australia and Guernsey having previously worked at Price Waterhouse Corporate Finance in London.

Jonathan graduated from the University of Durham with a degree of Master of Business Administration, holds qualifications from the Institute of Chartered Accountants in England and Wales (1987) where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. Jonathan is a Chartered Marketer and a member of the Chartered Institute of Marketing, a Chartered Director and Fellow of the Institute of Directors, and a Chartered Fellow of the Chartered Institute for Securities and Investment.

Anne Ewing (Non-Executive Senior Independent Director, Chairman of the Remuneration and Nomination Committee)

Anne graduated with a Masters of Science Degree in Corporate Governance & Administration/Grad ICSA and holds an ACCA Certified Diploma in Accounting & Finance. Anne is a Chartered Fellow of the Chartered Institute of Securities & Investment, a Fellow of the Institute of Chartered Secretaries and Administrators and a past Guernsey Chairman, a Retired Member of the Association of Corporate Treasurers, a member of the Institute of Directors and is a past Guernsey Branch Chairman. Anne is a personal member of the Guernsey Investment Fund Association.

Anne has over 35 years of financial services experience in banking, asset and fund management, corporate treasury, life insurance and the fiduciary sector. Anne has held senior roles in Citibank, Rothschilds, Old Mutual International and KPMG Channel Islands Limited and latterly has been instrumental in the start-ups of a Guernsey fund manager and two fiduciary licensees. Anne has a number of Non-Executive Directorships in private equity structures, and in a banking group in London and the Channel Islands. Anne is currently an Independent Non-Executive Director of Alcentra Structured Credit Opportunities Fund III GP Limited and of Merian Chrysalis Investment Company Limited.

Directors' Biographies (continued)

Trudi Clark (Non-Executive Director, Chairman of the Management Engagement Committee) (Appointed 1 November 2018)

Trudi Clark graduated with a first class honours degree in business studies and is a qualified Chartered Accountant. She spent 10 years in Chartered Accountancy practices in the UK and Guernsey. In 1991 she joined the Bank of Bermuda to head their European Internal Audit function before moving into private banking in 1993.

Between 1995 and 2005 she was with Schroders (C.I.) Limited, an offshore private bank and investment manager. She was appointed Banking Director in 2000 and Managing Director in 2003. In 2006 she left Schroders to establish and run a private family office. In July 2009 Trudi went on to establish the Guernsey practice of David Rubin & Partners Limited, an internationally known insolvency and liquidation specialist. Since 2017 Trudi is concentrating on a portfolio of non-executive directorships. Trudi is currently an Independent Non-Executive Director of BMO Commercial Property Trust, NB Private Equity Partners Limited, River and Mercantile UK Micro Cap Investment Company Limited and The Schiehallion Fund Limited.

Corporate Governance Report

Introduction

The Board is committed to high standards of corporate governance and has put in place a framework for corporate governance which it believes is appropriate for the Company.

Applicable Corporate Governance Codes

The AIC Code requires listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code (the "UK Code") as issued by the Financial Reporting Council ("FRC"). It provides specific corporate governance guidelines to investment companies.

The Board considers that reporting against the principles and recommendations of the AIC Code and by reference to the AIC Guide (which incorporates the UK Code), will enable shareholders to make a comprehensive assessment of the Company's governance principles.

The FRC has confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide will be meeting obligations in relation to the UK Code, paragraph 9.8.6 of the Listing Rules and associated disclosure requirements of the DTR.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites www.theaic.co.uk and www.frc.org.uk.

Corporate Governance Statement

The AIC Code and 2019 AIC Code adapts the principles and provisions set out in the UK Code to make them relevant for investment companies and the Directors believe that during the year under review they have complied with all the recommendations of the AIC Code and the relevant provisions of the UK Code insofar as they apply to the Company's business except as set out below:

- the role of the chief executive;
- executive Directors' remuneration; and
- internal audit function.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company, being an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Company complies with the corporate governance statement requirements pursuant to the DTR by virtue of the information included in the Corporate Governance section of the Annual Report together with information contained in the Strategic Report and Directors' Report.

The Board, Independence and Composition

The Board consists of four Directors, all of whom are independent of the Investment Manager and demonstrate a breadth of investment, accounting, professional knowledge and experience. Jonathan Bridel, Anne Ewing and Trudi Clark are resident in Guernsey, Ian Fitzgerald is resident in the UK. The Directors' biographies are listed on page 20 and 21.

Jonathan Bridel who will retire from the Board on 30 June.

The Board considers that all the Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be conveyed. The balance and independence of the Board is kept under review by the Remuneration and Nomination Committee, details of which can be found on page 23.

The Directors consider that there are no factors, as set out in the AIC Code, which compromise the Chairman's or other Directors' independence and that they all contribute to the affairs of the Company in an adequate manner. The Board reviews the independence of all Directors annually.

Anne Ewing is a Senior Independent Director and acts as chairman if the Chairman is unable to attend a Board meeting.

Anne Ewing is also a director of an investment company which is also managed by the Investment Manager. The Board believe that Anne Ewing's relationship with the Investment Manager does not affect her judgement in

Corporate Governance Report (continued)

The Board, Independence and Composition (continued)

respect of her duties. The Board have discussed Anne Ewing's independence with regard to the AIC's guidance on this matter and concluded that Anne Ewing is independent.

The Board is actively looking at its composition and succession planning.

Directors' Duties and Responsibilities

The Chairman's responsibilities include the leadership, operation and governance of the Board, ensuring effectiveness, and setting the agenda for the Board.

The Board meets at least four times each year and deals with the important aspects of the Company's affairs, including the setting and monitoring of investment strategy and the review of investment performance. The Investment Manager takes decisions as to the purchase and sale of individual investments, in line with the investment policy and strategy set by the Board. The Investment Manager, together with the Company Secretary, also ensures that all Directors receive all relevant management, regulatory and financial information relating to the Company and its Portfolio of investments in a timely manner. Representatives of the Investment Manager attend each Board meeting, enabling Directors to question any matters of concern or seek clarification on certain issues. Matters specifically reserved for decision by the full Board have been defined and a procedure adopted for Directors in the furtherance of their duties to take independent professional advice at the expense of the Company.

The Company Secretary acts as secretary to the Board and committees and in doing so it:

- assists the Chairman in ensuring that all Directors have full and timely access to all relevant documentation;
- organises induction of new Directors; and
- is responsible for ensuring that the correct Board procedures are followed and advises the Board on corporate governance matters.

Board and Committees

The Board has established four committees: the Audit Committee, the Management Engagement Committee, the Remuneration and Nomination Committee and the Risk Committee. Each committee membership comprises all Directors, except for the Audit Committee, and operate within clearly defined terms of reference and duties. The terms of reference for each committee are available on the Company's website: www.aefrif.com.

Audit Committee

The Audit Committee is responsible for the provision of effective governance over the appropriateness of the Company's financial reporting including the adequacy of related disclosures, the performance of the external auditor and the management of the Company's systems of internal controls and business risks. Meetings of the Audit Committee are to be held at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

The report on the role and activities of the Audit Committee and its relationship with the external auditor is set out in the Audit Committee Report.

On 6 November 2018, Ian Fitzgerald stepped down from the Committee, in advance of the issuance of the 2019 AIC Code, which recommended that the Chairman of the Board should not be a member of the Audit Committee. Trudi Clark will assume the chair of the Audit Committee when Jonathan Bridel retires on 30 June 2019.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is responsible for ensuring that the Board comprises individuals with the necessary skills, knowledge and experience to ensure that it is effective in discharging its responsibilities and oversight of all matters relating to corporate governance and to review the on-going appropriateness and relevance of the remuneration policy. Anne Ewing is the Chairman of the Remuneration and Nomination Committee.

Corporate Governance Report (continued)

Board and Committees (continued)

Performance Evaluation

The Remuneration and Nomination Committee undertakes an evaluation of the Board on an annual basis. The performance of each Director is considered as part of a formal review by the Remuneration and Nomination Committee. The Directors also meet without the Chairman present in order to review his performance.

A formal external evaluation of the Board and Chairman was undertaken during the first quarter of 2019. The findings of the evaluation were positive and the Board are currently considering the operational items raised within.

The Committee reviewed the performance of the Chairman in his role and agreed that Mr Fitzgerald is very experienced and his performance and leadership are an asset to the Company. The Chairman also reviews each individual Director's contribution.

As a result of the recommendations made in this year's performance evaluation, the Board has agreed:

- that all Directors are considered independent; and
- all Directors, with the exception of Jonathan Bridel, should be proposed for reappointment at the 2019 AGM.

The Remuneration and Nomination Committee considers that while the Board is small in number, it is very well balanced, works well together and has diversity through thought, experience, skills, qualifications, gender and age.

Management Engagement Committee

The Management Engagement Committee is responsible for reviewing the performance of all service providers (including the Investment Manager). Trudi Clark is the Chairman of the Management Engagement Committee.

The Board reviews the performance of the Company's third-party service providers together with their anti-bribery and corruption policies to ensure that they comply with the Bribery Act 2010 and the Prevention of Corruption (Bailiwick of Guernsey) Law 2003, and ensure their continued competitiveness and effectiveness.

As part of the Board's ongoing evaluation of third party service providers, it considers and reviews on a periodic basis contractual arrangements with the major service providers of the Company. A review of the major service providers was conducted on 30 January 2019 and the Committee concluded the performance of all the providers had been satisfactory.

The Committee also performs periodic reviews of the Investment Manager's procedures for undertaking investment decisions to ensure decisions are consistent with the approved investment policy and strategies of the Company.

The Directors have adopted a procedure whereby they are required to report any potential acts of bribery and corruption in respect of the Company to the Company's Compliance Officer.

Trudi Clark was appointed to the Chair of the Committee on 16 November 2018.

Risk Committee

The main roles of the Risk Committee are identifying and assessing the key risks and uncertainties facing the Company, recording and monitoring the position of such risks on a periodic basis and assessing any mitigating factors of such risks and the controls implemented by the Risk Committee to mitigate such risks. This analysis is performed as part of the Business Risk Assessment. Ian Fitzgerald is the Chairman of the Risk Committee. The key risks and uncertainties facing the Company that the Board have identified are detailed on pages 6 to 8.

The Risk Committee is also responsible for the oversight of the operational activity including working capital, corporate governance of the Company and monitoring the regulatory requirements applicable to the Company under the Alternative Investment Fund Manager Directive ("AIFMD"). The Committee will also examine the valuation of the Company investments periodically throughout the year.

Corporate Governance Report (continued)

Board and Committees (continued)

Risk Committee (continued)

Attendance at scheduled meetings of the Board and its committees for the year ended 31 March 2019

	Board	Audit Committee	Management Engagement Committee	Remuneration and Nomination Committee	Risk Committee
Number of meetings during the year	**10**	**4**	**2**	**3**	**5**
Ian Fitzgerald[1]	5	2	1	3	4
Anne Ewing	10	4	2	3	5
Jonathan Bridel	10	4	2	3	5
Trudi Clark[2]	4	2	2	1	2

[1] Ian Fitzgerald is resident in the UK and prevented by the Company's Articles of Incorporation from attending Board meetings from the UK.

[2] Trudi Clark attended all Board meetings after appointment on 1 November 2018.

The Committees report to the Board as part of a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of their work.

In addition to the four quarterly Board meetings, an additional full Board meeting, one committee Board meeting and one ad-hoc Board meetings were held during the year for various matters.

Directors unable to attend a Board meeting are provided with the board papers and can discuss issues arising in the meeting with the Chairman or another Director.

Directors' Appointment, Retirement and Rotation

The Articles of Incorporation require that all Directors submit themselves for election by shareholders at the first opportunity following their appointment and shall not remain in office longer than three years since their last election or re-election without submitting themselves for re-election. The AIC guide states that all non-executive Directors should be submitted for re-election by shareholders at regular intervals and that nomination for re-election should not be assumed but be based on disclosed procedures and continued satisfactory performance.

All Directors appointed at the time of the last AGM will stand for re-election at the AGM on 26 September 2019, with the exception of Jonathan Bridel who will retire on 30 June 2019. Trudi Clark will be proposed for election by shareholders for the first time at the AGM.

No Director has a service contract with the Company. Directors have agreed letters of appointment with the Company, copies of which are available for review by shareholders at the Registered Office and will be available at the AGM. Any Director may resign in writing to the Board at any time by providing the required notice.

Tenure of Non-Executive Directors

The Board has adopted a policy on tenure that is considered appropriate for an investment company. The Board considers that length of service does not, by itself, lead to a closer relationship with the Investment Manager or necessarily affects a Director's independence.

The Board's tenure policy seeks to ensure that the Board is well balanced and will be refreshed from time to time by the appointment of new Directors with the skills and experience necessary to replace those lost by Directors' retirements or to complement those of the existing Directors. The achievement of a sensible balance is the most important objective for the Board. Directors must be able to demonstrate their commitment to the Company. The Board seeks to encompass relevant past and current experience of various areas relevant to the Company's business. The Board will further consider succession planning and the possibility of appointing an additional Director to aid succession planning as the Company grows.

	Date first elected by shareholders	Date last elected by shareholders	Years from last election to 2019 AGM
Ian Fitzgerald	November 2012	September 2018	1
Jonathan Bridel	November 2012	September 2018	1
Anne Ewing	November 2012	September 2018	1
Trudi Clark[3]	N/A	N/A	N/A

[3] Trudi Clark was appointed on 1 November 2018 and will be proposed for election by shareholders at the AGM in 2019.

Corporate Governance Report (continued)

Conflict of Interests

The Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. Directors are required to disclose all actual and potential conflicts of interest to the Chairman in advance of any proposed external appointment. Only Directors who have no material interest in the matter being considered will be able to participate in the Board approval process. In deciding whether to approve an individual Director's participation, the other Directors will act in a way they consider to be in good faith in assessing the materiality of the conflict in accordance with the Company's Articles of Incorporation.

The Board believes that its powers of authorisation of conflicts of interest have operated effectively. The Board also confirms that its procedure for the approval of conflicts of interest has been followed by the Directors.

Board Diversity

The Board supports the recommendations of the Davies Report and believes in and values the importance of diversity, including gender, to the effective functioning of the Board.

However, the Board does not consider it appropriate or in the interest of the Company and its shareholders to set prescriptive targets for gender or nationality on the Board. Any future appointments would be primarily based on merit of skills, experience and knowledge.

Induction/Information and Professional Development

Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise along with changes to best practice from, amongst others, the Company Secretary and the auditor. Advisers to the Company also prepare reports for the Board from time to time on relevant topics and issues. In addition, Directors attend relevant seminars and events to allow them to continually refresh their skills and knowledge and monitor changes within the investment industry. The Chairman reviewed the training and development needs of each Director during the annual Board evaluation process. The Chairman confirmed that all Directors actively kept up to date with industry developments and issues. Seminars and events attended include those provided by the AIC.

When a new Director is appointed to the Board, they will be provided with all relevant information regarding the Company and their duties and responsibilities as a Director. In addition, a new Director will also spend time with representatives of the Investment Manager in order to learn more about their processes and procedures.

Director's Remuneration and Annual Evaluation of the Board and that of its Audit Committee and Individual Directors

The Remuneration and Nomination Committee periodically reviews the fees paid to the Directors and compares these with the fees paid by listed companies generally.

An evaluation of the Board is undertaken annually and considers the balance of skills, experience, independence and knowledge, its diversity, how the Board works together as a unit, and other factors relevant to its effectiveness.

It is intended that the Board shall, at least once every three years, engage a third-party to perform an external review of the Board's performance, constitution and terms of reference to ensure that it is operating effectively and to recommend any changes it considers necessary. Refer to page 24 for a summary of the external review performed during the year.

There was no change to the Director's remuneration during the year ended 31 March 2019. Details of the remuneration arrangements for the Board can be found in the Directors' Remuneration Report.

Independent Advice

The Board recognises that there may be occasions when one or more of the Directors feels it is necessary to take independent legal advice at the Company's expense. A procedure has been adopted to enable them to do so, which is managed by the Company Secretary.

Corporate Governance Report (continued)

Indemnities

To the extent permitted by the Companies Law, the Company's Articles of Incorporation provide an indemnity for the Directors against any liability except such (if any) as they shall incur by or through their own breach of trust, breach of duty or negligence.

During the year, the Company has maintained insurance cover for its Directors and Officers under a Directors' and Officers' liability insurance policy.

Relationship with the Investment Manager and the Administrator

The Board has delegated various duties to external parties including the management of the investment portfolio, the custodial services (including the safeguarding of assets), the registration services and the day-to-day company secretarial, administration and accounting services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers reports regularly from the Investment Manager and ad hoc reports and information are supplied to the Board as required. The Investment Manager takes decisions as to the purchase and sale of individual investments. The Investment Manager complies with the risk limits as determined by the Board and has systems in place, including stress testing, to monitor the liquidity risk of the Company. The Investment Manager and Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager and Administrator attend each Board meeting enabling the Directors to probe further on matters of concern.

A formal schedule of matters specifically reserved for decision by the full Board has been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. The Directors have access to the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Investment Manager and the Administrator operate in a supportive, co-operative and open environment.

Continued Appointment of the Investment Manager

The Board reviews investment performance at each Board meeting and a formal review of all service providers is conducted annually by the Management Engagement Committee. As a result of the review it is the opinion of the Directors that the continued appointment of the current Investment Manager on the terms agreed is in the interest of the Company's shareholders as a whole.

The Investment Manager has extensive investment management resources and wide experience in managing investment companies.

Shareholder Engagement

The Board believes that the maintenance of good relations with shareholders is important for the long-term prospects of the Company. It has, since admission, offered to engage with investors and liaises closely with the Company's corporate broker in this respect. During the year, the Chairman met with a number of the larger investors who are supportive of the Company. The Chairman and other Directors are available for discussion about governance and strategy with shareholders and the Chairman ensures communication of shareholders' views to the Board. The Board receives feedback on the views of shareholders from its corporate broker and the Investment Manager, and shareholders are welcome to contact the Directors at any time via the Company Secretary.

The Board believes that the AGM provides an appropriate forum for investors to communicate with the Board, and encourages participation. The AGM is attended by the Directors. There is an opportunity for individual shareholders to question the Chairman, the Audit Committee, the Management Engagement Committee, Risk Committee and the Remuneration and Nomination Committee at the AGM. Details of proxy votes received in respect of each resolution will be made available to

Corporate Governance Report (continued)

Shareholder Engagement (continued)

shareholders at the meeting and will be posted on the Company's website following the meeting.

The Annual and Interim Reports and a monthly fact sheet are available to provide shareholders with a clear understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication on the LSE of the NAV of the Company's Shares. All documents issued by the Company can be viewed on the website: www.aefrif.com.

2019 AGM

The 2019 AGM will be held in Guernsey on 26 September 2019 at 10:00 BST. The notice for the AGM sets out the ordinary and special resolutions to be proposed at the meeting. Separate resolutions are proposed for each substantive issue.

It is the intention of the Board that the Notice of AGM be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting and specifically related to the resolutions proposed are invited to do so by writing to the Company Secretary at the address given on page 66. At other times the Company Secretary responds to letters from shareholders on a range of issues.

Voting on all resolutions at the AGM is by poll. The proxy votes cast, including details of votes withheld, are disclosed to those in attendance at the meeting and the results are published on our website and announced via the RNS.

AIFMD

AIFMD seeks to regulate alternative investment fund managers ("AIFM") and imposes obligations on managers who manage alternative investment funds ("AIF") in the EU or who market shares in such funds to EU investors. The Company is categorised as a self-managed Non EEA AIF for the purposes of the AIFM Directive. In order to maintain compliance with the AIFM Directive, the Company needs to comply with various organisational, operational and transparency obligations.

The Company has registered with the UK FCA, under the relevant national private placement regime.

This Corporate Governance Report was approved by the Board of Directors on 27 June 2019 and signed on its behalf by:

Ian Fitzgerald
Chairman

Jonathan Bridel
Audit Committee Chairman

Audit Committee Report

The Audit Committee had comprised all of the Directors, however Ian Fitzgerald stepped down from the Audit Committee on 6 November 2018. All of the Audit Committee's members have recent and relevant financial experience. The qualifications of the members of the Audit Committee are outlined in Director's Biographies and can be found on page 20 and 21.

The Chairman of the Audit Committee, Jonathan Bridel, is a Fellow of the Institute of Chartered Accountants in England and Wales and in addition serves as chairman of the audit committee for some other listed investment companies. Previously Jonathan worked in senior positions in investment, corporate finance and credit and was Chief Financial Officer of two private multinational businesses. The Board is satisfied that Jonathan has recent and relevant financial experience, as required under the UK Corporate Governance Code.

Jonathan Bridel will be succeeded by Trudi Clark as Chairman of the Audit Committee after his retirement on 30 June 2019.

The incoming Chairman of the Audit Committee, Trudi Clark, is a Fellow of the Institute of Chartered Accountants in England and Wales ("ICAEW"). She has acted as Audit Committee Chairman of a FTSE 250 Investment Company since 2014. After graduating in 1981 she spent 10 years in public practice before moving into Private Banking. From 2009 to 2018 she held a practicing certificate from the ICAEW. The Board is satisfied that Trudi has recent and relevant financial experience, as required under the UK Corporate Governance Code.

Role of the Audit Committee

The main roles and responsibilities of the Audit Committee are the provision of effective governance over the appropriateness of the Company's financial reporting including the adequacy of related disclosures, the performance of the external auditor and the management of the Company's systems of internal controls and business risks.

The Audit Committee's main functions are:

- reviewing the Company's financial results announcements and audited financial statements and monitoring compliance with relevant statutory and listing requirements;
- reporting to the Board on the appropriateness of the Company's accounting policies and practices including critical accounting policies and practices;
- advising the Board on whether the Committee believes the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- agreeing with the auditor the external audit plan including discussions on the key risk areas within the audited financial statements;
- overseeing the relationship with and appointment of the external auditor;
- considering the financial and other implications on the independence of the auditor arising from any non-audit services to be provided by the auditor;
- considering the appropriateness of appointing the auditor for non-audit services;
- scrutiny of the investment valuations; and
- compiling a report on its activities to be included in the Company's Annual Report.

Internal Controls

The Audit Committee is responsible for reviewing the effectiveness and internal control policies and procedures over financial reporting and identification, assessment and reporting of risk. The Directors have reviewed the BNP Paribas Securities Services ISAE 3402 Report for the period from 1 October 2017 to 30 September 2018 (on the description of controls placed in operation, their design and operating effectiveness) on Fund Administration and Middle Office Outsourcing, and are pleased to note that no significant issues were identified as relevant to the Company.

Audit Committee Report (continued)

Internal Controls (continued)

In accordance with the FRC's *Internal Control: Guidance to Directors*, and the FRC's Guidance on Audit Committees, the Board confirms that there is an on-going process for identifying, evaluating and managing the significant internal control risks faced by the Company.

As the Company does not have any employees it does not have a "whistleblowing" policy in place, however the Board has reviewed the whistleblowing procedures of the Investment Manager with and have noted no issues. The Company delegates its main administrative functions to third-party providers who report on their policies and procedures to the Board. Key service providers have the option to contact the Audit Chairman directly if they have any issues.

The Board believes that as the Company delegates its day-to-day administrative operations to third-parties (which are monitored by the Board), it does not require an internal audit function.

Committee Meetings

The Committee meets formally at least three times a year. Only members of the Audit Committee have the right to attend Audit Committee meetings. However, other Directors and representatives of the Investment Manager and Administrator will be invited to attend Audit Committee meetings on a regular basis and other non-members may be invited to attend all or part of the meeting as and when appropriate and necessary. The Company's external auditor, KPMG Channel Islands Limited ("KPMG") is also invited to each meeting.

In the year ended 31 March 2019, the Audit Committee met on four occasions and the members' attendance record can be found on page 25.

Significant Risks in Relation to the Audited Financial Statements

In relation to the Annual Report and audited financial statements for the year ended 31 March 2019, the Audit Committee views the valuation of Company's investments as a significant risk.

The Company's investment is the Profit Participating Bonds held in the Subsidiary, which are designated as fair value through profit or loss. The fair value of the Profit Participating Bonds are based on the NAV of the Subsidiary, which has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and applicable law.

The Audit Committee confirms that the Risk Committee continues to examine the valuation of the Company's investment and the underlying investments held in the Subsidiary periodically throughout the year. Additionally, as in prior years, the Audit Committee as part of its annual audit procedures visited the Investment Manager to discuss and review the valuation methodology of the Subsidiary's investments, internal controls and operations used by the Investment Manager. This meeting allowed the Audit Committee to gain assurances as to the appropriateness and robustness of the valuation methodology applied by the Investment Manager. The incoming Audit Committee Chairman also visited and reviewed the administration and custody operations of BNP in Jersey post year end.

The Committee regularly reviews the valuations prepared by the Investment Manager for the Subsidiary's investments where readily available market prices are not available. The valuations of these investments are scrutinised and compared against valuations of investments with similar characteristics and are also subject to a sensitivity analysis based on changes in key assumptions. As at 31 March 2019, these represented 1.95% of total investments.

In addition to the above the Committee reviewed the quarterly pricing committee minutes and also considered KPMG's approach to its audit of the valuation in respect of the Company's investment and the Subsidiary's investments. The Committee discussed in depth with KPMG its approach to testing the appropriateness and robustness of the valuation methodology applied by the Investment Manager to the Subsidiary's investments. The members of the Committee had meetings with KPMG, where the audit findings were reported. KPMG did not report any significant differences between the valuations used by the Subsidiary and the work performed during their testing process.

Audit Committee Report (continued)

Significant Risks in Relation to the Audited Financial Statements (continued)

Based on the above review and analysis, the Committee confirmed that they were satisfied with the valuation of the Subsidiary's investments and subsequently the Company's investment designated as fair value through profit or loss.

External Audit Process

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received a detailed audit plan from KPMG, identifying their assessment of these key risks. For the year ended 31 March 2019, the primary risk identified was in relation to valuation of investments. The risk is tracked through the year and the Committee challenged the work done by KPMG to test management's assumptions and estimates around this area.

The Committee assessed the effectiveness of the audit process addressing these matters through the reporting received for both the interim and year-end financial statements. The Committee sought feedback from the Investment Manager and the Administrator on the effectiveness of the audit process.

Appointment and Independence

The Committee considers the reappointment of KPMG, including the rotation of the Audit Engagement Partner, and assesses its independence on an annual basis. KPMG is required under Ethical Standards to rotate the Audit Engagement Partner responsible for the Company audit every five years. The current Audit Engagement Partner, Dermot Dempsey, has overseen the audit of the Company for five audit cycles commencing in March 2015 and hence is due to step down in 2019, to be replaced by David Alexander. KPMG has been the Company's auditor since the Company's listing in 2012.

The Committee reviews the objectivity and effectiveness of the audit process on an annual basis and considers the audit tendering provisions of the revised UK Code in determining whether the Company should put the audit engagement out to tender. The Company will consider putting the audit services contract out to tender following the audit for the year ended 31 March 2020.

Accordingly, a resolution proposing the reappointment of KPMG as the Company's auditor will be put to the shareholders at the AGM. There are no contractual obligations restricting the Committee's choice of external auditor.

Non Audit Services

To safeguard the objectivity and independence of the external auditor from becoming compromised, the Committee has a formal policy governing the engagement of the external auditor to provide non-audit services. No material changes have been made to this policy during the year. KPMG will only be appointed to provide non audit services if it is in the best interests of the Company. KPMG and the Directors have agreed that all non-audit services require the pre-approval of the Audit Committee prior to commencing any work. Fees for non-audit services are tabled annually so that the Audit Committee can consider the impact on auditor objectivity.

KPMG were remunerated as follows from 1 April 2018 to the date of approval of the audited financial statements:

	£
Audit of the Company's financial statements	48,800
Audit of the Subsidiary's financial statements	13,100
Total audit fee	**61,900**
Interim Review of the Company's financial statements	20,600
Total audit and non-audit related services fee	**82,500**
Audit and non-audit fees in presentation currency:	€
Total audit fee	**96,302**
Total audit and non-audit related services fee	**130,392**

During the year ended 31 March 2019, the only non-audit services provided by KPMG was the interim review, therefore the ratio of non-audit related services to audit-related and audit services for the year is 25%.

Audit Committee Report (continued)

Committee Evaluation

The Committee's activities formed part of the Board evaluation performed in the year. Details of this process can be found under "Performance Evaluation" on page 24.

Jonathan Bridel
Audit Committee Chairman
27 June 2019

Directors’ Remuneration Report

Annual Remuneration Statement

This report meets the relevant rules of the Listing Rules and the AIC Code describes how the Board has applied the principles relating to Directors’ remuneration. An ordinary resolution to ratify this report will be proposed at the AGM on 26 September 2019.

Changes to the Board

Trudi Clark was appointed to the Board on 1 November 2018 and as Chair of the Management Engagement Committee on 16 November 2018. All Directors will retire and stand for re-election annually, with the exception of Jonathan Bridel who will retire on 30 June 2019. Trudi Clark will assume the Chair of the Audit Committee following Jonathan Bridel’s retirement.

Remuneration Summary

The Directors of the Company are remunerated per annum as follows:

- Chairman and Chairman of the Risk Committee – £52,500.
- Chairman of the Audit Committee – £42,000.
- Chairman of the Remuneration and Nomination Committee – £40,000.
- Chairman of the Management Engagement Committee – £40,000.

The Company’s policy is that Directors may receive a fee of £5,000 each for a C-share issue or similar placement programme.

Remuneration Policy

The determination of the Directors’ fees is a matter dealt with by the Remuneration and Nomination Committee and the Board. The Committee considers the remuneration policy annually to ensure that it remains appropriately positioned. Directors will review the fees paid to the boards of directors of similar investment companies. No Director is to be involved in decisions relating to his or her own remuneration.

The Company’s policy is for the Directors to be remunerated in the form of fees, payable monthly in arrears. No Director has any entitlement to a pension, and the Company has not awarded any share options or long-term performance incentives to any of the Directors. No element of the Directors’ remuneration is performance related.

Directors are authorised to claim reasonable expenses from the Company in relation to the performance of their duties.

The Company’s policy is that the fees payable to the Directors should reflect the time spent by the Board on the Company’s affairs and the responsibilities borne by the Directors and should be sufficient to enable high calibre candidates to be recruited. The policy is for the Chairman of the Board and Chairman of the Audit Committee to be paid a higher fee than the other Directors in recognition of their more onerous roles and more time spent. The Board may amend the level of remuneration paid within the limits of the Company’s Articles of Incorporation.

Directors' Remuneration Report (continued)

Policy Table

Director's Fees Policy

Element	Operation of the Element	Maximum Potential Value	Performance Metrics Used for Fees
To recognise time spent and the responsibilities borne and to attract high caliber candidates who have the necessary experience and skills.	Director's fees are set by the Remuneration and Nomination Committee. Annual fees are paid monthly in arrears. Fees are reviewed annually and against those for Directors in companies of similar scale and complexity. Fees were last reviewed in January 2019. Directors do not receive benefits and do not participate in any incentive or pension plans.	Current fee levels are shown in the section on implementation of policy. The Company's Articles of Incorporation limit the aggregate fees payable to the Board of Directors to a total of £300,000 per annum.	Directors are not remunerated based on performance and are not eligible to participate in any performance related arrangements.

Service Contracts and Policy on Payment of Loss of Office

Any Director may resign in writing with six months' notice to the Board at any time. Directors' appointments are reviewed during the annual board evaluation.

No Director has a service contract with the Company. Directors have agreed letters of appointment with the Company.

All Directors, with exception of Jonathan Bridel, will stand for re-election annually and will be put forward for re-election by shareholders at the AGM on 26 September 2019. The names and biographies of the Directors holding office at the date of this report are listed on page 20 and 21.

Directors' Letters of Appointment

Copies of the Director's letters of appointment are available for inspection by shareholders at the Company's registered office, and are available at the AGM. The dates of their letter of appointments are shown below:

Director	Date Appointed
Ian Fitzgerald	3 January 2012
Jonathan Bridel	3 November 2011
Anne Ewing	3 November 2011
Trudi Clark	1 November 2018

Directors' Interests

The Company has not set any requirements or guidelines for Directors to own shares in the Company. Refer to page 18 for details on Directors' shareholdings in the Company.

Directors' Remuneration Report (continued)

Annual Report on Remuneration

The Company paid the following fees to the Directors for the year ended 31 March 2019.

	Fees	Other Fees[1]	Total	Fees	Other Fees[1]	Total
Director	**€**	**€**	**€**	**£**	**£**	**£**
Ian Fitzgerald	59,468	–	59,468	52,500	–	52,500
Jonathan Bridel	47,800	–	47,800	42,000	–	42,000
Anne Ewing	45,532	–	45,532	40,000	–	40,000
Trudi Clark	19,255	–	19,255	16,667	–	16,667
Total	**172,053**	**–**	**172,053**	**151,167**	**–**	**151,167**

1 The Directors were not paid any other fees during the year.

No other remuneration or compensation was paid or is payable by the Company during the year to any of the Directors, other than travel expenses of €7,641.

Anne Ewing
On behalf of the Remuneration and Nomination Committee
27 June 2019

Directors' Responsibilities Statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then 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 responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Responsibility statement of the directors in respect of the Annual Report and financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

Ian Fitzgerald
Chairman
27 June 2019

Jonathan Bridel
Audit Committee Chairman
27 June 2019

Independent Auditor's Report to the Members of Alcentra European Floating Rate Income Fund Limited

Our opinion is unmodified

We have audited the financial statements (the "Financial Statements") of Alcentra European Floating Rate Income Fund Limited (the "Company"), which comprise the Statement of Financial Position as 31 March 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 March 2019, and of the Company's financial performance and the Company's cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; 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.

Emphasis of Matter – disclosures relating to the going concern status

We draw attention to Note 2 to the Financial Statements, which describes how the Board has formed a judgment that it is appropriate to adopt the going concern basis of preparation for the Company's Financial Statements. The Board's judgment is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's ability to continue operations over a period of at least a year from the date of approval of the Financial Statements.

In response to the above our procedures included holding enquiries with the Investment Manager and Directors in respect of the going concern status of the Company. We obtained and considered supporting documentation including minutes of meetings with key shareholders and the Board's formal assessment of going concern. We then assessed the completeness and accuracy of the disclosures made in Note 2 of the Financial Statements in relation to going concern.

Our opinion is not modified in respect of this matter.

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 matters (unchanged from 2018), in addition to the Emphasis of Matter above, were as follows:

Independent Auditor's Report to the Members of Alcentra European Floating Rate Income Fund Limited (continued)

Valuation of investment at fair value through profit or loss

€156,925,154 (2018: €186,463,716)

Refer to pages 30 and 31 of the Audit Committee Report, note 3.3 accounting policy and note 7 disclosures.

The risk

Basis:

The Company's sole investment in Alcentra European Floating Rate Income S.A. (the "Subsidiary") is carried at fair value through profit or loss and represents a significant proportion of the Company's net assets. The fair value of the Subsidiary is carried at an amount equal to the Subsidiary's net asset value ("NAV"). The NAV includes the fair value of the Subsidiary's portfolio of floating rate secured loans or high-yield bonds, which are predominantly rated below investment grade or deemed by the Investment Manager to be of a corresponding credit quality (the "Portfolio"). The Portfolio's fair value is €145,364,539.

Debt instruments, representing 98.06% of the Portfolio, are valued based on price quotes. Price quotes are sourced from approved pricing providers. The approved pricing providers source price quotes from brokers/market makers and determine an average bid price after adjusting for outliers, if any.

For the remaining debt instruments, representing 1.94% of the Portfolio, where price quotes are unavailable or deemed not to be representative of fair value, the Investment Pricing Committee of the Investment Manager determines fair value using valuation techniques including comparison to similar instruments for which market observable prices exist.

Risk:

The valuation of the Company's investment 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 the Subsidiary's Portfolio.

Our response

Our audit procedures included:

Internal Controls:

We tested the design and implementation of the control over the valuation of the Portfolio.

Valuation procedures including use of a KPMG valuation specialist:

With the support of our own valuation specialist we performed the following procedures over the Portfolio:

- For 98.06% of the Portfolio, we used our own valuation specialist to derive prices from independent data vendors, where available, and assessed the quality and integrity of these price quotes through checking the frequency of the pricing, the number of the quotes available and the range of the quoted prices.
- For the remaining 1.94% of the Portfolio we assessed management's valuation methodology, performed an evaluation of the Investment Pricing Committee Approval Memorandum, considered supporting documentation such as the most recently available financial reporting prepared by the investee entity, and where applicable, noted the proximity of transactions to the year-end and considered whether these were an appropriate representation of fair value.

Assessing disclosure:

We also considered the Company's disclosures (see Note 7) in relation to the use of estimates and judgments in determining the fair value of investment in the Subsidiary and the Company's investment valuation policies adopted and fair value disclosures in Note 3.3 and Note 7 respectively for compliance with IFRS as adopted by the EU.

Independent Auditor's Report to the Members of Alcentra European Floating Rate Income Fund 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 €4,683,000, determined with reference to a benchmark of Net Assets of €156,127,183, of which it represents 3% (2018: 3%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding €234,000, 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 the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. 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.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the Financial Statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on page 8 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;
- the Key Risks and Uncertainties disclosures describing these risks and explaining how they are being managed or mitigated;
- the Directors' explanation in the Viability Statement on page 8 as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the 2016 UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report to you in these respects.

Independent Auditor's Report to the Members of Alcentra European Floating Rate Income Fund Limited (continued)

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 36, 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.

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.

Dermot Dempsey
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognised Auditors,
Guernsey
27 July 2019

Statement of Comprehensive Income
For the year ended 31 March 2019

	Notes	Year ended 31 March 2019 €	Year ended 31 March 2018 €
Other income		76,210	82,150
Total income		**76,210**	**82,150**
Realised foreign exchange gain/(loss) on derivatives		5,877,036	(1,265,665)
Unrealised foreign exchange loss on derivatives		(3,262,091)	(421,698)
Foreign exchange loss		(273,616)	(260,129)
Net gain on investment at fair value through profit or loss	7	6,431,438	6,003,640
Net realised and unrealised gain		**8,772,767**	**4,056,148**
Investment management fees	4(a), 14	(1,241,359)	(1,367,780)
Directors' fees and expenses	14	(179,694)	(150,233)
Administration and professional fees	4(b)	(483,479)	(463,534)
Total operating expenses		**(1,904,532)**	**(1,981,547)**
Profit and total comprehensive income for the year		**6,944,445**	**2,156,751**
Basic and diluted earnings per Ordinary Share (in Euro)	5	4.6284c	1.3119c
Basic and diluted earnings per Ordinary Share (in Sterling)	5	3.9972p	1.1521p

All results are derived from continuing operations.

The accompanying notes form an integral part of these audited financial statements.

Statement of Financial Position
As at 31 March 2019

	Notes	31 March 2019 €	31 March 2018 €
Non-current assets			
Investment at fair value through profit or loss	7	156,925,154	186,463,716
Current assets			
Cash and cash equivalents		1,132,421	74,563
Other receivables and prepayments		93,619	101,201
Derivative assets	7, 12	–	2,626,153
Total current assets		1,226,040	2,801,917
Total assets		**158,151,194**	**189,265,633**
Current liabilities			
Other payables and accrued expenses	8	(1,388,073)	(768,965)
Derivative liabilities	7, 12	(635,938)	–
Total current liabilities		(2,024,011)	(768,965)
Net assets		**156,127,183**	**188,496,668**
Capital and reserves			
Share capital	9	165,054,034	196,663,238
Retained earnings		(8,926,851)	(8,166,570)
Equity shareholders' funds		**156,127,183**	**188,496,668**
Number of Ordinary Shares	9	130,137,627	158,333,471
NAV per Ordinary Share (in Euro)	6	119.9708c	119.0504c
NAV per Ordinary Share (in Sterling)	6	103.6104p	104.5501p

These audited financial statements were approved and authorised for issue by the Board of Directors on 27 June 2019, and signed on its behalf by:

Anne Ewing
Director

Jonathan Bridel
Director

The accompanying notes form an integral part of these audited financial statements.

Statement of Changes in Shareholders' Equity
For the year ended 31 March 2019

	Notes	Share capital €	Retained earnings €	Total €
Opening equity shareholders' funds at 1 April 2018		**196,663,238**	**(8,166,570)**	**188,496,668**
Total comprehensive income for the year		–	6,944,445	6,944,445
Transactions with owners, recorded directly to equity				
Dividends	10	–	(7,704,726)	(7,704,726)
Ordinary Shares repurchased and cancelled	9	(31,609,204)	–	(31,609,204)
Closing equity shareholders' funds at 31 March 2019		**165,054,034**	**(8,926,851)**	**156,127,183**

For the year ended 31 March 2018

	Notes	Share capital €	Retained earnings €	Total €
Opening equity shareholders' funds at 1 April 2017		**209,403,057**	**(2,306,589)**	**207,096,468**
Total comprehensive income for the year		–	2,156,751	2,156,751
Transactions with owners, recorded directly to equity				
Dividends	10	–	(8,016,732)	(8,016,732)
Ordinary Shares repurchased and cancelled	9	(12,739,819)	–	(12,739,819)
Closing equity shareholders' funds at 31 March 2018		**196,663,238**	**(8,166,570)**	**188,496,668**

The accompanying notes form an integral part of these audited financial statements.

Statement of Cash Flows
For the year ended 31 March 2019

	Year ended 31 March 2019 €	Year ended 31 March 2018 €
Cash flow from operating activities		
Profit and total comprehensive income for the year	6,944,445	2,156,751
Adjustments for:		
Net gain on investment at fair value through profit or loss	(6,431,438)	(6,003,640)
Unrealised foreign exchange loss on derivatives	3,262,091	421,698
Decrease/(increase) in other receivables and prepayments	7,582	(56,732)
Increase/(decrease) in other payables and accrued expenses	619,108	(194,600)
Purchase of investment at fair value through profit or loss	–	(1,500,000)
Proceeds from sale of investment at fair value through profit or loss	35,970,000	24,900,000
Net cash from operating activities	**40,371,788**	**19,723,477**
Cash flow from financing activities		
Ordinary Shares repurchased	(31,609,204)	(12,739,819)
Dividends paid	(7,704,726)	(8,016,732)
Net cash used in financing activities	**(39,313,930)**	**(20,756,551)**
Net increase/(decrease) in cash and cash equivalents	**1,057,858**	**(1,033,074)**
Cash and cash equivalents at start of the year	74,563	1,107,637
Cash and cash equivalents at end of the year	**1,132,421**	**74,563**
Supplemental disclosure of non-cash flow information		
Interest received in specie	5,992,594	13,966,281
Purchases of investment at fair value through profit or loss in specie	(5,992,594)	(13,966,281)
	–	–

The accompanying notes form an integral part of these audited financial statements.

Notes to the Audited Financial Statements
For the year ended 31 March 2019

1. General Information

The Company is a non-cellular company limited by shares and was registered in Guernsey under the Companies (Guernsey) Law, 2008 (as amended) (the "Companies Law") on 3 November 2011 with registered number 54200 as a closed-ended investment company. The Company's Ordinary Shares are listed on the FCA's Official List and on the main market of the London Stock Exchange.

The registered office and principal place of business of the Company is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA.

The Company controls its subsidiary, Alcentra European Floating Rate Income S.A. (the "Subsidiary"), through a holding of 100% (31 March 2018: 100%) of the Subsidiary's shares. The Subsidiary is domiciled in Luxembourg and has no subsidiaries. No financial or other support was provided without a contractual obligation to do so during the reporting period. As at 31 March 2019, there were no significant restrictions on the ability of the Subsidiary to transfer funds to the Company in the form of redemption of the shares held by the Company.

The Company's investment objective is to provide its shareholders with regular quarterly dividends and the opportunity for capital growth by utilising the skills of the Investment Manager in selecting suitable investments. To pursue its investment objective, the Company uses net issue proceeds to invest into Profit Participating Bonds issued by the Subsidiary. The Subsidiary then uses these proceeds to invest in floating rate, secured loans or high-yield bonds issued by European or US corporate entities predominantly rated below investment grade or deemed by the Investment Manager to be of corresponding credit quality.

The Company expects at least 80% of the Subsidiary's investments to be debt obligations of corporate entities domiciled or with significant operations in Western Europe (including the UK). Investments are expected to be denominated in Euros, Sterling or US Dollars.

Alcentra Limited has been appointed by the Company as the investment manager (the "Investment Manager") and the administration of the Company is delegated to BNP Paribas Securities Services S.C.A., Guernsey Branch (the "Administrator").

2. Going Concern

Going concern refers to the assumption that the Company has the resources to continue in operation for the foreseeable future being twelve months from the date of approval of the financial statements. The Directors believe that it is appropriate to adopt the going concern basis in preparing these audited financial statements based on the following assessment:

1. Working capital – As at 31 March 2019, the working capital deficit in the Company was approximately €0.80 million. The Company has the ability to sell bonds in the Subsidiary and/or request repayment of accrued interest. The Subsidiary has a working capital surplus of approximately €12.62 million. The Directors noted that as at 31 March 2019, the Company had no borrowings. As such it has sufficient capital in hand to cover all expenses (which mainly consist of Investment Manager's fees, administration fees and professional fees) and to meet all of its obligations as they fall due.

2. Closed-ended company – The Company has been registered with the GFSC as a registered closed-ended collective investment scheme. As such shareholders have no right to have their Ordinary Shares redeemed, and therefore no cash flows out of the Company in this respect.

3. In accordance with the Articles of Incorporation, a continuation resolution was passed at the AGM on 27 September 2018. The next continuation resolution will be considered at the AGM on 26 September 2019. If the continuation resolution is not passed, the Directors shall put proposals to the shareholders for the reconstruction or reorganisation of the Company. The Board have a reasonable expectation that the continuation resolution will be passed.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

2. Going Concern (continued)

4. Discount Control Mechanism – the Company's Ordinary Shares did not trade at an average discount in excess of 5% of the Net Asset Value ("NAV") per share over the Discount Calculation Period ended 31 March 2019 and as a result the Redemption Offer has not been triggered. The Company has repurchased Ordinary Shares in the market for cancellation to assist in controlling the discount in the Ordinary Share price to NAV per Ordinary Share. Although the Board operates an active discount management policy to mitigate any discount to NAV per Ordinary Share, there can be no guarantee that they will do so or that such mechanisms will be successful. Please refer to page 8 for details regarding the Discount Control Mechanism and Redemption Offer and note 9 for details of Ordinary Share buybacks.

Taking into consideration the uncertainties detailed above, the Company's ability to meet its liabilities as they fall due and reasonably manage those uncertainties as they arise, and after making enquiries of the Company's Investment Manager and Corporate Brokers, the Directors who are also in regular contact with a range of investors, are satisfied that it is appropriate to continue to prepare the financial statements on a going concern basis.

3. Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the year presented.

3.1. Basis of Preparation

a) Statement of Compliance

The audited financial statements for the year ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). They give a true and fair view of the Company's affairs and comply with the Companies Law.

The Directors have determined that the Company continues to meet the investment entity criteria. Therefore, in accordance with the investment entity exemption within IFRS 10 – Consolidated Financial Statements ("IFRS 10"), the Company has prepared individual audited financial statements and measures its investment in the Subsidiary at fair value.

In preparing these financial statements the Company has applied *IFRS 9 – Financial Instruments* ("IFRS 9") and *IFRS 15 – Revenue from Contracts with Customers* ("IFRS 15") for the first time. These standards do not result in a restatement of previous financial statements.

IFRS 9

IFRS 9 introduced a new approach to the classification of financial assets which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model approach was introduced which does allow certain financial assets to be categorised as "fair value through other comprehensive income" in certain circumstances. IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39. Interests in subsidiaries that are accounted for in accordance with IFRS 10 are not within the scope of IFRS 9.

The Board has undertaken an assessment of the impact of IFRS 9 on the Company's financial statements and have concluded that there is no impact to the classification and measurement of the Company's financial assets and financial liabilities.

IFRS 15

The Board has undertaken an assessment of IFRS 15 on the Company's financial statements and have concluded it is not applicable as the Company does not have any revenue that should be accounted for under IFRS 15.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

3. Accounting Policies (continued)

3.1. Basis of Preparation (continued)

a) Statement of Compliance (continued)

As detailed in note 2, the financial statements have been prepared on a going concern basis. The Directors are satisfied that, at the time of approving the audited financial statements, it is appropriate to adopt the going concern basis.

b) Basis of Measurement

These audited financial statements have been prepared on a historical cost basis adjusted to take account of the revaluation of the investment and derivatives at fair value through profit or loss.

c) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the audited financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the audited financial statements are set out in the paragraph below, Functional and Presentation Currency, and in note 3.3.

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognised in the audited financial statements are set out in note 7.

Functional and Presentation Currency

The Company's functional and presentation currency is Euro, which is the currency of the primary economic environment in which it operates. The Company's performance is evaluated and its liquidity is managed in Euro. Euro is therefore considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

d) New Standards, Amendments and Interpretations

Standards, amendments and interpretations to existing standards that become effective in future accounting periods and have not been adopted by the Company are as follows:

IFRS	Effective for annual periods beginning on or after
IFRS 16 – Leases	1 January 2019
IFRS 17 – Insurance contracts	1 January 2021

The Board has undertaken an assessment of the impact of IFRS 16 and IFRS 17 and concluded that there will be no impact on the Company's financial statements.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

3. Accounting Policies (continued)

3.2. Foreign Currency Translation

Transactions in currencies other than the functional currency are recorded using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and those from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss in the Statement of Comprehensive Income.

3.3. Investments at Fair Value through Profit or Loss

a) Recognition and Initial Measurement

Financial assets and liabilities at fair value through profit or loss are initially measured at fair value and recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they originated.

b) Classification

The Company measures its investment in the Subsidiary as a financial asset at fair value through profit or loss. The underlying investments of the Subsidiary are purchased principally for capital growth and income generation and the Subsidiary's portfolio is managed, and performance evaluated, on a fair value basis in accordance with the Company's documented investment strategy.

Forward foreign exchange contracts entered into by the Company are designated as held for trading and classified as fair value through profit or loss.

The carrying amount of certain financial instruments in the Company, including cash and cash equivalents approximates fair value.

c) Derecognition

Derecognition of financial assets occur when the rights to receive cash flows from financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

On derecognition of a financial asset, the difference between the weighted average carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and consideration received (including any new asset obtained less any liability assumed), is recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

d) Measurement and Valuation

Investments at fair value through profit or loss is the fair value of the Subsidiary measured at its NAV, which includes the fair value of the Subsidiary's investments.

3.4. Realised and Unrealised Gains and Losses

Investment transactions are recorded on the trade date. Realised gains and losses arising on the disposal of investments are calculated by reference to the weighted average cost attributable to those investments and the sale proceeds and are included in profit or loss in the Statement of Comprehensive Income. All changes in fair value are recognised in profit or loss in the Statement of Comprehensive Income as net gain on investment at fair value through profit or loss.

Forward foreign exchange contracts are recorded on the trade date. Realised gains and losses arising on the expiry of forward foreign exchange contracts are included in profit or loss in the Statement of Comprehensive Income.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

3. Accounting Policies (continued)

3.4. Realised and Unrealised Gains and Losses (continued)

Unrealised gains and losses arising on the difference between the forward rate and the contract rate on the forward foreign exchange contracts held at the reporting date are also included in profit or loss in the Statement of Comprehensive Income.

3.5. Income

Income recognised in profit or loss in the Statement of Comprehensive Income relates to dividend income due to the Company from the Subsidiary.

3.6. Expenses

All expenses are recognised in profit or loss in the Statement of Comprehensive Income on an accruals basis. Costs incurred on the issuance of shares are netted off against the share issue proceeds.

3.7. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks. Cash equivalents are short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

3.8. Taxation

The Company has applied for and been granted exemption from liability to income tax in Guernsey under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 as amended by the Director of Income Tax in Guernsey for the current period. The exemption must be applied for annually and will be granted, subject to the payment of an annual fee, which is currently fixed at £1,200 per applicant, provided the Company qualifies under the applicable legislation for exemption.

It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation.

3.9. Dividends

In any financial year, the Company will aim to pay regular quarterly dividends to shareholders subject to the solvency test prescribed by the Companies Law. It is expected that a distribution will be made by way of a dividend with respect to each calendar quarter.

The Directors in their absolute discretion can offer a scrip dividend alternative to shareholders when a cash dividend is declared from time to time.

Distributions to the shareholders are recorded through the Statement of Changes in Shareholders' Equity when they are declared to shareholders.

3.10. Derivatives

The Company hedges the value of any non-Euro assets held at Subsidiary level into Euro using spot and forward foreign exchange contracts rolling on a monthly basis and, in relation thereto, has entered into a hedging master agreement with BNP Paribas Securities Services S.C.A. ("BNPP"). Under the same hedging master agreement, the Company hedges the value of any non-Euro share classes in their original currency against the Euro on a rolling-monthly basis.

The Company estimates fair values of forward foreign exchange contracts based on the latest available forward exchange rates extrapolated to the contract maturity date.

The Company does not apply hedge accounting.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

3. Accounting Policies (continued)

3.11. Share Capital

Ordinary Shares are classified as equity in accordance with IAS 32 – Financial Instruments: Presentation as these instruments include no contractual obligation to deliver cash.

4. Material Agreements

a) Investment Management Agreement

Under the terms of the Investment Management Agreement dated 9 January 2012 and amended on 21 July 2014, the Company appointed the Investment Manager to provide management services to the Company. The Investment Manager is entitled to a management fee which is calculated and accrued daily at a rate equivalent to 0.70% per annum based on the NAV of the Company. The management fee is payable quarterly in arrears by the Company. The Investment Manager is not entitled to any incentive or performance based fee.

b) Administration and Custodian Agreement

The Company has engaged the services of the Administrator, to provide administration and custodian services. Under the terms of the Administration and Custodian Agreement dated 9 January 2012, the Administrator is entitled to receive an annual administration fee based on the NAV of the Company on a tiered percentage basis.

The Administrator is entitled to receive an annual loan administration fee based on the NAV of the Company on a tiered percentage basis.

The Company Secretary, BNP Paribas Securities Services S.C.A., Guernsey Branch, is entitled to an annual fee of €41,000 plus fees for ad-hoc board meetings and services of €3,000 per meeting and an ad-hoc placing programme fee of £600 per placing.

c) Registrar's Agreement

Link Market Services (Guernsey) Limited (formerly Capita Registrars (Guernsey) Limited) were registrar of the Company during the period to 7 January 2018, pursuant to the Registrar Agreement dated 9 January 2012. The fee was charged at a rate of £2.00 per holder of Ordinary Shares appearing on the register during the fee year, with a minimum charge per annum of £8,250.

Computershare Investor Services (Guernsey) Limited are registrar of the Company, pursuant to the Registrar Agreement dated 29 November 2017. The fixed fee is £19,500 per annum.

d) Broker Agreements

On 28 June 2016, the Company and J.P Morgan Securities Plc (the "Broker") entered into an agreement to provide the Company with a shareholder analysis service and access to their system CBSDirect. The Broker is paid an annual fee of £2,000.

On 28 November 2017 the Company authorised the Broker to buy back Ordinary Shares where they are trading at a discount of 6.5% to NAV up to a total of 4 million Ordinary Shares. On 10 January 2019 the mandate was renewed for one additional year. This authorisation superseded the Buy Back Engagement Confirmation Letters dated 14 September 2016, to buy back Ordinary Shares trading at a discount of 9% to NAV up to a total of 1.5 million Ordinary Shares and 20 September 2017 to buy back Ordinary Shares trading at a discount of 4.5% to NAV up to a total of 24,937,942 Ordinary Shares. The Broker is entitled to charge commission at a rate of 0.2% of the price paid.

e) Hedging Master Agreement

The Company and the Administrator entered into an International Forward Foreign Exchange Master Agreements dated 9 January 2012 (the "Hedging Master Agreement"), pursuant to which the parties enter into foreign exchange transactions with the intention of hedging against fluctuations in the exchange rate between the Euro and other currencies. The Hedging Master Agreement is governed by the laws of England and Wales. Note 7 details the gross derivative asset and liability position by contract type and the amount for these derivatives contracts.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

5. Basic and Diluted Earnings per Ordinary Share

	31 March 2019 In Euro	31 March 2019 In Sterling	31 March 2018 In Euro	31 March 2018 In Sterling
Total comprehensive income for the year	€6,944,445	£5,997,431	€2,156,751	£1,894,059
Weighted average number of Ordinary Shares in issue during the year	150,039,343	150,039,343	164,397,579	164,397,579
Basic and diluted income per Ordinary Share	4.6284c	3.9972p	1.3119c	1.1521p

6. NAV per Ordinary Share

	31 March 2019 In Euro	31 March 2019 In Sterling	31 March 2018 In Euro	31 March 2018 In Sterling
NAV	€156,127,183	£134,836,119	€188,496,668	£165,537,774
Number of Ordinary Shares in issue at year end	130,137,627	130,137,627	158,333,471	158,333,471
NAV per Ordinary Share	119.9708c	103.6104p	119.0504c	104.5501p

7. Financial Assets at Fair Value through Profit or Loss

The Company's investment at fair value through profit or loss is the Profit Participating Bonds it holds in the Subsidiary. The fair value of the Profit Participating Bonds is based on the NAV of the Subsidiary, which has been prepared in accordance with IFRS.

Fair values of the Company's forward foreign exchange contracts are determined with reference to the forward exchange rates applicable as at valuation date.

Fair Value Hierarchy

The Company categorises its financial assets according to the following fair value hierarchy which reflects the significance of the inputs used in determining their fair values:

Level 1: Inputs that reflect unadjusted price quotes in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;

Level 2: Inputs that reflect price quotes of similar assets and liabilities in active markets, and price quotes of identical assets and liabilities in markets that are considered to be less than active as well as inputs other than price quotes that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are unobservable for the asset or liability and reflect the Investment Manager's own assumptions.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

7. Financial Assets at Fair Value through Profit or Loss (continued)

Fair Value Hierarchy (continued)

The following table details the Company's fair value hierarchy.

31 March 2019	**Level 1 €**	**Level 2 €**	**Level 3 €**	**Total €**
Financial assets Designated at fair value through profit or loss				
Investment at fair value through profit or loss[1]	–	–	156,925,154	156,925,154
Held for trading				
Derivative liabilities	–	(635,938)	–	(635,938)

31 March 2018	**Level 1 €**	**Level 2 €**	**Level 3 €**	**Total €**
Financial assets Designated at fair value through profit or loss				
Investment at fair value through profit or loss	–	–	186,463,716	186,463,716
Held for trading				
Derivative assets	–	2,626,153	–	2,626,153

Reconciliation of the Company's Financial Assets Categorised within Level 3

The following table shows a reconciliation of all movements in the fair value of financial assets categorised within Level 3 during the reporting year.

	31 March 2019 €	**31 March 2018 €**
Opening balance	186,463,716	203,860,076
Purchases	–	1,500,000
Sales	(35,970,000)	(24,900,000)
Net gain on investment at fair value through profit or loss	6,431,438	6,003,640
Dividend	–	–
Capitalised interest	5,992,594	13,966,281
Interest received in specie	(5,992,594)	(13,966,281)
Closing balance[1]	**156,925,154**	**186,463,716**

During the years ended 31 March 2019 and 31 March 2018, there were no reclassifications between levels of the fair value hierarchy.

As at 31 March 2019, accumulated interest of €5,992,594 (31 March 2018: €13,966,281) was due to the Company by the Subsidiary. On 10 September 2018, the Subsidiary elected to pay the interest due to the Company by way of the issue and allocation to the Company of new Profit Participating Bonds for which no cash payment was required.

[1] Page 54 details the Level of the investments held by the Subsidiary

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

7. Financial Assets at Fair Value Through Profit or Loss (continued)

Company's Investment in the Subsidiary

The NAV of the Subsidiary predominantly comprises the fair values of the investment portfolio of the Subsidiary consisting of Level 1, Level 2 and Level 3 investments and other financial assets and liabilities at carrying value, which together form the NAV of the Subsidiary.

The investments in the Subsidiary's portfolio are valued as follows:

Fair values of debt instruments are initially based on price quotes, where available. Price quotes are sourced from the Company's approved pricing providers. The approved pricing providers source price quotes from brokers/market makers and determine an average bid price (mid-price in the published NAV) based on the quotes obtained, after adjusting for outliers.

Where price quotes are unavailable, the Investment Pricing Committee of the Investment Manager determines fair value using valuation techniques. Valuation techniques used include comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in the valuation technique include interest rates and credit spreads used in estimating discount rates. The Investment Pricing Committee has applied judgment and estimation and used significant unobservable inputs in selecting the appropriate valuation technique used, consideration of identical or similar instruments, and selection of appropriate discount rates.

As at 31 March 2019 and 31 March 2018, the fair value measurement of the Profit Participating Bonds is categorised into Level 3 within the fair value hierarchy. This classification reflects the Company's ability to redeem its investment in the Subsidiary on the reported date at the NAV and whether adjustments to the NAV are required to reflect the inherent uncertainty in the timing and range of possible outcomes of any realisation between the NAV and the ultimate recoverable amount. The fair value level of the investment in the Subsidiary reflects management's consideration that this investment is not readily tradable. Management has considered that there are no reasonably possible alternatives in determining the fair value of the Subsidiary.

The fair value of the Subsidiary is predominantly influenced by the fair value determination of the underlying debt investments held by the Subsidiary. The Company recognises any transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change occurred.

The following table provides a reconciliation of the Company's investment in the Subsidiary measured at fair value:

	31 March 2019 €	31 March 2018 €
Subsidiary's investments at fair value through profit and loss	145,364,539	184,793,666
Subsidiary's net current assets	11,560,615	1,670,050
Closing balance	**156,925,154**	**186,463,716**

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

7. Financial Assets at Fair Value Through Profit or Loss (continued)

Company's Investment in the Subsidiary (continued)

As at 31 March 2019, the net gain on the Company's investment in the Subsidiary included in the Statement of Comprehensive Income amounted to €6,431,438 (31 March 2018: €6,003,640), the breakdown of the gain is detailed in the table below:

	31 March 2019 €	31 March 2018 €
Investment income	8,184,547	9,153,666
Realised loss on investments at fair value through profit or loss	(2,723,421)	(3,660,960)
Unrealised gain on investments at fair value through profit or loss	1,166,187	711,387
Dividend paid to the Company	(76,210)	(82,150)
Expenses	(119,665)	(118,303)
Total	**6,431,438**	**6,003,640**

Subsidiary Financial Assets and Liabilities Designated at Fair Value through Profit or Loss

The following table details the investment holding of the Subsidiary, categorising these assets by level, according to the fair value hierarchy. The disclosures have been included to provide an insight to shareholders of the asset class mix held by the Subsidiary.

31 March 2019	Level 1 €	Level 2 €	Level 3 €	Total €
Financial assets				
Interest bearing securities				
Corporate bonds and debt instruments	–	130,263,154	15,101,385[1]	**145,364,539**
Total	**–**	**130,263,154**	**15,101,385**	**145,364,539**

31 March 2018	Level 1 €	Level 2 €	Level 3 €	Total €
Financial assets				
Interest bearing securities				
Corporate bonds and debt instruments	–	183,217,100	1,576,566	**184,793,666**
Total	**–**	**183,217,100**	**1,576,566**	**184,793,666**

[1] €2,816,512 of the Level 3 investments are priced by the Alcentra Pricing Committee, €12,284,873 of the Level 3 investments have one broker quote.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

8. Other Payables and Accrued Expenses

	31 March 2019 €	31 March 2018 €
Investment management fees	282,520	667,569
Administration and company secretarial fees	24,582	13,935
Audit fees	63,420	58,848
Other expenses	6,571	6,451
Share buybacks	974,559	–
Loan administration fees	9,119	5,667
Printing fees	8,177	1,842
Director fees and expenses	17,185	12,766
Registrar fees	1,940	1,887
Total	**1,388,073**	**768,965**

The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame. The Directors considers that the carrying amount of all payables approximates to their fair value.

9. Share Capital

The authorised share capital of the Company is represented by an unlimited number of Ordinary Shares with or without a par value, which upon issue, the Directors may designate as: (a) Ordinary Shares; (b) B Shares; (c) C Shares, in each case of such classes and denominated in such currencies as the Directors may determine. Since inception of the Company, no B or C shares have been issued.

Since inception of the Company, only Sterling Ordinary Shares have been issued, but the Company has the authority to issue Euro Ordinary Shares.

The Company had issued and fully paid up share capital as follows:

	31 March 2019 Sterling Ordinary Shares	31 March 2018 Sterling Ordinary Shares
Ordinary Shares of no par value		
Issued and fully paid	**130,137,627**	**158,333,471**

Rights attached to Ordinary Shares

The Company's share capital may be denominated in Sterling and Euro. At any general meeting of the Company each Euro share carries one vote and each Sterling share carries 1.2 votes. The shares also carry rights to receive all income and capital available for distribution by the Company.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

9. Share Capital (continued)

Share Buybacks

The Directors operate an active discount management policy through the use of share buybacks. At the AGM held on 27 September 2018 the Directors were granted authority to repurchase 23,635,898 Ordinary Shares for cancellation or to be held as treasury shares. Subsequent to the year end, at the EGM held on 3 April 2019, the Directors were granted authority to repurchase a further 20,106,191 Ordinary Shares for cancellation or to be held as treasury shares. This authority will expire at the next AGM which will be held on 26 September 2019.

To assist in controlling the discount in the Ordinary Share price to NAV per Ordinary Share, during the year ended 31 March 2019, the Company used the authorities detailed above to repurchase and cancel 28,195,844 Ordinary Shares in the market at a total cost of €31,609,204 (£27,844,835).

Significant Share Movements

	31 March 2019 Number	€	31 March 2018 Number	€
Balance at start of the year	158,333,471	196,663,238	169,610,896	209,403,057
Ordinary Shares repurchased and cancelled during the year	(28,195,844)	(31,609,204)	(11,277,425)	(12,739,819)
Balance at end of the year	**130,137,627**	**165,054,034**	**158,333,471**	**196,663,238**

10. Dividends

In any financial year, the Company will aim to pay regular quarterly dividends to shareholders subject to the solvency test prescribed by the Companies Law. It is expected that a distribution will be made by way of a dividend with respect to each calendar quarter. Immediately after the distribution of dividends the Board of Directors is of the opinion that the Company will satisfy the solvency test.

The Directors in their absolute discretion can offer a scrip dividend alternative to shareholders when a cash dividend is declared from time to time.

The Company has declared and paid the following dividends to its shareholders:

Year ended 31 March 2019	Date declared	Payment date	Amount per share	Amount
1 January 2018 to 31 March 2018	12 April 2018	11 May 2018	1.08p	€1,966,016
1 April 2018 to 30 June 2018	12 July 2018	10 August 2018	1.10p	€1,943,481
1 July 2018 to 30 September 2018	11 October 2018	9 November 2018	1.12p	€1,910,928
1 October 2018 to 31 December 2018	10 January 2019	8 February 2019	1.16p	€1,884,301
Total				**€7,704,726**

The dividend for the period 1 January 2019 to 31 March 2019 had an ex-dividend date after the year end and is detailed in note 15.

Year ended 31 March 2018	Date declared	Payment date	Amount per share	Amount
1 January 2017 to 31 March 2017	11 April 2017	12 May 2017	1.09p	€2,205,701
1 April 2017 to 30 June 2017	13 July 2017	11 August 2017	1.07p	€1,985,427
1 July 2017 to 30 September 2017	12 October 2017	10 November 2017	0.98p	€1,813,149
1 October 2017 to 31 December 2017	8 January 2018	9 February 2018	1.12p	€2,012,455
Total				**€8,016,732**

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

11. Reconciliation of NAV to Published NAV

	31 March 2019 NAV €	31 March 2019 NAV per share €	31 March 2018 NAV €	31 March 2018 NAV per share €
Published NAV	156,785,157	1.2048	189,563,160	1.1972
Impact of fair value adjustment on investments held by the Subsidiary[1]	(657,273)	(0.0051)	(777,150)	(0.0049)
Accrual adjustment[2]	(701)	–	(289,342)	(0.0018)
NAV attributable to shareholders	**156,127,183**	**1.1997**	**188,496,668**	**1.1905**

12. Risk Management Policies and Procedures

This note presents information about the Company's exposure to risks. The majority of the Company's assets are invested in the Subsidiary through Profit Participating Bonds, therefore the majority of the risks that the Company is exposed to are borne out of the indirect exposure to the risks of the underlying portfolio held at the Subsidiary level.

The Board of Directors has established procedures for monitoring and controlling risk. The Company has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

In addition, the Investment Manager monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Market risk

The fair value of the Company's investment into the Subsidiary may fluctuate due to changes in market prices of the underlying portfolio of investments held by the Subsidiary. Market risk comprises market price risk, currency risk and interest rate risk. The Investment Manager moderates the risk through a careful selection of investments within specified limits. The maximum risk resulting from financial assets is determined by the fair value of the financial assets. The Company's overall market position at Company and Subsidiary level is monitored by the Investment Manager and is reviewed by the Board of Directors on an ongoing basis. The main market risk measures used by the Investment Manager are rolling 12 month volatility. Volatility is used as a standard market risk metric versus the Company's benchmark volatility.

Market price risk

The Company's investment at fair value through profit or loss is based on the NAV of the Subsidiary which is susceptible to the market price risk arising from uncertainties about future prices of the underlying portfolio of investments held by the Subsidiary.

The Board of Directors manages the risks inherent in the investment by ensuring full and timely reporting of the relevant information from the Investment Manager. Investment performance is reviewed at each Board meeting. The Board of Directors monitor the Investment Manager's compliance with the Company's objectives. At 31 March 2019, the overall market exposure of the Company is equivalent to the fair value of the underlying portfolio of investments held by the Subsidiary was €145,364,539 (31 March 2018: €184,793,666).

[1] The investments held by the Subsidiary have been valued at mid-price in the published NAV and at bid price in the audited financial statements, which is consistent with the basis used in the prior year.

[2] The published NAV was calculated as at 29 March 2019, which did not take into consideration expense accruals for 30 and 31 March 2019 and changes in exchange rates from 29 to 31 March 2019.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

12. Risk Management Policies and Procedures (continued)

Market price risk sensitivity

The following table illustrates the sensitivity of the return for the year and the Company's net assets to an increase or decrease of 5% in the fair values of the underlying portfolio of investments held by the Subsidiary at the reporting date.

This level of change is considered to be reasonable based on observation of current market conditions.

	31 March 2019		31 March 2018	
	Increase in fair value €	Decrease in fair value €	Increase in fair value €	Decrease in fair value €
Profit/(loss) for the financial year	7,268,227	(7,268,227)	9,239,683	(9,239,683)
Net assets	**7,268,227**	**(7,268,227)**	**9,239,683**	**(9,239,683)**

Currency risk

The functional and presentation currency of the Company and its Subsidiary is Euro. The Company invests in its Subsidiary which in turn invests in financial instruments and enters into transactions that are denominated in currencies other than its functional currency, primarily in US Dollars and Sterling. Consequently, the Company is exposed to risk that the exchange rate of its functional currency relative to other foreign currencies may change in a manner that has an adverse effect on the fair value or future cash flows of that portion of the Company's financial assets or liabilities.

The Investment Manager monitors the exposure to foreign currencies and reports to the Board of Directors on a regular basis. The Investment Manager measures the risk of the foreign currency exposure by considering the effect on the NAV and income of a movement in the rates of exchange to which the assets, liabilities, income and expenses are exposed.

The Company also enters into forward foreign currency contracts to manage its exposure to currency risk due to the assets being in Euro and the issuance of shares in Sterling and its exposure to non-Euro investments held in the portfolio of the Subsidiary.

The Investment Manager seeks to engage in currency hedging contracts such as forward currency exchange contracts being available in a timely manner and on terms acceptable to them, in their sole and absolute discretion. The primary aim of the Investment Manager's use of hedging is to protect the Sterling shareholders return.

As at 31 March 2019, the Company had the following open forward foreign exchange contracts:

Buy/Sell Currency	Bought	Sold	Fair Value/ EUR Equivalent	Settlement Date
EUR/CHF	1,342,762	1,520,000	(17,764)	4 April 2019
EUR /GBP	39,140,693	33,650,000	182,234	4 April 2019
EUR/USD	9,650,606	10,960,000	(113,587)	4 April 2019
GBP/EUR	142,450,000	165,609,135	(686,821)	4 April 2019
Total			**(635,938)**	

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

12. Risk Management Policies and Procedures (continued)

Currency risk (continued)

As at 31 March 2018, the Company had the following open forward foreign exchange contracts:

Buy/Sell Currency	Bought	Sold	Fair Value/ EUR Equivalent	Settlement Date
EUR/CHF	1,342,503	1,550,000	23,130	6 April 2018
EUR /GBP	48,767,405	43,640,000	(917,984)	6 April 2018
EUR/USD	9,491,031	11,720,000	(13,043)	6 April 2018
GBP/EUR	1,600,000	1,796,199	25,442	6 April 2018
GBP/EUR	166,820,000	186,420,222	3,508,608	6 April 2018
Total			**2,626,153**	

The tables below detail the carrying amounts of the Company's financial assets and liabilities that have foreign currency exposure:

31 March 2019	GBP €	EUR €	USD €	CHF €	Total €
Investment in Subsidiary at fair value through profit or loss	–	156,925,154	–	–	156,925,154
Other receivables and prepayments	17,409	76,210	–	–	93,619
Derivative liability	–	(635,938)	–	–	(635,938)
Cash and cash equivalents	6,363	1,126,047	11	–	1,132,421
Other payables and accrued expenses	(1,078,487)	(309,586)	–	–	(1,388,073)
Total net foreign currency exposure	(1,054,715)	157,181,887	11	–	156,127,183
Forward hedging	126,468,442	(115,475,074)	(9,650,606)	(1,342,762)	–
Exposure net of forward hedging	**125,413,727**	**41,706,813**	**(9,650,595)**	**(1,342,762)**	**156,127,183**

31 March 2018	GBP €	EUR €	USD €	CHF €	Total €
Investment in Subsidiary at fair value through profit or loss	–	186,463,716	–	–	186,463,716
Other receivables and prepayments	19,051	82,150	–	–	101,201
Derivative assets	–	2,626,153	–	–	2,626,153
Cash and cash equivalents	704	73,859	–	–	74,563
Other payables and accrued expenses	(85,251)	(683,714)	–	–	(768,965)
Total net foreign currency exposure	(65,496)	188,562,164	–	–	188,496,668
Forward hedging	139,449,016	(128,615,482)	(9,491,031)	(1,342,503)	–
Exposure net of forward hedging	**139,383,520**	**59,946,682**	**(9,491,031)**	**(1,342,503)**	**188,496,668**

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

12. Risk Management Policies and Procedures (continued)

Currency risk (continued)

The tables below detail the carrying amounts of the Subsidiary's financial assets and liabilities that have foreign currency exposure:

31 March 2019	**GBP €**	**EUR €**	**USD €**	**CHF €**	**Total €**
Investments designated at fair value through profit or loss	31,302,574	103,325,263	9,407,557	1,329,145	145,364,539
Interest receivable	142,964	705,949	66,908	–	915,821
Trade and other receivables	64,536	12,561,980	5,374	–	12,631,890
Cash and cash equivalents	2,310,990	4,767,230	276,861	28,790	7,383,871
Trade and other payables	(2,304,228)	(13,516,329)	–	–	(15,820,557)
Total net foreign currency exposure	31,516,836	107,844,093	9,756,700	1,357,935	150,475,564
Forward hedging	–	–	–	–	–
Exposure net of forward hedging	**31,516,836**	**107,844,093**	**9,756,700**	**1,357,935**	**150,475,564**

31 March 2018	**GBP €**	**EUR €**	**USD €**	**CHF €**	**Total €**
Investments designated at fair value through profit or loss	47,522,127	128,256,039	7,737,714	1,277,786	184,793,666
Interest receivable	191,704	943,812	102,170	–	1,237,686
Trade and other receivables	940,741	1,386,642	1,627,347	–	3,954,730
Cash and cash equivalents	2,145,095	3,258,265	119,329	36,914	5,559,603
Trade and other payables	(3,398,998)	(11,693,716)	–	–	(15,092,714)
Total net foreign currency exposure	47,400,669	122,151,042	9,586,560	1,314,700	180,452,971
Forward hedging	–	–	–	–	–
Exposure net of forward hedging	**47,400,669**	**122,151,042**	**9,586,560**	**1,314,700**	**180,452,971**

Currency sensitivity analysis

Should the value of the Euro against Sterling and US Dollar increase or decrease by 10% with all other variables held constant, the increase and decrease of the comprehensive income and net assets of the Company would be as follows:

	31 March 2019		**31 March 2018**	
	Increase €	**Decrease €**	**Increase €**	**Decrease €**
GBP	21,339,211	(19,653,085)	(11,564,990)	16,839,128
USD	859,945	(1,093,535)	934,205	(967,312)
CHF	118,338	(153,756)	155,148	(108,709)

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

12. Risk Management Policies and Procedures (continued)

Currency sensitivity analysis (continued)

Should the value of the Euro against Sterling and US Dollar increase or decrease by 10% with all other variables held constant, the increase and decrease of the comprehensive income and net assets of the Subsidiary would be as follows:

	31 March 2019		31 March 2018	
	Increase €	Decrease €	Increase €	Decrease €
GBP	(3,151,684)	3,151,684	(4,740,067)	4,740,067
USD	(975,670)	975,670	(958,656)	958,656
CHF	(135,794)	135,794	(131,470)	131,470

Interest rate risk

Interest rate risk is the risk that the value of financial instruments and related income from the cash and cash equivalents will fluctuate due to changes in market interest rates.

The Company's exposure to interest rate risk relates to underlying portfolio of investments held by the Subsidiary and cash and cash equivalents held at both Company and Subsidiary level. The interest rate exposures at Subsidiary level affect the fair value of the investment designated as fair value through profit or loss. As a result the Company is subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

Financial instruments at variable rates expose the Company to cash flow risk. Financial instruments at fixed rates expose the Company to fair value interest rate risk.

The table below summarises the Company's exposure to interest rate risks either directly or through its investment in the Subsidiary. It includes all of the Company's and the Subsidiary's assets and liabilities that are interest rate sensitive.

	31 March 2019 €	31 March 2018 €
Investment in underlying portfolio of investments at fair value through profit or loss	145,364,539	184,793,666
Cash and cash equivalents in Company and Subsidiary	8,516,292	5,634,166
Total	153,880,831	190,427,832
Total interest sensitivity gap	**153,880,831**	**190,427,832**

If interest rates had changed by 100 basis points, with all other variables remaining constant, the effect on the net profit and equity would have been as shown on the table below:

	31 March 2019 €	31 March 2018 €
Increase of 100 basis points	1,498,456	1,904,278
Decrease of 100 basis points	(402,769)	(442,401)

These figures have been calculated after considering the potential interest rate floors and caps on investments held in the Subsidiary's portfolio.

As at 31 March 2019, there were no instruments that were limited by an interest rate cap and that the current spread across the portfolio is at such level that a 1% decrease in interest rates will not breach any floors.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

12. Risk Management Policies and Procedures (continued)

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

The Company's main credit risk exposure is indirect via its investment in the Subsidiary since the Subsidiary holds debt in its portfolio. Credit risk in respect of other financial assets comprises cash and cash equivalents and dividend receivable. Counterparty default in an investment or other financial asset at the Subsidiary level would impact fair value of the investment designated at fair value through profit or loss at Company level. The total exposure to credit risk arises from default of the counterparty, and therefore the carrying amounts of the underlying portfolio of investments held by the Subsidiary and other financial assets best represent the maximum credit risk exposure at the year-end date. As at 31 March 2019, the maximum credit risk exposure was €167,445,951 (31 March 2018: €198,265,452).

The Investment Manager has adopted procedures to reduce credit risk exposure by conducting credit analysis of the counterparties in the portfolio of the Subsidiary, their business and reputation which is monitored on an ongoing basis.

The Company and Subsidiary maintain cash and cash equivalents at BNPP, which is subject to the Company's credit risk monitoring policies as mentioned above. The counterparty to the foreign exchange contracts held by the Company and Subsidiary is BNPP.

BNP Paribas Securities Services S.C.A., Guernsey Branch, as Custodian, is a branch of BNPP, whose credit ratings are A+ with Standard & Poor's, Aa3 with Moody's and A+ with Fitch's.

Credit risk arising on debt securities is constantly monitored by the Investment Manager.

Counterparty risk

Counterparty risk is defined as risk that trading or depositary counterparties were to default on their obligation.

All loan counterparties are approved by the Investment Manager and all trading counterparties are approved and monitored through monthly broker exposure reports and approved broker lists by the Investment Manager.

Portfolio credit risk

Credit risk management within the Subsidiary's portfolio is the responsibility of the Investment Manager. The portfolio managers at the Investment Manager are supported by a fundamental approach to credit analysis whereby every asset within each portfolio is regularly monitored by the credit analysis. Quarterly Performance Reviews are performed for each investee company in the portfolio of the Subsidiary by the Investment Manager.

Liquidity risk

Risk that the Company cannot meet cash and collateral obligations at reasonable cost for expected and unexpected needs without adversely affecting daily operations.

Liquidity risk in respect of other financial liabilities of the Company relate to balances due to counterparties. As at 31 March 2019 there was sufficient liquidity in the form of cash and cash equivalents to satisfy the Company's obligations.

The Company expects its liabilities to be settled within the next year.

As at 31 March 2019 each asset is given an internal score by the Investment Manager referring to liquidity (except for the Company's investment in the Subsidiary).

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

12. Risk Management Policies and Procedures (continued)

Liquidity risk (continued)

Liquidity risk is measured and monitored by the Investment Manager. The Investment Manager assesses the liquidity of positions within the portfolio of the Subsidiary through their daily interactions with loan market dealers.

The investment portfolio of the Subsidiary is considered to be readily realisable.

Operational risk

Operational risk is defined as risk of loss resulting from people, system, inadequate or failed internal processes or external events. Operational risk may arise from errors in transaction processing, breaches of internal control systems and internal or external frauds, damage to physical assets and/or business disruption due to systems failures or other events.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns to investors.

The Investment Manager works with the Directors to identify the risks facing the Company. The key risks are documented and updated in the Risk Matrix and by the Investment Manager.

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors.

The 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 Directors' assessment over 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 review of the service providers' ISAE 3402 reports on internal controls (or equivalent) if available.

Capital management policies and procedures

The Company's capital management objectives are:

– to ensure that the Company will be able to continue as a going concern; and

– to maximise the income and capital return to its equity shareholders through an appropriate balance of equity capital and long-term debt.

In accordance with the Company's investment policy, the Company's principal use of cash has been to fund investment in the Subsidiary, as well as ongoing operational expenses and payment of dividends and other distributions to shareholders in accordance with the Company's dividend policy.

The Directors, with the assistance of the Investment Manager monitor and review the broad structure of the Company's capital on an ongoing basis.

The Company has no imposed capital requirements.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

13. Operating Segments

The Chief Operating Decision Makers of the Company are the Board of Directors. The Directors are of the opinion that the Company is engaged in a single segment of business, being investing, via its Subsidiary, in investments in floating rate, secured loans or high-yield bonds. Segment information is measured on the same basis as those used in the preparation of the Company's audited financial statements with the exception of the valuation of financial instruments. For the purpose of segment reporting, at the Subsidiary level, financial instruments are measured in accordance with the method set out in the Company's prospectus, this being the mid-price of the securities as at the valuation day.

The Board of Directors reviews internal management reports on a quarterly basis. The Investment Manager, together with the Administrator and the Company Secretary, ensure that all Directors receive all relevant information in a timely manner.

The key measurement of performance used by the Board to assess the Company's performance and to allocate resources is the movement in the NAV which is prepared on a daily basis.

The majority of the Subsidiary's assets are held in Europe and are held in Sterling, Euros and US Dollars.

A detailed analysis of the operating segment with respect to geographical disclosures and significant customers is included in the Investment Manager's Report and Directors' Report respectively.

The Company has one shareholder ("CCLA Investment Management Limited (UK)") with a holding of greater than 10% as at 31 March 2019 (31 March 2018: Nil).

14. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Total investment management fees for the year amounted to €1,241,359 (31 March 2018: €1,367,780), with outstanding fees of €282,520 at 31 March 2019 (31 March 2018: €667,569).

As at 31 March 2019, Mr Fitzgerald held 15,000 (31 March 2018: 15,000) Ordinary Shares in the Company.

As at 31 March 2019, Mr Bridel (together with his Spouse) held 5,000 (31 March 2018: 5,000) Ordinary Shares in the Company.

As at 31 March 2019, Mrs Ewing (together with her Spouse) held 5,000 (31 March 2018: 5,000) Ordinary Shares in the Company.

As at 31 March 2019, Mrs Clark (together with her Spouse) held 7,500 (31 March 2018: Nil) Ordinary Shares in the Company.

The Directors of the Company are remunerated per annum as follows:

Chairman and Chairman of the Risk Committee – £52,500.

Chairman of the Audit Committee – £42,000.

Chairman of the Remuneration and Nomination Committee – £40,000.

Chairman of the Management Engagement Committee - £40,000.

The total Directors' fees and expenses for the year amounted to €179,694 (31 March 2018: €150,233), with outstanding fees of €17,185 (31 March 2018: €12,766) being due to the Directors at 31 March 2019.

Notes to the Audited Financial Statements (continued)
For the year ended 31 March 2019

15. Events After the Reporting Date

At the EGM held on 3 April 2019 the Directors were granted authority to repurchase a further 20,106,191 Ordinary Shares for cancellation or to be held as treasury shares. This authority will expire at the next AGM which will be held on 26 September 2019.

On 12 April 2019, the Company declared a dividend of 1.13p per Ordinary Share, covering the period 1 January 2019 to 31 March 2019. This dividend was paid to the shareholders on 15 May 2019.

The Company repurchased 4,283,637 Ordinary Shares subsequent to the period end at a total cost of €4,851,106 (£4,186,132) and the current number of shares in issue is 125,853,990.

There were no other events which occurred subsequent to the year-end until the date of approval of the financial statements, which would have a material impact on the financial statements of the Company as at 31 March 2019.

Company Information

Directors
Ian Fitzgerald (*Non-Executive Chairman)*
Anne Ewing (*Non-Executive Senior Independent Director)*
Jonathan Bridel (*Non-Executive Director*)
Trudi Clark (*Non-Executive Director*)

Registered Office
BNP Paribas House, St Julian's Avenue, St Peter Port, GY1 1WA, Guernsey, Channel Islands

Investment Manager
Alcentra Limited
160 Queen Victoria Street, London, EC4V 4LA, United Kingdom

Solicitors to the Company (as to English law)
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Advocates to the Company (as to Guernsey law)
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Corporate Broker
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Independent Auditor
KPMG Channel Islands Limited
Glategny Court, Glategny Esplanade, St Peter Port, GY1 1WR, Guernsey, Channel Islands

Registrar
Computershare Investor Services (Guernsey) Limited
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Principal Bankers
BNP Paribas Securities Services S.C.A.
BNP Paribas House, St Julian's Avenue, St Peter Port, GY1 1WA, Guernsey, Channel Islands

Designated Manager, Administrator, Custodian and Company Secretary
BNP Paribas Securities Services S.C.A., Guernsey Branch
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