



AP Wireless



Generation Bridge



GIMI



Lightspeed

# Diversified Sustainable Income

Interim Report  
2023



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## Our purpose

Our purpose is to generate **attractive** and **sustainable returns** for a wide range of investors through **responsible and disciplined investment** into a growing portfolio of diverse economic infrastructure debt. These assets would otherwise be difficult for investors to access, given the specialist nature of the origination and credit assessment skills needed.

Our investments support the provision of infrastructure on a sustainable basis and create social and economic benefits across the range of geographies in which we invest.



Find out more at  
[www.seqi.fund](http://www.seqi.fund)

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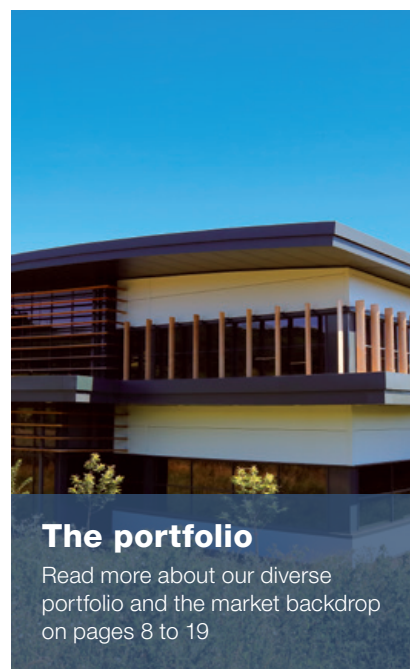
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## Sustainability

Read more about our ESG policy and goals on pages 20 to 25



## The portfolio

Read more about our diverse portfolio and the market backdrop on pages 8 to 19

# Highlights

## Financial highlights to 30 September 2023

**£1,561,452,723**

Total net assets

(31 March 2023: £1,617,853,302)

**62.84**

ESG score of the portfolio

(31 March 2023: 62.29)

**92.88p**

Net asset value ("NAV") per ordinary share<sup>1</sup>

(31 March 2023: 93.26p)

**2.68p**

Earnings per share

(30 September 2022: 3.82p loss per share)

**83.20p**

Ordinary share price<sup>2</sup>

(31 March 2023: 80.40p)

**3.4375p**

Dividends declared

(30 September 2022: 3.125p)

**(10.4)%**

Ordinary share discount to NAV<sup>1</sup>

(31 March 2023: (13.8)%)

**8.26%**

Annualised dividend yield

(30 September 2022: 7.63%)



1. See appendix for Alternative Performance Measures ("APMs").
2. Cum dividend.



# Objectives and policies

## Principal activity

Sequoia Economic Infrastructure Income Fund Limited (the “Company”) invests, via its wholly-owned subsidiaries (all together the “Fund” or “SEQI”) in a diversified portfolio of senior and subordinated economic infrastructure debt investments.



## Investment policy

The Company’s investment policy is to invest in a portfolio of loans, notes and bonds in which no more than 10% by value of the Fund’s net asset value (at the time of investment) relates to any one individual infrastructure asset. In addition, the Company intends to invest directly or indirectly only in investments that satisfy the following criteria, such investments to make up a minimum of 80% by value of the portfolio at the time of investment:

- all or substantially all of the associated underlying revenues to be from business activities in the following market sectors: transport, transportation equipment, utilities, power, renewable energy, accommodation infrastructure and telecommunications, media and technology infrastructure;
- all or substantially all of the revenues to derive from certain eligible jurisdictions, as defined in the Company’s Prospectus, provided that any such jurisdiction is rated at least BBB- by Standard & Poor’s or Baa3 by Moody’s;
- at least 50% of the portfolio to be floating rate or inflation-linked debt;
- no more than 20% of the portfolio to comprise pre-operational projects (typically projects in construction);
- no single sector to represent more than 40% of total assets;
- no single sub-sector to represent more than 15% of total assets, other than a major sub-sector (as defined in the Prospectus), which may represent up to 25% of total assets;
- no more than 60% of the portfolio to be located in the United States;
- no more than 50% of the portfolio to be located in Western Europe (ex-UK);
- no more than 40% of the portfolio to be located in the United Kingdom; and
- no more than 20% of the portfolio to be located in Australia and New Zealand combined.



## Investment objective

The Company’s investment objective is to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments, subject to the investment criteria as set out in the investment policy. This objective is subject to the Fund having a sufficient level of investment capital from time to time and the ability of the Fund to invest its cash in suitable investments.



## ESG policy

The Company takes its corporate and social responsibilities seriously. As part of its sustainability strategy, it has established an appropriate ESG policy which it takes into account at all stages of its investment process. The policy covers the global initiatives that guide its overall ESG principles, including the Company’s climate pledge, the specific regulatory frameworks it adheres to, and its ESG governance framework. The guiding principles behind its ESG programme are the United Nations Principles for Responsible Investment (“UNPRI”), to which the Investment Adviser is a signatory.



## Dividend policy

In the absence of any significant restricting factors, the Board expects to pay dividends totalling 6.875p per ordinary share per annum. The Company pays dividends on a quarterly basis.

On 13 October 2023, the Company announced that, with effect from the Company’s dividend for the quarter ended 30 September 2023, it would be introducing an option for Shareholders to elect for their cash dividend payment to be automatically reinvested to purchase additional ordinary shares in the Company via a Dividend Reinvestment Plan.

For further details, please see note 5 to these Unaudited Condensed Interim Financial Statements.

# Chair's statement



**Robert Jennings**

Chair



“Our business has emerged in good shape and through the actions that the team has taken, enjoys considerable flexibility in facing future challenges and opportunities.”



It is my pleasure to present to you Sequoia Economic Infrastructure Income Fund Limited's (the "Company" or "SEQI") Interim Report for the six-month period ended 30 September 2023.

Overall, the portfolio remains resilient and continues to generate substantial amounts of cash despite ongoing macroeconomic challenges. Inflation was high during the period, interest rates rose, and economic growth remained sluggish. Our robust performance against this backdrop is evidence of our key portfolio attributes, including wide diversification, with the average loan only representing about 2% of the portfolio, and a relatively short average maturity, which allows loan repayments to be redeployed into higher yielding opportunities. The Company has maintained its "balanced" approach to capital deployment: all Fund leverage has been repaid; the share buy-back has continued; and the Investment Adviser has been able to deploy capital selectively in a number of high-quality new investments. We strongly believe that this is a sensible approach and delivers flexibility in a period of uncertainty and elevated volatility. Our solid results for this half year, and the increase in our dividend with effect from the payment in February 2023, bear this out.

## NAV and share price performance

Over the first half of this financial year, the Company's NAV per ordinary share<sup>1</sup> fell by approximately 0.4%, from 93.26p to 92.88p. Over the same period, the Company paid dividends of 3.4375p per ordinary share, consistent with our increased full year target dividend of 6.875p, resulting in a total NAV return of 3.3% (not annualised).

Total return<sup>2</sup> over the six-month period

SEQI share price	7.9%
SEQI NAV	3.3%
Leveraged loans	3.3%
High yield bonds	3.8%
Gilts	-7.7%

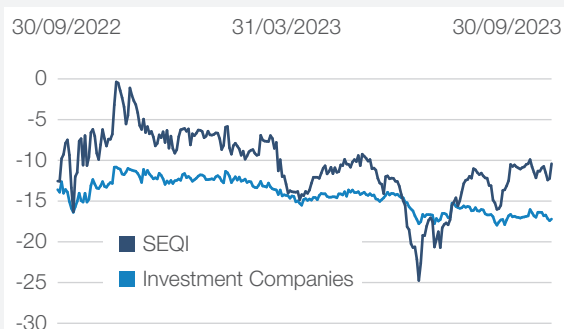
This performance was a much better return than Gilts over the same period and is comparable to the returns seen on other types of debt investments such as leveraged loans and high yield bonds. Since its IPO, the Company has outperformed comparable asset classes by a significant margin. For example, £100 invested in high yield bonds at the time of the Company's IPO would now be worth £121.33; £100 invested in a 10-year Gilt would now be worth £110.95; while the same amount of money invested by the Company would now be worth £137.55 (in all cases assuming that income is reinvested).

1. See appendix for Alternative Performance Measures ("APMs").
2. Leveraged loans: S&P European Leveraged Loan Index. High Yield Bonds: Bloomberg Pan-European High Yield Index. Gilts: 10-year benchmark Gilt.

During the half year, the Company's share price improved from 80.40p to 83.20p, reflecting a narrowing of the discount to NAV from 13.8% to 10.4%. After taking account of dividends, this resulted in a total return<sup>1</sup> over the six months to 30 September 2023 on the ordinary shares of 7.9% (not annualised).

While the share price clearly reflects the wider malaise in the UK listed fund sector (and especially so for alternative assets such as private debt, infrastructure and renewable energy), the Company has continued to support NAV per share through the buy-back programme. Commencing in July 2022, we have strategically bought back shares in the market, and the Directors and certain members of our advisory team have demonstrated their faith in the business by purchasing shares in their own capacity. Over the half year, the Company bought back 53,649,927 shares, making it one of the largest buy-back programmes across listed fund alternative assets on the LSE.

### Company's NAV to share price discounts %



We do not believe that the levels of discount to NAV that we have seen reflect the Company's long-term prospects, the resilience of its investment portfolio, or its ability to generate attractive returns for our Shareholders, and we anticipate that if unwarranted levels of discount occur, we will continue to buy shares in the market as appropriate.

The Board also notes the potential for a positive shift, as we move into 2024, in the external capital market dynamics which have impacted on SEQI and the broader investment company market over the last 18 months, and which have contributed to this unusual period of share price discounts to NAV. We would expect that, as the interest rate cycle peaks in our target markets, this will result in some reversal of investment capital outflows – which have generally been moving away from liquid alternatives and into government bonds and money market instruments.

## Portfolio performance

As explained above, the NAV over the period was approximately flat, which reflects the resilience of our portfolio in the context of a challenging economic environment where rising interest rates have been a persistent headwind.

One significant advantage we have over many funds in the alternative funds sector is the flexibility embedded in our portfolio: our investments are typically of short duration, with a weighted average life of less than four years. As a consequence, our portfolio is highly cash generative, which has allowed us to support our share buy-back programme, to repay all the Fund's leverage and to reinvest capital into new, attractive investment opportunities. This is a significant differentiator of our Fund relative to other illiquid alternatives in the market.

Regarding credit risk, there are a few notable points that should be borne in mind. Firstly, the portfolio is highly diversified, with the average loan only representing about 2% of the total portfolio and the largest 4.3%. This means that if a loan goes bad, at worst it has only a limited impact. Nonetheless, as with any portfolio of sub-investment grade loans, there will inevitably be some borrowers who experience financial difficulties.

Secondly, the historical experience is that, when loans to infrastructure projects default, lenders on average enjoy a high level of recovery, compared to other forms of corporate credit. The combined effect of these two factors is that the financial impact of bad debts on portfolio performance has been limited: the "loss rate" for the portfolio (being credit losses, annualised and expressed as a percentage of the amount lent) is only 0.58%. This compares to an estimated 1.6% annual loss rate for broader corporate bonds of a similar credit quality.

At our half year end, only 3.1% of the portfolio is in a full restructuring, with a further 8.5% subject to a higher-than-normal level of scrutiny. These levels are only marginally higher than at the end of the previous financial year.

When a loan defaults or the borrower gets into difficulty, our Investment Adviser works diligently to ensure that the Company maximises its recovery.

1. See appendix for Alternative Performance Measures ("APMs").

# Chair's statement continued

## Investment market outlook

The economic outlook in the US, UK and other developed economies where the portfolio is invested remains challenging, but there are reasons to be cautiously optimistic. Inflation is now falling quite rapidly in the US, UK and Europe. Interest rates set by Central Banks may have peaked in most of the jurisdictions where the Company invests. In the US, consumer spending is driving strong economic growth. Without wanting to sound falsely optimistic, these trends give hope that we may be close to entering a less challenging economic environment.

However, we have not invested on the basis of such optimism. In fact, our strategy has been to find investments which will be resilient even if things do not improve. For a significant period now the Investment Adviser has focused on making senior secured – rather than subordinated – loans, and has favoured sectors of the infrastructure market with defensive characteristics rather than cyclical sectors.

We are of the view that the time is now right to lock in some of the high rates currently being earned on our floating rate loan portfolio, and shortly after the period end the Company entered into its first fixed floating swap transaction. The effect of this transaction will be to enhance our dividend cover ratio over the next seven years if policy interest rates fall from their current levels.

## Dividend

Portfolio interest income has grown strongly over recent years as the interest earned on our floating rate loans has increased, and income from our recent investments reflects today's higher interest rate environment. This enabled the Company to increase its dividend with effect from January 2023 by 10% to 6.875p per ordinary share. In this half year, our dividend remains fully cash-covered by a factor of 1.08x. This is within the range of historical levels of c.1.05x to 1.10x, despite lower returns from the Company's net cash and the absence of accretion from any leverage.

Our expectation is that portfolio income will continue to grow, as existing loans mature, and proceeds are redeployed in today's higher-rate environment. If this transpires, the Board will reflect again on how best to return value to Shareholders. For the time being though, with our share price disappointingly continuing to languish at a significant discount to NAV, we believe it is appropriate to focus surplus income on our share buy-back programme.

## Governance matters

### a. Environmental, social and governance ("ESG")

We remain focused on and committed to our ESG strategy, despite recent market volatility and ongoing economic uncertainty. Investing our Shareholders' capital in a responsible way and engaging on ESG topics with the companies that we lend to remain core parts of our investment philosophy. We continue to use our proprietary methodology to assess carefully a number of E, S and G metrics to produce an ESG score for every portfolio asset and potential investment in our pipeline. We aim to use this part of our due diligence process to target higher-scoring assets and avoid or dispose of assets that we deem to be less sustainable. However, we recognise the importance of transition assets and borrowers who themselves have a transition strategy, which can result in lower ESG scores at the point of investment but should result in a score increase over time. This, in combination with our other ESG initiatives, should result in an increasing ESG score for our portfolio of assets. Noting factors that are outside of the Fund's control, such as exchange rates and early unanticipated repayments, we have generally been successful in doing so consistently since the methodology was adopted. This period marks another gradual increase in our average ESG score across the portfolio. This principally stemmed from the disposal of low-scoring assets and an active and accelerating step-up in our engagement efforts with borrowers in this half year. We seek to continually evolve our approach to ESG in a fast-moving backdrop. This period, we updated our ESG scoring framework to keep abreast with best practices and latest thinking – most notably this meant reassessing the sustainability profile of the nuclear sector, as described in the sustainability report below.



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In the most recent Annual Report, we published our second Task Force on Climate-Related Financial Disclosures (“TCFD”) report as well as our first periodic disclosure under the Sustainable Finance Disclosure Regulation (“SFDR”) as an Article 8 fund. Over the coming years, we will see an increasing level of disclosure and reporting on ESG matters under a range of different frameworks. We believe that transparent and reliable reporting plays a significant role in the progression of responsible investing, but it is not without challenges for a debt fund. We invest internationally and are discovering that the quality of ESG reporting is not consistent across different geographies. In addition, smaller borrowers especially lack the resources needed to be able to measure certain datapoints. However, we are working with our borrowers to gather the necessary quantitative data that will be required in the future. We aspire to be a pioneer in the listed debt fund sector with regard to the quality and accuracy of our ESG reporting to investors.

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## b. Risk

Over recent months we have undertaken a review of how we monitor risks internally. As a result of this review, we have made improvements to the Company’s Risk Register. Better defined risk classifications, finer definitions of risk levels, and indications on direction of travel make the document easier to use and more informative. In the future, we will modify the format and expand the information contained in the principal risks sections of our Annual and Interim reports. We believe that these changes will facilitate and benefit risk management of our operations and will provide Shareholders with a better understanding of the Company’s risk profile.

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## c. Shareholder information

Another significant initiative which the Company has recently undertaken has been to improve the quality of its dialogue with current and prospective Shareholders. In respect of this, we were delighted to win the AIC award for the Best Investor Factsheet. It has always been a strength of our communications programme that we update NAV on a monthly basis following a rigorous process of review by our external valuation agent, PwC. In times when interest rates and the conditions in credit markets are changing rapidly, we believe the emphasis that we place on providing timely and accurate updates is of great value to the market as a whole and, for that matter, to the Board.

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## d. Board

We have announced that James Stewart, who joined our Board two years ago, will take over from me as Chair of the Board with effect from the start of 2024, and that I will be stepping down at that time. This development has been planned for a while and I am delighted that James is to be my successor as he is ideally suited to the role.

As previously reported, we have undertaken an extensive external search to recruit an additional Director. This process attracted a number of high calibre applicants and we are now close to finalising this appointment.

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## Concluding comments

It has been a great privilege to serve as inaugural Chair of SEQI for the last nine years. In that time, I have witnessed a talented group of people within our Investment Adviser and other key service providers come together to plan, form and manage the first (and still the only) exclusively debt-backed infrastructure fund listed on the London market. On several occasions in earlier reports, I noted how impressed I was by how well and effectively the key individuals at a number of disparate organisations who support your Company have pulled together as a team. To all of you, thank you for the vital contributions you have made.

I also wish to thank my fellow Board colleagues, both past and present, and our consultants for the support and contributions they have all made over the years, which have allowed our Board to function well and effectively.

Over the past three years, with the combination of the pandemic, followed by the sharp rise of sovereign interest rates, our investment thesis, processes, portfolio and service providers have been thoroughly stress-tested. Our business has emerged in good shape and through the actions that the team has taken enjoys considerable flexibility in facing future challenges and opportunities. The basis for improving shareholder returns as markets recover is, I believe, fully in place by virtue of the well-balanced and diversified portfolio, exceptional and experienced team across all critical disciplines and balance sheet strength. I am confident that in due course this will allow you, our Shareholders, who have supported us through the last nine years and most particularly through the recent tough period, to reap the rewards of your patience and loyalty.

## Robert Jennings

Chair

23 November 2023

# Investment Adviser's report

“While the global outlook remains uncertain, the portfolio is well-positioned. There are reasons to be cautiously optimistic that we are closer to entering a more benign economic environment.”

## The Investment Adviser's objectives for the year

Over the course of the first half of the financial year, Sequoia Investment Management Company Limited (“Sequoia” or the “Investment Adviser”) has had the following objectives for the Company:

Goal	Commentary	Achieved
<b>Gross portfolio return<sup>1</sup> of 8-9%</b>	The Company is fully invested with a portfolio that currently yields in excess of 10% <sup>1</sup> , due to continued increases in long-term interest rates over the period	✓
<b>Manage the portfolio responsibly through an inflationary and rising interest rate environment</b>	The Fund has previously positioned its portfolio beneficially to take advantage of the rise in interest rates and is now locking in these higher rates, reflected by a decrease in the floating rate proportion of its portfolio from 58.4% at 31 March 2023 to 54.4% at 30 September 2023	✓
<b>Follow a sustainable investment strategy</b>	The Fund has improved the overall ESG score of its portfolio from 62.29 to 62.84 by reducing its exposure to low-scoring investments, and also by increased ESG engagement with the companies that it lends to	✓
<b>Timely and transparent investor reporting</b>	The Company's Factsheet (which was awarded the AIC's 2023 Shareholder Communication Award for Best Factsheet), commentaries and full portfolios have been provided monthly for full transparency, and investor engagement has continued over the first half of the financial year	✓
<b>Continue to improve the ESG profile of the Company and the portfolio</b>	The Fund reviewed and updated its ESG framework, given the continually evolving nature of ESG, to ensure it remains up to date and best reflects current thinking and the future direction of travel	✓
<b>Dividend target of 6.875p per ordinary share per annum</b>	The Company paid two quarterly dividends of 1.71875p per ordinary share in line with its dividend target, amounting to a total of 3.4375p	✓

1. See appendix for Alternative Performance Measures (“APMs”).

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## **Economic infrastructure is a diverse and highly cash-generative asset class**

Economic infrastructure debt is a type of investment that is widely acknowledged for its stability and dependability. This asset class exhibits a set of key characteristics that makes it appealing to investors. Firstly, it is characterised by high barriers to entry, making it challenging for new entrants to penetrate the market, which, in turn, provides a protective shield for existing investors. Secondly, the cash flows generated by economic infrastructure debt are typically steady and foreseeable, ensuring a reliable income stream for investors. This is primarily attributed to the essential nature of the services, which ensures a constant level of demand. Finally, the physical assets supporting economic infrastructure debt serve as tangible collateral, providing a means to secure the investment.

These features have resulted in economic infrastructure debt becoming an increasingly sought-after asset class for investors seeking a stable income source and a trustworthy long-term investment.

Economic infrastructure debt spans sectors like transportation, utilities, power, telecommunications and renewables. These sectors often rely on long-term concessions or licences, with revenues tied to demand, usage or volume. In contrast, social infrastructure, like parks and hospitals, receives compensation merely for the availability of physical assets.

To mitigate demand risk, economic infrastructure projects are typically less leveraged than social infrastructure, maintain higher equity buffers, conservative credit ratios, robust loan covenants and more significant asset backing for lenders. This principle has held steady throughout the first half of the financial year, guiding the Fund's investment strategies.

Despite market volatility during the period, the Fund proactively positioned its portfolio defensively against potential downturns. Measures taken include a focus on senior debt and on non-cyclical industries. These actions have helped to mitigate risks from the current inflationary market conditions and other global uncertainties, such as the ongoing war in Ukraine and the conflict in the Middle East.

Furthermore, as sustainability remains a prominent investment focus, the Fund recognises that investing in new economic infrastructure is often pivotal for implementing the latest technologies and manufacturing processes into established industries. This opens the door to an array of ESG-incorporating investment opportunities, benefiting not only the Fund's portfolio, but also the modernisation of sectors traditionally marked by formidable barriers to entry.

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## **The market environment during the period**

While infrastructure debt benefits from inherent revenue stability, the Fund's valuations are not unaffected by the record movements observed in the financial markets over the last six months, particularly the rapid decline in government bond prices. For context, the FTSE All-Share Index, representing the overall London equity market, increased by 1.2% over the last six months, while the FTSE 250, tracking mid-cap companies, declined by 1.5% during the period. 10-year Gilts (UK government bonds) decreased by 7.7%, leveraged loans increased by 3.3%, and high yield bonds rose by 3.8%. These figures include dividends or interest income, providing annualised total returns for the period.

The US, UK and Europe have seen their respective inflation figures fall further in the last six months from the peaks observed in the last fiscal year. However, the current narrative driving the underperformance of government bonds is no longer a continuation of interest rate hikes from central banks, as these are assumed to have reached, or be close to, their terminal value. Instead, the focus has shifted to the sustainability of a high-interest rate environment, given each region's respective economies, and the timing of any fall in rates.

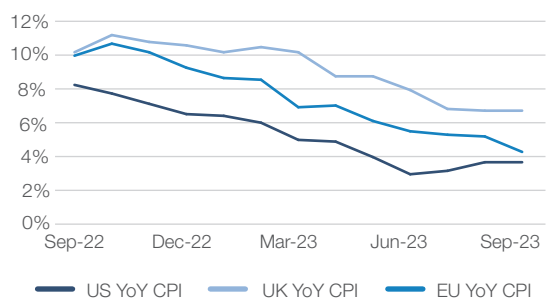
The performance of the Fund's private debt portfolio is sensitive to fluctuations in interest rates and credit spreads within liquid markets. On the one hand, the valuation of the Fund's investment holdings may be adversely impacted by downturns in government debt, high yield bond or leveraged loan markets – in general though, such fluctuations are unrealised mark-to-market changes that will reverse as our loans approach their maturity date. On the other hand, the Fund derives real advantages from these adverse market conditions. Infrastructure businesses have faced limited options for capital raising, which increased the Fund's pricing power. This, in turn, resulted in enhanced lending margins, more favourable credit terms, or a combination of both, ultimately contributing to the Fund's overall performance. Therefore, despite market challenges, the Fund's infrastructure debt investments continue to offer investors an appealing risk-return profile.



# Investment Adviser's report continued

## Market backdrop

### Headline consumer price index year/year



#### What is happening?

Inflation is past its peak levels in all of the Fund's investment jurisdictions, as disinflation takes hold in most developed markets globally.

#### Why this matters to SEQI?

As inflation drops, term interest rates would be expected to fall, which makes alternative investments such as infrastructure more attractive compared to liquid credit. Also, lower inflation leads to less cost pressure during the construction of a project, decreasing construction risk, all else being equal.

### Commodity index



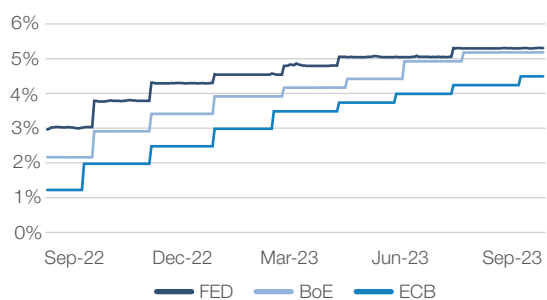
#### What is happening?

The Commodity Research Bureau Index has peaked ahead of inflation rates in the US due to built-up demand during the Covid pandemic.

#### Why this matters to SEQI?

Goods make up a large portion of inflation and as commodity prices cool inflation can be expected to soften, lowering the cost of construction and taking pressure off interest rates, all else being equal.

### Short-term interest rates



#### What is happening?

Short-term interest rates are expected to have reached their peak rates in the US, UK and Europe.

#### Why this matters to SEQI?

The portfolio's floating rate investments will start to de-risk as their borrowing costs peak. A lower interest rate environment is also supportive of fixed rate loans and bonds, which would be expected to help the pull-to-par of our fixed rate assets. Further, as short-term rates begin to fall, yield curves will become less inverted or turn positive again, supporting a bid for risk in the market.

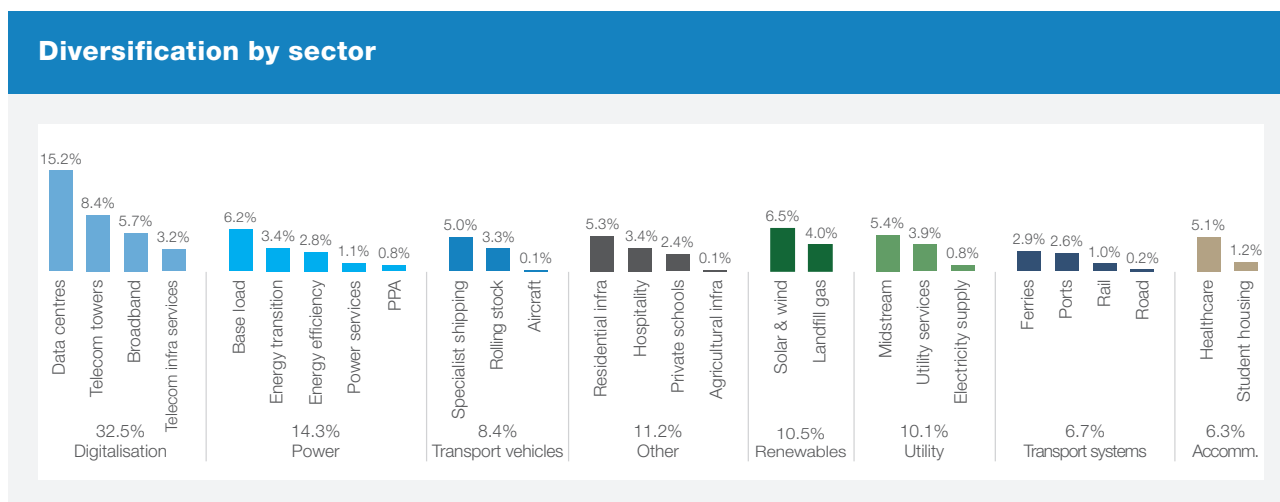
## Portfolio overview

During the first six months of the financial year, our continuing strategic approach revolved around the ongoing construction and management of a well-diversified portfolio of private debt investments secured by infrastructure assets situated in low-risk jurisdictions. Our primary objective has been to uphold our targeted returns while placing a strong emphasis on mitigating undue credit and ESG risk. Throughout this timeframe, we remained committed to the prudent investment strategies established in 2019. These strategies encompass retaining a significant portion of the portfolio in defensive sectors, giving precedence to senior debt over mezzanine debt, and either maintaining or incrementally enhancing the credit quality of the portfolio.

In response to the market challenges, our diversified approach to private debt investment has proven effective in delivering robust returns and adeptly managing risk. Consequently, we have been able to capitalise on fresh opportunities for financing high-quality infrastructure projects. By steadfastly adhering to this strategy, we maintain a high level of confidence in our capacity to consistently provide attractive returns to our investors while skilfully mitigating risk in this demanding market. Current portfolio highlights reflecting the impact of these efforts include:

- 59.4% of the portfolio in defensive sectors. These include telecommunications, accommodation, utilities and renewables, which are viewed as defensive because they provide essential services, often operate within a regulated framework and have high barriers to entry;
- 32.5% of the portfolio in the telecommunications sector that continues to perform as previous PIK assets become cash-paying and the appetite for infrastructure such as data centres grows;
- 53.5% of the portfolio in senior and 45.6% in mezzanine ranked secured loans, as opposed to more of a 50-50 blend to position the portfolio for a slow-growth environment;
- improved credit quality of the portfolio over the last 12 months without a reduction in targeted yields. Our policy not to invest in CCC profile loans remains in place; and
- continued low modified duration of 1.5, with 54.4% of the portfolio in floating rate deals and 45.6% in short-term fixed rate assets and a current low portfolio weighted average life of 3.6 years.

The Fund's investment portfolio is diversified by borrower, jurisdiction, sector and sub-sector, with strict investment limits in place to ensure that this remains the case. The chart below shows portfolio sectors and sub-sectors as at 30 September 2023:



# Investment Adviser's report continued

## Portfolio overview continued

The Fund maintains a distinct emphasis on investing in regions characterised by stability and minimal risk, in alignment with its established investment criteria. This leads the Fund to restrict its investment activities to countries meeting established standards, such as being classified as investment-grade. The Fund's investment strategy revolves around the identification of opportunities offering favourable risk-adjusted returns while prudently avoiding potential obstacles, notably regulatory and legal risks.

At the core of the Fund's strategy is a primary focus on private debt, which constitutes almost all of its portfolio. This strategic approach is driven by the fact that private debt typically offers an "illiquidity premium", i.e. a higher return compared to liquid bonds with similar characteristics. Given the Fund's predominant "buy and hold" investment approach, capturing this illiquidity premium is deemed a prudent strategy. Research from the Investment Adviser confirms the existence of this additional premium, suggesting that infrastructure private debt instruments tend to yield 1-2% more than similar publicly rated bonds.

## NAV and Fund performance

The Fund adopts a prudent stance in its investment endeavours, particularly with regard to the risk associated with greenfield construction projects. Although the Fund is open to allocating up to 20% of its NAV for lending to such ventures, its actual exposure to assets under construction as at 30 September 2023 stood at 11.2% of its overall portfolio. The Fund exercises careful discretion in project selection, exclusively investing in those where it perceives that it is adequately compensated for the moderate construction-related risks it undertakes. Additionally, the Fund maintains stringent criteria for evaluating the inherent strength of the borrower's business or project to ensure effective risk mitigation.

Over the last six months, the Company's NAV per share decreased from 93.26p per share to 92.88p per share ex-dividend, driven by the following effects:

Factor	NAV effect
Interest income on the Company's investments	5.17p
Gains on foreign exchange movements, net of the effect of hedging	0.15p
Portfolio valuation movements	(1.98)p
IFRS adjustment from mid-price at acquisition to bid price	(0.06)p
Operating costs	(0.66)p
Gains from buying back shares at a discount to NAV	0.44p
<b>Gross increase in NAV</b>	<b>3.06p</b>
Less: Dividends paid	(3.44)p
<b>Net decrease in NAV after payment of dividends</b>	<b>(0.38)p</b>

The total return on the NAV was equal to 3.3% over the period, equivalent to 6.6% p.a. This is broadly in line with the Company's long-term return expectations of 7-8% p.a. Once again, the portfolio has outperformed other investments over the period, including the FTSE All-Share Index by 2.1%, the FTSE 250 by 4.8% and 10-year Gilts by 11.0%, while performing in line with leveraged loans and falling slightly behind high-yield bonds by 0.5%.

As evident from the table provided above, the principal factor that positively influenced NAV performance was the interest income derived from investments. Slightly offsetting some of this income, the Company's investments suffered a small decline in values, mostly as a result of rising discount rates, with only a third of the portfolio valuation movements being attributable to the Company's 'non-performing loans'. It is worth noting that such mark-to-market price declines represent unrealised losses and are anticipated to gradually reverse over time as loans approach their maturity date (the "pull-to-par" effect).



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The Investment Adviser believes that the portfolio is well positioned to continue to outperform the liquid credit markets for the following reasons:

- private debt has higher yields than liquid credit, for a like-for-like credit quality;
- debt supported by infrastructure exhibits resilience due to higher asset backing. This resilience is evident in the Fund's lower loss rates compared to broader liquid credit, again, when considering equivalent credit quality;
- mitigation of interest rate sensitivity through a significant proportion of floating rate debt in the portfolio (54%), resulting in a low level of sensitivity to changes in interest rates;
- relatively short debt maturities, allowing the Fund to rapidly recycle capital in the currently attractive lending markets; and
- a high level of portfolio diversification by sector, sub-sector and jurisdiction, thereby minimising the impact of single asset-, sector- and country-specific political and economic risks.

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## Share performance

As at 30 September 2023, the Company had 1,681,169,626 ordinary shares in issue (31 March 2023: 1,734,819,553).

The closing share price on that day was 83.2p per share (31 March 2023: 80.40p per share), implying a market capitalisation for the Company of approximately £1.4 billion, a slight increase of c.£3.9 million compared to six months ago.

After taking account of the two quarterly dividends amounting to 3.4375p per ordinary share, the share price total return<sup>1</sup> over the period was 7.9%, equivalent to an annualised total return of 15.8%. The observed 2.8p increase in the share price over the first two quarters of the year was driven by two factors:

- the change in NAV as discussed above; and
- an improvement in the rating of the shares from a 13.8% discount to a 10.4% discount.

A significant contributing factor to the share price discount is the negative market sentiment surrounding alternative assets, including debt funds. This, in the opinion of the Investment Adviser, arises in part from concerns around persistent inflation and low growth, combined with some loss of trust in the accuracy of alternative fund valuations generally. The Investment Adviser wishes to reassure investors that the Fund's valuations are performed independently and reflect the true value of its assets, and unlike the majority of private equity, infrastructure equity and real estate equity funds, are published on a monthly basis. However, outflows of capital from investors, reallocating from liquid alternatives into government bonds and money market instruments which offer recently increased levels of yield, have exacerbated the problem, as 'forced sellers' have driven share prices across the sector lower; although we see some recent stabilisation in this effect as policy interest rates across key markets seem to have peaked.

Both the Investment Adviser and the Company's Directors view the current share price discount to NAV as disproportionate. They are of the opinion that it fails to reflect the investment portfolio's potential to deliver attractive risk-adjusted returns during uncertain economic periods, its shorter investment duration and robust NAV approach. With this belief, the Fund continues to repurchase its ordinary shares, considering them undervalued, which provides NAV accretion for current Shareholders. Within the last six months alone, the Company has repurchased 53,649,927 shares. The share buy-back programme was first announced to Shareholders in July 2022, and the Company has since bought back a total of 87,069,372 shares, close to 5% of its total outstanding shares, as at 30 September 2023. This has provided Shareholders with an increase in NAV per share of 0.6p since the buy-back programme was implemented.

1. See appendix for Alternative Performance Measures ("APMs").

# Investment Adviser's report continued

## Dividend cover

The Company has paid 3.4375p in dividends during the last six months in accordance with its target.

The Company's dividend cash cover<sup>1</sup> was 1.08x for the first half of the financial year. This is lower than in the previous year, for the following reasons:

- the Company has crystallised less capitalised interest compared to last year, namely around £5 million in the period compared to £20 million in the prior year. However, this non-materialised PIK interest will be received at a later date as investments repay;
- the Company has increased its dividend target from last year as the Board was confident in the level of income produced by the portfolio. Given that the Company's dividend remains comfortably cash-covered, the portfolio's floating rate assets have successfully offset the higher dividend payments; and
- the Company has repaid its revolving credit facility ("RCF") balance in full whilst building up increased levels of liquidity. As a result, the income generated by the spread between RCF utilisation cost and yield on investments funded by such drawings has not been captured in the period.

Overall, the above-mentioned factors are either transient or the result of other positive developments for the Company.

## Fund performance

		30 September 2023	31 March 2023	30 September 2022
Net asset value	per ordinary share	<b>92.88p</b>	93.26p	93.64p
	£ million	<b>1,561.5</b>	1,617.9	1,634.9
Cash held (including in the Subsidiaries)	£ million	<b>141.7</b>	68.7	38.2
Drawings on RCF	£ million	<b>0.0</b>	181.8	193.0
Invested portfolio <sup>2</sup>	percentage of net asset value	<b>90.3%</b>	106.5%	116.0%
Total portfolio	including investments in settlement	<b>92.2%</b>	109.6%	121.3%

1. See appendix for Alternative Performance Measures ("APMs").

2. Relates to the portfolio of investments held in the Subsidiaries.

## Portfolio characteristics

		30 September 2023	31 March 2023	30 September 2022
Number of investments		<b>57</b>	68	72
Valuation of investments	£ million	<b>1,410.2</b>	1,723.5	1,924.5
Single largest investment	£ million	<b>60.2</b>	61.0	64.3
	percentage of NAV	<b>4.3%</b>	3.8%	3.9%
Average investment size	£ million	<b>23.5</b>	25.3	25.0
Sectors	by number of invested assets	<b>8</b>	8	8
Sub-sectors		<b>27</b>	26	28
Jurisdictions		<b>10</b>	12	11
Private debt	percentage of invested assets	<b>97.3%</b>	98.1%	96.3%
Senior debt		<b>53.5%</b>	57.2%	59.2%
Floating rate		<b>54.4%</b>	58.4%	56.9%
Construction risk <sup>1</sup>		<b>11.2%</b>	14.2%	12.3%
Weighted average maturity	years	<b>4.2</b>	4.1	4.6
Weighted average life	years	<b>3.6</b>	3.5	3.9
Yield-to-maturity <sup>1</sup>		<b>10.9%</b>	11.9%	11.2%
Modified duration <sup>1</sup>		<b>1.5</b>	1.5	1.6

As can be seen in the table above, the Fund has reduced its number of investments from 68 to 57 within the last six months. The Investment Adviser has selectively decided not to redeploy some of the capital received from maturing assets, instead using these proceeds to de-lever the Fund, increase the liquidity available to the Company and buy back shares while they are trading at a discount. The decrease in investments has been actively managed so as not to impact the diversification the Fund provides to its investors; the portfolio remains invested in eight different sectors and has increased its sub-sector count to 27 from 26 at the prior year end. Furthermore, some of the exited positions were construction assets, which has allowed the Company to de-risk the portfolio even further.

1. See appendix for Alternative Performance Measures ("APMs").



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# Investment Adviser's report continued

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## Credit performance

Looking at the overall portfolio, the credit performance remained positive over the course of the last six months. Given that the portfolio is comprised of high-yielding debt instruments, one would expect a small portion of investments to encounter some credit challenges over the course of their lifespan. The Company's experience to date is that credit losses have only been a modest drag on investment returns, contributing to a loss rate of approximately 0.58% per annum. This compares well to non-financial corporate debt of a similar credit rating, where the historical annual loss rate is approximately 1.6%.

Lenders have a duty of confidentiality to the companies that they lend to, and so it is the Company's policy not to discuss underperforming loans by name, other than where the borrower has entered into an insolvency process (such as administration in the UK, or Chapter 11 in the US). It is easy to see how a public discussion of an underperforming business could exacerbate its problems, for example by making it harder to retain employees or secure new contracts.

Progress continues to be made on managing the Company's loans in restructuring or receiving enhanced scrutiny. Overall we do not foresee that the NAV will be materially impacted by these ongoing discussions.

However, although the current economic environment has its challenges, infrastructure has been resilient and the overall credit quality of the Company's investment portfolio remains high. Inflation is falling (especially in the US), energy markets are normalising and interest rates appear to be at or near their peak levels. These stabilising macro-economic themes provide a foundation for steadier credit markets and are further explored in the "Market backdrop" section.

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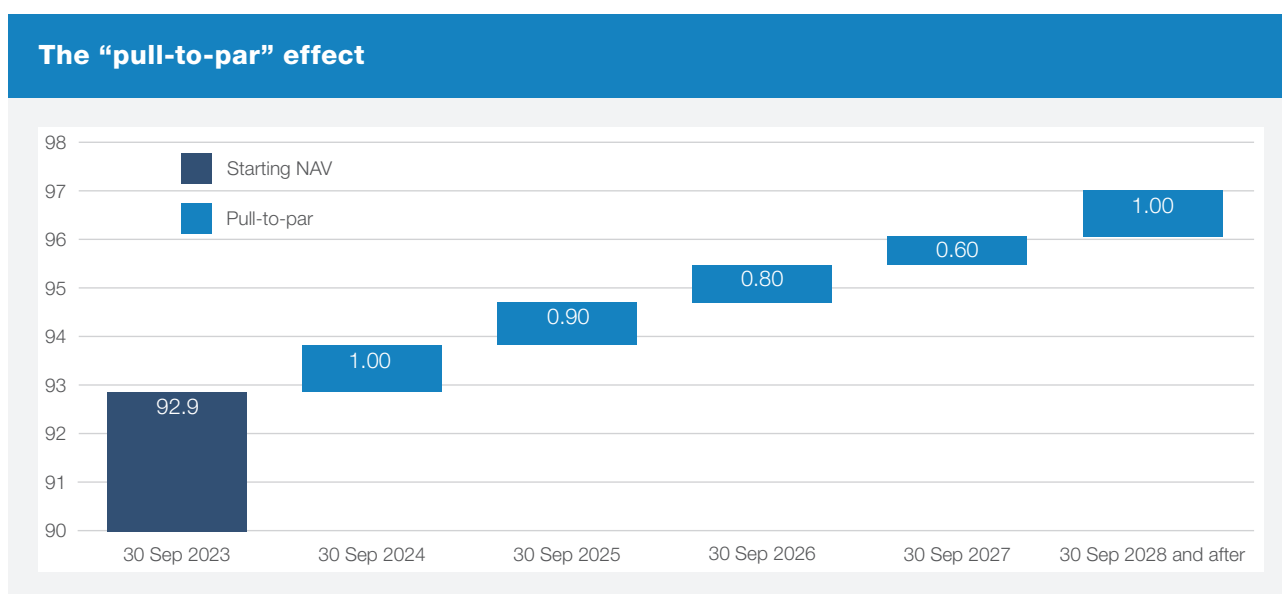
## Balance sheet management

Over the six months following the end of the previous financial year, the Fund has successfully repaid all of its outstanding revolving credit facility loans. Initially, it had a net leverage position of £113.1 million, which included a £181.8 million draw on the Company's revolving credit facility and a cash reserve (including cash held in the Subsidiaries) of £68.7 million as at 31 March 2023. This position has since transitioned to an undrawn revolving credit facility and a cash balance of £141.7 million. While the Fund has actively been building its liquidity, it does not intend to maintain these high cash levels, in order to avoid unnecessary cash drag. The increased cash balance was largely due to the complete repayment of a significant loan on the final business day of the period. The current high liquidity position offers the Fund the flexibility to allocate capital as needed while also reducing volatility related to its financial obligations. The Investment Adviser therefore continues to originate deals in the credit market on a daily basis and currently manages a dynamic pipeline of potential deals that have been pre-screened for suitability of over £400 million. Given the current portfolio composition, the Fund is actively originating in sectors that would benefit from increased exposure such as Transport systems and Transport vehicles. Further details can be found in the "Strong pipeline of opportunities" section of the Investment Adviser's report.

## Portfolio valuation

Currently, the average single B or higher-rated loan in the portfolio is marked at a price of about 95 pence in the pound; this mostly reflects the higher interest rates and credit margins used to value the loan, compared to those available in the market at the time the loan was made.

Over time, as loans marked down due to the above-mentioned effects approach their repayment dates, we will see their valuations accrete back up to 100 pence in the pound – this is the so-called “pull-to-par” effect, the value of which is shown on the graph below:



These NAV estimates are calculated on the basis that interest rates and bond yields remain constant and do not take into account NAV-accretive mechanisms other than the pull-to-par; the only variable is the passage of time.

Non-performing loans are excluded from the calculation. In monetary terms, the pull-to-par is expected to be material over the next three years:

Period	Pull-to-par (£m)	Pull-to-par (pence per share)
1 October 2023 to 30 September 2024	17.2	1.0
1 October 2024 to 30 September 2025	15.8	0.9
1 October 2025 to 30 September 2026	13.6	0.8
1 October 2026 and after	26.4	1.6

# Investment Adviser's report continued

## Origination activities

The Fund's investment strategy targets assets in both the primary and secondary debt markets, with each offering unique advantages. Investing in the primary market allows the Fund to earn upfront lending fees and tailor its investments to meet specific requirements. Acquiring assets in the secondary market facilitates the rapid deployment of capital into seasoned assets with proven performance records.

## Primary market origination

The Fund maintains its focus on the primary loan markets, which continue to present significant opportunities. The Investment Adviser actively sources bilateral loans and participates in "club" deals where a small group of lenders collaborate. In addition, the Fund has engaged in more widely syndicated infrastructure loans.

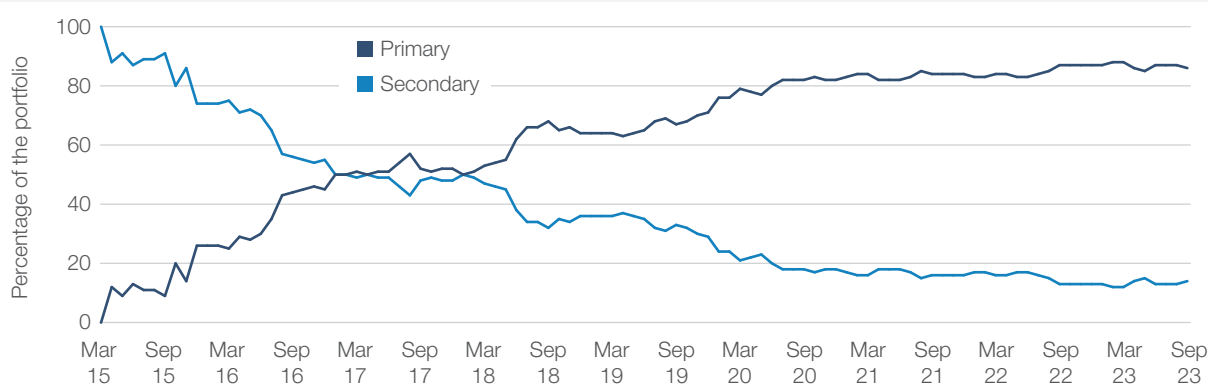
Primary market loans are appealing due to their favourable economics. As the lender, the Fund benefits from upfront lending fees and increased flexibility in negotiating terms. As the Fund has grown, its primary market investment activity has expanded and now accounts for the vast majority (82.9%) of the portfolio.

## Secondary market origination

While the primary market remains a focal point, the Fund also acquires certain investments from banks or other lenders in the secondary markets. This approach allows for the swift deployment of capital, as primary market transactions in infrastructure debt can often be time-consuming to execute. It also provides the Fund with more liquid assets, offering flexibility when there's a need for increased liquidity.

Furthermore, secondary market loans come with a performance history that enables credit analysis based on actual results rather than financial forecasts. Research indicates that infrastructure loans typically see improvements in credit quality over time. Therefore, in many cases, secondary loans have enhanced credit quality since their initial origination.

## Primary and secondary investments since IPO





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## **Strong pipeline of opportunities**

While the Investment Adviser has primarily concentrated on monitoring existing positions, it also has a diverse array of appealing potential investments, some of which are currently under consideration. The conjunction of weak high yield bond and leveraged loan markets, combined with the prevailing risk aversion in bank lending, has resulted in borrowers being more receptive to the enhanced pricing power wielded by alternative debt providers. This environment allows for more advantageous terms to be negotiated compared to what is typically available during periods of abundant bank lending. These favourable conditions translate into benefits for investors, including higher interest rates, fees, improved covenants and enhanced collateral provision.

Our strategy revolves around capitalising on these advantageous lending conditions while adhering to the late-cycle strategies previously mentioned. This approach, in the current market climate, offers higher yields for assets of the same quality compared to the previous year or similar yields with improved asset quality. In line with this approach, we are considering a diverse pool of investments in our pipeline with yields ranging from 8% to 12%. The Investment Adviser is content with the current yield composition of the portfolio, and has a predominant focus on enhancing asset quality. Preference is therefore given to assets with the following characteristics:

- senior debt as it offers additional security through collateral backing;
- defensive sectors or borrowers with a high degree of contractual or predictable income, as opposed to businesses sensitive to economic cycles;
- assets that maintain or improve portfolio diversification;
- operational projects, as they provide better visibility into cash flows compared to construction projects; and
- BB-rated or better implied credit quality.

Given this selective approach to new investments, we find ourselves declining over 90% of the lending opportunities we encounter. Nonetheless, our portfolio is well positioned to provide security in the face of volatile markets ahead, with our ongoing commitment to prioritising quality, diversity and cash generation.

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## **Allocation of capital in today's market**

Since the end of the last financial year, several loans have been sold or redeemed, the proceeds of which the Fund has used to fully repay drawings on its RCF. We plan to utilise the resulting strong balance sheet to explore new lending opportunities that align with the previously mentioned criteria. Additionally, we aim to continue our share buy-back programme, especially in light of the continuing discount of our share price to NAV.

## **Sequoia Investment Management Company Limited**

**Investment Adviser**

23 November 2023



# Sustainability report

## Summary

The Company continues to adhere to and progress its comprehensive ESG programme. ESG remains integral to every stage of SEQI's investment process:

- the origination of potential new investments includes negative and positive screening;
- due diligence and credit analysis require thorough assessment of ESG credentials and material, such as internal policies and enhanced environmental impact and technical assessments;
- loan documentation can contain, where appropriate, ESG considerations, for example enhanced reporting by borrowers in relation to environmental metrics;
- all borrowers are assigned an ESG score, which is calculated according to Sequoia's proprietary scoring methodology. E, S and G factors are monitored over the course of the loan, including through annual ESG questionnaires and regular engagement with borrowers on ESG topics; and
- the ESG profiles of investments are considered when discussing portfolio restructuring and disposals.



Each year, the Fund's ESG policy is reviewed. In the prior financial year, the Fund updated its ESG policy, which sets out the criteria and principles applied to its investing activities; details on the Fund's ESG principles and how they were applied during this half year can be found on subsequent pages of this report. The Company also continues to embed its ESG policy in the way it does business: its revolving credit facility includes a margin-adjustment mechanism, which links the interest rates the Fund pays to the average ESG score of its investments. The Fund has also worked with its hedging counterparties to include similar mechanisms in its FX derivatives.

The Fund views its ESG initiative as building upon solid foundations and being in a period of continuing evolutionary, rather than revolutionary, change. As such, during this period, the ESG framework was refreshed. As well as providing more detailed disclosure on the negative screening and thematic investing processes, the ESG scoring methodology was updated to reflect the continually evolving ESG landscape and best practices.

These tweaks included refining definitions within the modifiers, clarification over which entity within the borrowers' corporate structures is used to assess E, S and G, and the treatment of projects depending on whether they are in the construction or operating phase. Some new sub-sectors were added to the illustrative table of E scores, but the notable change was the reclassification of the nuclear sub-sector score in line with the EU Taxonomy's view of it as an environmentally sustainable activity. Additionally, the modifier "water and waste management plan" was decoupled into two separate modifiers.

The latest ESG policy and updated framework are published here: [seqi.fund/sustainability/publications](https://seqi.fund/sustainability/publications).

The Fund makes ongoing effort to promote its borrowers' commitment to and progress along ESG by the means of positive and negative covenants. This is supported by the bespoke nature of private debt deals, which comprise the majority of the Fund's portfolio. An example of our engagement with a sponsor and implementation of ESG terms into loan documentation from this fiscal period can be found in the ESG case study on page 25.

The Fund continues to comply with relevant ESG reporting requirements and to monitor the regulatory environment. SEQI continues operating its business and investment activities in accordance with the UN Global Compact. The Fund also maintains its compliance with the reporting obligations of the Sustainable Finance Disclosure Regulation ("SFDR") as an Article 8 fund, as well as under the Task Force on Climate-Related Disclosures ("TCFD"). There have been no significant changes to the climate-related risks identified in the TCFD disclosures contained in the Company's Annual Financial Statements for the year ended 31 March 2023. The guiding principles behind the Fund's ESG programme have always been the UN's Principles for Responsible Investment ("PRI"), to which the Investment Adviser is a signatory. During the period, the Investment Adviser re-reported to the PRI, and we look forward to seeing the outcome of the assessment when it is published later this year.



Green Genius

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# Sustainability report continued

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## Applying ESG principles to SEQI

ESG principles are applied in three ways to the SEQI portfolio:

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### 1. Negative screening

The following sub-sectors or asset types are excluded:

- Infrastructure related to the exploration and production of oil and gas, such as oil rigs and platforms, fracking facilities and facilities involved in tar sands. Note that midstream assets, such as pipelines, are not necessarily excluded but are subject to ESG scoring;
- Infrastructure related to mining thermal coal;
- Electricity generation from coal; and
- Military infrastructure, such as military housing.

Given SEQI only invests in certain types of infrastructure, many harmful or controversial asset types are already excluded by Sequoia's investment criteria, including but not limited to:

- Alcohol;
- Gambling;
- Tobacco;
- Pornography; and
- Controversial and conventional weapons.

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### 2. Thematic investing (positive screening)

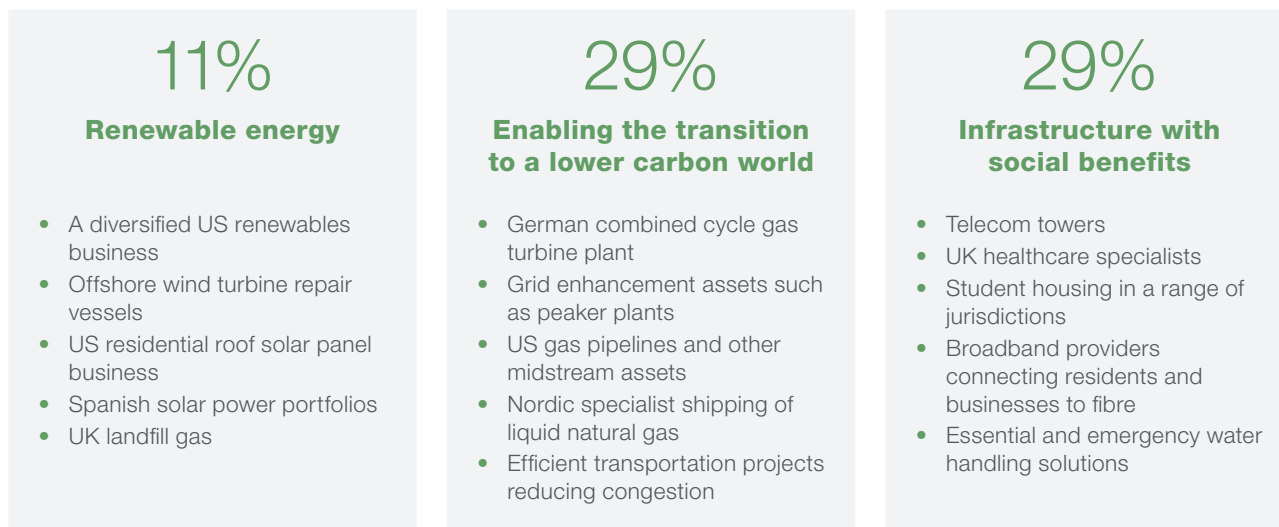
SEQI has three ESG investment themes:

- Renewable energy, such as solar, wind and geothermal generation, and directly related businesses including companies that supply renewable energy;
- Enabling the transition to a lower carbon world, such as grid stabilisation, electric vehicles, traffic congestion reduction and the substitution of coal by gas; and
- Infrastructure with social benefits, which provides for basic human needs (such as clean water and food security), or brings a positive change by addressing social challenges and inequalities (such as healthcare, education and affordable housing) or advancing society as a whole (such as progressing telecommunications).

Positive screening will be employed to increase the Fund's exposure to these investment themes, subject to existing concentration limits.



As at 30 September 2023, thematic investing covers 69% of SEQI's investment portfolio. Below is the breakdown across each theme as well as some investment examples from the portfolio in each:



### 3. ESG scoring

Some infrastructure assets (for example, the electricity grid) are neither excluded through negative screening nor positively selected through thematic investing; therefore, it is necessary to have a methodology to assess the ESG profile of these projects.

The ESG scoring methodology has been designed to be as objective as possible. The score primarily reflects the current ESG performance of the investment but also reflects, to a limited extent, the direction of travel. For example, a business that currently significantly contributes to climate change will receive some credit if it is investing meaningfully to reduce its contribution.

The ESG score is distinct to a credit rating. Some elements of ESG scoring will directly affect a borrower's credit rating (for example, weak corporate governance has a negative contribution to credit quality), but nonetheless it is entirely possible for a business with a weak ESG score to have a strong credit profile, and vice versa.

To facilitate ESG scoring during the investment process, the Investment Adviser designed an ESG scoring model that must be completed prior to bringing a new investment to the Investment Committee. The intention also is to provide the credit analysts a guide for ESG considerations at the earliest stages of due diligence. Implementing the ESG model at the beginning of the deal lifecycle will flag assets with weaker ESG credentials much earlier. After origination, there is regular subsequent monitoring of ESG performance and a semi-annual review of the score for every investment.

Finally, the scoring methodology and model have been calibrated such that renewable energy projects with the most robust social and governance practices would receive a score of 100, and a power plant that burns thermal coal with no redeeming social or governance policies would receive a score of 0. Needless to say, the coal-fired power plant in this example would not make it past the Investment Adviser's new business committee, nor would it have reached this point of the investment process given the negative screening criteria.

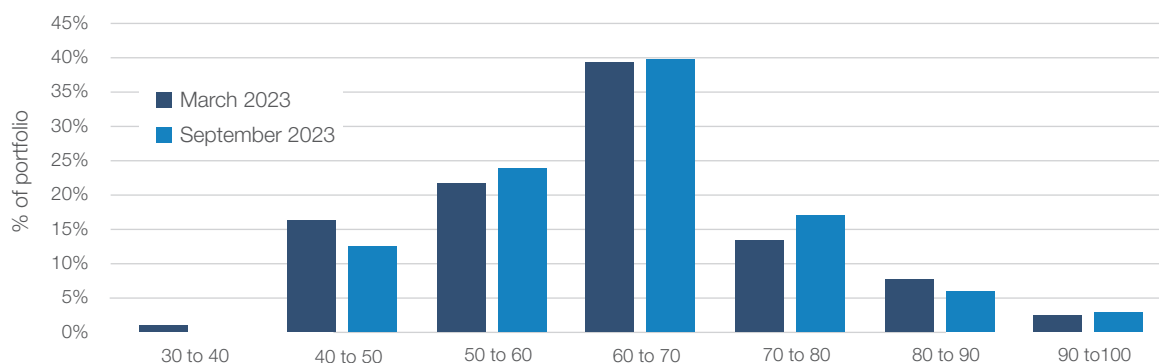
For details of how the ESG score is compiled and derived, please see our ESG policy and publication of the ESG Scoring Procedures and Methodology here: [seqi.fund/sustainability/publications](https://seqi.fund/sustainability/publications).

# Sustainability report continued

## Applying ESG principles to SEQI continued

### 3. ESG scoring continued

#### ESG score distributions as at 30 September 2023



The chart above represents a comparison of the portfolio's ESG profile between March 2023 and September 2023. Over the last six months, the portfolio's weighted average ESG score has increased marginally by 0.55, from 62.29 to 62.84. Pleasingly, the small number of very low-scoring investments has continued its downward trend.

There were various disposals and acquisitions of both high- and low-scoring assets during the period. However, a significant part of the uplift can be attributed to increases in the ESG scores of existing borrowers as a result of our engagement with the companies. In the period, we have seen borrowers implement net-zero strategies and roadmaps, share effective whistleblower policies and bolster their internal audit functions.

Additionally, the uplift comes from the upward change in the sub-sector score for Nuclear as described earlier in this report. This affected one credit, Exeltium, with a net effect of 0.19 on the portfolio's weighted average ESG score as at 30 September 2023.

Note that SEQI also invests in a service and equipment provider to the nuclear industry, which is due to undergo ESG monitoring at the Investment Committee meeting imminently. Whilst not existing in the nuclear power production sub-sector itself, this asset may be awarded credit through an environmental modifier for its indirect result of reducing pollution, supported by the company's reporting of avoided emissions through its services and equipment. This would result in a small increase to the asset's overall ESG score and a de minimis (<0.05) impact on the average portfolio score, which will be drawn out once the change is effected.



# Case study

## Senior secured facilities for three student accommodation properties in the Netherlands (“Native Dancer II”)

8.22%

Yield-to-maturity

EUR 24.5 million

Size

### Link to ESG



Infrastructure with social benefits

In May 2023, SEQI provided a EUR 24.5 million (approximately £21.2 million) secured term loan to fund the refinancing of three operational student accommodation properties in the Netherlands, as well as the renewal of 45 new bedrooms in one of the properties.

We consider student accommodation to be a countercyclical and resilient sector, with the Dutch student housing market experiencing a shortage of supply. This Sponsor has an extensive portfolio of student accommodation and other real estate assets in the Netherlands. The facility is the third financing from SEQI to projects owned by the Sponsor, following the successful repayment of “Seabiscuit” and “Native Dancer” (prepaid with this transaction). SEQI has had a positive experience with the financings to the Sponsor, who has also had to overcome some challenging times over the course of our relationship with them, including successfully navigating through the COVID-19 pandemic.

As part of the transaction, SEQI worked together with the Sponsor to embed ESG-related covenants into the deal, including laying out terms to adopt best governance practices. As a result, the Sponsor implemented improvements in its governance, such as an effective whistleblower policy, annual tenant satisfaction surveys and yearly internal audit reports. We are particularly looking forward to reviewing the results of the satisfaction questionnaires, as we believe this social issue is material for the company – good management of tenant relations is key for the business to operate smoothly and achieve its financial returns. We believe by encouraging the Sponsor to conduct these surveys, the company will gain valuable insights into its social impact and be able to review its performance and identify and work on any areas for improvement. Further, positive feedback could be used in marketing material as a selling point to attract tenants.

Another material factor for a student accommodation provider is the environmental impact and performance of the buildings. Going forward, the Sponsor is planning to install solar panels in other properties, including at least one additional property in the Native Dancer II portfolio, as well as a solar boiler in one of the properties. These governance improvements and environmental initiatives have resulted in an enhanced ESG profile for the transaction, which will be reflected in an increased ESG score for the borrower.

Native Dancer II

# Principal and emerging risks and uncertainties

The Board has established a Risk Committee, which is responsible for reviewing the Company's overall risks and monitoring the risk control activity designed to mitigate these risks. The Risk Committee has carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten the Company's business model, future performance, reputation, solvency or liquidity. The Board has appointed FundRock Management Company (Guernsey) Limited ("FRMCG" or the "Investment Manager") as the Alternative Investment Fund Manager ("AIFM") to the Company.

FRMCG is also responsible for providing risk management services compliant with that defined in the Alternative Investment Fund Managers Directive ("AIFMD") and as deemed appropriate by the Board.

Under the instruction of the Risk Committee, FRMCG is responsible for the implementation of a risk management policy and ensuring that appropriate risk mitigation processes are in place; for monitoring risk exposure; preparing quarterly risk reports to the Risk Committee; and otherwise reporting on an ad hoc basis to the Board as necessary.

Kate Thurman and Andrea Finegan, independent consultants to the Company, provide guidance to the Board on the overall approach to risk management across the Company's portfolio. Part of their focus is to assist the Investment Manager in scrutinising certain of the Investment Adviser's credit evaluations.

Anurag Gupta, Chief Risk Officer ("CRO") of the Investment Adviser, provides additional oversight and resource to the Company's risk management function and the due diligence process employed by the Investment Adviser.

The principal and emerging risks associated with the Company are as follows:

## 1 Strategy risks

### Risk description

External changes in market conditions that can make the Company's investment objectives impossible to achieve or irrelevant. Risks include:

- the lack of a sufficiently diverse range of infrastructure investment opportunities offering the risk/return profile required to maintain a portfolio capable of generating the targeted return; and
- the availability of alternative investment opportunities in the market offering more attractive risk/return profiles making the Company's targeted return look uncompetitive on a relative value basis.

### Mitigation

- The Company's investment needs represent a very small percentage of the total infrastructure debt market.
- Flexible eligibility criteria allowing it to target a diverse range of assets in any part of the debt capital structure should provide a wide enough range of risk/return profiles to meet portfolio yield requirements.
- As a significant percentage of the portfolio is floating rate, and the fixed rate assets have short average lives, any rise in rates will increase the income available from the portfolio and help to keep returns attractive relative to alternative investment opportunities.



## 2

### Strategy execution risks

#### Risk description

Poor financial and investment decisions taken by the Company within the parameters set in the Prospectus, including asset allocation, underwriting, monitoring, workouts, leverage and hedging may impact returns.

#### Mitigation

- The Company's performance relative to investment guidelines and key performance indicators is monitored on a monthly basis by the AIFM and reviewed by the Board quarterly.
- A credit review of each asset in the portfolio is performed semi-annually by the Investment Adviser and AIFM. The Board reviews the entire portfolio at least once a year, with higher-risk loans receiving additional scrutiny.
- The Investment Adviser's performance is reviewed annually by the Board and changes can be made if required.

## 3

### Capital markets risks

#### Risk description

Unfavourable changes to capital markets performance factors, including deliverability and relative attractiveness of the dividend policy, NAV volatility, share price discount to NAV, primary and secondary market liquidity, and investor sentiment towards the Company and its Board can lead to a loss of investor confidence, depress the share price and limit the Company's ability to raise new capital in the public market.

#### Mitigation

- All capital markets performance factors are monitored on an ongoing basis and reviewed by the Board at least quarterly.
- The Company meets with investors in general meetings and one-on-ones to promote its strategy and gather views on performance and governance so that corrective actions can be taken if needed.
- The dividend target is regularly considered relative to market alternatives and adjusted if appropriate, subject to cash flow availability.
- Share buy-backs, although not mandatory, are implemented when appropriate to help reduce excessive share price discounts to NAV.

# Principal and emerging risks and uncertainties

continued

4

## Macro-economic risks

### Risk description

Movements in market factors and indices, including interest and exchange rates, inflation, commodity prices, and risk premia can impact the credit quality and valuation of the assets in the Fund's portfolio. Changes to interest and foreign exchange rates can also impact the performance of other financial activities, including hedging and leverage.

### Mitigation

- The Company considers the potential effect of significant movements in macro-economic risk factors on its borrowers during the loan underwriting process.
- Diversification mitigates the impact of movements on a portfolio level.
- The limited use of leverage and significant holding of floating rate assets help mitigate the impact of interest rate increases, and the Company's policy of hedging 100% of its foreign exchange exposure minimises the impact of currency movements.

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## Counterparty credit risks

### Risk description

Loan counterparties (borrowers) may default on their obligations, or the Investment Adviser may elect to sell positions prior to their maturity dates due to credit concerns. Both situations may lead to losses. Counterparties holding the Company's cash balances or providing currency or interest rate hedges may default, leading to possible losses.

### Mitigation

- A detailed credit underwriting and review process, subject to several levels of approval is in place, with high-risk transactions receiving additional scrutiny.
- Every asset is credit reviewed semi-annually by the Investment Adviser and AIFM. All loans are reviewed by the Board at least once a year. Underperforming and non-performing loans are reviewed quarterly or more frequently if needed.
- A cash management policy is in place that restricts the use of deposit-holding counterparties to those with acceptable characteristics including strong credit ratings.

**6****Liquidity risks****Risk description**

Having insufficient liquidity available to pay contractual obligations when due, or to fund non-binding but expected corporate actions (e.g.: dividend payments, share buy-backs) can lead to losses and/or reputational damage to the Company. Factors impacting access to liquidity include the bespoke nature of many of the Fund's infrastructure assets, which makes them difficult to sell quickly, and the current state of the capital markets which makes raising liquidity via the public markets challenging.

**Mitigation**

- Portfolio liquidity is monitored by the Company on an ongoing basis, with reports presented and discussed at quarterly Board and dividend meetings.
- Sufficient cash, headroom under the borrowing facility, and liquid assets are maintained to meet liquidity needs as determined by various stress scenarios prepared by the Investment Adviser. These scenarios factor in potential margin calls on foreign exchange and interest rate contracts, and while not legal obligations, targeted dividend payments and anticipated share buy-back programmes.
- The portfolio, with its short average life, is highly cash-generative. Proceeds from maturing loans can be used by the Company as a source of liquidity.

**7****Leverage risks****Risk description**

The use of leverage by the Company in the form of a secured revolving credit facility granting a first charge over the Company's assets increases the Company's exposure to interest rates and potential losses in certain circumstances, including an inability to refinance the revolving credit facility at maturity.

**Mitigation**

- Leverage is limited to 20% of NAV under the terms of the Prospectus.
- The Company monitors the amount of leverage in use on an ongoing basis. Currently, the revolving credit facility is undrawn.
- Increases in leverage costs triggered by interest rate increases are offset by the higher interest income generated by the portfolio's floating rate assets.
- Regular repayments of loans in the portfolio can be used to repay the RCF if required.

**8****Compliance, regulatory and tax risks****Risk description**

If not picked up and followed or interpreted correctly, new or modified compliance, regulatory or tax rules or laws can expose the Company to risk of loss, sanction or action by Shareholders, counterparties or regulators.

**Mitigation**

- The AIFM, Investment Adviser, Administrator and Broker, with support from the Company's legal and accounting teams, screen for changes to compliance, regulatory and tax rules or laws.
- The Administrator's quarterly reports allow the Board to monitor performance and determine the service providers' attitudes to risk, compliance, regulatory change and internal audit.

# Principal and emerging risks and uncertainties

continued

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## Operational risks

### Risk description

The Company has no employees and therefore relies on the performance of third-party service providers. Inadequate processes, people and systems, or external events including, but not limited to, internal and external fraud, business disruption and systems failures, data entry errors and damage to physical assets, can lead to financial and reputational losses.

### Mitigation

- The Company has in place written contracts with its service providers which govern the conditions upon which services are provided.
- The Board reviews at its quarterly meetings any control failings identified by the Administrator through their independent compliance review function and makes changes if necessary.
- The effectiveness of the Company's risk management framework and internal control systems is reviewed annually by the Board.

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## ESG risks

### Risk description

Failing to maintain the high standards and meet the stated objectives set by the Board on ESG-related matters, report and disclose as required under applicable regulations and directives, and screen and monitor investments to avoid adding or keeping undesirable assets can lead to legal liability, reputational damage and loss of income.

### Mitigation

- The ESG and Stakeholder Engagement Committee promotes the Company's stated objectives, monitors progress, and verifies that reporting and disclosure requirements are being met.
- On an asset level, ESG considerations are fully integrated into the underwriting, portfolio management and review processes with an independently audited scoring methodology in place designed to help evaluate individual assets and overall portfolio ESG performance.

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## Geopolitical and social risks

### Risk description

Failing to react to significant geopolitical or social events can have a negative impact on the Company and its assets. Recent examples include COVID-19 and Brexit. Current areas of focus include the ongoing war in Ukraine and the conflict in the Middle East.

### Mitigation

- Strategy and portfolio review days, and quarterly Board meetings, are used in part to try to identify geopolitical and social risks and put in place strategies designed to mitigate any potential impact.
- A proactive Board approach to decision-making minimises time required to act if needed.
- All service providers are required to have business continuity plans in place to protect against disruptions.

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## Emerging risks

The Board is constantly alert to the identification of any emerging risks, in discussion with the Investment Manager and the Investment Adviser. The Board will then assess the likelihood and impact of any such emerging risks, and will discuss and agree appropriate strategies to mitigate and/or manage the identified risks. Emerging risks are managed through discussion of their likelihood and impact at each quarterly Board meeting. Should an emerging risk be determined to have any potential impact on the Company, appropriate mitigating measures and controls are agreed. During the year, the Company has continued to operate effectively and maintain its enhanced monitoring of the market response to significant global events. A detailed review of the main financial risks faced by the Company, and how they are managed or mitigated, is set out in note 5 to the Company's Audited Annual Financial Statements for the year ended 31 March 2023.

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## Going concern

The Company has been incorporated with an unlimited life. In accordance with the Company's Articles of Incorporation, the Directors are required to propose an ordinary resolution (the "Continuation Resolution") every three years. Should a Continuation Resolution not be passed, the Directors are required, within six months, to put forward proposals for the reconstruction or reorganisation of the Company to the Shareholders for their approval. These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company. Should the failure of a Continuation Resolution result in a winding up of the Company, it is likely that such winding up would in any case take longer than 12 months.

The Directors have considered the possibility that the next Continuation Resolution, to be proposed at the AGM in August 2024, may not be passed by Shareholders. The Directors noted a number of factors in this regard:

- the overwhelming majority vote in favour of the Continuation Resolutions passed in May 2016, August 2018 and August 2021;
- the strong appetite for the Company's investment proposition, evidenced by a number of successful share issues, most recently in March 2021;
- the Company is the largest listed debt fund on the LSE and has a unique investment proposition. As such, it serves a valuable diversification role in many investors' portfolios that cannot easily be replicated;
- the Company has best-in-class investor reporting and has maintained an active ongoing dialogue with its investors;
- the Company has a very low level of gearing, having repaid all of its external borrowings during the period; and
- the strength of the Company's cash flow enabled it to increase its dividend target by 10% in the prior year, whilst maintaining its cash dividend cover.

The Directors have also held discussions with the Company's Broker, Investment Adviser and a number of significant Shareholders which have led them to believe that the likelihood of the Continuation Resolution failing is low. They also noted that the rejection of a Continuation Proposal by Shareholders does not necessarily oblige the Directors to wind up the Company.

The Directors have reviewed the Fund's holdings in cash and cash equivalents and investments, including a consideration of the impact on the portfolio of the market uncertainty related to the ongoing war in Ukraine and the conflict in the Middle East, and of the current economic environment of increasing interest rates and inflation. The Directors have also considered the impact on the Company's liquidity arising from margin calls relating to the Company's forward foreign exchange positions.

In conducting this review, the Board has also considered the sustainability of the environmental and social impact of the Company's activities. The Company has a strong balance sheet, with a low level of gearing. As with the effects of the COVID-19 pandemic, most of the mark-to-market losses that have been incurred – which have and will reverse as the investments move closer to maturity and their valuations accrete to par – are unrealised, and therefore have no direct effect on the solvency of the business. The risk of realised losses arising through loans defaulting is limited to a few specific investments, representing a small proportion of the Fund's investment portfolio. The Directors also note that the interest income cash flow of the Fund has increased substantially over the last 18 months, as several borrowers who had been permitted to capitalise interest during the COVID-19 pandemic and other economic issues of the last two years have resumed paying cash interest. The interest income cash flows of the Fund remain sufficient to cover operating costs and to pay the Company's increased target dividend. As a result of this review, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Unaudited Condensed Interim Financial Statements, as the Company, despite the current challenging economic environment, retains a strong balance sheet and adequate financial resources to meet its liabilities as they fall due.



# Board of Directors

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



**Robert Jennings, CBE**  
Chair

Robert Jennings is a resident of the United Kingdom and qualified as a Chartered Accountant in 1979. He has over 30 years' experience in the infrastructure sector. Mr Jennings was a managing director of UBS Investment Bank and was joint head of the Bank's Infrastructure Group until 2007. He has twice acted as a special senior adviser to HM Treasury.

Mr Jennings has previously served as a non-executive director of the following companies: Crossrail (2009-2019); Southern Water (2012-2017, including as its Chair from 2014); 3i Infrastructure plc (2018-2021); and Chapter Zero (2019-2021). His role as Chair of the Company is his sole remaining public engagement.

**E M N**



**Sandra Platts**  
Senior Independent Director

Sandra Platts is a resident of Guernsey. In her role as an independent director, Sandra holds three London listed investment funds, one of which is the Company. Sandra was previously MD of Kleinwort Benson in Guernsey and undertook a number of strategic roles as Chief Operating Officer for the wider Kleinwort Benson Group. Mrs Platts holds a Master of Business Administration and is a member of the Institute of Directors.

**A E M N**



**Fiona Le Poidevin**  
Non-executive Director

A Chartered Director, Fellow of the Institute of Directors and Chartered Accountant (FCA), Fiona is a non-executive director with 25 years' experience working in financial services in both London and the Channel Islands across the accounting and tax professions with experience in strategy, marketing, PR and the regulatory and listed company environments. Until the end of July 2020, Fiona was Chief Executive Officer of The International Stock Exchange Group Limited, where she was responsible for the commercial aspects of the listed exchange group's operation. Previously, Fiona was Chief Executive of Guernsey Finance, the promotional body for Guernsey's finance industry internationally, and prior to this she was an auditor and latterly tax adviser at PwC (London and Channel Islands) and KPMG (Channel Islands) for over 13 years. Fiona is a member of the AIC Channel Islands Committee and chair of a local Sea Scouts group.

**A E M R**

## Key

- A Audit Committee
- R Risk Committee
- E ESG and Stakeholder Engagement Committee
- N Remuneration and Nomination Committee
- M Management Engagement Committee
- Chair



### **Tim Drayson**

Non-executive Director

Tim Drayson is a resident of the United Kingdom and has over 30 years' experience in the US and European debt capital markets. He was most recently Global Head of Corporate Sales and Deputy Head of the European Corporate Loan and DCM Platform at BNP Paribas and had been a member of the Fixed Income Transaction Approval Committee, screening complex transactions and interacting with the bank's credit committee. He joined BNP Paribas as Global Head of Securitization in 2005, with responsibility for managing all origination and structuring teams, including infrastructure. Prior to joining BNP Paribas, Tim held senior roles at Morgan Stanley in London as Head of Securitized Products Syndication and Paine Webber in New York, where he traded mortgage products.



### **James Stewart**

Non-executive Director

James Stewart is a resident of the United Kingdom and brings a wealth of leadership, international and infrastructure experience across both the public and private sectors. Between 2011 and 2021, James held several senior level positions in KPMG, including as a non-executive member of the KPMG LLP Board and chair of KPMG's Global Infrastructure practice. Prior to this, James was Chief Executive of Infrastructure UK and of Partnerships UK, responsible for supporting major infrastructure projects and the PPP programme in the UK. James's earlier experience includes 16 years in investment banking, where he was involved in lending, investing equity and advising on infrastructure projects. James is currently a Trustee of the Shaw Trust and Chair and Trustee of Power for the People.



# The Sequoia Investment Management Company team

Sequoia Investment Management Company Limited (“Sequoia” or the “Investment Adviser”) is an experienced investment adviser, which has acted as Investment Adviser to the Company from its inception. Sequoia’s management team and Investment Committee are as follows:



**Randall Sandstrom**

Director and CEO/CIO

30 years of experience in the international and domestic credit markets and infrastructure debt markets. Has managed global high yield and investment grade bonds, leveraged loans, ABS and money market securities. Board of Directors, LCF Rothschild and MD of Structured Finance. Former CEO/CIO, Eiger Capital. Head of Euro Credit Market Strategy, Morgan Stanley. Institutional Investors “All-American” senior Industrial Credit Analyst, CS First Boston (energy and transportation). Has worked in London, New York and Tokyo.



**Steve Cook**

Director and Head of Portfolio Management

20 years of infrastructure experience. European Head of Whole Business Securitisation and CMBS and Co-Head of Infrastructure Finance at UBS. Head of European Corporate Securitisation at Morgan Stanley with lending and balance sheet responsibility. Wide variety of infrastructure projects in the UK and across Europe as a lender, arranger and adviser.



**Dolf Kohnhorst**

Director and Co-Head of Infrastructure Debt

38 years of experience in investment banking, debt capital markets and project finance commercial lending. Head of Société Générale’s Financial Institutions Group covering UK, Irish, Benelux and Scandinavian banks, insurance companies, pension funds and investment management companies. 16 years at Morgan Stanley heading Benelux and Scandinavian sales teams and DCM Structured Solutions Group. Commercial lending to shipping, construction and project finance sectors.



**Greg Taylor**

Director and Co-Head of Infrastructure Debt

More than 30 years of infrastructure experience. Head of Infrastructure Finance at Merrill Lynch and Co-Head of Infrastructure Finance at UBS. Developed Moody’s methodology for rating regulated infrastructure companies. Broad perspective as bond arranger, direct lender, credit analyst and financial adviser to both borrowers and public sector. Includes lending in Europe, the UK, North America and Latin America.

# Independent consultants

The independent consultants to the Company are as follows:



**Anurag Gupta**  
Chief Risk Officer (“CRO”)

Over 20 years of experience in project finance, infrastructure investment and appraisal, risk management, M&A and financial advisory.

Extensive transactional experience across infrastructure sectors such as transportation, power and utilities, renewables, Digitalisation and social infrastructure.

Former KPMG in Canada Infrastructure Advisory Partner and Global Sector Head of Power within the KPMG Global Infrastructure Practice; previous infrastructure industry roles in both public and private sectors in multiple geographies.

MBA (Tulane University, USA), Bachelors in Mechanical Engineering (Engineering Council, UK) and BSc (Calcutta University, India).



**Kate Thurman**

Kate Thurman is a highly experienced and respected credit market professional having spent over 30 years identifying and analysing credit risk in bond and loan instruments for institutional portfolios. Kate has broad experience across industry sectors, credit grades, legal structures and jurisdictions, having special expertise in the assessment of quantitative and qualitative credit factors and downside risks. She is a former board and audit committee member of Colne Housing Society, a not-for-profit Housing Association with 3,000 units under management and c.£150 million of commercial debt. Her former executive career included senior roles in Asset Management and Investment Banking organisations.



**Andrea Finegan**

Andrea Finegan has a strong background in infrastructure finance, including over 20 years spent in the management of infrastructure funds. She is currently independent chair of the Schroders Greencoat Valuation Committee, having previously served as Chief Operating Officer of Greencoat, a renewable infrastructure investment manager, where she was responsible for overseeing the establishment of listed and unlisted investment fund products. Prior to Greencoat, Andrea was responsible for similar management functions at Climate Change Capital and ING Infrastructure Funds. Andrea holds an MBA in Strategic Carbon Management.

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# Statement of Directors' responsibilities

We confirm that to the best of our knowledge:

- the Unaudited Condensed Interim Financial Statements (the "Interim Financial Statements") have been prepared in accordance with IAS 34 'Interim Financial Reporting' and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Interim Report, together with the Interim Financial Statements, meet the requirements of an interim management report, and include a fair review of the information required by:
  - DTR 4.2.7R of the Disclosure Guidance & Transparency Rule ("DTR") of the UK's FCA, being an indication of important events that have occurred during the period ended 30 September 2023 and their impact on the Interim Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - DTR 4.2.8R of the DTR of the UK's FCA, being related party transactions that have taken place during the period ended 30 September 2023 and have materially affected the financial position or performance of the Company during that period, and any changes since the related party transactions described in the last Annual Report that could do so.

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 financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Board by:

**Fiona Le Poidevin**  
Director

23 November 2023



# Independent review report

to Sequoia Economic Infrastructure Income Fund Limited on Interim Financial Information

## Conclusion

We have reviewed the accompanying Unaudited Condensed Interim Statement of Financial Position of Sequoia Economic Infrastructure Income Fund Limited (the "Company") as of 30 September 2023 and the related Unaudited Condensed Interim Statement of Comprehensive Income, Unaudited Condensed Interim Statement of Changes in Shareholders' Equity, the Unaudited Condensed Interim Statement of Cash Flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 September 2023 and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB").

## Basis for conclusion

We conducted our review in accordance with the International Standard on Review Engagements 2410 (UK), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE (UK) 2410"). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the Annual Audited Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB. The Unaudited Interim Condensed Financial Statements included in this Interim Report have been prepared in accordance with IAS 34, "Interim Financial Reporting" as issued by the IASB.

## Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management has inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however, future events or conditions may cause the entity to cease to continue as a going concern.

## Responsibilities of Directors

The Directors are responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 "Interim Financial Reporting".

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

## Auditor's responsibilities for the review of the financial information

In reviewing the Unaudited Condensed Interim Financial Statements, we are responsible for expressing to the Company a conclusion on the Unaudited Condensed Interim Financial Statements. Our conclusions, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the basis for conclusion paragraph of this report.

## Use of our report

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

## Grant Thornton Limited Guernsey, Channel Islands

23 November 2023

# Unaudited condensed interim statement of comprehensive income

For the period from 1 April 2023 to 30 September 2023

	Note	Period ended 30 September 2023 (unaudited) £	Restated <sup>1</sup> Period ended 30 September 2022 (unaudited) £
<b>Income</b>			
Net gains on non-derivative financial assets at fair value through profit or loss	6	17,186,265	212,896,981
Net losses on derivative financial assets at fair value through profit or loss	8	(201,704)	(187,934,965)
Investment income/(deficit)	9	35,188,198	(67,620,134)
Net foreign exchange gains/(losses)		4,231,846	(12,011,438)
<b>Total income/(deficit)</b>		<b>56,404,605</b>	<b>(54,669,556)</b>
<b>Expenses</b>			
Investment Adviser's fees	10	4,763,410	6,176,304
Investment Manager's fees	10	199,851	183,668
Directors' fees and expenses	10	177,806	189,726
Administration fees	10	201,326	212,125
Custodian fees		113,769	129,013
Audit and related non-audit fees		92,757	97,452
Legal and professional fees		756,445	1,304,816
Valuation fees		345,400	397,400
Listing and regulatory fees		67,623	42,067
Other expenses		228,047	191,039
<b>Total operating expenses</b>		<b>6,946,434</b>	<b>8,923,610</b>
Loan finance costs	14	3,784,731	3,806,112
<b>Total expenses</b>		<b>10,731,165</b>	<b>12,729,722</b>
<b>Profit/(loss) and total comprehensive income/(loss) for the period</b>		<b>45,673,440</b>	<b>(67,399,278)</b>
<b>Basic and diluted earnings/(loss) per ordinary share</b>	13	<b>2.68p</b>	<b>(3.82)p</b>

1. See note 17.

All items in the above statement derive from continuing operations.

The accompanying notes on pages 42 to 59 form an integral part of the Unaudited Condensed Interim Financial Statements.

# Unaudited condensed interim statement of changes in Shareholders' equity

For the period from 1 April 2023 to 30 September 2023

For the period from 1 April 2023 to 30 September 2023 (unaudited)	Note	Share capital £	Retained losses £	Total £
<b>At 1 April 2023</b>		<b>1,808,622,511</b>	<b>(190,769,209)</b>	<b>1,617,853,302</b>
Total comprehensive income for the period		—	<b>45,673,440</b>	<b>45,673,440</b>
Share buy-backs	12	<b>(43,270,931)</b>	—	<b>(43,270,931)</b>
Dividends paid during the period	5	—	<b>(58,803,088)</b>	<b>(58,803,088)</b>
<b>At 30 September 2023</b>		<b>1,765,351,580</b>	<b>(203,898,857)</b>	<b>1,561,452,723</b>
For the period from 1 April 2022 to 30 September 2022 (unaudited)	Note	Share capital £	Retained losses £	Total £
<b>At 1 April 2022</b>		1,837,390,531	(60,347,699)	1,777,042,832
Total comprehensive loss for the period		—	(67,399,278)	(67,399,278)
Share buy-backs		(19,552,003)	—	(19,552,003)
Dividends paid during the period	5	—	(55,181,915)	(55,181,915)
<b>At 30 September 2022</b>		1,817,838,528	(182,928,892)	1,634,909,636

The accompanying notes on pages 42 to 59 form an integral part of the Unaudited Condensed Interim Financial Statements.

# Unaudited condensed interim statement of financial position

At 30 September 2023

	Note	30 September 2023 (unaudited) £	31 March 2023 (audited) £
<b>Non-current assets</b>			
Non-derivative financial assets at fair value through profit or loss	6	<b>1,656,388,517</b>	1,861,431,678
<b>Current assets</b>			
Cash and cash equivalents		<b>22,343,725</b>	7,363,120
Trade and other receivables	7	<b>1,129,019</b>	1,605,043
Derivative financial assets at fair value through profit or loss	8	<b>9,637,161</b>	23,254,199
<b>Total current assets</b>		<b>33,109,905</b>	32,222,362
<b>Total assets</b>		<b>1,689,498,422</b>	1,893,654,040
<b>Current liabilities</b>			
Trade and other payables	15	<b>105,112,786</b>	62,951,554
Derivative financial liabilities at fair value through profit or loss	8	<b>22,932,913</b>	31,060,322
<b>Total current liabilities</b>		<b>128,045,699</b>	94,011,876
<b>Non-current liabilities</b>			
Loan payable	14	<b>—</b>	181,788,862
<b>Total liabilities</b>		<b>128,045,699</b>	275,800,738
<b>Net assets</b>		<b>1,561,452,723</b>	1,617,853,302
<b>Equity</b>			
Share capital	12	<b>1,765,351,580</b>	1,808,622,511
Retained losses		<b>(203,898,857)</b>	(190,769,209)
<b>Total equity</b>		<b>1,561,452,723</b>	1,617,853,302
<b>Number of ordinary shares</b>	12	<b>1,681,169,626</b>	1,734,819,553
<b>Net asset value per ordinary share</b>		<b>92.88p</b>	93.26p

The Unaudited Condensed Interim Financial Statements on pages 38 to 59 were approved and authorised for issue by the Board of Directors on 23 November 2023 and signed on its behalf by:

**Fiona Le Poidevin**

Director

The accompanying notes on pages 42 to 59 form an integral part of the Unaudited Condensed Interim Financial Statements.

# Unaudited condensed interim statement of cash flows

For the period from 1 April 2023 to 30 September 2023

	Note	Period ended 30 September 2023 (unaudited) £	Restated <sup>1</sup> Period ended 30 September 2022 (unaudited) £
<b>Cash flows from operating activities</b>			
Profit/(loss) for the period		<b>45,673,440</b>	(67,399,278)
Adjustments for:			
Net gains on non-derivative financial assets at fair value through profit or loss	6	<b>(17,186,265)</b>	(212,896,981)
Net losses/(gains) on derivative financial assets at fair value through profit or loss	8	<b>201,704</b>	187,934,965
Investment (income)/deficit	9	<b>(35,188,198)</b>	(67,620,134)
Net foreign exchange (gains)/losses		<b>(4,231,846)</b>	12,011,438
Loan finance costs	14	<b>3,784,731</b>	3,806,112
Increase in trade and other receivables (excluding prepaid finance costs and investment income)		<b>(45,731)</b>	(1,896,623)
(Decrease)/increase in trade and other payables (excluding accrued finance costs, investment income and ordinary share buy-backs)		<b>(632,698)</b>	92,721
		<b>(7,624,863)</b>	(10,727,512)
Cash received on settled forward contracts		<b>22,177,540</b>	12,016,690
Cash paid on settled forward contracts		<b>(16,889,615)</b>	(84,890,282)
Cash investment income received		<b>78,497,163</b>	55,914,115
Purchases of investments	6	<b>(212,348,197)</b>	(227,862,945)
Sales of investments	6	<b>434,577,623</b>	272,540,771
<b>Net cash inflow from operating activities</b>		<b>298,389,651</b>	16,990,837
<b>Cash flows from financing activities</b>			
Proceeds from loan drawdowns	14	—	118,712,919
Loan repayments		<b>(179,836,032)</b>	(60,000,000)
Payments of loan finance costs		<b>(3,090,540)</b>	(2,695,376)
Share buy-backs		<b>(43,953,088)</b>	(19,552,003)
Dividends paid <sup>2</sup>	5	<b>(58,803,088)</b>	(55,181,915)
<b>Net cash outflow from financing activities</b>		<b>(285,682,748)</b>	(18,716,375)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>12,706,903</b>	(1,725,538)
<b>Cash and cash equivalents at beginning of period</b>		<b>7,363,120</b>	8,759,040
Effect of foreign exchange rate changes on cash and cash equivalents during the period		<b>2,273,702</b>	887,298
<b>Cash and cash equivalents at end of period</b>		<b>22,343,725</b>	7,920,800

1. See note 17.

2. Excludes non-cash transactions. For details refer to note 5.

The accompanying notes on pages 42 to 59 form an integral part of the Unaudited Condensed Interim Financial Statements.



# Notes to the unaudited condensed interim financial statements

For the period from 1 April 2023 to 30 September 2023

## 1. General information

Sequoia Economic Infrastructure Income Fund Limited (the "Company") was incorporated and registered in Guernsey under the Companies (Guernsey) Law, 2008 on 30 December 2014. The Company's registration number is 59596 and it is regulated by the Guernsey Financial Services Commission as a registered closed-ended collective investment scheme under The Registered Collective Investment Scheme Rules and Guidance, 2021. The Company is listed and began trading on the Main Market of the London Stock Exchange and was admitted to the premium segment of the Official List of the UK Listing Authority on 3 March 2015.

The Company makes its investments principally through its subsidiary domiciled in Luxembourg, Sequoia IDF Asset Holdings S.A. (the "Luxembourg Subsidiary"). The Company controls the Luxembourg Subsidiary through a holding of 100% of its shares. The Company further invests in the Luxembourg Subsidiary through the acquisition of Variable Funding Notes ("VFNs") issued by the Luxembourg Subsidiary.

During the prior year, the Company established an additional immediate subsidiary domiciled in the United Kingdom, Yotta Bidco Limited (the "UK Subsidiary"). The Company controls the UK Subsidiary through a holding of 100% of its shares.

Through the Luxembourg Subsidiary and the UK Subsidiary (together "the Subsidiaries"), the Company invests in a diversified portfolio of senior and subordinated economic infrastructure debt investments.

In 2021, as a result of the restructuring of a borrower group in which the Luxembourg Subsidiary had invested, the Luxembourg Subsidiary acquired 100% of the shares of three newly incorporated Delaware-domiciled investment holding entities (the "Underlying Subsidiaries"), as follows:

- Fussell Circus Capital, Inc.
- Mears Square Advisors, Inc.
- Bajtos Lane Management, Inc.

With effect from 28 January 2015, Sequoia Investment Management Company Limited (the "Investment Adviser") was appointed as the Investment Adviser and FundRock Management Company (Guernsey) Limited (the "Investment Manager") was appointed as the Investment Manager.

## 2. Significant accounting policies

### Basis of preparation and statement of compliance

These Unaudited Condensed Interim Financial Statements (the "Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting", as required by DTR 4.2.4R of the UK's FCA, with the Listing Rules of the London Stock Exchange ("LSE") and with applicable legal and regulatory requirements.

They do not include all the information and disclosures required in Annual Financial Statements and should be read in conjunction with the Company's Annual Audited Financial Statements for the year ended 31 March 2023.

The accounting policies applied in these Financial Statements are consistent with those applied in the Annual Audited Financial Statements for the year ended 31 March 2023, which were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Directors have reassessed the principal and emerging risks and considered the Company's financial position as at 30 September 2023 and the factors that may impact its performance in the forthcoming year, including a consideration of the impact on the portfolio of the market uncertainty arising from the ongoing war in Ukraine and the conflict in the Middle East, and the current high interest rate environment.

### Going concern

The Company has been incorporated with an unlimited life. In accordance with the Company's Articles of Incorporation, the Directors are required to propose an ordinary resolution (the "Continuation Resolution") every three years. Should a Continuation Resolution not be passed, the Directors are required, within six months, to put forward proposals for the reconstruction or reorganisation of the Company to the Shareholders for their approval. These proposals may or may not involve winding up the Company and, accordingly, failure to pass a Continuation Resolution will not necessarily result in the winding up of the Company.

Should the failure of a Continuation Resolution result in a winding up of the Company, it is likely that such winding up would in any case take longer than 12 months.

The Directors have considered the possibility that the next Continuation Resolution, to be proposed at the AGM in August 2024, may not be passed by Shareholders. The Directors noted a number of factors in this regard:

- the overwhelming majority vote in favour of the Continuation Resolutions passed in May 2016, August 2018 and August 2021;
- the strong appetite for the Company's investment proposition, evidenced by a number of successful share issues, most recently in March 2021;
- the Company is the largest listed debt fund on the LSE and has a unique investment proposition. As such, it serves a valuable diversification role in many investors' portfolios that cannot easily be replicated;

- the Company has best-in-class investor reporting and has maintained an active ongoing dialogue with its investors;
- the Company has a low level of gearing, at less than 10% of total assets;
- the strength of the Company's cash flow has resulted in an increase in dividend cover and enabled it to increase its dividend target by 10% in the prior year.

The Directors have also held discussions with the Company's Broker, Investment Adviser and a number of significant Shareholders which have led them to believe that the likelihood of the Continuation Resolution failing is low. They also noted that the rejection of a Continuation Proposal by Shareholders does not necessarily oblige the Directors to wind up the Company.

The Directors have reviewed the Fund's holdings in cash and cash equivalents and investments, including a consideration of the impact on the portfolio of the market uncertainty related to the ongoing war in Ukraine and the conflict in the Middle East, and the current economic environment of high interest rates and inflation. The Directors have also considered the impact on the Company's liquidity arising from margin calls relating to the Company's forward foreign exchange positions.

In conducting this review, the Board has also considered the sustainability of the environmental and social impact of the Company's activities. The Company has a strong balance sheet, with a low level of gearing. As with the effects of the COVID-19 pandemic, most of the mark-to-market losses that have been incurred – which have and will reverse as the investments move closer to maturity and their valuations accrete to par – are unrealised, and therefore have no direct effect on the solvency of the business. The risk of realised losses arising through loans defaulting is limited to a few specific investments, representing a small proportion of the Fund's investment portfolio.

The Directors also note that the interest income cash flow of the Fund has increased substantially over the last 18 months, as several borrowers who had been permitted to capitalise interest during the COVID-19 pandemic and other economic issues of the last two years have resumed paying cash interest. The interest income cash flows of the Fund remain sufficient to cover operating costs and to pay the Company's increased target dividend.

As a result of this review, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the Financial Statements, as the Company, despite the current challenging economic environment, retains a strong balance sheet and adequate financial resources to meet its liabilities as they fall due.

These Financial Statements were authorised for issue by the Company's Board of Directors on 23 November 2023.

### Significant judgements and estimates

There have been no changes to the significant accounting judgements, estimates and assumptions from those applied in the Company's Audited Annual Financial Statements for the year ended 31 March 2023.

### Amended accounting standards effective and adopted

- IAS 1 (amended), "Presentation of Financial Statements" (amendments regarding the disclosure of accounting policies, effective for periods commencing on or after 1 January 2023); and
- IAS 8 (amended), "Accounting Policies, Changes in Accounting Estimates and Errors" (amendments regarding the definition of accounting estimates, effective for accounting periods commencing on or after 1 January 2023).

The adoption of these amended standards has had no material impact on the Financial Statements of the Company.

### New and amended accounting standards applicable to future reporting periods

- IAS 1 (amended), "Presentation of Financial Statements" (amendments regarding the classification of liabilities, and of debt with covenants, effective for periods commencing on or after 1 January 2024).

In addition, the International Sustainability Standards Board ("ISSB") published the following Sustainability Disclosure Standards in June 2023, effective for accounting periods commencing on or after 1 January 2024:

- IFRS S1, "General Requirements for Disclosure of Sustainability-related Financial Information"; and
- IFRS S2, "Climate-related Disclosures".

IFRS S1 sets out overall requirements with the objective to require an entity to disclose information about its sustainability-related risks and opportunities.

IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities.

The purpose of both standards is to provide information that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity.

Other than the increased level of disclosure, the Directors do not anticipate that the adoption of these amended standards in future periods will have a material impact on the Financial Statements of the Company.

# Notes to the unaudited condensed interim financial statements

continued

For the period from 1 April 2023 to 30 September 2023

## 3. Segmental reporting

The Chief Operating Decision Maker, which is the Board, is of the opinion that the Group is engaged in a single segment of business, through its investment in the Subsidiaries, being investment in senior and subordinated infrastructure debt instruments and related and/or similar assets, with the aim of providing sustained long-term distributions and capital appreciation. The financial information used by the Chief Operating Decision Maker to manage the Group presents the business as a single segment.

Segment information is measured on the same basis as that used in the preparation of the Company's Audited Annual Financial Statements for the year ended 31 March 2023.

The Company receives no revenues from external customers. Other than the UK Subsidiary, which is a United Kingdom company, the Luxembourg Subsidiary, which is a Luxembourg company, and its Underlying Subsidiaries, which are Delaware companies, the Company holds no non-current assets in any geographical area other than Guernsey.

## 4. Financial risk management

The Company's financial risk management objectives and policies are consistent with those disclosed in the Company's Audited Annual Financial Statements for the year ended 31 March 2023.

## 5. Dividends

During the period, the Company paid dividends totalling 3.4375p (30 September 2022: 3.125p) in accordance with its existing dividend target of 6.875p (30 September 2022: 6.25p) per ordinary share per annum. The Company pays dividends on a quarterly basis.

The Company declared the following dividends on its ordinary shares during the period ended 30 September 2023:

Period to	Payment date	Dividend rate per ordinary share (pence)	Net dividend payable (£)	Record date	Ex-dividend date
31 March 2023	26 May 2023	1.71875	29,662,764	27 April 2023	28 April 2023
30 June 2023	25 August 2023	1.71875	29,140,324	27 July 2023	28 July 2023

The Company declared the following dividends on its ordinary shares during the period ended 30 September 2022:

Period to	Payment date	Dividend rate per ordinary share (pence)	Net dividend payable (£)	Record date	Ex-dividend date
31 March 2022	9 June 2022	1.5625	27,628,734	29 April 2022	28 April 2022
30 June 2022	26 August 2022	1.5625	27,553,181	29 July 2022	28 July 2022

Under Guernsey law, the Company can pay dividends in excess of its retained earnings provided it satisfies the solvency test prescribed by the Companies (Guernsey) Law, 2008. The solvency test considers whether the Company is able to pay its debts when they fall due, and whether the value of the Company's assets is greater than its liabilities. The Company satisfied the solvency test in respect of all dividends declared and paid in the period.

On 13 October 2023, the Company announced that, with effect from the Company's dividend for the quarter ended 30 September 2023, it would introduce the option for Shareholders to elect for their cash dividend payment to be automatically reinvested to purchase additional ordinary shares in the Company via a Dividend Reinvestment Plan.

No scrip dividends were paid during the periods ended 30 September 2023 or 30 September 2022.

On 19 October 2023, the Company declared a dividend of 1.71875p per ordinary share in respect of the quarter ended 30 September 2023. The dividend is due to be paid on 24 November 2023.

## 6. Non-derivative financial assets at fair value through profit or loss

	Period ended 30 September 2023 (unaudited) £	Year ended 31 March 2023 (audited) £
Cost at the start of the period/year	1,775,554,935	1,863,609,180
VFNs purchased during the period/year	212,348,197	302,102,305
VFNs redeemed during the period/year	(434,577,623)	(394,522,483)
Realised gains and capitalised interest on VFNs during the period/year	—	4,365,933
Cost at the end of the period/year	1,553,325,509	1,775,554,935
Net unrealised gains on non-derivative financial assets at the end of the period/year	103,063,008	85,876,743
<b>Non-derivative financial assets at fair value through profit or loss at the end of the period/year</b>	<b>1,656,388,517</b>	1,861,431,678

The following table provides a reconciliation of the financial assets at fair value through profit or loss of the Subsidiaries to the Company's financial assets at fair value through profit or loss:

	Period ended 30 September 2023 (unaudited) £	Period ended 30 September 2022 (unaudited) £
Subsidiaries' non-derivative financial assets at fair value through profit or loss	1,410,230,951	1,723,473,106
Subsidiaries' net current assets	246,157,566	137,958,572
<b>Company's non-derivative financial assets at fair value through profit or loss</b>	<b>1,656,388,517</b>	1,861,431,678

None of the Subsidiaries' non-derivative financial assets at fair value through profit or loss are subject to any special arrangements arising from their illiquid nature.

The Company's net gains on non-derivative financial assets at fair value through profit or loss in the period comprises the following:

	Period ended 30 September 2023 (unaudited) £	Restated <sup>1</sup> Year ended 31 March 2023 (audited) £
Realised and unrealised foreign exchange gains on VFNs	1,050,520	212,499,373
Unrealised gains/(losses) on revaluation of the Subsidiaries	16,135,745	397,608
<b>Net gains on non-derivative financial assets at fair value through profit or loss</b>	<b>17,186,265</b>	212,896,981

1. See note 17.

# Notes to the unaudited condensed interim financial statements continued

For the period from 1 April 2023 to 30 September 2023

## 6. Non-derivative financial assets at fair value through profit or loss continued

On a look-through basis, the Fund's net gains on non-derivative financial assets at fair value through profit or loss as at 30 September 2023 comprises the following:

	Period ended 30 September 2023 (unaudited) £	Year ended 31 March 2023 (audited) £
<b>Subsidiaries</b>		
Investment income during the period/year	<b>75,256,883</b>	146,480,014
Net return on financial assets and liabilities during the year, including foreign exchange and VFN expenses payable	<b>(62,431,914)</b>	(127,795,459)
Net other income during the period/year	<b>3,310,776</b>	9,573,315
Subsidiaries' gains during the year	<b>16,135,745</b>	28,257,870
Subsidiaries' losses brought forward	<b>(19,046,423)</b>	(47,304,293)
<b>Subsidiaries' losses carried forward at the end of the year</b>	<b>(2,910,678)</b>	(19,046,423)
<b>Company</b>		
Unrealised foreign exchange gains on VFNs brought forward	<b>104,923,166</b>	6,181,517
Unrealised foreign exchange gains on VFNs in the period/year	<b>1,050,520</b>	98,741,649
<b>Net gains on non-derivative financial assets at fair value through profit or loss carried forward at the end of the period/year</b>	<b>103,063,008</b>	85,876,743

### Fair value measurement

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

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

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

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

The Company’s investment in the Subsidiaries, through the acquisition of shares and the issue of VFNs, is classified within Level 3 as it is not traded and contains unobservable inputs. The Board considers that the NAVs of the Subsidiaries are representative of their fair value.

	30 September 2023 (unaudited)			
	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Assets</b>				
Non-derivative financial assets at fair value through profit or loss	—	—	1,656,388,517	1,656,388,517
Derivative financial assets at fair value through profit or loss	—	9,637,161	—	9,637,161
<b>Total</b>	—	9,637,161	1,656,388,517	1,666,025,678
<b>Liabilities</b>				
Derivative financial liabilities at fair value through profit or loss	—	22,932,913	—	22,932,913
<b>Total</b>	—	22,932,913	—	22,932,913
	31 March 2023 (audited)			
	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Assets</b>				
Non-derivative financial assets at fair value through profit or loss	—	—	1,861,431,678	1,861,431,678
Derivative financial assets at fair value through profit or loss	—	23,254,199	—	23,254,199
<b>Total</b>	—	23,254,199	1,861,431,678	1,884,685,877
<b>Liabilities</b>				
Derivative financial liabilities at fair value through profit or loss	—	31,060,322	—	31,060,322
<b>Total</b>	—	31,060,322	—	31,060,322

There have been no transfers between levels of the fair value hierarchy during the period. Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change has occurred.



# Notes to the unaudited condensed interim financial statements

continued

For the period from 1 April 2023 to 30 September 2023

## 6. Non-derivative financial assets at fair value through profit or loss

continued

### Fair value measurement

continued

The investments held by the Subsidiaries in the underlying portfolio are classified within the fair value hierarchy as follows:

Assets	30 September 2023 (unaudited)			
	Level 1 £	Level 2 £	Level 3 £	Total £
Non-derivative financial assets at fair value through profit or loss	—	384,438,015	1,025,792,936	1,410,230,951

Assets	31 March 2023 (audited)			
	Level 1 £	Level 2 £	Level 3 £	Total £
Non-derivative financial assets at fair value through profit or loss	—	572,871,978	1,150,601,128	1,723,473,106

There have been no transfers between levels of the fair value hierarchy during the period. Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change has occurred.

The Subsidiaries' Level 3 investment valuations are calculated by discounting future cash flows at a yield appropriate to comparable infrastructure loans or bonds (with such yield assessed primarily from publicly available sources and secondarily in consultation with brokers and syndicate desks). Spread data will also be cross-referenced to recently priced primary market transactions if possible. When identifying comparable loans or bonds, for the purpose of assessing market yields, structural and credit characteristics and project type are also considered.

The equity investments arising from the restructuring of a borrower group during the prior year have been fair valued principally on a discounted cash flow basis.

The following tables summarises the significant unobservable inputs the Company used to value its Subsidiaries' underlying investments categorised within Level 3 at 30 September 2023 and at 31 March 2023. The tables are not intended to be all-inclusive but instead capture the significant unobservable inputs relevant to the determination of fair values.

30 September 2023 (unaudited)		Fair value £	Primary valuation technique	Significant unobservable inputs	Range input
Type	Sector				
Private debt	Accommodation	55,225,330	Discounted cash flow	Discount rate	8.2%–28.6%
Private debt	Power	185,674,817	Discounted cash flow	Discount rate	4.6%–11.6%
Private debt	Renewable energy	110,506,464	Discounted cash flow	Discount rate	4.5%–10.8%
Private debt	Digitalisation	332,808,192	Discounted cash flow	Discount rate	6.3%–12.1%
Private debt	Transport systems	42,602,145	Discounted cash flow	Discount rate	5.8%–7.8%
Private debt	Transport vehicles	118,312,053	Discounted cash flow	Discount rate	5.5%–18.6%
Private debt	Utilities	99,405,020	Discounted cash flow	Discount rate	4.6%–11.5%
Private equity	Utilities	32,665,956	Discounted cash flow	Discount rate	15.0%–15.0%
Private debt	Other	48,210,369	Discounted cash flow	Discount rate	12.0%–12.0%
Securitisations (ABS)	Transport vehicles	382,590	Unadjusted broker quote <sup>1</sup>	N/A	N/A
		<b>1,025,792,936</b>			

1. Securitisations (ABS) held by the Company have been fair valued using third-party pricing information without adjustment, therefore in accordance with IFRS 13.93(d), the Company is not required to disclose significant unobservable inputs since they have not been developed by the Company.

31 March 2023 (audited) Type	Sector	Fair value £	Primary valuation technique	Significant unobservable inputs	Range input
Private debt	Accommodation	61,847,416	Discounted cash flow	Discount rate	6.4%–10.8%
Private debt	Power	237,409,603	Discounted cash flow	Discount rate	7.4%–13.9%
Private debt	Renewable energy	139,694,814	Discounted cash flow	Discount rate	4.5%–10.2%
Private debt	Digitalisation	370,919,838	Discounted cash flow	Discount rate	6.1%–12.0%
Private debt	Transport systems	43,500,298	Discounted cash flow	Discount rate	6.0%–7.6%
Private debt	Transport vehicles	109,925,707	Discounted cash flow	Discount rate	6.2%–18.5%
Private debt	Utilities	98,104,483	Discounted cash flow	Discount rate	4.5%–10.5%
Private equity	Utilities	34,260,599	Discounted cash flow	Discount rate	15.0%–20.0%
Private debt	Other	48,283,123	Discounted cash flow	Discount rate	11.2%–22.3%
Securitisations (ABS)	Transport vehicles	6,655,247	Unadjusted broker quote	N/A	N/A
		1,150,601,128			

The following table shows the Directors' best estimate of the sensitivity of the Subsidiaries' Level 3 investments to changes in the principal unobservable input, with all other variables held constant.

Unobservable input	Possible reasonable change in input	30 September 2023 (unaudited) effect on net assets and profit or loss £	31 March 2023 (audited) effect on net assets and profit or loss £
Discount rate	+3%	<b>(46,670,214)</b>	(59,410,467)
	-3%	<b>56,497,816</b>	63,428,685

The possible changes in the discount rate of 3% (31 March 2023: 3%) are regarded as reasonable in view of the increased level of global interest rates.

### Valuation techniques for the investment portfolio of the Subsidiaries

With effect from 18 April 2017, the Company engaged PricewaterhouseCoopers LLP ("PwC") as Valuation Agent, with responsibility for reviewing the valuations applied by the Investment Adviser in relation to the acquisition of loans and bonds on a monthly basis. The principles and techniques utilised by the Investment Adviser and reviewed by PwC during the year in calculating the valuations are described below.

#### Performing portfolio assets

Valuations of performing portfolio loans and bonds are based on actual market prices (bid-side prices) obtained from third-party brokers and syndicate desks if available (such brokers to be agreed with the Investment Adviser); if such prices are not available, then valuations are calculated by discounting future cash flows at a rate equivalent to a yield appropriate to comparable infrastructure loans or bonds (with such yield assessed primarily from publicly available sources and secondarily in consultation with brokers and syndicate desks). Spread data will also be cross-referenced to recently priced primary market transactions if possible.

When identifying comparable loans or bonds, for the purpose of assessing market yields, the following will be taken into account:

- project type: jurisdiction, sector, project status, transaction counterparties, such as construction companies, facility management providers;
- structural characteristics: maturity and average life, seniority, secured/unsecured, amortisation profile, cash sweeps and par versus discount; and
- credit characteristics: credit ratios (e.g. equity cushion, asset cover/LTV, debt service coverage ratios or equivalent, debt/EBITDA), ratings and ratings trajectory.

# Notes to the unaudited condensed interim financial statements continued

For the period from 1 April 2023 to 30 September 2023

## 6. Non-derivative financial assets at fair value through profit or loss continued

### Valuation techniques for the investment portfolio of the Subsidiaries continued

#### Performing portfolio assets continued

In calculating the net present value of future cash flows on loans with uncertain cash flows (such as cash-sweep mechanisms), “banking base case” cash flows are used unless there is clear evidence that the market is using a valuation based upon another set of cash flows.

In the case of discount loans with step-up margins, the assumption will be that market discounts are calculated on a yield-to-worst basis, unless there is clear evidence that the market convention for that loan is different.

For variable rate loans and bonds, for the purposes of projecting cash flows, the market convention of simple compounding to the next interest payment date is used and swap rates for subsequent interest payments, unless there is clear evidence that the market convention for that loan or bond is different.

The equity investments arising from the restructuring of a borrower group during the prior year have been fair valued principally on a discounted cash flow basis.

#### Non-performing portfolio assets

Valuations of non-performing portfolio loans and bonds are based on actual market prices obtained from third-party brokers if available, otherwise the net present value of future expected loan cash flows will be calculated, estimated on the basis of the median outcome and discount rate that reflects the market yield of distressed/defaulted loans or bonds.

In assessing the median outcome cash flows, a project/corporate model that reflects the distressed state of the project will be used in order to assess a range of potential outcomes for expected future cash flows with regard to, for example, interest or principal recoveries and timing. The Investment Adviser will work closely with the Valuation Agent and they will have access to the Investment Adviser’s own model, analysis and internal valuations. These valuations are subject to a high degree of management oversight and ultimate approval by the Investment Manager.

In the opinion of the Investment Adviser, as at 30 September 2023, there were three non-performing assets in the portfolio (31 March 2023: four) with a total value of £97.2 million (31 March 2023: £103.9 million). For further details, please refer to the Investment Adviser’s report.

#### Finalising the net asset value

Once the appropriate position price has been determined to be applied to each investment, the calculation of the Subsidiaries’ net asset values are finalised through the following steps:

- conversion of each investment into GBP based on month end foreign exchange rates;
- reconciliation of any interest accrued since issue of the most recent coupon; and
- aggregation of the investments into a single Fund NAV position statement (clean and dirty price).

## 7. Trade and other receivables

	<b>30 September 2023</b> <b>(unaudited)</b> <b>£</b>	31 March 2023 (audited) £
Prepaid loan finance costs	<b>972,464</b>	1,494,219
Other prepaid expenses	<b>156,555</b>	110,824
<b>Total trade and other receivables</b>	<b>1,129,019</b>	1,605,043

## 8. Derivative financial assets/(liabilities) at fair value through profit or loss

The Company uses forward foreign exchange contracts to hedge its exposure to currency risk. The net losses on forward foreign exchange contracts in the period comprises both realised and unrealised gains and losses as follows:

	Period ended 30 September 2023 (unaudited) £	Period ended 30 September 2022 (unaudited) £
Net realised gains/(losses) on forward foreign exchange contracts during the period	5,287,925	(72,873,592)
Net unrealised losses on forward foreign exchange contracts during the period	(5,489,629)	(115,061,373)
<b>Net losses on forward foreign exchange contracts during the period</b>	<b>(201,704)</b>	<b>(187,934,965)</b>

As at 30 September 2023, the Company had the following outstanding commitments in respect of open forward foreign exchange contracts, by currency and by counterparty.

30 September 2023 (unaudited) Selling currency	Currency amount	Buying currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	870,600,000	GBP	700,473,161	6,237,550	(18,066,558)	(11,829,008)
EUR	447,700,000	GBP	395,768,953	3,262,374	(386,350)	2,876,024
AUD	3,400,000	GBP	1,778,894	—	(26,725)	(26,725)
CHF	45,000,000	GBP	41,985,053	—	(225,798)	(225,798)
PLN	167,200,000	GBP	29,308,387	39,150	(1,827,769)	(1,788,619)
			1,169,314,448	9,539,074	(20,533,200)	(10,994,126)

30 September 2023 (unaudited) Buying currency	Currency amount	Selling currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	140,100,000	GBP	(112,164,468)	98,087	(2,399,713)	(2,301,626)
			(112,164,468)	98,087	(2,399,713)	(2,301,626)
			1,057,149,980	9,637,161	(22,932,913)	(13,295,752)

30 September 2023 (unaudited) Counterparty	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
Goldman Sachs	—	(1,354,284)	(1,354,284)
Macquarie	1,113,451	(7,200,986)	(6,087,535)
Morgan Stanley	8,134,087	(3,523,363)	4,610,724
Nomura	389,623	(3,691,246)	(3,301,623)
RBSI	—	(7,163,034)	(7,163,034)
	9,637,161	(22,932,913)	(13,295,752)



# Notes to the unaudited condensed interim financial statements

continued

For the period from 1 April 2023 to 30 September 2023

## 8. Derivative financial assets/(liabilities) at fair value through profit or loss continued

31 March 2023 (audited) Selling currency	Currency amount	Buying currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	1,031,700,000	GBP	831,226,937	20,890,973	(23,020,732)	(2,129,759)
EUR	515,700,000	GBP	453,236,998	1,425,788	(4,154,473)	(2,728,685)
CHF	45,000,000	GBP	41,094,014	883,492	—	883,492
PLN	148,200,000	GBP	25,491,769	—	(1,622,765)	(1,622,765)
AUD	5,200,000	GBP	2,880,727	53,495	—	53,945
			1,353,930,445	23,254,198	(28,797,970)	(5,543,772)

31 March 2023 Buying currency	Currency amount	Selling currency	GBP amount £	Unrealised gains £	Unrealised losses £	Net unrealised gains/(losses) £
USD	77,100,000	GBP	64,573,500	—	(2,262,352)	(2,262,352)
			64,573,500	—	(2,262,352)	(2,262,352)
			1,289,356,945	23,254,198	(31,060,322)	(7,806,124)

31 March 2023 (audited) Counterparty	Unrealised gains £	Unrealised losses £	Net unrealised gains £
Investec Bank	—	(2,129,229)	(2,129,229)
Macquarie	1,773,576	(7,095,562)	(5,321,986)
Morgan Stanley	8,677,123	(6,966,786)	1,710,337
Nomura	501,748	(14,401,938)	(13,900,190)
RBSI	12,301,752	(466,808)	11,834,944
	23,254,199	(31,060,323)	(7,806,124)

All forward foreign exchange positions at the period end were held with Goldman Sachs, Macquarie Bank Limited, Morgan Stanley, Nomura International plc or the Royal Bank of Scotland International (31 March 2023: Investec Bank plc, Macquarie Bank Limited, Morgan Stanley, Nomura International plc or the Royal Bank of Scotland International), as noted above. There are no master netting arrangements in place.

The forward foreign exchange positions at the period/year end have various maturity dates ranging from 4 October 2023 to 26 August 2025 (31 March 2023: 18 April 2023 to 28 February 2025).

## 9. Investment income

	Period ended 30 September 2023 (unaudited) £	Restated <sup>1</sup> Period ended 30 September 2022 (unaudited) £
Investment income on financial assets carried at amortised cost:		
Cash and cash equivalents	176,206	767
Investment income/(deficit) on the Company's non-derivative financial assets at fair value through profit and loss	35,011,992	(67,620,901)
	<b>35,188,198</b>	<b>(67,620,134)</b>

1. See note 17.

## 10. Related parties and other material contracts

### Transactions with Investment Manager and Investment Adviser

#### Investment Manager

FundRock Management Company (Guernsey) Limited (formerly Sanne Fund Management (Guernsey) Limited) (the "Investment Manager") was appointed as the Investment Manager with effect from 28 January 2015. With effect from 1 December 2016, the Investment Manager was entitled to receive a management fee for AIFM services calculated as follows:

- if the Company's NAV is less than £200 million, 0.075% per annum of the value of the Company's NAV; plus
- if the Company's NAV is more than £200 million and less than £400 million, 0.05% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £400 million and less than £500 million, 0.04% per annum of the Company's NAV not included above; plus
- if the Company's NAV is more than £500 million, 0.015% per annum of the Company's NAV not included above.

The fee is subject to an annualised minimum of £80,000 applied on a monthly basis and is payable monthly in arrears. With effect from 2 May 2017, the management fee was capped at £320,000 per annum, subject to an annual inflationary increase (with effect from 1 May 2023: £408,121; with effect from 1 May 2022: £370,779).

The Investment Management agreement can be terminated by either party giving not less than six months' written notice.

#### Investment Adviser

Sequoia Investment Management Company Limited (the "Investment Adviser") was appointed as the Investment Adviser with effect from 28 January 2015. With effect from 1 September 2018, the Investment Adviser is entitled to receive from the Company a base fee calculated as follows:

- 0.74% of the market value of the investments (excluding committed but not yet invested investments and cash) owned by the Subsidiaries up to £1 billion; plus
- 0.56% of the market value of the investments (excluding committed but not yet invested investments and cash) owned by the Subsidiaries in excess of £1 billion.

All such fees are payable quarterly. 10% of the Investment Adviser's fee is applied in subscribing for ordinary shares in the Company, which the Investment Adviser shall retain with a three-year rolling lock-up (such that those ordinary shares may not be sold or otherwise disposed of by the Investment Adviser without the prior consent of the Company before the third anniversary of the date of issue of the relevant ordinary shares).

On 19 April 2023, the Investment Adviser acquired 349,266 ordinary shares in the market in relation to fees payable for the quarter ended 31 March 2023.

On 23 October 2023, the Investment Adviser acquired 322,188 ordinary shares in the market in relation to fees payable for the quarter ended 30 September 2023.

The Investment Advisory agreement can be terminated by either party giving not less than six months' written notice. The Investment Adviser's appointment will be automatically terminated upon termination of the Investment Manager's appointment under the Investment Management Agreement.

# Notes to the unaudited condensed interim financial statements continued

For the period from 1 April 2023 to 30 September 2023

## 10. Related parties and other material contracts continued

### Directors' fees

During the period, the Directors' fee entitlements were as follows:

- Robert Jennings is entitled to a fee of £78,000 per annum (2022: £75,000 per annum) in remuneration for his services as Chair of the Board of Directors;
- the remaining Directors are entitled to a basic fee of £50,000 each per annum (2022: £48,000 per annum) in remuneration for their services as Directors;
- Sandra Platts is entitled to a fee of £10,000 per annum for serving as Chair of the Remuneration and Nomination Committee and of the Management Engagement Committee (2022: £10,000 per annum). She is also entitled to a fee of £4,000 per annum (2022: £4,000 per annum) for serving as the Senior Independent Director;
- James Stewart is entitled to a fee of £6,300 per annum (2022: £6,300) in respect of his role as Chair of the ESG and Stakeholder Engagement Committee;
- Tim Drayson is entitled to a fee of £6,300 per annum (2022: £6,300) in respect of his role as Chair of the Risk Committee;
- with effect from 2 August 2023, Fiona Le Poidevin was entitled to a fee of £10,000 per annum in respect of her role as Chair of the Audit Committee; and
- until her retirement from the Board on 2 August 2023, Sarika Patel was entitled to a fee of £10,000 per annum (2022: £10,000 per annum) in respect of her role as Chair of the Audit Committee.

All Directors contribute 1% of their fees to support the Company's carbon offsetting initiatives.

### Ordinary shares held by related parties

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

Name	30 September 2023 (unaudited)		31 March 2023 (audited)	
	Number of ordinary shares	Percentage of ordinary shares in issue	Number of ordinary shares	Percentage of ordinary shares in issue
Robert Jennings (Chair) (with other members of his family)	350,000	0.02%	350,000	0.02%
Sandra Platts (in a family Retirement Annuity Trust Scheme)	27,953	0.00%	27,953	0.00%
Tim Drayson	207,000	0.01%	207,000	0.01%
James Stewart (with his spouse)	43,313	0.00%	43,313	0.00%
Fiona Le Poidevin	—	—	—	—
Sarika Patel	N/A	N/A	16,000	0.00%

On 20 October 2023, Robert Jennings acquired a further 45,000 ordinary shares.

As at 30 September 2023, the Investment Adviser held an aggregate of 4,785,730 ordinary shares (31 March 2023: 4,436,464 ordinary shares), which is 0.28% (31 March 2023: 0.26%) of the issued share capital.

As at 30 September 2023, the members of the Investment Adviser's founding team held an aggregate of 858,250 ordinary shares (31 March 2023: 792,643 ordinary shares), which is 0.05% (31 March 2023: 0.05%) of the issued share capital.

As at 30 September 2023, the Investment Manager held an aggregate of 50,000 ordinary shares (31 March 2023: 50,000 ordinary shares), which is 0.00% (31 March 2023: 0.00%) of the issued share capital.

## Other material contracts

### Administrator

Sanne Fund Services (Guernsey) Limited (the “Administrator”) was appointed as the Administrator with effect from 28 January 2015. With effect from 1 June 2016, the Administrator is entitled to receive from the Company a base fee, calculated as follows and paid monthly:

- if the Company’s NAV is less than £300 million, 0.07% per annum of the value of the Company’s NAV; plus
- if the Company’s NAV is more than £300 million and less than £400 million, 0.05% per annum of the Company’s NAV not included above; plus
- if the Company’s NAV is more than £400 million, 0.04% per annum of the Company’s NAV not included above.

The base fee is subject to a minimum of £65,000 applied on a monthly basis and was capped at £300,000 per annum, subject to an annual inflationary increase (with effect from 1 May 2023: £357,673; with effect from 1 May 2022: £331,178). The Administrator is also entitled to a fee for company secretarial services based on time costs.

The Administration agreement can be terminated by either party giving not less than 90 days’ written notice.

### Luxembourg Subsidiary Administrator

With effect from 28 January 2015, TMF Luxembourg S.A. (the “Luxembourg Subsidiary Administrator”) was appointed as the administrator of the Luxembourg Subsidiary. During the calendar year 2023, the Luxembourg Subsidiary Administrator will receive an estimated amount in recurring and ad hoc fees from the Luxembourg Subsidiary of €80,896 (£71,192) (2022: €85,001 (£71,592) during the calendar year 2022).

### Custodian

With effect from 27 February 2015, The Bank of New York Mellon (the “Custodian”) was appointed as the Custodian. The Custodian is entitled to receive fees, as agreed from time to time, for services provided as portfolio administrator, depository, calculating agent, account bank and custodian.

The Custodian agreement can be terminated by either party giving not less than 60 days’ written notice.

The amounts charged for the above-mentioned fees during the period ended 30 September 2023 and outstanding at 30 September 2023 are as follows:

	Charge for the period ended 30 September 2023 (unaudited) £	Amounts outstanding at 30 September 2023 (unaudited) £	Charge for the period ended 30 September 2022 (unaudited) £	Amounts outstanding at 31 March 2023 (audited) £
Investment advisory fee	4,763,410	2,477,959	6,176,304	2,878,468
Investment management fee	199,851	—	183,668	27,598
Directors’ fees and expenses	177,806	—	189,726	30,898
Administration fee	201,326	89,088	212,125	—
Sub-administration fee <sup>1</sup>	63,365	1,410	58,180	695
Fees payable to the Custodian <sup>1</sup>	428,598	142,756	323,620	171,561
	<b>5,834,356</b>	<b>2,711,213</b>	7,143,623	3,109,220

1. Includes expenses of both the Company and the Subsidiaries.

# Notes to the unaudited condensed interim financial statements continued

For the period from 1 April 2023 to 30 September 2023

## 10. Related parties and other material contracts continued

### Overdraft facility

On 15 February 2016, the Company entered into an overdraft facility with the Royal Bank of Scotland International Limited with a limit of £1,500,000. As at 30 September 2023, this facility had not been utilised.

### Loan collateral

With effect from 15 November 2021, security for a revolving credit facility of £325 million (previously £280 million) (see note 14) with a consortium of banks led by the Royal Bank of Scotland International Limited was provided by, inter alia, a charge over the bank accounts of the Company, a charge over the shares in the Luxembourg Subsidiaries held by the Company and a charge on the assets of the Subsidiaries.

## 11. Tax status

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

## 12. Share capital

The Company's ordinary shares and C shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and C shares are recognised as a deduction in equity and are charged to the relevant share capital account.

The Company undertakes that it shall ensure that its records and bank accounts are operated in such a way that the assets attributable to the ordinary shares and the C shares can be separately identified. On the conversion of C shares to ordinary shares, C Shareholders shall be allocated an appropriate number of ordinary shares, calculated by reference to the conversion ratio.

The authorised share capital of the Company is represented by an unlimited number of shares of nil par value, to which are attached the following rights:

- (a) Dividends: ordinary Shareholders and C Shareholders are entitled to receive, and participate in, any dividends or other distributions resolved to be distributed from their respective pools of assets in respect of any accounting period or other period, provided that no calls or other sums due by them to the Company are outstanding.
- (b) Winding up: on a winding up, the ordinary Shareholders and C Shareholders shall be entitled to the surplus assets remaining in their respective pools of assets after payment of creditors.
- (c) Voting: ordinary Shareholders have the right to receive notice of and to attend, speak and vote at general meetings of the Company and each holder being present in person or by proxy shall upon a show of hands have one vote and upon a poll one vote in respect of every ordinary share held. C Shareholders have no right to attend or vote at any meeting of the Company, except that the consent of C Shareholders is required for any alteration to the Memorandum or Articles of the Company; for the passing of any resolution to wind up the Company; and for the variation or abrogation of the rights attached to the C shares.

The Company may acquire its own ordinary shares, up to a maximum number of 14.99% per annum of the ordinary and C shares in issue.

There were no C shares in issue during either the current period or prior year.



Issued share capital Ordinary shares	Period ended 30 September 2023 (unaudited)	Year ended 31 March 2023 (audited)
Share capital at the beginning of the period/year	1,734,819,553	1,768,238,998
Share capital bought back and held in treasury	(53,649,927)	(33,419,445)
<b>Total share capital at the end of the period/year</b>	<b>1,681,169,626</b>	<b>1,734,819,553</b>

Issued share capital	Period ended 30 September 2023 (unaudited)	Year ended 31 March 2023 (audited)
Share capital at the beginning of the period/year	1,808,622,511	1,837,390,531
Share capital bought back and held in treasury	(43,270,931)	(28,768,020)
<b>Total share capital at the end of the period/year</b>	<b>1,765,351,580</b>	<b>1,808,622,511</b>

No ordinary shares were issued during the period (31 March 2023: no ordinary shares issued).

During the period, the Company acquired 53,649,927 of its own ordinary shares at an average cost of 80.59p per ordinary share. These ordinary shares are held in treasury.

### 13. Basic and diluted earnings/(loss) per share

Issued share capital	Period ended 30 September 2023 (unaudited)	Period ended 30 September 2022 (unaudited)
Profit/(loss) for the financial period	£45,673,440	£(67,399,278)
Weighted average number of ordinary shares	1,706,239,012	1,762,591,096
<b>Basic and diluted earnings/(loss) per ordinary share</b>	<b>2.68p</b>	<b>(3.82)p</b>

The weighted average number of ordinary shares is based on the number of ordinary shares in issue during the period under review, as detailed in note 12.

There was no dilutive effect for potential ordinary shares during the current period.

# Notes to the unaudited condensed interim financial statements

continued

For the period from 1 April 2023 to 30 September 2023

## 14. Loan payable

The Company has a 36-month £325 million multi-currency revolving credit facility ("RCF") with the Royal Bank of Scotland International Limited ("RBSI") as lead arranger. The facility has an accordion facility of £75 million and matures in November 2024. The proceeds of the loan are to be used in or towards the making of investments in accordance with the Company's investment policy.

The loan imposes an interest cover test and is secured by, inter alia, a charge over the bank accounts of the Company, a charge over the shares in the Subsidiaries held by the Company and a charge on the assets of the Subsidiaries. In accordance with the Company's investment policy, any borrowings undertaken by the Company will not exceed 20% of the value of the assets of the Company less its liabilities. Should the value of the underlying assets held in the Subsidiaries fall below a certain level, further margin calls may be made by RBSI, however no margin calls were made during the current or prior years.

	Period ended 30 September 2023 (unaudited)		
	GBP facility £	USD facility £	Total £
Balance brought forward	79,742,568	102,046,294	181,788,862
Repayments	(79,742,568)	(100,093,464)	(179,836,032)
Foreign exchange revaluations	—	(1,952,830)	(1,952,830)
<b>Balance carried forward</b>	—	—	—

	Year ended 31 March 2023 (audited)		
	GBP facility £	USD facility £	Total £
Balance brought forward	78,742,568	42,626,352	121,368,920
Drawdowns	81,000,000	57,712,919	138,712,919
Capitalised loan interest and fees	(80,000,000)	—	(80,000,000)
Foreign exchange revaluations	—	1,707,023	1,707,023
<b>Balance carried forward</b>	79,742,568	102,046,294	181,788,862

Interest on the loan is charged at a rate of SONIA (or equivalent) plus 2.0% per annum (31 March 2023: SONIA (or equivalent) plus 2.0% per annum). The facility is sustainability-linked, with margin premium or discount of up to 0.05% linked to the ESG score of the SEQI investment portfolio as verified by an independent assurance process, with effect from 1 July 2022.

The sustainability feature of the RCF underlines the Company's commitment to its long-term sustainable investment initiative. Loan interest of £3,333,033 (2022: £3,351,932) and upfront, facility and break fees of £451,698 (2022: £454,180) have been charged on the loan during the period.

The carrying value of the loan is considered to be a reasonable approximation of its fair value.

## 15. Trade and other payables

	30 September 2023 £	31 March 2023 £
Issued share capital		
VFN interest received in advance	<b>101,729,620</b>	58,420,655
Investment advisory fee payable	<b>2,477,959</b>	2,878,468
Ordinary share buy-backs payable	<b>315,130</b>	997,287
Loan interest payable	<b>299,178</b>	132,056
Other payables	<b>290,899</b>	523,088
	<b>105,112,786</b>	62,951,554

## 16. Commitments

As at 30 September 2023, £29.5 million (31 March 2023: £49.5 million) was committed by the Fund to new or existing investments. These commitments will be settled from the existing cash reserves of the Company and the Subsidiaries and through drawdowns from the Company's RCF.

## 17. Prior period restatement

In order to align these Interim Financial Statements with the Company's Annual Financial Statements for the year ended 31 March 2023, the Company has undertaken an exercise to calculate the book impairments to the portfolio of investments held within the Luxembourg Subsidiary as at 30 September 2022 and 30 September 2023. This impairment calculation exercise will be undertaken at all subsequent annual and interim reporting dates. Any such impairments have the effect of reducing the amount of VFN interest expense recorded in the books of the Luxembourg Subsidiary. The result is a reclassification in the prior period between VFN interest receivable from the Luxembourg Subsidiary and the valuation of the Company's equity holding in the Luxembourg Subsidiary, and certain prior period figures, detailed in the table below, have been restated in these Interim Financial Statements. There is no change in the Company's NAV as a result of the reclassification.

	30 September 2023 £	Reclassification £	30 September 2022 (restated) £
Statement of Comprehensive Income			
Net gains on non-derivative financial assets at fair value through profit or loss	<b>117,439,357</b>	<b>95,457,624</b>	212,896,981
Investment income/(deficit)	<b>27,837,490</b>	<b>(95,457,624)</b>	(67,620,134)
<b>Total comprehensive income</b>	<b>145,276,847</b>	<b>—</b>	145,276,847

## 18. Subsequent events

On 13 October 2023, the Company announced that, with effect from the Company's dividend for the quarter ended 30 September 2023, it would introduce an option for Shareholders to elect for their cash dividend payment to be automatically reinvested to purchase additional ordinary shares in the Company via a Dividend Reinvestment Plan.

On 19 October 2023, the Company declared a dividend of 1.71875p per ordinary share in respect of the quarter ended 30 September 2023. The dividend is due to be paid on 24 November 2023.

On 20 October 2023, Robert Jennings acquired 45,000 ordinary shares in the Company.

On 23 October 2023, the Investment Adviser acquired 322,188 ordinary shares in the market in relation to fees payable for the quarter ended 30 September 2023.

There have been no other significant events since the period end which would require revision of the figures or disclosures in these Interim Financial Statements.

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# Officers and advisers

## Directors

Robert Jennings, CBE (Independent non-executive Chair)

Sandra Platts (Senior Independent non-executive Director)

Tim Drayson (Independent non-executive Director)

James Stewart (Independent non-executive Director)

Fiona Le Poidevin (Independent non-executive Director)

Sarika Patel (Independent non-executive Director, retired 2 August 2023)

## Registered Office

1 Royal Plaza  
Royal Avenue  
St Peter Port  
Guernsey GY1 2HL

## Investment Adviser

### Sequoia Investment Management Company Limited

Kent House, 6th Floor  
14-17 Market Place  
London W1W 8AJ

## Administrator and Secretary

### Sanne Fund Services (Guernsey) Limited

1 Royal Plaza  
Royal Avenue  
St Peter Port  
Guernsey GY1 2HL

## Luxembourg Subsidiary Administrator

### TMF Luxembourg S.A.

46A, Avenue JF Kennedy  
L-1855 Luxembourg

## Independent Auditor

### Grant Thornton Limited

St James Place  
St James Street  
St Peter Port  
Guernsey GY1 2NZ

## Broker

### Jefferies International Limited

100 Bishopsgate  
London EC2N 4JL

## Financial PR

### Teneo

The Carter Building  
11 Pilgrim Street  
London EC4V 6RN

## Custodian

### Bank of New York Mellon

1 Canada Square  
London E14 5AL

## Investment Manager

### FundRock Management Company (Guernsey) Limited

1 Royal Plaza  
Royal Avenue  
St Peter Port  
Guernsey GY1 2HL

## Registrar

### Computershare Investor Services (Guernsey) Limited

1st Floor Tudor House  
Le Bordage  
St Peter Port  
Guernsey GY1 1DB

## Legal Adviser (as to UK Law)

### Cameron McKenna Nabarro Olswang LLP

78 Cannon Street  
London EC4N 6AF

## Legal Adviser (as to Guernsey Law)

### Mourant

Royal Chambers  
St Julian's Avenue  
St Peter Port  
Guernsey GY1 4HP

## Valuation Agent

### PricewaterhouseCoopers LLP

7 More London Riverside  
London SE1 2RT

## Independent Consultants

Kate Thurman  
Andrea Finegan

# Appendix

## Alternative Performance Measures used in the Interim Report

### NAV per ordinary share

NAV per ordinary share is a calculation of the Company's NAV divided by the number of ordinary shares in issue and provides a measure of the value of each ordinary share in issue.

	30 September 2023	31 March 2023
NAV	<b>£1,561,452,723</b>	£1,617,853,302
Number of ordinary shares in issue	<b>1,681,169,626</b>	1,734,819,553
NAV per ordinary share	<b>92.88p</b>	93.26p

### Ordinary share (discount)/premium to NAV

Ordinary share (discount)/premium to NAV is the amount by which the ordinary share price is lower/higher than the NAV per ordinary share, expressed as a percentage of the NAV per ordinary share, and provides a measure of the Company's share price relative to the NAV.

	30 September 2023	31 March 2023
NAV per ordinary share	<b>92.88p</b>	93.26p
Closing ordinary shares price	<b>83.20p</b>	80.40p
Ordinary share discount	<b>(10.4)%</b>	(13.8)%

### Total NAV/share price return

Total NAV return/total share price return are calculations showing how the NAV/share price per share has performed over a period of time, taking into account dividends paid to Shareholders. It is calculated on the assumption that dividends are reinvested at the prevailing NAV/share price on the last day of the month that the shares first trade ex-dividend. This provides a useful measure to allow Shareholders to compare performances between investment funds where the dividend paid may differ.

		Period ended 30 September 2023	
		Total NAV return	Total share price return
Opening NAV/share price per share	(a)	<b>93.26p</b>	<b>80.40p</b>
Closing NAV/share price per share	(b)	<b>92.88p</b>	<b>83.20p</b>
Dividends paid	(c)	<b>3.4375p</b>	<b>3.4375p</b>
Weighted average NAV per share	(d)	<b>91.61p</b>	<b>80.13p</b>
Dividend adjustment factor	(e)	<b>1.0375</b>	<b>1.0429</b>
Adjusted closing NAV/share price per share	(f)	<b>96.37p</b>	<b>86.77p</b>
<b>Total NAV/share price return (f / a -1)</b>		<b>3.3%</b>	<b>7.9%</b>



## Appendix continued

### Alternative Performance Measures used in the Interim Report continued

#### Total NAV/share price return continued

		Period ended 30 September 2022	
		Total NAV return	Total share price return
Opening NAV/share price per share	(a)	100.50p	102.80p
Closing NAV/share price per share	(b)	93.64p	81.90p
Dividends paid	(c)	3.125p	3.125p
Weighted average NAV per share	(d)	95.85p	89.44p
Dividend adjustment factor	(e)	1.0326	1.0349
Adjusted closing NAV/share price per share	(f)	96.69p	84.76p
<b>Total NAV/share price return (f / a -1)</b>		<b>(3.8)%</b>	<b>(17.5)%</b>

#### Cash dividend cover

Cash dividend cover is the ratio of a Company's operating cash flow divided by its total dividend payments, and is used as a measure of the extent to which a company is able to generate sufficient cash flow to pay its dividends.

The dividend cash cover calculation for the period ended 30 September 2023 was as follows:

Item	Period ended 30 September 2023	Period ended 30 September 2022
	£m	£m
Cash interest received	<b>71.20</b>	81.76
Consent fees received in cash	<b>0.65</b>	1.01
Prepayment fees	<b>1.43</b>	0.96
Upfront fees/discounts amortised	<b>1.56</b>	5.93
Cash expenses	<b>(11.40)</b>	(12.17)
<b>Net cash income</b>	<b>63.44</b>	77.49
Cash dividends paid	<b>58.80</b>	55.18
<b>Dividend cash cover</b>	<b>1.08x</b>	1.40x

## Portfolio yield-to-maturity/Gross portfolio return

The yield-to-maturity of an individual debt instrument is calculated using a formula involving its annual interest pay-out, face value, current price and number of years to maturity. Portfolio yield-to-maturity is the weighted average of these yields-to-maturity, or total annualised returns, in a portfolio of interest-bearing investments, discounted for the time value of money and based on the assumption that the investments are held to their maturity. This provides a useful measure of likely projected returns on a portfolio. This measure is applied in this Interim Report to the portfolio of investments held in the Subsidiaries.

## Construction risk

Construction risk is the proportion by value of investments held in a portfolio that relate to construction projects. This provides a useful measure of the degree of exposure of the Fund to the increased risk associated with lending to projects that are pre-operational. This measure is applied in this Interim Report to the portfolio of investments held in the Subsidiaries.

	30 September 2023	31 March 2023
Investments exposed to construction risk	<b>£157,571,500</b>	£243,949,792
Total investments held in the Subsidiaries	<b>£1,410,230,951</b>	£1,723,473,106
<b>Construction risk</b>	<b>11.2%</b>	14.2%

## Average equity cushion

An equity cushion exists in relation to a debt investment if there is collateral within the borrower available to the lender that exceeds the amount of the outstanding debt. The average equity cushion percentage of the portfolio of investments held in the Subsidiaries is the percentage of the total excess borrower collateral available divided by the total outstanding portfolio debt. This is a useful quantification of the degree of security available to the Fund in case of default by borrowers.

	30 September 2023	31 March 2023
Total excess borrower collateral available	<b>£468,196,676</b>	£588,230,343
Total investments held in the Subsidiary	<b>£1,410,230,951</b>	£1,723,473,106
<b>Equity cushion</b>	<b>33%</b>	34%

## Modified duration

The modified duration of a debt instrument provides a useful measure of the sensitivity of the debt instrument's value to changes in interest rates, and is calculated by dividing the instrument's price by the change in the instrument's yield caused by a 1% change in interest rates. This measure is applied in this Interim Report to the portfolio of investments held in the Subsidiaries. The modified duration of the portfolio of 1.5 (31 March 2023: 1.5) indicates that a 1% increase in interest rates would cause the value of the portfolio to fall by 1.5% (31 March 2023: 1.5%).

## Appendix continued

### Alternative Performance Measures used in the Interim Report continued

#### Ongoing charges ratio (“OCR”)

The OCR of an investment company is the annual percentage reduction in Shareholder returns as a result of recurring operational expenditure. Ongoing charges are classified as those expenses which are likely to recur in the foreseeable future, and which relate to the operation of the Company, excluding investment transaction costs, financing charges and gains or losses on investments. The OCR is calculated as the total ongoing charges for a period divided by the average net asset value over that period.

	12-month period ended 30 September 2023		
	The Company £	The Subsidiary £	Total £
Total expenses	25,514,467	974,558	26,489,025
Non-recurring expenses	(11,733,548)	—	(11,733,548)
Total ongoing expenses	13,780,919	974,558	14,755,477
Average NAV			1,600,831,299
<b>Ongoing charges ratio (using AIC methodology)</b>			<b>0.92%</b>

	12-month period ended 30 September 2022		
	The Company £	The Subsidiary £	Total £
Total expenses	23,678,608	911,482	24,590,090
Non-recurring expenses	(8,759,466)	—	(8,759,466)
Total ongoing expenses	14,919,142	911,482	15,830,624
Average NAV			1,747,007,199
<b>Ongoing charges ratio (using AIC methodology)</b>			<b>0.91%</b>

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## **About Sequoia Economic Infrastructure Income Fund Limited**

The Company seeks to provide investors with regular, sustained, long-term distributions and capital appreciation from a diversified portfolio of senior and subordinated economic infrastructure debt investments.

The Company is advised by Sequoia Investment Management Company Limited.

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