AXIOM
ALTERNATIVE INVESTMENTS

Axiom European Financial Debt Fund Limited

(Registered number 61003)

Annual Report and Financial Statements
for the year ended 31 December 2020

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HIGHLIGHTS

	31 December 2020	31 December 2019
Net assets	£87,350,000	£91,284,000
Net asset value ("NAV") per Ordinary Share[1]	95.10p	99.38p
Share price	88.00p	94.00p
Discount to NAV	(7.47)%	(5.41)%
Profit for the year	£1,577,000	£13,882,000
Dividend per share declared in respect of the year	6.00p	6.00p
Total return per Ordinary Share *(based on NAV)*[2]	1.73%	16.98%
Total return per Ordinary Share *(based on share price)*[2]	0.00%	13.64%
Ordinary Shares in issue at year end	91,852,904	91,852,904

[1] Please see note 22 for a reconciliation of the NAV per Ordinary Share of 95.10p to the originally announced NAV per Ordinary Share of 95.26p.
[2] 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.

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

Axiom European Financial Debt Fund Limited (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 of the Main Market of the London Stock Exchange (the "Premium Segment") on 15 October 2018 ("Admission") Prior to this, the Ordinary Shares traded on the Specialist Fund Segment ("SFS") of the London Stock Exchange.

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 Alternative Investments SARL ("Axiom"), identifies attractive opportunities.

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://www.axiom-ai.com/web/data/prospectus/ENG/AEFD-prospectus-UK.pdf).

CHAIRMAN'S STATEMENT

Results

2020 was an extraordinary year by any standards, both in the real world and in the financial markets. We have witnessed the most significant global public health crisis in many decades – for those of us in the UK, probably since the so-called 'Spanish Flu' of 1918 to 1920 – beyond living memory. We have all followed developments and will be very familiar with the 'lock-downs' and disruption of normal society to a degree that we could not have imagined only a year ago. The effects on industry and commerce have been well-reported elsewhere: the UK, according to government statistics, has suffered the worst contraction of output since 1709 with GDP down 9.9% over the year. Within the headline numbers, some industries – especially those dependent on the free circulation of people – particularly travel, lodging and hospitality have been devastated and survive only on significant governmental intervention – while others which can transition to either home working to deliver services remotely or to internet sales models have survived and, in some instances, even thrived. The effect on public finances has been similar in magnitude to that of the great world wars of the twentieth century.

The Company invests in the capital instruments of European financial institutions. One of the early interventions by sector regulators was to force the suspension of equity dividends by banks and insurance companies. This did not extend to the coupon payments on instruments such as those in which the Company invests and so in our case, no great loss of income was suffered. After a promising start to the year, the immediate consequences of the considerable uncertainty as the markets began to try to weigh the likely effects of the pandemic were brutal market declines in the prices of most instruments. The Company's total return in the first half of the year was -7.85% as I reported at the Interim stage. I am pleased to say that the second half was very much better with a total return of +10.75%, to give a modest positive net result over this difficult year of +1.73%. The recovery has been one of steady progress with positive returns in eight of the nine months in the latter three quarters.

Further details on the development of key market events and activity in the portfolio are given in the Investment Manager's report, beginning on page 5.

In aggregate, the Company reported a net profit after tax for the year ended 31 December 2020 of £1.6 million (2019: profit of £13.9 million), representing earnings per Ordinary Share of 1.72p (2019: earnings of 15.21p) and the Company's NAV at 31 December 2020 was £87.4 million (95.10p per Ordinary Share) (2019: £91.3 million, 99.38p per Ordinary Share).

As is often the case in the closed-ended fund sector, the recovery in the Company's share price lagged the rise in NAV over the second half of the year and hence, over the full year, the share price discount to NAV widened slightly from 5.41% at the end of 2019 to 7.47% at the year end. Although the discount subsequently narrowed back to roughly where it was at the start of 2020, the continued strong recovery in early 2021 has now meant that it has widened again to 10.33% as at the time of writing.

Dividends

As in prior years, the Company declared four dividends each of 1.50p per Ordinary Share in relation to the year: one was declared after the balance sheet date and was paid on 26 February 2021 to Shareholders on the register at 6 February 2021. During the period, actual payments of 6.00p were made, being the May, August and November dividends of 1.50p each and the 1.50p dividend in respect of the period ended 31 December 2019, which was paid on 28 February 2020.

Placing programme and fundraising

Shareholders will not be surprised that, given market events during the year, circumstances were not conducive to placing further shares. Nevertheless, we remain committed to expanding the size of the Company to improve the return economics for Shareholders by spreading the burden of the operational costs of the Company over a larger asset base and also improving trading liquidity in our shares. As markets continue to recover, we hope to make progress in this regard. In this context we note that inflows into the Investment Manager's open-ended funds have been good in recent months and we hope to capitalise on that momentum when circumstances permit.

1. Net return has been calculated by comparing the NAV at the start of the period with the NAV, plus dividends paid, at the period end.

CHAIRMAN'S STATEMENT *(continued)*

One might be forgiven for thinking that the COVID-19 pandemic is the only challenge facing the world. While it will remain a significant matter for some time to come, there are grounds for cautious optimism that it is becoming, for most countries, a manageable health problem. At the time of writing, the rollout of mass vaccination is beginning to abate the current wave of infections. New variants will require a response of new vaccines and it may also be that there will be modifications required to public behaviour for a long time to come but, all the same, more and more of our economic lives are normalising and will continue to do so. The financial sector was already well-capitalised and resilient after the regulatory capital measures introduced over a decade ago in the wake of the global financial crisis of 2008 and 2009. After the suspension of equity dividends almost a year ago as a prudential measure by regulators, it is now even more well capitalised. In December 2020, the ECB's supervisory body said in a statement that: "a continued prudent approach remains necessary, as the impact of the pandemic on banks' balance sheets has not manifested itself in full at a time when banks are still benefiting from several public support measures, and considering that credit impairments come with a temporal lag", while at the same time indicating that the current moratorium on dividends is likely to come to an end in September 2021.

A return to some level of equity dividends implies a relatively secure outlook on the part of regulators for the higher tranches of regulatory capital such as those in which the Company invests. All of this serves to underline the view expressed at the Interim Report stage that while there is likely to be a dispersion of impacts and outcomes for different institutions and quite possibly a rise in defaults by some borrowers, this should not have an existential impact on most banking and other financial issuers. Increased resilience was of course the core goal of the regulatory capital changes over the past several years and the transition to those new standards is part of what the Company was set up to exploit. That transition has continued throughout 2020 and will continue in the years to come.

There are, of course, other challenges: Brexit (an apparently unresolved matter for the financial sector), the stressed state of public finances and the implications of the latter for taxation, monetary policy and the potential for inflation or deflation, the climate emergency, the geopolitical tensions between strategic blocs. Several of these are fundamentally political rather than strictly economic matters although their consequences will be profoundly felt economically and in the financial markets. In short, we live in interesting times, as the old saying goes.

Our portfolio is well-positioned in terms of yield and duration to deliver on our core investment objective and to continue the recovery of returns since the first quarter of 2020. In a specialist asset class such as that in which we invest, proactive investment managers who have the appropriate specialist skills should enjoy a competitive advantage. With Axiom AI as our Investment Manager, we therefore remain positive and continue to believe the Company is well positioned to capitalise on such opportunities and, once again, we thank Shareholders for their continued support.

William Scott
Chairman
22 March 2021

INVESTMENT MANAGER'S REPORT

1. Market developments

January

Financial bonds showed strong resilience at the start of the year, ending the month up despite the renewed risk aversion. Market concerns about the COVID-19 pandemic and its consequences for global growth had a very limited impact on financial securities, as did the UK's exit from the EU.

Banks that released their annual results announced rising capital ratios, perhaps in preparation for more difficult 2020 EBA stress tests. Even Deutsche Bank posted results that should have reassured creditors more than shareholders: despite the consecutive decline in its pre-tax earnings, the bank's capital ratio was up 40bps to 13.6%. Capital strengthening, combined with easing regulatory pressure, confirmed the upward trend in payout ratios, as observed at the end of 2019 with the share buybacks of BAWAG Group and UniCredit and the dividend policy announced by Santander.

On the regulatory front, for this Supervisory Review and Evaluation Process ("SREP") cycle, the ECB published key messages on business models, governance, non-performing loans ("NPLs"), operational risk, internal capital and liquidity assessments. The overall SREP requirements for CET1 capital remained at the same level as in 2018, at 10.6%.

The primary market reached record levels. The Erste Bank 3.375% EUR issue was 10 times oversubscribed. We saw a surprising secondary market upward repricing along with the latest issues announced including Credit Suisse 5.1% in USD, Phoenix 5.625% in USD, Santander 4.375% in EUR and Banco BPM 6.125% in EUR. On the insurers' side, Phoenix issued a USD750 million Restricted Tier 1 ("RT1") with a 5.625% coupon in order to finance the acquisition of ReAssure.

February

The month of February showed some strong declines driven by concerns about the spread of COVID-19, Bernie Sanders' increased popularity as per the opinion polls and the Brexit negotiations (the UK warned of a possible no-deal if no agreement was reached before June). The SubFin index ended the month at 160bps widening by almost 50bps in the last week.

Compared to the different asset classes, financial subordinated debt emerged more resistant to the recessive impact of the COVID-19 epidemic.

The high capitalisation level of the banks was reassuring, as were the stress test scenarios used by the regulatory authorities, which were much more extreme than the impact estimated by the OECD in connection with the COVID-19 crisis.

HSBC presented its restructuring plan, declaring in particular its intention to address its specific Legacy bonds ahead of the 2021 transition period deadline, which was very positive for bondholders. The bank also announced its intention to call its 5.682% Legacy with a reset at 180bps. Standard Chartered announced the call of an Additional Tier 1 ("AT1") with a backend at 489bps. Barclays, on the other hand, did not call its Legacy bond at Libor at 0.71%.

In the primary market, ING's issue of a USD750 million AT1 bond was postponed following the departure of its Chief Executive Officer, Ralph Hamers, who left to succeed Sergio Ermotti as Chief Executive Officer at UBS.

Finally, the consolidation continued in the financial sector, with Intesa's offer for UBI and Covéa's offer for Partner Re.

INVESTMENT MANAGER'S REPORT *(continued)*

March

March saw the rapid spread of COVID-19, which put most European countries into almost complete lockdown. In response to this unprecedented health crisis, all asset classes fell sharply. After its strong widening during the month (peak at 350bps, +100% compared to its level at the end of February), the SubFin index ended the month at 255bps.

However, never before had European banks approached a crisis so well capitalised and the measures announced by the various regulators (SSM, ECB, PRA, etc.) considerably strengthened the capital available to absorb the economic shock:

- capital related: (i) provisional suspension or modification of several capital buffers (conservation buffer, 2G pillar, 2R pillar, countercyclical buffer and systemic buffer) allowed the decrease of CET1 requirements by circa 4%; (ii) the suspension of dividends and any exceptional distribution until October 2020, as requested by the regulators (ECB and PRA), made it possible to strengthen the CET1 without impacting AT1 coupon payments as specified by the banks and the supervisor (EBA);
- liquidity related: the access conditions to the new TLTRO (medium-term financing with the ECB) were considerably eased on both the collateral and the lending rate (lowered to -0.75%); and
- asset quality related: the rules, in particular on NPL provisions and IFRS 9 (financial instrument accounting rules), were relaxed. The state guarantees (EUR300 billion for France, EUR350 billion for Germany, EUR300 billion for the UK, etc.) should have supported banks in rolling over loans.

The European Commission explicitly stated that if, despite all these measures, a bank was in difficulty because of the COVID-19 crisis and needed public aid, the guidelines on 'burden sharing' that could penalise subordinated debt holders would not apply.

In spite of market volatility, issuers continued buying back their bonds.

- ING announced on 15 March 2020, the call of its AT1 6% (USD1 billion) and its Legacy Tier 1 ("T1") 6.125% (USD700 million);
- SEB announced on 18 March 2020, the call of its AT1 (EUR1.1 billion);
- Lloyds announced on 31 March 2020 a tender offer at 109% on its Legacy T1, at 12% in USD;
- Crédit Agricole announced on 2 April 2020, a tender offer on two of its Legacy T1 bonds, their 6.637% and their CMS; and
- Vivat announced on 2 April 2020, a tender offer on a senior bond, their 2.375% with a maturity date in 2024.

Finally, the primary market quickly reopened despite high volatility. Bond market conditions in the banking sector normalised towards the end of the month, as confirmed by the increasing number of issuances. Credit Suisse issued USD3 billion of senior debt maturing in 2031 with a 4.194% coupon. Several UK banks also came to refinance: Lloyds EUR1.5 billion senior 3.5% 2026, HSBC USD2.5 billion senior 4.95% 2030, RBS EUR1 billion senior 2.75% 2025, Barclays EUR2 billion senior 3.375% 2025 and Standard Chartered USD2 billion senior 4.644% 2031.

INVESTMENT MANAGER'S REPORT *(continued)*

April

April was another month of exceptional support measures for the banks, helping to fight the impact of the pandemic on the economy. These translated into a strong rally in subordinated debt (+9% for the Solactive Liquid CoCo bonds index).

To defend the positioning of the banks as a solution to the crisis, many regulatory and supervisory 'sweeteners' were offered to banks, all with the same objective of keeping lending activity flowing: temporary suspension of IFRS9 impact on CET1; acceleration of the partial reintegration of software intangibles to CET1; and exemption of central bank balances from the leverage ratio.

Our conviction remained unchanged. The banks have never approached a crisis so well capitalised, as confirmed by S&P in their recent analysis 'How COVID-19 Is Affecting Bank Ratings'. The agency referred to three main reasons for the resilience of bank ratings: the generally strong capital and liquidity position of banks globally, supported by a material strengthening in bank regulations over the past 10 years; the diversification in their loan books, that continued to provide relative revenue stability; and the strong fundamentals, not artificially tweaked by years of accommodative monetary policy and abundant liquidity, the opposite of what happened in the corporate sector which allowed weaker companies to access the market.

The banking results season revealed a strong historic trading performance at Investment Banks level, alongside the general pattern of: (i) higher provisioning; (ii) CET1 levels generally in line with consensus with higher RWAs offset by the 2019 dividends' omission; and (iii) increased headroom to MDA.

Finally, issuers have continued calling their bonds: Principality Building Society, BCP, Julius Baer and Rabobank all announced the calls of their T1s.

May

The month of May was marked by the easing of the lockdown in many European countries, including Italy. The battery of exceptional measures put in place by regulators and governments to reduce the economic shock of the pandemic continued to expand. This resulted in a strong performance of subordinated debt with the SubFin index closing at 180bps vs. 280bps at the end of April 2020.

As the first quarter earnings season ended, we could see that European banks were showing deteriorating profitability but resilient levels of capital. Regulators continued to announce measures to support the banking sector, including a planned Recovery Fund for investments in Europe and amendments to the CRR reform concerning distributions (dividends and coupons) to be voted on in June.

The Bank of England and the ECB tried to quantify the risk of losses through desktop stress tests and by taking into account public support plans. They believed that the crisis could seriously deteriorate 2020 profits but that for the majority of European banks capital cushions were sufficient. Liquidity was not a cause for concern in the current environment. Despite strong corporate demand for loans, banks continued to face excess liquidity, to the extent that we saw several banks calling their senior bonds in May 2020. Issuers continued to call their inefficient regulatory instruments: StanChart 5.375% step-up, ABN 2.875% Tier 2 ("T2").

Finally, despite market volatility, the Bank of Ireland successfully issued an AT1 bond. The secondary market remained very active with many senior debt buybacks. It should be noted that the Intesa/UBI merger was still under negotiation. The Monte dei Paschi restructuring plan was validated, which had a very positive impact on the T2 of peripheral countries.

INVESTMENT MANAGER'S REPORT *(continued)*

June

The month of June was marked by further easing of lockdown in most European countries. The SubFin index tightened further closing the month at 166bps vs. 180bps at the end of May 2020 and 280bps at the end of April 2020. The CoCo Solaxicc index ended the month at +1.5%.

The measures put in place by the central banks were the drivers of this rebound: the TLTRO3 by the ECB with its generous pricing which could reach -1%, or the increase of the BOE's bond purchase programme by GBP100 billion. Meanwhile discussions on Brexit stalled on disagreements about regulatory equivalence of financial services.

In Italy, NPL disposals continued with EUR8.5 billion sold by Monte Paschi and more disposals due from UniCredit and Banca Popolare di Sondrio. The merger between Intesa Sanpaolo and UBI was cleared by the regulator, and the insurer Generali acquired 24% in Cattolica. In Spain, Helvetia Assurances acquired 69.4% in the insurer Caser for a price of EUR800 million, two-thirds of which was financed by the issue of a T2 bond. The ECB launched a consultation on consolidation suggesting that regulatory impediments would reduce.

Finally, the primary market was very active on the CoCos side (AT1 and RT1). The main issues to mention were RBS (USD1 billion at 6%), Commerzbank (EUR1.25 billion at 6.125%), ABN Amro (EUR1 billion at 4.375%), Nationwide (GBP750 million at 5.75%) and Legal & General (GBP500 million at 5.625%). Issuers continued to call their ineffective regulatory securities. RBS confirmed the call of its USD2 billion 7.5% AT1 and UniCredit exercised the call on its Euro Legacy 9.375%.

July

The month of July was marked by the return of quasi lockdown in different parts of the United States, where COVID-19 was rising sharply, and by the increasing Sino-US tensions, which led to consulate closures. The battery of exceptional measures put in place by regulators and governments to deal with the pandemic continued to reassure the markets, most recently with the difficult agreement between countries on the European Recovery Fund ("ERF"), a fund of EUR750 billion, including EUR390 billion in subsidies, which was awaiting ratification by the European Parliament. Against this backdrop, the SubFin continued to tighten, closing the month at 152bps, more than 130bps tighter than its 280bps level at the end of April 2020.

On the regulatory side, the ECB published the results of its 'Vulnerability assessment' conducted on 86 banks, a specific COVID-19 stress test which studied two scenarios, a standard and severe one, reaffirming the solidity of the banks and an adequate level of capitalisation. The cost of risk remains manageable.

Despite the increased provisions recorded in quarter 2 2020, European banks surprised on the upside with their CET1 publications. NatWest (ex-RBS) continued to make provisions for risks of 'economic uncertainty' (+GBP2.1 billion in provisions) and reported a CET1 up to 17.2%. Barclays, UBS and Deutsche Bank also maintained comfortable levels of 14.2%, 13.3% and 12.8% respectively. The suspension of dividends, which the ECB would re-examine in December 2020, contributed to this increase, in addition to the 'CRR Quick Fix' regulatory changes and exceptional support measures. The revenue trajectories diverged among universal banks, the sharp drop in retail banking revenues was partially counterbalanced by the rebound in market activities. BNP Paribas posted an exceptional performance in the bond market which beat most of the major Wall Street banks after having issued a profit warning in the first quarter.

On the consolidation side, UBI's shareholders finally approved the acquisition by Intesa Sanpaolo.

Finally, the CoCos' (AT1 and RT1) primary market remained active. We can mention the issues of UBS (USD750 million at 5.125%), RBI (EUR500 million at 6%), Commerzbank (EUR1.25 billion at 6.125%), BBVA (EUR1 billion at 6%) and Rabobank (EUR1 billion at 4.375%).

INVESTMENT MANAGER'S REPORT *(continued)*

August

August was once again shaped by an increase in COVID-19 cases in multiple countries. The only notable macro event was Powell's speech at Jackson Hole where he revealed a more flexible strategy to meet the Fed's inflation and employment goals. In this context, the SubFin continued to tighten, closing the month at 129bps, more than 150bps tighter than its level at the end of April 2020.

Overall the latest earnings publications confirmed the key trends that were observed in July: lower retail fees and NII but excellent investment banking revenues, limited increases in NPL ratios with managements guiding towards lower impairments overall in 2020 but with a high discrepancy in provisioning levels, and significantly better than expected capital ratios supported by lower RWAs. A few initial data points showed that ultimate default rates for loans under moratoria should be between a few percentage points for core countries up to over 20% for the riskiest jurisdictions (e.g. Greece), with high dispersion within countries.

On the regulators' side, the EBA was expected to publish its opinion on the treatment of legacy debt before the end of the year. The calls of Credit Suisse low-trigger T2 and ABN 5.75% AT1 were announced as expected.

Finally, the primary market remained active on CoCos (AT1 and RT1) supported by good quarterly results. One can mention the issues of Barclays (USD1.5 billion at 6.125%), Intesa Sanpaolo in two tranches (EUR750 million at 5.875% and EUR750 million at 5.5%) and Credit Suisse (USD1.5 billion at 5.25%).

September

Despite September being full of adverse geopolitical events, financial securities held out quite well: the developing COVID-19 outbreak, the US presidential election, and Brussels' ultimatum to the UK on Brexit. The SubFin index widened slightly by +9bps, reaching 138bps, after 5 consecutive months of tightening.

Jerome Powell, after revealing a more flexible strategy to meet the Fed's inflation and employment goals in August, announced that the Fed would not raise its rates until 2023, at the earliest. This was another decision reasserting the FOMC's willingness to see inflation exceed 2% first and foremost. In Europe, the new tranche of TLTRO saw EUR175 billion of demand at the BCE on 24 September 2020.

On the regulator's side, during a speech in front of the European Banking Federation, Andrea Enria reminded investors that the financial sector had rules in place to deal with NPLs, more quickly and effectively. He also reiterated authorities' support to banks fighting against asset quality deterioration. In the US the Fed extended the buyback and dividend cap it had previously introduced until the end of the year. This had been expected and would apply to any bank with more than USD100 billion in assets.

The market overreacted in September to anti-money laundering issues from the banks' suspicious activity reports ("SARs") dating back to the 2011-2016 period, at the behest of the Financial Crimes Enforcement Network ("FinCEN") in the US.

On the consolidation side, the announced merger between Caixa and Bankia was expected to create the first banking group in Spain. In Italy, where Intesa was taking over UBI, BPER was preparing the acquisition of more than 500 branches from Intesa before February 2021, financed by a EUR802 million capital increase. In France, SocGen announced it was contemplating the potential merger of its two retail networks, Société Générale and Credit du Nord, to extract synergies.

Finally, issuers continued to call their regulatory securities which were no longer efficient as capital. The tender by NatWest (ex-RBS) on its long-call bonds 7.648% and 6.425% was well received by bond holders with respectively 83% and 64% take-up. The primary market continued to see new AT1 issuances with Julius Baer (USD350 million at 4.875%), BAWAG Group (EUR175 million at 5.125%), Commerzbank (EUR500 million at 6.5%) and Svenska Handelsbanken in two tranches (USD500 million at 4.375% and USD500 million at 4.75%).

INVESTMENT MANAGER'S REPORT *(continued)*

October

After a new round of lockdowns for several European countries, endless Brexit negotiations and uncertainty about the presidential elections in the US, the SubFin index widened by +10bps reaching 154bps. Financial debt continued to hold up well, on the back of a set of solid quarterly results that beat expectations.

The majority of the quarterly results exceeded expectations mainly due to lower than expected provisions, rising capital ratios and lower than expected RWAs. Based on their good fundamentals, several issuers such as Santander and Erste announced their intentions to pay dividends for 2019. Indeed, Rabobank would pay a distribution of additional certificates equal to approximately EUR1.625 per certificate to compensate investors for the four missed quarterly distributions. These announcements remained conditional on the withdrawal of the ECB's ban on distributions, which was expected to be reconsidered in December.

On the regulatory side, the EBA published its long-awaited opinion on Legacy instruments on 21 October 2020. The opinion was very clear on the need to clean up the stock of Legacy bonds as soon as possible. Depending on the instruments, three options were presented to manage the so called 'inflection risk', i.e. the risk of the legal and regulatory rankings being completely mixed up, which could threaten eligibility:

- Option 1: redemption of the bonds when a call date was available or bond buyback;
- Option 2: modification of the terms and conditions of the bonds;
- Option 3: in exceptional cases, when options 1 and 2 were not available, keeping the bonds but without using them as capital or MREL. The general philosophy of the EBA's opinion was clear, and should accelerate the number of calls and buybacks but, as always with Legacy bonds, the devil was in the detail and some caveats would apply. The Company's investment adviser has published its analysis on the matter, available via https://mailchi.mp/axiom-ai.com/axiom-monthly-report-2616092.

Finally, issuers continued calling their regulatory securities that were no longer eligible as capital or no longer economically viable. AIB announced the call of its AT1 Opco and Santander of its USD prefs with a floor whose coupon non-payment mechanism could have been an obstacle to the resumption of dividend payments. Rabobank announced a buyback offer on its 6.91% bond callable in 2038. Finally, the primary market saw the first RT1 issued in Italy by UnipolSai (EUR500 million at 6.375%). At the beginning of the month, Caixa Bank (EUR750 million at 5.875%), Nykredit (EUR500 million at 4.125%), Crédit Agricole (EUR750 million at 4%) and Quintet Private Bank Europe SA (EUR125 million at 7.5%) issued on the market.

November

Financial stocks performed strongly in November, driven by announcements of effective and readily available vaccines and the results of the US elections. In the UK, the departure of Dominic Cummings, one of the government's toughest Brexiteers, heralded a close trade agreement. The SubFin tightened 50bps to 113bps marking a record one-month change.

The rally was also supported by new adjustments to state aid plans and the anticipation of new support measures by the ECB expected on 10 December 2020, notably for the banking sector.

The excellent results of the banks in the third quarter also came as a positive surprise. Asset quality was stable, profits exceeded expectations by more than 30% and capital ratios reached record levels with more than 15% of average CET1. We believed that the positive news on the roll-out of vaccines would lead to a gradual resumption of dividend distributions in 2021. The ECB would decide in December 2020 on the lifting of its ban, which was expected to be a strong catalyst for the financial sector.

Continued consolidation and cost reduction were boosting the sector and offered further upside potential. Targets were cheaper, capital was abundant and difficult to distribute: all reasons to engage in synergy-generating operations. Of note was the departure of Jean-Pierre Mustier from UniCredit, which should enable the acquisition of Monte dei Paschi, and the OPA (public offering to buy) launched on Credito Valtellinese by the Crédit Agricole group. On the insurance side, Intact, Canada's leading property and casualty insurer, announced the acquisition of British insurer RSA. Finally, BBVA announced the sale of its US subsidiary to PNC for USD11.6 billion. This capital was expected to be reallocated to buyout operations in Europe, for example on Sabadell.

INVESTMENT MANAGER'S REPORT *(continued)*

On the regulatory side, on 16 November the PRA published its CFO Letter (a letter to the CFOs of English banks), which took up the EBA's recommendations of 21 October on the need to clean up the stock of 'Legacy' instruments as soon as possible. This publication, from a direct supervisor, had a positive impact on the universe of UK discounted or 'disco' bonds. On the same day, Lloyds announced an exchange offer with a premium of almost 6 points on three legacy 'long calls' bonds with step-ups (7.281%, 7.881% and 13%). Also noteworthy was the tender by Novo Banco on its senior Cayman bonds which had a positive impact on their prices.

Finally, the primary market saw the first RT1 issued in Germany by Allianz (two issues of 1.250 million at 2.625% in EUR and 3.5% in USD) and in AT1 format we saw Société Générale (USD1.5 billion at 5.375%), Erste Bank (EUR750 million at 4.250%) and Permanent TSB (EUR125 million at 7.875%).

December

Financial stocks ended the year on a high note, posting solid performance, driven mainly by the Brexit agreement concluded in the last few days of the year. This agreement still seemed a long way off at the beginning of December when the lack of any significant progress, coupled with the status quo in the negotiations on the US stimulus plan, did not encourage major risk taking. The indices tightened very slightly over the month (SubFin from 113bps to 111bps), the main movement being on the cash side.

The rally was also supported by the gradual resumption of dividend distributions announced by the ECB for 2021 with a limit set at 15% of 2019-20 profits and 20 points of CET1 until 30 September. In the UK, the PRA ran some stress tests on banks before deciding on distributions. These should not exceed the higher of the following two amounts: 20bps of RWAs at the end of 2020 or 25% of cumulative earnings over eight quarters covering 2019 and 2020.

Overall, capital markets activity ended quarter 4 2020 on solid footing for most banks with revenues of this division still running ahead of consensus suggesting potential for upward revisions of quarter 4 EPS. This positive earnings trend came alongside a continued reduction in the stock of NPLs, as shown by Sabadell, UniCredit and Banco BPM in December 2020. Consolidation and cost reduction also continued in the financial sector. The merger of Unicaja and Liberbank in Spain was formalised and was expected to create the number 5 in the national banking sector once regulatory approvals were obtained. Political pressure was also mounting in Italy for Monte dei Paschi to be acquired by UniCredit.

On the regulatory side, the transposition of BRRD2 in France did not go in the direction of the issuers and left the risk of infection unresolved, which further reinforced the interest in cleaning up the stock of 'Legacy' instruments (you can see our note on this subject on the following link: European Banking Authority Opinion on Legacy instruments). BBVA announced in mid-December the call at par of three of its legacy securities. These redemptions confirmed the interest of issuers to clean their legacy securities' stock in the context of the transition period to Basel III. On the insurers' side, the year began with greater regulatory clarity following the publication by EIOPA of its analysis on Solvency II, which reflected the regulator's confidence in the sector.

Finally, the primary market for AT1 securities remained open. HSBC (USD1.5 billion at 4.6%) and Credit Suisse (USD1.5 billion at 4.5%) came to seize the right conditions to issue.

2. Investment Objective and Strategy

The Company is a closed-ended fund investing in liabilities issued by European financial institutions, predominantly legacy T1s, T2s, and AT1s across five sub-strategies:

- Liquid Relative Value: instruments issued by large and strong quality institutions, with significant liquidity. These can be purchased on either primary or secondary markets.
- Less Liquid Relative Value: instruments issued by large and strong quality institutions, with limited liquidity due to past tenders or complex features (secondary market).
- Restructuring: instruments issued by institutions in preparation or implementation of a restructuring process (secondary market).
- Special Situations: instruments issued by entities in run-off, under a merger process or split between several entities (secondary market).
- Midcap Origination: instruments issued by small institutions or small subsidiaries of larger institutions (primary market).

INVESTMENT MANAGER'S REPORT *(continued)*

3. Company activity

January

To monetise the strong momentum on the primary market, the Company took part in three new issues in Spain and Italy, two AT1s and one T2, within Liquid Relative Value, while at the same time adding on a position in a Greek T2.

In Restructuring, the Company brought its position on Hamburg Commercial Bank to the tender. It also initiated new positions in a small building society and a specialist lender in the UK.

In Midcap Origination, the Company sold its position in the Spanish insurer Caser following the announcement of its acquisition by Helvetia and bought Saxo Bank T2 ahead of the call of its AT1 coming on 26 February 2020 (bought at the inception of the Company at 94.00).

The Company kept a moderate gearing at 107%, with 6% cash.

February

Prior to the week of 24 February 2020, the Company had reduced its exposure in Liquid Relative Value (Santander and FinecoBank AT1, ASR RT1) and in Restructuring (IPF and Deutsche Bank). Since the start of the correction on 24 February 2020, the Company realised gains on DB and Intesa hedges.

The Company marginally redeployed on seniors (Intrum), T2s (ICG) and, following the correction, which showed no signs of abating, selectively within the Restructuring bucket on UniCredit and Deutsche Bank. Finally, in anticipation of Central Bank reaction, the Company added to its positions in Fixed Perpetuals issued by UK banks. The Company was well positioned ahead of rate cuts with 19% T1 instruments with Long Calls, hence significant duration.

As the correction continued, the NAV decreased 4.16% on 9 March 2020 on the back of unprecedented moves across the sector (the iBoxx CoCo Liquid Developed Market AT1 decreased 3.68%).

The Company remained liquid with more than 5% cash and 14% Liquid Relative Value instruments. The Company's holding in AT1 was limited to 35%, of which 17% were liquid instruments. Amongst these AT1s, the Company held issuers that were expected to remain resilient in the context of the COVID-19 crisis, such as Saxo Bank and FinecoBank, or benefit from the support measures announced by the BOE, such as Virgin Money, OSB and Shawbrook. The Company also held a significant pocket of liquidity in the form of Senior bonds, Fixed-to-Fixed, as well as other Legacy T1 instruments with no extension risk, amounting to 18% and short positions as credit hedges amounting to 3%.

March

In the context of record drops in valuations across T2 and AT1 instruments, our legacy strategies saw similar moves but on a smaller scale. This resilience, in relative terms, was supported by the specific, sometimes esoteric, language built into legacy bonds. These features resulted in a more defensive credit profile at the instrument level through shorter credit duration, a limited extension risk and restrictive rule-based coupon paying mechanisms.

The largest position in the portfolio (Lloyds 13%) lost circa 4.5%, at the low end of the monthly variations observed in sub financials, while still offering more than 600bps for two-year risk on a cumulative coupon.

As the sell-off started at the end of February 2020, the Company reduced some discounted bonds and redeployed partly on liquid AT1s, short dated 'callables' and high-coupon legacy bonds. The Company held the SEB 5.25% at the time of their calls (bought at 91 the very morning of the announcement).

As the volatility took hold, the Company focused on sourcing high coupon bonds that had fallen around par (Lloyds 12% before its tender), or below par for the Fixed-to-Fixed bonds (BNP 6.5% and Lloyds 6.85%).

At the time of the tender announced by Crédit Agricole, the Company also held 10% of similar CMS/disco bonds.

The Company closed the month with 6% cash, alongside a 16% allocation to highly liquid instruments.

INVESTMENT MANAGER'S REPORT *(continued)*

April

As market valuations stabilised, the Company proceeded to some defensive adjustments to the portfolio. The Company captured the new issue premia on two insurance T2s in Liquid Relative Value, while it reduced its UK exposure in Less Liquid Relative Value. The Company held some small positions in the two illiquid Principality Building Society and BCP bonds that got called.

In the Restructuring bucket, the Company added on a defensive T2 issued by a Spanish Caja and invested back into a short dated senior bond issued by a consumer lender at a significant discount. In Special Situations, the Company added on Fortis Cashes whose disqualification post 2021 had been confirmed by the issuer's disclosure.

Finally, in Midcap Origination, the Company took part in a new T2 issued by the asset manager Jupiter, as part of an acquisition it committed to in February 2020.

The Company remained lightly levered with its investments representing 104% of NAV, and with 7% of cash ready to deploy on further opportunities.

May

In the favourable environment, the Company took part in the new issue of the Bank of Ireland AT1, as well as the two new issues of insurance T2s by Direct Line and Phoenix, all in the Liquid Relative Value bucket. The Company also bought a Virgin Money AT1 at an attractive entry level of 76.50% of nominal value.

In Less Liquid Relative Value, the Company realised some gains on Ecclesiastical and NatWest preference shares, as well as on some HSBC Long Calls.

In the Restructuring and Midcap Origination buckets, the Company held small positions in BCP legacy instruments and Principality Building Society PIBS that got called at par. They were purchased respectively in 2018 at 54 and during March 2020 between 91 and 96.

The Company closed the month slightly levered with its investments representing 103% of NAV and 8% of cash.

June

In this conducive market, the Company limited its appetite on new issues to a Commerzbank AT1. It financed this in the Liquid Relative Value bucket by realising its gains on the UK insurance T2s issued in April 2020.

The Company benefited from the call of Banco BPM 9%, one of its top ten positions, within Less Liquid Relative Value. It reinvested some of the proceeds into UK bank preference shares, which together with legacy PIBS represented slightly more than 10% of the portfolio. In Legacy CMS, it switched out of BACA and Aegon into an illiquid French mutual instrument whose language signalled a potential call by 2021.

In Restructuring, the Company realised some gains on International Personal Finance and increased its holdings in a Deutsche Bank AT1, following their investor update about loan exposures, and an IKB T2, which was lagging the rebound. In Special Situations, it added on a UBI AT1 as Intesa's bid started its last phase.

Finally, in Midcap Origination the Company increased its holdings in a Saxobank AT1 and Jupiter T2 at levels that remained, in our view, defensive.

The Company continued to operate with a moderate cash gearing of 108%, which included 7% in cash.

INVESTMENT MANAGER'S REPORT *(continued)*

July

As the flows and volatility slowed down into the summer lull and the quarter 2 earnings season, the Company did a limited number of trades.

In Liquid Relative Value, it reduced its exposure to UBI AT1 following the convergence with Intesa's AT1 from 160bps to 60bps. In Less Liquid Relative Value, it started building a small position on a legacy bond issued by the Opco entity of a small but profitable UK lender. In Midcap Origination, it reduced its Shawbrook AT1 exposure by switching into the newly issued T2 and added on Onesavings AT1.

The Company kept a moderate cash gearing of less than 108% with 8% cash.

August

In the context where positive fundamentals appeared to be fully valued, the Company took profit on positions in the Liquid Relative Value bucket on recent issues like BKIR 7.5% at 106.75 (bought at 100 mid May) and CS 5.25% AT1, and added on Aareal Bank in Germany whose AT1 should be called at the next call date in April 2021. The Company sold its holding in ICG seniors and in Spain, it switched part of its holding in Ibercaja into Abanca.

In the Restructuring bucket, the Company reduced its holding in Cajama realising gains from its purchase at 77 in mid April 2020.

Finally, in Midcap Origination, the Company took part in the inaugural issue of 9.625% Contingent Capital Deferred Shares by Ecology Building Society, a small size lender with a differentiated and resilient business model focusing on sustainable real estate.

The Company continued to reduce its cash gearing and its cash investments were down to 100% of NAV.

September

The Company continued to reduce its risk profile selectively with net cash gearing decreasing to 97% of NAV.

In Liquid Relative Value, the Company reduced its holdings on Italian and Spanish names and added two German AT1s and switched its BAWAG Group exposure into the newly issued AT1.

In Less Liquid Relative Value, the Company reduced its holdings in one UK disco and two fixed perpetuals to increase its exposure to a legacy T1 issued by OneSavings Bank's Opco entity.

In Restructuring, the Company sold its position on Monte dei Paschi T2s before the new issuance, hence protecting its gains on the bond.

Finally, following a short seller's attack on the German specialist lender Grenke Leasing, the Company took advantage of the volatility by deploying circa 1% on senior bonds at significant discounts.

October

In the absence of any clear direction for valuations, the Company reduced portfolio risk by selling some discos into the EBA opinion publication in Less Liquid Relative Value, while adding on its Cofinga holding at a yield to call of more than 10% (in Special Situations).

The Company redeployed risks selectively in Liquid Relative Value on UnipolSai's inaugural RT1, Banco BPM and Aareal Bank AT1s.

In Restructuring, the Company sourced some short-dated T2s issued by the first portfolio company of Gamalife insurance consolidator while increasing its holding of Cajamar T2.

Finally, in Midcap Origination the Company subscribed to the inaugural AT1 issue by Quintet Private bank at an attractive yield of 7.5% in EUR.

INVESTMENT MANAGER'S REPORT *(continued)*

November

In what was a supportive environment for the banking sector, the Company followed the momentum by taking part in the new AT1 issues from NatWest Group and Permanent TSB.

In Less Liquid Relative Value, the Company added on some legacy preference shares whose impediment to resolution was reinforced by the PRA CFO Letter and the LIBOR discontinuation.

In Restructuring the Company reduced its risk in UniCredit, following the announcement of the CEO leaving, and, in Special Situations, it switched out of Banco BPM, as Crédit Agricole preferred to acquire Crédito Valtellinese, and re-initiated a position on Monte dei Paschi.

Towards the end of the month, the Company reduced its risk on AT1s in Liquid Relative Value and Midcap Origination.

The Company closed the month with a light gearing of 105.9% and cash available of 9.1%.

December

While the Company realised some gains (Monte bonds sold above 91), it remained fully invested by adding on, in its Restructuring sub-strategy, T2s issued by Gamalife (600bps to December 2022), Piraeus and Bank of Cyprus.

In Less Liquid Relative Value, the Company took a rare first loss exposure on a defensive basket of financials limited to 12 months.

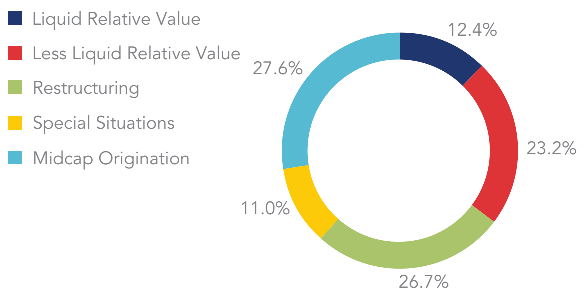
Finally, in Midcap Origination, the Company reduced its exposure to eSure bonds at 107, having purchased them mid-2019 just below 101.

The Company closed the month with a slightly higher gearing of 107% and a reduced cash allocation of 3%; constructively positioned in these conducive market conditions.

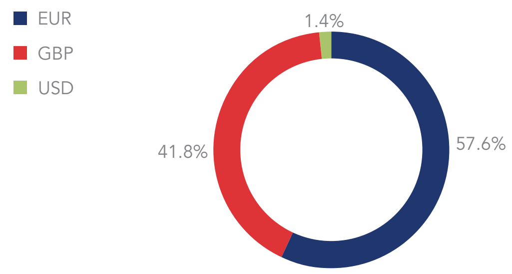
INVESTMENT MANAGER'S REPORT *(continued)*

4. Portfolio (as at 31 December 2020)

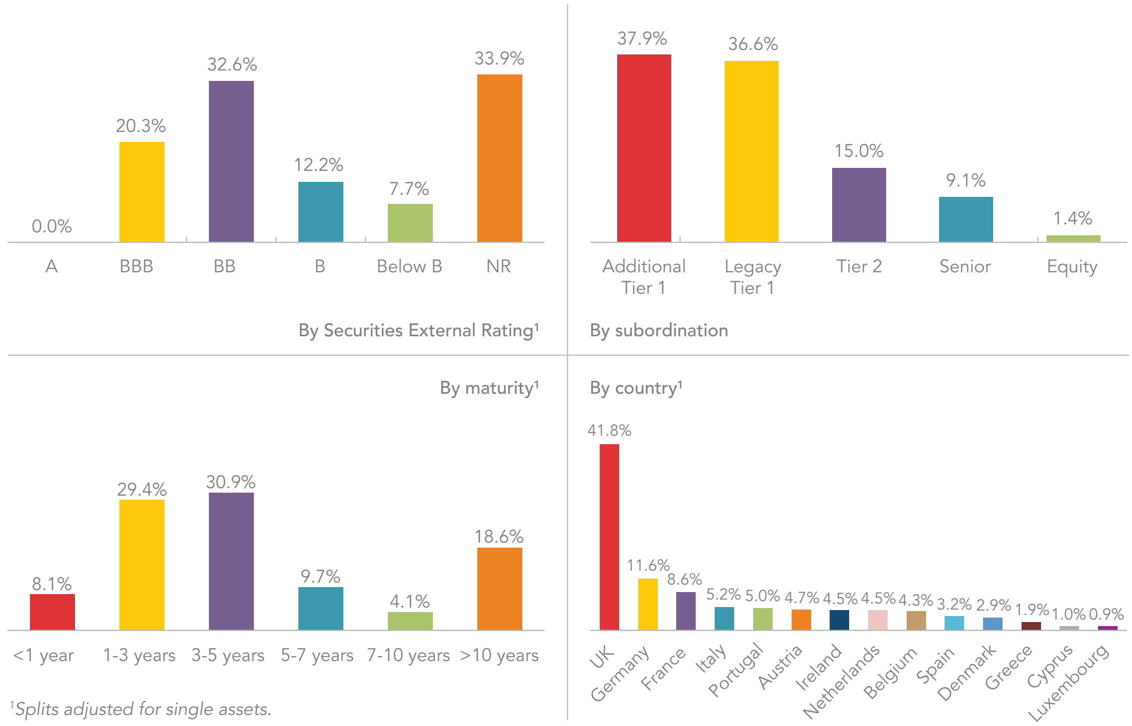
Strategy Allocation (as a % of total net assets)[1]



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



Portfolio Breakdown (as a % of total net assets)



[1] *Splits adjusted for single assets.*

INVESTMENT MANAGER'S REPORT *(continued)*

5. Company metrics (as at 31 December 2020)

Share price and NAV	
Share price (mid) (GB pence)	88.00
NAV per share (daily) (GB pence)	95.10
Dividends paid over last 12 months (GB pence)	6.00
Shares in issue	91,852,904
Market capitalisation (GBP mn)	80.83
Total net assets (GBP mn)	87.35
Premium/(Discount)	(7.47)%

Portfolio information	31 December 2020	31 December 2019
Modified duration	4.54	4.53
Sensitivity to credit	5.51	5.51
Positions	85	93
Average price at end of the month[1]	104.56	105.63
Running yield (GBP)	5.76%	5.36%
Yield to perpetuity (GBP)[2]	6.67%	6.51%
Yield to call (GBP)[3]	8.51%	6.26%
Gross assets	113.4%	120.0%
Net gearing = (Gross assets – Collateral)/Net assets	107.0%	112.4%
Investments/Net assets	104.0%	105.8%
Cash	3.0%	6.7%
Collateral	6.4%	4.6%
Net Repo/Net assets	-0.1%	4.9%
CDS/Net assets	56.7%	64.6%

Net Return[4]

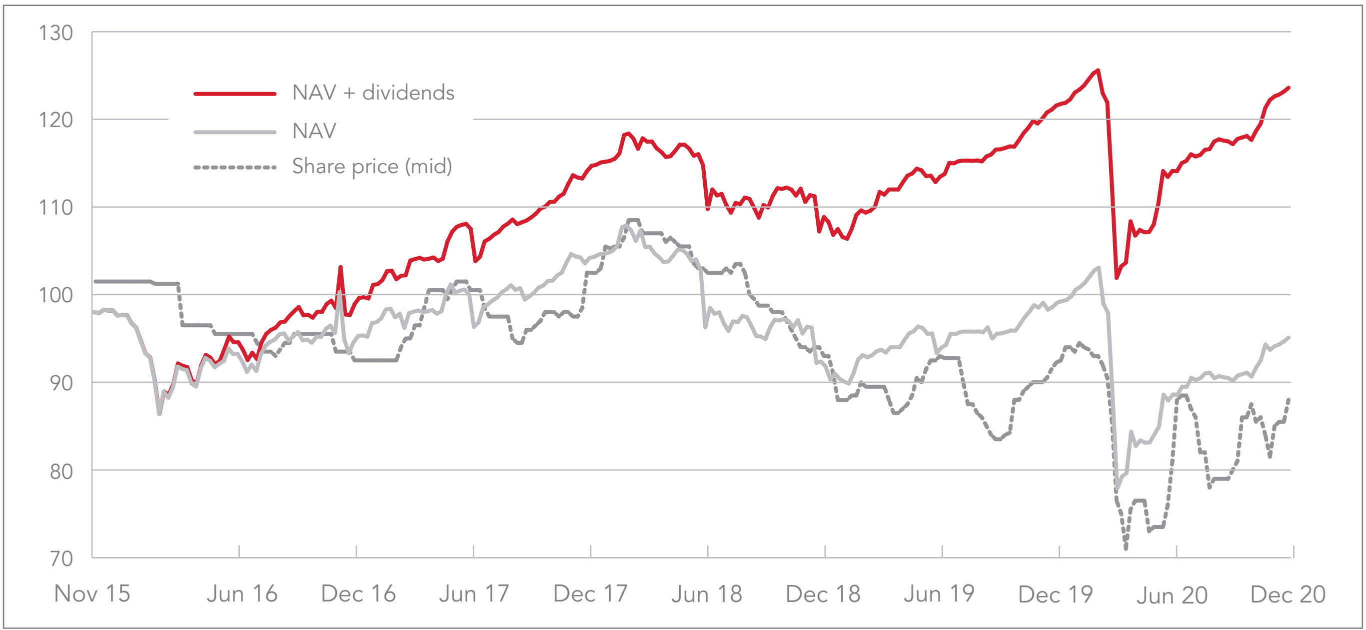
Total Performance					
1 month	3 months	6 months	1 year	3 years[5]	Since launch[5]
1.48%	7.13%	10.75%	1.73%	2.69%	4.60%

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%

[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] *Net return has been calculated by comparing the NAV at the start of the period with the NAV, plus dividends paid, at the period end. Past performance does not guarantee future results.*
[5] *Annualised performance.*

INVESTMENT MANAGER'S REPORT *(continued)*

6. NAV evolution



7. Outlook

The pandemic has resulted in a constructive backdrop for bonds issued by financial institutions as central banks provided significant support measures such as cheap funding and capital relief. On top of these measures, fiscal and monetary support in the form of government guaranteed loans and direct transfers helped contain the economic impact while lowering the stress on corporates and smaller businesses. Despite their profitability suffering from the continuing low interest rate environment, European banks stand as very attractive in the current market context for bond investors. Corporate bonds with a BB+ rating currently offer c.2% income whereas a BB+ bank bond offers a far more attractive c.4%.

Tougher regulation since the GFC made financial institutions less profitable but more solvent and thus better able to pay back the capital and income on the bonds they have issued. The progressive roll-out of Basel IV will further strengthen the solvency of the sector. In parallel, we see profitability trending higher due to tailwinds from M&A, restructuring and digitalisation. We believe that continued consolidation and cost efficiency improvements in 2021 should boost the sector and provide further upside potential. During lockdown, bank customers, and banks themselves, were able to see the advantages of online banking. We believe the crisis will expedite the digitalisation of banks, leading to cost and efficiency advantages.

As seen earlier this year, rising inflation expectations should provide a welcome relief to interest rate margin pressures and improve the ability of customers to repay their loans. This positive interest rate sensitivity should drive bank and insurance equities higher while mitigating the impact on subordinated capital. In addition, financial bonds often display short fixed coupon periods and generally reset to a variable index periodically. This can result in an incentive for issuers to repay early, in addition to the regulatory features of the bonds, or market perception concerns. Recent issuer activity confirms that despite continued macro-economic uncertainty, regulators are still actively encouraging banks to recycle their legacy instruments ahead of the December 2021 grandfathering deadline: at the end of 2020, NatWest and Lloyds announced tenders with generous premia on their legacy with long dated calls, while DZ Bank, Unicredit and BNP Paribas just announced the call of their SPV legacies at par.

The Company continues to be ideally placed, with its closed-ended format and its range of investment sub-strategies, to capture the opportunities arising in the sector, from liquid to less liquid instruments, from small to large issuers, from legacy to new formats, and from senior to equity capital instruments.

Gildas Surry
Axiom Alternative Investments SARL
22 March 2021

Antonio Roman
Axiom Alternative Investments SARL
22 March 2021

INVESTMENT PORTFOLIO

as at 31 December 2020

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss		
Bonds		
Cofinga Funding Two LP 1.050% Perp	2,776	3.18
OneSavings Bank PLC 9.125% 05/25/22	2,535	2.90
FinecoBank SPA 5.875% Perp	2,475	2.83
Shawbrook Group PLC 7.875% Perp	2,466	2.82
Just Group PLC 8.125% 10/26/29	2,293	2.62
Lloyds Bank PLC 13.000% Perp	2,176	2.49
Promontia MMB SASu 8.000% Perp	2,128	2.44
Coventry Building Society 12.125% Perp	2,109	2.41
Commerzbank AG 6.125% Perp	2,106	2.41
Van Lanschot NV 6.750% Perp	2,060	2.36
Permanent TSB PLC 8.625% Perp	1,982	2.27
BNP Paribas Fortis SA 1.459% Perp	1,881	2.15
OneSavings Bank PLC 4.599% Perp	1,865	2.14
CYBG PLC 8.750% Perp	1,861	2.13
eSure Group PLC 6.750% 12/19/24	1,757	2.01
Ageasfinlux SA 0.833% Perp	1,737	1.99
NIBC Bank NV 6.000% Perp	1,676	1.92
Volksbank Wien AG 7.750% Perp	1,652	1.89
Banco de Credito Social Cooperativo SA 7.750% 06/07/22	1,602	1.83
Deutsche Bank AG 7.125% Perp	1,464	1.68
Quintet Private Bank Europe SA 7.500% Perp	1,451	1.66
Piraeus Bank SA 9.750% 06/26/24	1,431	1.64
Saxo Bank A/S 8.125% Perp	1,431	1.64
Aareal Bank AG 6.849% Perp	1,429	1.64
Bank of Scotland PLC 13.625% Perp	1,332	1.53
International Personal Finance PLC 9.750% 11/12/25	1,256	1.44
Jupiter Fund Management PLC 5.875% Perp	1,242	1.42
IKB Deutsche Industriebank AG 4.000% 01/31/28	1,232	1.41
Bank of Scotland PLC 7.281% Perp	1,226	1.40
UnipolSai Assicurazioni SpA 6.375% Perp	1,170	1.34
Banco Comercial Portugues SA 9.250% Perp	1,105	1.27
Gamalife – Cia de Seguros de Vida SA 1.659% 12/19/22	1,104	1.26
Novo Banco SA 3.500% 02/19/43	1,061	1.21
BA-CA Finance Cayman Ltd 0.000% Perp	1,042	1.19
Skipton Building Society 12.875% Perp	1,019	1.17
Saxo Bank A/S 5.500% 07/03/29	962	1.10
Grenke Finance PLC 1.625% 04/05/24	932	1.07
Abanca Corp Bancaire SA 7.500% Perp	929	1.06
BAWAG Group AG 5.125% Perp	913	1.04
Bank of Ireland 13.375% Perp	861	0.99
Virgin Money UK PLC 8.000% Perp	815	0.93
Bank of Cyprus PLC 9.250% 01/19/27	805	0.92
IKB Funding Trust I 0.962% Perp	767	0.88
TSB Group Holdings PLC 7.875% Perp	744	0.85
Caixa Economica Montepio Geral 5.000% Perp	720	0.82
Bank of Scotland PLC 9.375% Perp	675	0.77
Cassa di Risparmio di Asti SpA 9.250% Perp	668	0.77
HSB Group Inc 1.147% 07/15/27	666	0.76
Novo Banco SA Luxembourg 0.000% 04/16/46	654	0.75
AnaCap Financial Europe SA 5.000% 08/01/24	633	0.73

INVESTMENT PORTFOLIO

as at 31 December 2020 *(continued)*

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss *(continued)*		
Bonds *(continued)*		
Grenke Finance PLC 1.500% 04/09/21	627	0.72
Novo Banco SA 02/12/49	601	0.69
Lloyds Bank PLC 0.308% Perp	542	0.62
Sainsburys Bank PLC 6.000% 11/23/27	519	0.59
Louvre Bidco SAS 5.375% 09/30/24	519	0.59
Grenke Finance PLC 1.000% 04/05/23	491	0.56
GNB Cia de Securos de Vida SA 2.959% Perp	472	0.54
Newcastle Building Society 10.750% Perp	469	0.54
Metro Bank PLC 9.500% 10/08/25	461	0.53
Shawbrook Group PLC 9.000% 10/10/30	451	0.52
National Westminster Bank PLC 11.500% Perp	444	0.51
Natwest Group PLC 5.125% Perp	418	0.48
Nationwide Building Society 2.488% Perp	313	0.36
West Bromwich Building Society 2.000% Perp	276	0.32
RZB Finance Jersey III Ltd 0.000% Perp	275	0.31
Leeds Building Society 13.375% Perp	271	0.31
Ecology Building Society 9.625% Perp	266	0.31
Ulster Bank Ireland DAC 11.750% Perp	208	0.24
National Westminster Bank PLC 11.500% Perp	196	0.22
Alpha Group Jersey Ltd 1.312% Perp	182	0.21
Banco Popular Espanol SA 8.000% 07/29/21	–	–
Banco Popular Espanol SA 8.250% 10/19/21	–	–
Popular Capital SA Perp	–	–
Popular Capital SA 6.000% Perp	–	–
	78,877	90.30
Other capital instruments		
National Westminster Bank PLC 9.000% Perp	1,262	1.44
Bank of Ireland 12.625% Perp	722	0.83
RSA Insurance Group PLC 7.375% Perp	664	0.76
Lloyds Banking Group PLC 9.750% Perp	641	0.73
Ecclesiastical Insurance Group PLC 8.625% Perp	481	0.55
Standard Chartered PLC 7.375% Perp	406	0.47
Standard Chartered PLC 8.250% Perp	297	0.34
Santander UK PLC 8.625% Perp	116	0.13
	4,589	5.25
Total investments in capital instruments at fair value through profit or loss	83,466	95.55

INVESTMENT PORTFOLIO

as at 31 December 2020 *(continued)*

	£'000	% of NAV
Derivative financial assets at fair value through profit or loss		
Sale and repurchase agreement in respect of Royal Bank of Scotland Group PLC 0.563% Perp	1,313	1.50
Sale and repurchase agreement in respect of Stichting AK Rabobank Certificaten 0.000% Perp	1,047	1.20
Sale and repurchase agreement in respect of Stichting AK Rabobank Certificaten 0.000% Perp	1,037	1.19
Sale and repurchase agreement in respect of Société Générale SA 0.335% Perp	480	0.55
GBP/EUR foreign currency forward	415	0.48
GBP/USD foreign currency forward	360	0.41
Markit iTraxx Europe Subordinated Financial Index 12/20/21	135	0.16
BNP Paribas SA Senior CDS 12/20/26	133	0.15
Markit iTraxx Europe Subordinated Financial Index 06/20/22	93	0.11
Lloyds Bank PLC Senior CDS 06/20/22	55	0.06
Standard Chartered Bank Senior CDS 12/20/21	40	0.05
Markit iTraxx Europe Subordinated Financial Index 12/20/25	25	0.03
Danske Bank A/S Subordinated CDS 12/20/23	21	0.02
ING Bank NV Subordinated CDS 12/20/21	21	0.02
Intesa Sanpaola SpA Senior CDS 12/20/21	21	0.02
Lloyds Bank PLC Subordinated CDS 12/20/21	20	0.02
Intesa Sanpaolo SpA Subordinated CDS 12/20/21	16	0.02
Markit iTraxx Europe Subordinated Financial Index 12/20/21	10	0.01
CDS option in respect of Markit iTraxx Europe Senior Financial Index 12/20/25	10	0.01
UniCredit SpA Subordinated CDS 12/20/22	5	0.01
Derivative financial assets at fair value through profit or loss	5,257	6.02
Derivative financial liabilities at fair value through profit or loss		
Sale and repurchase agreement in respect of Shawbrook Group PLC 7.875% Perp	(1,980)	(2.27)
Sale and repurchase agreement in respect of Cofinga Funding Two LP 1.050% Perp	(1,644)	(1.88)
Sale and repurchase agreement in respect of FinecoBank SPA 5.875% Perp	(1,504)	(1.72)
Sale and repurchase agreement in respect of Van Lanschot NV 6.750% Perp	(1,355)	(1.55)
Sale and repurchase agreement in respect of Just Group PLC 8.125% 10/26/29	(1,285)	(1.47)
Sale and repurchase agreement in respect of Volksbank Wien AG 7.750% Perp	(1,144)	(1.31)
Sale and repurchase agreement in respect of CYBG PLC 8.750% Perp	(1,037)	(1.19)
Sale and repurchase agreement in respect of BNP Paribas Fortis SA 1.459% Perp	(851)	(0.98)
Sale and repurchase agreement in respect of NIBC Bank NV 6.000% Perp	(810)	(0.93)
Sale and repurchase agreement in respect of Louvre Bidco SAS 5.375% 09/30/24	(571)	(0.65)
United Kingdom of Great Britain and Northern Ireland Senior CDS 06/20/23	(66)	(0.08)
Lloyds Banking Group PLC Senior CDS 06/20/22	(51)	(0.06)
Lloyds Banking Group PLC Senior CDS 06/20/22	(30)	(0.03)
CDS option in respect of Markit iTraxx Europe Senior Financial Index 12/20/25	(3)	(0.00)
Derivative financial liabilities at fair value through profit or loss	(12,331)	(14.12)

INVESTMENT PORTFOLIO

as at 31 December 2020 *(continued)*

	£'000	% of NAV
Related party fund investments		
Axiom Global CoCo UCIT ETF USD-hedged	3,011	3.45
Axiom Global CoCo UCIT ETF GBP-hedged	1,089	1.25
Axiom Equity Class Z	666	0.76
Related party fund investments	4,766	5.46
Other assets and liabilities		
Short position in respect of Royal Bank of Scotland Group PLC 0.563% Perp	(1,360)	(1.55)
Short position in respect of Société Générale SA 0.335% Perp	(521)	(0.60)
Collateral accounts for derivative financial instruments at fair value through profit or loss	5,905	6.76
Cash and cash equivalents	4,297	4.92
Other receivables and prepayments	1,995	2.28
Other payables and accruals	(2,134)	(2.44)
Bank overdrafts	(1,650)	(1.89)
Collateral accounts for derivative financial instruments at fair value through profit or loss	(340)	(0.39)
Other assets and liabilities	6,192	7.09
Net assets	**87,350**	**100.00**

PRINCIPAL RISKS AND UNCERTAINTIES

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 Board has carried out a robust assessment of the Company's emerging and principal risks and the key risks faced by the Company, along with controls employed to mitigate those risks, are set out below.

Macroeconomic risk

Adverse changes affecting the global financial markets and economy as a whole, and in particular European financial debt markets, may have a material negative impact on the performance of the Company's investments. In addition, the Company's non-Pounds Sterling investments may be affected by fluctuations in currency exchange rates. Prices of financial and derivative instruments in which the Company invests are subject to significant volatility due to market risk.

The Company may use derivatives, including options, short market indices, credit default swaps ("CDS"), and others, to mitigate market-related downside risk, but the Company is not committed to maintaining market hedges at any time.

The Company has a systematic hedging policy with respect to currency risk. Subject only to the availability of suitable arrangements, the assets denominated in currencies other than Pounds Sterling are hedged by the Company (to a certain extent) by using currency forward agreements to buy or sell a specified amount of Pounds Sterling on a particular date in the future.

Historically, foreign exchange hedging has undermined many closed-ended investment funds, as a result of sharp movements in the foreign exchange rates leaving large hedging losses which could not be met as assets were illiquid and banks were under severe balance sheet strain and could not offer forbearance on facilities in breach.

The Company is exposed to foreign exchange hedging risks (see note 24) but this risk is mitigated by the following:

- Based on the worst case scenario observed in monthly spot movements in the past 10 years, our worst case expected hedging loss on expiry would be 4.33% of NAV;
- Our portfolio trading liquidity is such that it would take one day, in normal circumstances, to liquidate sufficient assets to meet such an anticipated worst case loss; and
- In "stressed" markets, we estimate it would take three days to raise such liquidity.

COVID-19 Pandemic

The effect of COVID-19 has been profound with the UK, which, according to government statistics, is facing its worst contraction in output for over 300 years. The impact on some sectors has been devastating whilst others have thrived. The full effects will take time to flow through fully and manifest themselves in the balance sheets of banks. It is pleasing to note that the recovery in the economy seems at present to be quicker than might have been feared. We must, however, recognise the possibility that there will be further future "waves" and variants of the COVID virus and it will be some time before the pandemic can be declared "over".

As the COVID-affected countries come out of lockdown and try to restart their economies and bring them back to a normal level, the authorities continue to deploy the measures deemed necessary.

As for the banks, they continue to be part of the solution and the authorities expect them to continue playing their role in lending to the economy. For this, the banks are offered the funding they can wish for at a negative cost from the ECB through the targeted longer-term refinancing operations ("TLTROs"), and are granted a significant relief in their capital requirements through the capital requirements regulation ("CRR") quick fix and in their risk-weighted assets ("RWAs") through the state guarantees.

In this context, we can only express reservations on the near-term outlook for the banking sector and its capacity to restart paying out capital to equity investors. However, non-equity capital instruments continue to offer a vast array of opportunities.

At the height of the lockdowns in Guernsey, the UK, France and Luxembourg, the Administrator and Investment Manager showed that they were able to work remotely without any significant negative impact on the Company's operations.

The impact of the various vaccines has yet to be seen, but there is light at the end of the COVID-19 pandemic tunnel, and it is expected that (as vaccine programmes are rolled out globally) the risk to the Company from the pandemic will continue to decrease throughout 2021.

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

Macroeconomic risk (continued)

Brexit

The UK left the EU on 31 January 2020, and the subsequent 11 month transition period ended on 31 December 2020. The UK's ongoing relationship with the EU is now governed by the EU Withdrawal Agreement and a Trade and Cooperation Agreement ("TCA") agreed on 24 December 2020. The end of the transition period and the certainty of there being a TCA in place has reduced the risk that the uncertainty of Brexit created. However, although the immediate uncertainty arising from Brexit has reduced, the impact over the next three years of Brexit on European financial securities is yet to be seen.

Investment risk

There are certain risks associated with the Company's investment activities that are largely a result of the Company's investment policy (e.g. a portfolio concentrated on European financial debt) and certain investment techniques which are inherently risky (e.g. short selling).

There are numerous risks associated with having a concentrated portfolio and the primary risk management tool used by the Company is the extensive research performed by the Investment Manager prior to investment, along with the ongoing monitoring of a position once held in the Company's portfolio. The Board reviews portfolio concentration and receives a detailed overview of the portfolio positions quarterly, and more frequently if necessary.

Counterparty risk

The Company has credit and operational risk exposure to its counterparties which will require it to post collateral to support its obligations in connection with forwards and other derivative instruments. Cash pending investment or held on deposit will also be held with counterparties. The insolvency of a counterparty would result in a loss to the Company which could be material.

In order to mitigate this risk the Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The Investment Manager negotiates its International Swaps and Derivatives Association ("ISDA") agreements to include bilateral collateral agreements. In addition, cash held is only with financial institutions with short term credit ratings of A-1 (Standard & Poor's) or P-1 (Moody's) or better.

Exposure to counterparties is monitored by the Investment Manager and reported to the Board each quarter.

Credit risk

The Company may use leverage to meet its investment objectives. The Company will also use forward contracts to hedge its non-Pounds Sterling assets. In order to do this, it will need to have in place credit lines with one or more financial institutions.

Due to market conditions or other factors, credit lines may be withdrawn and it might not be possible to put in place alternative arrangements. As such, the ability to meet the Company's investment objective and/or hedging strategy may not be met.

The Investment Manager monitors the use of credit lines and reports to the Board each quarter.

Share price risk

The Company is exposed to the risk that its shares may trade at a significant discount to NAV or that the market in the shares will be illiquid. To mitigate this risk the Company increased the frequency of the publication of its NAV to daily and has retained the Broker to maintain regular contact with existing and potential shareholders. In addition, the Company may instigate a share buyback programme in an attempt to reduce the discount. The Board monitors the trading activity of the shares on a regular basis and addresses the premium/discount to NAV at its regular quarterly meetings.

From 1 January 2020 to 31 December 2020, the Company's shares traded at an average discount to NAV of 8.29% (2019: 6.26% discount to NAV). The premium rose to 3.60% on 18 March 2020 as markets dropped following the rapid spread of COVID-19, which resulted in most European countries being put into lockdown. Tumultuous trading conditions continued, resulting in the price of the Company's shares falling to a discount to NAV of 17.03% on 5 June 2020, which coincided with the easing of lockdown restrictions in many European countries and the expansion of measures put in place by regulators and governments. At the year end the shares traded at a 7.47% discount to NAV (2019: 5.41% discount). The level of discount continues to be monitored by all parties with a view to introducing methods to improve the position, if necessary.

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

Regulatory risk

Brexit may, in time, lead to divergence in regulatory regimes between the UK and the EU and may create additional investment and trading opportunities. However, in a process which is yet to be determined, it is too early to fully appreciate what these opportunities will be or when they will present themselves.

Changes in laws or regulations, or a failure to comply with these, could have a detrimental impact on the Company's operations. Prior to initiating a position, the Investment Manager considers any possible legal and regulatory issues that could impact the investment and the Company. The Company's advisers and service providers monitor regulatory changes on an ongoing basis, and the Board is apprised of any regulatory inquiries and material regulatory developments on a quarterly basis.

Reputational risk

Reputational damage to the Company or the Investment Manager as a result of negative publicity could adversely affect the Company. To address this risk, the Company has engaged a public relations firm to monitor media coverage and actively engage with media sources as necessary. The Board also receives updates from the Broker and the Investment Manager on a quarterly basis and considers measures to address concerns as they arise.

ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

As an investment company, the Company does not have any employees or physical property, and most of its activities are performed by other organisations. Therefore, the Company does not combust fuel and does not have any greenhouse gas emissions to report from its operations, nor does it have direct responsibility for any other emission producing sources.

Environmental, Social and Governance ("ESG") Policy

The Board believes that all companies have a duty to consider their impact on the community and the environment. The Directors, Administrator, Company Secretary and external auditor are all based in Guernsey and Board meetings are held in Guernsey, thus negating the need for long commutes or flights to/from Board meetings, and thereby minimising the negative environmental impact of travel to/from Board meetings.

When making investment decisions, the Investment Manager uses three main mechanisms to integrate ESG criteria:

- Its in-house database and tools dedicated to ESG, as described in its ESG policy which is available on their website https://axiom-ai.com/web/en/regulatory-information/);
- Engagement with management or investor relations teams to get additional information; and
- Information published in annual reports or other regulatory filings (such as TCFD or sustainability reports).

Axiom AI's Investment Committee is ultimately responsible for the progress of ESG integration by the investment teams, under the supervision of Axiom AI's Executive Committee.

In addition to the ESG policy, Axiom AI maintains an exclusion list. Investments in securities issued by a firm on that exclusion list are prohibited. If a name is added to the exclusion list and the securities are already in the portfolios, the portfolio manager must divest the securities, in a way that is not harmful to holders (no fire sale). The list is mainly based on the lists established by recognized key players, such as the Norwegian government pension fund. The list was introduced in order to formalise the Investments Manager's desire not to invest in any company engaged in activities that do not correspond to our values and our requirements in terms of sustainable development. Companies can be excluded, for example because they produce controversial weapons, such as the ones covered by the Ottawa and Oslo Conventions (anti-personnel mines, cluster munitions). This list is regularly reviewed and amended.

GENDER DIVERSITY

The Board of Directors of the Company currently comprises three male Directors. Further information in relation to the Board's policy on diversity can be found in the Directors' Remuneration Report on page 44.

KEY PERFORMANCE INDICATORS

The Board uses the following key performance indicators ("KPIs") to help assess the Company's performance against its objectives. Further information regarding the Company's performance is provided in the Chairman's Statement and the Investment Manager's Report.

Dividends per Ordinary Share
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 announced dividends of £5,511,000 (6.00p per Ordinary Share) for the year ended 31 December 2020 (2019: 6.00p per Ordinary Share) (see note 6 for further details). The Company has met the 6.00p dividend per share target each year since inception and expects to continue to be able to pay out dividends of this level in the future.

NAV and total return
In line with the Prospectus, the Company is targeting a net total return on invested capital of approximately 10% p.a. over a seven year period.

The Company achieved a total return of 1.73% in the year ended 31 December 2020 (2019: +16.98%). The total return from inception to 31 December 2020 was 4.60% p.a., which is below the long term target return of 10% p.a. net of operating expenses. Although, the future rate of return and dividends cannot be guaranteed, together with the Investment Manager, the Board believes that the Company's long-term target return will be achievable in the future.

The Board regularly monitors the premium/discount of the price of the Ordinary Shares to the NAV per share. Should the discount of share price to NAV become unacceptable to the Board, the Company may buy back some of its shares. Accordingly, the Board puts forward a proposal to Shareholders at the Annual General Meeting to renew the authority to buy back shares.

At 31 December 2020 the share price was 88.00p (2019: 94.00p), a 7.47% discount to NAV (2019: 5.41% discount).

PROMOTING THE SUCCESS OF THE COMPANY

The following disclosure outlines how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006. Although, as a Guernsey company, the Company is not required to directly comply with the Companies Act 2006, Section 172 is considered as a requirement of the AIC Code of Corporate Governance with which the Company complies (see page 35 for further details).

The Board considers the needs of a number of stakeholders when considering the long-term future of the Company. The key stakeholders with which the Board has liaised during the year ended 31 December 2020 were:

- Shareholders; and
- Key service providers.

Shareholders
The Company's significant Shareholders at the year end can be found in the Directors' Report on page 33.

When making principal decisions it is considered imperative to analyse the views of the Company's investors, to ensure that there may continue to be a supply of capital enabling the Company to continue to expand its shareholder base, realise its potential for growth and achieve its long-term investment objective (as disclosed on page 2). The key performance indicators, detailed above, have been considered on an ongoing basis as part of the Board's decision making process.

Details of how the Director's communicate with Shareholders can be found in the Corporate Governance Report, on page 37.

Other than the routine engagement with investors regarding strategy and performance, Board composition and absence of a nomination committee were discussed with investors. Following these discussions, the Board considered its current size and structure in detail and concluded that it was not currently appropriate to expand the Board or establish additional committees beyond the introduction of formal Management Engagement and Nomination and Remuneration Committees although this would be kept under review.

Key service providers
Details of the Company's key service providers can be found in the material contracts section of the Directors' Report on page 32.

The key service providers, including the Investment Manager, are fundamental to the Company's ability to continue in the same state as any changes could disrupt the expected timeliness of information provided to the markets. In turn this would be likely to have a detrimental impact on the Company's reputation. Reputational risk is discussed further on page 25.

The Board considers the performance of the Investment Manager to be imperative to the success of the Company and therefore, reviews the performance of the Investment Manager at each Board meeting. The Investment Manager and Administrator provide the Board with documentation for consideration at the meetings to assist with their review of performance and the Investment Manager also provides a verbal report to the Board. The Directors raise any queries they have at these meetings with the Investment Manager to help ensure the successful implementation of the investment objective and success of the Company.

The Board has continuous access to all of the Company's key service providers and has open two-way communication with them. Key aspects of discussion with these service providers, other than those regarding Company performance and strategy, were in respect of fees payable to these providers.

Following these discussions, no fee arrangements were amended in the year ended 31 December 2020.

William Scott
Chairman
22 March 2021

BOARD OF DIRECTORS

William Scott ***(Chairman and Chairman of the Management Engagement Committee)***
Bill is an independent non-executive director of a number of investment companies and funds. He was formerly Senior Vice President with FRM Investment Management Limited, a leading manager of institutional funds of hedge funds in Guernsey and now part of Man Group Plc. Prior to this, he was a director at Rea Brothers (which became part of the Close Brothers group in 1999 and where he was a director of Close Bank Guernsey Limited). He is a Chartered Accountant, holds the Securities Institute Diploma and is a Chartered Fellow of the Chartered Institute for Securities and Investment. He is also a Chartered Wealth Manager.

Bill currently serves on one other Premium London listed fund board, Worsley Investors Limited, and has served continuously on Premium London listed boards for over 18 years. He is also a director of RTW Venture Fund Limited which is listed on the Specialist Fund Segment of the London Stock Exchange's Main Market.

John Renouf ***(Chairman of the Audit Committee and Senior Independent Director)***
John is a qualified accountant and was employed by FRM Investment Management Limited, which is now a wholly owned subsidiary of Man Group Plc, as a Director and then Managing Director. Prior to this, John was employed on a part time basis by Collins Stewart to assist in its development of offshore funds and he also spent over ten years with Royal Bank of Canada Offshore Fund Managers Limited in Guernsey. In this role he had overall responsibility for the management and administration of Royal Bank of Canada's offshore funds in the Channel Islands together with funds managed and administered on a third party basis.

John currently holds a number of directorships of funds and fund management companies.

Max Hilton ***(Chairman of the Nomination and Remuneration Committee)***
Max returned to Guernsey from New York in 2008 and formed the predecessor firm to Clarus Risk. He previously worked for JP Morgan Securities Inc in New York within proprietary equities and was responsible for managing a global equities portfolio. Prior to this Max had worked at Ziff Brothers Investments in New York and London as a Senior Associate within the quantitative strategy group. Max has a BSc (Hons) Economics from the University of London and has held the CFA designation since 2001. Since 2009 through 2019 he served as Chair of the CFA UK Performance and Risk Measurement Special Interest Group.

DIRECTORS' REPORT

The Directors of the Company are pleased to present their report and audited financial statements for the year ended 31 December 2020.

Principal activity
The principal activity of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in certain financial institution investment instruments as detailed on page 2.

Results and Dividends
The results of the Company for the year are shown on page 56.

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 announced dividends of 6.00p per Ordinary Share for the year ended 31 December 2020, of which 4.50p per Ordinary Share were provided for in these financial statements. In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, the fourth dividend of £1,378,000 (1.50p per Ordinary Share) had not been provided for at 31 December 2020 as, in accordance with IFRS, it was not a liability of the Company at that date.

The Directors do not recommend the payment of a final dividend for the financial period.

Net assets
At 31 December 2020, the Company had net assets of £87,350,000 (2019: £91,284,000).

Capital structure and share issues
At the year end and the date of signing this report, there were 91,852,904 Ordinary Shares in issue.

Further details are provided in note 21 to the financial statements.

Going concern
The Company's investment activities, together with factors likely to affect its future development, performance and position are set out in the Principal Risks and Uncertainties on pages 23 to 25. The Company closely monitors and manages these risks through a process of ongoing identification, measurement and evaluation, and applies risk management procedures to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

The COVID-19 outbreak has impacted virtually all businesses and the Board expects that it will continue to impact economies over the coming months. The Board and Investment Manager are monitoring this closely and the potential impact this may have on the Company, its investments, income and intention to distribute all income from investments, net of expenses, by way of dividends on a quarterly basis. 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. In such circumstances, and subject to the availability of opportunities to do so, the options open to the Board could include any or all of the following: selling assets, deferring expenses, reducing dividends, borrowing or raising additional capital.

The Board has considered the financial prospects of the Company for the next twelve months from the date of approval of the Financial Statements and made an assessment of the Company's ability to continue as a going concern. In assessing the going concern status of the Company, the Directors have considered:

- the Company's net assets at 31 December 2020 of £87,350,000 (2019: £91,284,000);
- the predictability of the Company's income and expenses;
- the liquidity of the Company's assets (at 31 December 2020, 67.4% of its capital instruments could be liquidated in one day); and
- that the Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations.

DIRECTORS' REPORT *(continued)*

Going concern *(continued)*
After undertaking prudent and robust enquiries, and assessing all data relating to the Company's liquidity, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Company. For this reason, they have adopted the going concern basis in preparing the financial statements.

Viability statement
The Directors have assessed the prospects of the Company over the three year period to 31 March 2024. The Directors believe this period to be appropriate as any forecast beyond three years would likely produce figures that are too uncertain to be meaningful.

In their assessment of the viability of the Company, the Directors have considered the Company's principal risks and uncertainties (see pages 23 to 25) together with the Company's income and expenditure projections. The Directors also noted the relatively liquid nature of the Company's portfolio, which could be utilised to meet funding requirements, if necessary.

As part of its strategic planning, the Board considered model scenarios that replicated the impact of a financial crisis on the Company's portfolio, which would cause large NAV declines, mainly due to 20% to 25% reductions in prices of the capital instruments held by the Company. The results of these model scenarios showed that the Company would be able to withstand the impact of these scenarios occurring over the three year period.

The Company has processes for monitoring operating costs, share price discount, the Investment Manager's compliance with the investment objective and policy, asset allocation, the portfolio risk profile, counterparty exposure, liquidity risk, foreign exchange risk and financial controls.

Based on the above evaluation, the Directors concluded that there is a reasonable expectation that the Company will continue in operational existence, be able to pay its debts as they fall due, and be viable for the three year period to 31 March 2024.

Litigation
So far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Company.

Internal control and financial reporting
The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal controls are as follows:

- The Administrator is responsible for the provision of administration and company secretarial duties;
- The duties of investment management, custody of assets, and accounting are segregated. The procedures are designed to complement one another;
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts;
- The Directors of the Company maintain a schedule of items reserved for the Board. This schedule is reviewed on an annual basis;
- The Board reviews financial information produced by the Company's Investment Manager and the Administrator on a regular basis; and
- On an ongoing basis, compliance reports are provided by the Investment Manager and Administrator at each Board meeting.

DIRECTORS' REPORT *(continued)*

Internal control and financial reporting *(continued)*

The Company does not have an internal audit department. All of the Company's management functions are delegated to third parties and it is therefore felt that there is no need for the Company to have an internal audit function.

The Board has considered the FRC guidance on risk management, internal control and related financial and business reporting. The Board is responsible for ensuring the maintenance of a robust system of internal control and risk management and for reviewing the effectiveness of the Company's overall internal control arrangements and processes following recommendations from the Audit Committee.

The appointment of the Investment Manager as the Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive means that it is responsible for operating the Company's internal system of control and for initially reviewing its effectiveness. Such systems are however designed to minimise the risk and not entirely eliminate risk; they can provide only reasonable assurance against material misstatement or loss.

Financial risk profile

The Company's financial instruments comprise investments at fair value through profit or loss, cash and cash equivalents, other receivables and other payables that arise directly from the Company's operations.

The Board has ultimate responsibility for risk management. Given that there are certain inherent risks related to the business and operations of the Company, the Board believes that developing an effective risk management strategy is crucial to the ongoing viability of the Company. In connection thereto, the Board carries out a robust assessment of the principal risks and uncertainties facing the Company, including those that would threaten its business model, future performance, solvency, liquidity or reputation. The main financial risks are market risk (comprising price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. Further details are given in note 24 to the financial statements. The principal risks and uncertainties faced by the Company are outlined on pages 23 to 25.

Material contracts

The Company's material contracts, which are with its key service providers, are with:

- Axiom, which acts as Investment Manager and AIFM (note 8a);
- Elysium Fund Management Limited ("Elysium" or the "Administrator"), which acts as Administrator and Company Secretary (note 8b);
- Winterflood Securities Limited ("Winterflood"), which acts as Broker (note 8c);
- CACEIS Bank France, which acts as Depositary (note 8e); and
- Link Market Services (Guernsey) Limited, which acts as Registrar (note 8d).

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.

DIRECTORS' REPORT *(continued)*

Substantial shareholdings

As at 31 December 2020, and at the date of signing this report, the Company was aware of the following interests of 3% or more in the Company's voting rights:

Shareholder	Number of Ordinary Shares	Percentage holding
Serimnir Fund	13,769,672	14.99
Axiom Alternative Investments SARL	13,598,899	14.81
Alvis Asset Management	12,929,915	14.08
Alder Investment Management	10,403,042	11.33
Premier Miton Group PLC	8,475,718	9.23
Capfi Delen Asset Management	8,120,000	8.84
Seven Investment Management	5,976,319	6.51
UBS Wealth Management	3,873,400	4.22
Fidelity International	3,473,245	3.78

Letters of appointment and election of Directors

Biographies of the Directors are set out on page 29 and demonstrate the wide range of skills and experience each brings to the Board. The Directors were identified and interviewed prior to their appointments and advice was taken in respect of their appointments from the Company's other relevant advisers.

Each Director signed a letter of appointment to formalise their engagement as a Director. Copies of the letters of appointment are available on request from the Company Secretary and will be available at the Annual General Meeting ("AGM").

All three of the Directors are independent Non-Executive Directors who were appointed on 7 October 2015 and served throughout the period and to the date of signing this report. In accordance with best practice, all directors retire at each AGM and, if eligible, may offer themselves for re-election by the Shareholders.

Directors' interests

At 31 December 2020 and at the date of signing this report, the Directors did not have any interests in the shares of the Company.

During the year, no Director had a material interest in a contract to which the Company was a party (other than their own letter of appointment).

Political donations

The Company made no political donations during the year to organisations either within or outside of the EU.

Corporate Governance

The Corporate Governance Report can be found on pages 35 to 37.

Auditor

The Company received proposals from a number of audit firms in the year. In making the decision regarding the appointment of the auditor, the Board was cognisant of a number of aspects including cost and expertise. After due consideration of the proposals, the Board agreed to appoint Grant Thornton Limited ("Grant Thornton") as the Company's auditor with effect from 19 August 2020.

Disclosure of information to auditor

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

On behalf of the Board

William Scott
Chairman
22 March 2021

John Renouf
Director
22 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Companies (Guernsey) Law, 2008 (the "Law") requires the Directors to prepare financial statements for each financial period. Under the Law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS").

The financial statements are required by law to give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the financial statements have been prepared in accordance with IFRS; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Law. They are also responsible for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

Responsibility Statement

Each of the Directors, whose names and functions are listed in the Directors' Report, confirms that, to the best of each person's knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face;
- the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, position, business model and strategy; and
- the Annual Report and Audited Financial Statements includes information required by the FCA for the purpose of ensuring that the Company comply with the provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the FCA.

This responsibility statement was approved by the Board of Directors on 22 March 2021 and was signed on behalf of the Board.

William Scott
Chairman
22 March 2021

John Renouf
Director
22 March 2021

CORPORATE GOVERNANCE REPORT

As a Guernsey regulated entity, the Company is subject to the Guernsey Financial Services Commission's "Finance Sector Code of Corporate Governance". In addition, companies with shares listed on the Premium Segment are required to comply with the UK Corporate Governance Code 2018 (the "Code").

The Company is committed to high standards of corporate governance and has sought to comply with those aspects of the Code that are considered by the Board to be practical and appropriate for an organisation of its size and nature.

The Company is a member of the Association of Investment Companies (the "AIC"). In applying the main principles set out in the Code, the Directors have considered the principles and provisions of the AIC Code of Corporate Governance (the "AIC Code"), which is available at www.theaic.co.uk. The AIC Code addresses all the principles set out in the Code, as well as setting out additional principles and provisions on issues that are of specific relevance to the Company as an investment company. The Board considers that reporting against the principles and provisions of the AIC Code (which incorporates the main principles of the Code) will provide better information to Shareholders.

The Directors recognise the value of the AIC Code and have taken appropriate measures to ensure that, the Company has complied and continues to comply, as far as possible given the Company's size and nature of the business, with the AIC Code, except as set out below:

Chairman – The Chairman of the Company is a member of the Audit Committee, but does not chair it. His membership of the Audit Committee is considered appropriate due to: the lack of perceived conflict; the small size of the Board; and because the Directors believe that he continues to be independent.

Internal audit function – No internal audit function is considered necessary because the Company is an externally managed investment company with no employees. Details of the Company's principal outsourced service providers are detailed in note 8.

Training and induction – No formal training or induction is in place for the Directors. However, all of the Directors are professionally qualified and are therefore required to undertake a sufficient amount of continuous professional development by their professional bodies.

The Board and its Committees

The Board has delegated certain responsibilities to its Audit Committee, Management Engagement Committee and Nomination and Remuneration Committee (together the "Committees"). Given the size and nature of the Board it is felt appropriate that all independent Directors are members of the Committees.

The roles and responsibilities of the Committees are set out in the terms of reference and are summarised below.

Items are discussed and, as appropriate, matters are endorsed, approved or recommended to the Board by the Committees. The chairman of each of the Committees provides the Board with a summary of the main discussion points at the committee meeting and any decisions made by the committee along with any recommendations which require Board approval.

The Board may also delegate certain functions to other parties; in particular the Directors may delegate to the Investment Manager. However, the Directors retain responsibility for exercising overall control and supervision of the Investment Manager. Matters reserved for the Board include, amongst others, approval and oversight of the Company's investment activities by ensuring that the Company has complied with its investment restrictions. The Board also reviews the performance of the Company against its target return (as defined in the Prospectus) and, in light of the current market conditions, considers the strategy taken by the Investment Manager. Approval of the half-yearly report and financial statements, announcements, dividends and annual report and financial statements are also reserved for the Board.

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Committees *(continued)*

Audit Committee

The Company's Audit Committee, comprising all the independent Directors of the Company, meets at least three times a year. John Renouf is the chairman of the Audit Committee.

The Audit Committee:

- Monitors the financial reporting process;
- Monitors the effectiveness of the Company's internal control and risk management systems;
- Monitors the annual statutory audit process;
- Reviews and monitors the independence of the Company's auditor in particular relation to the auditor's provision of additional services to the Company;
- Reviews the whistleblowing procedures of the Investment Manager; and
- Is responsible for recommending valuations of the Company's investments to the Board.

Details of the internal control and reporting processes can be found in the financial reporting processes section of the Directors' Report on pages 31 and 32.

Management Engagement Committee

The Company's Management Engagement Committee, comprising all the independent Directors of the Company, established in the year, meets at least once a year. William Scott is the chairman of the Management Engagement Committee.

The Management Engagement Committee monitors the performance of the Company's investment manager and other key service providers.

Nomination and Remuneration Committee

The Company's Nomination and Remuneration Committee, comprising all the independent Directors of the Company, established in the year, meets at least once a year. Max Hilton is the chairman of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee considers the appointment and reappointment of Directors and ensures that the Company maintains fair and appropriate remuneration policies and controls.

Board meeting attendance

During the year, the Company held ten Board meetings, five Audit Committee meetings, one Management Engagement Committee meeting and one Nomination and Remuneration Committee meeting. Attendance at these meetings is detailed below:

	Scheduled Board meetings	Transactional Board meetings	Audit Committee meetings	Management Engagement Committee meetings	Nomination and Remuneration Committee meetings
William Scott	6/6	4/4	5/5	1/1	1/1
John Renouf	6/6	4/4	5/5	1/1	1/1
Max Hilton	6/6	4/4	5/5	1/1	1/1

The Directors' Remuneration Report and Directors' tenure policy can be found on page 41.

CORPORATE GOVERNANCE REPORT *(continued)*

Board's performance evaluation

During the year, the Board undertook its annual performance evaluation. The Board completed a broad-reaching questionnaire produced by the Administrator, whereby each Director evaluated the Board, its committees and the other Directors, the results of which were collated and reviewed in detail. As part of the evaluation, the Board considered, amongst other things:

- the independence of each Director; and
- its culture, including its policies, practices and behaviour;

and it was determined that overall the Board was fit for purpose and that each of the Directors continued to contribute effectively to the Board.

Review of service providers

During the year the Board conducted a formal review of the Company's service providers and concluded that each of the Company's service providers had performed either satisfactorily or well. In the opinion of the Board, the continued appointment of the Investment Manager and the Company's key service providers is in the best interests of the Shareholders as a whole. Going forward, the annual review of service providers will be undertaken by the Management Engagement Committee.

Relations with Shareholders and AGM

The Company encourages two-way communication with both its institutional and private investors and intends to respond quickly to queries raised. Details of the topics discussed with Shareholders during the year can be found on page 28.

All Shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The notice of the AGM, which will be circulated to all registered Shareholders, sets out the business of the meeting and an explanation of each proposed resolution. Separate resolutions are proposed in respect of each substantive issue.

Shareholders are encouraged to attend the AGM and to participate in the proceedings. The Chairman of the Board and other members of the Board, together with representatives of the Investment Manager, will be available to answer Shareholders' questions at the AGM. Proxy voting figures will be available to Shareholders at the AGM.

The Company has engaged the Broker and a public relations firm to monitor media coverage and actively engage with media sources as necessary. The Board receives an update from the Broker and the Investment Manager on a quarterly basis and considers measures to address concerns as they arise. The Investment Manager holds regular discussions with major Shareholders, the feedback from which is provided to, and greatly valued by, the Board. The Directors are available to enter into dialogue and correspondence with Shareholders regarding the progress and performance of the Company.

On behalf of the Board

William Scott
Chairman
22 March 2021

AUDIT COMMITTEE REPORT

Composition

The Audit Committee comprises all the independent Directors of the Company, all of whom have recent relevant financial and sector experience, and is chaired by John Renouf. John Renouf has substantial business experience together with the necessary experience in accounting and auditing. Both Mr Renouf and Mr Scott are qualified accountants and Mr Hilton has experience in portfolio and risk management.

Responsibilities

The Audit Committee monitors the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regards to matters communicated to it by the external auditor.

The Audit Committee monitors potential changes to the Code, AIC Code and relevant legislation relating to the appointment of auditors, restrictions on the non-audit services provided by external auditors and the fees they receive.

The key responsibilities and principal activities of the Audit Committee, as identified in its terms of reference and other than as mentioned above, are as follows:

- To review, and challenge where necessary, the consistency of, and any changes to, significant accounting policies both on a year-on-year basis;
- To review, and challenge where necessary, the methods used to account for significant or unusual transactions where different approaches are possible;
- To review, and challenge where necessary, any significant adjustments resulting from the audit;
- To review, and challenge where necessary, the going concern assumption;
- To review, and challenge where necessary, whether the Company has followed applicable regulatory and legal requirements and appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- To review, and challenge where necessary, the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- To review, and challenge where necessary, any valuations provided in relation to the Company's investments; and
- To review, and challenge where necessary, all material information presented with the financial statements, such as the strategic report and any corporate governance statements relating to audit management.

As the Company has no employees, the Company does not have a whistleblowing policy in place. However, the Audit Committee reviews the whistleblowing procedures of the Investment Manager and the external service providers to ensure that the concerns of their staff may be raised in a confidential manner.

Meetings

The Audit Committee meets at least three times a year at appropriate intervals in the financial reporting and audit cycle. Further meetings will take place should the chairman of the Audit Committee or other members require. Only the Audit Committee members have the right to attend and vote at these meetings. However, other individuals, such as representatives of the Investment Manager, other representatives from the finance function of the Company (including the Administrator), and the external auditor may be invited to attend all or part of any meeting.

Primary areas of judgement in relation to the Annual Report and Financial Statements

The Audit Committee has considered the significant judgements made in the Annual Report and Financial Statements. The Audit Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

AUDIT COMMITTEE REPORT *(continued)*

Primary areas of judgement in relation to the Annual Report and Financial Statements *(continued)*

The Company places reliance on the control environment of its service providers, including its independent administrator and the Investment Manager. The internal controls over financial reporting were considered, together with feedback from the Company's Investment Manager, Company Secretary and the Company's external auditor. The Audit Committee is satisfied with the controls in place.

The Audit Committee has considered the valuation of Level 2 investments at fair value through profit or loss. It is satisfied that the valuations are in accordance with the Company's accounting policies and that the carrying values used in these financial statements represent an appropriate fair value.

The Audit Committee has also considered the methodology used for revenue recognition and is satisfied that the revenue recognised in these financial statements is in accordance with the Company's accounting policies and the requirements of IFRS.

The Audit Committee met with the audit team during the audit process and, after considering the audit process and various discussions with Grant Thornton, the Investment Manager and the Administrator, are satisfied that the audit was undertaken in an effective manner and addressed the main risks. The Audit Committee received a report and supporting presentation from Grant Thornton on its audit of the financial statements for the financial year ended 31 December 2020.

Fair, balanced and understandable

The Audit Committee read and discussed the Annual Report, with special attention to the considerations included above and the Audit Committee and the Board concluded that it is fair, balanced and understandable. The Audit Committee advised the Board that the Annual Report and Financial Statements are fair, balanced, and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Viability Statement

The Audit Committee reviewed the Viability Statement and supporting workings and recommended to the Board that the Viability Statement included on page 31 should be approved.

Internal audit

The Audit Committee and the Board have considered the need for an internal audit function and they have decided that the procedures employed by the Investment Manager and Administrator give sufficient assurance that a sound system of internal control is maintained. Therefore, an internal audit function is not considered to be necessary. However, in accordance with the Audit Committee's terms of reference, the requirement will be re-visited annually.

External audit

The Company received proposals from a number of audit firms in the year. In making the decision regarding the appointment of the auditor, the Board was cognisant of a number of aspects including cost and expertise. After due consideration of the proposals, and in line with recommendations from the Audit Committee, the Board agreed to appoint Grant Thornton Limited ("Grant Thornton") as the Company's auditor with effect from 19 August 2020.

The Audit Committee met with the previous auditor Ernst & Young LLP ("EY") during the year, in March and April 2020 and received a presentation of the audit findings report and discussed the audit of the 31 December 2019 financial statements. No significant issues were noted in the audit findings report presented.

The Audit Committee met with Grant Thornton on 16 November 2020 at which Grant Thornton presented the detailed audit plan for the audit of the 31 December 2020 financial statements. The audit plan sets out the audit scope, the significant audit risks the Company faces, Grant Thornton's position on audit independence, materiality, proposed timetable and audit fee. Following completion of the audit, the Audit Committee reviewed Grant Thornton's effectiveness by:

- Discussing the overall risk-based audit process and the audit procedures taken to address the identified significant audit risks;
- Considering the feedback on the audit provided by the Investment Manager and the Administrator; and
- Considering the experience, involvement of specialists and continuity of the audit team, including the audit partner.

The feedback provided by the Investment Manager and the Administrator regarding the audit team's performance was positive. The Audit Committee acknowledged that the audit team, including the audit partner, comprised staff with appropriate levels of knowledge and experience.

AUDIT COMMITTEE REPORT *(continued)*

External audit *(continued)*

Certain non-audit services may be provided by the external auditor, subject to the level of fees involved, which are not considered to impair the external auditor's independence or objectivity. The Audit Committee considered the safeguards in place to protect the external auditor's independence by taking into account Grant Thornton's report to the Audit Committee that its objectivity had not been compromised. The Audit Committee agreed that the following services are prohibited from being provided by the external auditor: bookkeeping, payroll, administration services, management functions, executive recruiting and human resource services, broker-dealer services, expert services unrelated to their audit function and actuarial services. This list may also include any service that the Audit Committee determines not to be permissible.

For the year ended 31 December 2020, total fees charged by Grant Thornton, together with amounts accrued at 31 December 2020, amounted to £37,000 all of which related to audit services (2019 total fee payable to EY: £43,000, all of which related to audit services).

Having undertaken a formal audit tender process during 2020, the Audit Committee has no immediate plans to conduct another one, but considers the need for a tender at least annually.

A resolution to re-appoint Grant Thornton as Auditor will be proposed at the forthcoming AGM.

On behalf of the Audit Committee

John Renouf
Chairman of the Audit Committee
22 March 2021

DIRECTORS' REMUNERATION REPORT

The Nomination and Remuneration Committee, which was formed in the year, has been established to consider the appointment and reappointment of Directors and ensure that the Company maintains fair and appropriate remuneration policies and controls. The Nomination and Remuneration Committee comprises all the independent Directors of the Company and is chaired by Max Hilton.

The Company is not required to present a Director's Remuneration Report, and this report does not purport to meet all of the requirements of a typical listed UK company's Directors' Remuneration Report, but has been provided as the Directors believe that it may be useful to users of this annual report and financial statements.

The Directors, all of whom are independent non-executive Directors, are the only officers of the Company. Copies of the Directors' letters of appointment are available upon request from the Company Secretary and will be available for inspection at the AGM.

Tenure policy
At every AGM any Director:

- who has been appointed by the Board since the previous AGM;
- who held office at the time of the two preceding AGMs and who did not retire at either of them; or
- who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer themselves for re-appointment by the holders.

However, in accordance with the requirements of the AIC Code, all Directors retire at each AGM and, if eligible, may offer themselves for re-election.

In accordance with the AIC Code, if and when any Director has been in office (or upon re-election would at the end of that term, be in office) for more than nine years, or in the case of the Chairman ten years, the Company will consider whether there is a risk that such Director might reasonably be deemed to have lost independence through such long service. The term for the Chairman has been deemed to be ten years (not nine years) to help ensure some continuity within the Board, as all three of the Directors were appointed on the same date.

Termination policy
Should a Director not be re-elected by Shareholders, or retires from office under the Articles of Incorporation, the appointment shall be terminated with immediate effect and without compensation.

A Director may resign at any time by notice in writing to the Board in accordance with the Articles of Incorporation.

The Company may terminate a Director's appointment with immediate effect should the Director have:

- Committed any serious breach or (after warning in writing) any repeated or continued material breach of their obligations to the Company; or
- Been guilty of any act of dishonesty, fraud or serious misconduct or any conduct which (in the reasonable opinion of the Board) tends to bring the Director or Company into disrepute.

Succession policy
The Board gives full consideration to succession planning, including the succession of the Chairman and Directors in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future.

Overboarding policy
To ensure that each Director has sufficient time to meet their responsibilities to the Company, the Board has adopted an overboarding policy which outlines its expectations regarding the time commitments of the Directors.

Should a Director wish to take on an additional external directorship of a London listed, or equivalent, company, or is anticipating a significant increase in time commitment of an existing appointment, details must be provided to the Chairman (or, if the Chairman is taking on the external directorship, the Chairman of the Audit Committee) for approval prior to accepting the external directorship or additional time commitment.

DIRECTORS' REMUNERATION REPORT *(continued)*

Overboarding policy *(continued)*
The Director should:

- Confirm that the external directorship or change in time commitment is not in conflict with the Company;
- Provide an estimate of the time commitment required;
- Confirm that they have sufficient surplus capacity to meet their commitments to the Company; and
- Confirm that no commercial conflict of interest is likely to arise or be perceived to arise.

To assist in the Chairman's decision, on an ongoing basis, at each Board meeting, the Directors confirm that they continue to have sufficient time capacity.

Remuneration policy
The Directors shall be paid such remuneration for their services as determined by the Board, save that, unless otherwise determined by the Company by ordinary resolution, the Directors' combined remuneration shall not exceed £200,000 per annum.

In setting the level of each non-executive Director's fee, the Company had regard to: the time commitments expected; the level of skill and experience of each Director; and the current market and levels of companies of similar size and complexity. Following this evaluation, the Board determined that the fees set out in this remuneration policy were appropriate.

Under the terms of their appointments as non-executive Directors, the Directors are entitled to the following annual fees:

	£
William Scott – *Chairman*	35,000
John Renouf – *Chairman of the Audit Committee*	32,500
Max Hilton	27,500

All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company. The Directors do not participate in any discussions relating to their own fee, which is determined by the other Directors.

The Company does not pay any remuneration to the Directors for loss of office.

On termination of the appointment, Directors shall only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred prior to that date.

Annual report on remuneration
Service contracts obligations and payment on loss of office
No Director has a service contract with the Company and, as such, no Director is entitled to compensation payments upon termination of their appointment or loss of office.

DIRECTORS' REMUNERATION REPORT *(continued)*

Annual report on remuneration *(continued)*

Total remuneration paid to each Director

The total remuneration of the Directors for the year ended 31 December 2020 was:

	Year ended 31 December 2020 £	Year ended 31 December 2019 £
William Scott	35,000	35,000
John Renouf	32,500	32,500
Max Hilton	27,500	27,500
Total	**95,000**	**95,000**

All of the above remuneration relates to fixed annual fees.

Directors are not eligible for bonuses, share options or long-term incentive schemes or other performance-related benefits. There are no pension arrangements in place for the Directors of the Company. Accordingly, there were no other items in the nature of remuneration, pension entitlements or incentive scheme arrangements which were paid or accrued to the Directors during the year.

During the year, no payments were made to persons who had previously been directors of the Company.

Share price total return

The graph below shows the total shareholder return (NAV plus dividend) for Shareholders of the Company, measured against the ICE BofAML GBP Financial Index, which the Company believes is the most appropriate comparative index. Both the total shareholder return and index have been rebased to 100 at the Company's launch on 5 November 2015.

DIRECTORS' REMUNERATION REPORT *(continued)*

Directors' shareholdings in the Company

Directors are not required under the Company's Articles of Incorporation or letters of appointment to hold shares in the Company.

As at 31 December 2020, and at the date of this report the Directors did not hold any shares in the Company.

Board diversity

Currently the Board has three male Directors. The Directors consider the current Board structure, size and composition required, taking into account the challenges and opportunities facing the Company. In considering future candidates, the appointments will be made with regard to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skills, experience and expertise.

The Board is committed to diversity at Board level and is supportive of increased gender diversity but recognises that it may not always be in the best interests of Shareholders to prioritise this above other factors. The Board will consider gender diversity, along with all other relevant factors when considering future Board appointments.

On behalf of the Board

Max Hilton
Chairman of the Nomination and Remuneration Committee
22 March 2021

REGULATORY DISCLOSURES

AIFMD disclosures

In accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Company is classified as an Alternative Investment Fund ("AIF") and has appointed the Investment Manager as its AIFM to provide portfolio management and risk management services to the Company in accordance with the investment management agreement.

The Investment Manager is a full-scope AIFM to the Company and therefore must comply with various organisational, operational, reporting, regulatory capital, conduct of business and transparency obligations.

Report on remuneration

The AIFMD requires certain disclosures to be made with regard to the remuneration policy of the Company's AIFM. The total remuneration of the staff of the Investment Manager during the period was £4,440,000 (2019: £3,663,000), comprising £2,442,000 fixed (2019: £1,969,000) and £1,998,000 variable (2019: £1,694,000) remuneration. There were 26 beneficiaries (2019: 23). The aggregate amount of remuneration of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Company during the period was £3,152,000 (2019: £3,115,000).

Key Information Document ("KID")

The Company's KID, which has been prepared in accordance with the requirements of the packaged retail investment products legislation, is available on the Company's section of the Investment Manager's website (http://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

Risk disclosures

The financial risk disclosures relating to the risk framework and liquidity risk, as required by the AIFMD, are set out in note 24.

Pre-investment disclosures

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. The Company's Prospectus, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and Shareholder information, is available on the Company's section of the Investment Manager's website (http://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/). There have been no changes to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange.

SFDR disclosures

In accordance with sustainability-related disclosures in the financial services sector (the "SFDR") the Company's ESG policy can be found on page 26.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Axiom European Financial Debt Fund Limited (the 'Company') for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union (EU).

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the EU; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

In our evaluation of the directors' conclusions, we considered the inherent risks associated with the Company's business model including effects arising from Covid-19. We assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. Detailed procedures to address Covid-19 and going concern risks included:

- Challenging the assumptions used in management's base case cash flow forecasts and considered their reasonableness based on other evidence obtained during the audit;
- Evaluation of the appropriateness of stress testing performed by management and the impact of worst case scenarios on the Company's liquidity;
- Performing our own scenario analysis to assess the reasonableness of management's assessment; and
- Considering potential mitigating actions that management could take in response to possible future liquidity risks.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Conclusions relating to going concern *(continued)*

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Our approach to the audit

GrantThornton

Overview of our audit approach

Overall materiality: £828,000

Our preliminary assessment of overall materiality was based on September 2020 management accounts. Applying the same basis, if 2020 actuals were used, our materiality threshold would have been £874,000. We did not revise materiality as actual financial results were not substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole. We concluded that it remained appropriate to use materiality determined in risk assessment and planning.

This represents 1% of the Company's Net Asset Value ("NAV").

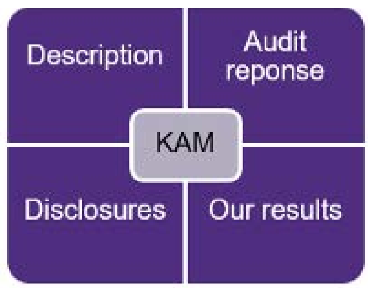
Key audit matters were identified as:

- Valuation of Level 2 financial instruments at fair value through profit or loss (Same as the previous year)

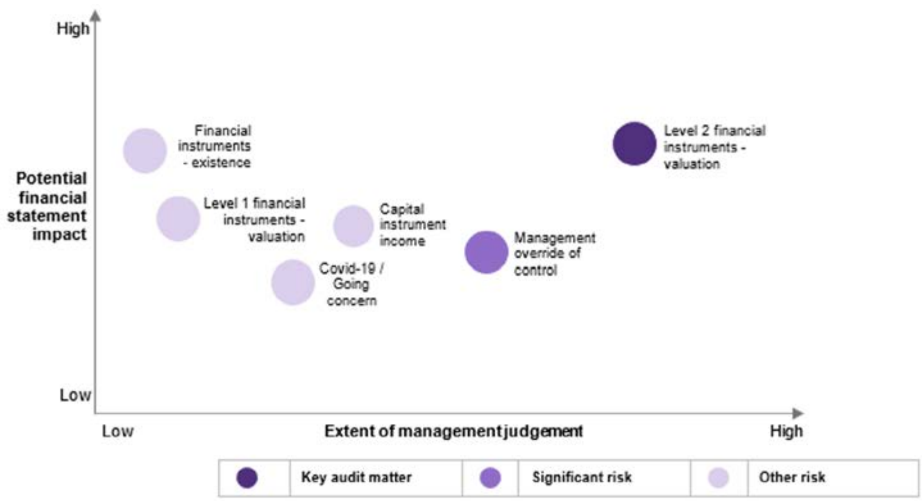
The predecessor auditor's report for the year ended 31 December 2019 included one key audit matter that has not been reported as a key audit matter in our report for the current year. This relates to Covid-19 and the associated going concern assumption not being appropriate.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Key Audit Matter	How our scope addressed the matter
Risk 1 Valuation of Level 2 financial instruments at fair value through profit or loss Financial Assets: £5.7m (2019: £12m) Financial Liabilities: £14.2m (2019: £17.8m) As per the sum of Level 2 financial assets and liabilities disclosed in note 19 to the financial statements. We identified the valuation of Level 2 financial instruments at fair value through profit or loss as one of the most significant assessed risks of material misstatement due to fraud or error. There is a risk that fair values of Level 2 financial instruments may be misstated due to the application of inappropriate valuation methodologies and/or use of incorrect assumptions and market related inputs.	In responding to the key audit matter, we performed the following audit procedures: • Obtained an understanding of the relevant controls over the valuation of investments to determine whether appropriate oversight had been exercised within the valuation process; • Challenged management on the appropriateness of valuation methodologies, inputs and assumptions and confirmed that Those Charged with Governance took ownership of the valuation process; • Performed a walkthrough of relevant controls in the valuation process to confirm they were appropriately designed and implemented; • Assessed whether valuations had been performed in accordance with the requirements of IFRS and industry practice; • In relation to Credit Default Swaps ("CDSs"), we engaged an external expert to confirm the appropriateness of the valuation methodology used to value CDSs with consideration to valuation techniques routinely used by market participants to value similar instruments. Our external experts independently valued 100% of CDSs held at financial year end using the standard ISDA Model and CDS index curves obtained from independent sources (e.g. Thomson Reuters); • For foreign exchange forward contracts, we performed 100% testing of instruments held at year end using the foreign exchange rates at the valuation date and independent forward rates for the relevant currency pairs; • In relation to sale and repurchase agreements, we valued 100% of financial liabilities using the contractual terms identified in the contract notes; • For related party funds, we obtained published net asset values per share figures from independent sources (e.g. Stock exchanges/Bloomberg); and • In relation to Level 2 investments in capital instruments at fair value through profit or loss, we challenged management's valuation assumptions through obtaining independent broker quotes and considering historic trade prices and concluded on the appropriateness of valuations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Relevant disclosures in the Annual Report and Accounts 2020	**Our results**
• Financial statements: Note 3d, Significant accounting policies – Financial assets and liabilities; • Financial statements: Note 4, Use of judgements and estimates; • Financial statements: Note 15, Investments at fair value through profit or loss; • Financial statements: Note 18, Derivative financial instruments; • Financial statements: Note 19, Fair value of financial instruments at fair value through profit or loss; and • Audit committee report: Pages 38 and 39, Primary areas of judgement in relation to the Annual Report and Financial Statements.	Based on our audit work, we are satisfied that the Level 2 financial instruments are fairly stated in accordance with IFRS and the Company's accounting policies.

Our application of materiality
We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

Materiality measure	
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£828,000 (2019: £913,000) which is 1% of NAV.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • NAV is considered the most appropriate benchmark as the Company's primary performance measures for internal and external reporting are based on NAV; and • Our materiality threshold was set at the lower level of our acceptable range due to the Company being a public interest entity. Materiality for the current year is lower than the level that was determined by the predecessor auditor for the year ended 31 December 2019 due to the decrease of the Company's NAV to 31 December 2020.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

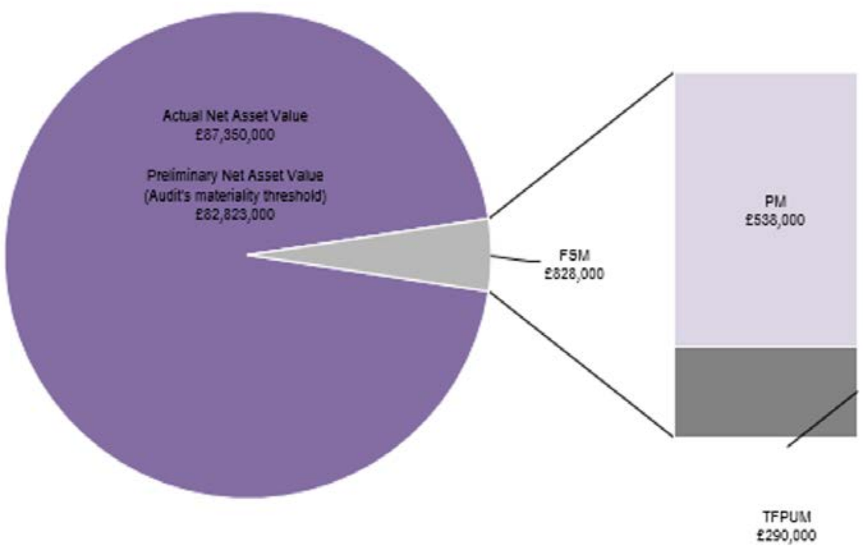
Materiality measure	
Significant revision of materiality threshold that was made as the audit progressed	There were no significant revisions of our materiality threshold as the audit progressed. Our preliminary assessment of overall materiality was based on the September 2020 management accounts. Applying the same basis, if December 2020 actuals were used, our materiality threshold would have been £874,000. We did not revise materiality as actual financial results were not substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole. We concluded that it remained appropriate to use materiality determined in risk assessment and planning.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£538,000 (2019: £685,000) which is 65% of financial statement materiality (2019: 75% of financial statement materiality).
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we considered the following significant judgements: • Our risk assessment, including our assessment of the Company's overall control environment; and • No past audit experience with the Company.
Significant revision of materiality threshold that was made as the audit progressed	There were no significant revisions of our materiality threshold as the audit progressed. Our preliminary assessment of performance materiality was based on the September 2020 management accounts. Applying the same basis, if December 2020 actuals were used, our performance materiality threshold would have been £568,000. We did not revise performance materiality as actual financial results were not substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole. We concluded that it remained appropriate to use performance materiality determined in risk assessment and planning.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Materiality measure	
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Specific materiality threshold	We have not identified any classes of transactions, account balances or disclosures which would require a lower specific materiality threshold to be calculated. We determine our materiality threshold for the financial statements as a whole to be reasonably measured to identify material misstatements due to fraud or error that would influence the economic decisions of users.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£41,400 (2019: £46,000) and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

An overview of the scope of our audit
We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

- Assessment of audit risk, our evaluation of materiality and our allocation of performance materiality to determine our audit scope for the Company. We took into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed;
- The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Company and the third-party service providers, and inspecting records and documents held by these third-party service providers;
- We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks; and
- For subjective estimates made by management on valuing credit default swaps, we engaged an external expert to confirm the appropriateness of the valuation methodology used with consideration to valuation techniques routinely used by market participants to value similar instruments and to value 100% of credit default swaps held at year end.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the Company's financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Corporate governance statement
The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Corporate governance statement *(continued)*

- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions;
- the directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the Company including the impact of Covid-19 and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated including the impact of Covid-19;
- the section of the annual report that describes the review of the effectiveness of Company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls; and
- the section of the annual report describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and industry in which it operates. We determined that the following laws and regulations were most significant: IFRS as adopted by the EU, Companies (Guernsey) Law, 2008, UK Corporate governance code, FCA Listing Rules, FCA Disclosure Guidance and Transparency Rules, Principles and recommendations of the AIC Code of Corporate Governance and the relevant tax compliance regulations in the jurisdictions in which the Company operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, and bribery and corruption practices;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- We understood how the Company is complying with those legal and regulatory frameworks by making inquiries to management and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee;
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - challenging assumptions and judgements made by management in its significant accounting estimates;
  - utilising a valuation specialist to perform stress testing on managements' valuation calculations;
  - identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- No matters regarding non-compliance with laws and regulations and fraud were communicated with the engagement team by management and no key audit matters relating to these have been identified; and
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Company's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
  - the applicable statutory provisions; and
  - the Company's control environment, including:
    - the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation rules and other regulations of the regulator;
    - the adequacy of procedures for authorisation of transactions, internal review procedures over Company's compliance with regulatory requirements;
    - the authority of, and resources available to the compliance officer; and
    - procedures to ensure that possible breaches of requirements are appropriately investigated and reported.

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by Those Charged with Governance on 19 August 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods.

This is our first year of involvement engaged as external auditor and covers the audit of the Company's financial year ended 31 December 2020.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Use of our report

This report is made solely to the Company's shareholders, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Cyril Swale
For and on behalf of Grant Thornton Limited
Statutory Auditor, Chartered Accountants
Guernsey, Channel Islands
22 March 2021

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Note	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Income			
Capital instrument income		4,975	4,445
Credit default swap income		581	600
Bank interest receivable		15	71
Total income		**5,571**	**5,116**
Investment gains and losses on investments held at fair value through profit or loss			
Realised (losses)/gains on disposal of capital instruments and other investments	*15*	(200)	1,179
Movement in unrealised gains on capital instruments and other investments	*15*	958	4,815
Realised losses on derivative financial instruments	*18*	(713)	(439)
Movement in unrealised (losses)/gains on derivative financial instruments	*18*	(1,346)	5,299
Total investment gains and losses		**(1,301)**	**10,854**
Expenses			
Loss on foreign currency		(1,307)	(603)
Investment management fee	*8a*	(753)	(796)
Other expenses	*12*	(267)	(279)
Interest payable and similar charges	*11*	(139)	(51)
Administration fee	*8b*	(132)	(128)
Directors' fees	*8f*	(95)	(95)
Performance fee	*8a*	–	(136)
Total expenses		**(2,693)**	**(2,088)**
Profit for the year attributable to the Owners of the Company		**1,577**	**13,882**
Earnings per Ordinary Share: *basic and diluted*	*14*	**1.72p**	**15.21p**

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

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

The accompanying notes on pages 60 to 86 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Note	Distributable reserves and total £'000
Opening balance at 1 January 2019		76,976
Profit for the year ended 31 December 2019		13,882
Contributions by and distributions to Owners		
Ordinary Shares issued	*21*	5,941
Share issue costs		(100)
Dividends paid	*6*	(5,415)
At 31 December 2019		**91,284**
Profit for the year ended 31 December 2020		1,577
Contributions by and distributions to Owners		
Dividends paid	*6*	(5,511)
At 31 December 2020		**87,350**

The share capital has not been presented separately in the above Statement of Changes in Equity as the Ordinary Shares have no par value, and hence the share capital is £nil.
The accompanying notes on pages 60 to 86 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2020

	Note	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Assets			
Investments in capital instruments at fair value through profit or loss	*15, 19*	83,466	85,924
Other investments at fair value through profit or loss	*15, 19*	4,766	7,764
Collateral accounts for derivative financial instruments at fair value through profit or loss	*16, 18*	5,905	4,999
Derivative financial assets at fair value through profit or loss	*18*	5,257	3,909
Other receivables and prepayments	*17*	1,995	1,625
Cash and cash equivalents		4,297	6,102
Total assets		**105,686**	**110,323**
Current liabilities			
Derivative financial liabilities at fair value through profit or loss	*18*	(12,331)	(16,434)
Short positions covered by reverse sale and repurchase agreements	*15, 19*	(1,881)	(1,336)
Collateral accounts for derivative financial instruments at fair value through profit or loss	*16, 18*	(340)	(803)
Other payables and accruals	*20*	(2,134)	(466)
Bank overdrafts		(1,650)	–
Total liabilities		**(18,336)**	**(19,039)**
Net assets		**87,350**	**91,284**
Share capital and reserves			
Share capital	*21*	–	–
Distributable reserves		87,350	91,284
Total equity holders' funds		**87,350**	**91,284**
Net asset value per Ordinary Share: ***basic and diluted***	*22*	**95.10p**	**99.38p**

These financial statements were approved by the Board of Directors on 22 March 2021 and were signed on its behalf by:

William Scott
Chairman
22 March 2021

John Renouf
Director
22 March 2021

The accompanying notes on pages 60 to 86 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Note	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Cash flows from operating activities			
Net profit before taxation		1,577	13,882
Adjustments for:			
Foreign exchange movements		1,307	603
Total investment losses/(gains) at fair value through profit or loss		1,301	(10,854)
Capital instrument income		(4,975)	(4,445)
CDS income		(581)	(599)
Interest on sale and repurchase agreements		88	2
Cash flows relating to financial instruments:			
Payment (to)/from collateral accounts for derivative financial instruments	*16*	(1,369)	4,727
Purchase of investments at fair value through profit or loss		(62,114)	(65,848)
Sale of investments at fair value through profit or loss		68,071	63,417
Premiums received from selling credit default swap agreements	*18*	4,293	1,658
Premiums paid on buying credit default swap agreements	*18*	(4,511)	(2,982)
Purchase of foreign currency derivatives	*18*	(204,876)	(324,487)
Close-out of foreign currency derivatives	*18*	204,573	325,345
Purchase of bond futures	*18*	(1,751)	(2,336)
Sale of bond futures	*18*	1,735	1,384
Proceeds from sale and repurchase agreements	*18*	34,679	63,360
Payments to open reverse sale and repurchase agreements	*18*	(11,999)	(2,678)
Payments for closure of sale and repurchase agreements	*18*	(38,953)	(64,283)
Proceeds from closure of reverse sale and repurchase agreements	*18*	9,329	3,694
Opening of short positions		10,157	3,374
Closure of short positions		(8,002)	(3,609)
Opening of options		(29)	–
Cash paid during the year for interest		(1,626)	(819)
Cash received during the year for interest		6,986	5,290
Cash received during the year for dividends		225	228
Net cash inflow from operating activities before working capital changes		3,531	4,024
Decrease in other receivables and prepayments		2	11
Decrease in other payables and accruals		(170)	(137)
Net cash inflow from operating activities		**3,363**	**3,898**
Cash flows from financing activities			
Proceeds from issue of Ordinary Shares		–	5,941
Share issue costs paid	*23*	–	(165)
Dividends paid	*6*	(5,511)	(5,415)
Net cash (outflow)/inflow from financing activities		**(5,511)**	**361**
(Decrease)/increase in cash and cash equivalents		**(2,148)**	**4,259**
Cash and cash equivalents brought forward		6,102	2,446
Effect of foreign exchange on cash and cash equivalents		(1,307)	(603)
Cash and cash equivalents carried forward*		**2,647**	**6,102**

*Cash and cash equivalents at the year 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 60 to 86 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. General information

The Company was incorporated as an authorised closed-ended investment Company, under the Companies (Guernsey) Law, 2008 on 7 October 2015 with registered number 61003. Its Ordinary Shares were admitted to trading on the Premium Segment of the main market of the London Stock Exchange 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 Specialist Fund Segment ("SFS") of the London Stock Exchange).

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 will focus 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.

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

2. Statement of compliance

a) Basis of preparation

These financial statements present the results of the Company for the year ended 31 December 2020. The comparative figures stated were for the year ended 31 December 2019. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

These financial statements are presented in Sterling, which is also the Company's functional currency (please see notes 3b and 4i for further details). All amounts are rounded to the nearest thousand.

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 and do not consider there to be any threat to the going concern status of the Company (see the going concern section and viability statement in the Directors' Report for further information). Therefore, the financial statements have been prepared on a going concern basis.

c) Basis of measurement

The 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 financial statements and estimates with a significant risk of material adjustment are discussed in note 4.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

3. Significant accounting policies

a) Income and expenses

Bank interest, capital instrument income and credit default swap income is recognised on an accruals basis.

Dividend income is recognised when the right to receive payment is established. Capital instrument income comprises bond interest and dividend income.

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 31 December 2020 were £1/€1.1185, £1/US$1.3670, £1/DKK8.3263, £1/CA$1.7422 and £1/SGD1.8061 (2019: £1/€1.1825, £1/US$1.3257, £1/DKK8.8323, £1/CA$1.7226 and £1/SGD1.7841).

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 it 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).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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 solely payments of principal interest ("SPPI") on the principal amount outstanding; 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 and so are held for trading. 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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 a legal right of offset exists, and is not offset by collateral pledged to or received from counterparties.

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 comprise 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) Receivables and prepayments

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.

g) 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

3. Significant accounting policies *(continued)*

h) Payables and accruals

Trade and other payables are carried at payment or settlement amounts. When payables are received in currencies other than the reporting currency, they are carried forward, translated at the rate prevailing at the year end date.

i) 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 retained earnings.

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.

j) Distributable reserves

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

k) 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 year end.

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

l) Changes in accounting policy and disclosures

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

IFRS 7	Financial Instruments: Disclosures *(amendments regarding pre-replacement issues in the context of the IBOR reform)*
IFRS 9	Financial Instruments *(amendments regarding pre-replacement issues in the context of the IBOR reform)*
IAS 1	Presentation of Financial Statements *(amendments regarding the definition of material)*
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors *(amendments regarding the definition of material)*

The adoption of these accounting standards did not have any effect on the Company's Statement of Financial Position or equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

3. Significant accounting policies *(continued)*

m) Accounting standards issued but not yet effective

The International Accounting Standards Board ("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 do not anticipate that they would have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IFRS 9	Financial Instruments *(amendments resulting from Annual Improvements to IFRS Standards 2018-2020)*	1 January 2022
IAS 1	Presentation of Financial Statements *(amendments regarding the classification of liabilities)*	1 January 2022
IAS 37	Provisions, Contingent Liabilities and Contingent Assets *(amendments regarding the costs to include when assessing whether a contract is onerous)*	1 January 2022

4. Use of judgements and estimates

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the 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 financial statements:

i) Determination of functional currency

The performance of the Company is measured and reported to investors in Sterling. Although the majority 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 that have had a significant impact on the financial statements.

Estimates and assumptions

The Company based its reporting date assumptions and estimates on parameters available when the 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 19.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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 has declared the following dividends during the year ended 31 December 2020:

	Total dividend declared in respect of earnings £'000	**Amount per Ordinary Share**
Dividends declared and paid in the year	5,511	6.00p
Less, dividend declared in respect of the prior year that was paid in 2020	(1,378)	(1.50)p
Add, dividend declared out of the profits of the year but paid after the year end:	1,378	1.50p
Dividends declared in respect of the year	5,511	6.00p

The Company declared the following dividends during the year ended 31 December 2019:

	Total dividend declared in respect of earnings £'000	**Amount per Ordinary Share**
Dividends declared and paid in the year	5,415	6.00p
Less, dividend declared in respect of the prior year that was paid in 2019	(1,282)	(1.50)p
Add, dividend declared out of the profits of the year but paid after the year end:	1,378	1.50p
Dividends declared in respect of the year	5,511	6.00p

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the year a total of £5,511,000 (2019: £5,415,000) was incurred in respect of dividends, none of which was outstanding at the reporting date. The fourth dividend declared out of the profits for the year of £1,378,000 had not been provided for at 31 December 2020 as, in accordance with IFRS, it was not a liability of the Company at that date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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 advisors and service providers (the Administrator, the Broker, the Registrar and the Depositary) are also disclosed in note 8.

As at 31 December 2020, the Company had holdings in the following investments which were managed by the Investment Manager:

	31 December 2020			31 December 2019		
	Holding	Cost £'000	Value £'000	Holding	Cost £'000	Value £'000
Axiom Global CoCo UCIT ETF USD-hedged	35	2,984	3,011	35	2,984	2,898
Axiom Global CoCo UCIT ETF GBP-hedged	10	1,000	1,089	20	2,000	2,092
Axiom Equity Class Z	500	467	666	–	–	–
Axiom Contingent Capital – Class E	–	–	–	2,450	2,462	2,774

During the year, the Company:

- purchased 500 units in Axiom Equity Class Z for £467,000;
- sold 2,450 units in Axiom Contingent Capital – Class E for £2,150,000, realising a loss of £312,000; and
- sold 10 units in Axiom Global CoCo UCIT ETF GBP-hedged for £1,033,000, realising a gain of £33,000.

During the year ended 31 December 2019, the Company:

- purchased 70 units in UC AXI Global CoCo Bonds UCITS for £6,040,000;
- purchased 35 units in Axiom Global CoCo UCIT ETF USD-hedged for £2,985,000;
- purchased 20 units in Axiom Global CoCo UCIT ETF GBP-hedged for £2,000,000;
- sold 669 units in Axiom Contingent Capital – Class E for £703,000, realising a gain of £31,000; and
- sold 70 units in UC AXI Global CoCo Bonds UCITS for £6,679,000, realising a gain of £639,000.

The Directors are not aware of any ultimate controlling party.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

8. Key contracts

a) Investment Manager

The Company has entered into an Investment Management Agreement with Axiom under which the Company receives investment advice and management services.

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 management fees, 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.

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 year, a total of £753,000 (2019: £796,000) was incurred in respect of Investment Management fees, of which £185,000 was payable at the reporting date (2019: £189,000).

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 and Annual Expenses Excess for the year was £12,000 (2019: £2,000), and at 31 December 2020 the Quarterly Expenses Excess and Annual Expenses Excess which could be payable to the Investment Manager in future periods was £737,000 (2019: £725,000) (see note 27).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

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 average 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 accounts of the Company.

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.

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 31 December 2020, a performance fee of £1,000 (2019: £136,000) was payable by the Company in respect of the year ended 31 December 2019. No performance fee was payable in respect of the year ended 31 December 2020. During the year, the Company paid the Investment Manager £135,000, in settlement of the 2019 performance fee, 50% of which was subsequently used to purchase 81,141 shares in the Company.

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 work undertaken in connection with the daily NAV, subject to a maximum aggregate amount of £10,000 per annum.

During the year, a total of £132,000 (2019: £128,000) was incurred in respect of Administration fees of which £33,000 (2019: £32,000) was payable at the reporting date.

c) Broker

Winterflood Securities Limited ("Winterflood") has been appointed to act as Corporate Broker ("Broker") for the Company, in consideration for which the Company pays Winterflood an annual retainer fee of £35,000 per annum.

For the year to 31 December 2020, the Company incurred Broker fees of £37,000 (2019: £37,000) of which £6,000 was payable at the year end date (2019: £6,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

8. Key contracts *(continued)*

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 year, a total of £20,000 (2019: £19,000) was incurred in respect of Registrar fees, of which £3,000 was payable at 31 December 2020 (2019: £1,000).

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 year, a total of £39,000 (2019: £34,000) was incurred in respect of depositary fees, of which £6,000 was payable at the reporting date (2019: £13,000).

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 £40,000 (2019: £42,000) was incurred in respect of valuation agent fees paid to CACEIS Bank Luxembourg, of which £10,000 was payable at 31 December 2020 (2019: £14,000).

f) Directors' remuneration

William Scott (Chairman) is paid £35,000 per annum (2019: £35,000), John Renouf (Chairman of the Audit Committee) is paid £32,500 per annum (2019: £32,500), and Max Hilton is paid £27,500 per annum (2019: £27,500).

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

During the year, a total of £95,000 (2019: £95,000) was incurred in respect of Directors' fees, none of which was payable at the reporting date (2019: £nil). No bonus or pension contributions were paid or payable on behalf of the Directors.

9. Key management and employees

Other than the Non-Executive Directors, the Company has had no employees since its incorporation.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

10. Auditor's remuneration

Grant Thornton was appointed to act as the Company's external auditor with effect from 19 August 2020, replacing the Company's previous auditor EY.

For the year ended 31 December 2020, total fees charged by Grant Thornton, together with amounts accrued at 31 December 2020, amounted to £37,000 (2019 total fee payable to EY: £43,000), all of which related to audit services. As at 31 December 2020, £22,000 was due to Grant Thornton (2019: £30,000 due to EY).

11. Interest payable and similar charges

	Year ended 31 December 2020 £'000	**Year ended 31 December 2019 £'000**
Bank interest	41	48
Interest payable on sale and repurchase agreements	88	2
Commission	10	1
	139	**51**

12. Other expenses

	Year ended 31 December 2020 £'000	**Year ended 31 December 2019 £'000**
PR expenses	41	43
Valuation agent fees	40	42
Depositary fees *(note 8e)*	39	34
Other expenses	38	53
Audit fees *(note 10)*	37	43
Broker fees *(note 8c)*	37	37
Registrar fees *(note 8d)*	20	19
Legal fees	15	8
	267	**279**

13. 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.

14. Earnings per Ordinary Share

The earnings per Ordinary Share of 1.72p (2019: earnings of 15.21p) is based on a profit attributable to owners of the Company of £1,577,000 (2019: profit of £13,882,000) and on a weighted average number of 91,852,904 (2019: 91,256,658) Ordinary Shares in issue since 1 January 2020. There are no dilutive shares and there is no difference between the basic and diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

15. Investments at fair value through profit or loss

Movements in gains/(losses) in the year

	31 December 2020			31 December 2019		
	Unrealised £'000	**Realised £'000**	**Total £'000**	**Unrealised £'000**	**Realised £'000**	**Total £'000**
Investments in capital instruments	925	340	1,265	4,575	467	5,042
Other investments	(3)	(279)	(282)	402	670	1,072
Short positions covered by reverse sale and repurchase agreements	36	(261)	(225)	(162)	42	(120)
	958	(200)	758	4,815	1,179	5,994

Closing valuations

	31 December 2020 £'000	**31 December 2019 £'000**
Investments in capital instruments	83,466	85,924
Other investments	4,766	7,764
Short positions covered by reverse sale and repurchase agreements	(1,881)	(1,336)
Investments at fair value through profit or loss	**86,351**	**92,352**

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 31 December 2020, the Company had fourteen (2019: ten) open sale and repurchase agreements, including four (2019: one) reverse sale and repurchase agreements (see note 18). The 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 positions) at 31 December 2020 was £19,582,000 (2019: £19,596,000). The fair value net of the short positions was £17,701,000 (2019: £18,260,000).

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

	31 December 2020 £'000	**31 December 2019 £'000**
JP Morgan	4,896	3,660
Credit Suisse	599	585
Goldman Sachs International	410	754
CACEIS Bank France	–	–
	5,905	4,999
CACEIS Bank France – *negative balance*	(340)	(803)
Net balance on collateral accounts held by brokers	**5,565**	**4,196**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

16. Collateral accounts for derivative financial instruments at fair value through profit or loss *(continued)*

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 derivatives 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 under the derivatives.

17. Other receivables and prepayments

	31 December 2020 £'000	31 December 2019 £'000
Accrued capital instrument income receivable	1,468	1,591
Due from sale of capital instrument	484	–
Interest due on credit default swaps	26	15
Prepayments	17	15
Interest due on collateral held by brokers	–	4
	1,995	**1,625**

18. 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 International Swaps and Derivatives Association ("ISDA") establishes the nature of the credit event and such events include bankruptcy and failure to meet payment obligations when due.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Opening balance	1,016	(2,419)
Premiums received from selling credit default swap agreements	(4,293)	(1,658)
Premiums paid on buying credit default swap agreements	4,511	2,982
Movement in unrealised (losses)/gains in the year	(465)	1,972
Realised (losses)/gains in the year	(321)	139
Outstanding asset due on credit default swaps	**448**	**1,016**
Credit default swap assets at fair value through profit or loss	595	1,398
Credit default swap liabilities at fair value through profit or loss	(147)	(382)
Outstanding asset due on credit default swaps	**448**	**1,016**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

18. Derivative financial instruments *(continued)*

Credit default swap agreements (continued)

Interest paid or received on the credit default swap agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred or received. At the year end, £26,000 (2019: £15,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £5,905,000 (2019: £4,999,000) was held in respect of the credit default swap agreements.

Foreign currency forwards

Foreign currency forward contracts are used for trading purposes and 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.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Opening balance	1,219	(1,329)
Purchase of foreign currency derivatives	204,876	324,487
Closing-out of foreign currency derivatives	(204,573)	(325,345)
Movement in unrealised (losses)/gains in the year	(444)	2,548
Realised (losses)/gains in the year	(303)	858
Net assets on foreign currency forwards	**775**	**1,219**
Foreign currency forward assets at fair value through profit or loss	775	1,219
Foreign currency forward liabilities at fair value through profit or loss	–	–
Net assets on foreign currency forwards	**775**	**1,219**

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.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Opening balance	–	(7)
Purchase of bond futures	1,751	2,336
Sale of bond futures	(1,735)	(1,384)
Movement in unrealised gains in the year	–	88
Realised losses in the year	(16)	(1,033)
Balance payable on bond futures	**–**	**–**
Bond future assets at fair value through profit or loss	–	–
Bond future liabilities at fair value through profit or loss	–	–
Balance payable on bond futures	**–**	**–**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

18. Derivative financial instruments *(continued)*

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.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Opening balance	(14,760)	(14,955)
Opening of sale and repurchase agreements	(34,679)	(63,360)
Opening of reverse sale and repurchase agreements	11,999	2,678
Closing-out of sale and repurchase agreements	38,953	64,283
Closing-out of reverse sale and repurchase agreements	(9,329)	(3,694)
Movement in unrealised (losses)/gains in the year	(415)	691
Realised losses in the year	(73)	(403)
Total liabilities on sale and repurchase agreements	**(8,304)**	**(14,760)**

Sale and repurchase assets at fair value through profit or loss	3,877	1,292
Sale and repurchase liabilities at fair value through profit or loss	(12,181)	(16,052)
Total liabilities on sale and repurchase agreements	**(8,304)**	**(14,760)**

Interest paid on sale and repurchase agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred. At 31 December 2020 £nil (2019: £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.

	Year ended 31 December 2020 £'000	Year ended 31 December 2019 £'000
Opening balance	–	–
Opening of options	29	–
Movement in unrealised losses in the year	(22)	–
Realised losses in the year	–	–
Balance receivable on options	**7**	**–**

Option assets at fair value through profit or loss	10	–
Option liabilities at fair value through profit or loss	(3)	–
Balance receivable on options	**7**	**–**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

18. Derivative financial instruments *(continued)*

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 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) as at 31 December 2020:

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
Financial assets					
Derivatives	5,257	–	5,257	(1,792)	3,465
Collateral accounts for derivative financial instruments *(note 16)*	5,905	–	5,905	(147)	5,758
Total assets	**11,162**	**–**	**11,162**	**(1,939)**	**9,223**
Financial liabilities					
Derivatives	(12,331)	–	(12,331)	11,760	(571)
Collateral accounts for derivative financial instruments *(note 16)*	(340)	–	(340)	–	(340)
Total liabilities	**(12,671)**	**–**	**(12,671)**	**11,760**	**(911)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

18. Derivative financial instruments *(continued)*

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) as at 31 December 2019:

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
Financial assets					
Derivatives	3,909	–	3,909	(1,292)	2,617
Collateral accounts for derivative financial instruments *(note 16)*	4,999	–	4,999	(352)	4,647
Total assets	**8,908**	**–**	**8,908**	**(1,644)**	**7,264**
Financial liabilities					
Derivatives	(16,434)	–	(16,434)	16,404	(30)
Collateral accounts for derivative financial instruments *(note 16)*	(803)	–	(803)	–	(803)
Total liabilities	**(17,237)**	**–**	**(17,237)**	**16,404**	**(833)**

19. 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 31 December 2020, 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
Traded/listed capital instruments at fair value through profit or loss	83,018	448	–	83,466
Other investments at fair value through profit or loss *(note 7)*	4,766	–	–	4,766
Credit default swap assets	–	595	–	595
Credit default swap liabilities	–	(147)	–	(147)
Other derivative financial assets	–	4,662	–	4,662
Other derivative financial liabilities	–	(12,184)	–	(12,184)
Short positions covered by sale and repurchase agreements	–	(1,881)	–	(1,881)
	87,784	**(8,507)**	**–**	**79,277**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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

At 31 December 2019, 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
Traded/listed capital instruments at fair value through profit or loss	83,460	2,464	–	85,924
Other investments at fair value through profit or loss *(note 7)*	2,092	5,672	–	7,764
Credit default swap assets	–	1,398	–	1,398
Credit default swap liabilities	–	(382)	–	(382)
Other derivative financial assets	–	2,511	–	2,511
Other derivative financial liabilities	–	(16,052)	–	(16,052)
Short position covered by sale and repurchase agreements	–	(1,336)	–	(1,336)
	85,552	**(5,725)**	**–**	**79,827**

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 value of the other investments are based on the market price 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.

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 valued using the relevant options prices curve.

Transfers between levels

Transfers between levels during the year are determined and deemed to have occurred at each financial reporting date. There were no investments classified as Level 3 during the year, and no transfers between levels in the year. See notes 15, 16 and 18 for movements in instruments held at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

20. Other payables and accruals

	31 December 2020 £'000	31 December 2019 £'000
Due for purchase of capital instrument	1,833	–
Investment management fee *(note 8a)*	185	189
Administration fee *(note 8b)*	33	32
Audit fees *(note 10)*	22	30
Other accruals	16	31
Share issue costs	14	14
Valuation agent fees *(note 8e)*	10	14
Depositary fees *(note 8e)*	6	13
Broker fee *(note 8c)*	6	6
Accrued interest payable on capital instrument short positions	5	–
Registrar fees *(note 8d)*	3	1
Performance fee *(note 8a)*	1	136
	2,134	**466**

21. Share capital

	31 December 2020 Number	31 December 2020 £'000	31 December 2019 Number	31 December 2019 £'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**	**Price per share**	**Gross proceeds £'000**
Shares in issue as at 31 December 2018	85,452,024		
4 February 2019	6,400,880	92.81p	5,941
Shares in issue as at 31 December 2019, 31 December 2020 and 22 March 2021	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.

22. Net asset value per Ordinary Share

The net asset value per Ordinary Share is based on the net assets attributable to owners of the Company of £87,350,000 (2019: £91,284,000), and on 91,852,904 (2019: 91,852,904) Ordinary Shares in issue at the year end.

The net asset value of 95.10p per Ordinary Share disclosed in these financial statements is 0.16p lower than the net asset value of 95.26p per Ordinary Share announced on 5 January 2021 as a result of a £146,000 under-accrual in the original net asset value. This under-accrual did not affect any other NAVs per Ordinary Share that were announced in the year.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

23. Changes in liabilities arising from financing activities

The Company did not raise any capital from the placing of new shares in the year. In the year ended 31 December 2019, the Company raised £5,941,000 through the placing of 6,400,880 new Ordinary Shares of no par value. In 2019 share issue costs of £100,000 were incurred in relation to the placings, and at the year end £14,000 of the issue costs were outstanding. Taking into account the movement in share issue costs outstanding, the 2019 cash flows in relation to share issue costs were £165,000.

24. 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 industry 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 positions 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 investment, 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.

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 (notes 15, 18 and 19) are exposed to price risk and it is not the intention to mitigate the price risk.

At 31 December 2020, 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 +/-£4,318,000 (2019: +/-£4,618,000). The fair value of financial instruments exposed to price risk at 31 December 2020 was £86,351,000 (2019: £92,352,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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

Market risk (continued)

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 year. At the year end, the Company held the following foreign currency forward contracts:

31 December 2020 **Maturity date**	**Amount** **to be sold**	**Amount** **to be purchased**
21 January 2021	€43,000,000	£38,889,000
21 January 2021	US$10,500,000	£8,047,000

31 December 2019 **Maturity date**	**Amount** **to be sold**	**Amount** **to be purchased**
16 January 2020	€40,470,000	£35,146,000
16 January 2020	US$11,175,000	£8,686,000
16 January 2020	€8,000,000	£6,859,000
16 January 2020	DKK7,297,000	£845,000
16 January 2020	US$1,012,000	£771,000

At the year end a proportion of the net financial assets of the Company were denominated in currencies other than Sterling as follows:

31 December 2020	**Investments at fair value through profit or loss £'000**	**Receivables £'000**	**Cash and cash equivalents £'000**	**Exposure £'000**	**Foreign currency forward contract £'000**	**Net exposure £'000**
Euro	45,147	936	1,665	47,748	(38,473)	9,275
US Dollars	4,694	2	2,632	7,328	(7,687)	(359)
Danish Krone	–	–	–	–	–	–
Canadian Dollars	–	–	–	–	–	–
Singaporean Dollars	–	–	–	–	–	–
	49,841	938	4,297	55,076	(46,160)	8,916
31 December 2019						
Euro	41,044	1,024	1,156	43,224	(41,060)	2,164
US Dollars	8,746	34	1,118	9,898	(9,200)	698
Danish Krone	–	–	832	832	(827)	5
Canadian Dollars	–	–	–	–	–	–
Singaporean Dollars	–	–	–	–	–	–
	49,790	1,058	3,106	53,954	(51,087)	2,867

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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

Market risk (continued)

ii. Foreign currency risk (continued)

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 31 December 2020, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 31 December 2020 would have decreased/increased by £446,000 (2019: £143,000).

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 £59,355,000 (2019: £61,945,000), cash and cash equivalents, net of overdrafts, of £2,647,000 (2019: £6,102,000), collateral account balances of £5,565,000 (2019: £4,196,000) and short positions of £1,881,000 (2019: £1,336,000) were the only interest bearing financial instruments subject to variable interest rates at 31 December 2020. 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 year would have been +/-£309,000 (2019: +/-£352,000).

31 December 2020	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	16,001	59,355	12,876	88,232
Cash and cash equivalents	–	4,297	–	4,297
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	5,905	–	5,905
Derivative financial assets at fair value through profit or loss	4,472	–	785	5,257
Other receivables	–	–	1,995	1,995
Total financial assets	**20,473**	**69,557**	**15,656**	**105,686**
Financial liabilities				
Bank overdrafts	–	(1,650)	–	(1,650)
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	(340)	–	(340)
Derivative financial liabilities at fair value through profit or loss	(12,328)	–	(3)	(12,331)
Short positions covered by sale and repurchase agreements	–	(1,881)	–	(1,881)
Other payables and accruals	–	–	(2,134)	(2,134)
Total financial liabilities	**(12,328)**	**(3,871)**	**(2,137)**	**(18,336)**
Total interest sensitivity gap	**8,145**	**65,686**	**13,519**	**87,350**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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

Market risk (continued)

iii. Interest rate risk (continued)

31 December 2019	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	13,822	61,945	17,920	93,687
Cash and cash equivalents	–	6,102	–	6,102
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	4,999	–	4,999
Derivative financial assets at fair value through profit or loss	2,690	–	1,219	3,909
Other receivables	–	–	1,621	1,621
Total financial assets	**16,512**	**73,046**	**20,760**	**110,318**
Financial liabilities				
Bank overdrafts	–	–	–	–
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	(803)	–	(803)
Derivative financial liabilities at fair value through profit or loss	(16,434)	–	–	(16,434)
Short positions covered by sale and repurchase agreements	–	(1,336)	–	(1,336)
Other payables and accruals	–	–	(466)	(466)
Total financial liabilities	**(16,434)**	**(2,139)**	**(466)**	**(19,039)**
Total interest sensitivity gap	**78**	**70,907**	**20,294**	**91,279**

It is estimated that the fair value of the fixed interest and non-interest bearing capital instruments of £28,877,000 (2019: £31,742,000) at 31 December 2020 would increase/decrease by +/-£656,000 (0.74%) (2019: +/-£721,000 (0.77%)) 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 31 December 2020, credit risk arose principally from investment in capital instruments of £83,466,000 (2019: £85,924,000), cash and cash equivalents of £4,297,000 (2019: £6,102,000), balances held as collateral for derivative financial instruments at fair value through profit or loss of £5,905,000 (2019: £4,999,000), foreign currency forward assets of £775,000 (2019: £1,219,000) and investments in sale and repurchase assets of £3,877,000 (2019: £1,292,000). 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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

Credit risk (continued)

The Investment Manager manages the Company's credit risk by investing in a diverse portfolio of capital instruments, in line with the Prospectus. At 31 December 2020, the capital instrument rating profile of the portfolio was as follows:

	31 December 2020 Percentage	31 December 2019 Percentage
A	–	–
BBB	20.07	19.22
BB	32.28	38.33
B	12.11	9.15
Below B	7.56	8.21
No rating	27.98	25.09
	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.

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 as 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, all rated A+. At 31 December 2020, the overall net exposure to these counterparties was 5.11% (2019: 7.01%) of NAV. The collateral held at each counterparty is disclosed in note 16.

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 31 December 2020 was low since the ratio of cash and cash equivalents (net of overdrafts) to unmatched liabilities was 17:1 (2019: 13:1).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

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

Liquidity risk (continued)

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

	31 December 2020 Percentage	31 December 2019 Percentage
Less than 1 year	7.99	4.91
1 to 3 years	29.24	36.37
3 to 5 years	30.62	27.85
5 to 7 years	9.62	7.80
7 to 10 years	4.15	6.47
More than 10 years	18.38	16.60
	100.00	**100.00**

As at 31 December 2020, the Company's liquidity profile was such that 67.4% of capital instruments were realisable within one day (2019: 66.5%), 29.5% was realisable within one week (2019: 33.5%) and the remaining 3.1% was realisable within one month (2019: nil). As at the year end, the Company's liabilities fell due as follows:

	31 December 2020 Percentage	31 December 2019 Percentage
1 to 3 months	93.55	54.99
3 to 6 months	–	–
6 to 12 months	–	–
1 to 3 years	6.45	15.73
3 to 5 years	–	29.28
	100.00	**100.00**

25. 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 increase the gearing of the Company. As at 31 December 2020 the Company had fourteen (2019: ten) open sale and repurchase agreements, four (2019: one) being reverse sale and repurchase agreements, committing the Company to make a total repayment of £12,182,000 post the year end (2019: £16,052,000). As a result of the reverse sale and repurchase agreements the Company was due to receive £3,877,000 after the year end (2019: £1,292,000).

The raising of capital through the placing of shares forms part of the capital management policy. See note 21 for details of the Ordinary Shares issued since incorporation.

As disclosed in the Statement of Financial Position, at 31 December 2020 the total equity holders' funds were £87,350,000 (2019: £91,284,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2020 *(continued)*

26. Capital commitments

The Company holds a number of derivative financial instruments which, by their very nature, give rise to capital commitments post 31 December 2020. These are as follows:

- At 31 December 2020, the Company had sold twelve (2019: fourteen) credit default swap agreements for a total of £677,000 (2019: £931,000), each receiving quarterly interest. The exposure of the Company in relation to these agreements at the year end date was £571,000 (2019: £1,096,000). Collateral of £5,905,000 for these agreements was held at 31 December 2020 (2019: £4,999,000).
- At the year end the Company had committed to two (2019: five) foreign currency forward contracts dated 21 January 2021 to buy £46,936,000 (2019: £52,306,000). At 31 December 2020, the Company could have effected the same trades and purchased £46,161,000 (2019: £51,087,000), giving rise to a gain of £775,000 (2019: gain of £1,219,000).
- At the year end, the Company held ten (2019: nine) open sale and repurchase agreements (this excludes the four open reverse sale and repurchase agreements (2019: one)) committing the Company to make a total repayment of £12,255,000 (2019: £16,405,000).

27. 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 £737,000 at 31 December 2020 (2019: £725,000) 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 the £737,000 (2019: £725,000) Expenses Excess to start becoming payable, the Company's NAV would need to increase by c.7.5% from the 31 December 2020 NAV. For a significant amount 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.

28. Events after the financial reporting date

On 25 January 2021, the Company declared a dividend of 1.50p per Ordinary Share for the period from 1 October 2020 to 31 December 2020, which (in accordance with IFRS) was not provided for at 31 December 2020, out of the profits for the year ended 31 December 2020 (note 6). This dividend was paid on 26 February 2021.

As described on pages 3, 4, 23 and 30, the COVID-19 pandemic is a significant risk to the global economy. The Company's net asset value in the last year has been materially impacted by the volatility in the investment markets due to the effects of the COVID-19 pandemic. The situation continues to change rapidly, so the full impact cannot yet be fully understood, but the Company will continue to monitor the situation closely.

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