AXIOM
ALTERNATIVE INVESTMENTS

Axiom European Financial Debt Fund Limited

(Registered number 61003)

Half-Yearly Report and Unaudited Condensed Financial Statements
for the six months ended 30 June 2022

CONTENTS

HIGHLIGHTS

	30 June 2022 (unaudited)	30 June 2021 (unaudited)	31 December 2021 (audited)
Published net assets	£86,986,000	£94,637,000	£96,585,000
Published NAV per Ordinary Share[1]	94.70p	103.03p	105.15p
Share price	86.50p	94.00p	95.50p
Discount to Published NAV	(8.66)%	(8.76)%	(9.18)%
(Loss)/profit for the period	£(6,843,000)	£10,043,000	£14,746,000
Dividend per share declared in respect of the period	3.00p	3.00p	6.00p
Total return per Ordinary Share (based on Published NAV)	(7.27)%	11.49%	16.88%
Total return per Ordinary Share (based on share price)	(6.28)%	10.23%	15.34%
Ordinary Shares in issue	91,852,904	91,852,904	91,852,904

[1] These are Alternative Performance Measures. Please see note 20 for a reconciliation of the NAV per Ordinary Share of 95.03p (31 December 2021: 105.48p) to the Published NAV per Ordinary Share of 94.70p (31 December 2021: 105.15p).

www.axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/

An authorised closed-ended investment company, incorporated under the Companies (Guernsey) Law, 2008.

REGISTERED IN GUERNSEY No. 61003

OVERVIEW AND INVESTMENT STRATEGY

General information
The Company is an authorised closed-ended Guernsey investment company with registered number 61003. Its Ordinary Shares were admitted to the premium listing segment of the FCA's Official List and to trading on the Premium Segment on 15 October 2018 (prior to this, the Ordinary Shares traded on the SFS.

Investment objective
The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in the following financial institution investment instruments:

- Regulatory capital instruments, being financial instruments issued by a European financial institution which constitute regulatory capital for the purposes of Basel I, Basel II or Basel III or Solvency I or Solvency II;
- Other financial institution investment instruments, being financial instruments issued by a European financial institution, including without limitation senior debt, which do not constitute regulatory capital instruments; and
- Derivative instruments, being CDOs, securitisations or derivatives, whether funded or unfunded, linked or referenced to regulatory capital instruments or other financial institution investment instruments.

Investment policy
The Company seeks to invest in a diversified portfolio of financial institution investment instruments. The Company focuses primarily on investing in the secondary market although instruments have been, and may also in the future be, subscribed in the primary market where the Investment Manager, Axiom AI, identifies attractive opportunities

In February 2022, the Directors approved a minor change to the investment policy in respect of hedging and derivatives. The words in brackets were added to the following sentence: "The Company may implement other hedging and derivative strategies designed to protect investment performance against material movements in (but not limited to) exchange rates and to protect against credit risk".

The Company invests its assets with the aim of spreading investment risk.

For a more detailed description of the investment policy, please see the Company's Prospectus, which is available on the Company's section of the Investment Manager's website (http://axiom-ai.com/web/data/prospectus/ENG/AEFD-prospectus-UK.pdf).

CHAIRMAN'S STATEMENT

The Company's returns in the first half of the year were in line with what one would expect at this point in the interest rate cycle, that is when interest rates begin to rise. Rising yields mean a fall in capital values and the pace of such changes determines whether overall returns are negative for a short time or more muted over an extended period. Although the total NAV return per share including dividends and net of all expenses for the six months was -7.27%, this is a creditable performance much in line with sector averages.

Our Investment Manager, Axiom AI correctly anticipated the turn of the interest cycle and took steps to mitigate the impact and allow for a more fully-invested deployment as events unfolded. The speed of general market falls and interest rate rises have been accelerated by the situation in Ukraine. In the short term, the consequences of the conflict have been a shortage of certain commodities (such as grain) and energy which have impacted on world markets. This has meant a sharp increase in inflationary pressures and, although on a purely arithmetical basis that is likely to be largely transitory, has resulted in an acceleration in the normalisation of interest rates, which one should remember have been at historic lows since the Global Financial Crisis of 2008.

Axiom AI's adept positioning means that the Company's portfolio now exhibits truly compelling metrics, the best in its history: as at 30 June 2022, the portfolio running yield was 9.49% p.a. and the yield to perpetuity (on the premise that all investments could be and were held indefinitely), 11.90% p.a. Should issuers exercise their call rights on the instruments we hold, returns will be higher still at 13.94% p.a.

The six-month NAV return for Shareholders was very much in line with sector averages but the Company's three- and five-year NAV total returns to 30 June 2022 (19.44%[1] and 28.44%[1] respectively) remain one of the best amongst its closed-ended investment company peers (members of the AIC Debt – Loans & Bonds sector) whose weighted average returns were 5.64%[1] and 11.19%[1] respectively. The margin of outperformance is considerable and although recent drawdowns mean that the Company is a little further behind its long-term target of 10% p.a., our current portfolio metrics mean that we are excited about the future return prospects in the Company's portfolio.

Dividends

The Company continued to pay quarterly at the rate of 1.50p per Ordinary Share and, in the absence of unforeseen events, the Board would expect to continue to do so.

The future of the Company

When I wrote to you in March with the annual report for 2021, I noted the original premise upon which the Company was set up was to exploit the opportunity presented by regulatory change forcing an industry-wide restructuring of the capital bases of mainly banks and insurance companies, principally in the EU (which at that time included the UK) and that the end of that window was arriving.

The Board was (and remains) of the view that there are still attractive returns to be found in the sectors in which the Company invests, both in the capital instruments which form our existing strategy and in other instruments and while the existing investment strategy of the Company is nearing the end of its natural life, it can be readily developed and adapted to provide attractive returns into the future. Axiom AI already manages a range of other funds which follow such strategies with success and which have seen substantial inflows of investor capital over the past two or three years. Our views on the potential returns to be achieved are therefore shared by a substantial constituency of investors.

During the past few months, Axiom AI, on behalf of the Board, has consulted with Shareholders representing a very substantial majority of the Company's shares. As announced by the Company on 18 August 2022, the Board concluded that, while the vast majority of Shareholders share our enthusiasm for an evolution of the Company's strategy, a substantial number are disenchanted with the size of the Company, the lack of trading liquidity in the Company's shares and the width of the bid/offer spread of those shares in the market. Over much of the past year or two, a purchaser at any given point in time, paying the published "bid" price and later selling at the published "offer" would give up the equivalent of an entire year's income on the trading spread – an entire year's return, if prices remained static. Clearly, that is an unattractive proposition for many existing and potential investors. The result is therefore that although many larger Shareholders have indicated that they wish to remain invested in the evolving strategy, they would prefer to continue to do so through an open-ended structure rather than a closed-ended investment company.

The future of the Company *(continued)*

The Board has therefore concluded that there is insufficient remaining investor demand for such a strategy expressed in the form of a closed-ended listed vehicle such as the Company, albeit that there is substantial potential demand in open-ended form. Even if the Discontinuation vote due to be put to Shareholders at the 7th AGM, expected to be around July 2023, failed to be approved, after allowing Shareholders a cash exit opportunity, the continuing Company would be sub-scale with structural costs eroding returns.

Accordingly, due to the challenges noted above, the Board intends to offer Shareholders the option of receiving cash at NAV (less costs, including any portfolio realisation expenses) for some or all of their shareholding and/or to continue some or all of their investment in an open-ended vehicle managed by Axiom AI. That vehicle will have a similar investment strategy to that which the Company would have proposed if it were to continue to operate as a closed-ended listed investment company. In order to effect the proposals, it is expected that the existing Company will be liquidated. In order to limit future expenses, on 11 August 2022, the Company gave the Investment Manager 12 months' protective notice of the termination of the Investment Management Agreement.

The Board, together with Axiom AI and the Company's advisers, is working on formal proposals to be put to Shareholders and will make a further announcement with details in due course. The Board's aim is for the proposals to be put to Shareholders early in 2023 and, assuming Shareholder approval is received, for the transaction to be completed as soon as reasonably practicable thereafter.

Outlook

Rising interest rates are in general good for banks, enabling wider spreads between lending and deposit rates. The sector is robustly capitalised and neither a cyclical uptick in non-performing loans nor the effective loss of equity in Russian subsidiaries presents an existential challenge. Although inflationary concern may be the catalyst that has triggered recent moves in policy rates, the truth is that they would inevitably revert to more normal levels at some point and have been at exceptionally low levels for an unprecedentedly long period since the Global Financial Crisis of 2008.

The background to our principal industry sector is therefore positive and the metrics of the Company's current portfolio compelling. Shareholders who wish to benefit from this will have the opportunity to do so via the open-ended alternative to be put forward. It is frustrating but understandable, for the reasons set out above, that the vehicle for capturing those future returns is unlikely to be the current closed-ended investment company structure.

William Scott
Chairman
22 August 2022

[1] *Source: The AIC, as at 30 June 2022.*

INVESTMENT MANAGER'S REPORT

1. Market Commentary

January

European banks started the year on a strong footing, with rates repricing higher, economic data coming in better than expected and earnings beating consensus. The SX7R returned 7.37% in January 2022 vs. -3.81% for the SXXR. The yield on 5-year German bunds climbed from -45bps to -20bps while the SubFin moved up 20bps to 125bps. US 10-year Treasuries sold-off with yields reaching 1.80%.

Inflation was becoming increasingly uncomfortable for governments and central banks globally. Commodity markets have not softened, lead times and backlogs were increasing, and service inflation was starting to catch up with goods. On 26 January 2022, Jerome Powell prepared the market for a more hawkish turn. Undeterred by the recent volatility in global markets, he refused to rule out the possibility of raising rates by 50bps at once or hiking at consecutive meetings. In Europe, January inflation readings came much higher than expected, more than offsetting base effects. As interest rates of -50bps in the Euro area were evidently not consistent with 5% inflation and unemployment at record lows, we expected the ECB to revise its inflation projections upwards and recognise at its March meeting that the conditions of the froward guidance were met.

In Italy, the re-election of President Mattarella was taken positively by risk assets. Mario Draghi would be able to continue his work on the allocation of pandemic funds and structural reforms. Though non-establishment parties were leading in the polls, political volatility was expected to be pushed back to 2023. In the meantime, the flexibility of PEPP reinvestments was expected to provide a put for periphery spreads. In international news, the fluid situation at the Ukrainian borders and raising concerns about Taiwan were sources of spikes in volatility.

On the M&A front, Société Générale announced the acquisition of LeasePlan for EUR5 billion. The deal would create a dominant player in the auto leasing business in Europe. Though the price tag was slightly higher than expected, the capital impact was relatively limited for Société Générale and cost synergies could surprise positively.

The start of the earnings season was encouraging. Deutsche Bank reported results 10% ahead of consensus and announced a buyback, which was not widely expected and was interpreted as a sign of the ECB's satisfaction with Deutsche's turn-around plan execution. UBS beat expectations by 13% and unveiled a strategy plan focused on capital return commitments and operating jaws. Sabadell and Bankinter also surprised positively.

February

The war in Ukraine drove risk assets lower in February 2022. The SubFin widened by 35bps to 152bps over the month. As of 4 March 2022, the SX7R suffered a 28% drawdown from its February 2022 peak. The loss was especially acute for banks deemed to be more sensitive to Russia: RBI lost 55% of its market value, while Société Générale, Erste Bank and UniCredit posted losses close to 40%. This was quite a significant move: in a typical recession (the Tech bubble, the 2011-12 Eurozone crisis or the Covid-19 crisis for instance), bank equities' drawdowns tended to be around 40 to 45%.

Several elements were likely to have contributed to the price action:

i. Direct losses from Russian exposures;

ii. Possible losses stemming from legal uncertainty, settlement risk and unusual price action on Russian markets;

iii. The macroeconomic impact of the war in Ukraine and sanctions against Russia, from growth to inflation and rates; and

iv. Higher risk premia linked to a possible extension of the conflict outside of Russia and Ukraine.

We believe that the fourth factor explained most of the movement while the first and second factors were less significant.

a. Some early press reports have pointed to frightening possible Russian losses for European banks (as high as EUR100 billion). They ignored the fact that the exposure was largely sitting within local subsidiaries that were bankruptcy remote in the context of banking groups. The maximum total loss for the group would be the equity invested along with potential intra-group debt (which was typically very small). As an example, though Société Générale had a EUR18 billion exposure to Russia, the bulk of it (EUR15 billion) was located in its Russian subsidiary Rosbank. If Rosbank became insolvent or was seized by Russian authorities, Société Générale group would only lose 50bps of CET1 capital. They would still be well above regulatory requirements and their ability to distribute dividends would remain intact. For the sector in general, we would price a total CET1 impact of less than 30bps and a loss of future profits of not much more than 1%.

b. The speed and extent of the sanctions imposed on the Russian financial system was unprecedented. Some banks were cut off from Swift, correspondent relationships were banned, some assets were frozen, transactions with the Central Bank were only authorised if related to energy payments, etc. This created unprecedented price action on Russian markets and significant operational and legal risks for banks. It was impossible to predict the size of the losses that would arise from trapped collateral, settlement or gap risk. As of March 2022, we could only assume that banks would have been limiting leverage on Russian assets and using leading international custodians. The Swift ban was only operational from 26 March 2022, leaving banks time to adapt. Our base case was that we would not see any major impact from this side.

c. The main macroeconomic impact of the war in Ukraine was expected to materialise through commodities and supply chains. There were legitimate fears that higher commodity prices would slow growth. In 2020 and 2021, the EU had annual energy trade deficits of respectively EUR160 billion and EUR275 billion. In 2010-2014, when energy prices were around current levels (Brent at USD120), the deficit was EUR400 billion. A return to these levels would represent a GDP drag of 0.8%. It was worth noting that the majority of gas imports were based on long-term contracts, and that the current gas curve was very backward-dated (2025 gas futures were up less than 20% since the start of 2022). Exports to Russia would also be affected: in 2021, the EU exported circa EUR80 billion of goods and circa EUR20 billion of services to Russia. If those were halved, it would represent an additional 0.3% drag on GDP. Food prices were also going up, but the EU was a net exporter. In total, the annualised GDP impact for the EU was likely to be around 1% with an uncertainty range of 0.7%-1.5%.

   However, there were several mitigants: the conflict was likely to drag on for months, but not years; consensus of real GDP growth for the EU was above 4% for 2022 before the start of the war – growth was still highly likely to be above 2% despite very high energy prices; higher energy prices would be partly subsidised by governments, reducing the impact on purchasing powers for consumers; Germany had fully abandoned its hawkish fiscal stance, reinforcing the fiscal impulse and increasing flexibility for periphery governments; and the EU was more united, paving the way for a closer banking union and more fiscal integration.

   The impact on rates was more subtle. In the immediate future, there would be some delay to the normalisation agenda as central banks waited for clarity on the economic impact of the crisis. But in the medium-term, the sheer pressure of inflationary forces combined with lavish fiscal policies would make rate hikes unavoidable.

d. The first three factors do not explain why bank equities suffered close to two-thirds of their typical recession drawdown. We believed investors feared that the conflict would extend beyond Ukraine and Russia. China could have decided to attack Taiwan. Russia could have decided to go beyond Ukraine; in a worst case scenario, a war between NATO and Russia could be inadvertently triggered. There were also scenarios of possible widespread consequences from damages to key nuclear infrastructure. The unexpected move of Putin pushed "rational" investors to review their working assumption of a mostly stable geopolitical environment. To be clear, we did not think that the conflict would escalate outside of Ukraine. Signs from China were relatively encouraging. However, we believed that the unthinkable would continue to be priced until a resolution of the Ukrainian war was insight or the geopolitical stage had stabilised.

   We were conscious that the higher risk premia would not dissipate quickly and that the market would need signs of stabilisation. We expected the conflict to drag on for weeks or months and would not be surprised to see Putin move against Transnistria. However we had a strong core bullish bias in the medium-term and could have progressively added risk in March 2022 on strong headline moves.

March

Risk assets took respite in a fall of implied volatility towards the end of the month as the Ukrainian conflict appeared to stay geographically contained. Russian gas and oil exports were more resilient than expected, which limited the increase in energy prices. High inflation readings fuelled fears that hawkish central banks could trigger a recession in their attempt to slow demand at a time when real incomes were already suffering from elevated imported prices. The SubFin ended the month slightly better by 10bps. The VIX settled 10 points lower at 20. The European bank indices SX7T and SX7R returned respectively -3.01% and -2.11% vs. +1.00% for the SXXR.

The latest EBA risk dashboard highlighted the soundness of the European banking sector. NPLs reached a new low of 2.0% while CET1 remained elevated at an average of 15.4%. ROE stabilised at levels higher than in the pre-pandemic period. Regulators were reassuring about the first-round impact of the Ukrainian conflict, noting that a default of all Russian exposures would not be a capital event for the sector and confirming that dividends and buybacks could be continued. However, they also stressed that second-round effects, such as reduced growth, increased compliance costs and higher risk premia could negatively impact profitability.

Inferring from past recessions, we estimated that a 1-point reduction in the real GDP growth outlook could lower earnings expectations for the banking sector by about as much as 8%, with 5% coming from higher provisions for loan losses, and the rest divided between lower fees and lower loan growth. However, this would be more than compensated by higher interest rates, with the sectors' results sensitivity to a 100bps parallel move being around 25%. In addition, new guaranteed loan programs and increased fiscal spending overall were likely to reduce provisioning needs and provide a boost to loan growth. As such, we found the 13% underperformance of the SX7R versus the broader European market since mid-February 2022 difficult to reconcile with Bund yields climbing from 30bps to 55bps over the period. The consensus of 2022 earnings expectations of sell-side analysts were revised down by only 3% since mid-February, with ROE expectations for the SX7E remaining above 8%, while the sector was trading at only 55% of book value.

We understood the concerns regarding inflation and the future path of real growth. There were downside risks ahead: high energy prices would hurt real income; rich real estate valuations could be tested by rising mortgage rates, resulting in lower perceived wealth and balance sheet quality; and central banks could have been required to tighten aggressively into a recession if inflation did not settle down. However, we believed the balance of risks was to the upside: consumers had barely started to tap into their excess savings; high government spending was still irrigating the European economy and protecting vulnerable businesses; though manufacturing was operating above potential, less energy-intensive services were still operating below potential, offering significant real growth prospects as economies reopened; the labour market was still reasonably elastic, with more people continuing to join the workforce without unsustainable increases in wages; and inflation expectations were not unanchored.

April

April 2022 was another down month for risk assets. Stocks were led lower by the technology sector and cyclicals. The SXXP returned -0.57% while the SX7P and SX7E respectively ended the month at -2.08% and -3.40%. The SubFin widened to 195bps. Amid higher long-term inflation expectations, Germany and US 10-year yields respectively climbed above 0.9% and 2.9%.

In defiance of the prevailing pessimistic mood, European banks had an excellent start to the reporting season. On aggregate, revenues were 7% higher than expected – the strongest positive surprise in years – while earnings were 25% better. On a year-on-year basis, revenues grew by more than 8%. Net interest income was supported by dynamic lending book growth and stable or increasing margins. Costs were in line overall, which came as a relief in the current environment. There was no evidence of deterioration in asset quality: NPLs continued to decrease, and defaults remained significantly below average. Banks nonetheless took precautionary provisions in light of geopolitical and monetary policy risks. Capital ratios took a transitory hit from mark-to-market losses in bonds not accounted at cost.

As analysts revised their expectations for the year upwards, the sector kept trading at depressed levels. The SX7E was valued at 6.7x next year earnings (and 5.9x 2023 earnings), which contrasted with a median level of 9.0x and a maximum of 12x over the last decade. Only twice was the P/E lower: in the middle of the 2011/2012 Eurozone crisis and at the onset of the pandemic. Why the disconnect between fundamentals and valuations?

Two sets of developments were unsettling markets: on the one hand, higher commodity and supply chain costs were eroding purchasing power and consumer confidence (the Putin and Xi Jinping risk): on the other hand, the risk of a wage-rent-inflation loop could have driven central bankers to slam the brakes on growth by raising rates to contractionary levels (the Bullard and Knot risk).

Though uncertainty was high (the prime example was the possibility of Russia cutting gas supply), our central scenario remained more optimistic versus the consensus: we saw a progressive improvement in commodity and supply conditions as extraction and production capacities were rebuilt; we saw growth in services sustaining employment and spending trends; and we saw central banks not willing to risk a contractionary spiral to fight inflation.

May

Risk appetite was slightly better over the month as investors pondered record inflation against a continued expansion in global demand and hints of easing supply chain pressures. The SubFin index closed the month 5 bps tighter at c.185 bps. Energy and bank stocks outperformed while retailers and media companies underperformed. The SX7R returned +6.54% versus -0.61% for the SXXR.

Eurozone macroeconomic developments pointed to a strengthening in the core inflation momentum:

- Core CPI increased by 0.5% MoM to an all-time high of 3.8% YoY.
- Fiscal packages aimed at protecting discretionary income against energy and food prices are being broadly adopted, fueling demand-pull core inflation.
- Negotiated wages climbed to a 10-year high of 2.8%.
- Growth in bank loans increased to 5.3% YoY (vs. a pre-pandemic 5Y average of c. 2.5%).

Recession risk remained hotly debated amid unusually high demand and supply shocks. Despite the current commodity squeeze, we see two consecutive quarters of negative growth in the Eurozone as unlikely in 2022:

- Higher import prices are financed by fiscal deficits. The Euro area is heading for deficits of 4.6% and 3.1% in 2022 and 2023. The bloc is having a hard time departing from pandemic stimulus: in fact, between 2016 and 2019, the average deficit was below 1%. In contrast, a combined USD125 brent and EUR90/Mwh gas shock represents an estimated 2.2% GDP shock versus pre-pandemic levels (where they were trading closer to USD65 and EUR25/Mwh).
- The reopening effect has not fully played out. May Eurozone activity surveys reported the highest increase in employment over the past decade as well as strong investment trends. The supply side is ramping up productive capacity, feeding a positive loop. Countries with tight labour markets, such as the UK, are much less likely to enjoy the benefits of a rising workforce and therefore the most likely to suffer from stagflation.
- The resolve of the ECB in its fight against inflation is questionable. The shift in rate hikes expectations, though spectacular, has lagged increases in forward inflation markets – and is very far off from changes in realised core inflation. Presently, inflation is liquidating aggregate debt at record pace and Bund 20y/10y real rates are still below -1%. As such, we believe talks of a recession induced by higher rates in the Eurozone to be premature.

That said, headline GDP should matter less than usual for banks. Traditionally, recessions are bad for banks because they are associated with: a. deleveraging; and b. rising defaults due to a negative investment/final demand loop. This is not the current set-up. Loan growth is actually accelerating to a record pace and hiring is strong. In an economy where labour markets are supported by the need to rebuild domestic energy, food and supply chain security, though living standards are likely to fall, defaults may not rise as much as suggested by headline growth.

The outlook for banks' earnings is encouraging:

- Consensus EPS expectations for 2022 and 2023 for the SX7P are now back at their highest year-to- date, erasing the Ukraine-Russia war losses.
- NII expectations should continue to climb as analysts update their models with the latest rate market levels – at this time, analysts are still lagging the Eurozone rates market by c. 50-75bps.
- Analysts' assumptions for future loan losses are on the conservative side. They are forecast to be above the 2017-2019 average in spite of the Covid-19 precautionary provisions and default trends signalling the opposite so far.
- Nominal cost trends are likely to be slightly worse than expected, though C/I ratios should be better than expected.

On the regulatory front, the Basel Committee is allegedly considering treating the Eurozone as one bloc for the calculation of the GSIB buffers. Though practical implications are limited for now, it is a new step towards more fungibility of capital and liquidity within the area. In other news, the Italian government is working on the renewal of the state guarantees on NPL transactions. The new scheme would provide for a state guarantee of 85-95%, while the senior note minimum rating should be BBB+ (one notch higher).

June
Risk Markets sold-off in June as investors grew increasingly concerned over the risk of central banks tightening in a recession. CDS indices in Europe and the US are starting to price stressed economic conditions, with implied high-yield default rates in the high single digits, well above current trends. The Xover and SubFin indices respectively closed the month around 600 bps (+ c.155 bps) and 250 bps (+c.65 bps). M/m core inflation stabilized at high levels in Europe and the US. The SX7R returned -9.11% vs. -7.09% for the SXXR.

Fundamentals remain solid. Bank lending accelerated to 5.8% in May, up from 5.3% in April and 4.8% in March, as credit demand followed strong nominal GDP. High-yield and leveraged loans annualised default rates were around 75 bps in June, well below their historical average of about 3%. The latest EBA data was also comforting for the banking sector: non-performing and forborne loan ratios reduced further on average to 1.9%.

Supervisors started to adopt a more prudent tone. The SSM asked banks to add a Russian gas embargo stress test in their capital planning, and there is a risk that the ECB may require buybacks to be more spread out over time, rather than smaller. We note that Intesa received ECB approval to carry its share buyback programme at the end of the month.

2. Company Activity
January
In Midcap Origination, the Company took part in the inaugural RT1 issuance from offshore life insurance specialist Utmost. It also came back into eSure RT1s. The Company took advantage of the sell-off in Metro Bank T2s post the withdrawal of M&A rumours to build a small position. Finally, it increased its exposure to My Money Bank T2s.

In Liquid Relative Value, the Company bought some Santander retail legacy bonds, with the expectation that they would be redeemed at par at the next call date.

February
In Liquid Relative Value, the Company closed its short position on Société Générale long-dated T2s. It bought DPB CMS following the sell-off in discos.

In Midcap Origination, the Company participated in Chesnara's inaugural T2. It also bought Quintet's AT1s. The Company took gains on Fidelidade T2s.

March
In Midcap Origination, the Company took part in the new Co-Operative Bank senior HoldCo issue in GBP at a 6% coupon.

In Liquid Relative Value, it bought some RBI 2022 T2s in CHF.

In Restructuring, the Company opened a position in a Bank of Cyprus 2031 T2, which offered a yield to call of around 9%.

April

In Liquid Relative Value, the Company took a position in La Banque Postale 3% AT1s as a play on French spreads. It added to its position in BCP both in AT1s and T2s.

In Midcap Origination, the Company divested from Leeds' PIBS to reduce its overall exposure to fixed perpetual instruments.

May

In Liquid Relative Value, the Company slightly increased our exposure to BCP and opened a position in La Banque Postale, while we closed our RBI holdings.

In Restructuring, the Company added to Piraeus and sold our GamaLife Tier 2s. In MidCap Origination, we reduced our exposure to Coop Bank.

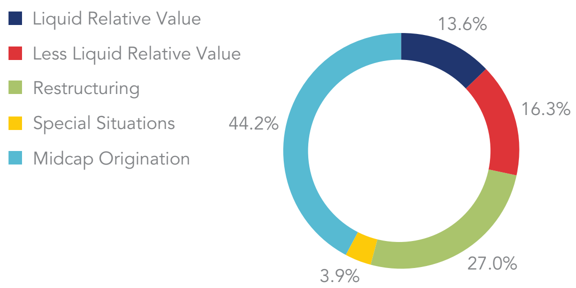
June

In Liquid Relative Value, the Company bought Intesa AT1s at a low cash price and opened a position into Credit Suisse low-trigger AT1s. We participated in the new Credito Emiliano Tier 2 issue. We added to Quintet Private Bank.

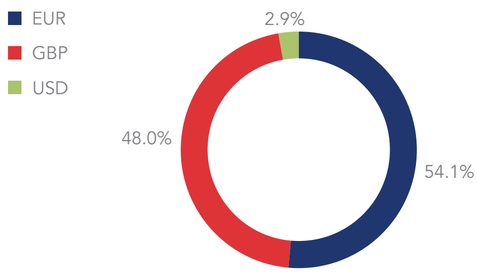
In MidCap Origination, the Company took part in an inaugural AT1 issue from the commodity broker Marex at a 13.25% coupon.

3. Portfolio (as at 30 June 2022)

Strategy Allocation (as a % of total net assets)[1]



Denomination (as a % of total net assets)[1]



Portfolio Breakdown (as a % of total net assets)

[1]*Splits adjusted for single assets.*

4. Company metrics (as at 30 June 2022)

Share price and NAV information	
Share price (mid) (GB pence)	86.50
NAV per share (daily) (GB pence)	94.70
Dividends paid over last 12 months (GB pence)	6.00
Shares in issue	91,852,904
Market capitalisation (GBP mn)	79.45
Total net assets (GBP mn)	86.98
Premium/(Discount)	(8.66)%

Portfolio information	30 June 2022	31 December 2021	30 June 2021
Modified duration	5.16	3.08	4.87
Sensitivity to credit	7.20	5.56	5.64
Positions	92	84	80
Average price at end of the month[1]	100.00	113.62	109.27
Running yield (GBP)	9.49%	5.95%	6.11%
Yield to perpetuity (GBP)[2]	11.90%	6.23%	7.03%
Yield to call (GBP)[3]	13.94%	6.70%	7.06%
Gross assets	117.3%	112.7%	114.6%
Net gearing	111.2%	108.4%	107.6%
Investments/Published net assets	106.6%	95.7%	101.6%
Cash	4.6%	7.3%	6.0%
Collateral	6.2%	4.2%	7.0%
Net Repo/Published net assets	14.0%	5.3%	12.6%
CDS/Published net assets	26.7%	32.9%	76.6%

Net Return[4]

Total Performance					
1 month	3 months[6]	6 months[6]	1 year[6]	3 years[5]	Since launch[5]
-4.15%	-5.88%	-7.27%	-2.61%	6.08%	5.42%

Monthly Performance	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total
2015											0.19%	-1.48%	-1.29%
2016	-4.02%	-4.59%	3.57%	1.16%	2.62%	-1.97%	2.83%	1.69%	-0.21%	2.06%	-1.60%	1.91%	3.10%
2017	2.67%	0.93%	1.12%	2.01%	1.72%	-1.41%	1.86%	0.58%	1.76%	2.72%	1.31%	0.23%	16.14%
2018	3.12%	-0.70%	-1.95%	1.14%	-5.84%	-0.72%	1.60%	-1.26%	2.43%	-1.54%	-2.68%	-1.44%	-8.00%
2019	3.36%	2.30%	0.29%	2.53%	-1.59%	2.29%	0.30%	0.75%	0.97%	2.22%	1.77%	1.12%	16.98%
2020	1.99%	-0.87%	-19.95%	5.24%	3.68%	4.27%	1.90%	1.88%	-0.32%	0.53%	5.03%	1.48%	1.73%
2021	-0.16%	3.78%	2.45%	2.15%	1.65%	1.27%	0.83%	1.19%	1.97%	0.18%	-0.45%	1.23%	16.87%
2022	0.33%	-1.80%	-0.03%	-0.85%	-0.95%	-4.15%							-7.27%

[1] *Bonds only.*
[2] *The yield to perpetuity is the yield of the portfolio converted in GBP with the hypothesis that securities are not reimbursed and kept to perpetuity.*
[3] *The yield to call is the yield of the portfolio converted in GBP at the anticipated reimbursement date of the bonds.*
[4] *Past performance does not guarantee future results.*
[5] *Annualised performance, dividends reinvested.*
[6] *Performance with dividends reinvested.*

5. Outlook

Risk assets rallied in July as company earnings and economic activity surprised to the upside, especially in Europe. Within the European banking sector, revenues were 5% higher and earnings 30% higher. Bank earnings were boosted by solid growth in lending volumes and expanding margins as higher interest rates started to flow through their net interest income. Asset quality was benign as defaults remained low. Costs were broadly in-line, though were guided to creep higher. Commissions were more mixed: transaction and lending commissions were boosted by the pick-up in activity while investment commissions suffered from lower flows and customer engagement. In investment banking, trading was strong in macro products and equities while capital markets revenues remained very weak. In aggregate, European banks posted very strong earnings, with a number of banks printing their highest quarterly net income ever.

On the macro front, the ECB enacted the end of the negative interest rates era while introducing a new policy tool "Transmission Protection Instrument" designed to contain excessive widening in sovereign spreads. The tool was approved unanimously by the Governing Council, has no ex-ante capacity limit and is only constrained by indicative conditions in the ECB's own discretion, giving the monetary policy unprecedented market power and therefore, political discretion.

Meanwhile, the regulatory transition continues to unfold. In June, the Bank of England published its 2022 Resolvability Assessment Framework highlighting firm-specific assessment of the eight major UK banks. The EBA also published a report highlighting the significant efforts by issuers in calling, repurchasing and modifying their legacy instruments, while indicating that further actions are still ongoing or under considerations, "with call options planned to be exercised in the course of 2022 or later on". In July, the PRA in the UK discussed in a speech how capital buffers can be used and released in times of stress and what could be done to improve them. Coincidentally, a UK bank just announced on 1 August a tender for cash on 7 legacy instruments.

For the above reasons, we continue to see value in the subordinated debt of European banks and insurers. While the fundamentals stand stronger than ever, the new monetary environment continues to provide a conducive backdrop where central banks protect and support financial institutions as critical links in the transmission of their policy. The perpetually evolving dynamics of regulations provide a welcome set of catalysts that we expect to generate further value in our investment portfolio over the next six months.

Gildas Surry
Axiom Alternative Investments SARL
22 August 2022

Antonio Roman
Axiom Alternative Investments SARL
22 August 2022

PRINCIPAL RISKS

Risk is inherent in the Company's activities, but it is managed through an ongoing process of identifying and assessing risks and ensuring that appropriate controls are in place. The key risks faced by the Company, are set out below:

- macroeconomic risk;
- investment risk;
- counterparty risk;
- credit risk;
- share price risk;
- regulatory risk; and
- reputational risk.

Further details of each of these risks and how they are mitigated are discussed in the Principal Risks section of the Strategic Report within the Company's Annual Report for the year ended 31 December 2021. The Board believes that these risks are applicable to the six month period ended 30 June 2022 and the remaining six months of the current financial year.

The Covid-19 pandemic was considered to be a risk to the global economy when the 31 December 2021 Strategic Report was released although it was diminishing in severity due to the successful vaccine roll-out, and it is expected that the risk to the Company from it will continue to decrease throughout 2022.

When the 31 December 2021 Strategic Report was released, Russia's invasion of Ukraine was a new emerging risk to the global economy. European and global banks in general were very strongly capitalised as at the end of 2021 and they have limited direct exposure to Russian credit risk and there is no evidence of meaningful stress in the financial markets. The military and political situation will no doubt continue to develop and as a consequence there may well be further price volatility in some instruments, but absent unexpected catastrophic tail risk events, the effects on the Company's portfolio are not expected to be significant.

The Investment Manager continues to monitor the effect on issuers of investment instruments to ensure that the Company is as well-placed as it can be to maintain its objective and to exploit the opportunities that the evolving situations will continue to present. As a result, the operations of the Company are and will be kept under constant review to ensure the Company's liquid resources will be sufficient to cover any working capital requirements.

On behalf of the Board.

William Scott
Chairman
22 August 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the unaudited half-yearly report and condensed financial statements, which have not been audited or reviewed by an independent auditor, and which include the Chairman's Statement, Investment Manager's Report and Statement of Principal Risks and Uncertainties) together with the unaudited interim financial statements are required to:

- prepare the unaudited half-yearly financial statements in accordance with DTR 4.2.4R and International Accounting Standard 34, Interim Financial Reporting, as adopted by the United Kingdom;
- include a fair review of the information required by DTR 4.2.7R, being important events that have occurred during the period and their impact on the unaudited half-yearly report and condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- include a fair review of information required by DTR 4.2.8R, being related party transactions that have taken place during the period which have had a material effect on the financial position or performance of the Company.

The Directors confirm that the unaudited half-yearly report and condensed financial statements comply with the above requirements.

On behalf of the Board.

William Scott
Chairman
22 August 2022

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2022

	Note	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000
Income			
Capital instrument income		2,823	2,600
Credit default swap income		335	417
Bank interest receivable		12	3
Total income		**3,170**	**3,020**
Investment gains and losses on investments held at fair value through profit or loss			
Realised gains on disposal of capital instruments and other investments	*13*	902	4,998
Movement in unrealised (losses)/gains on capital instruments and other investments	*13*	(9,224)	1,504
Realised gains on derivative financial instruments	*16*	1,158	2,268
Movement in unrealised losses on derivative financial instruments	*16*	(2,029)	(51)
Total investment gains and losses		**(9,193)**	**8,719**
Expenses			
Investment management fee	*8a*	(378)	(435)
Loss on foreign currency		(72)	(595)
Administration fee	*8b*	(70)	(65)
Interest payable and similar charges	*9*	(66)	(13)
Directors' fees	*8f*	(47)	(47)
Other expenses	*10*	(187)	(135)
Performance fee	*8a*	–	(406)
Total expenses		**(820)**	**(1,696)**
(Loss)/profit for the period attributable to the Owners of the Company		**(6,843)**	**10,043**
(Loss)/earnings per Ordinary Share – basic and diluted	*12*	**(7.45)p**	**10.93p**

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

The Company does not have any income and expenses that are not included in the profit for the period. Therefore, the profit for the period is also the total comprehensive income for the period.

The accompanying notes on pages 20 to 46 form an integral part of these unaudited condensed half-yearly financial statements.

These financial statements are unaudited and are not the Company's statutory financial statements.

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2022

	Period from 1 January 2022 to 30 June 2022 (unaudited)			Period from 1 January 2021 to 30 June 2021 (unaudited)		
	Distributable reserves £'000	Performance fee reserve £'000	Total £'000	Distributable reserves £'000	Performance fee reserve £'000	Total £'000
At 1 January 2022	96,585	298	96,883	87,350	–	87,350
(Loss)/profit for the period	(6,843)	–	(6,843)	10,043	–	10,043
Contributions by and distributions to Owners						
Dividends paid *(note 6)*	(2,756)	–	(2,756)	(2,756)	–	(2,756)
At 30 June 2022	**86,986**	**298**	**87,284**	**94,637**	**–**	**94,637**

The share capital has not been presented separately in the above Unaudited Condensed Statement of Changes in Equity as the Ordinary Shares have no par value, and hence the share capital is £nil.
The Performance fee reserve is also distributable.
The accompanying notes on pages 20 to 46 form an integral part of these unaudited condensed half-yearly financial statements.
These financial statements are unaudited and are not the Company's statutory financial statements.

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June 2022

	Note	As at 30 June 2022 (unaudited) £'000	As at 31 December 2021 (audited) £'000
Assets			
Investments in capital instruments at fair value through profit or loss	*13, 17*	89,542	85,449
Other investments at fair value through profit or loss	*13, 17*	1,758	4,874
Derivative financial assets at fair value through profit or loss	*16, 17*	37	4,506
Other receivables and prepayments	*15*	1,635	2,143
Collateral accounts for derivative financial instruments at fair value through profit or loss	*14, 16*	5,381	4,119
Cash and cash equivalents		4,009	7,713
Total assets		**102,362**	**108,804**
Current liabilities			
Derivative financial liabilities at fair value through profit or loss	*16, 17*	(14,314)	(6,555)
Other payables and accruals	*18*	(764)	(649)
Short position(s) covered by reverse sale and repurchase agreements	*13, 17*	–	(3,932)
Collateral accounts for derivative financial instruments at fair value through profit or loss	*14, 16*	–	(92)
Bank overdrafts		–	(693)
Total liabilities		**(15,078)**	**(11,921)**
Net assets		**87,284**	**96,883**
Share capital and reserves			
Share capital	*19*	–	–
Distributable reserves		86,986	96,585
Performance fee reserve		298	298
Total equity holders' funds		**87,284**	**96,883**
Net asset value per Ordinary Share: ***basic and diluted***	*20*	**95.03p**	**105.48p**

These unaudited condensed half-yearly financial statements were approved by the Board of Directors on 22 August 2022 and were signed on its behalf by:

William Scott
Chairman
22 August 2022

John Renouf
Director
22 August 2022

The accompanying notes on pages 20 to 46 form an integral part of these unaudited condensed half-yearly financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2022

	Note	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000
Cash flows from operating activities			
Net (loss)/profit before taxation		(6,843)	10,043
Adjustments for:			
Foreign exchange movements		72	595
Total investment losses/(gains) at fair value through profit or loss		9,193	(8,719)
Capital instrument income		(2,823)	(2,600)
CDS income		(335)	(417)
Interest on sale and repurchase agreements		44	(9)
Performance fee reserve		–	–
Cash flows relating to financial instruments:			
Payment to collateral accounts for derivative financial instruments	*14*	(1,355)	(1,082)
Purchase of investments at fair value through profit or loss		(21,317)	(57,686)
Sale of investments at fair value through profit or loss		12,541	57,880
Premiums received from selling credit default swap agreements	*16*	–	274
Premiums paid on buying credit default swap agreements	*16*	–	(83)
Purchase of foreign currency derivatives	*16*	(97,105)	(89,754)
Close-out of foreign currency derivatives	*16*	96,954	92,111
Purchase of bond futures	*16*	(929)	–
Sale of bond futures	*16*	2,287	–
Proceeds from sale and repurchase agreements	*16*	14,641	19,378
Payments to open reverse sale and repurchase agreements	*16*	–	–
Payments for closure of sale and repurchase agreements	*16*	(8,665)	(19,232)
Proceeds from closure of reverse sale and repurchase agreements	*16*	4,175	3,898
Opening of short position(s)		–	–
Closure of short position(s)		(3,429)	(1,932)
Cash paid during the period for interest		(1,122)	(1,078)
Cash received during the period for interest		3,967	4,188
Cash received during the period for dividends		218	180
Net cash inflow from operating activities before working capital changes		169	5,955
Increase in other receivables and prepayments		(11)	(15)
(Decrease)/increase in other payables and accruals		(341)	473
Net cash (outflow)/inflow from operating activities		**(183)**	**6,413**

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2022 (continued)

	Note	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000
Cash flows from financing activities			
Dividends paid	6	(2,756)	(2,756)
Net cash outflow from financing activities		**(2,756)**	**(2,756)**
(Decrease)/increase in cash and cash equivalents *		**(2,939)**	**3,657**
Cash and cash equivalents brought forward		7,020	2,647
Decrease)/increase in cash and cash equivalents		(2,939)	3,657
Effect of foreign exchange on cash and cash equivalents		(72)	(595)
Cash and cash equivalents carried forward *		**4,009**	**5,709**

* Cash and cash equivalents at the start of the period and at the period end includes bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

The accompanying notes on pages 20 to 46 form an integral part of these unaudited condensed half-yearly financial statements. These financial statements are unaudited and are not the Company's statutory financial statements.

1. General information

The Company was incorporated as an authorised closed-ended investment Company, under the Law on 7 October 2015 with registered number 61003. Its Ordinary Shares were admitted to trading on the Premium Segment and to the premium listing segment of the FCA's Official List on 15 October 2018 (prior to this, the Ordinary Shares traded on the SFS).

Investment objective

The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in the following financial institution investment instruments:

- Regulatory Capital Instruments, being financial instruments issued by a European financial institution which constitute regulatory capital for the purposes of Basel I, Basel II or Basel III or Solvency I or Solvency II;
- Other financial institution investment instruments, being financial instruments issued by a European financial institution, including without limitation senior debt, which do not constitute Regulatory Capital Instruments; and
- Derivative Instruments, being CDOs, securitisations or derivatives, whether funded or unfunded, linked or referenced to Regulatory Capital Instruments or Other financial institution investment instruments.

Investment policy

The Company seeks to invest in a diversified portfolio of financial institution investment instruments. The Company focuses primarily on investing in the secondary market although instruments may also be subscribed in the primary market where the Investment Manager, Axiom, identifies attractive opportunities.

In February 2022, the Directors approved a minor change to the investment policy in respect of hedging and derivatives. The words in brackets were added to the following sentence: "The Company may implement other hedging and derivative strategies designed to protect investment performance against material movements in (but not limited to) exchange rates and to protect against credit risk".

The Company invests its assets with the aim of spreading investment risk.

2. Statement of compliance

a) Basis of preparation

These unaudited condensed half-yearly financial statements present the results of the Company for the six months ended 30 June 2022. These unaudited condensed half-yearly financial statements have been prepared in accordance with the DTR and IAS 34, Interim Financial Reporting, as adopted by the United Kingdom.

The unaudited condensed half-yearly financial statements for the period ended 30 June 2022 have not been audited or reviewed by the Company's auditors and do not constitute statutory financial statements. They have been prepared on the same basis as the Company's annual financial statements.

These unaudited condensed half-yearly financial statements were authorised for issuance by the Board of Directors on 22 August 2022.

b) Going concern

After making reasonable enquiries, and assessing all data relating to the Company's liquidity, including its cash resources, income stream and Level 1 investments, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. It is the intention of the Board to offer Shareholders the option of receiving cash at NAV (less costs, including any portfolio realisation expenses) for some or all of their shareholding and/or to continue some or all of their investment in an open-ended vehicle managed by Axiom AI. The Board, together with Axiom AI and the Company's advisers, is working on formal proposals to be put to Shareholders and will make a further announcement with details in due course. The Board's aim is for the proposals to be put to Shareholders early in 2023 and, assuming Shareholder approval is received, for the transaction to be completed as soon as reasonably practicable thereafter. In order to effect the proposals, it is expected that the existing Company will be liquidated. However, as this is an early stage of the development of the formal proposals process for which the outcome is not yet certain, and as the Board does not consider there to be any other threat to the going concern status of the Company the unaudited condensed half-yearly financial statements have been prepared on a going concern basis.

2. Statement of compliance *(continued)*

c) Basis of measurement

These unaudited condensed half-yearly financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value through profit or loss.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

Judgements made by management in the application of IFRS that have a significant effect on the unaudited condensed half-yearly financial statements and estimates with a significant risk of material adjustment are discussed in note 4.

3. Significant accounting policies

a) Income and expenses

Bank interest, bond income and credit default swap income is recognised on a time-proportionate basis.

Dividend income is recognised when the right to receive payment is established. Capital instrument income comprises bond interest and dividend income. Revenue from fixed interest securities is recognised on an effective interest rate basis. Accrued interest purchased and sold on interest bearing securities is excluded from the capital cost of these securities and dealt with as part of the revenue of the Company.

All expenses are recognised on an accruals basis. All of the Company's expenses (with the exception of share issue costs, which are charged directly to the distributable reserve) are charged through the Statement of Comprehensive Income in the period in which they are incurred.

b) Foreign currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

The exchange rates used by the Company as at 30 June 2022 were £1/€1.1617, £1/US$1.2179, £1/DKK8.6398, £1/CA$1.5678, £1/SGD1.6935 and £1/CHF1.1632 (31 December 2021: £1/€1.1895, £1/US$1.3528, £1/DKK8.8479, £1/CA$1.7096 and £1/SGD1.8249; the CHF rate was not applicable).

c) Taxation

Investment income is recorded gross of applicable taxes and any tax expenses are recognised through the Statement of Comprehensive Income as incurred.

d) Financial assets and liabilities

The financial assets and liabilities of the Company are investments in capital instruments at fair value through profit or loss, other investments at fair value through profit or loss, collateral accounts for derivative financial instruments, cash and cash equivalents, other receivables, derivative financial instruments and other payables.

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities as discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

Financial assets

The Company classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

A financial asset is measured at fair value through profit or loss if:

- Its contractual terms do not give rise to cash flows on specified dates that are SPPI on the principal outstanding amount; or
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- At initial recognition, it is irrevocably designated as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Company includes in this category:

- *Instruments held for trading*. This category includes equity instruments and debt instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative financial assets at fair value through profit or loss.
- *Debt instruments*. These include investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains.

Financial liabilities

A financial liability is measured at fair value through profit or loss if it meets the definition of held for trading.

The Company includes in this category, derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

Derivative financial instruments, including credit default swap agreements, foreign currency forward contracts, bond future contracts and sale and repurchase agreements are recognised initially, and are subsequently measured at, fair value. Sale and repurchase agreements are recognised at fair value through profit or loss as they are generally not held to maturity but incurred principally for the purpose of repurchasing in the near term and on initial recognition are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative financial instruments are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are offset only if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

These financial instruments are classified at fair value through profit or loss upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with investment strategies and risk management of the Company.

Recognition

The Company recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement) and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. All transaction costs for such instruments are recognised directly in the Statement of Comprehensive Income.

Subsequent measurement

After initial measurement, the Company measures financial assets which are classified at fair value through profit or loss, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at fair value through profit or loss. Interest and dividends earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense.

Net gain or loss on financial assets and financial liabilities at fair value through profit or loss

The Company records its transactions in investments and the related revenue and expenses on a trade date basis. Unrealised gains and losses comprise changes in the fair value of financial instruments at the period end. These gains and losses represent the difference between an instrument's initial carrying amount and disposal amount, or cash payment on, or receipts from derivative contracts.

Offsetting of financial instruments

Financial assets and financial liabilities are reported net by counterparty in the Statement of Financial Position, provided that the legal right of offset exists, and is not offset by collateral pledged to or received from counterparties.

Other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes in this category other short-term receivables. The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience to determine the expected credit losses.

3. Significant accounting policies *(continued)*

e) Collateral accounts for derivative financial instruments at fair value through profit or loss

Collateral accounts for derivative financial instruments at fair value through profit or loss comprises cash balances held at the Company's depositary and the Company's clearing brokers and cash collateral pledged to counterparties related to derivative contracts. Cash that is related to securities sold, not yet purchased, is restricted until the securities are purchased. Financial instruments held within the margin account consist of cash received from brokers to collateralise the Company's derivative contracts and amounts transferred from the Company's bank account.

f) Cash and cash equivalents

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

g) Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares are recognised as a deduction from equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are classified as Treasury Shares are presented as a deduction from equity. When Treasury Shares are sold or subsequently reissued, the amount received is recognised as an increase in equity and the resulting surplus or deficit is transferred to/from distributable reserves.

Funds received from the issue of Ordinary Shares are allocated to share capital, to the extent that they relate to the nominal value of the Ordinary Shares, with any excess being allocated to distributable reserves.

h) Distributable reserves

All income and expenses, foreign exchange gains and losses and realised investment gains and losses of the Company are allocated to the distributable reserve.

Performance fee reserve

In accordance with IFRS 2, Share-based payments, the portion of the performance fee that is due to be settled in shares, is deemed to be a share-based payment when the fee is settled. As such, 50% of the performance fee accrual at 31 December 2021 (£298,000) was allocated to the performance fee reserve until the payment, which will be utilised to purchase the shares, has been made.

i) NAV per share and earnings per share

The NAV per share disclosed on the face of the Statement of Financial Position is calculated by dividing the net assets by the number of Ordinary Shares in issue at the period end.

Earnings per share is calculated by dividing the earnings for the period by the weighted average number of Ordinary Shares in issue during the period.

j) Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. The Company adopted the following new and amended relevant IFRS in the period:

IFRS 9	Financial Instruments – *amendments resulting from Annual Improvements to IFRS Standards 2018-2020*
IAS 37	Provisions, Contingent Liabilities and Contingent Assets – *amendments regarding the costs to include when assessing whether a contract is onerous*

The adoption of the above standards did not have an impact on the financial position or performance of the Company.

3. Significant accounting policies *(continued)*

k) Accounting standards issued but not yet effective

The IASB has issued/revised a number of relevant standards with an effective date after the date of these financial statements. Any standards that are not deemed relevant to the operations of the Company have been excluded. The Directors have chosen not to early adopt these standards and interpretations and they expect that they would not have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IAS 1	Presentation of Financial Statements – *amendments regarding the classification of liabilities*	1 January 2023
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – *amendments regarding the definition of accounting estimates*	1 January 2023

4. Use of judgements and estimates

The preparation of the Company's unaudited condensed half-yearly financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the unaudited condensed half-yearly financial statements and disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in future periods.

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

Judgements

In the process of applying the Company's accounting policies, management has made the following judgement which had a significant effect on the amounts recognised in the unaudited condensed half-yearly financial statements:

i) Determination of functional currency

The performance of the Company is measured and reported to investors in Sterling. Although a significant proportion of the Company's underlying assets are held in currencies other than Sterling, because the Company's capital is raised in Sterling, expenses are paid in Sterling and the Company hedges substantially all of its foreign currency risk back to Sterling the Directors consider Sterling to be the Company's functional currency.

The Directors do not consider there to be any other judgements which have had a significant impact on the unaudited condensed half-yearly financial statements.

Estimates and assumptions

The Company based its assumptions and estimates on parameters available when the unaudited condensed half-yearly financial statements were approved. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

i) Valuation of financial assets and liabilities

The Company uses the expertise of the Investment Manager to assess the prices of investments at the valuation date. The majority of the prices can be independently verified with reference to external data sources, however a minority of investments cannot be verified by reference to an external source and the Investment Manager secures an independent valuation with reference to the latest prices traded within the market place. These independent valuations take the form of quotes from brokers.

For further information on the assumptions and inputs used to fair value the financial instruments, please see note 17.

5. Segmental reporting

In accordance with IFRS 8, *Operating Segments*, it is mandatory for the Company to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board in order to assess each segment's performance.

Management information for the Company as a whole is provided internally for decision making purposes. The Company does compartmentalise different investments in order to monitor compliance with investment restrictions, however the performance of these allocations does not drive the investment decision process. The Directors' decisions are based on a single integrated investment strategy and the Company's performance is evaluated on an overall basis. Therefore, the Directors are of the opinion that the Company is engaged in a single economic segment of business for all decision making purposes and no segmental reporting is required. The financial results of this segment are equivalent to the results of the Company as a whole.

6. Dividends

As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company declared the following dividends during the period ended 30 June 2022:

	Total dividend declared in respect of earnings in the period		**Amount per Ordinary Share**	
	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	**Period from 1 January 2021 to 30 June 2021 (unaudited) £'000**	**Period from 1 January 2022 to 30 June 2022 (unaudited) pence**	**Period from 1 January 2021 to 30 June 2021 (unaudited) pence**
Dividends declared and paid in the period	2,756	2,756	3.00	3.00
Less, dividend declared in respect of the prior period was paid in the period	(1,378)	(1,378)	(1.50)	(1.50)
Add, dividend declared out of the profits for the period but paid after the period end:	1,378	1,378	1.50	1.50
Dividends declared in respect of the period	2,756	2,756	3.00	3.00

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the period a total of £2,756,000 (30 June 2021: £2,756,000) was incurred in respect of dividends, none of which was outstanding at the reporting date. The second dividend of £1,378,000 in respect of the earnings during the period had not been provided for at 30 June 2022 as, in accordance with IFRS, it was not a liability of the Company at that date.

7. Related parties

Details of the relationships between the Company and its related parties, being the Investment Manager and the Directors are disclosed in notes 8a and 8f.

Details of the relationships between the Company and its other advisers and service providers (the Administrator, the Broker, the Registrar and the Depositary) are also disclosed in note 8.

As at 30 June 2022, the Company had holdings in the following investments which were managed by the Investment Manager:

	30 June 2022			31 December 2021		
	Holding	Cost £'000	Value £'000	Holding	Cost £'000	Value £'000
Axiom Alternative Liquid Rates Z Cap Scv	2,000	1,705	1,758	2,000	1,705	1,691
Axiom Global CoCo UCIT ETF USD-hedged	–	–	–	35	2,984	3,183

During the period, the Company:

- purchased 1,900 units in Axiom Sustainable Financial Bonds Class Z for £2,130,000;
- sold 1,900 units in Axiom Sustainable Financial Bonds Class Z for £2,131,000, realising a gain of £1,000; and
- sold 35 units in Axiom Global CoCo UCIT ETF USD-hedged for £3,120,000, realising a gain of £136,000.

During the period ended 30 June 2021, the Company sold 10 units in Axiom Global CoCo UCIT ETF GBP-hedged for £1,106,000, realising a gain of £106,000.

The Directors are not aware of any ultimate controlling party.

8. Key contracts

a) Investment Manager
The Company has entered into an Investment Management Agreement with Axiom AI under which the Company receives investment advice and management services. In order to limit future expenses, on 11 August 2022, the Company gave the Investment Manager 12 months' protective notice of the termination of the Investment Management Agreement.

Management fee
Under the terms of the Investment Management Agreement, a management fee is paid to the Investment Manager quarterly in arrears. The quarterly fee is calculated by reference to the following sliding scale:

i. where NAV is less than or equal to £250 million, 1% per annum of NAV;

ii. where NAV is greater than £250 million but less than or equal to £500 million, 1% per annum of NAV on the first £250 million and 0.8% per annum of NAV on the balance; and

iii. where NAV is greater than £500 million, 0.8% per annum of NAV, in each case, plus applicable VAT.

In respect of the management fee calculation above, any related party holdings are deducted from the NAV.

If in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company (excluding performance fees, interest charged on sale and repurchase agreements, bank charges and withholding tax) during such quarter exceed an amount equal to one-quarter of 1.5% of the average NAV of the Company during such quarter (such amount being a "Quarterly Expenses Excess"), then the management fee payable in respect of that quarter shall be reduced by the amount of the Quarterly Expenses Excess, provided that the management fee shall not be reduced to an amount that is less than zero and no sum will be payable by the Investment Manager to the Company in respect of the Quarterly Expenses Excess.

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Management fee (continued)

If in the final quarter of any accounting period the aggregate expenses of the Company during such accounting period exceed an amount equal to 1.5% of the average NAV of the Company during such accounting period (such amount being an "Annual Expenses Excess"), then the management fee payable in respect of that quarter shall be reduced by the amount of the Annual Expenses Excess. If such reduction would not fully eliminate the Annual Expenses Excess (the amount of any such shortfall being a "Management Fee Deduction Shortfall"), the Investment Manager shall pay to the Company an amount equal to the Management Fee Deduction Shortfall (a "Management Fee Deduction Shortfall Payment") as soon as is reasonably practicable.

During the period, a total of £378,000 (30 June 2021: £435,000) was incurred in respect of Investment Management fees, of which £173,000 (31 December 2021: £213,000) was payable at the reporting date.

Under the terms of the Investment Management Agreement, if at any time there has been any deduction from the management fee as a result of the Quarterly Expenses Excess or Annual Expenses Excess (a "Management Fee Deduction"), and during any subsequent quarter:

i. all or part of the Management Fee Deduction can be paid; and/or

ii. all or part of the Management Fee Deduction Shortfall Payment can be repaid,

by the Company to the Investment Manager without:

iii. in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company during such quarter exceeding an amount equal to one-quarter of 1.5% of the average NAV of the Company during such quarter; or

iv. in the final quarter of any accounting period the aggregate expenses of the Company during such accounting period exceeding an amount equal to 1.5% of the average NAV of the Company during such accounting period, then such payment and/or repayment shall be made by the Company to the Investment Manager as soon as is reasonably practicable.

The Quarterly Expenses Excess for the period was £47,000 (30 June 2021: £7,000). At 30 June 2022, the Quarterly Expenses Excess and Annual Expenses Excess which could be payable to the Investment Manager in future periods was £824,000 (31 December 2021: £777,000) (see note 25).

Performance fee

The Investment Manager is entitled to receive from the Company a performance fee subject to certain performance benchmarks.

The fee is payable as a share of the Total Shareholder Return ("TSR") where TSR for this purpose is defined as:

i. the NAV (on a per share basis) at the end of the relevant accounting period; plus

ii. the total of all dividends and other distributions made to Shareholders since 5 November 2015 (being the date of the Company's original admission to the SFS) divided by the number of shares in issue during the period from 5 November 2015 to the end of the relevant accounting period.

The performance fee, if any, is equal to 15% of the TSR in excess of a weighted average hurdle equal to a 7% per annum return. The performance fee is subject to a high water mark. The fee, if any, is payable annually and calculated on the basis of audited annual accounts.

50% of the performance fee will be settled in cash. The balance will be satisfied in shares, subject to certain exceptions where settlement in shares would be prohibited by law or would result in the Investment Manager or any person acting in concert with it incurring an obligation to make an offer under Rule 9 of the City Code, in which case the balance will be settled in cash.

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Performance fee (continued)

Assuming no such requirement, the balance of the performance fee will be settled either by the allotment to the Investment Manager of such number of new shares credited as fully paid as is equal to 50% of the performance fee (net of VAT) divided by the most recent practicable NAV per share (rounded down to the nearest whole share) or by the acquisition of shares in the market, as required under the terms of the Investment Management Agreement. All shares allotted to (or acquired for) the Investment Manager in part satisfaction of the performance fee will be subject to a lock-up until the date that is 12 months from the end of the accounting period to which the award of such shares related.

At 30 June 2022, a performance fee of £nil was payable in respect of the period then ended (31 December 2021: £596,000, 30 June 2021: £406,000). During the period, the Company paid the Investment Manager £298,000, in part settlement of the 2021 performance fee.

50% of the performance fee payable by the Company as at 31 December 2021 (£298,000) will be settled through the purchase or issue of shares in the Company. As such, 50% of the performance fee has been allocated to the performance fee reserve until the payment, which will be utilised to purchase shares, has been made. This treatment has resulted in an increase of 0.33p per Ordinary Share to the NAV originally announced to the market on 4 July 2022 (see note 20).

The Investment Manager has agreed that it will not dispose of any Ordinary Shares issued to it in respect of the performance fee for at least 12 months from the date of the end of the accounting period for which they were allotted or acquired pursuant to the payment of a performance fee.

b) Administrator and Company Secretary

Elysium has been appointed by the Company to provide day to day administration services to the Company, to calculate the NAV per share as at the end of each calendar month and to provide company secretarial functions required under the Law.

Under the terms of the Administration Agreement, the Administrator is entitled to receive a fee of £110,000 per annum, which is subject to an annual adjustment upwards to reflect any percentage change in the retail prices index over the preceding year. In addition, the Company pays the Administrator a fee for any work undertaken in connection with the daily NAV, subject to a maximum aggregate amount of £10,000 per annum. In order to limit future expenses, on 22 August 2022, the Company gave the Administrator six months' protective notice of the termination of the Administration Agreement.

During the period, a total of £70,000 (30 June 2021: £65,000) was incurred in respect of Administration fees and £34,000 (31 December 2021: £33,000) was payable to the Administrator at the reporting date.

c) Broker

Winterflood has been appointed to act as Broker for the Company, for which the Company pays Winterflood an annual retainer fee of £35,000 per annum.

For the period ended 30 June 2022, the Company incurred Broker fees of £20,000 (30 June 2021: £19,000) of which £7,000 was payable at the period end date (31 December 2021: £6,000).

d) Registrar

Link Market Services (Guernsey) Limited is Registrar of the Company. Under the terms of the Registrar Agreement, the Registrar is entitled to receive from the Company certain annual maintenance and activity fees, subject to a minimum fee of £5,500 per annum.

During the period, a total of £12,000 (30 June 2021: £10,000) was incurred in respect of Registrar fees, of which £3,000 was payable at 30 June 2022 (31 December 2021: £1,000).

8. Key contracts *(continued)*

e) Depositary

CACEIS Bank France has been appointed by the Company to provide depositary, settlement and other associated services to the Company.

Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company:

i. an annual depositary fee of 0.03% of NAV, subject to a minimum annual fee of €25,000;

ii. a safekeeping fee calculated using a basis point fee charge based on the country of settlement and the value of the assets; and

iii. an administration fee on each transaction, together with various other payment/wire charges on outgoing payments.

During the period, a total of £24,000 (30 June 2021: £17,000) was incurred in respect of depositary fees, and £14,000 (31 December 2021: £22,000) was payable to the Depositary at the reporting date.

CACEIS Bank Luxembourg is entitled to receive a monthly valuation agent fee from the Company in respect of the provision of certain accounting services which will, subject to a minimum monthly fee of €2,500, be calculated by reference to the following tiered sliding scale:

i. where NAV is less than or equal to €50 million, 0.05% per annum of NAV;

ii. where NAV is greater than €50 million but less than or equal to €100 million, 0.04% per annum of NAV; and

iii. where NAV is greater than €100 million, 0.03% per annum of NAV, in each case, plus applicable VAT.

During the period, a total of £21,000 (30 June 2021: £22,000) was incurred in respect of fees paid to CACEIS Bank Luxembourg, of which £11,000 was payable at 30 June 2022 (31 December 2021: £11,000).

f) Directors' remuneration

William Scott (Chairman) is paid £35,000 per annum, John Renouf (Chairman of the Audit Committee) is paid £32,500 per annum, and Max Hilton is paid £27,500 per annum.

The Directors are also entitled to reimbursement of all reasonable travelling and other expenses properly incurred in the performance of their duties.

During the period, a total of £47,000 (30 June 2021: £47,000) was incurred in respect of Directors' fees, of which £nil (31 December 2021: £nil) was payable at the reporting date. No bonus or pension contributions were paid or payable on behalf of the Directors.

9. Interest payable and similar charges

	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000
Bank interest	18	22
Commission	4	–
Interest payable on sale and repurchase agreements	44	(9)
	66	**13**

10. Other expenses

	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000
PR expenses	32	30
Legal fees	27	–
Depositary fees *(note 8e)*	24	17
Valuation agent fees *(note 8e)*	21	22
Audit fees	21	18
Broker fees *(note 8c)*	20	19
Registrar fees *(note 8d)*	12	10
Other expenses	30	19
	187	**135**

11. Taxation

The Company is exempt from taxation in Guernsey, and it is the intention to conduct the affairs of the Company to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation. The Company pays a fixed fee of £1,200 per annum to maintain exempt company status.

12. (Loss)/earnings per Ordinary Share

The loss per Ordinary Share of 7.45p (30 June 2021: earnings of 10.93p) is based on a loss attributable to owners of the Company of £6,843,000 (30 June 2021: profit of £10,043,000) and on a weighted average number of 91,852,904 (30 June 2021: 91,852,904) Ordinary Shares in issue since 1 January 2022. There is no difference between the basic and diluted loss per share.

13. Investments at fair value through profit or loss

Movements in gains/(losses) in the period

	30 June 2022 (unaudited)			30 June 2021 (unaudited)		
	Unrealised £'000	Realised £'000	Total £'000	Unrealised £'000	Realised £'000	Total £'000
Investments in capital instruments	(9,178)	338	(8,840)	1,272	4,955	6,227
Other investments	(133)	138	5	220	106	326
Short position(s) covered by reverse sale and repurchase agreements	87	426	513	12	(63)	(51)
	(9,224)	**902**	**(8,322)**	**1,504**	**4,998**	**6,502**

Closing valuations

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
Investments in capital instruments	89,542	85,449
Other investments	1,758	4,874
Short position(s) covered by reverse sale and repurchase agreements	–	(3,932)
Investments at fair value through profit or loss	**91,300**	**86,391**

13. Investments at fair value through profit or loss *(continued)*

Investments in capital instruments at fair value through profit or loss comprise mainly of investments in bonds, and also preference shares, structured notes and other securities that have a similar income profile to that of bonds. The other investments at fair value through profit or loss consist of investments in open ended funds managed by the Investment Manager (see note 7) to obtain diversified exposure on bank equities.

As at 30 June 2022, the Company had ten (31 December 2021: eight) open sale and repurchase agreements, and no (31 December 2021: one) reverse sale and repurchase agreements (see note 16). The previously held reverse sale and repurchase agreements were open ended and were used to cover the sale of capital instruments (the short positions noted above).

The fair value of the capital instruments subject to sale and repurchase agreements (excluding the short position(s)) at 30 June 2022 was £15,503,000 (31 December 2021: £9,349,000). The fair value net of the short position(s) as at 31 December 2021 was £5,417,000.

14. Collateral accounts for derivative financial instruments at fair value through profit or loss

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
JP Morgan	4,127	3,495
CACEIS Bank France	1,024	305
Goldman Sachs International	230	207
Credit Suisse	–	112
	5,381	4,119
CACEIS Bank France – *negative balance*	–	(92)
Net balance on collateral accounts held by brokers	**5,381**	**4,027**

With respect to derivatives, the Company pledges cash and/or other liquid securities ("Collateral") to third parties as initial margin and as variation margin. Collateral may be transferred either to the third party or to an unaffiliated custodian for the benefit of the third party. In the case where Collateral is transferred to the third party, the third party pursuant to these derivative arrangements will be permitted to use, reuse, lend, borrow, hypothecate or re-hypothecate such Collateral. The third parties will have no obligation to retain an equivalent amount of similar property in their possession and control, until such time as the Company's obligations to the third party are satisfied. The Company has no right to this Collateral but has the right to receive fungible, equivalent Collateral upon the Company's satisfaction of the Company's obligation in respect of the derivatives.

15. Other receivables and prepayments

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
Accrued capital instrument income receivable	1,580	1,064
Interest due on credit default swaps	18	21
Prepayments	35	24
Interest due on collateral account	2	–
Due from sale of capital instrument	–	1,034
	1,635	**2,143**

16. Derivative financial instruments

Credit default swap agreements

A credit default swap agreement represents an agreement that one party, the protection buyer, pays a fixed fee, the premium, in return for a payment by the other party, the protection seller, contingent upon a specified credit event relating to an underlying reference asset. If a specified credit event occurs, there is an exchange of cash flows and/or securities designed so the net payment to the protection buyer reflects the loss incurred by holders of the referenced obligation in the event of its default. The ISDA establishes the nature of the credit event and such events include bankruptcy and failure to meet payment obligations when due.

	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Opening balance	(128)	448	448
Premiums received from selling credit default swap agreements	–	(274)	(274)
Premiums paid on buying credit default swap agreements	–	83	83
Movement in unrealised losses in the period	(1,088)	(353)	(782)
Realised losses in the period	(13)	(57)	397
Outstanding liabilities due on credit default swaps	**(1,229)**	**(153)**	**(128)**
Credit default swap assets at fair value through profit or loss	37	330	180
Credit default swap liabilities at fair value through profit or loss	(1,266)	(483)	(308)
Outstanding liabilities due on credit default swaps	**(1,229)**	**(153)**	**(128)**

Interest paid or received on the credit default swap agreements has been accounted for in the Unaudited Condensed Statement of Comprehensive Income as it has been incurred or received. At the period end, £18,000 (31 December 2021: £20,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £3,860,000 (31 December 2021: £3,328,000) was held in respect of the credit default swap agreements.

Foreign currency forwards

Foreign currency forward contracts are used to hedge the Company's exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. A foreign currency forward contract is a commitment to purchase or sell a foreign currency on a future date and at a negotiated forward exchange rate.

	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Opening balance	7	775	775
Purchase of foreign currency derivatives	97,105	89,754	185,824
Closing-out of foreign currency derivatives	(96,954)	(92,111)	(189,680)
Movement in unrealised losses in the period	(833)	(104)	(768)
Realised (losses)/gains in the period	(151)	2,357	3,856
Net (liabilities)/assets on foreign currency forwards	**(826)**	**671**	**7**
Foreign currency forward assets at fair value through profit or loss	–	688	132
Foreign currency forward liabilities at fair value through profit or loss	(826)	(17)	(125)
Net (liabilities)/assets on foreign currency forwards	**(826)**	**671**	**7**

16. Derivative financial instruments *(continued)*

Bond futures

A bond future contract involves a commitment by the Company to purchase or sell bond futures for a predetermined price, with payment and delivery of the bond future at a predetermined future date.

	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Opening balance	(12)	–	–
Purchase of bond futures	929	–	4,234
Sale of bond futures	(2,287)	–	(4,977)
Movement in unrealised losses in the period	59	–	(66)
Realised gains in the period	1,311	–	797
Balance payable on bond futures	**–**	**–**	**(12)**
Bond future assets at fair value through profit or loss	–	–	–
Bond future liabilities at fair value through profit or loss	–	–	(12)
Balance payable on bond futures	**–**	**–**	**(12)**

Sale and repurchase agreements

Under the terms of a sale and repurchase agreement one party in the agreement acts as a borrower of cash, using a security held as collateral, and the other party in the agreement acts as a lender of cash. Almost any security may be employed in the sale and repurchase agreement. Interest is paid by the borrower for the benefit of having funds to use until a specified date on which the effective loan needs to be repaid.

When a transfer of assets that are not derecognised in their entirety does not result in derecognition, it is viewed as a secured financing transaction, with any consideration received resulting in a corresponding liability. The Company is not entitled to use these financial assets for any other purposes.

Under the sale and repurchase agreements, the Company may sell securities subject to a commitment to repurchase them. The securities are retained on the balance sheet as the Company retains substantially all the risks and rewards of ownership. The consideration received is accounted for as a financial liability at fair value through profit or loss.

	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Opening balance	(1,916)	(8,304)	(8,304)
Opening of sale and repurchase agreements	(14,641)	(19,378)	(20,821)
Opening of reverse sale and repurchase agreements	–	–	4,166
Closing-out of sale and repurchase agreements	8,665	19,231	26,437
Closing-out of reverse sale and repurchase agreements	(4,175)	(3,898)	(3,898)
Movement in unrealised (losses)/gains in the period	(166)	385	301
Realised gains/(losses) in the period	11	(3)	203
Total liabilities on sale and repurchase agreements	**(12,222)**	**(11,967)**	**(1,916)**
Sale and repurchase assets at fair value through profit or loss	–	–	4,194
Sale and repurchase liabilities at fair value through profit or loss	(12,222)	(11,967)	(6,110)
Total liabilities on sale and repurchase agreements	**(12,222)**	**(11,967)**	**(1,916)**

16. Derivative financial instruments *(continued)*

Sale and repurchase agreements (continued)

Interest paid on sale and repurchase agreements has been accounted for in the Unaudited Condensed Statement of Comprehensive Income as it has been incurred. At 30 June 2022 £nil (31 December 2021: £nil) interest on sale and repurchase agreements was payable by the Company.

Options

An option offers the buyer the opportunity to buy or sell an underlying asset at a stated price within a specified timeframe.

	Period from 1 January 2022 to 30 June 2022 (unaudited) £'000	Period from 1 January 2021 to 30 June 2021 (unaudited) £'000	Year ended 31 December 2021 (audited) £'000
Opening balance	–	7	7
Opening of options	–	–	–
Closure of options	–	–	–
Movement in unrealised losses in the period	–	22	22
Realised losses in the period	–	(29)	(29)
Balance receivable on options	**–**	**–**	**–**
Option assets at fair value through profit or loss	–	–	–
Option liabilities at fair value through profit or loss	–	–	–
Balance receivable on options	**–**	**–**	**–**

Offsetting of derivative financial instruments

The Company presents the fair value of its derivative assets and liabilities on a gross basis, no such assets or liabilities have been offset in the Unaudited Condensed Statement of Financial Position. Certain derivative financial instruments are subject to enforceable master netting arrangements, such as ISDA master netting agreements, or similar agreements that cover similar financial instruments.

The similar agreements include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements.

The Company's agreements allow for offsetting following an event of default, but not in the ordinary course of business, and the Company does not intend to settle these transactions on a net basis or settle the assets and liabilities on a simultaneous basis.

The table below sets out the carrying amounts of recognised capital instruments and short position(s) which could be offset under the applicable derivative agreements (as described above):

16. Derivative financial instruments *(continued)*

Offsetting of derivative financial instruments (continued)

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Unaudited Condensed Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Unaudited Condensed Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
30 June 2022 (unaudited)					
Financial assets					
Derivatives *(note 16)*	37	–	37	–	37
Collateral accounts for derivative financial instruments *(note 14)*	5,381	–	5,381	(2,091)	3,290
Total assets	**5,418**	**–**	**5,418**	**(2,091)**	**3,327**
Financial liabilities					
Derivatives *(note 16)*	(14,314)	–	(14,314)	10,128	(4,186)
Collateral accounts for derivative financial instruments *(note 14)*	–	–	–	–	–
Total liabilities	**(14,314)**	**–**	**(14,314)**	**10,128**	**(4,186)**
31 December 2021 (audited)					
Financial assets					
Derivatives *(note 16)*	4,506	–	4,506	(3,932)	574
Collateral accounts for derivative financial instruments *(note 14)*	4,119	–	4,119	(320)	3,799
Total assets	**8,625**	**–**	**8,625**	**(4,252)**	**4,373**
Financial liabilities					
Derivatives *(note 16)*	(6,555)	–	(6,555)	5,727	(828)
Collateral accounts for derivative financial instruments *(note 14)*	(92)	–	(92)	–	(92)
Total liabilities	**(6,647)**	**–**	**(6,647)**	**5,727**	**(920)**

17. Fair value of financial instruments at fair value through profit or loss

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving 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) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

At the period end, the financial assets and liabilities designated at fair value through profit or loss were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
30 June 2022 (unaudited)				
Traded/listed capital instruments at fair value through profit or loss	89,054	488	–	89,542
Other investments at fair value through profit or loss *(note 7)*	1,758	–	–	1,758
Credit default swap assets *(note 16)*	–	37	–	37
Credit default swap liabilities *(note 16)*	–	(1,266)	–	(1,266)
Other derivative financial liabilities	–	(13,048)	–	(13,048)
	90,812	**(13,789)**	**–**	**77,023**
31 December 2021 (audited)				
Traded/listed capital instruments at fair value through profit or loss	85.208	241	–	85,449
Other investments at fair value through profit or loss *(note 7)*	4,874	–	–	4,874
Credit default swap assets *(note 16)*	–	180	–	180
Credit default swap liabilities *(note 16)*	–	(308)	–	(308)
Other derivative financial assets	–	4,326	–	4,326
Other derivative financial liabilities	(12)	(6,223)	–	(6,235)
Short positions covered by sale and repurchase agreements	–	(3,932)	–	(3,932)
	90,070	**(5,716)**	**–**	**84,354**

Level 1 financial instruments include listed capital instruments at fair value through profit or loss, unlisted open ended funds and bond future contracts which have been valued at fair value by reference to quoted prices in active markets. No unobservable inputs were included in determining the fair value of these investments and, as such, alternative carrying values for ranges of unobservable inputs have not been provided.

Level 2 financial instruments include broker quoted bonds, credit default swap agreements, foreign currency forward contracts, sale and repurchase agreements and options. Each of these financial investments are valued by the Investment Manager using market observable inputs. The fair values of the other investments are based on the market prices of the underlying securities.

The model used by the Company to fair value credit default swap agreements prices a credit default swap as a function of its schedule, deal spread, notional value, credit default swap curve and yield curve. The key assumptions employed in the model include: constant recovery as a fraction of par, piecewise constant risk neutral hazard rates and default events being statistically independent of changes in the default-free yield curve.

The fair values of the derivative financial instruments are based on the forward foreign exchange rate curve.

17. Fair value of financial instruments at fair value through profit or loss *(continued)*

The sale and repurchase agreements have been valued by reference to the notional amount, expiration dates and rates prevailing at the valuation date.

The options were previously valued using the relevant options prices curve.

Transfers between levels

Transfers between levels during the period are determined and deemed to have occurred at each financial reporting date. There were no investments classified as Level 3 during the period, and no transfers between levels in the period. See notes 13, 14 and 16 for movements in instruments held at fair value through profit or loss.

18. Other payables and accruals

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
Due on purchase of capital instruments	473	–
Investment management fee *(note 8a)*	173	213
Administration fee *(note 8b)*	34	33
Audit fees	21	21
Other accruals	14	13
Share issue costs	14	14
Depositary fees *(note 8e)*	14	22
Valuation agent fees *(note 8e)*	11	11
Broker fee *(note 8c)*	7	6
Registrar fee*(note 8d)*	3	1
Performance fee *(note 8a)*	–	298
Accrued interest payable on capital instrument short position(s)	–	17
	764	**649**

19. Share capital

	30 June 2022 (unaudited) Number	30 June 2022 (unaudited) £'000	31 December 2021 (audited) Number	31 December 2021 (audited) £'000
Authorised:				
Ordinary shares of no par value	Unlimited	–	Unlimited	–
Allotted, called up and fully paid:				
Ordinary Shares of no par value	91,852,904	–	91,852,904	–

Issued share capital	**Number of shares**
Shares in issue as at 30 June 2021, 31 December 2021, 30 June 2022 and 22 August 2022	91,852,904

The Ordinary Shares carry the right to receive all dividends declared by the Company. Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the surplus assets of the Company. Shareholders will be entitled to attend and vote at all general meetings of the Company and, on a poll, will be entitled to one vote for each Ordinary Share held.

20. Net asset value per Ordinary Share

The NAV per Ordinary Share is based on the net assets attributable to owners of the Company of £87,284,000 (31 December 2021: £96,883,000), and on 91,852,904 (31 December 2021: 91,852,904) Ordinary Shares in issue at the period end.

The NAV of 95.03p (31 December 2021: 105.48p) per Ordinary Share disclosed in these financial statements is 0.33p higher (31 December: 0.33p higher) than the NAV of 94.70p (31 December 2021: 105.15p) per Ordinary Share announced on 4 July 2022 as a result of 50% of the accrued performance fee, which is due to be settled through the purchase of shares in the Company, being allocated to the performance fee reserve (see note 8a for further details of the performance fee).

21. Changes in liabilities arising from financing activities

The Company did not raise any capital from the placing of new shares in the period. At the period end £14,000 (31 December 2021: £14,000) of share issue costs in relation to previous placings were outstanding, resulting in cash flows in relation to share issue costs in the period of £nil (30 June 2021: £nil).

22. Financial instruments and risk management

The Company invests its assets with the aim of spreading investment risk.

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Company is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk from the financial instruments it holds. Risk management procedures are in place to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

Risk management structure

The Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management approach within the Company.

The Company has no employees and is reliant on the performance of third party service providers. Failure by the Investment Manager, Administrator, Depositary, Registrar or any other third party service provider to perform in accordance with the terms of its appointment could have a significant detrimental impact on the operation of the Company.

Risk concentration

Concentration indicates the relative sensitivity of the Company's performance to developments affecting a particular issuer or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Company has a significant net open position in a single foreign currency, or aggregate net open position in several currencies that tend to move together.

Within the aim of maintaining a diversified investment portfolio, and thus mitigating concentration risks, the Company has established the following investment restriction in respect of the general deployment of assets:

Concentration

No more than 15% of NAV, calculated at the time of investments, will be exposed to any one financial counterparty. This limit will increase to 20% where, in the Investment Manager's opinion (having informed the Board in writing of such increase) the relevant financial institution investment instrument is expected to amortise such that, within 12 months of the date of the investment, the expected exposure (net of any hedging costs and expenses) will be equal to or less than 15% of NAV, calculated at the time of the investment.

22. Financial instruments and risk management *(continued)*

Market risk

i. Price risk

Price risk exposure arises from the uncertainty about future prices of financial instruments held. It represents the potential loss that the Company may suffer through holding positions in the face of price movements. The investments in capital instruments, unlisted open ended funds and bond futures at fair value through profit or loss (see notes 13, 16 and 17) are exposed to price risk and it is not the intention to mitigate the price risk.

At 30 June 2022, if the valuation of these investments at fair value through profit or loss had moved by 5% with all other variables remaining constant, the change in net assets would amount to approximately +/- £4,565,000 (31 December 2021: £4,319,000). The fair value of financial instruments exposed to price risk at 30 June 2022 was £91,299,000 (31 December 2021: £86,380,000).

ii. Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company invests in securities and other investments that are denominated in currencies other than Sterling. Accordingly, the value of the Company's assets may be affected favourably or unfavourably by fluctuations in currency rates and therefore the Company will necessarily be subject to foreign exchange risks.

In order to limit the exposure to foreign currency risk, the Company entered into hedging contracts during the period. At the period end, the Company held the following foreign currency forward contracts:

30 June 2022 (unaudited) **Maturity date**	**Amount to be sold**	**Amount to be purchased**
5 August 2022	€53,822,000	£45,719,000
5 August 2022	US$6,086,000	£4,881,000

31 December 2021 (audited) **Maturity date**	**Amount to be sold**	**Amount to be purchased**
27 January 2022	€47,498,000	£40,124,000
27 January 2022	US$7,887,000	£5,711,000

22. Financial instruments and risk management *(continued)*

Market risk (continued)

ii. Foreign currency risk (continued)

As at the period end a proportion of the net financial assets of the Company were denominated in currencies other than Sterling, as follows:

30 June 2022 (unaudited)	Investments at fair value through profit or loss £'000	Receivables £'000	Cash and cash equivalents £'000	Exposure £'000	Foreign currency forward contracts £'000	Net exposure £'000
Euro	41,950	1,015	457	43,422	(46,428)	(3,006)
US Dollars	2,694	14	2,084	4,792	(4,997)	(205)
Swiss Francs	–	–	41	41	–	41
	44,644	**1,029**	**2,582**	**48,255**	**(51,425)**	**(3,170)**

31 December 2021 (audited)						
Euro	40,361	1,593	(693)	41,261	(39,991)	1,270
US Dollars	4,952	11	371	5,334	(5,835)	(501)
	45,313	**1,604**	**(322)**	**46,595**	**(45,826)**	**769**

Other future foreign exchange hedging contracts may be employed, such as currency swap agreements, futures contracts and options. There can be no certainty as to the efficacy of any hedging transactions.

At 30 June 2022, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 30 June 2022 would have decreased/increased by £159,000 (31 December 2021: £38,000).

iii. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. A large number of the capital instruments bear interest at a fixed rate, but capital instruments to the value of £64,613,000 (31 December 2021: £54,572,000), cash and cash equivalents, net of overdrafts, of £4,009,000 (31 December 2021: £7,020,000), collateral account balances of £5,381,000 (31 December 2021: £4,027,000) and short position(s) of £nil (31 December 2021: £nil) were the only interest-bearing financial instruments subject to variable interest rates at 30 June 2022. Therefore, if interest rates had increased/decreased by 50 basis points, with all other variables remaining constant, the change in the value of interest cash flows of these assets in the period would have been £377,000 (31 December 2021: +/- £344,000).

22. Financial instruments and risk management *(continued)*

Market risk (continued)

iii. Interest rate risk (continued)

30 June 2022 (unaudited)	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	17,306	64,613	9,381	91,300
Cash and cash equivalents	–	4,009	–	4,009
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	5,381	–	5,381
Derivative financial assets at fair value through profit or loss	37	–	–	37
Other receivables	–	–	1,635	1,635
Total financial assets	**17,343**	**74,003**	**11,016**	**102,362**
Financial liabilities				
Derivative financial liabilities at fair value through profit or loss	(13,488)	–	(826)	(14,314)
Other payables and accruals	–	–	(764)	(764)
Bank overdrafts	–	–	–	–
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	–	–	–
Total financial liabilities	**(13,488)**	**–**	**(1,590)**	**(15,078)**
Total interest sensitivity gap	**3,855**	**74,003**	**9,426**	**87,284**
31 December 2021 (audited)				
Financial assets				
Investments at fair value through profit or loss	18,363	54,572	17,388	90,323
Cash and cash equivalents	–	7,713	–	7,713
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	4,119	–	4,119
Derivative financial assets at fair value through profit or loss	4,374	–	132	4,506
Other receivables	–	–	2,143	2,143
Total financial assets	**22,737**	**66,404**	**19,663**	**108,804**
Financial liabilities				
Bank overdrafts	–	(693)	–	(693)
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	(92)	–	(92)
Derivative financial liabilities at fair value through profit or loss	(6,418)	–	(137)	(6,555)
Short position(s) covered by sale and repurchase agreements	–	(3,932)	–	(3,932)
Other payables and accruals	–	–	(649)	(649)
Total financial liabilities	**(6,418)**	**(4,717)**	**(786)**	**(11,921)**
Total interest sensitivity gap	**16,319**	**61,687**	**18,877**	**96,883**

22. Financial instruments and risk management *(continued)*

Market risk (continued)

iii. Interest rate risk (continued)

It is estimated that the fair value of the fixed interest and non-interest bearing capital instruments of £26,687,000 (31 December 2021: £35,751,000) at 30 June 2022 would increase/decrease by +/-£689,000 (0.75%) (31 December 2021: +/-£551,000 (0.61%)) if interest rates were to change by 50 basis points.

The Investment Manager manages the Company's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and its own views as to likely movements in interest rates.

Although it has not done so to date, the Company may implement hedging and derivative strategies designed to protect investment performance against material movements in interest rates. Such strategies may include (but are not limited to) interest rate swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of any hedging transactions.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company.

At 30 June 2022, credit risk arose principally from investment in capital instruments of £89,542,000 (31 December 2021: £85,449,000), cash and cash equivalents of £4,009,000 (31 December 2021: £7,713,000), balances held as collateral for derivative financial instruments at fair value through profit or loss of £5,381,000 (31 December 2021: £4,119,000) and investments in sale and repurchase assets of £nil (31 December 2021: £4,194,000). The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The credit rating of cash and collateral counterparties is sufficient that no expected credit loss or provision for impairment is considered necessary.

The Investment Manager manages the Company's credit risk by investing in a diverse portfolio of capital instruments, in line with the Prospectus. At 30 June 2022, the capital instrument rating profile of the portfolio was as follows:

	30 June 2022 (unaudited) Percentage	31 December 2021 (audited) Percentage
BBB	6.48	7.93
BB	24.67	19.34
B	21.99	16.90
Below B	3.15	9.89
No rating	43.71	45.94
	100.00	**100.00**

The investments without a credit rating correspond to issuers that are not rated by an external rating agency. Although no external rating is available, the Investment Manager considers and internally rates the credit risk of these investments, along with all other investments. The internal risk score is based on the Investment Manager's fundamental view (stress test, macro outlook, solvency, liquidity risk, business mix, and other relevant factors) and is determined by the Investment Manager's risk committee. The risk grades are mapped to an external Baseline Credit Assessment, and any discrepancy of more than two notches is monitored closely.

The cash pending investment may be held without limit with a financial institution with a credit rating of A-1 (Standard & Poor's) or P-1 (Moody's) to protect against counterparty failure.

22. Financial instruments and risk management *(continued)*

Credit risk (continued)

The Company may implement hedging and derivative strategies designed to protect against credit risk. Such strategies may include (but are not limited to) credit default swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty to the efficacy of hedging transactions.

Due to the Company's investment in credit default swap agreements the Company is exposed to additional credit risk as a result of possible counterparty failure. The Company has entered into ISDA contracts with Credit Suisse, JP Morgan and Goldman Sachs. JP Morgan and Goldman Sachs are rated A+, whilst Credit Suisse's credit rating was downgraded in the period to BBB. At 30 June 2022, the overall net exposure to these counterparties was 4.47% of NAV (31 December 2021: 3.62%). The collateral held at each counterparty is disclosed in note 14.

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The principal liquidity risk is contained in unmatched liabilities. The liquidity risk at 30 June 2022 was very low since the ratio of cash and cash equivalents (net of overdrafts) to unmatched liabilities was 5:1 (31 December 2021: 11:1).

In addition, the Company diversifies the liquidity risk through investment in capital instruments with a variety of maturity dates, as follows:

	30 June 2022 (unaudited) Percentage	31 December 2021 (audited) Percentage
Less than 1 year	5.32	15.99
1 to 3 years	38.70	26.88
3 to 5 years	24.85	24.75
5 to 7 years	3.42	1.59
7 to 10 years	2.30	2.92
More than 10 years	25.41	27.87
	100.00	**100.00**

As at 30 June 2022, the Company's liquidity profile was such that 69.7% of investments were realisable within one day (31 December 2021: 63.6%), 25.5% was realisable between two days and one week (31 December 2021: 32.3%) and 4.8% was realisable between eight days and one month (31 December 2021: 4.1%).

	30 June 2022 (unaudited) Percentage	31 December 2021 (audited) Percentage
0 to 3 months	56.74	71.52
3 to 6 months	41.65	–
6 to 12 months	0.98	–
1 to 3 years	0.63	28.48
	100.00	**100.00**

23. Capital management policy and procedures

The Company's capital management objectives are:

- to ensure that it will be able to meet its liabilities as they fall due; and
- to maximise its total return primarily through the capital appreciation of its investments.

Pursuant to the Company's Articles of Incorporation, the Company may borrow money in any manner. However, the Board has determined that the Company should borrow no more than 20% of direct investments.

The Company uses sale and repurchase agreements to manage the gearing of the Company. As at 30 June 2022 the Company had ten (31 December 2021: eight) open sale and repurchase agreements, none (31 December 2021: one) of which were reverse sale and repurchase agreements, committing the Company to make a total repayment of £12,222,000 post the period end (31 December 2021: £6,110,000). As a result of the reverse sale and repurchase agreements, the Company was due to receive £nil after the period end (31 December 2021: £4,194,000).

The raising of capital through the placing programme forms part of the capital management policy. See note 19 for details of the Ordinary Shares issued since incorporation.

As disclosed in the Unaudited Condensed Statement of Financial Position, at 30 June 2022, the total equity holders' funds were £87,284,000 (31 December 2021: £96,883,000).

24. Capital commitments

The Company holds a number of derivative financial instruments which, by their very nature, give rise to capital commitments post 30 June 2022. These are as follows:

- At the period end, the Company had sold four credit default swap agreements for a total of £470,000, each receiving quarterly interest (31 December 2021: five agreements for £457,000). The fair value of these agreements at the period end date was £(1,198,000) (31 December 2021: £86,000). Collateral of £3,860,000 for these agreements was held at 30 June 2022 (31 December 2021: £3,328,000).
- At the period end the Company had committed to two (31 December 2021: two) foreign currency forward contracts dated 5 August 2022 (see note 22), giving rise to a total loss of £826,000 (31 December 2021: gain of £7,000).
- At the period end, the Company held ten open sale and repurchase agreements (31 December 2021: seven, excluding the one reverse sale and repurchase agreement) committing the Company to make a total repayment of £12,222,000 (31 December 2021: £6,310,000).

25. Contingent assets and contingent liabilities

In line with the terms of the Investment Management Agreement, as detailed in note 8a, should the Company's NAV reach a level at which the TER reduced to less than 1.5% of the average NAV in a future accounting period then the Quarterly Expenses Excess and Annual Expenses Excess totalling £824,000 at 30 June 2022 (31 December 2021: £777,000) would become payable to the Investment Manager, to the extent that the total expenses including any repayment did not exceed 1.5% of the average NAV for that period.

For a significant amount of the £824,000 (31 December 2021: £777,000) Expenses Excess to become payable within the foreseeable future, the NAV would have to increase considerably. The Directors consider that it is possible, but not probable, that an increase in the NAV leading to a significant payment of the Expenses Excess will be achieved in the foreseeable future. Accordingly, the possible payment to the Investment Manager has been treated as a contingent liability in the financial statements.

There were no other contingent assets or contingent liabilities in existence at the year end.

26. Events after the financial reporting date

On 25 July 2022, the Company declared a dividend of 1.50p per Ordinary Share for the period from 1 April 2022 to 30 June 2022, out of the profits for the period ended 30 June 2022, which (in accordance with IFRS) was not provided for at 30 June 2022 (see note 6). This dividend will be paid on 26 August 2022.

The Company announced on 18 August 2022 that the Board has determined that it would not be in Shareholders' best interests to continue the Company in its present form and intends to put forward alternative proposals to offer Shareholders the option of receiving cash at NAV (less costs, including any portfolio realisation expenses) for some or all of their shareholding and/or to continue some or all of their investment in an open-ended vehicle managed by Axiom AI. That vehicle will have a similar investment strategy to that which the Company would have proposed if it were to continue to operate as a closed-ended listed investment company. In order to effect the proposals, it is expected that the existing Company will be liquidated. In order to limit future expenses, on 11 August 2022, the Company gave the Investment Manager 12 months' protective notice of the termination of the Investment Management Agreement.

The Board, together with Axiom AI and the Company's advisers, is working on formal proposals to be put to Shareholders and will make a further announcement with details in due course. The Board's aim is for the proposals to be put to Shareholders early in 2023 and, assuming Shareholder approval is received, for the transaction to be completed as soon as reasonably practicable thereafter.

GLOSSARY

Defined terms

Administrator	Elysium
AGM	Annual General Meeting
AIB	Allied Irish Bank
AIC	Association of Investment Companies
AIC Code	AIC Code of Corporate Governance
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive
APM	Alternative Performance Measures
AT1	Additional T1
Axiom AI	Axiom Alternative Investments Sarl
BACA	Bank Austria UniCredit
BBVA	Banco Bilbao Vizcaya Argentaria
Broker	Corporate Broker
BRRD II	Bank Recovery and Resolution Directive II
CDS	Credit Default Swap
CET1	Common Equity T1
CFO	Chief Financial Officer
CIB	Cash In Bank
CMS	Constant Maturity Swap
Committees	The Company's Audit Committee, Management Engagement Committee and Nomination and Remuneration Committee
Company	Axiom European Financial Debt Fund Limited
COO	Chief Operating Officer
CPI	Consumer Price Index
CRR	Capital Requirements Regulation
CSAM	Credit Suisse Asset Management
CVA	Credit Valuation Adjustment
DTR	Disclosure and Transparency Rules
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
Elysium	Elysium Fund Management Limited
ESG	Environmental, Social and Governance
FCA	The Financial Conduct Authority
Fed	Federal Reserve System
FICC	Fixed Income Clearing Corporation
FX	Foreign exchange
GDP	Gross Domestic Product
GFSC	Guernsey Financial Services Commission
Grant Thornton	Grant Thornton Limited
IASB	International Accounting Standards Board
IFRS	UK-adopted international accounting standards
IG	Investment Grade
Investment Manager	Axiom AI
IPO	Initial Public Offering
ISDA	International Swaps and Derivatives Association
KID	Key Information Document
KPIs	Key Performance Indicators
Law	Companies (Guernsey) Law, 2008
LSE	London Stock Exchange
M&A	Mergers and Acquisitions
MIFIR	Markets in Financial Instruments Regulation

Defined terms *(continued)*

MREL	Minimum Requirement for own funds and Eligible Liabilities
NAV	Net asset value
NPL	Non-Performing Loan
P&C	Property and Casualty
PIBS	Permanent Interest Bearing Shares
POI Law	The Protection of Investors (Bailiwick of Guernsey) Law, 2020
PRA	Prudential Regulatory Authority
Premium Segment	The Premium Segment of the Main Market of the LSE
Published NAV	The NAV published on the LSE on 4 January 2022, prior to the adjustments required for these financial statements under IAS 2 (see note 22)
Published net assets	The net assets used to calculate the Published NAV, prior to the adjustments required for these financial statements under IAS 2 (see note 22)
RT1	Restricted T1
SFDR	Sustainability-related disclosures in the financial services sector
SFS	The Specialist Fund Segment of the LSE
SME	Small and Medium-sized Entities
SPAC	Special Purpose Acquisition Company
SPPI	Solely payments of principal interest
SPV	Special Purpose Vehicle
SREP	Supervisory Review and Evaluation Process
SubFin	Markit iTraxx Europe Subordinated Financial Index
SX7R	STOXX Europe 600 Banks Index
SXXR	STOXX Europe 600 Index
T1	Tier 1
T2	Tier 2
TBV	Total Book Value
TCFD	Task Force on Climate-Related Financial Disclosures
TISE	The International Stock Exchange
TLTRO	Targeted Longer-Term Refinancing Operations
TMO	Taux Moyen des Obligations
TRIM	Targeted Review of Internal Models
UK-adopted international accounting standards	International Accounting Standards, International Financial Reporting Standards and interpretations issued by the International Financial Reporting Standards Interpretations Committee, as adopted by the UK
UK Code	UK Corporate Governance Code 2018
Winterflood	Winterflood Securities Limited

ALTERNATIVE PERFORMANCE MEASURES

Cash (%)	Total cash held, including overdrafts, expressed as a percentage of Published net assets.
Collateral (%)	Total collateral held, including negative balances, expressed as a percentage of Published net assets.
Gross assets (%)	Total assets, expressed as a percentage of Published net assets.
Modified duration	The percentage impact on the fair value of investments of a 100bps increase in risk free rates.
Net gearing	Total assets, less collateral, expressed as a percentage of Published net assets.
Published NAV/Published net assets	Please see the Glossary.
Running yield	Expected annualised coupons, expressed as a percentage of the fair value of investments.
Sensitivity to credit	The percentage impact on the fair value of investments of a 100bps increase in credit spreads.
Share price premium/discount	The amount by which the Ordinary Share price is higher/lower than the Published NAV per Ordinary Share, expressed as a percentage of the Published NAV per Ordinary Share.
Total return per Ordinary Share	Total return per Ordinary Share has been calculated by comparing the NAV or share price, as applicable, at the start of the year with the NAV or share price, as applicable, plus dividends paid, at the year end, assuming that dividends are reinvested.
Yield to call	The yield of the portfolio, converted into GBP at the anticipated reimbursement date of the bonds.
Yield to perpetuity	The yield of the portfolio, converted into GBP, with the hypothesis that securities are not reimbursed and kept to perpetuity.

DIRECTORS

William Scott *(non-executive Chairman)*
John Renouf *(non-executive Director)*
Max Hilton *(non-executive Director)*

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