



Background and investment objective

The investment objective of Fair Oaks Income Ltd (the "Company") is to generate attractive, risk-adjusted returns, principally through income distributions. The Company will implement its investment policy by investing in FOMC III LP ("Fund III") and FOIF II LP ("Fund II").

The investment policy of the Company is to seek exposure to US and European CLOs or other vehicles and structures which provide exposure to portfolios consisting primarily of US and European floating-rate senior secured loans and which may include non-recourse financing.

The Company was admitted to trading on the Specialist Fund Market of the London Stock Exchange (now the Specialist Fund Segment of the Main Market of the London Stock Exchange) on 12 June 2014.

Investment opportunity

The General Partner of the Master Funds (the "GP") believes that diversified portfolios of secured bank loans may provide an attractive risk-return profile when financed with well-structured long-term financing. The GP believes the key to successful investment in secured bank loans is an understanding of, and focus on, the credit quality of the underlying corporate borrowers. To this end, portfolio financing structures (such as CLOs) need to be managed efficiently and effectively in order to enhance returns without introducing any mark-to-market or other non-credit risks.

Fund III has an investment period which ends in June 2024 (and may be extended by an additional one-year period), and a fixed life of five years from the end of the investment period. Fund II had an investment period which ended in June 2021, and a fixed life of five years from the end of the investment period. The Company has an unlimited life but on or before 12 June 2028 an extraordinary general meeting will be proposed to consider a continuation resolution.

\$210.1 million

2021 Share Class market capitalisation

\$238.6 million

Total Company market capitalisation

12–14%

Target total return

Fund performance¹

	1 MONTH	3 MONTH	1 YEAR	ITD
2021 SHARE PRICE (FAIR)	+3.77%	+7.76%	+30.94%	+84.57%
2021 NAV (FAIR)	+0.14%	-0.91%	+12.98%	+88.43%
JP MORGAN LEVERAGED LOAN INDEX	+1.61%	+2.79%	+13.17%	+55.58%
JP MORGAN HIGH YIELD INDEX	+3.51%	+6.91%	+13.77%	+48.94%

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Signatory of:



Data as at 29-Dec-23

2021 shares

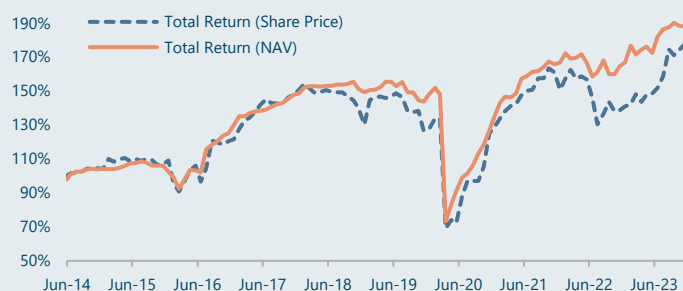
Price per Share	\$0.550
NAV per Share	\$0.564
Premium / (Discount) to NAV	-2.45%
Inception to date NAV return ¹	88.4% (6.9% annualised)
Inception to date price return ¹	84.6% (6.6% annualised)
2021 Share Class market capitalisation	\$210.1 million
2021 Shares in issue	382.0 million

Fund facts

Type of fund	Closed-ended investment fund
Listing and trading	LSE Main Market – SFS
Launch date	12-Jun-14
Launch price	\$1 per Ordinary Share
Dividend	Quarterly
Dealing	Daily during LSE opening hours
NAV calculation	As of the last business day of each month
Currency	\$ denominated
ISA and SIPP eligible	Yes
Management fee	1.00% of NAV p.a.
Performance fee	15% of Fund II/Fund III return once Limited Partners have received, in cash, their original investment plus a 7% annualised return
Catch-up	No
2021 ISIN	GG00BNNLWT35

Service providers

Investment advisor	Fair Oaks Capital Limited
Board of Directors	Fully independent
Administrator	Sanne Fund Services (Guernsey) Limited
Custodian	BNP Paribas Securities Services S.C.A.
Joint brokers	Numis Securities Ltd Liberum Capital Ltd
Auditor	KPMG (Channel Islands) Limited





Company performance¹

The 2021 Share NAV was \$56.38c at the end of December, +0.14% for the month and +12.98% for 2023. The 2021 ordinary share closed at a price of \$55.00c, +3.77% for the month and +30.94% for 2023. The 2017 Share NAV was \$57.15c as at December 29th.

Market commentary

The European and US loan default rates ended the year at 1.62% and 1.53%,² significantly lower than the forecasts issued at the end of 2022 of c.3.9% and c.4.4%.³ In December, the forward-looking distress ratio decreased from 4.79% to 4.32% in Europe and decreased from 7.30% to 6.36% in the US,² with 82% and 84% of the European and US loan indices now trading above 95.⁴

The loan market is facing conflicting forces, with a more benign macroeconomic outlook, an active refinancing market for loan issuers and ongoing demand from private credit funds offsetting a potential reduction in demand from new CLOs due to high CLO financing costs. Assuming the US default scenarios forecast by S&P Global Ratings,⁵ we estimate that the gross IRR for the Master Fund would be 33%, 26% and 15% in an optimistic, base and pessimistic scenario, respectively.⁶

CLO repayments and a fall in primary supply in 2024 could support lower CLO spreads, thereby increasing the potential to enhance the Master Fund's returns via resets and refinancings in line with the Fund's experience in 2021.

While the weighted average price for US CLO equity in the Master Fund's portfolio decreased from 43.1c in December 2022 to 37.4c this month, the weighted average loan bid price has risen from 92.6c to 96.2c (highest level since April 2022) in the same period. Fair Oaks believes the recent divergence between CLO equity prices and underlying loan prices is supportive of a positive outlook for CLO equity valuations going forwards.⁷

Company update

The Master Fund sold a \$2m BB-rated note (OAKCL 2021-2A E) at a price slightly above 100. The note was purchased in November 2022 at a price of 88.6 and the realised return (IRR) on the investment was 25.3%.

The Company has continued to implement its buy-back program and expand its investor base with the objective of reducing the discount to NAV, which has been reduced from -18% in January 2023 to -2% in December 2023. In the same period, the discount to NAV for the *Alternative Funds Ex-3i* category widened from -16% to -19%.⁸ We believe this serves as evidence of Fair Oaks' constant effort to managing the discount to NAV through initiatives such as introducing "fixed life" realisation shares, maintaining a steadfast commitment to the buy-back program, diversifying the shareholder register and reinvesting 25% of management fees whenever the shares trade at a discount to NAV.

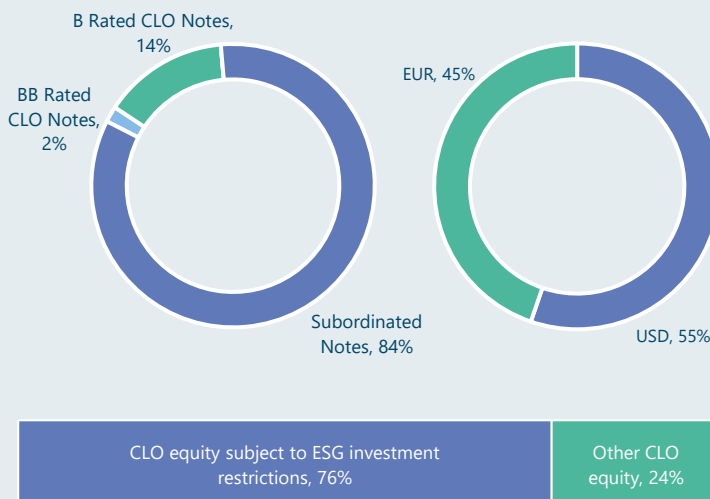
We are delighted to announce that all these factors contributed to FAIR winning the "Investment Company of the Year" award in the Debt category at the 2023 Investment Week awards.

Top 10 issuers and portfolio data¹⁰

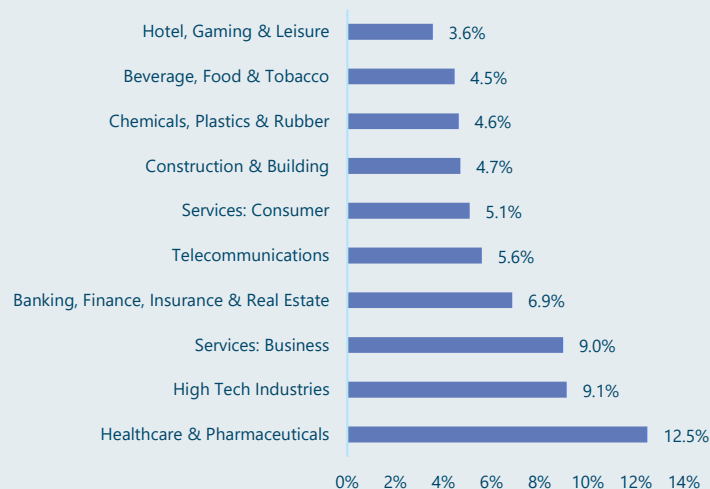
ISSUER	COMPANY RATING (S&P)	% GROSS ¹⁰	MOODY'S INDUSTRY CLASSIFICATION	COUNTRY
Virgin Media	BB-	0.76%	Media: Broadcasting & Subscription	United Kingdom
Ineos US	BB	0.57%	Chemicals, Plastics & Rubber	United States
Asurion	B+	0.54%	Banking, Finance, Insurance & Real Estate	United States
Altice France	B-	0.54%	Media: Broadcasting & Subscription	France
Zayo Group	B-	0.47%	Telecommunications	United States
Groupe Inovie	B-	0.43%	Healthcare & Pharmaceuticals	France
Refresco	B+	0.42%	Beverage, Food & Tobacco	Netherlands
McAfee	B-	0.42%	High Tech Industries	United States
ION Trading Technologies	B-	0.42%	Banking, Finance, Insurance & Real Estate	Luxembourg
Filtration Group	B	0.41%	Capital Equipment	United States
TOTAL NUMBER OF ISSUERS IN THE PORTFOLIO:				1,132
WEIGHTED AVERAGE ASSET SPREAD¹⁰:				3.69%
WEIGHTED AVERAGE COST OF CLO FINANCING¹¹ (SOFR / EURIBOR+):				1.93%

Please refer to the footnotes for the important information on page 5. Past performance is no indication of future results. Inherent in any investment is the potential for loss. Copyright © 2024 Fair Oaks Capital Ltd. All rights reserved.

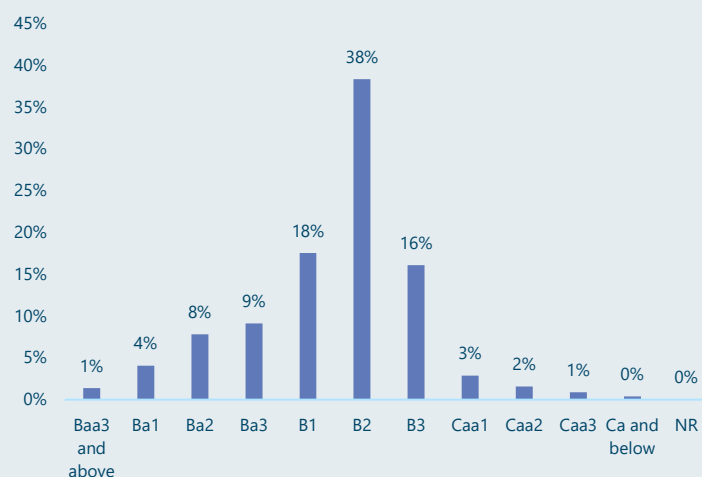
CLO portfolio rating and currency breakdown (Dec-23)⁹



Industry diversification by Moody's (top 10)⁹



Rating breakdown^{9,12}





Fund holdings (Dec-23)

EQUITY ¹³											
Nominal amount ¹⁴	Current market valuation ¹⁵	Deal name	Control ¹⁶	% Defaults ¹⁷	% CCC (S&P) ¹⁸	% CCC (Moody's) ¹⁸	% Oil & gas ¹⁹	% Risk sectors ¹⁹	Weighted average collateral bid price ²⁰	Last cash payment (annualised yield on current market price) ²¹	Relevant OC test cushion ²²
USD Equity											
\$18,674,368	53.0%	AIMCO 2017-AA SUB	Y	0.89%	3.50%	4.20%	2.20%	18.80%	\$97.4	16.9%	2.47%
\$27,497,800	28.0%	ALLEG 2017-2A SUB	Y	0.26%	10.30%	10.20%	2.11%	12.95%	\$96.1	49.7%	1.91%
\$17,929,600	26.0%	ARES 2015-35RA SUB	Y	1.66%	7.60%	7.00%	3.34%	7.93%	\$95.7	65.9%	0.51%
\$20,722,480	10.0%	AWPT 2017-6A SUB	Y	2.34%	11.34%	9.83%	0.90%	14.64%	\$93.6	26.8%	0.96%
\$4,540,335	45.0%	ELM 2014-1A SUB	Y	1.20%	6.40%	4.22%	0.56%	13.34%	\$96.5	31.0%	2.10%
\$17,895,120	26.0%	HLM 13A-18 SUB	Y	0.83%	6.90%	4.40%	2.57%	14.11%	\$96.4	52.8%	1.33%
\$4,693,380	13.5%	MARNR 2015-1A SUB	Y	1.88%	7.12%	4.92%	0.00%	14.49%	\$96.1	40.5%	2.00%
\$25,205,037	32.0%	MARNR 2017-4A SUB	Y	1.06%	5.47%	4.30%	0.35%	13.09%	\$97.0	33.6%	2.57%
\$27,089,212	40.0%	POST 2018-1A SUB	Y	0.82%	10.40%	6.70%	3.15%	15.38%	\$95.7	42.1%	3.02%
\$20,688,000	37.0%	SHACK 2018-12A SUB	Y	0.45%	8.10%	5.81%	2.72%	12.96%	\$96.2	45.8%	3.32%
\$19,912,200	20.0%	WELF 2018-1A SUB	Y	0.46%	10.16%	9.13%	0.67%	8.12%	\$94.7	73.5%	0.20%
\$18,752,982	66.0%	ALLEG 2021-1X SUB	Y	0.39%	6.87%	6.40%	4.00%	13.99%	\$97.0	28.7%	5.05%
\$16,895,200	72.0%	ROCKT 2021-2X SUB	Y	0.03%	8.30%	8.10%	2.23%	12.83%	\$95.5	31.9%	5.20%
\$19,998,400	54.0%	WELF 2021-2X SUB	Y	0.19%	8.00%	5.84%	0.00%	6.74%	\$95.7	26.7%	3.91%
Weighted average²⁵	37.4%			0.62%	7.73%	6.50%	2.11%	12.93%	\$96.2	37.4%	3.11%
EUR Equity											
€20,092,800	70.1%	FOAKS 1X SUB ²³	Y	0.00%	3.40%	2.40%	0.00%	5.89%	€97.4	22.5%	4.95%
€33,727,200	48.4%	FOAKS 2X SUB ²³	Y	0.00%	4.20%	3.90%	0.00%	7.73%	€97.2	22.1%	4.25%
€25,116,000	63.6%	FOAKS 3X SUB ²³	Y	0.00%	2.90%	4.00%	0.00%	5.63%	€97.6	18.6%	5.13%
€20,092,800	83.6%	FOAKS 4X SUB ²³	Y	0.00%	n.a.	1.70%	0.00%	6.75%	€97.4	18.5%	5.34%
Weighted average²⁵	63.8%			0.00%	2.58%	3.01%	0.00%	6.53%	€97.4	20.4%	4.92%
Total weighted average²⁵	45.2%			0.36%	5.58%	5.04%	1.23%	10.26%	\$96.7	30.3%	3.86%

Cash and cash equivalents²⁴: \$ 25,136,096



Fund holdings (Dec-23)

MEZZANINE													
Nominal amount ¹⁴	Current market valuation ¹⁵	Deal name	Original rating	Current rating	% Defaults ¹⁷	% CCC (S&P) ¹⁸	% CCC (Moody's) ¹⁸	% Oil & gas ¹⁹	% Risk Sectors ¹⁹	Weighted average collateral bid price ²⁰	Coupon	Current yield (based on current market price)	Relevant OC test cushion ²²
USD													
\$2,758,400	82.3%	APID 2018-18A F	B	Mezz	0.01%	8.40%	5.90%	3.46%	11.65%	\$97.6	SOFR+8.34%	16.72%	1.22%
\$3,172,160	79.5%	DRSLF 2017-49A F	B	Mezz	1.84%	7.38%	4.35%	1.44%	15.93%	\$95.4	SOFR+7.81%	16.61%	1.28%
\$3,448,000	78.1%	DRSLF 2017-53A F	B	Mezz	1.70%	8.30%	n.a.	1.26%	15.34%	\$95.5	SOFR+7.76%	16.85%	2.21%
\$3,956,580	83.6%	HLM 13X-2018 F	B	Mezz	0.83%	6.90%	4.40%	2.57%	14.11%	\$96.4	SOFR+7.91%	15.91%	1.33%
\$2,758,400	87.3%	MDPK 2016-20A FR	B	Mezz	0.09%	7.99%	7.40%	2.11%	9.58%	\$96.2	SOFR+8.41%	15.81%	2.82%
\$6,206,400	82.7%	OCT39 2018-3A F	B	Mezz	0.31%	7.02%	6.46%	1.85%	17.16%	\$96.6	SOFR+8.26%	16.54%	2.61%
\$3,792,800	64.4%	SYMP 2018-19A F	B	Mezz	0.17%	12.25%	10.01%	3.15%	18.30%	\$95.1	SOFR+7.40%	19.87%	1.83%
\$1,908,600	99.9%	OAKCL 2021-2A E	BB	Mezz	0.00%	8.20%	4.20%	3.16%	19.72%	\$97.3	SOFR+7.38%	12.79%	6.33%
Weighted average ²⁵	79.6%				0.68%	8.09%	6.32%	2.20%	14.94%	\$96.2	SOFR+7.99%	16.81%	1.97%
EUR													
€2,930,800	82.3%	EGLXY 2018-6X F	B	Mezz	2.34%	n.a.	6.36%	0.00%	14.26%	€94.8	Euribor+5.90%	11.64%	3.62%
€1,724,000	80.9%	HARVT 11X FR	B	Mezz	1.40%	3.30%	n.a.	0.00%	9.23%	€96.7	Euribor+6.55%	12.93%	0.54%
€1,750,894	84.0%	OHECP 2015-4X FR	B	Mezz	2.08%	n.a.	2.17%	1.15%	15.63%	€96.4	Euribor+6.10%	11.74%	1.63%
€3,659,760	94.1%	FOAKS 4X F ²³	B	Mezz	0.00%	n.a.	1.70%	0.00%	6.75%	€97.4	Euribor+9.25%	13.66%	5.34%
€1,431,450	92.0%	FOAKS 2X ER ²³	BB	Mezz	0.00%	4.20%	3.90%	0.00%	7.73%	€97.2	Euribor+5.91%	10.51%	4.25%
Weighted average ²⁵	86.6%				1.22%	3.30%	3.33%	0.19%	10.72%	€96.4	Euribor+7.26%	12.95%	3.47%
Total weighted average ²⁵	83.0%				0.77%	7.59%	5.25%	1.59%	13.70%	\$96.3		15.22%	2.74%



Footnotes

All references to "Fund II" are to "FOIF II LP", Master Fund II. All references to "Fund III" are to "FOMC III LP", Master Fund III.

- 1) Price and NAV returns includes reinvestment of dividends. Inception to date NAV return based on initial NAV as of June 2014 and includes share performance prior to the re-designation of the shares in 2017 and 2021. Net of fund expenses and fees.
- 2) PitchBook LCD as at 29-Dec-23. Morningstar US Leveraged Loan Index and European Leveraged Loan Index lagging 12-month loan default rate based on principal amount and distress ratio based on issuer count and defined as loans trading below 80c.
- 3) Average 2023 default rate compiled using 2023 forecasts from Morgan Stanley (US), Barclays (EUR & US), Deutsche Bank (EUR & US) and JP Morgan (US).
- 4) Pitchbook LCD as at 29-Dec-23. Calculation based on breakdowns of performing loans by bid price.
- 5) S&P Global ratings as at 19-Dec-23. US trailing-12-month speculative-grade corporate default rate.
- 6) Intex. Assuming 1.5%, 3% and 5% annual default rate by Sep-24 (optimistic, base and pessimistic scenarios according to S&P Global ratings), linear increase from 1.53%. 70c recovery rate, 25% prepayment rate, reinvestment in new loans with 4% spread at 98.5c during year 1, 99c subsequently. Call scenario assumes loans are called at 97.5c. Other assumptions available on request.
- 7) Intex and Fair Oaks Capital as at 29-Dec-23.
- 8) Liberum as at 29-Dec-23.
- 9) Intex. Portfolio currency and rating breakdown based on latest NAV, original ratings and currency denominations of all CLO investments, excluding cash. Industry diversification and rating breakdown based on Moody's sectors and ratings and loan par value weighted by Fund III's ownership of Income Notes.
- 10) Intex. Based on loan par value weighted by Master Fund III's proportional ownership of Income Notes.
- 11) Intex. Based on CLO liability spreads weighted by Master Fund III's proportional ownership of Income Notes.
- 12) Based on Moody's company ratings. Due to rounding errors, the percentages may not sum to 100%.
- 13) Table excludes the sub-fee notes and any investments in CLO warehouses held in the portfolio.
- 14) Includes the Company's proportional ownership of investments held by Master Fund II and Master Fund III.
- 15) Valuations are independently sourced by a third-party service provider, except for valuations for FOLF 1X SUB, FOLF 2X SUB, FOLF 3X SUB, FOLF 4X SUB and their respective Z and M (fee) notes which are provided by Wollemi Investments I LP. Since Dec-23, CLO mezzanine note valuations exclude accrued interest.
- 16) Vehicles managed by the General Partner own a majority of the CLO equity in the transaction.
- 17) Intex. Balance of defaulted assets as of latest trustee report.
- 18) Intex. CCC+, CCC and CCC- rated assets (S&P) and Caa1, Caa2 and Caa3 rated assets (Moody's). Based on loan facility rating from the rating agencies, Moody's and S&P.
- 19) Based on Moody's industry classification (or S&P equivalent) in monthly trustee reports. Risk sectors are defined as the five sectors most affected by Covid-19, according to Moody's: gaming and leisure; consumer transportation; advertising, printing and publishing; retail; automotive.
- 20) Based on month-end prices from Markit but where prices are not available, we may use the latest price from the monthly trustee reports to calculate the weighted average.
- 21) Distributions received from fee notes are included in the calculation.
- 22) Intex based on latest available trustee report. Difference between latest available value and threshold for BB over-collateralization test for CLO subordinated notes and relevant over-collateralisation test for mezzanine investments.
- 23) Fair Oaks Capital acts as CLO manager for the deal.
- 24) Total includes cash at Fair Oaks Income Limited. The cash balance is pro-forma for the latest dividend announced.
- 25) Weighted averages are by market value except for current market valuation and coupon which are weighted by par value. Weighted average calculation uses the Bloomberg EUR/USD foreign exchange rate on 29-Dec-23 (1.1039).

Important information:

The Net Asset Value and the portfolio valuations contained in this report are estimates and are based on unaudited estimated valuations. The final Net Asset Value and portfolio valuations of the Company may be materially different from the estimated values, which should only be taken as indicative values which have been provided for information only and upon which no reliance should be placed. The level of default for each portfolio holding is expressed as at a particular date and so may increase in the future. Actual results, performance or achievements may differ materially from estimated results, performance or achievements. Except as required by applicable law, the Company expressly disclaims any obligation to update or revise such estimates to reflect any change in expectations, new information, subsequent events or otherwise. This document is for information purposes only and is not an offer to invest. Prospective investors are advised to seek expert legal, financial, tax and other professional advice before making any investment decisions. Inception to date performance figures include share performance prior to the re-designation of the Company's initial share class in 2017 and are calculated by reference to the estimated NAV on 12 June 2014, the date of admission to trading of the Company's initial share class. Due to applicable legal restrictions, electronic versions of these materials are not directed at, or accessible by, US Persons (as defined in Regulation S under the US Securities Act of 1933) or persons located in the United States, Australia, Canada, Japan, the EEA (except the UK, Luxembourg, Sweden and Finland) or South Africa, or any other jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction.

Past performance is no indication of future results. Inherent in any investment is the potential for loss. Target returns and distributions are hypothetical targets only and are neither guarantees nor predictions or projections of future performance. There can be no assurance that such targeted returns will be achieved or that the Company (or the master fund in which it invests) will be able to implement its investment strategy, achieves its investment objective or avoid substantial losses.

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