

May 2020

Share Price & NAV as of 31st May 2020

Share Price (p)	83.20
NAV (p)	89.67
Premium/(Discount)	-7.21%
Market Cap	£76.3 million

Fund Information

Fund Type:	Closed-ended collective investment scheme
Domicile:	Guernsey
Inception Date:	6 th March 2012
Market:	London Stock Exchange
NAV Frequency:	Daily
Dividend Frequency:	Quarterly
Management Fee:	0.70%
LSE Identifier:	AEFS:LSE
ISIN Code:	GG00B611N85
Website:	www.aefrif.com

Key Portfolio Statistics¹

Number of Issuers	70
Number of Assets	76
Number of Industries	17
Weighted Average Mid Price of the Portfolio	89.62
Portfolio Current Yield	5.18%
Yield to Maturity (Legal)	7.69%
Percentage of Portfolio in Floating Rate Assets	69.85%
Weighted Average Floating Rate Plus Margin	4.37%
Weighted Average Coupon	5.63%
Weighted Average Maturity (Years)	4.62

Investment Restrictions

At least 80% of the Fund's NAV in senior loans, senior secured floating-rate notes and cash;

No more than 20% of the Fund's NAV in second lien and mezzanine loans; and
No more than 5% of the Fund's NAV to be exposed to any single obligor;

Further Investment Guidelines

No more than 15% of Fund's NAV in unsecured floating rate notes or secured or unsecured fixed rate bonds;

No more than 20% exposure to any one Industry Sector; and

At least 80% exposure to Western European borrowers.

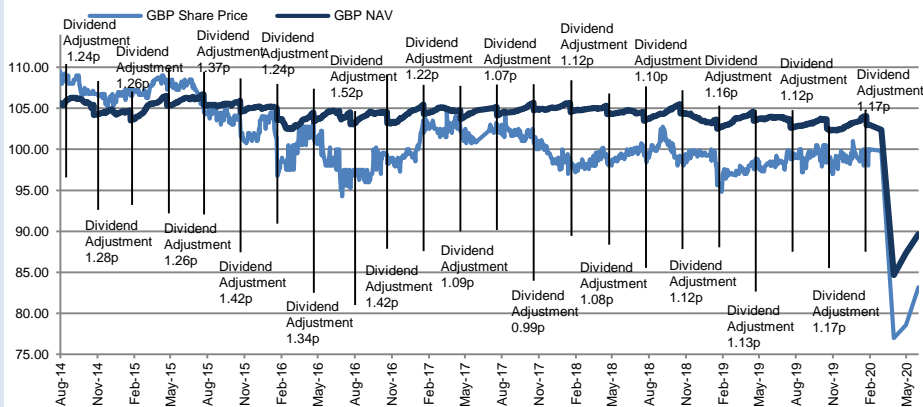
Alcentra European Floating Rate Income Fund Ltd.

Monthly Performance Update & Portfolio Disclosure

Summary

Alcentra European Floating Rate Income Fund Limited, a Guernsey closed-ended collective investment scheme listed on the Main Market of the London Stock Exchange (the "Fund"), invests predominantly in senior secured loans and senior secured bonds issued by European corporates. The Fund targets a dividend yield of 5.5 pence per £1.00 issue price of the initial offering of shares in the Fund (the "Issue Price" and the "IPO"), paid quarterly.

Fund Performance (as of 31st May 2020)



Source: Bloomberg, Fund share price and NAV per share as of 31st May 2020. **Past performance is not indicative of future returns.**

Market Commentary

The Fund was up 2.83% (gross) in May, behind both the Credit Suisse Western European Leveraged Loan Index ("CS WELL") (hedged to GBP) which was up 3.44%², and the Credit Suisse Western European Leveraged Loan Index excluding USD which was up 3.19%³ for the month.

The strong market conditions seen in April continued into May, driven by the firm technicals of solid demand from unlevered funds/SMAs and CLOs as well as limited new loan issuance. Sentiment also continues to improve on the back of easing of lock-down measures and generally better than expected company earnings. Loan prices recovered another c.3pts in the month, leaving the average index price at c.91.50, c.12 points above the lows seen in late March⁴. This leaves year to date returns for the CS WELL exc USD at -5.17%⁵. After outperforming other asset classes in April, European Loan returns were more in line in May.

Improving market conditions in the month led to a pick-up in loan issuance activity with €2.3bn of new loans pricing, albeit still below normal market levels. The deals that priced came at attractive terms with an average spread of 428bps and price of 97.75⁶ and were generally from higher rated/quality issuers looking to extend maturities (e.g. Nielsen and Micro Focus). We also saw companies access the market to improve liquidity (e.g. APCOA). Looking forward we do think there is continued scope for companies to access the primary loan market, for opportunistic reasons (maturities and liquidity) but also banks looking to syndicate some of the previous underwritten deals at attractive terms (e.g. CEP, Boels).

While CLO arbitrage conditions remain challenged, we do continue to see new deals price with four new CLOs pricing for €1.0bn of total volume in May⁷. As in April, these deals have generally been of smaller size and shorter duration, and driven by the desire to term out warehouse positions. While arbitrage conditions are improving, a standard 4-year reinvestment period deal still does not work in the current market and this will likely limit near term new formation. Demand from unlevered funds and SMAs continues to be robust, driven by more supportive fund flows.

The 12 month S&P default rate for April was restated from 0.42% to 1.39% and remained stable at 1.39% for the month of May⁸. The increase in April was driven by two events, a technical default from Holland and Barrett due to debt buybacks and a restructuring in Swisport. The Fund does not own investments in either issuer. We expect the default rate to rise from this level, with S&P forecasting an 8% default rate for the European Loan market, although the final figure will depend on the length and severity of the outbreak and resulting economic weakness. The S&P distress ratio, a measure of names in the market trading below 80 continues to improve on better market sentiment and now sits at 10.9%, down from 18.3% at the end of April and a peak of over 50%⁹.

We continue to focus on managing the portfolio and reducing positions in names with downside risk given the current market environment. Looking forward we expect the current technicals of strong demand and lower issuance as well as the high level of monetary and fiscal support to underpin the market. While the potential for heightened volatility remains, particularly idiosyncratic volatility due to company specific news, the reopening of economies is positive for sentiment and we are seeing attractive opportunities to put money to work in the new-issue primary market.

Investment Team

Graham Rainbow

Co-Chief Investment Officer

Head of European Loans

Daire Wheeler

European Loan Portfolio Manager

Leland Hart

Co-Chief Investment Officer

Marketing Contact

Investor Relations

+44 (0) 207 163 6911

InvestorRelations@alcentra.com

Notes & Sources:

¹Portfolio information is based upon Alcentra's calculations, 31 May 2020. Portfolio holdings and statistics are subject to change without notice

²Credit Suisse Western European Leveraged Loan Index, All Denom, hedged to GBP, 31 May 2020

³Credit Suisse Western European Leveraged Loan Index, Non USD, hedged to GBP, 31 May 2020

^{4,5}Credit Suisse Western European Leveraged Loan Index, Non USD, hedged to EUR, 31 May 2020

⁶S&P Global Market Intelligence, LCD Global Interactive Loan Volume Report, 31 May 2020

⁷S&P Global Market Intelligence, CLO Historical Stats, 2 June 2020

⁸S&P Default Ratio, 31 May 2020

⁹S&P Distress Ratio, 31 May 2020

Portfolio Manager's Commentary

The top performing credits in the Fund during May were generally names where outlook has improved on easing of lock-down measures. The top performing credit was a European holiday park business, which was up 35.5% on the back of better liquidity and improved outlook for the summer season. The second best performing credit was a Dutch-based Dental care provider which was up 15.89% on the back of improved investor sentiment around the name.

The credit with the largest decline was a leading French retailer, down -3.35% on the back of weaker outlook for the business. The second weakest credit was a Spanish university business which was down -1.11% on no new credit news and limited trading volumes.

5 Largest Holdings				5 Largest Industry Positions	
Issuer	% of NAV	Currency	Country	Industry	%
Stiga	3.39	EUR	ITA	Services	18.05
MFG	2.90	GBP	UK	Healthcare	14.08
Stars Group	2.70	EUR	NL	Retail (non-food/drug)	10.19
M Group	2.59	GBP	UK	Technology, Electronics, Software & IT	9.47
Tipico	2.59	EUR	GER	Gaming	6.98

Geographical Region (%) (Country of Risk)		Geographical Region (%) (Country of Domicile)	
UK	27.69	UK	23.39
Germany	21.50	Luxembourg	20.17
France	16.01	Germany	15.33
USA	9.07	France	13.99
Netherlands	6.14	Netherlands	12.07
Other	19.59	Other	15.04

Asset Breakdown	%	Currency Breakdown	%
Senior Secured Loans	79.35	Euro	68.96
Senior Secured FRNs	1.91	Pound Sterling	30.02
Second Lien Loans	5.10	US Dollar	1.02
Senior Secured Bonds	11.89		
Other	1.74		

As part of the upgrade of our front and back office systems we have revised our reporting processes to include additional regional definitions and hence capture additional risk views of our portfolios. We have provided both a country of risk and country of domicile breakdown as a result.

Country of domicile represents the country in which the issuer is based.

Country of risk represents the country in which the highest proportion of the issuer's revenue is generated.

Disclaimer

Important Notices

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

This report is aimed at existing investors in the fund and has not been approved by any competent regulatory authority.

The information contained in this document is given as at the date of its publication (unless otherwise marked) and is based on past performance. Past performance is not a guide to future performance and the value of investments and investment value can go down as well as up. The future performance of the Fund will depend on numerous factors which are subject to uncertainty. Including changes in market conditions and interest rates and exchange rates and in response to other economic, political or financial developments, investment return and principal value of your investment will fluctuate, so that when your investment is sold, the amount you receive could be less than what you originally invested. Past or current yields are not indicative of future yields.

This document does not contain any representations, does not constitute or form part of any solicitation of any offer to sell or invitation to purchase any securities of the Fund, nor shall it or any part of it or the fact of its distribution form the basis of or be relied upon in connection with any contract therefor, and does not constitute a recommendation regarding the securities of the Fund. Nothing in this document should be construed as a profit or dividend forecast.

This document includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements include, without limitation, statements typically containing words such as "believes", "considers", "intends", "expects", "anticipates", "targets", "estimates", "will", "may", or "should" and words of similar import. The forward-looking statements are based on the beliefs, assumptions and expectations of future performance and market development of Alcentra Limited ("Alcentra"), taking into account information currently available and made as at the date of this document. These can change as a result of many possible events or factors, not all of which are known or within Alcentra's control. If a change occurs, the Fund's business, financial condition, liquidity and results of operations may vary materially from those expressed in the forward-looking statements. By their nature, forward-looking statements involve known and unknown risks and uncertainties. Forward-looking statements are not guarantees of future performance. Alcentra qualifies any and all of the forward-looking statements by these cautionary factors. Please keep this cautionary note in mind while reading this document.

An investment in the Fund is suitable only for investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear losses (which may equal the whole amount invested) that may result from such an investment. An investment in the Fund should constitute part of a diversified investment portfolio. Accordingly, typical investors in the Fund are expected to be sophisticated and/or professional investors who understand the risks involved in investing in the Fund.

Alcentra gives no undertaking to provide recipients of this document with access to any additional information, or to update this document or any additional information, or to correct any inaccuracies in it which may become apparent including in relation to any forward-looking statements. The distribution of this document shall not be deemed to be any form of commitment on the part of Alcentra to proceed with any transaction.

This document is issued by Alcentra Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority and whose registered address is at 160 Queen Victoria Street, London, United Kingdom, EC4V 4LA.

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally.

© 2020 The Bank of New York Mellon Corporation. All rights reserved. Trademarks and logos belong to their respective owners.

FP 966 - 14052020