KKV SECURED LOAN FUND LIMITED
(formerly known as SQN Asset Finance Income Fund Limited)

Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2020

GROUP METRICS FOR THE YEAR ENDED 30 JUNE 2020

As at 30 June 2020, the investment objective of KKV Secured Loan Fund Limited (the "Company" and together with its subsidiaries, the "Group") was to provide its shareholders with regular, sustainable dividends and to generate capital appreciation through investment, directly or indirectly, in business-essential, revenue-producing (or cost saving) equipment and other physical assets. The Group's base currency is Sterling.

The new investment objective of the Ordinary Shares and the 2016 C Shares is to realise all remaining assets in the portfolio of both share classes in a prudent manner consistent with the principles of good investment management and to return cash to shareholders in an orderly manner.

(56.1)% per Ordinary Share[1] **(25.0)%** per 2016 C Share[1]	**36.2p** per Ordinary Share **68.2p** per 2016 C Share	**(11.9)%** Ordinary Share[1] **(16.4)%** 2016 C Share[1]
NAV total return per share for the year ended 30 June 2020 (dividends reinvested at NAV)	NAV per Share as at 30 June 2020	Share price discount to NAV as at 30 June 2020

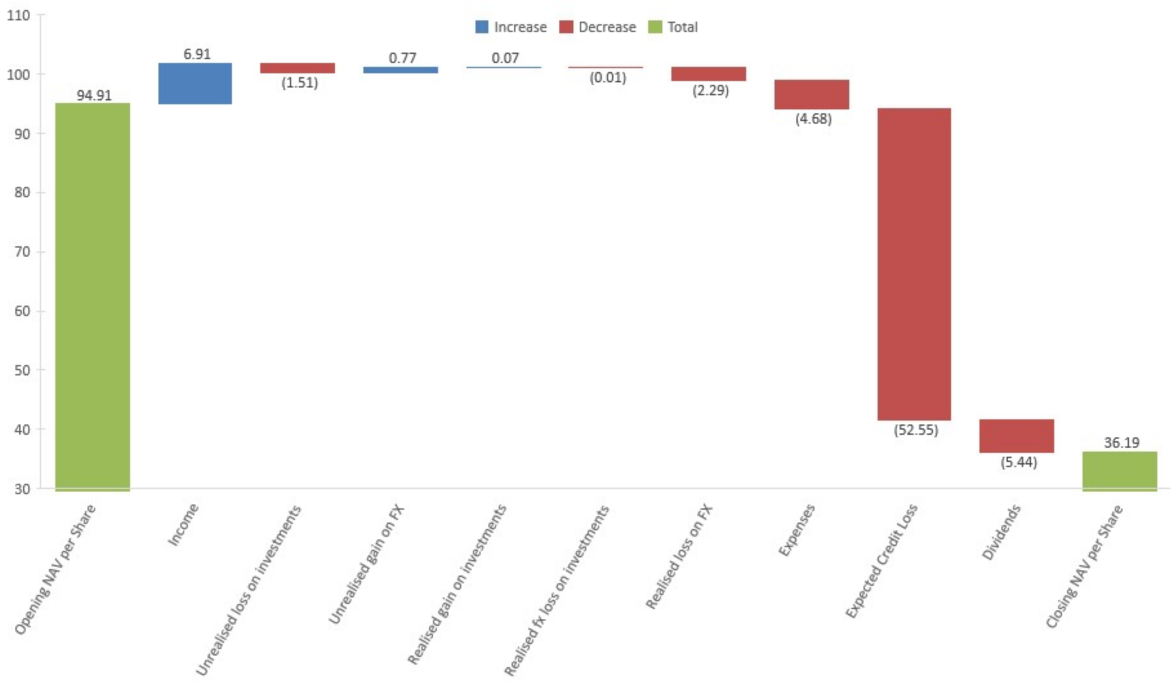
£193 million
Market capitalisation of Ordinary Shares and 2016 C Shares as at 30 June 2020

[1] These are Alternative Performance Measures, refer to pages 158 to 161 for details.

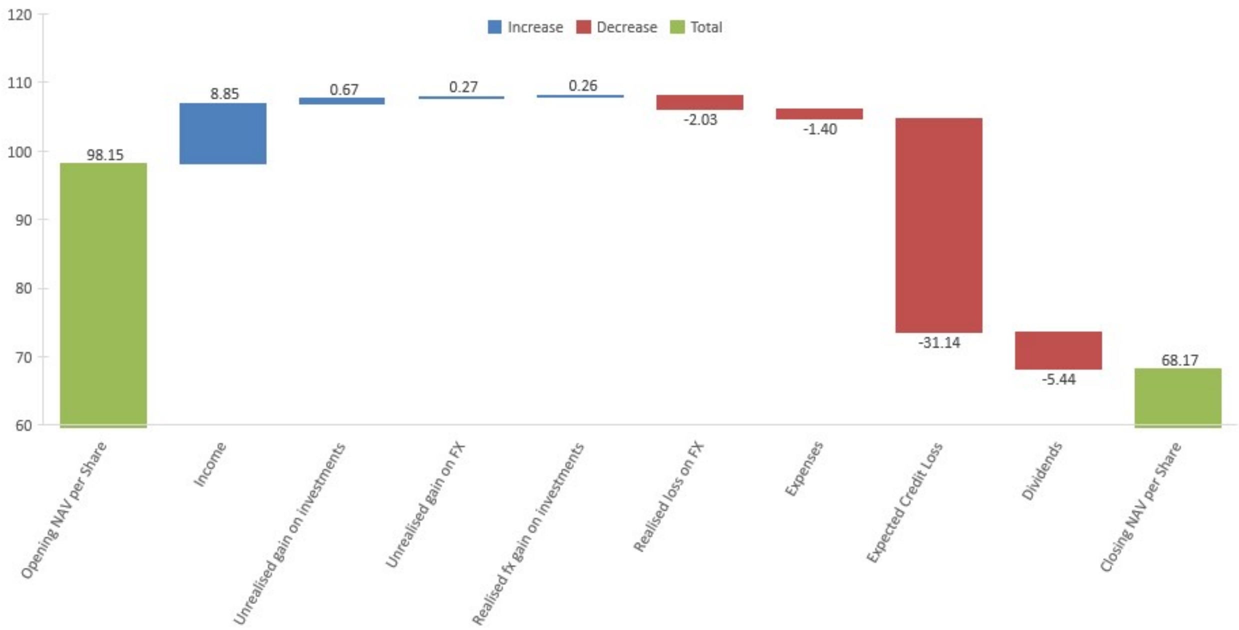
GROUP METRICS FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

The key drivers of the change in Net Asset Value (" NAV") between 30 June 2019 and 30 June 2020 are highlighted in the graphs below:

Ordinary Shares



2016 C Share



KKV Secured Loan Fund Limited
Annual Report and Audited Consolidated Financial Statements
for the year ended 30 June 2020

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FINANCIAL METRICS AND PERFORMANCE SUMMARY

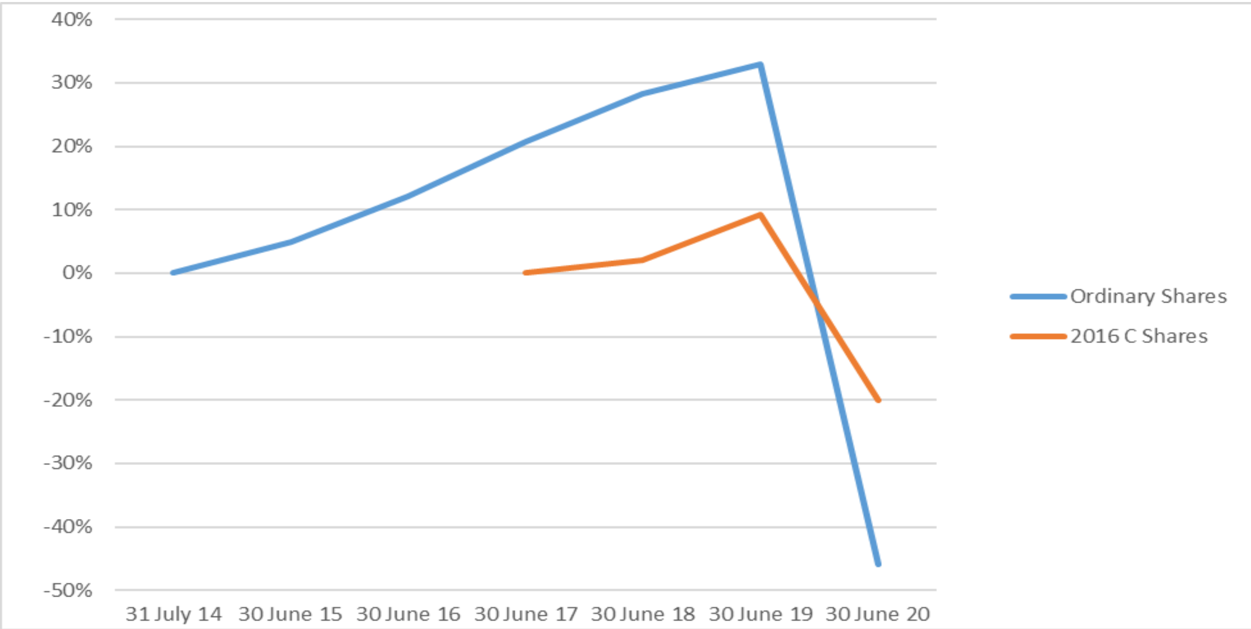
Financial Metrics

NAV Total Return

The NAV total return details the change in NAV from the start of the relevant period and assumes that dividends paid to shareholders are reinvested at NAV. The NAV total return achieved by the Group is detailed in the table below:

Period	Ordinary Shares	2016 C Shares
Year to 30 June 2020	(56.1)%	(25.0)%
3 year[1]	(43.7)%	(16.3)%
Since inception	(26.7)%	(17.7)%

The NAV total return since inception is illustrated in the graph below:



Ongoing Charges[2]

The ongoing charges for the year ended 30 June 2020 are 1.31% (30 June 2019: 1.21%).

Dividend History

Dividends were suspended on 18 March 2020 on both the Ordinary Shares and the 2016 C Shares until further notice. This was intended to preserve cash while the Company and its borrowers navigated through the challenging, unprecedented environment caused by Covid-19. Please refer to note 14 for details on dividends paid during the year and prior year.

Acquisition of Own Ordinary Shares

The Group repurchased 288,156 (30 June 2019: 321,316) Ordinary Shares during the year for a total cost of £237,845 (30 June 2019: £295,529). The repurchased Ordinary Shares are being held in treasury.

[1]NAV total return over a 3 year period from 1 July 2017 to 30 June 2020.
[2] Refer to pages 158 to 161 for the calculation of these alternative performance measures.

FINANCIAL METRICS AND PERFORMANCE SUMMARY (CONTINUED)

Performance Summary

Sterling in millions, except per share data and number of shares in issue	30 June 2020	30 June 2019
Number of shares in issue		
- Ordinary Shares[1]	355,975,669	356,263,825
- 2016 C Shares	138,924,222	138,924,222
NAV[1]		
- Ordinary Shares	£128.81	£338.14
- 2016 C Shares	£94.71	£136.35
NAV per share[2]		
- Ordinary Shares	36.19p	94.91p
- 2016 C Shares	68.17p	98.15p
Share price[3]		
- Ordinary Shares	31.90p	91.00p
- 2016 C Shares	57.00p	91.00p
Market capitalisation[3]		
- Ordinary Shares	£113.56	£324.20
- 2016 C Shares	£79.19	£126.42
(Loss)/earnings per share		
- Ordinary Shares	(53.28)p	4.06p
- 2016 C Shares	(24.54)p	6.75p
Dividend paid per share[4]		
- Ordinary Shares	5.44p	6.65p
- 2016 C Shares	5.44p	6.19p
Comprehensive (loss)/income before dividends	£(223.81)	£23.85
Investments	£213.16	£435.21
Cash and cash equivalents	£9.00	£22.04[5]
Weighted average portfolio yield[6]		
- Ordinary Shares – performing	9.61%	9.40%
- 2016 C Shares - performing	9.37%	9.62%
- Consolidated - performing	9.49%	9.47%
- Ordinary Shares – non performing	2.17%	0.00%
- 2016 C Shares – non performing	3.85%	n/a
- Consolidated – non performing	2.5%	0.00%
- Ordinary Shares – combined	3.62%	9.50%
- 2016 C Shares – combined	6.54%	9.62%
- Consolidated - combined	4.42%	9.53%
Weighted average remaining term[6]		
- Ordinary Shares – performing	78.33 months	115.29 months[7]
- 2016 C Shares - performing	57.57 months	64.47 months
- Consolidated - performing	68.23 months	98.61 months
- Ordinary Shares – non performing	215.95 months	n/a
- 2016 C Shares – non performing	58.84 months	n/a
- Consolidated – non performing	106.57 months	n/a
- Ordinary Shares – combined	110.32 months	109.77 months
- 2016 C Shares – combined	58.22 months	64.47 months
- Consolidated - combined	95.99 months	97.16 months

[1]The number of Ordinary Shares in issue is presented after deducting 1,731,838 (30 June 2019: 1,443,682) treasury shares.
[2] Refer to Note 19 for a reconciliation between the NAV announced via the RNS and the NAV per the consolidated financial statements.
[3] Source: Bloomberg
[4] Refer to note 14 for further details on the dividends paid during the year and prior year. During the year ended 30 June 2020, 9 dividends were paid (30 June 2019: 11 dividends were paid).
[5] The comparative has been restated to disclose due from/to broker separately from cash and cash equivalents.
[6] Of the invested portfolio. Calculated using performing, non performing and both performing and non-performing assets combined. These are Alternative Performance Measures, refer to pages 158 and 161 for details.
[7] This comparative has been restated to include performing assets only.

COMPANY OVERVIEW

The investment objective and policy of the Company is set out in the Executive Summary of this report.

Company	**KKV Secured Loan Fund Limited** (formerly known as SQN Asset Finance Income Fund Limited**)** Incorporated in Guernsey on 28 May 2014. Change of Name registered on 16 July 2020 Registered Guernsey Closed-ended Collective Investment Scheme. Admitted to the Premium Segment of the UK Listing Authority's Official List and to trading on the Main Market of the London Stock Exchange on 14 July 2014 for Ordinary Shares, 9 November 2015 for the first issuance of C Shares (which were converted into Ordinary Shares on the 25 October 2016) and 12 December 2016 for the second issuance of C Shares (the "2016 C Shares"). Registration number 58519.
Investment Managers and Alternative Investment Fund Manager (from inception to 5 June 2020)	**SQN Capital Management, LLC (the "US Investment Manager")** Incorporated in the United States of America on 7 December 2007. A Registered Investment Adviser with the United States Securities and Exchange Commission. File number 4466472. **SQN Capital Management (UK) Limited (the "UK Investment Manager")** Incorporated in England & Wales on 12 May 2014. A wholly owned subsidiary of the US Investment Manager. Registration number 09033846. **(together the "Investment Managers")** The US Investment Manager was the Alternative Investment Fund Manager from inception to 5 June 2020
Portfolio Manager (from 6 June 2020 to date)	**KKV Investment Management Limited** Incorporated in England and Wales on 20 February 2020. A subsidiary of Kvika Securities Limited, the UK operation of Kvika Banki hf, a Nordic bank listed on the NASDAQ Iceland main market. Registration number 12475228 **(the "Portfolio Manager")**
Alternative Investment Fund Manager (from 6 June 2020 to date)	**International Fund Management Limited ("IFM")** Regulated by the Guernsey Financial Services Commission under the Protection of Investors (Bailiwick of Guernsey) Law 1989, as amended. Incorporated in Guernsey with registration number 17484. **(the "AIFM")**

Details of other service providers are provided on page 162.

CHAIRMAN'S STATEMENT

Introduction

I present shareholders with my Chairman's Statement, covering the financial year from 1 July 2019 to 30 June 2020.

In releasing these accounts, I realise that the sheer extent and quantum of provisions taken by the Company will be of great concern to shareholders. These have also been a huge disappointment to the Board and the Portfolio Manager. As detailed elsewhere in my report, following the Board's strategic review at the start of 2020, the Company appointed the Portfolio Manager and AIFM in June 2020, taking over from the Investment Managers who had been the manager since inception in 2014. The Portfolio Manager, the AIFM and the Board have conducted a very thorough, bottom-up analysis of every credit in its portfolio. Each position has had a reassessment of the credit quality of the underlying assets and a reclassification of their inherent risk profile assisted, in some instances, by independent reviews conducted by third parties, the details of which are explained in the Portfolio Manager's Report. Determining the exact level of provision to take on specific loans has, for certain assets, proven to be very challenging given the wide range of possible outcomes. Nonetheless, I am confident that the analysis has been robust and is a fair reflection of the position at the financial year-end, albeit there remains some continued uncertainty about the amounts that will be realised eventually.

In some cases, due to the continued disappointment and the failure of favourable resolutions being found on certain assets within a reasonable timescale, they have been provided for in full, as it is difficult to confirm the amount and timing of any recovery. That said, where contractual rights exist, the Board, the AIFM and the Portfolio Manager will continue to pursue recovery of value in the best interests of shareholders.

Whether the NAV performance improves or deteriorates from here I cannot provide assurance because much will depend upon how conditions develop in financial markets and the wider economy. Further challenges remain, such as Brexit and Covid-19.

Performance

As I have noted, this financial year has been extremely challenging and it is very disappointing that I report a NAV total return per Ordinary Share of (56.1)% and a NAV total return per 2016 C Share of (25.0)% for the year to 30 June 2020. Other key metrics were:

- For the reporting period, the Company has reported a combined net loss of £223.8 million (2019: profit of £23.9 million).
- The Company's Ordinary Share NAV at 30 June 2020 was £128.8 million (36.19p per Ordinary Share) compared to £338.1 million (94.91p per Ordinary Share) as at 30 June 2019.
- The Company's 2016 C Share NAV at 30 June 2020 was £94.7 million (68.17p per 2016 C Share) compared to £136.4 million (98.15p per C Share) as at 30 June 2019.

Strategic Review

As I noted in my report to you in April 2020, the Board commenced a strategic review in January 2020 which involved consideration of the future of the Company and the review of investment management services together with the need to appoint an independent third party to assist with the valuation of certain Anaerobic Digestion ("AD") plants valuations. KPMG in Ireland was appointed to assist with those valuations.

CHAIRMAN'S STATEMENT (CONTINUED)

Strategic Review (Continued)

The review of investment management services saw the Board follow a detailed and thorough process. The Company announced the appointment the Portfolio Manager and the AIFM on 8 June 2020.

The Portfolio Manager represented the opportunity to bring new management of the portfolios whilst retaining some continuity with the prior Investment Managers through the transition of some personnel. The former co-manager, Jeremiah Silkowski, was retained under a consultancy arrangement with the Portfolio Manager to aid with ongoing transitional queries, whilst Neil Roberts, the other co-manager, having managed the fund since inception, retired from his role in Q1, 2020 and retains his position as chairman of the wider SQN Group. The investment team of the Portfolio Manager is led by Dawn Kendall and her team includes Chris Greener and Christian Holder, both have deep experience of the asset backed and loan markets. Further details are provided in their Portfolio Manager's Report.

Throughout the strategic review, the Board listened to the views of major shareholders and, associated with the changes made, the Board determined to bring forward the continuation votes that were previously scheduled to be held at the annual general meeting ("AGM") on 31 December 2020. Accordingly, an extraordinary general meeting ("EGM"), together with Ordinary and 2016 C Share Class meetings were held on 16 July 2020 at which Ordinary Share shareholders voted for continuation, with a further vote in 2021, whilst 2016 C Share shareholders voted against continuation.

Subsequently, as the extent of issues with portfolio positions became more apparent, and reflecting further feedback from shareholders, the Board determined that the best course of action was to propose that both the Ordinary Shares and the 2016 C Shares be placed into an orderly managed wind down. At the EGM and Ordinary and 2016 C Share Class meetings held on 4 December 2020, shareholders approved the resolutions enabling the Company to commence a managed wind down of the portfolios. As noted in the Company's various announcements, there will be no fire sale of assets and any wind down will be orderly and seek to extract maximum shareholder value, balanced against a desire from shareholders to see a return of capital in a more accelerated fashion than allowing all loans to run to formal maturity, some of which are lengthy. I am optimistic that we will be able to achieve a good balance of these two objectives over the coming months and years but, realistically, it is likely that any final wind down will take at least 2 to 3 years. It is presently too early to provide any timetable for distributions to shareholders.

In the middle of the strategic review, a number of events conspired, leading to the Board and the previous Investment Managers undertaking a review of the liquidity outlook for both share classes. Given the very material uncertainty prevailing, the decision was taken in March 2020 to preserve liquidity and to suspend dividends; no further dividends have therefore been declared on either the Ordinary Shares or 2016 C Shares since that time. Given that subsequent events have placed the Company on a path to managed wind down, the Board does not intend to declare any further dividends, other than is necessary for regulatory purposes.

The Board was also mindful of the potential impact on liquidity from the hedging of US Dollars and Euros back into Sterling and so this hedging programme was also cancelled. The Board and the Portfolio Manager will keep this matter under review but there is no intention, for the foreseeable future, to reinstate any currency hedging. The Portfolio Manager will provide percentage foreign exchange exposures in future factsheets in order that shareholders may hedge their underlying currency exposures themselves should they choose to do so.

CHAIRMAN'S STATEMENT (CONTINUED)

Strategic Review (Continued)

Given the prevailing environment and the need to preserve shareholder value in certain assets, in particular some of the AD plants, a small number of follow-on investment and commitments were made by the Ordinary Share Class. To ensure liquidity, there is an inter-class loan from the 2016 C Shares to the Ordinary Shares, of approximately £2m on commercial terms. Once liquidity is rebuilt in the Ordinary Share Class, it will be repaid, most likely early in 2021.

Share Price

During the year the share prices of both the Ordinary Shares and the 2016 C Shares declined significantly and the discount of the share price to NAV also widened materially, reflecting the understandable disappointment of shareholders as events unfolded. As at 30 June 2020, the Ordinary Share Class was at a discount to NAV of 11.9% and the 2016 C Share Class was at discount of 16.4%

Board of Directors

Since the year end there have been changes to the composition of the Board to reflect the change in strategy to one of managed wind down.

On 16 September 2020, the board appointed Brett Miller as a director of the Company. He is a Director of Secured Income Fund plc which is also managed by the Portfolio Manager and, as such, is considered non-independent. Alongside his appointment as a director, Mr Miller has been tasked with extended responsibilities and will be working closely with the Portfolio Manager to maximise returns for shareholders and to help effect an orderly realisation of assets in a manner that seeks to achieve a balance between maximising the value received from those assets and making timely returns of capital to shareholders. Brett brings significant experience of closed ended funds and the alternative lending sector and has experience of working with companies that are in wind-down. We welcome him to the Board and look forward to his positive contribution over the remainder of the life of the Company.

On 29 October 2020, Chris Spencer and Jacqueline Redmond stepped down from the Board. Paul Meader and John Falla did not seek re-election at the recent AGM. I extend my gratitude to them for their contributions.

David Copperwaite was appointed to the Board as a Non-Executive Director following the AGM and has taken over as Chairman of the Audit and Risk Committee. I welcome him to the Board.

I will remain as Chairman until we have appointed an additional director to assume the Chairman's role, expected to be no later than February 2021. I will then step down from the Board as well. A fourth director may also be appointed and this is under consideration.

For the future, the composition of the Board will reflect the wind down nature of the business going forward and the skills that are needed to manage that ongoing process.

Change of Auditor

As detailed in the Report of the Audit Committee in October 2019 the Board appointed Deloitte LLP ("Deloitte") as auditor to the Company replacing Baker Tilly CI Limited who had audited the Company for the five years since inception in 2014. Deloitte completed their first interim accounts review to 31 December 2019 in March 2020.

CHAIRMAN'S STATEMENT (CONTINUED)

Shareholder engagement

This has been a very difficult year and there have been some very unpalatable messages delivered by the Company to its shareholders. The Board and the Portfolio Manager have both been active in their engagement with shareholders. I can assure you that the Board has always had the interests of shareholders at its core and I would like to thank every shareholder with whom we have had discussions for their constructive engagement and their help in guiding the Board where possible. We have listened on every occasion. In such a difficult period, it is inevitable that not all shareholders will be as one. However, we have sought to balance the differing views of shareholders and I would like to think that we have been able to chart a course through rough seas to reach the right destination.

In light of the current status of the Company's portfolio and the analysis necessary in preparing a valuation statement, the Board is of the view that the publication of a monthly NAV is no longer appropriate. The Company therefore intends to publish its NAV on a quarterly basis reflecting the Portfolio Manager's detailed analysis of the Company's portfolio. It is expected that the NAV will be published within six weeks of the quarter-end with the exception of the half-year and full-year NAV which will be published at the time of the half-year and full-year results. The Board will continue to keep shareholders updated of any major developments in the portfolio, including events that may have a material impact on valuation and/or material asset disposals/refinancings.

Outlook

The Board and the Portfolio Manager have now begun work on an orderly wind down of the portfolios and hope to return capital to investors expeditiously, avoiding capital erosion where possible. In anticipation of this the Board had instructed the Portfolio Manager to cease all new underwriting commitments from June 2020. We have also reviewed costs in recent months and have taken steps to reduce ongoing expenses going forward.

Market conditions have been, and continue to be, very challenging. When I wrote to you last, in early April 2020, the UK was locked down due to the Covid-19 pandemic and the path forward for the world economies was very unclear. We now know that the consequences have been very severe and protracted. It is heartening that there is the glimmer of hope that a medical solution will be available in 2021 but this has had an effect on a number of borrowers. It has also made it more difficult to engage with borrowers face-to-face and has worsened the environment in which we are all working.

However, the Portfolio Manager considers that the most challenging period may still be ahead of us, with Q1 and Q2 2021 presenting continued risks to our borrowers. We shall, of course, keep investors informed of any developments as they occur.

Peter Niven
Chairman
26 January 2021

Most of the wording in the Chairman's Statement was drafted by Peter Niven before he fell ill. In his absence, during his recuperation, the Board has made amendments and consequential adjustments, which for the avoidance of doubt, Mr Niven has not seen.

STRATEGIC REPORT

EXECUTIVE SUMMARY

This executive summary is designed to provide information about the Company's business and results for the year ended 30 June 2020. It should be read in conjunction with the Chairman's Statement and the Portfolio Manager's Report which give a detailed review of investment activities for the year and an outlook for the future. These include a review of the business of the Group and its core activities, the principal risks and uncertainties it faces, dividend policy and results for the year.

Corporate Summary
The Company is a non-cellular company limited by shares, registered in Guernsey under the Companies (Guernsey) Law 2008 (as amended) with registered number 58519. The registered office of the Company is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA, Channel Islands.

The Company is an authorised collective investment scheme in Guernsey, pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended). The Company's Ordinary Shares and 2016 C Shares are listed on the premium segment of the Official List of the UK Listing Authority and are admitted to trading on the Main Market of the London Stock Exchange.

The Company is a member of the Association of Investment Companies (the "AIC") and is classified within the Specialist: Leasing sector.

Significant Events During the Year Ended 30 June 2020
Appointment of New Director
On 4 December 2019, Dr Jacqueline Redmond was appointed as a non-executive Director.

AD Plant Valuation
In January 2020, the Company announced that three of the AD plants had not reached targeted operational capacity and a further three AD plants were performing at or above the targeted operational capacity but feedstock costs have been higher than originally anticipated.

Given the large number of variables and the high degree of sensitivity of each of those variables when modelled over the more than 20 year lives of the assets and the wide range of potential values, and in the interests of prudent risk management, the Board appointed KPMG in Ireland to provide an independent assessment of the valuation of the six AD plants as at the period ended 31 December 2019. Refer to page 81 for further information on third party valuation performed as at 30 June 2020.

Covid-19
The Portfolio Manager (previously the Investment Managers) contacted the Company's borrowers to review and determine the extent to which Covid-19 was impacting their businesses and their ability to maintain their financial commitments to the Group. There have been issues with a number of investments in the Group's portfolio due to Covid-19.

The Group aims to keep sustainable businesses alive with support and forbearance including maturity extensions and interest or amortisation "holidays", so that they can resume trading and servicing their loans as rapidly as possible. Please refer to the Portfolio Manager's Report for further information regarding Covid-19.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Significant Events During the Year Ended 30 June 2020 (Continued)

Hedging
During the period 1 July 2019 to 18 March 2020 (and for the comparative period), the foreign currency risk assumed by the Group in making and retaining investments denominated in foreign currencies was hedged by placing contracts for the sale of the future foreign currency payments anticipated to be received in connection with such investments ("FX Receivables"). Due to the limited availability, inflexibility and cost of placing a matched forward contract for each foreign currency investment (which may have a tenor of five years or longer), the FX Receivables in respect of two or more underlying investments were aggregated and forward contracts placed with short-term maturity (typically between three and nine months). On maturity, the forward sale contract was part-settled from actual foreign currency receipts and a new forward contract was placed for the then applicable aggregate FX Receivables, adjusted for payments received, contract variations and new investments.

The Company was required to deposit initial cash collateral against fluctuations in the applicable exchange rates and/or to meet margin calls if the prevailing market rate varied from the contract rate. The Portfolio Manager (previously the Investment Managers) monitors the Group's currency risk, and the Directors review it.

On 18 March 2020, the foreign exchange forward derivatives used to hedge non-Sterling exposures back to Sterling were closed out. This was to preserve liquidity and to avoid creating liquidity pressures for the Group as Sterling had notably weakened due to Covid-19.

Suspension of Dividends
On 18 March 2020, and in light of the ongoing uncertainty in the market due to the Covid-19 pandemic, the Board announced the suspension of dividend payments on both the Ordinary Share and 2016 C Share classes until further notice. It was noted that, in order to conserve liquidity, no further dividends would be declared until further clarity on the impact of Covid-19 was available and the results of the Company's strategic review were determined.

The Company previously targeted a total annual dividend of 7.25 pence per Ordinary Share and 2016 C Share. The dividend target was a target only and there was no guarantee that it would be achieved. Dividends were declared and paid monthly for Ordinary Shares and 2016 C Shares. The last dividend declared was for January 2020 and was paid on 26 April 2020.

As at the date of approving these consolidated financial statements, dividend payments on both the Ordinary Share and 2016 C Share classes continue to be suspended.

Refer to note 14 for details of dividends that the Company has declared and paid to its shareholders during the year.

Appointment of new investment manager and AIFM
On 24 January 2020, the Board announced it would be carrying out a strategic review of the Company's operations, which would include the provision of investment management services.

On 30 April 2020, the Company announced the results of its strategic review and, following a detailed and transparent selection process, its intention to appoint the Portfolio Manager and the Company's AIFM. These new appointments and the termination of the previous contract with the Investment Managers were confirmed in an RNS dated 8 June 2020.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Significant events during the year ended 30 June 2020 (Continued)

Acquisition of Own Ordinary Shares
The Company repurchased 288,156 Ordinary Shares during the year for a total cost of £237,845. The repurchased Ordinary Shares are being held in treasury. As at 30 June 2020, 1,731,838 Ordinary Shares are being held in treasury.

Share Capital and voting rights
The Company's issued share capital as at 30 June 2020 consisted of 357,707,507 Ordinary Shares (including 1,731,838 treasury shares) and 138,924,222 2016 C Shares of no par value. The share capital of the Company is represented by an unlimited number of shares of no par value. All shares hold equal voting rights with no restrictions and no shares carry special rights with regard to the control of the Company. There are no special rights attached to the shares in the event that the Company is wound up.

Please refer to note 13 for further information.

Subsidiaries
The Company's subsidiaries are detailed in note 1.

As at 30 June 2020, the Directors of the subsidiaries were the same as the Company. Brett Miller and David Copperwaite were appointed as directors of the subsidiaries post year end. Information of each Director is shown on pages 69 and 70.

Purpose
The Company is an investment company with wholly owned subsidiaries incorporated in Guernsey and established for the primary purpose of acting as investment holding companies. The Company's purpose together with its subsidiaries is to provide its shareholders with regular, sustainable dividends and to generate capital appreciation through investment, directly or indirectly, in business-essential, revenue-producing (or cost saving) equipment and other physical assets. In fulfilling this purpose, the Board seeks to consider the views of all stakeholders and is mindful of the impact that the Company has on wider society.

Previous Investment Objective and Investment Policy

The investment objective and investment policy set out immediately hereafter is that for the year ended 30 June 2020 which had been followed by the Company. Refer below to significant events after the reporting period which has resulted in a change to the Company investment objective and policy and the purpose of the Company.

Investment Objective
The investment objective of the Company is to provide its shareholders with regular, sustainable dividends and to generate capital appreciation through investment, directly or indirectly, in business-essential, revenue producing (or cost-saving) equipment and other physical assets.

Investment Policy
The Company will seek to invest in business-essential, revenue producing (or cost-saving) equipment and other assets with high in place value and long economic life relative to the investment term.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Previous Investment objective and Investment Policy (Continued)

Investment Policy (continued)
The Company provides asset financing primarily by way of equipment leases, loans, hire-purchase agreements, construction finance, and residual participations. It is intended that each investment made by the Company will generate returns either through cash flow over the investment term or through the residual value of the equipment or other assets at the end of the investment term. When available, the Company targets investments in the specialist segment of the leasing market where assets provide cash flow during the base term of the leases as well as offering the potential for additional proceeds through lease extensions or sales at the end of the lease. The Company generally does not intend to invest in the large single asset segment of the leasing market, such as wide-body commercial aircraft leasing, which is heavily reliant on residual value to meet its return targets, or the high volume, low margin segment of the leasing market, such as photocopier and automobile leasing, although it may do so, from time to time, if appropriate opportunities are identified in these segments.

The Company may invest in assets in any industry. The Company, however, generally expects to be invested in such industries where the Portfolio Manager (previously the Investment Managers) sees the potential to make the most attractive risk adjusted returns which currently include, but are not limited to, Agriculture, Energy, Environmental, Manufacturing, Material Handling, Medical, Modular Accommodation, Technology and Transportation.

The Portfolio Manager (previously the Investment Managers) will target transaction sizes below £20 million but, generally, the average transaction size is expected to be £3 million to £6 million, although it may fluctuate based on the market opportunities and portfolio composition that the Portfolio Manager (previously the Investment Managers) believes will best achieve the Company's investment objectives. Whilst there is no minimum lease term, it is typical for the initial lease terms to be 3 to 10 years depending on the asset. Where appropriate, however, the term of the lease may vary significantly from this range reflecting the opportunities available and the needs of the lessee.

It is intended that the Company will primarily acquire assets directly and function as the lessor under equipment lease contracts. In such situations, the Company will own all rights, title, and interest in and to the assets and will lease them to the end-user. In other situations, the Company may own assets and enter into hire-purchase agreements where the Company will own the assets until all payments are made under the agreement and a pre-agreed nominal purchase price is paid to the Company.

The assets held by the Company will generally be leased to a third party and will be subject to either a direct finance (cash flow) lease or an operating lease. The Company intends to balance the portfolio between direct finance leases, to provide regular cash flow, and operating leases, to provide capital appreciation opportunities. Many, but not all, investments will be structured to provide return of capital and interest during the lease term with an opportunity for additional realisation from the residual value after the initial lease term. In certain jurisdictions, direct finance leases will be structured as loans and provide the same advantages to the Company.

The Portfolio Manager (previously the Investment Managers) will generally seek to acquire investments and/or enter into lease arrangements that require the lessee or other counterparty to bear all tax, maintenance, insurance, and other costs related to the lease or the operation of the underlying asset(s). Generally, as a result, the Company will not be required to undertake maintenance on assets but reserves the right to do so on an exceptional basis.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Previous Investment objective and Investment Policy (Continued)

Whilst the Company will typically seek direct ownership of the assets under lease, the Company may also obtain exposure to such investments through holding securities that have exposure to an underlying asset or assets that meet the Company's investment criteria where it is more advantageous for the Company to do so or a direct investment is not possible. This includes, but is not limited to, holding or entering into debt securities, loan agreements, equity securities, participation agreements, hybrid instruments, or other securities, whilst maintaining the desired economic exposure and level of security.

The Company may invest in residual interests in assets or equipment. When the Company invests in residual interests, it or its subsidiaries will acquire the rights and/or title to equipment, assets, income or proceeds in respect of the period after the end of the initial lease term or other underlying contract term. Cash flow from the residual interests generally will not commence until all of the obligations under the initial term are satisfied. Once those obligations are satisfied, rights and/or title to the underlying equipment, assets, income or proceeds will be transferred to the Company or its subsidiaries. Furthermore, the Company may elect to sell all or part of the lease receivables to a third party investor or bank and retain its exposure to the asset by retaining ownership of the residual value (in addition to any proportion of the lease receivables retained). Therefore, in relation to certain investments, the Company may be reliant on the residual value to obtain its return on that investment. It is not expected that residual interests would represent more than 35 per cent of the portfolio at the time of investment.

Investments will primarily be made in the United Kingdom, the United States and Europe which is expected to represent at least 75 per cent of the portfolio. The Company may also invest in assets and equipment located or subject to law in Canada and Australia and other countries, regions, or jurisdictions where the Portfolio Manager (previously the Investment Managers) believes they can adequately secure the Company's interest in assets and equipment whilst achieving an appropriate risk-adjusted return consistent with the rest of the portfolio.

Diversification Strategy
The Group's portfolio is subject to diversification policies limiting the maximum amount of capital that can be invested in a single asset, in a single asset class, in assets held by a corporation or group or held by companies in a specific industry and as a percentage of NAV of the portfolio, measured at the time of investment, as follows:

- Maximum by asset: 15%
- Maximum by asset class: 30%
- Maximum by corporation or group: 15%
- Maximum by industry: 30%

New Investment objective and Investment Policy

After receiving the required approval from shareholders at the EGM held on 4 December 2020, the previous Investment Objective and Investment Policy, were deleted in their entirety and replaced with the new Ordinary Share and 2016 C Share Investment Objective and Investment Policy. Each share class has its own Investment Objective and Investment Policy, which are identical and are set out below.

Investment Objective
The investment objective of the Ordinary Shares and the 2016 C Shares is to realise all remaining assets in the portfolio of both share classes in a prudent manner consistent with the principles of good investment management and to return cash to shareholders in an orderly manner.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

New Investment objective and Investment Policy (Continued)

Investment Policy
The Company will pursue the investment objective of the Ordinary Share Class and the 2016 C Share Class by effecting an orderly realisation of the assets in a manner that seeks to achieve a balance between maximising the value received from those assets and making timely returns of capital to shareholders. This process might include sales of individual assets, mainly structured as loans and leases, or running off the Ordinary Share and 2016 C Share Portfolios in accordance with the existing terms of the assets, or a combination of both.

As part of the realisation process, the Group may also exchange existing debt instruments for equity or other securities where, in the opinion of the Board, the Group is unlikely to be able to otherwise realise such debt instruments or will only be able to realise them at a material discount to the outstanding principal balance of that debt instrument.

The Company, on behalf of the Ordinary Share Class or the 2016 C Share Class, will cease to make any new investments or to undertake capital expenditure except where, in the opinion of both the Board and the Portfolio Manager:

- the investment is a follow-on investment made in connection with an existing asset held by the Ordinary Share Class or the 2016 C Share Class in order to comply with the Group's pre-existing obligations; or
- failure to make the follow-on investment may result in a breach of contract or applicable law or regulation by the Group; or
- the investment is considered necessary by the Board to protect or enhance the value of any existing investments of the Ordinary Share Class or the 2016 C Share Class to facilitate orderly disposals of assets held by the Ordinary Share Class or the 2016 C Share Class.

Any cash received by the Company as part of the realisation process prior to its distribution to shareholders will be held by the Company, on behalf of the Ordinary Share Class or the 2016 C Share Class, as cash on deposit and/or as cash equivalents.

The Company does not intend to undertake any new borrowings on behalf of the Ordinary Share Class or the 2016 C Share Class, although the Company may borrow where, in the opinion of both the Board and the Portfolio Manager, an investment is considered necessary to protect or enhance the value of an existing investment and the Company does not have the available equity capital to fund the investment. Any such borrowings are expected to be short-term and would be repaid following the realisation of assets.

Any material change to the new Investment Objective and Investment Policy for the Ordinary Share Class or the 2016 C Share Class would require Ordinary Shareholder or 2016 C Shareholder approval in accordance with the Listing Rules.

For further details on the Investment Objective and Policy refer to the Prospectus which can be viewed on the website www.kkvim.com/kkv-secured-loan-fund/.

Significant Events after the Reporting Period

EGM held on 16 July 2020
A resolution to change the Company's name from SQN Asset Finance Income Fund Limited to KKV Secured Loan Fund Limited was approved by the requisite majority.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Significant Events after the Reporting Period (Continued)

EGM held on 16 July 2020 (Continued)
At the meeting of the Ordinary Share Class, the continuation vote was passed by the requisite majority with a further continuation vote to be held in 2021. The Company was to make no new investments within the Ordinary Share Class prior to the 2021 continuation vote, except for further investment into existing assets that require additional capital or existing undrawn commitments, with any excess cash flow from the amortisation or realisation of assets during the period being returned to shareholders.

At the 2016 C Shares Class meeting, the continuation vote was not passed. In accordance with the proposal set out in the circular published by the Company, the Board committed to formulate proposals for the managed wind-down of the 2016 C Share portfolio and present these to shareholders no later than 6 months from the date of the EGM.

Managed Wind-Down of the Company
While Ordinary shareholders as a whole supported continuation of the Ordinary Share Class, a substantial proportion of the Ordinary shareholders voted against continuation. In addition, since the EGM held on 16 July 2020, (as detailed above), the Portfolio Manager raised concerns over the valuation of certain assets held within the Company's portfolios. In light of this and continuing feedback from several major shareholders, the Board was of the view that shareholder value was best maximised by placing the Ordinary Share Class into managed wind-down alongside the 2016 C Share class. As a result, on the 24 September 2020, the Board announced its intention to put forward proposals for a managed wind-down of the Company.

On 13 November 2020, the Company published a circular containing recommended proposals, to be tabled at the EGM held on 4 December 2020. The proposals included changes, which would allow the Company to go into managed wind down, including updates to the articles, to the investment objective and investment policy, to allow a realisation strategy and to return capital to investors.

At the EGM held on 4 December 2020, the amendments to the articles and the adoption of the new investment objective and investment policy were passed with the requisite majority and subsequently the Company was placed into managed wind down.

Review of Assets
On 30 September 2020, the Company announced that the Board, AIFM and the Portfolio Manager had identified concerns regarding the valuation of certain assets in the portfolios of the Ordinary Share and 2016 C Share Classes. The Board worked with the Portfolio Manager and the AIFM to understand the nature of the Portfolio Manager's concerns, to identify the full scope of the assets affected and to better understand the impact on the respective NAV per share calculations of the Ordinary Shares and 2016 C Shares.

KPMG LLP was engaged to assist the Board with its ongoing review of the underlying collateral of certain assets. Refer to the Chairman’s Statement and the Portfolio Manager’s Report for further information.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Significant Events after the Reporting Period (continued)

Suspension of NAVs

On the 30 September 2020, the Board announced that the publication of the Company's July NAVs, and future NAVs, would be delayed until the conclusion of a third-party valuation review.

Board Appointments and resignations

On 16 September 2020, Brett Miller was appointed as a Non-Executive, Non-Independent Director.

Christopher Spencer and Jacqueline Redmond resigned from the Board on 30 October 2020 and Paul Meader and John Falla did not seek re-election at the AGM held on 31 December 2020.

On 31 December 2020, David Copperwaite was appointed as a Non-Executive, Independent Director.

2020 AGM

The AGM was held in Guernsey on 31 December 2020. All resolutions were passed with the exception of Resolution 1, 'to receive and consider the Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2020', which was adjourned until further notice following the delay of publication as detailed below.

The Board notes the votes against Resolution 5 (appointment of the Company's auditors), which represented 20.94% of those shares voting and 9.94% of the issued share capital of the Company. The Board believes the level of votes against Resolution 5 was a consequence of a proxy advisor recommending voting against this resolution given the delay to the publication of the Annual Report and audited consolidated financial statements for the year ended 30 June 2020 and therefore being unable to fully analyse the auditors' fees. The Board believes that this will be resolved following the publication of the Annual Report and audited consolidated financial statements, however, the Company will consult with its shareholders to understand and seek to address any concerns they may have with regard to Resolution 5.

Temporary suspension

As the Company did not publish the Annual Report and audited consolidated financial statements for the year ended 30 June 2020 before the 31 December 2020, the latest date permitted for publication of the 2020 results under the Financial Conduct Authority's (the "FCA") Disclosure Guidance and Transparency Rules (as modified by the temporary relief granted to all listed companies by the FCA on 26 March 2020). the listing of the Company's Ordinary Shares and 2016 C Shares was temporarily suspended with effect from 7.30 a.m. on 4 January 2021.

The Company intends to request a restoration of its listing on publication of the 2020 results.

Financial risk management objectives and policies

The Board is responsible for the Company's system of risk management and internal control and meets regularly in the form of periodic Board meetings to receive reports from the Audit and Risk Committee and to consider the effectiveness of such controls in managing and mitigating risk. The Audit and Risk Committee considers the detail of the Risk Management Framework, and the risk reporting from the AIFM who has day-to-day responsibility for the management of risk.

The Board confirms that it has reviewed the effectiveness of the Company's system of risk management and internal control for the year ended 30 June 2020, and to the date of approval of these consolidated financial statements. The Board has taken into consideration the Financial Reporting Council ("FRC")'s, "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" to ensure that the Company's system of risk management and internal control is designed and operated effectively, in line with best practice guidance provided by the FRC.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Principal Risks and Uncertainties

The Principal Risks facing the Company are as set out below. Please refer to note 17 for reference to financial risk management disclosures, which explains in further detail the above risk exposures and the policies and procedures in place to monitor and mitigate these risks.

The approach of the Audit and Risk Committee to the identification and management of risk is set out in more detail in the Audit and Risk Committee Report. The Committee has, with the assistance of the AIFM, and the Administrator established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of the Company by the service providers as the management and administrative functions are outsourced to third parties. The Risk Framework is kept under review.

When considering the total return of the Group, the Board takes account of the risk which has been taken to achieve that return. The Board looks at numerous risk factors, an overview of which is set out below:

Principal Risk	Description	Mitigating Factors
Counterparty /Asset risk	The Company's performance is subject to risks primarily inherent to asset financing; in particular, the quality of the assets underpinning the transaction and the risk of default by the counterparties, may affect the Company's ability to operate profitably.	Thorough due diligence that was performed at the outset by the Investment Managers and necessary advisors. Subsequent to the appointment of the Portfolio Manager, no new investments have been made other than follow on investments in existing assets. Recommendations are processed by the Portfolio Manager and independently reviewed by the AIFM and Board. Ongoing monitoring programs are in place at the Portfolio Manager. As a result this allows the Portfolio Manager to identify and address risks at an early stage.
Valuation Risk	Reliability on asset valuations is considered a key risk. Given the sector of investment, valuations of the counterparties' underlying businesses, and assets over which security exists, are calculated and rely upon assumptions, using inputs such as cash flows, discounts, security, profitability and going concern assumptions.	The Portfolio Manager has experience in the sector and as such, is familiar in the assessment and valuing of the portfolio. Key reporting information is structured within the transactions, to ensure the Portfolio Manager would usually able to access all necessary borrower data where required. Valuation adjustments are based on recommendations from the Portfolio Manager and are assessed by the AIFM and Board. Following the appointment of the AIFM and the Portfolio Manager in June 2020, a review of the assets within the portfolio was carried out, with third party valuation specialists engaged to assist with the valuation of specific assets. Key estimates and assumptions applied by the Board and Portfolio Manager when considering expected credit losses provision relate to the determination of the probability of default and the loss given default. As at 30 June 2020, the expected credit loss was £230,468,999 (30 June 2019: £4,407,824). Refer to note 2.3(d) for further details on the expected credit losses methodology applied when determining financial assets expected credit losses. Impairments of £9,574,836 (30 June 2019: Nil) were recognised during the year ended 30 June 2020. Refer to note 7 for further information.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Principal Risks and Uncertainties (Continued)

Principal Risk	Description	Mitigating Factors
Currency Risk	The Company is invested in a global portfolio and investments will not always be in the base currency of the Company. As a result, such investments will carry currency risk, if the non-base currency investments are not hedged.	The Portfolio Manager, in conjunction with the Board, have determined currency hedging is not to be conducted at this time. This is closely monitored by the Portfolio Manger and if deemed appropriate, the Portfolio Manager will recommend re-establishing the hedging transactions with the Board.
Liquidity risk	The Company's investments are not publicly traded or freely marketable. As a result, there is likely to be a limited or no secondary market to transact in. Therefore investments may be difficult to value or sell, with a risk of any achievable sale being at a value that is lower than the current valuation of such assets.	The Company is a closed ended investment company and therefore not susceptible to investor redemption requests. The Company monitors and assesses investment values via regular reports from its Portfolio Manager. In the event that investment values need to be adjusted, this would be under recommendation from the Portfolio Manager.
Geopolitical risk	The Company provides asset finance to counterparties in several jurisdictions exposing the Company to potential economic, social, legal and political risks, such as Brexit. The Group therefore faces significant risks as a result of a financial crisis.	The Company is invested in a diversified portfolio across a wide range of industry sectors and therefore the portfolio is sufficiently diversified to assist in the mitigation of such risk. Significant events causing market volatility are closely monitored, as are the impacts/potential impacts on the positions and counterparties the Company are invested in.
Operational risk	The Company is ultimately responsible for all operations. As the Company has no employees, it enters into contracts with its service providers to ensure operational performance and regulatory requirements are met. The departure of key employees from the Portfolio Manager may adversely affect the returns available to the Group.	The Board conducts thorough due diligence and interviews each service provider prior to appointment. Ongoing monitoring of service providers is carried out through the regular reports service providers supply, which include ongoing updates on all operational and regulatory matters. The Management Engagement Committee periodically reviews all service providers aside from the auditors.
Pandemic Risk	The Company provides asset finance to counterparties in several jurisdictions, exposing the Company to localised or global pandemic risks worldwide. With the significant widespread severity of COVID-19, this is likely to impact performance through market volatility and underlying counterparties unable to function in a timely manner, both from a financial or staffing perspective.	The Company and its service providers discuss such events at an early stage, ensuring that appropriate protocols have been taken to combat and isolate such risks, with regular updates on operational resilience received from all key service providers. From a portfolio perspective, the Portfolio Manager is in close contact with counterparties and work with them to identify and mitigate the risk such a pandemic may pose.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Principal Risks and Uncertainties (Continued)

Principal Risk	Description	Mitigating Factors
Performance risk	The performance of the Company is largely determined by the success of the Portfolio Manager in meeting or exceeding performance objectives and the expectations of investors, in accordance with the objectives set out in the prospectus.	The Board receives regular NAV information and cash flows from the Portfolio Manager. Regular announcements are provided to investors to appraise them of company performance.

Emerging Risks

Principal risks, including emerging risks, are mitigated and managed by the Board through continual review, policy setting and reviews of the Company's risk matrix by the Audit and Risk Committee to ensure that procedures are in place with the intention of minimising the impact of the above mentioned risks where possible. The Board relies on periodic reports provided by the Portfolio Manager, AIFM, and Administrator regarding risks that the Company faces. When required, experts will be employed to gather information, including legal advisers and third-party valuation specialists.

With regards to the Covid-19 pandemic, and measures introduced to combat its spread have been discussed in detail by the Board, with updates on operational resilience received from all its key service providers. The Board is satisfied that the key service providers have the ability to continue their operations efficiently in a remote or virtual working environment.

From a portfolio perspective, the Portfolio Manager is in close contact with each investment counterparty and continues to work with them to identify and mitigate the risk the Covid-19 pandemic may pose. The Board has assessed other relevant areas of risk (price and operational risks) and agreed that mitigants remain appropriate, in light of the Covid-19 pandemic.

Whilst a post-Brexit trade deal has been agreed, uncertainty around the outcome of Brexit remains for the financial services sector. This has continued to place external economic pressures on markets and our counterparties alike. Whilst the outcome and therefore the full impact still remains uncertain, the Portfolio Manager continues to monitor developments, together with assessing the impact on the portfolio as a result. The Board have noted this as a risk within its risk matrix and are comfortable with the monitoring controls which are currently in place.

Going Concern

Under the AIC Code and applicable regulations, the Directors are required to satisfy themselves that it is reasonable to assume that the Company is a going concern from the date of approval of the audited consolidated financial statements. Going concern refers to the assumption that the Group has the resources and intention to continue in operation for the foreseeable future.

At the EGM of the Company on 16 July 2020, shareholders voted for the continuation of the Ordinary Share Class and against the continuation of the 2016 C Share class, following which proposals were to be put forward for the managed wind-down of the 2016 C Share class only, with a further continuation vote to be held in respect of the Ordinary Share Class in 2021.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Going Concern (Continued)
While Ordinary shareholders as a whole supported continuation of the Ordinary Share Class, a substantial proportion of the Ordinary shareholders voted against continuation. In addition, since the EGM held on 16 July 2020, the Portfolio Manager raised concerns over the valuation of certain assets held within the Company's portfolios. In light of this and continuing feedback from several major shareholders, the Board were of the view that shareholder value is best maximised by placing the Ordinary Share Class into managed wind-down alongside the 2016 C Share class. As a result, on the 24 September 2020, the Board announced its intention to put forward proposals for a managed wind-down of the Company.

On 13 November 2020, the Company published a circular containing recommended proposals, to be tabled at the EGM held on 4 December 2020. The proposals included changes, which would allow the Company to go into managed wind down, including updates to the articles, to the investment objective and investment policy, to allow a realisation strategy and to return capital to investors.

At the EGM held on 4 December 2020, the amendments to the articles and the adoption of the new investment objective and investment policy were passed with the requisite majority and subsequently the Company was placed into managed wind down.

As a consequence, the Directors consider it is appropriate to adopt a basis other than going concern in preparing the consolidated financial statements given the fact that the Company is in managed wind down.

Viability Statement
Under the Association of Investment Companies (the “AIC”) Code of Corporate Governance published in February 2019 (the “AIC Code”), the Directors are required to make a viability statement which explains 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, taking into account the Company’s current position and principal and emerging risks. The principal risks faced by the Group are described on page 20 to 22.

As detailed on the previous page, the Company is preparing the consolidated financial statements using a basis other than going concern as the Company is in managed wind down. Accordingly, the Directors have not assessed the longer-term viability of the Company other than for the managed wind down of the Company.

The Directors have assessed the wind down of the Company to be within two to three years of the date of the approval of these consolidated financial statements, although there is no guarantee that it will be possible to realise the assets within that timeframe.

Life of the Company
The Company has an indefinite life, however as outlined above the Company is in managed wind-down.

Section 172(1) Statement
Through adopting the AIC Code, the Board acknowledges its duty to comply with section 172 of the UK Companies Act 2006 to act for the benefit of its shareholders as a whole, having regard to (amongst other things):

a) consequences of any decision in the long-term;
b) the interests of the Company’s employees;
c) need to foster business relationships with suppliers, customers and others;
d) impact on community and environment;
e) maintaining reputation; and
f) act fairly as between members of the Company.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Section 172(1) Statement (Continued)
The Board considers this duty to be inherent within the culture the Company and a part of its decision-making process.

The Company's culture is one of openness, transparency and inclusivity. Respect for the opinions of its diverse stakeholders features foremost as does its desire to implement its operations in a sustainable way.

Information on how the Board has engaged with its stakeholders is outlined below.

The principal decisions section on pages 26 and 27 outlines decisions taken during the year which the Board believe have been taken to meet the Company's investment objective and policy. The Board considers the factors outlined under section 172 and the wider interests of stakeholders as a whole in all decisions it takes on behalf of the Company.

Stakeholder engagement

Stakeholder	How the Board engages
Shareholders	The Board recognises that it is important to maintain appropriate contact with all shareholders to understand their issues and concerns. There is a programme of contact with major shareholders and other shareholders are able to contact any Director through the Company Secretary. During the year, the Board engaged with its shareholders by: 1) Publishing announcements. 2) Publishing fact sheets. 3) Publishing half yearly and annual reports and accounts. 4) Making themselves available to meet major shareholders as requested. 5) Obtaining shareholder feedback directly and via the Portfolio Manager and Corporate Broker. 6) Making themselves available to be contacted by shareholders. Shareholders receive relevant information allowing them to make informed decisions about their investments. The Board receives the views of shareholders allowing it to consider these views throughout its deliberations. During the year, considerable engagement with shareholders took place regarding three main issues – the strategic review conducted in early 2020, the valuation of investments and the consideration of proposals to place the Company into managed wind down. At appropriate instances, major shareholders' views were canvassed in relation to all of these issues and informed the decisions made by the Board. Shareholders also then had the opportunity to vote at two EGMs on these proposals.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Section 172(1) Statement (Continued)

Stakeholder engagement (Continued)

Stakeholder	How the Board engages
Third party service providers	As a Company with no employees the Board is reliant on third party service providers to help the Company operate in a compliant and efficient manner. During the year, the Board engaged with its service providers by: 1) Receiving detailed written and verbal reports at board meetings. 2) Regular communication with representatives via telephone and email to discuss ad hoc matters. 3) Undertaking an annual review via the Management Engagement Committee and providing feedback, where appropriate, regarding service levels to service providers. In addition, and as noted further below, during the year the Board undertook a strategic review during early 2020 and this considered the provision of investment management services. Detailed discussions were held with all relevant parties and the Board believes that the new appointments of the current Portfolio Manager and AIFM, and the termination process and provisions with the Investment Managers, were fair, equitable and suitable for all parties.
External Auditor	The Board engages with the external auditor to ensure that the annual audit process operates effectively, efficiently and predictably. The Audit Committee meets with the auditors formally on a biannual basis and more frequently where required. The auditors provide valuable feedback on the Company and those of its service providers that have a delegated responsibility for areas of accounting and internal control. These consolidated financial statements are the first to be audited by Deloitte. As noted further below and in the Audit and Risk Committee Report on page 83, the Audit and Risk Committee has engaged extensively with Deloitte to understand their approach and requirements.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Section 172(1) Statement (Continued)

Stakeholder engagement (Continued)

Stakeholder	How the Board engages
The wider community and the environment	The Board supports fully the growing importance placed on Environmental, Social and Corporate Governance ("ESG") factors when asking the Company's Portfolio Manager to deliver against the Company's objectives. The Company has made significant investments in investments which should have a positive impact on the environment and the Board, the AIFM and the Portfolio Manager in managing the Company's assets are mindful of social, ethical and environmental issues of companies within the Group's portfolio, acknowledging that companies failing to manage these issues adequately run a long-term risk to the sustainability of their businesses. Given that the Company is expected to be in wind down, the Company will not be making new investments but the Portfolio Manager will continue to follow good practice on ESG issues where applicable.

Principal decisions

Principal decision	Stakeholder considerations / interests
Review of dividend policy	When determining the dividend policy, the Board considers market conditions and the interests of shareholders in the short and medium term, against the long-term interests of preserving value created by the Portfolio Manager (previously the Investment Manager). The Board re-examines dividend policy on a periodic basis to ensure that it is compatible with the performance of underlying assets and is reflective of cash flows from those assets and the solvency of the Company. The Board suspended dividends on 18 March 2020 on both the Ordinary Shares and the 2016 C Shares until further notice, with the intention to preserve cash.
Change of investment manager and appointment of alternative investment fund manager.	During the year ended 30 June 2020, the Board completed a strategic review, including a review of the provision of investment management services to the Company. The Board consulted with a range of major shareholders to gain their feedback on the strategic review. While it was not possible to speak with all shareholders, and there was a range of views received, a decision was made to put the investment management of the Company out to tender. Proposals were sought, and fifteen expressions of interest were received. An independent consultant was used to facilitate the process and to conduct due diligence on the six shortlisted Managers, that presented to the Board. Following the Strategic Review, the Company appointed the Portfolio Manager and IFM on the 6 June 2020.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Section 172(1) Statement (Continued)

Principal decisions (continued)

Principal decision	Stakeholder considerations / interests
Change of external auditor	As explained in more detail in the Audit Committee Report, the Audit of the Company was put out to tender in the autumn of 2019, and the Company appointed Deloitte as the Company's external auditor. The audit of the consolidated financial statements for the year ended 30 June 2020 is the first audit of the Company conducted by Deloitte.
Managed wind down of the Company and amendment to the investment policy	There was no change to the investment policy during the year ended 30 June 2020. On the 24 September 2020, the Board announced its intention to put forward proposals for a managed wind-down of the Company. The Board published a circular on 13 November 2020, proposing a new investment objective and investment policy for a managed and orderly wind-down of both share classes and amendments to the articles. At the EGM held on 4 December 2020, the adoption of the amended articles, the new investment objective and investment policy were passed with the requisite majority and the Company was placed into managed wind down. The Board will now endeavour to realise all of the investments in a manner that achieves a balance between maximising the value received from investments and making timely returns of capital to shareholders.
Changes to the Board	On 16 September 2020, reflecting the change in strategy of the Company, Brett Miller was appointed to the Board. Christopher Spencer and Jacqueline Redmond resigned from the Board effective 30 October 2020. Paul Meader and John Falla did not seek re-election at the AGM held on 31 December 2020. On 31 December 2020, David Copperwaite was appointed to the Board.

Employee engagement
The Company has no employees.

Business relationships
The Board considers its business relationships with stakeholders to be important and is proactive in fostering these relationships. For details on the nature of these relationships and how the Company fosters relationships with its stakeholders, refer to the stakeholder engagement section on pages 24 to 26. The Board also considers the impact principal decisions have on its stakeholders, which is detailed in the principal decisions section above.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Culture of the Company

The Board recognises that its tone and culture is important and will greatly impact its interactions with shareholders and service providers. The importance of sound ethical values and behaviours is crucial to the ability of the Company to achieve its corporate objectives successfully.

The Board individually and collectively seeks to act with diligence, honesty and integrity. It encourages its members to express differences of perspective and to challenge but always in a respectful, open, cooperative and collegiate fashion. The Board encourages diversity of thought and approach and chooses its members with this approach in mind. The Corporate Governance principles that the Board has adopted are designed to ensure that the Company delivers value to its shareholders and treats all shareholders equally. All shareholders are encouraged to have an open dialogue with the Board.

The Board recognises that the Company will take investment and other risks in order to achieve its objectives but these risks are monitored and managed and the Company seeks to avoid excessive risk taking in pursuit of returns.

During the year ended 30 June 2020, the Board completed a strategic review, including a review of the provision of investment management services to the Company. Following the Strategic Review, the Company appointed the Portfolio Manager and IFM on the 6 June 2020.

Following the appointment of the AIFM and the Portfolio Manager, a review of the assets within the portfolio was carried out, with third party valuation specialists engaged to assist with the valuation of specific assets. The Board, with the assistance of the AIFM and the Portfolio Manager have applied significant estimates and assumptions when considering the expected credits loss provision and impairments. Refer to note 2.1(f) and 2.5 respectively for further detail.

A large part of the Board's activities are centred upon what is necessarily an open and respectful dialogue with the Portfolio Manager (formerly the Investment Managers). The Board strives to maintain a constructive relationship with the Portfolio Manager whilst holding them to account and questioning the choices and decisions made by them.

The Board has adopted a code for Director dealings and a procedure for matters reserved for the Board and matters delegated to service providers to ensure an appropriate and effective framework for implementation and oversight. The Board intends to review its internal culture and that of its service providers on a regular basis.

Environmental and Social Issues

The Company is a closed-ended investment company which has no employees and therefore its own direct environmental impact is minimal. The Board notes that the companies in which the Group invests will have a social and environmental impact over which it has no control.

The Board, the majority of which are based in Guernsey, holds all its meetings in Guernsey and, whilst the Investment Managers did travel to quarterly meetings, (before Covid-19 travel restrictions), the Group's direct greenhouse gas emissions and environmental footprint are believed to be negligible. However, many of the companies and projects in which the Group invests have a very positive environmental footprint. The numerous anaerobic digestion plants the Group finances use waste of many types to produce sustainable fertilisers and electricity or gas which are provided to the respective National Grids. Additionally, our support for other renewable energy sources likewise provide alternative energy sources to fossil and/or nuclear fuels. In these ways, the Board is pleased that the Group plays a positive part in the environmental arena.

STRATEGIC REPORT (CONTINUED)

EXECUTIVE SUMMARY (CONTINUED)

Modern slavery
The Company would not fall into the scope of the UK Modern Slavery Act 2015 (as the Company does not have any turnover derived from goods and services) if it was incorporated in the UK. Furthermore, as a closed-ended investment company, the Company has a non-complex structure, no employees and its supply chain is considered to be low risk given that suppliers are typically professional advisers based predominately in the Channel Islands or the UK. Based on these factors, the Board have considered that it is not necessary for the Company to make a slavery and human trafficking statement.

Future strategy
At the EGM held on 4 December 2020, the adoption of the amended articles, the new investment objective and investment policy were passed with the requisite majority and the Company was placed into managed wind down. The Board will seek to achieve the objectives set out in the new Investment Objectives and Policies, to deliver a realisation strategy and return capital to shareholders whilst also protecting capital values.

The Directors have assessed the wind down of the Company to be within two to three years of the date of the approval of these consolidated financial statements, but there can be no guarantee that this timetable will be achievable.

This Strategic Report was approved by the Board of Directors on 26 January 2021 and signed on its behalf by:

Brett Miller
Director

David Copperwaite
Director

PORTFOLIO MANAGER'S REPORT

Overview
KKV Investment Management Limited ("KKVIM") assumed the role of Portfolio Manager for the Company on 5 June 2020. The business is owned by Kvika Banki hf ("Kvika") and senior employees. Kvika is an Icelandic bank specialising in asset management with a total of EUR 3 billion assets under management, with KKVIM representing 16% of this total as at 30 June 2020.

After a competitive tender process commenced in January 2020 and after a short transition period which included a review of KKVIM's operational capability we began our tenure as Portfolio Manager.

Despite opening for business during a pandemic, we are pleased to report that the business was able to commence operational management with few glitches. KKVIM initially had the use of three offices in London and Surrey but all employees have been equipped to work remotely throughout the current Covid-19 related restrictions, with the majority choosing to do so. All processes are functioning and business continuity has been maintained.

Initially we were aided by the previous investment staff, responsible for the portfolio, who joined us under consultancy arrangements with the previous portfolio managers. From July, we increased our interaction with borrowers and met with them to make our own assessment. This period of intense analysis has absorbed a large amount of resource in a short period but has allowed us to gain increasing confidence in our own evaluation of the Company's investments. Furthermore, we requested that the Board seek an independent review of some of the more challenging and complex assets to provide increased comfort in the values, assigned by us, to the loans.

There have been a number of changes to the investment team with Dawn Kendall, Chris Greener and Christian Holder taking portfolio management responsibility from 5 June 2020. We also employed two highly experienced analysts with backgrounds in SME credit and leveraged finance, bringing considerable experience to the team. All decision making and management of the portfolio has now transitioned entirely to this new team with the former General Counsel/Chief Operating Officer and analysts leaving the business in August and October respectively. We wish them all the best in their future careers.

We have also employed a Compliance Manager who has commenced his work in rolling out our KKVIM monitoring programme.

Max Zorza joined the business on 1 November 2020 assuming the role of Chief Operating Officer. He previously held the role of Global Chief Risk Officer for Architas MultiManager (part of the AXA Group) and brings extensive operational experience to the firm. He has joined the board of KKVIM and alongside colleagues from Kvika and Kvika Securities Limited completes our management team reporting to Ken Hillen, executive chairman.

A short transition period was requested by the Board in order that we were in place ahead of the financial year end. This enabled KKVIM to assist with the preparation of the year end accounts. In addition, a continuation vote was brought forward to an EGM held on 16 July 2020. In advance of this, and to enable shareholders to make an informed decision regarding continuation, the Board requested that all positions were reviewed in detail to ensure that guidance around valuations could be provided where necessary. With the benefit of hindsight, this compressed timetable was insufficient to allow the new team to assess the raw data associated with the Company's loan book in any meaningful detail.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

At that EGM, shareholders voted for the continuation of the Ordinary Share Class ("KKVL") and against the continuation of the 2016 C Share Class (KKVX). Initially, we were pleased to receive the support of shareholders for continuation of the Ordinary Share Class, although disappointed at the time with the decision by shareholders to discontinue the 2016 C Share class. However, after a deeper review of the portfolio, we were supportive of the Board in recommending that both Ordinary and 2016 C share classes be placed into managed wind down. Alongside the intense work undertaken to review the portfolio, we have been working hard on plans to achieve the objectives set out in the new Investment Objectives and Policies, to deliver a realisation strategy and to return capital to shareholders expeditiously whilst also protecting capital values.

We are proud of the business we have launched during a pandemic, our core team and the support of our parent, Kvika. Some of the team, comprising administrative and legal personnel transferred their employment from the former manager under Transfer of Undertakings (Protection of Employment) regulations ("TUPE").

During the year, finance income of £35.7m was earned and dividends of £26.9m paid. The amount of cash income received was £22.1m, the remainder of income in the Consolidated Statement of Comprehensive Income was accrued, but in pure cash terms had not been received. Where appropriate, provisions have now been made against income that is not expected to be received in full.

The NAV reported for the combined portfolios for 31 May 2020, immediately prior to our appointment as Portfolio Manager, was £356 million. Having reviewed the credits in detail and advised the board on a revised credit provisioning policy combined with additional external advice to support our findings, the audited NAV at 30 June 2020 was £223.5 million. Lack of cash income was a major contributor to the decision to cease the payment of dividends and the hedging of non-Sterling exposures back into Sterling. In the absence of available equity support, a further £7.3 million was advanced to AD plants to preserve shareholder value by supporting operating and capital expenses as required during the year.

Since the last annual report, when concern regarding the impact of Brexit on the UK economy was and still remains the primary focus, other events have also emerged and we are now in the grips of a pandemic. This has exacerbated problems that existed prior to the onset of the pandemic for certain of the credits in the portfolio. Where the impact has been solely related to Covid-19 rather than other credit weaknesses, we have applied a sensible and pragmatic approach to helping our borrowers get through this unprecedented period with amortisation, interest or covenant relief. We are mindful that businesses rarely fail over a covenant breach and that in times of significant stress, cash balances remain key.

International Financial Reporting Standard ("IFRS") 9:
The International Accounting Standards Board ("IASB") set out principles-based standards on how entities should recognise and provide for credit losses for financial statement reporting purposes. It should be noted that these standards are universal for all lenders and some of the guidelines are more suited to large bank-led loan books. The IASB issued IFRS 9 in July 2014 which introduced an expected credit loss ("ECL"), framework for the recognition of impairment. Under IFRS 9, ECL provisions are required to be recognised at all times, regardless of the loan performance. It is meant to be a forward-looking approach and should result in the timely recognition of credit losses. We have applied a rigorous approach to these standards that has resulted in revised impairment provisions and reflects a suitably auditable approach. Please note that where an external valuation has been available this has been used as a basis to create a bespoke ECL to take account of a lifetime ECL for the investment.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

By way of a reminder, IFRS 9 recognises loan impairments in three stages:

Stage 1	When a loan is originated, ECLs resulting from default events that are probable within the next 12 months are recognised and a loss allowance is established. For existing loans with no significant increase in credit risk since initial recognition, a 12-month ECL continues to apply. Interest is calculated on the gross carrying amount of the loan, without deductions for ECLs.	**KKVIM Grades 1 to 6 correspond to Stage 1**
Stage 2	If the credit risk of a loan has increased significantly since initial recognition, lifetime ECLs are recognised.	**KKVIM Grades 7 to 9 correspond to Stage 2**
Stage 3	If the credit risk of a loan has increased to the point where it is considered credit-impaired, interest revenue is calculated based on the loan's amortised cost, which is the gross carrying amount less the loss allowance. Lifetime ECLs are recognised.	**KKVIM Grade 10 corresponds to Stage 3**

In relation to IFRS 9 provisioning, KKVIM have implemented a revised and robust systematic grading system to reflect the need to assess risk consistently, taking into account market conditions and probability of default per credit. This uses a ten-stage categorisation methodology. We have decided to increase disclosure of our credit policy for shareholders to achieve a clear understanding of our approach.

Our credit model is designed to put each asset into a risk category based on the probability of default. Credits are then individually assigned an expected loss given default ("LGD"). Inputs include specific data describing the characteristics and attributes of each loan. Certain of those loan characteristics will be used to generate the Probability of Default ("PD") and the LGD. This provides a firm basis for comparisons across borrowers and collateral types.

The calculation of ECL is a function of the PD, LGD (i.e. the magnitude of the loss if there is a default) and credit exposure at default.

Loans secured by realisable assets have an expected loss quantum based on the underwriting criteria for the respective collateral type.

An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Loans secured by realisable assets have an expected loss quantum based on the underwriting criteria for the respective collateral type. Loans that are more than 90 days in arrears will typically become stage 2 assets unless this is for exceptional circumstances along with loans that have unremedied covenant breaches or poor performance of the underlying business that is likely to impact the Group's facility.

Loans are categorised as in default, and hence stage 3, based on several factors including when they are over 180 days in arrears and have no credible plan to catch up, if material covenants have been breached that will likely result in non-payment or the underlying business has deteriorated materially.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

KKVIM Probability of Default Grades:

Grade	KKV PD (%)
1: Virtually no risk	0.01
2: Low risk	0.10
3. Moderate risk	0.50
4. Average risk	1.50
5. Acceptable risk	4
6. Borderline Risk	10
7. High Risk	20
8. Extremely High Risk	40
9. Doubtful	60
10. Loss	100

For LGD purposes if the assets supporting the loan are not easily realisable e.g. fixed plant, we assume on default that the business has failed and therefore the recovery will be equivalent to an unsecured loan.

KKVIM LGD Approach:

Category	LGD Approach	Example credits
Easily Realisable	Asset value less 10% haircut discounted at 10% IRR for 12 months to recovery	*e.g., helicopter, yellow metal or other vehicle*
Realisable	Asset value less 20% discounted at 20% IRR for 2 years to recovery	*e.g., manufacturing equipment, specialised but re-marketable*
Highly Specialised	70% LGD (Equivalent to unsecured)	e.g., bespoke anaerobic digestion equipment
Subordinated Debt	100% LGD Where an external 3rd party valuation is available this is used to create a bespoke LGD for that asset in priority to the Highly Specialised and Subordinated Debt categories.	

PORTFOLIO MANAGER'S REPORT (CONTINUED)

The percentage provision under IFRS 9 for a facility is this LGD multiplied by the credit rating Probability of Default as allocated above.

At the time of writing, the economic effects of the pandemic seem likely to continue for some time and we will therefore keep these provisions under regular review. However, it should be noted that the categorisation of the loans in Stages 1, 2 and 3 have not been exclusively changed due to the commencement of the pandemic. Having observed some improvement in debt service on our Stage 1 loans from June 2020 onwards, since the beginning of September we have noted a marked increase in overall volatility and a generic uncertainty in the SME sector which is particularly pertinent to some of the industries and types of loan that this loan book targets.

Given the nature of the portfolio, it would be unwise for us to ignore the elevated risk that this uncertainty represents to our borrowers and to not flag the possibility of further loan loss provisions we may have to apply in the future as the global economy braces itself for further economic contraction. By way of contrast, we may see some improvement in the valuations of the portfolio positions that have been marked to nil value. The outlook and volatility of the circumstances remains uncertain.

Market backdrop

Highly volatile pricing of all assets across the risk spectrum and intermittent volatility spurts have been facets of all fixed income sectors during the reporting period. All fixed income products fell violently from March onwards and this was particularly severe for higher yielding assets although even US Treasury bonds were affected briefly by a liquidity squeeze. Since the introduction of emergency market support packages from central banks, these markets have settled but the economic picture remains very uncertain.

As developed markets in the US, UK and Europe began to ease lockdown measures, market commentators expected a so-called “V shaped” recovery as businesses began to emerge from their forced hibernation. Our appraisal was more circumspect and despite spread tightening during the summer months for investment grade credits, as companies shored up their balance sheets with additional borrowing, we were particularly focussed on data relating to SME performance and securitised products such as Collateralised Loan Obligations (“CLOs”) and lower sub investment grade markets where the greatest pain had been observed. We expect coupon obligations to be put under pressure and forbearance to be the watch word for the next 9-12 months.

SME business confidence has fallen sharply and lower turnover due to Covid-19 has caused severe cash flow difficulties for many businesses, increasing demand for working capital finance. This has been coupled with a sharp increase in demand for loans and the uptake of government-backed schemes encouraging commercial banks to lend into the sector. Easing of credit criteria for loans by these banks has a second derivative effect of weakening capital adequacy and it is our expectation that once market conditions begin to normalise, lending patterns will revert to more conventional levels, allowing alternative lenders to pick up the baton once again.

The speed of recovery is, however, unclear at the present time. By way of stark illustration, unemployment in the US increased by 14 million in six weeks at the height of the Covid-19 emergency, whereas the total number of those losing jobs in the recession between June 2008 and June 2009 was 3.5 million and it then took four years for employment to return to pre-recession levels. Reversal of lost jobs takes time for an economy to absorb and we therefore expect this to impact consumption and consumer confidence. For lenders and borrowers alike, the safest route to normalisation is to keep sustainable businesses alive with support and forbearance, including maturity extensions and interest or amortisation “holidays”, to enable them to resume trading and servicing their loans as rapidly as possible. Where we have identified a specific Covid-19 impact, this has been the approach we have adopted across our portfolios and is relevant to KKVL/X since our appointment in June 2020.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

FX Hedging and Dividends

Until March 2020, non-Sterling capital had been hedged. Fluctuations in the value of Sterling during the reporting period had made for some significant moves. As Sterling fell sharply in March and margin requirements increased, the Board became concerned that the liquidity pressures could jeopardise the Company's solvency and therefore instructed the previous Investment Managers to close all FX hedging. Subsequently, and given the status of both Share classes in wind down combined with uncertain valuations, the decision was made not to reinstate FX hedges. We shall update our FX exposures regularly in our factsheets allowing shareholders to make their own FX hedging arrangements as appropriate if they wish to do so.

FX exposures as at 30 June 2020 (net of ECL provisions) were as follows:

(millions)	**Ordinary Share Class**	**2016 C Share Class**	**Total**
	£	£	£
GBP	60.1	93.4	153.5
EUR	38.7	0.2	38.9
USD	28.5	0.9	29.4

Due to highly volatile FX movements and diminishing cash receipts from debt service on both classes, dividends had been suspended from March 2020 and we had hoped to reinstate payment of regular income by the end of calendar year 2020. Given that both Share classes are now in managed wind down, a revised dividend policy has been introduced and we are fully focussed on achieving the revised Investment Policy and Objectives with a primary focus on returning capital to our shareholders. The details of the method for accomplishing this were published in a Circular sent to shareholders on 13 November 2020 and voted for by shareholders at an EGM and class meetings on 4 December 2020.

Inter-Company Loan

During the reporting period, an inter-company loan of £2.15m was made from the 2016 C share to the Ordinary share portfolio at an interest rate of 4.00%, approved by Board minute. This was part of a regular arrangement dating back to 2016 and was initially approved and documented by a Board minute. This facility was considered an efficient method of delivering increased income to the 2016 C share during periods when the portfolio had high levels of undeployed cash. Loans of this nature were extended to the Ordinary share Class are as follows:

Inter share class loans from 2016 C Share to Ordinary Share

	No. of Loans	**Total £**	**Interest Rate**	**Total Interest Earned**
2016	11	18,000,000	4%	87,452
2017	5	6,000,000	4%	41,425
2018/2019	2	2,500,000	4%	5,534
2019/2020	1	2,150,805	4%	20,330
		28,650,805		**154,741**

Only the most recent loan amounting to £2.15m remains outstanding and due to cash constraints has been rolled over until such time that it may be repaid. It is intended this loan will be repaid as soon as practicable and thereafter no further inter class loans will be made unless in extremis.

In the 2016 C share portfolio, no leverage has been used throughout the reporting period.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

The Ordinary Share Class and 2016 C Share Class Portfolios

There are 61 lines of credit in the portfolio with an average of £5.7 million deployed per loan, at an average rate of 9.1%. Each loan has bespoke legal documentation and should be designed to fit to the Company's and the borrower's requirements. Our review is ongoing and we are making some amendments to agreements where we consider it necessary. There are some equity and equity participation exposures in the list. These have been clearly marked as such in the narrative.

During the reporting period, six AD plant loans have been independently valued twice by KPMG based in Belfast, Northern Ireland, initially for the Interim Accounts leading to an impairment provision of £34.1m as at 31 December 2019 and then subsequently for 30 June 2020 when the impairment increased to £93m. The choice of KPMG was appropriate given their expertise in the sector and familiarity with some of the Company's specific transactions. Their original appraisal was facilitated by the former Investment Managers. The more recent valuations reflect the amended energy pricing curves (generally lower) and also take into account ongoing maintenance and running costs where plants are loss making as well administration and legal expenses that were not included in the December 2019 valuations. The impact of these costs has meant a reduction in value but subsequently, overall pricing has been largely neutral given certification post balance sheet on one plant, significantly increasing its value. We have provided extensive commentary on the status of these projects and are in the process of looking for appropriate funders or buyers for these businesses via trade sales.

We considered that thirteen other loans had considerable valuation uncertainty and sought independent view of the circumstances of each of these investments from KPMG LLP to provide the Board and shareholders with additional comfort that we have assigned appropriate risk ratings prior to providing an expected credit loss for these investments. We have devoted the majority of our commentary to these positions.

All loans have been reassessed and allocated into Stages 1, 2 and 3 for the purposes of IFRS 9 provisioning and provisions against equity also considered where appropriate.

As the portfolio is now in wind-down, we have been focussed on cash flows from our borrowers and anticipate being able to commence returning capital to shareholders before the end of the first half of 2021. We shall be encouraging borrowers, and assisting them, to refinance early if possible at fair value, so we may return available cash as soon as reasonably practicable.

The investment portfolio as at 30 June 2020 exhibited the following characteristics:

	Ordinary Share Class	***2016 C Share Class***
Largest Loan (£m)	41.38	18.65
Weighted Average Remaining Term ('WART') in months[1]	78.31	57.57
Investment Yield Range (%)	5.00% - 10.67%	8.75% - 10.75%
Weighted Average Portfolio Yield (%)[1]	9.62%	9.37%

[1] These are Alternative Performance Measures, refer to pages 158 and 161 for details.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Characteristics for the individual investments have been outlined in the following tables for both the Ordinary shares and the 2016 C shares:

Ordinary Share Class

Borrower	*Credit Exposure at 30 June 2020 £m*	*ECL Provision at 30 June 2020 £m*	*Carrying Value at 30 June 2020 £m*	*Amortisation / Bullet Repayment / Other*	*Term Remaining (Years)*	*Asset Type*	*Currency*	*Gross Yield*	*Stage*
Borrower 1	41.38	27.47	13.91	Initial 12-month interest only period, followed by interest and amortisation	11.46	Finance Lease - Anaerobic Digestion	GBP	9.80%	3
Borrower 2	32.19	19.01	13.18	Interest and amortisation	0.59	Finance Lease - Anaerobic Digestion	GBP	10.0%	3
Borrower 3	29.20	17.59	11.61	Interest and cash sweep	16.72	Finance Lease - Anaerobic Digestion	GBP	10.0%	3
Borrower 4	28.16	28.16	-	Initial 12-month interest only period, followed by interest and amortisation	6.52	Term Loan - Manufacturing	USD	11.0%	3
Borrower 5	24.86	18.71	6.15	Interest and amortisation	8.62	Finance Lease - Anaerobic Digestion	GBP	10.0%	3
Borrower 6	22.00	0.62	21.39	Interest only, bullet at maturity	2.90	Term Loan - Manufacturing	EUR	9.2%	1
Borrower 7	18.70	18.70	-	Interest and amortisation	6.27	Term Loan - Insurance	USD	10.0%	3
Borrower 8	15.58	8.98	6.61	Interest and amortisation, bullet at maturity	8.62	Term Loan - Shipping	USD	10.4%	3
Borrower 9	14.57	14.57	-	Interest and amortisation	6.27	Term Loan - Insurance	USD	10.4%	3
Borrower 10	10.79	7.55	3.24	Initial 12-month interest only period, followed by interest and amortisation	1.76	Hire Purchase – Wholesale Portfolios	GBP	9.5%	3
Borrower 11	9.66	9.66	-	Initial interest only period, followed by interest and amortisation	0.02	Term Loan – IT & Telecom	EUR	6.9%	3

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower	Credit Exposure at 30 June 2020 £m	ECL Provision at 30 June 2020 £m	Carrying Value at 30 June 2020 £m	Amortisation / Bullet Repayment / Other	Term Remaining (Years)	Asset Type	Currency	Gross Yield	Stage
Borrower 12	9.21	0.64	8.56	Interest and amortisation, bullet at maturity	11.46	Finance Lease – Anaerobic Digestion	EUR	10.8%	1
Borrower 13	8.64	5.60	3.05	Interest and amortisation + final 1/3 original principal balloon payment	3.01	Finance Lease - Anaerobic Digestion	GBP	9.3%	3
Borrower 14	8.48	0.24	8.24	Interest and amortisation	7.02	Hire Purchase - CHP	GBP	10.0%	1
Borrower 15	7.70	0.22	7.49	Interest and amortisation	7.02	Hire Purchase - CHP	GBP	10.0%	1
Borrower 16	5.45	5.45	-	Interest only	0.59	Term Loan – IT & Telecom	USD	6.9%	3
Borrower 17	5.41	0.15	5.26	Interest only and pre-payments when asset delivered	6.52	Hire Purchase – CHP	GBP	10.0%	1
Borrower 18	4.63	4.63	-	Interest and amortisation	3.01	Finance Lease – Anaerobic Digestion	GBP	10.0%	3
Borrower 19	3.99	0.96	3.03	Initial 12-month interest only period, followed by Interest and amortisation	4.01	Finance Lease – Manufacturing	GBP	6.6%	3
Borrower 20	3.99	0.03	3.96	Interest and amortisation	0.75	Revolving Loan – Wholesale Portfolios	GBP	9.5%	1
Borrower 21	3.51	2.46	1.05	Interests and amortisation	5.02	Term Loan – Medical	USD	5.0%	3
Borrower 22	2.41	0.07	2.34	Interest and amortisation	12.55	Finance Lease – Anaerobic Digestion	GBP	10.5%	1
Borrower 23	2.17	0.15	2.02	Interest only, bullet at maturity	13.55	Finance Lease – Anaerobic Digestion	GBP	10.0%	1
Borrower 24	2.08	0.06	2.02	Interest and amortisation	12.29	Finance Lease – Anaerobic Digestion	GBP	10.0%	1
Borrower 25	1.35	1.35	-	Interest and amortisation	6.52	Term Loan – IT & Telecom	GBP	9.5%	3
Borrower 26	1.22	0.17	1.05	Initial 12-month interest only period, followed by interest and amortisation	8.62	Finance Lease - Wind Turbines	GBP	10.3%	2

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower	Credit Exposure at 30 June 2020 £m	ECL Provision at 30 June 2020 £m	Carrying Value at 30 June 2020 £m	Amortisation / Bullet Repayment / Other	Term Remaining (Years)	Asset Type	Currency	Gross Yield	Stage
Borrower 27	1.16	0.03	1.13	Interest and amortisation, bullet at maturity	11.21	Finance Lease - Wind Turbines	GBP	10.6%	1
Borrower 28	0.73	0.02	0.71	Interest accrued and capitalised, then interest and amortisation	8.44	Finance Lease - Wind Turbines	GBP	10.5%	1
Borrower 29	0.60	0.60	-	Hire Payments - interest and amortisation	1.52	Hire Purchase - Infrastructure Equipment	GBP	10.5%	3
Borrower 30	0.36	0.36	-	Interest accrued and capitalised, then interest and amortisation	0.59	Finance Lease - Manufacturing	GBP	10.1%	3
Borrower 31	0.27	0.27	-	Interest and amortisation + final 1/3 original principal balloon payment	6.52	Term loan - IT & Telecom	GBP	9.5%	3
Borrower 32	0.26	0.26	-	Interest and amortisation	16.72	Non-Applicable	EUR	10.0%	3
Borrower 33	0.14	0.14	-	Interest and amortisation	16.72	Non-Applicable	GBP	10.0%	3
Borrower 34	0.13	0.09	0.04	Interest only and pre-payments when asset delivered	0.84	Operating Lease - Marine Equipment (ex. Vessels)	GBP	9.9%	3
Borrower 35	0.10	0.00	0.09	Interest only	6.52	Finance Lease - Manufacturing Equipment	GBP	10.8%	1
	321.08	**194.97**	**126.11**						

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Property, Plant and Equipment Investments

Borrower*	*Carrying value at 30 June 2020 £m*	*Impairment at 30 June 2020 £m*	*Net Realisable Value at 30 June 2020 £m*	*Investment Type*	*Currency*
Borrower 36	6.25	6.25	-	Operating Lease – Hotels	GBP
Borrower 37	3.23	2.26	0.97	Operating Lease – Equipment	GBP
Borrower 38	1.37	1.37	-	Operating Lease - Equipment for construction	GBP
	10.85	**9.88**	**0.97**		

* Used Borrower terminology to be consistent throughout report, however these are PPE assets.

Equity Holdings and other Investments

Borrower*	*Fair Value before Adjustment at 30 June 2020 £m*	*Fair Value Adjustment at 30 June 2020 £m*	*Fair Value at 30 June 2020 £m*	*Investment Type*	*Currency*
Borrower 39	6.73	6.73	-	Equity - Medical	USD
Borrower 40	2.52	2.52	-	Lease Participation– Helicopters	USD
	9.25	**9.25**	**0.00**		

* Used Borrower terminology to be consistent throughout report, however these are lease participation and equity investments.

We make no apology for the length of this report as we consider investors deserve to assess the work we have undertaken since June 2020 in full. We have striven to keep the narrative simple and where technical descriptions have been necessary, we have tried to avoid too much jargon to allow for ease of reading by a layman unaccustomed to fixed income terminology. Where it has been necessary to describe complex structures, we have indented the text and italicised the script.

AD Plants

We have separated our comment on AD Plants into two categories: those subject to KPMG valuation review and other smaller facilities.

The six plants revalued by KPMG are Borrowers 1, 2, 3, 5, 13 and 18.

Since June, we have actively built upon prior activities to exit these investments and have engaged sales agents to consider the best routes for achieving this in an orderly and expeditious manner. Following additional work on the six AD plants we have provided further information to KPMG and hence the valuation outcomes are reflected more accurately using revised data. In the period since the financial year end, we have had a number of requests for additional funding to cover operating expenses. With no viable equity funder for these projects, the Company has become the primary source of cash for these businesses to remain going concerns. Where there has been a valid case, we have provided relief.

We anticipated placing one or more sites into administration. However, we believe the best outcome is a swift sale of these sites to avoid further capital injection. The sales agent has conviction that buyers exist at or around the valuations provided but we are also prepared to consider an administration route if this allows for preservation of value for our shareholders. We have also noted an improving outlook for our investments on the island of Ireland given increased government support for green energy initiatives.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

AD Plants (Continued)
For the sites migrating towards completion, a slower disposal process is expected. Our initial focus has been on the larger investments and we propose to dispose of our interests in these while supporting others to completion and potential consolidation.

Allowing for risks that may appear over the coming nine months we see the need to provide some additional funding to preserve or enhance shareholder value but are working on strategies to reduce this requirement to the bare minimum. Without providing these funding requests, administration or liquidation is likely.

Borrower 1 – AD Plant – NE England

Stage 3 Credit Exposure £41.38m ECL £27.47m Net Carrying Value ("NCV") £13.91m

The plant faced cash flow issues due to delays experienced in the grant of accreditation for subsidy via Renewable Obligation Certificates ("ROCs"). Without these the plant would have had uncertain value. Fortunately, in August 2020 accreditation was achieved on a back-dated basis, and the first cash flows were received in September. However, a backlog of creditors remained, some of which have been long overdue and a lease remedy was required due to a number of breaches predating our appointment. Legal costs and fees associated with resolving disputes over land rights are expected and these amounts which are overdue will strain cash flow for the remainder of 2020. We intend to explore a sale of this investment early this year.

Borrower 2 – AD Plant - NE England

Stage 3 Credit Exposure £32.19m ECL £19.01m NCV £13.18m

After several years of struggling, the plant has now obtained required regulatory permissions and maintained a broadly stable bacterial state. Covid-19 has impacted feedstock availability and hence revenues, but the plant is broadly cash flow neutral. We intend to explore a sale of this investment early in 2021 as, given the ramp-up status of the plant, we are hopeful it will be of interest to potential purchasers.

Borrowers 3, 32 & 33 – AD Plant – Donegal (Borrowers 32 & 33 are the VAT reclaim positions)

Stage 3 Credit Exposure £29.60m ECL £17.99m NCV £11.61m

The plant has required a significant upgrade for some time to reach breakeven point. We reviewed options and found it appropriate to seek another funder to provide the necessary capital injection given our reduced appetite for risk in AD and the wind down of the Company.

We have interest from an institutional buyer and are at an advanced stage in the due diligence process. We expect some further funding to be required to permit the plant to continue operating through to completion of due diligence and are examining options to suspend activities if we are unable to sell at a satisfactory price.

We have been working on amendments to some contracts which have slowed the sales process. However, good progress has been made to remedy these and the agents hope that everything will be in place for a transaction to be agreed this year, we make this statement with the necessary caveats regarding any unforeseen issues arising.

The Borrowers 32 and 33 reference VAT reclaims that have very little probability of recovery and have been assigned zero value as at June 2020. These were capitalised and formed part of the overall NAV from February 2016.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 5 – AD Plant – Scotland

Stage 3 Credit Exposure £24.86m ECL £18.71m NCV £6.15m

On initial review, a large funding need was identified to ensure feedstock was procured for the site to maintain operations. This was contractually committed by the Company but undrawn. The plant operator reported that the tanks were failing, so operations have been severely scaled back to a minimum while a sale process can be executed. We are negotiating with an institutional buyer prepared to undertake a series of remedial and upgrade actions that we are unwilling to finance at this point and we are at an advanced stage in the due diligence process.

Borrower 13 – AD Plant – England

Stage 3 Credit Exposure £8.64m ECL £5.60m NCV £3.05m

This plant is performing well and has been subject to a sale process for most of the year. Due diligence by a prospective buyer is expected to conclude by the year-end which should result in our exit from this investment. We hold 50% of the facility shared with another institutional investor.

Borrower 18 – AD Plant – NE England

Stage 3 Credit Exposure £4.63m ECL £4.63 m NCV £0.00m

This borrower is in administration and would require significant additional capital investment to resume operations. We identified a need to cover significant administration expenses, further remedial costs post administration and a significant working capital requirement. After negotiating with the administrator, it was agreed that circa £1.1million was required to recover the plant. Much of these costs related to legal action by the landlord / original project sponsor. An additional cost stemmed from working capital requirements as the plant is no longer registered for the various government incentives. This is estimated at around £500,000 to cover a twelve-month period.

Given the limited upside after taking these expenses into account, we have agreed that the administrator should progress with a sale to a third party. We expect no recovery on our position.

Remaining Ordinary Share Class Borrower Overview

Borrower 4 – Suniva

Stage 3 Credit Exposure £28.16m ECL £28.16m NCV £0.00m

Given the high profile, numerous RNS announcements and the long period of time related to the ongoing narrative regarding this loan, we have provided a useful preamble for shareholders as an *aide-memoire*.

KKVL lent to a US solar panel manufacturer in September 2016. The initial investment of $50m was made by a subsidiary, special purpose vehicle of the former Investment Managers. The funding for which came from a syndicate of investors including a North American government investment vehicle and a further fund managed by the former Investment Managers as well as the Company. KKVL invested $30 million, and the other investors invested $10m each. In early 2017, the borrower entered Chapter 11 bankruptcy proceedings, due to the influx of cheap Chinese imported product. At this point, the debt was at risk of significant write off. To seek improvement in the probability of recovery, the Company supported the introduction of Tariffs to be imposed on imported competing goods and this was successfully achieved as announced in RNS on 23 January 2018.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 4 – Suniva (Continued)

Meanwhile, the business exited Chapter 11 via new investment, comprising a credit bid of the outstanding loans by the initial investment syndicate (c$25m), Wanxiang America Corporation ("WX") (c$10m), and an additional Debtor-in-Possession ("DIP") funded by KKVL and a new hedge fund investor.

However, since leaving Chapter 11, the business has yet to recommence trading. The rationale for taking the company out of Chapter 11 is that it needs to remain in existence to benefit from potential eligibility for a significant payment from US tariff collections under section 201 of the Trade Act of 1974. The business was set up for this purpose and makes capital repayments on a 2-year 0% lease made to it by KKVL post Chapter 11. A servicing company owned by the former manager, as agent for the plaintiff in the claim (a fund managed by the former manager representing the initial syndicate of investors), has engaged lawyers to assist the claim for a release of tariff payments to the borrower for a number of years. All legal expenses incurred on behalf of the syndicate have been met by the Company to date. Please refer to further details disclosed below.

On discussion with legal counsel acting for the company on behalf of the syndicate, KKVIM believes that it is unlikely that the borrower, and therefore KKVL, will benefit from any potential tariff payments. It is our understanding that any previous action of this nature has concluded with any monetary consideration being split between the overseas corporations that suffered loss from the tariff payments and the US Federal Government. Any deviation from this outcome would require a change in federal law. Current engagement with legal counsel is an exercise in lobbying US politicians in Washington DC and is highly speculative. The view has been corroborated by the legal counsel who considers this to be a dormant claim and by the independent valuer in October 2020.

The owner of the debt, represented by the service company as agent, is also pursuing the former majority shareholder of Suniva for the shortfall on the original debt (calculated as $25.5 million within the legal documents) via a parent company guarantee given by Shunfeng International Clean Energy Ltd, ("SFCE"), a Hong Kong listed Cayman domiciled company with operations largely based in China.

Since 2017, the service company has engaged with lawyers to validate and enforce this claim in the US courts, with a large degree of success. However, it is our view that, given the political/economic environment and US-Chinese relations, the enforceability of a claim made in a US court against a Chinese company with few assets of any value in the US or elsewhere outside China, may be problematic and protracted.

SCFE has provisioned for the guarantee claim, which has been disclosed in their financial statements. Although SFCE continues to trade, its interim consolidated financial statements for the period ended 30 June 2020 show net liabilities, and loans unpaid past due and the auditors disclaim an opinion on the accounts due to multiple uncertainties related to "going concern" and their possible cumulative effect on the interim condensed consolidated financial statements.

KKVL has incurred all legal costs since the business entered Chapter 11, including legal action against the hedge fund investor early in the process. Provision has been made for KKVL to recover these legal expenses incurred on behalf of all parties, should there be a cash settlement in the tariff and parental guarantee recovery strategies, by deductions from cash apportioned to the other syndicate participants.

Since May 2017, the Company has incurred $3,483,870.79 (circa £2.6 million) legal costs to date. Of which, $254,459.40 had been capitalised and formed part of the overall debt and was included in the NAV of the Company prior to impairment made as at 30 June 2020, the balance of these legal costs had been expensed.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 6 – International glassware manufacturer based in France

Stage 1 Credit Exposure £22.0m ECL £0.62m NCV £21.39m

This borrower is a global manufacturer and distributor of glassware based in France. The borrower used the funds to finance furnaces via a sale and leaseback arrangement, with the Company and co-investors owning the furnaces via an intermediate counterparty to the transaction.

The investment was restructured and rescheduled in 2018. The company entered into negotiations with its largest creditors this year, having suffered heavily during the Covid pandemic. This resulted in circa €230m of debt relief. The group also benefited from reduced cost of capital and extension of certain facilities, access to state funding at low rates and €20m of fresh equity investment.

KKVL's position was unaffected by the significant debt restructuring undertaken during the year as French government conditions prohibited swap of non-bank lending for this cheaper funding. Nonetheless, the balance sheet of the company has improved and management, which we consider to be of very high calibre, are confident of returning to pre-Covid-19 levels earnings within two years. Within this timescale, if the business continues at its current trajectory, we expect it to be able to access the deeper and cheaper high-yield debt market, allowing for this facility to be refinanced at a lower interest rate.

Borrowers 7 and 9 – US based reinsurance company

Stage 3 Credit Exposure £33.27m ECL £33.27m NCV £0.00m

KKVL's investment comprises a senior term loan to a small insurance holding company (Borrower 7) and surplus note funding (Borrower 9) to its reinsurance company subsidiary. For ease of reference, this facility has previously been referred to as a diversified book of investment grade loans and equipment leases. Although these are two distinct loans within the portfolio, some of the proceeds of the senior loan to the holding company were on-lent to the subsidiary and so the overall risk associated with the whole exposure should be viewed in this context.

These investments are highly complex, are leveraged and require a high degree of actuarial assessment in order to gauge value at risk. The nature of the facilities and US insurance regulatory restrictions mean the lending has certain characteristics akin to mezzanine debt / equity and this should therefore be considered a high-risk lending structure. We have provided a brief narrative to describe the structure and regulatory oversight.

Typically, issuers of surplus notes are very large municipal insurers with no access to equity markets. Surplus notes are a form of hybrid capital and are considered to be similar to an equity capital investment, not debt, by the regulator. However, unlike equity, there is limited upside to these types of investment without warrants or convertible pay-out structures.

The business provides re-insurance services to life insurance companies for Multi Year Guaranteed Annuity ("MYGA") policies sold into the retail market. These are single premium annuity savings policies and are sold at competitive rates of interest dependent on the size and the credit quality of the underlying business. The market is highly competitive and smaller insurers tend to offer higher rates to attract retail investors for these policies. As a rule of thumb, the higher the interest rate, the higher the level of risk required to be covered by the reinsurance operations. On researching this market, we have observed that this business offers one of the highest annuity rates available. The annuities are analogous to "super senior obligations", the premium paid by the policy holders and interest earned are repayable as a priority to all other obligations.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrowers 7 and 9 – US based reinsurance company (Continued)

The insurance company relies on its ability to invest money (assets) to earn a return in excess of the fixed rate annuity guaranteed to policy holders (liabilities). In our opinion, reduction in Treasury yields (risk free rate) and narrower credit spreads in recent years has added to the risk associated with their ability to match these assets and liabilities.

KKVL, any other funding and policy holders' premiums are invested to generate a yield to service operating costs and to cover policy holders' principal deposit and interest (on either maturity, surrender or death). The company must maintain a minimum regulatory-based capital ratio ("RBC"), a measure of financial solvency, appropriate to support the entity's overall business operations considering its size and risk profile. Should the RBC ratio fall below a minimum level of 200%, the State regulator (in this case Nebraska) shall not consent to the distribution of capital (i.e. repay KKVL's interest and capital amortisation). The RBC ratio is a complex calculation governed by National Association of Insurance Commissioners ("NAIC") rules (adopted in the facility documents). The facility specifies that the company should maintain an RBC of greater than 350% as a trigger event for early amortisation in the interest-only period. However, enforcement of this covenant may lead to breach of its insurance RBC ratio, and therefore restrict repayments of both principal and interest on our contingent surplus notes. In summary, in managing our approach to these types of borrowers, we have to consider a number of different risk factors out of our control.

This business is part of a wider insurance group that provides re-insurance services to manage portfolios to achieve the returns required to fulfil the obligations of the MYGA policies. KKVL's first investment was in September 2016, followed by an additional facility in October 2017 and then a further seven loan amendments and additional facilities in 2018 and 2019.

As at December 2019, prior to the onset of the pandemic, management reporting stated the RBC to be close to its threshold limit this was expected to fall to below that threshold during 2020. The portfolio of assets supporting the policies and debt comprises *inter alia* first lien mortgages, private credit facilities, fund investments and asset backed loans.

Previously, the loans benefitted from a parent company guarantee; at the time of a follow-on investment in 2018, an amendment to the legal documentation allowed for this to be irrevocably cancelled conditional upon the surplus notes achieving a BBB rating by at least one nationally (US) recognised ratings agency. A rating was subsequently granted by Egan-Jones. Therefore, this parental guarantee fell away.

Although the investment entities are servicing their debt, KKVIM's concerns regarding long duration (when the Company is in wind down), subordination of the Company's interests, the capital structure, lack of security and the risk of write downs on the underlying portfolio has caused KKVIM under our Risk Classification to make a full provision against this investment. We have concluded that the only viable buyer for this loan at a credible value for our shareholders would be the insurance company itself. We have been engaging actively with the borrower to seek a mutually beneficial outcome by giving them an opportunity to buy back their debt.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 8 – Shipping Vessels (Same borrower as Borrowers 47, 48 and 51 in 2016 C Share class)

Stage 3 Credit Exposure £15.58m ECL £8.98m NCV £6.61m

The Company provided a secured loan facility via an Irish Special Purpose Vehicle ("SPV") to an international shipping business to acquire shipping vessels in December 2014. This comprised four individual loans and had a maximum drawdown of $42.0 million with £31.7m total exposure now outstanding across Ordinary (Borrower 8) and 2016 C Share classes (Borrowers 47, 48 and 51). The loan facility is secured against ships in each of the ship-owning guarantor entities, with further security granted in the form of a corporate guarantee from the parent company, a privately owned British Virgin Islands incorporated entity.

The borrower has the ability to sell and replace shipping vessels with prior approval from the Company and a ship was sold earlier in 2020 with a replacement vessel acquired, which improved security.

Whilst the borrower is making regular monthly payments, the Loan to Value ("LTV") covenant has been in breach since February 2020. Under the loan documents, they were required to make additional payments to reduce the LTV in this scenario but they have been unable to do so. On exploring the validity of the corporate guarantee we have been advised that the group has suffered significant liquidity issues as a result of the majority of their capital held in preference shares in a European bank investment in distress. We have an open and constructive dialogue with the borrower and guarantor.

The loans are due to mature in April 2021 and the assets have a book value significantly lower than the KKVL exposure as corroborated by independent valuations. Based on information provided by the borrower, $7 million of costs are attached to the vessels in priority to KKVL in the form of supplier loans (including crew, fuel, servicing etc) that are payable immediately upon sale.

Borrower 10 – Domestic Boiler Provider

Stage 3 Credit Exposure £10.79m ECL £7.55m NCV £3.24m

A domestic boiler portfolio located in over 4,000 UK properties. This loan has underperformed as the sponsor has failed to grow its business. The facility finances heating installations and is recovered from service contracts typically around 10 years in length.

We are currently waiving default interest and are in negotiation with the borrower to consider an appropriate outcome suitable for all parties.

Borrowers 11, 25 & 31 – Hotel Technology Provider

Stage 3 Credit Exposure £11.28m ECL £11.28m NCV £0.00m

This is a provider of technology platform services to multinational hotel chains, with an emphasis on European clients. The core business is the contracted provision of information systems, for example, in-room television, entertainment and dining interfaces. The borrower was formerly part of a larger business focused on delivering guest-facing technology-based solutions to clients worldwide.

€20 million in debt financing was originally advanced in 2015, with principal and interest payments expected to repay by July 2020. In addition, a credit insurance policy was procured from the same counterparty acting as insurer to Borrower 16 and premiums paid from loan proceeds. As far as we are aware, no claim was made on the policy on breach of covenant nor upon insolvency. This insurance protection was removed from the transaction in 2019, along with any obligations it would have had to KKVL despite having a five-year maturity to April 2020.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrowers 11, 25 & 31 – Hotel Technology Provider (Continued)

From the outset, this investment struggled to deliver, breaching financial covenants in December 2015. However, despite negative EBITDA in 2015, 2016 and 2017, it serviced its debt until 2018. On entering administration, the loan had two years to mature and was circa £10m exposure for the Company.

The business exited administration in July 2019 funded by an acquisition by a Swedish Private Equity firm, with a contractual understanding between the new owners and KKVL that an agreement on the debt position of the company would be reached within 45 days. No agreement was reached, as we understand that the new owners considered the company unviable with our legacy debt in place. Under the guidance of the previous manager, the Company triggered a call option available under the agreement with the PE firm. KKVL invested a further £1.4 million based on a base case forecast for trading in 2019, which assumed an EBITDA of €2.2m and with aggressive growth forecasts to 2024. If met, this would enable all of the debt to be repaid using an 85% free cash flow sweep mechanism.

Along with restructuring expenses, and an invoice from 2018 for $150,000, waiving the breaches of financial covenant for the years 2016 and 2017, the position now accounts for the total outstanding of £11.28m. No debt service has been received since early 2018.

Since emerging from administration, the company performed reasonably well recording unaudited 9 month EBITDA to February 2020 of €640k, (although well below the base and stress case assumed). However, it has been significantly affected by the Covid-19 pandemic. At our first meeting with management in July, it became apparent that the company needed circa €750k, to cover €350k outstanding to the French courts for employment issues following the previous year's bankruptcy proceedings, restructuring costs, working capital, and capital expenditure necessary for growth. Subsequently, further liabilities have emerged in lieu of liabilities in Italy, Spain and the Netherlands.

With regard to security, under the original loan, this was secured against telecom assets with a brief technological life span. There is no charge against intellectual property or further guarantees and so we consider this loan to be unsecured.

Given the current material uncertainties, we have recommended a full provision against this investment in line with its Loss Given Default matrix.

Borrower 12 – AD Plant

Stage 1	**Credit Exposure £9.21m**	**ECL £0.64m**	**NCV £8.56m**

This is an AD plant based in Ireland and is well run with a strong management team. Prior to the Covid-19 pandemic it was running at over 70% capacity but has been running at 30% since Q2, 2020. This is largely driven by a lower supply of high-yielding feedstock (e.g., waste cooking oil from the hospitality sector).

Consequently, they have missed two quarterly payments (June and September 2020). Positive cash flow appears unlikely while restrictions on leisure businesses exist. As of 30 June 2020, given the plant was not hampered by major operational issues, we were confident in the plant's ability to service the debt once feedstock supply rebounded.

In the medium-long term it is considering alternative high-yielding food waste feedstock supplies to increase energy generating capacity up to and greater than 1 megawatt.

This sponsor intends to seek further investment to develop the plant including (but not limited to) de-packaging equipment, animal waste permits and a new pasteuriser. We have received a bid for the debt from a connected party to the former investment manager acting as agent at 50% of the total outstanding value and we have declined the offer.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrowers 14 & 15 – Electricity Generation

Stage 1 **Credit Exposure £16.18m** **ECL £0.46m** **NCV £15.73m**

The project comprises two Combined Heat and Power ('CHP') systems. Each generate electricity together with heat and CO_2 to be consumed by the UK's largest tomato grower via two 20-year Energy Services Agreements. These energy centres are a critical part of the grower's business and the installed equipment has allowed the grower to significantly reduce costs and increase crop yields. Electricity not used on-site by the grower is exported to the grid via a Power Purchase Agreement with a large energy provider.

The two borrowers are separate SPVs and share the same sponsor. This loan was originally underwritten alongside the equity sponsor and all documentation is well structured with appropriate security. Both assets are performing and we are working with the Borrower on a potential refinance.

Borrower 16 – Brazilian Telecoms Towers

Stage 3 **Credit Exposure £5.45m** **ECL £5.45m** **NCV £0.00m**

The Company lent $5.4 million to a Brazilian telecommunications tower company via a Cayman Islands SPV owned by a US based specialist reinsurance company via an interest only loan in 2015 with a maturity of fourteen months. This was a co-investment with a US insurance company who invested a further $2.0 million. The direct borrower was a segregated account of a US reinsurance agent, an insurer that had also been contracted to insure the principal and interest on the $7.4m combined loan. Security is provided by the telecom masts placed on greenfield sites in multiple regions of Brazil.

The loan was an annually renewable revolving facility with a maximum term of five years:

- $5.4 million was advanced to the SPV in April 2015 at a rate of 6.75% pa plus 1M US LIBOR;
- In turn, the SPV loaned $5.4 million to the borrower at a rate of 9.75% pa plus 1M US LIBOR.

The difference in spread is premium for the US agent for their credit insurance. In addition, part of the consideration of the loan was used to pay accrued interest, credit insurance and consultant fees. After foreign exchange conversion from US Dollars to Brazilian Real, the amount received by the borrower was circa $4.5m.

Repayment of the principal would be by way of a bullet repayment or upon a sale of the operating company in Brazil. It is unclear if the condition to repay within fourteen months was varied formally, given no capital repayments have been made by the business to date. The maximum five year-term governing the loan has also expired. KKVL received interest payments until Jan 2018 totalling $1.225m, at which point the company ceased debt service.

According to December 2019 accounts, the equipment formed of telecom masts had a net book value of BRL 11.1m representing circa £1.5 million. The group owns 67 towers, through two companies, with 52 towers providing security for KKVL's lending. Based upon the limited available financial information, it would appear each tower has an average net book value – for accounting purposes – of circa £22,000.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 16 – Brazilian Telecoms Towers (Continued)

The Company's investment appears to have been made on the basis that free cash generated by the Brazilian operating company would be re-invested in order to increase its tower network and a key consideration was the credit insurance purchased. Unfortunately, in 2017 the principal of the company died and the business has lacked direction since. In was considered feasible that with circa 100 towers, a sale to a "blue chip" telecoms operator was possible, allowing for the loan to be repaid. To date, the number of towers has not increased beyond circa 60 and significant arrears of interest have now accrued. There is limited evidence to suggest that this potential exit route remains available without the availability of further debt finance. We understand attempts to raise debt finance in Brazil have been unsuccessful. Given the costs associated with legal advice related to security and enforcement, the complex SPV structures, absence of the original credit insurance and costs associated with a detailed valuation of the telecom masts in greenfield sites in Brazil, we have assigned a remote chance of capital and accrued interest recovery.

Borrower 17 – Electricity Generation

Stage 1 Credit Exposure £5.41m ECL £0.15m NCV £5.26m

This is the sister investment to Borrowers 14 and 15, which also has an Energy Services Agreement and a Power Purchase Agreement in place with a large UK tomato grower and large energy providers respectively. This farm-based CHP plant is performing well. Debt service is well covered.

Borrowers 19 & 30 – Paper Manufacturer

Stage 3 Credit Exposure £4.35m ECL £1.32m NCV £3.03m

The business owns and operates a large pulp processing and paper manufacturing mill in Scotland with a capacity to produce around 70,000 tonnes of finished fine papers each year, including a globally recognised business stationary brand.

KKVL made an investment secured by heavy manufacturing equipment which later underwent a management buyout following administration. The Company's original investment was in excess of £21.6 million which had been amortising with regular payments. As part of the exit from the administration, the debt was restructured. In December 2019, total debt outstanding was £9,403,074 divided between two new tranches: £5.54 million (Borrower 19) and £3.87 million (Borrower 30) respectively. By June 2020, we received additional cash proceeds with both facilities reducing to £3.99 million and £0.36 million respectively. The investment remains secured by the same equipment.

Further restructure was required to avoid a second administration due to Covid-19 in September 2020, resulting in KKVL having a hire purchase agreed with a paper & textiles manufacturer and also makes collections under an arrangement for payment of deferred consideration of £750k under the original insolvency. A payment holiday has been agreed with debt service due to start in January 2021. This also included a further £3.5m debt funding introduced by the two other investors.

This business continues to face significant trading challenges. We understand that there are likely to be further need for cost cutting as Earnings Before Interest, Taxes, Depreciation, and Amortisation ("EBITDA") and cash losses continue during the pandemic.

On the basis of the deterioration in trading outlook for the business, KKVIM has analysed the potential recovery options in the event of non-payment under the various agreements now in place.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrowers 19 & 30 – Paper Manufacturer (Continued)

An independent valuation has been obtained:

- The assets are now valued between £2.7 million and £4.3 million, this range covers best and worst case scenarios for a break-up sale.
- The valuation assumes a 12 month sales period.
- The valuer noted that there is no likelihood of being able to sell the assets *in situ*. The current markets for these assets are Africa, India and Russia.
- The valuation agent indicated that the assets would be sold as seen with buyers incurring the costs to disassembly / transport.
- It is likely that certain holding costs would need to be incurred during the sales process (rent and staff costs for maintenance / inspection). It would not be unreasonable to assume that these could total £100k -£200k.
- Sales agent costs would likely be 10%.

Given that the future of the business as a going concern is questionable, we believe KKVL may recover £2.2 million to £3.7 million on the position, and we have provided against the position accordingly.

Borrower 20 – Wholesale Lender (Same borrower as Borrower 45 in 2016 C Share class)

Stage 1	**Credit Exposure £3.99m**	**ECL £0.03m**	**NCV £3.96m**

Please refer to Borrower 45 in the 2016 C Shares commentary.

Borrowers 21 & 39 – US based medical facility (debt and equity)

Stage 3	**Credit Exposure £3.51m**	**ECL £2.46m**	**NCV £1.05m**
Equity Holdings	**FV before Adj. £6.73m**	**FV Adj. £6.73m**	**FV £0.0m**

This is a loan to a medical facility specialising in elective surgery and is based in Arizona, USA.

The lending comprised two term loans for circa $12.2 million and was secured on the purchase of new equipment in 2015. It entered Chapter 11 Bankruptcy in 2017. There was a dispute between the counterparties to the bankruptcy in relation to equipment security/ ownership position which resulted, ultimately, in a series of transactions between KKVL and the post-insolvency owner of the hospital – a private equity firm based in San Mateo, California.

Having interacted with the owner, we have ascertained that they did not intend to be long term owners but to merely provide circa $20m as the DIP lender until the hospital emerged from Chapter 11. Unfortunately, no regional hospitals or financial buyers were identified. Therefore, the original loan was converted allowing the PE firm to acquire the hospital plus assets with a mortgage for $17.5m. However, we understand that it has continued obligations to fund EBITDA negative operations and by June 2020 it had invested a further $13m in preferred equity.

Following Chapter 11, $6m of KKVL's original loan was converted to 15% equity in the operating company, leaving $5m in a rescheduled Promissory Note at 5% amortising over 7 years with a final balloon payment in June 2025. The original security was against medical equipment with a cost price of circa $13.8 million and other fixtures, fittings and equipment with a total cost price of circa $1.4 million. Ownership of the equipment had originally remained with SQN until full repayment. Based upon the Promissory Note and related agreements, the Company has relinquished its ownership rights over specific items of equipment.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrowers 21 & 39 – US based medical facility (debt and equity) (Continued)

Under a revised Security Agreement the Company holds a "first priority security interest" over "all furniture, trade fixtures and equipment" owned by the hospital but we have been unable to source reliable inventory for such items. From the available information, it is not possible to estimate a net book value of this security.

Therefore, the Company is reliant upon the performance of the hospital operating company for repayment of its indebtedness.

Based upon the most recent management accounts, we have undertaken a high-level review of the borrower's profit and loss account for the 12-month period to 30 September 2020. Over the course of the 12-month period, the material LBITDA (Loss Before Interest Tax Debt and Amortisation) incurred by the hospital indicates that its current trading performance is insufficient to meet its ongoing debt-servicing commitments. The PE firm had originally stated their intention to sell the unit due to a competitor hospital under construction close by. However, since year end, they have adjusted their strategy and await an improvement in operating performance before Q2 2021. If no improvement is made, insolvency is likely.

Our Risk Grading system and Loss Given Default Matrix has resulted in a full provision against the equity holding and an Expected Credit Loss as set out above.

Borrower 22 – AD Plant

Stage 1	**Credit Exposure £2.41m**	**ECL £0.07m**	**NCV £2.34m**

This is a facility for an AD plant in Northern Ireland. The plant is performing within expectations and we expect the sponsor to bring forward a plan to refinance our debt in the coming year.

Borrower 23 – AD Plant

Stage 1	**Credit Exposure £2.17m**	**ECL £0.15m**	**NCV £2.02m**

This loan is a farm-based AD plant, performing satisfactorily. The project has completed and is operating according to plan, providing over 90% of capacity output. Financially there is a lag as ROCs are three months behind production and Renewables Obligation Certificates ("ROC") prices remain lower, while electricity prices are increasing.

The sponsor appears unlikely to refinance our position. The investment has minimal cash balances and unpaid invoices to manage cash flow. It requires approval for a waste management permit to cover the risk of the plant leaving digestate on site. In December 2020, we obtained information that put significant doubt that the plant would catch up on missed payments quickly. Therefore, post balance sheet, this position has been adjusted to Stage 3.

Borrower 24 – AD Plant

Stage 1	**Credit Exposure £2.08m**	**ECL £0.06m**	**NCV £2.02m**

This loan is to a farm-based AD plant with satisfactory performance. The plant recently suffered a fire but the damage and interim operational expenses were covered by insurance.

The company had cash on deposit in September from ROC payments still flowing from the period prior to the fire. The plant is now in the process of acquiring and installing a new engine. The plant is aiming to be operational in Q2 2021 and it seems likely it will recover and catch up with payments due. The sponsor (49% of equity) is likely to examine refinancing our facility in 2021, once fully operational.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 26 – Wind Turbines

Stage 2	**Credit Exposure £1.22m**	**ECL £0.17m**	**NCV £1.05m**

This is a facility funding two wind turbines in Northern Ireland that supplies for largest power supplier in Northern Ireland. The sponsor has overleveraged making refinance unlikely. One turbine has no warranty as the original German manufacturer became bankrupt and is not insured. In 2018, this turbine experienced some technical difficulties limiting output to the grid due to gearbox problems and has since failed to secure insurance. The other turbine remains under warranty and is insured.

Borrower 27 – Wind Turbines

Stage 1	**Credit Exposure £1.16m**	**ECL £0.03m**	**NCV £1.13m**

This is a wind power facility based in the east of England. It is repaying its debt obligations and would like to refinance to consolidate its debt at a lower rate and for a longer maturity. This may prove problematic for the borrower as there are issues with legal easements and overly complicated legal structures associated with the debt. We are working with the borrower to aid them in simplifying their position but we do not expect to be able to refinance the debt in the short term.

Borrower 28 – Wind Turbines

Stage 1	**Credit Exposure £0.73m**	**ECL £0.02m**	**NCV £0.71m**

Two wind turbines located in Wales. Repaid in July 2020.

Borrower 29 & 38 – Mining Equipment

Stage 3	**Credit Exposure £0.60m**	**ECL £0.60m**	**NCV £0.00m**
PPE	**Carrying Value £1.37m**	**Impairment £1.37m**	**NRV £0.00m**

These are stranded yellow metal mining vehicles (for digging and earth removal) located in Sierra Leone, West Africa. Assets from an initial facility were recovered from insolvency and leased to a new business in 2019. The residual assets from insolvency were recently released but face significant costs to relocate. We currently receive payments based on utilisation of the assets, which have reduced due to diminishing mining activity in recent months.

Borrowers 34 & 37 – Remote Operating Vehicles (Same borrower as Borrower 41 in C Share class)

Stage 3	**Credit Exposure £0.13m**	**ECL £0.09m**	**NCV £0.04m**
PPE	**Carrying Value £3.23m**	**Impairment £2.26m**	**NRV £0.97m**

Please refer to Borrower 41 in the 2016 C Shares commentary.

Borrower 35 - Plastics Manufacturer

Stage 1	**Credit Exposure £0.10m**	**ECL £0.01m**	**NCV £0.09m**

A small facility to a thermo-plastics compounder owned by a UAE business. The facility is amortising and close to maturity.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 36 – Portable Hotel Accommodation

PPE Carrying Value £6.25m Impairment £6.25m NRV £0.00m

Originally founded in 2011 as a new concept company it aimed to provide pop-up hotels for recreational events by way of stackable converted shipping containers. Within a short period of time, the financial model proved uneconomic and the business made losses. Management of the business has been restructured three times since incorporation with little success and has continued to face significant financial difficulties.

In 2015 the company entered into sale and leaseback of the entire container stock with KKVL. As part of this transaction, KKVL was granted a fixed charge over the company's revenue generating contracts. In April 2016, November 2016 through to November 2017, KKVL and management attempted to resolve the problems including restructure of debt obligations, debt service holiday and cost cutting exercises. The business entered administration in November 2017. The company continued to trade whilst 35 interested parties considered a purchase. However, despite some interest in the broken-up business the only offer to buy the business as a going concern came from KKVL. A deal was structured to allow purchase of the entire share capital of the company, conditional upon the creditors agreeing to a Company Voluntary Arrangement, ("CVA") enabling the balance sheet to be restructured, renegotiation of finance terms and the company to continue as a going concern. Under the terms of the CVA, the debt of circa £8 million due to KKVL was released/waived. Concurrently, it was sold on to a new holding company for a nominal sum and novated its original lease agreement. Previously missed interest payments of £350k, penalty interest of circa £10k and restructuring costs of circa £330k incurred during administration were capitalised into the outstanding balance. No valuation of the assets was obtained at this time.

Under the 2018 amended 10-year lease terms, the business is obliged to pay a fixed rental of £106,000 per quarter until 2023, whereupon it can exercise an option to buy the assets at market value (as agreed by a 3rd party valuer), capped at the then amortised cost of the lease on KKVLs balance sheet of £3.1m, or extend for the remaining 5 years. There is also a variable rental element based on profit.

The novated lease agreement refers to refurbishment costs payable by KKVL for necessary refurbishments required to bring the equipment into leasable condition to generate income. No requests for payment had been made until November 2020, when an invoice for over £650,000 costs dating from March 2018 to August 2020 was received. We understand a further £700k of work in progress refurbishment is expected to be billed. It is our view that the company has evidently not satisfied the conditions precedent in the contract and therefore no contingent liability is recognised. We are vigorously contesting any claim for refurbishment costs.

The business made contractual lease payments of £1.04m since the 2018 restructure and has missed one payment of £106,000 having struggled during Covid-19. It has never achieved the level of profit allowing for collection under the profit mechanism. It is our view that the probability of any profit receivable by KKVL is low.

In October 2020, KKVIM and the independent valuer undertook a site visit in Newark where the unutilised assets are stored. We found the containers in poor condition, unfit for deployment and of little value. Since CVA the business model was revised towards a semi-permanent hotel model allowing the containers to be placed in a given location for a few years before dismantlement.

- 80 rooms (20 containers) were placed in Stratford and the hotel is currently operational.
- 80 rooms were placed in Canary Wharf and are un-operational with the project mothballed due to Covid-19.
- Some containers were on location in Cornwall and this contract has ended and as at the time of writing we are awaiting confirmation whether this contract will be renewed.
- Some containers have been rented to HM Prison Service.
- The remaining rooms/containers are in Newark at a storage facility and not in use.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 40 – Helicopters

Equity Holdings FV before Adj. £2.52m FV Adj. £2.52m FV £0.00m

This is a lease participation in the equity position attached to a portfolio of helicopters located in various global locations. For a relatively low value loan, the structure is complex. We have taken the time to develop the description in plain language but acknowledge that it is still quite confusing to follow.

At the time of underwriting in 2015, there were eight helicopters, each with their own SPV. Initially, the $11.5m financing was made solely by the insurance company linked to Borrowers 7 and 9 but soon after, the position was split into participations A and B tranches in the following shapes:

- Participation A, $8.5m, was split $3m to the insurance company, and $5.5m to KKVL, although it should be noted that KKVL is also exposed to the insurance company's position, through its investment in Borrowers 7 and 9.
- Participation B was split into two $1.5m positions and held by two investment vehicles managed by the former manager.

Several of the SPVs in the helicopter portfolio had senior bank funding attached but we have been unable to ascertain the original quantum. However, in late 2016, one of the lessors was financially distressed. It appears that the senior lender moved to foreclose on their collateral, which resulted in the former manager placing these relevant SPVs into Chapter 11 bankruptcy. The SPVs were then bought out of Chapter 11, by Participation B fund, with one of the investment vehicles managed by the former manager paying off the senior lender, for $3.3m, and assuming the role of senior lender.

Following this event, the participation waterfall was amended thus:

- Participation B to allow 35% of the income on three of the SPVs and the rest (after payment of costs including a management fee) would go through the equity participation waterfall.
- Participation A holders, (KKVL and the US insurance company) agreed to reduce their yield on their rights on the entire portfolio from 10.5% to 6%.
- A management fee is payable to a third party specialist helicopter lease company of 1% of income received, and it was agreed that Participation A should pay for this service out of its 65% share of the waterfall payments.

There are now five helicopters remaining in the portfolio valued at between $2-4m before selling costs against $2.6m senior debt and $4.6m due to Participation A.

- Four are on lease until March 2021.
- One has not been leased for the entire period of the investment and is for sale at a price far higher than the valuation.

Recent valuations suggest that there will be little recovery for Participation A if the helicopters are sold at the end of their lease.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

2016 C Share Class

Borrower	***Credit Exposure at 30 June 2020 £m***	***ECL Provision at 30 June 2020 £m***	***Carrying Value at 30 June 2020 £m***	***Amortisation / Bullet Repayment / Other***	***Term Remaining Years***	***Asset Type***	***Asset Class***	***Currency***	***Gross Yield***	***IFRS 9 Stage***
Borrower 41	18.65	11.37	7.27	Interest and amortisation	5.10	Term Loan	Marine Equipment (ex: Vessels)	GBP	9.5%	3
Borrower 42	18.48	0.19	18.29	Initial 12 months interest only period, followed by interest and amortisation	8.20	Term Loan	Waste Processing	GBP	9.5%	1
Borrower 43	12.05	2.78	9.27	Interest and cash sweep	3.01	Term Loan	Wholesale Portfolios	USD	10.8%	3
Borrower 44	9.96	9.96	0.00	Initial 12 months interest only period, followed by interest and amortisation	12.79	Term Loan	Insurance	GBP	10.0%	3
Borrower 45	8.43	0.07	8.37	Interest and amortisation	0.75	Revolving Loan	Wholesale Portfolios	GBP	9.5%	1
Borrower 46	6.90	5.91	0.98	Interests and amortisation	-	Finance Lease	Manufacturing	EUR	9.2%	3
Borrower 47	6.05	3.40	2.65	Interest and amortisation	8.62	Term Loan	Shipping	USD	10.4%	3
Borrower 48	5.96	3.37	2.60	Interest and amortisation, bullet at maturity	8.62	Term Loan	Shipping	USD	10.4%	3
Borrower 49	5.96	0.44	5.51	Interests only, bullet at maturity	0.59	Term Loan	Aviation	EUR	9.6%	2
Borrower 50	5.22	0.52	4.70	Initial 12 months interest only period, followed by Interest and amortisation	8.86	Term Loan	Infrastructure Equipment	GBP	9.0%	1
Borrower 51	5.19	2.93	2.26	Interest and amortisation, bullet at maturity	8.62	Term Loan	Shipping	USD	10.4%	3

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower	Credit Exposure at 30 June 2020 £m	ECL Provision at 30 June 2020 £m	Carrying Value at 30 June 2020 £m	Amortisation / Bullet Repayment / Other	Term Remaining Years	Asset Type	Asset Class	Currency	Gross Yield	IFRS 9 Stage
Borrower 52	5.04	0.14	4.90	Interest accrued and capitalised during construction period, then switched to Hire Payments (covering interest and amortisation)	6.94	Finance Lease	Waste Processing	GBP	10.0%	1
Borrower 53	4.46	0.12	4.34	Hire Payments - Interest and amortisation	5.19	Finance Lease	Waste Processing	GBP	9.8%	1
Borrower 54	4.11	0.12	4.00	Interest and amortisation + final 1/3 original principal balloon payment	3.16	Term Loan	Construction	GBP	8.8%	1
Borrower 55	3.36	0.24	3.13	Interest and amortisation	3.24	Receivables Purchase	Infrastructure Equipment	GBP	9.9%	2
Borrower 56	2.83	0.08	2.76	Interest accrued and capitalised during construction period, then switched to Hire Payments (covering interest and amortisation)	1.70	Term Loan	Material Handling	USD	10.0%	1
Borrower 57	2.64	0.07	2.56	Interest and amortisation	2.92	Term Loan	Marine Equipment (ex. Vessels)	GBP	9.5%	1
Borrower 58	1.83	0.05	1.78	Interests only and pre-payments when asset delivered	1.00	Term Loan	Aviation	EUR	8.8%	1
Borrower 59	1.53	1.53	0.00	Interest only	12.79	Term Loan	Insurance	GBP	10.0%	3
Borrower 60	0.59	0.04	0.55	Interest and amortisation	2.37	Finance Lease	Marine Equipment (ex. Vessels)	GBP	10.3%	1
Borrower 61	0.18	0.00	0.17	Interest and amortisation	0.42	Finance Lease	Marine Equipment (ex. Vessels)	GBP	10.8%	1
	129.43	**43.35**	**86.08**							

PORTFOLIO MANAGER'S REPORT (CONTINUED)

2016 C Share Class Borrower Overview

Borrower 41 – Remote Operating Vehicles (Same borrower as Borrowers 34 & 37 in Ordinary Share Class)

Stage 3 Credit Exposure £18.65m ECL £11.37m NCV £7.27m

This suite of loans was restructured in July 2020.
The business operates as a provider of remotely operated vehicles (ROVs) globally, principally serving the oil and gas industry. It is ultimately owned by two private equity companies with a small stake held by management.

KKV has first ranking security over asset owning SPVs and their individual assets. The security would allow KKV to take possession of individual assets and/or the shares in certain entities in the event of default, although this could be problematic in achieving a going concern sale of the assets which would be critical to maximising their value.

The group has performed poorly in recent years and has been substantially loss making, coming close to insolvency in May 2020, following which a restructure was agreed. As part of that restructure, KKV advanced further funds (post June 2020) of £2 million, which had a separate and strong security package, whilst the shareholders injected a further £3 million on the same terms (and provided an additional £1 million standby facility which can be drawn down on 5 days' notice).

The recent restructure recognised that the business is heavily reliant upon a recovery in the oil and gas market and has provided a cash runway to allow for such a recovery. Such a recovery is uncertain.

Borrower 42 – Waste Management

Stage 1 Credit Exposure £18.48m ECL £0.19m NCV £18.29m

This loan was underwritten to support the acquisition, by the borrower, of an organic waste management and waste processing business based in Belfast, Northern Ireland ("NI"). The acquisition was followed by capital investment in four new composting tunnels and a biomass boiler to expand the business operations. This resulted in a fully integrated organic waste group. In 2015 the company sold its general waste division to focus purely on the organic waste division. It operated nine In Vessel Composting Tunnels ("IVC"), across two sites in NI which gave them capacity to process 176k tonnes p.a. The investment in four further IVCs allowed the company to increase processing capacity to 226k tonnes p.a. Since acquisition, the business has been well run and is servicing its debt fully.

Borrower 43 – A Leasing portfolio based in Mexico

Stage 3 Credit Exposure £12.05m ECL £2.78m NCV £9.27m

The Company is a senior participant in a finance structure designed to invest in leases to medium sized companies and their industrial assets in Mexico. The structure is complex. The borrower is a Delaware registered leasing company managed by the former manager which on-lends through a Mexican trust structure to a specialist finance company based in Mexico.

Initially the borrower was funded by two investment vehicles managed by the former Investment Managers in 2016. In 2018, KKVX entered the transaction with a c$6.1 million senior investment increasing to $10 million, ahead of the other investment vehicles that were subordinated. The financing was a senior/subordinated structure with a covenant allowing the KKVX position to have performing debt receivable coverage in excess of 180% (LTV of 55%). The effect of the covenant was to restrict interest payments to the subordinated lenders until the LTV had cured. However, this was breached within a short period of KKVX's investment.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 43 – A Leasing portfolio based in Mexico (Continued)

In 2019, the financing was amended and re-documented into Participant A (A) and Participant B (B) tranches, whereby:

- Tranche A (i.e. KKVX) receives interest ahead of B,
- Tranche B receives their interest before A receives any capital repayments.
- Simultaneously KKVX's participation increased to $16.25m
- The loan was switched to a revolver structure.

These changes increased the risk for Tranche A principal through a slower amortisation period and if there should be underlying non-performing loans within the structure.

We are unaware of any non-performing facilities written off by the borrower but there are long term non-performing leases in the portfolio which would reduce the B participation interest payments. As at June 2020:

- KKVXs LTV against performing receivables had risen to 93%.
- The combined LTV for Tranches A and B was 121%.

More recent management information suggests the KKVX LTV is close to 100%, and the combined A and B LTV is over 130%. Despite the deterioration in LTV, the asset is performing with payments received on a timely monthly basis. KKVIM receives monthly reports regarding the book's performance and in-depth quarterly reports on the underlying credit quality of each lease within the portfolio.

We note that the insurance company with close links to Borrowers 7 and 9, has used the platform to warehouse loans outside of the Participation A & B structure, having placed and funded 3 loans of a combined value of $1.4m with the borrower in October 2018. These were cashed out in June 2019 and entered the borrower's loan pool, after KKVX's amendment of the structure via Participation A. One of these underlying loans, valued at c$600k, is now non-performing, having ceased paying in March 2020. We shall pursue further clarification on this matter with the insurance company and the leasing company.

The borrower is keen to continue to grow their book, however given the status of the fund KKVL/VX are unwilling to commit any additional capital. Therefore, we entered conversations regarding an early refinance to put additional pressure on the borrower to seek alternative finance. We believe the initial credit risk did not accurately reflect the risk of the complex corporate and amended deal structure, we therefore downgraded the credit rating. This was further was supported by the deteriorating LTV of the performing lease portfolio, which is now (post balance sheet) in excess of 100%.

Borrower 44 & 59 – Reinsurance Company

Stage 3	**Credit Exposure £11.49m**	**ECL £11.49m**	**NCV £0.00m**

This investment comprises a term loan of $2m to an offshore start-up holding company and contingent surplus note funding of $13m to its offshore subsidiary and is a captive reinsurer, engaged in reinsurance of MYGA policies. The nature of the facilities, regulatory restrictions and terms of facility documentation are broadly similar to those of Borrower 7 and 9 which means that the lending is more akin to junior debt / equity in risk profile.

The first investment was made in March 2019, with KKVX agreeing to a total investment facility of up to $20m. As at June 2020, the facility was drawn to $15m. It is a 14-year financing, with an initial 2-year interest only period, before amortising over the remaining term.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 44 & 59 – Reinsurance Company (Continued)

This business does not own assets in its portfolio directly with the economics and risk transferred using a "funds withheld" and "modified co-insurance" reinsurance contract. The effect of this arrangement is that the premiums are retained by the insurer, to be invested in its name to satisfy its obligations to the policy holders under the MYGAs but the risks and rewards of the investments are transferred to the reinsurer. Direct access to the assets is very restricted. In simplistic terms, this means that the ability for recovery in the event of default is harder to achieve.

The company is regulated in Barbados and has a Risk Based Capital coverage restriction whereby distributions to lenders is contingent to approval from the regulator, which can be assumed providing Risk Based Capital is > 250% of the required minimum (the "RBC Trigger").

In late June 2020, the business was in breach of its RBC Trigger, with the ratio at 197% vs the 250% threshold. As a result, the borrower was unable to pay interest on its loans from KKVX. However, if we were able to advance the remaining $5m of the facility, the RBC Trigger breach would be cured, and interest would continue.

Having reviewed the Financing Proposal prepared by the former manager several issues were apparent regarding security, covenants and in particularly how the covenants appeared to be incongruent with the structure. Of particular concern is the high concentration of mezzanine CLOs (58%), it should be noted that these are extremely high for an insurance portfolio. Furthermore, there is a risk of exposure to changes made by the regulator National Association of Insurance Commissioners ("NAIC") with regard to the risk weighting applied to the use of CLO's and other financial instruments which are largely out of the control of the borrower.

Further analysis has led us to the conclusion that, given the pass-through nature of the reinsurance agreements, the subordination of the surplus notes to insurance liabilities and other creditors, together with lack of tangible assets at holding company level, recovery of principal and interest payments are highly uncertain, and a full provision has been made against this investment.

The business continues to trade and if it continues to do so successfully over a fourteen-year period to maturity, there is potential for recovery.

Borrower 45 – Wholesale Lender (Same borrower as Borrower 20 in Ordinary Share Class)

Stage 1 Credit Exposure £8.43m ECL £0.07m NCV £8.37m

This is a long-established wholesale lender to micro SME businesses in the UK. The loan is interest only and, upon maturity, the debt amortises over nine months although a longer repayment plan would need to be negotiated given the Covid-19 impact. Our advance rate is 90% and is secured by receivables from a pool of diversified loans to small businesses which act as our security along with a borrower guarantee. The pool is greater than the security posted as our collateral. Each underlying loan is rated within a four-stage system with our collateral drawn only from the highest category. If an individual loan's rating decreases, it is substituted by another high rated loan. We receive a report from the company's auditors on a quarterly basis that provides detail on the performance and the entire loan pool.

Loans within the portfolio were affected at the start of the Covid-19 pandemic but management have reported that the position has steadily improved. All underlying loans are accompanied by a personal guarantee and any amount over £50,000 is required to be secured by a lien on property. They have also reported that they had a reasonably small exposure to the retail sector which had been the hardest hit.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 45 – Wholesale Lender (Continued)

We have allowed covenant breaches regarding the collateral pool to 95% since April and we have relaxed the terms of the ratings allowed within the pool whilst the period of economic uncertainty remains. We are comfortable that the borrower is monitoring performance adequately, all loans were considered satisfactory in terms of performance, the overall loan to value was 93% as at the end June and all interest payments have continued to be paid on time. The company has now relaunched their lending activity in Q3 due to an increase in demand from performing SMEs.

Borrower 46 – French car parts manufacturer

Stage 3	**Credit Exposure £6.90m**	**ECL £5.91m**	**NCV £0.98m**

This borrower is a privately-owned company located in France specialising in high-pressure die-casting, machining and assembly of aluminium parts predominantly for the automotive industry. When the loan was advanced in 2018, it was believed that the equipment may be used in the production of hybrid engines for cars; sadly, it has now been established that the equipment is only suitable for diesel engines only, adversely affecting the potential for recovery value of the collateral.

The financing was originally a €7.5m sale and leaseback arrangement. The business commenced a moratorium period and was restructured in June 2019. However, the business became distressed soon afterwards and the loan has not achieved debt service since September 2019. Limited management and other financial information have been received since mid-2019 and there is no up-to-date trading information.

However, we are aware that the firm is currently experiencing severe financial difficulties, with significant arrears having accumulated in relation to local and central Government taxes and finance-related obligations – principally, in respect of funds advanced by the Company and one other asset finance provider. In early November 2020, the borrower filed for insolvency, and that process is now underway in the French courts.

We are engaged with French lawyers to ensure the right steps are taken, to outline potential outcomes and to advise on recovery options. However, the process is hampered by the structuring of the transaction. KKVX has a loan to an Irish SPV, and this SPV owns the equipment together with the leasing arrangement with the lessee.

Given the nature of the French insolvency process, the structure of the investment and the independent valuation of the equipment, we consider recovery on this position to be greatly reduced and have allowed for an impairment provision accordingly.

Borrowers 47, 48 & 51 – Shipping Vessels (Same borrower as Borrower 8 in Ordinary Share Class)

Stage 3	**Credit Exposure £17.20m**	**ECL £9.70m**	**NCV £7.50m**

Please refer to Borrower 8 in the Ordinary Shares commentary.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 49 – Helicopter Finance

Stage 2 Credit Exposure £5.96m ECL £0.44m NCV £5.51m

The Company, via an Irish SPV, provided a secured loan facility of €6 million to acquire an *AgustaWestland 169* helicopter in June 2018. This facility was topped up by €0.5 million in November 2018 in order to fund missed payments of interest, provide some working capital following a delay in registration of the aircraft by the borrower and to fund off-shore specification customisation to enhance the borrower's ability to lease it. The initial loan facility was secured against the helicopter, with the additional lending unsecured and on the same payment terms as the initial loan.

This facility was expected to be a short-term bridge funding arrangement, with monthly interest charged at 13% per annualised for a period of 6 months (with an option to extend by 3 months) and a bullet repayment at the end of the agreed term.

The original business plan intended for the helicopter to be transferred onto a long-term lease with a higher quality lessee, refinance the facility at a lower rate and repeat the process, in order to build a fleet of helicopters. However, the plan was ill thought out and problems occurred in relation to domicile of the registration. The borrower had intended to register in Denmark but since neither the helicopter nor the borrower nor lessee were based in Denmark, registration was refused. This led to some delay, whilst the business sought registration in Germany, where it is now on lease. However, this means that our security is under German Mortgage law, which creates uncertainty on foreclosure, relative to most other more robust mortgage regimes.

This financing has subsequently been extended and amended, with the finance cost reducing from 13% to 9% and, on 1 June 2020, the repayment terms were altered to lower the fixed payments and introduce a variable element, based on flying hours.

We have been working with the borrower on tightening the documentation and hope to conclude this soon. The borrower is also working on a longer-term, higher quality customer to lease this aircraft, this should permit a restructure on a longer-term lease with improved debt documentation.

Borrower 50 – Composting Facility

Stage 1 Credit Exposure £5.22m ECL £0.52m NCV £4.70m

KKVX provides a senior subordinated term loan to a composting facility based in Northern Ireland. The entity that owns the composting facility is owned by a cooperative of 27 farmers across Ireland. This collaborative approach generates efficiencies for its members and economies of scale for the composting facility. All 27 farmers are contracted to buy all their compost from the plant.

The facility was initially interest only during the construction phase of the project and is now fully amortising to maturity in August 2029 through quarterly debt repayments.

Borrower 52 – Recycling

Stage 1 Credit Exposure 5.04m ECL £0.14m NCV £4.90m

This is a project finance loan to a business recycling a broad range of waste electrical & electronic equipment ("WEEE"), which is a required practice by manufacturers of such products under EU regulation. The borrowing is secured against equipment.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 52 – Recycling (Continued)

The borrower overcame some initial teething problems experienced during the construction and start-up phase when developing the WEEE facility. However, unfortunately, their supply was significantly impacted by the first Covid-19 lockdown, which interrupted cash flows and resulted in the borrower and the Company agreeing a debt payment holiday. Supply volumes swiftly rebounded in June. At the time, management was confident that these numbers would be sustained, allowing them to catch up on debt payments. They recently confirmed that volumes have increased and they appear to face only a limited impact during this second Covid-19 lockdown. The borrower remains on track to catch-up on debt service.

Borrower 53 – Recycling

Stage 1 Credit Exposure £4.46m ECL £0.12m NCV £4.34m

This company has been in operation since 1986. The business is focused on recycling in the Warwickshire area and has a commanding regional market share.

They have seen a reduction in waste collections as a result of Covid-19 and have utilised the Furlough and CBILS schemes. There are no immediate debt servicing concerns. We have commenced regular meetings with the borrower and have observed an improvement in trading conditions in recent months.

Borrower 54 – Construction Company

Stage 1 Credit Exposure £4.11m ECL £0.12m NCV £4.00m

This is a secured term loan to a construction and property development company based in Newry, County Down, Northern Ireland. The company holds 33-50% shareholdings in seven SPVs, created as project vehicles for Design, Build, Finance, Operate and Maintain PPP contracts for educational institutions in Northern Ireland. All debt is being serviced.

Borrower 55 – Battery storage

Stage 2 Credit Exposure £3.36m ECL £0.24m NCV £3.13m

The company is a rental company supplying Portable Battery Units ('PBPU') to work alongside site generators. The facility is structured as a finance lease, and the PBPUs are hired from KKVX's lessee by major site hire businesses in the UK.

The units reduce fuel spend allowing diesel generators to rest overnight while retaining CCTV and other core infrastructure. The current fleet of around 250 units was manufactured by a third-party manufacturer, but which had some commonality of ownership. The funding was used to fund new generator units from the manufacturing company. The finance lease benefits from a guarantee from the manufacturing company.

The company's balance sheet is stretched as the PBPU market is rapidly growing, and both the manufacturing company and KKVX's borrower are keen to aggressively grow their share of the market. However, the product is considered strong, with demonstrable high demand, which mitigates the risk at the corporate level.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Borrower 56 – Renewable Energy

Stage 1 Credit Exposure £2.83m ECL £0.08m NCV £2.76m

This loan represents a sale and lease back of four projects to provide material handling services to Walmart's warehouse hubs across the US. It has been performing well with no debt servicing concerns. The loan is due to mature in March 2022.

Borrower 57 – Marine Services

Stage 1 Credit Exposure £2.64m ECL £0.07m NCV £2.56m

This loan is to a small marine services business based in the UAE. The borrower provides a diversified range of subsea services to the Oil and Gas, renewable, utility and construction industries. The debt is being serviced.

Borrower 58 – Helicopters

Stage 1 Credit Exposure £1.83m ECL £0.05m NCV £1.78m

The company leases commercial helicopters for short to long-term contracts. In June 2017, it ordered six Leonardo helicopters for which it was required to place 20% of the total cost price as a pre-delivery payment. The profile of the facility is interest only, payable through the term of the loan, and principal repayable upon delivery of the aircraft. The company cannot take ownership of the asset without repaying first the principal of our loans, however their plans have changed and they no longer wish to take delivery of this model and therefore have deferred delivery for some time.

We are currently negotiating a restructure to allow non-delivery of this helicopter and increased flexibility, creating an amortising structure whereby the loan will be repaid in the current financial year.

Borrower 60 – Oil & Gas Services

Stage 1 Credit Exposure £0.59m ECL £0.04m NCV £0.55m

This loan provided capital to an innovative Oil & Gas services company that was previously on an impressive trend of both growth and profitability, since its founding in 2010, up until the oil price collapse in the summer of 2014. The lessee is a subsidiary of a larger, Dutch business which focuses on the development of a number of 'next generation' well-intervention technologies. The loan was a facility to cover an updated version of its pipe-unblocking technology.

Although the sector has been badly impacted by the pandemic which resulted in material a drop in oil price in March 2020, the company has been able to pay its commitment as we are the only senior lender at this part of the capital structure, with the remaining debt being shareholders loans. The loan matures in November 2022.

Borrower 61 – Oil & Gas Services

Stage 1 Credit Exposure £0.18m ECL £0.01m NCV £0.17m

This business was founded in 2010 to fill a specific gap in the market to supply technology-based engineering solutions in subsea pipeline installation, inspection and intervention to operators, subsea contractors and oil field owners. The debt is being serviced.

PORTFOLIO MANAGER'S REPORT (CONTINUED)

Conclusion

The reporting period has not been without its challenges due to the external economic pressures of Brexit and then the onset of the Covid-19 pandemic. This has been exacerbated by the intense amount of work we have had to do in understanding the complexity of the contracts and deriving a suitable plan of action to repair and restructure them, in the case of troubled credits.

The Company is now in wind-down and we are working to deliver the Company's new Investment Policy and Objectives. Meanwhile, we shall monitor and manage the assets within the portfolio as carefully as possible and urge early repayment or refinancing by borrowers. All loans in the portfolio require care and diligence, each borrower has specific needs and have to be carefully monitored and indeed, on some occasions, helped through difficult periods. If they are not managed with this level of due care and diligence, there is a risk that the credit outlook for these loans may deteriorate. It is as much about the manager as the borrower in these circumstances.

I would like to note that the level of sustained work we have had to undertake to reach this stage of the process has been extremely heavy and would not have been possible without the expert skills provided by my team during this time. When managing a high yield portfolio or an SME loan book, one might expect two or three credits to fall into distress at any one time. These tend to become consuming from a resource perspective and take a disproportionate time to set back on track by restructure or other measures.

Therefore, the first four months of our tenure as Portfolio Manager have not been as we had originally envisaged. There is no economic advantage to KKVIM in seeing the value of these loans diminish and it also potentially carries reputational jeopardy. However, our mission is clear. We have a duty to present the value of this portfolio in a clear, unambiguous way and will do our utmost to reclaim value and return cash to shareholders.

We regret having to present our findings on the portfolio in such a manner and understand that shareholders may be perplexed at the rapid change in the assessment of the quality of the portfolio but we would like to give assurance that we are working hard to wind down the fund in as efficient and effective way as possible. During the period of wind down, we shall continue as we have begun in providing investors with clarity and transparency.

We would like to thank shareholders for their continuing support and after this short period of purdah whilst we have reviewed the portfolio, we look forward to sharing updates on the progress made on wind down in future months.

Dawn Kendall

Chief Investment Officer, KKV Investment Management Ltd

26 January 2021

DIRECTORS' REPORT

The Directors present the Annual Report and audited consolidated financial statements of the Group for the year ended 30 June 2020.

Statement as to Disclosure of Information to the Auditor
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and that they have taken the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Fair, Balanced and Understandable
In assessing the overall fairness, balance and understandability of the Annual Report and audited consolidated financial statements the Board has performed a comprehensive review to ensure consistency and overall balance.

Board of Directors
The Directors of the Company who served during the year and/or up to the date of approval of this report were:

Peter Niven (Chairman)
John Falla (did not stand for re-election at the AGM held on 31 December 2020)
Paul Meader (did not stand for re-election at the AGM held on 31 December 2020)
Christopher Spencer (resigned 30 October 2020)
Jacqueline Redmond (appointed 4 December 2019 and resigned 30 October 2020)
Brett Miller (appointed 16 September 2020)
David Copperwaite (appointed 31 December 2020)

The biographical details of the Directors in office at the year-end are provided on pages 69 and 70.

Directors' Interests
The Directors of the Company who served during the year and/or up to the date of approval of this report held the following interests in the Company's share capital as at 30 June 2020:

Director	Number of Ordinary Shares	Number of 2016 C Shares
Peter Niven	79,858	3,860
John Falla	19,637	3,829
Paul Meader	47,000	-
Christopher Spencer	19,929	3,845
Jacqueline Redmond	-	-
Brett Miller	-	-
David Copperwaite	210,000	-

Paul Meader's shares are held in the name of his spouse, Sarah Kingwell.

On 28 July 2020, Mr Falla notified the Company that he had purchased a further 60,363 Ordinary Shares and now holds 80,000 Ordinary Shares. There were no other changes to the Director's share holdings post year-end.

David Copperwaite held 310,000 Ordinary Shares at the date of approval of these consolidated financial statements.

DIRECTORS' REPORT (CONTINUED)

Notifications of Shareholdings

As at 30 June 2020, the Company had been notified in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules (which covers the acquisition and disposal of major shareholdings and voting rights), of the following shareholders that had an interest of greater than 5% in the Company's issued share capital:

	Percentage of total voting rights (%)
Investec Wealth & Investment Limited	12.26
Schroders PLC	7.55
Foresight Group	6.73

Between 1 July 2020 and 26 January 2021, the Company received notification that

- CG Asset Management had an interest of 5.01%.
- IntegraFin Holdings plc had an interest of 5.02%, which subsequently reduced to 4.01%.

Ordinary Share Buybacks

At the AGM held on 21 November 2019, the Directors were granted authority to repurchase 53,360,753 Ordinary Shares and 20,824,741 2016 C Shares (being equal to 14.99% of the number of Ordinary Shares and 2016 C Shares in issue) for cancellation or to be held as treasury shares. This authority expired on the 31 December 2020.

At the AGM held on the 31 December 2020, the Directors were granted authority to repurchase 53,360,753 Ordinary Shares and 20,824,741 2016 C Shares (being equal to 14.99% of the number of Ordinary Shares and 2016 C Shares in issue) for cancellation or to be held as treasury shares. This authority will expire at the next AGM. The Directors intend to seek annual renewal of this authority from the shareholders. Pursuant to this authority, and subject to the Companies (Guernsey) Law, 2008, as amended ("Companies Law") and the discretion of the Directors, the Company may purchase Ordinary Shares and 2016 C Shares in the market if they believe it to be in shareholders' interests.

Refer to note 13 for details of Ordinary Shares repurchased by the Company.

Indemnities

To the extent permitted by Companies Law, the Company's Articles provide an indemnity for the Directors against any liability except such (if any) as they shall incur by or through their own breach of trust, breach of duty or negligence.

During the year and up to the date of this Annual Report, the Group has maintained insurance cover for its Directors under a Directors' and Officers' liability insurance policy.

2020 AGM

The AGM was held in Guernsey on 31 December 2020. The notice for the AGM set out the ordinary resolutions to be proposed at the meeting. Separate resolutions were proposed for each substantive issue.

Voting on all resolutions at the AGM was by poll. The proxy votes cast, including details of votes withheld were disclosed to those in attendance at the meeting and the results were published on the website and announced via the Regulatory News Service on the 31 December 2020.

All resolutions were passed with the exception of Resolution 1, 'to receive and consider the Annual Report and Audited Consolidated Financial Statements for the year ended 30 June 2020', which was adjourned until further notice following the delay of publication. Refer to page 19 for further detail.

The Directors welcome communication with all shareholders and can be contacted in writing at the Company's registered office, which can be found on page 162.

DIRECTORS' REPORT (CONTINUED)

Borrowing
The Group does not have any external borrowings.

Events after the Reporting Date
Refer to pages 17 to 19 of the Strategic Report for details of "Events after the Reporting Date" and note 18 – Significant Events after the Reporting Period for further details.

Statement of Directors' Responsibilities
The Directors are responsible for preparing the Annual Report and audited consolidated financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of its profit or loss for that period.

In preparing these consolidated financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its consolidated financial statements comply with the Companies (Guernsey) Law, 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website and for the preparation and dissemination of the consolidated financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT (CONTINUED)

Responsibility statement of the Directors in respect of the Annual Report and audited consolidated financial statements

We confirm that to the best of our knowledge:

- the consolidated financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and audited consolidated financial statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

By order of the Board

Brett Miller	**David Copperwaite**
Director	**Director**
26 January 2021	26 January 2021

DIRECTORS' BIOGRAPHIES

David Copperwaite (Non-Executive Director) - Appointed 31 December 2020
David Copperwaite, a resident of Guernsey, is on the board of directors of a number of investment funds operated by various financial groups. These investment funds include multi-functional investment, venture capital, direct lending, distressed and non-performing debt together with substantial private equity investment entities, involving financial service companies, insurance broking, banking and real estate development.

Mr Copperwaite has over 50 years' experience in the financial services sector working for Standard Bank between 1965 and 1973 followed by Lloyds Bank International Limited between 1973 and 1997. In that time, Mr Copperwaite held a number of positions including Principal Manager (Sterling European Region) between 1988 and 1997. In that role he was responsible for all international private banking operations in Guernsey, Jersey, Gibraltar and London (Mayfair) and these covered the areas of banking, investment funds (open-ended, split capital and closed), cash and money management, secured and unsecured lending, offshore trusts and company management. Mr Copperwaite is a former Chairman of The International Bankers Association.

John Martyn Falla (Non-Executive Director) - Did not stand for re-election at the AGM held on 31 December 2020
John Falla, a Guernsey resident, is a Chartered Accountant and has a BSc Hons degree in Property Valuation and Management from The City University, London. He is a Chartered Fellow of the Chartered Institute for Securities and Investment having been awarded their diploma. He is a Non-Executive Director and consultant to a number of companies, most of which are listed on the London Stock Exchange.

John trained with Ernst & Young in London before moving to their Corporate Finance Department. On returning to Guernsey he worked for an International Bank, before joining the Channel Islands Stock Exchange as a member of the Market Authority. In 2000 John joined the Edmond de Rothschild Group in Guernsey and provided corporate finance advice to clients including open and closed-ended investment funds, and institutions with significant property interests. John was a director of a number of Edmond de Rothschild group operating and investment companies.

Paul Meader (Non-Executive Director) - Did not stand for re-election at the AGM held on 31 December 2020
Paul Meader, a resident of Guernsey, is an independent director of investment companies, insurers and investment funds. He was previously Head of Portfolio Management for Canaccord Genuity based in Guernsey, prior to which he was Chief Executive of Corazon Capital. He has over 30 years' experience in financial markets in London, Dublin and Guernsey, holding senior positions in portfolio management and trading. Prior to joining Corazon he was Managing Director of Rothschild's Swiss private banking subsidiary in Guernsey. Mr Meader is a Chartered Fellow of the Chartered Institute of Securities & Investments and past Chairman of the Guernsey International Business Association.

Brett Miller (Non-Executive Director) - Appointed 16 September 2020
Brett presently serves as a director of the following publicly listed companies: RDL Realisation plc, Manchester & London Investment Trust plc and Secured Income Fund plc, which is also managed by the Portfolio Manager. He is also a director of a number of unlisted and/or private companies.

Brett has wide ranging closed end fund and investment trust/investment company experience both as an investor and in managing or serving on boards of closed ended funds. He has been involved (as executive and non-executive director) in the management and in some cases, the running off and realisation, of numerous LSE and AIM listed closed end funds across a wide range of asset classes including (but not limited to) HWSI Realisation Fund Limited, The Local Shopping REIT plc, China Growth Opportunities Fund, Loudwater Trust plc, Rapid Realisations Fund Limited, Ranger Direct Lending Fund plc, and EIH plc. He has considerable expertise in restructuring and re-aligning management incentives and aligning shareholder and managerial interests for both ongoing and realisation situations.

DIRECTORS' BIOGRAPHIES (CONTINUED)

Peter Niven (Non-Executive Chairman)
Peter Niven, is a resident of Guernsey. He has worked in the financial services industry in the UK, offshore and internationally for over 40 years, 30 of those with the Lloyds Banking Group from which he retired in 2005 as the head of the Group's Offshore Banking Division. Since then Peter has worked for the Guernsey Government and the local financial services sector, through Guernsey Finance, with the remit to develop and promote the island on the world stage as a premier international finance centre. He retired from that role in December 2012.

He now acts as a Non-Executive Director on a broad portfolio of LSE listed and unlisted investment funds investing in asset classes including leasing, property, emerging markets and private equity with wide experience of chairing Boards and Audit and Management Committees. He is also a director of ABTA's Guernsey captive insurance entity. Peter is a Fellow of the Institute of Bankers, a Fellow of the Institute of Directors and a Chartered Director.

Jacqueline Redmond (Non-Executive Director) – appointed 4 December 2019, resigned 30 October 2020
Jacqueline Redmond, a resident of Scotland, is an independent director of a number of unlisted organisations with a focus on energy-related activities, including the non-executive chair of CENSIS, a Scottish Innovation Centre. She has recently been appointed on a part-time basis as an Executive Director with Strathclyde University with specific responsibility for the Power Network Demonstration Centre. She was previously the Chief Risk Officer for the Green Investment Bank and the appointed Risk Officer for its regulated subsidiary. She has over 25 years' experience overseeing investments and strategy implementation through a variety of posts, such as the Vice President for Technology Strategy with Royal Dutch Shell, and the Head of Risk (UK) for ScottishPower. Jacqueline is a qualified Financial Risk Manager and a Chartered Engineer registered with the Institution of Engineering and Technology.

Christopher Paul Spencer (Non-Executive Director) – resigned 30 October 2020
Christopher Spencer, a resident of Guernsey, qualified as a chartered accountant in London in 1975. Following two years in Bermuda he moved to Guernsey. Christopher, who specialised in audit and fiduciary work, was Managing Partner/Director of Pannell Kerr Forster (Guernsey) Limited from 1990 until his retirement in May 2000. Christopher is a member of the AIC Offshore Committee, a past President of the Guernsey Society of Chartered and Certified Accountants and a past Chairman of the Guernsey Branch of the Institute of Directors. Christopher sits on the Board of Directors of JPEL Private Equity Limited, which is listed on the London Stock Exchange and Summit Properties Limited, formerly known as Summit Germany Ltd, which was an AIM listed company, delisted in March 2020.

CORPORATE GOVERNANCE REPORT

Introduction
The Board is committed to high standards of corporate governance and has put in place a framework for corporate governance which it believes is appropriate for an investment company.

Compliance with Corporate Governance Codes
The Company is a member of the AIC. The UK Corporate Governance Code (the "UK Code") acknowledges that the AIC Code can assist externally managed companies in meeting their obligations under the UK Code in areas that are of specific relevance to investment companies. The Guernsey Financial Services Commission has also confirmed that companies that report against the UK Code or AIC Code are deemed to meet the Guernsey Code of Corporate Governance (the "Guernsey Code"). Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk. The UK Code is available from the Financial Reporting Council (the "FRC") website (www.frc.co.uk).

Throughout the year ended 30 June 2020, the Company has complied with the recommendations of the AIC Code and as such also meets the requirements of the UK Code and by default the Guernsey Code, except to the extent highlighted below:

- New companies (provision 21)

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers this provision as not relevant as the Company was incorporated in 2014.

The Group complies with the corporate governance statement requirements pursuant to the UK FCA Disclosure and Transparency Rules by virtue of the information included in the Corporate Governance section of the Annual Report.

The Board believes that this Annual Report and audited consolidated financial statements presents a fair, balanced and understandable assessment of the Group's position and prospects, and provides the information necessary for shareholders to assess the Group's performance, business model, strategy, principal risks and uncertainties.

Board Independence, Composition and Diversity
The Board is chaired by Peter Niven who is responsible for its leadership and for ensuring its effectiveness in all aspects of its role. Paul Meader was appointed as the Senior Independent Director on 25 February 2020. As at 30 June 2020, the Board consisted of five Non-Executive Directors. Brett Miller was appointed as a Non-Executive Director on 16 September 2020. Christopher Spencer and Jacqueline Redmond resigned as Directors on 30 October 2020. Paul Meader and John Falla did not stand for re-election at the AGM held on 31 December 2020. David Copperwaite was appointed as a Non-Executive Director on 31 December 2020. The biographical details of the Directors are listed on page 69 and 70 and demonstrate a breadth of investment, accounting, banking and professional experience.

The Chairman and all Directors, except for Brett Miller, are considered independent. Brett Miller is a Director of Secured Income Fund Plc, which is also managed by the Portfolio Manager and of RDL Realisation Plc, which also shares the same AIFM as the Company and is therefore not considered independent. The Directors consider that there are no factors, as set out in Principle 1 or 2 of the AIC Code, which compromise the Chairman's or other Directors' independence and that they all contribute to the affairs of the Company in an adequate manner. The Board reviews the independence of all Directors annually.

The Board values the importance of diversity, including gender, to the effective functioning of the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors' Duties and Responsibilities
The Directors have adopted a set of reserved powers, which establish the key purpose of the Board and detail its major duties. These duties cover the following areas of responsibility:

- statutory obligations and public disclosure;
- approval of key investment decisions;
- strategic matters and financial reporting;
- Board composition and accountability to shareholders;
- risk assessment and management, including reporting, compliance, monitoring, governance and control; and
- other matters having material effects on the Group.

These reserved powers of the Board have been adopted by the Directors to demonstrate clearly the importance with which the Board takes its fiduciary responsibilities and as an ongoing means of measuring and monitoring the effectiveness of its actions.

The Board meets at least four times each year and monitors the Group's share price and NAV and regularly considers ways in which future share price performance can be enhanced. The Board is responsible for the safeguarding of the assets of the Group and taking reasonable steps for the prevention and detection of fraud and other irregularities. The Portfolio Manager (previously the Investment Managers) together with the Company Secretary also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information relating to the Group and its portfolio of investments. Directors unable to attend a Board meeting are provided with the Board papers and can discuss issues arising in the meeting with the Chairman or another Director.

Individual Directors may, at the expense of the Group, seek independent professional advice on any matters that concerns them in the furtherance of their duties.

Board and Committees
The Board has established three committees:

- the Audit and Risk Committee;
- the Management Engagement Committee, and
- the Remuneration and Nomination Committee.

Due to the size and nature of the Company, as at 30 June 2020, all Directors have been appointed to all Committees. With effect from 30 October 2020, all committees consisted of three Directors, Peter Niven, John Falla and Paul Meader, following the resignations of Christopher Spencer and Jacqueline Redmond.

With effect from 31 December 2020, the Management Engagement Committee and the Remuneration and Nomination Committee comprised of one Director, Peter Niven following John Falla and Paul Meader not standing for re-election at the AGM held on 31 December 2020. Brett Miller and David Copperwaite are not a member of any of the above committees, however may be asked to attend as deemed applicable.

Following John Falla and Paul Meader not standing for re-election at the AGM held on 31 December 2020, Brett Miller and David Copperwaite were appointed as members of the Audit and Risk Committee. With effect from 31 December 2020, the Audit and Risk Committee comprised of three Directors, Peter Niven, Brett Miller and David Copperwaite.

The responsibilities of these Committees are described on page 73. Each Committee reports to and is subject to the oversight of the Board. Terms of reference for each Committee have been approved by the Board and are available in full on the website.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board and Committees (Continued)

Board

Responsibilities:

- Statutory obligations and public disclosure.
- Approval of key investment decisions.
- Strategic matters and financial reporting.
- Board composition and accountability to shareholders.
- Risk assessment and management, including reporting, compliance, monitoring, governance and control.
- Responsible for consolidated financial statements.
- Other matters having material effects on the Group.

Audit and Risk Committee

Delegated Responsibilities:

- Review the consolidated financial statements, including review of the accounting policies and methods utilised.
- Review the effectiveness and internal control policies and procedures over financial reporting and identification, assessment and reporting of risk.
- Make recommendations to the Board in relation to appointment, re-appointment and removal of external auditors, approving remuneration and terms of engagement of external auditors and assess the effectiveness of the audit process.
- To monitor risk management and internal control systems on an ongoing basis, performing a review of their effectiveness, and recommending actions to remedy any failings or weaknesses identified.

Management Engagement Committee

Delegated Responsibilities:

- Review on a regular basis the performance of the Portfolio Manager and the Group's key advisers and major service suppliers (other than the external auditor) to ensure that performance is satisfactory and in accordance with the terms and conditions of the respective appointments.

Remuneration and Nomination Committee

Delegated Responsibilities:

- Review the structure, size and composition of the Board.
- Give full consideration to succession planning
- Identify suitable Board candidates to fill Board vacancies.
- Undertake performance evaluations of the Board and the Chairman.
- Determine the framework and policy for the level of remuneration of the Chairman and Directors

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board and Committees (Continued)

Audit and Risk Committee
John Falla was appointed as the Chairman of the Audit and Risk Committee on 21 November 2019, replacing Christopher Spencer. Mr Falla is a chartered accountant and also a fellow of the Chartered Institute for Securities and Investment. The Board is satisfied that Mr Falla has recent and relevant financial experience, as required under the AIC Code. The qualifications of the members of the Audit Committee are outlined in the Directors' Biographies section. The duties of the Audit and Risk Committee in discharging its responsibilities are outlined in the chart on page 73. The report on the role and activities of the Audit and Risk Committee and its relationship with the external auditors is contained in the Audit and Risk Committee Report.

David Copperwaite was appointed as Chairman of the Audit and Risk Committee on 31 December 2020 replacing John Falla who did not stand for re-election at the AGM held on the 31 December 2020.

Management Engagement Committee
At the end of 2019, Chris Spencer was the Chairman of the Management Engagement Committee. Since his resignation on 30 October 2020, Peter Niven has acted as Chairman. The duties of the Management Engagement Committee in discharging its responsibilities are outlined in the chart on page 73.

The Management Engagement Committee carries out its review of the Group's key advisers and service providers through consideration of a number of objective and subjective criteria and through a review of the terms and conditions of their appointments with the aim of evaluating performance, identifying any weaknesses and ensuring value for money for the Company's shareholders.

On 24 January 2020, the Board announced it would be carrying out a strategic review of the Company's operations, which would include the provision of investment management services. The Company asked for parties interested in providing investment management services to contact the Company Secretary by no later than close of business on 31 January 2020.

Following a tender process, on 30 April 2020, the Company announced the results of its strategic review and its intention to appoint the Portfolio Manager and the AIFM. Following the completion of the due diligence and legal process surrounding these new appointments, the termination of the contract with the Investment Managers was confirmed in an RNS dated 8 June 2020.

The Management Engagement Committee reviewed the performance of its other key service providers on 8 June 2020. During this review, no material weaknesses were identified. Overall the Management Engagement Committee confirmed its satisfaction with the services and advice received.

Remuneration and Nomination Committee
Paul Meader was the Chairman of the Remuneration and Nomination Committee until 31 December 2020. The duties of the Remuneration and Nomination Committee in discharging its responsibilities are outlined in the chart on page 73. Paul Meader did not stand for re-election at the AGM held on the 31 December 2020. No Director has been appointed as Chairman of the Remuneration and Nomination Committee at date of approval of these consolidated financial statements, however the Board intend to elect a Chairman of this Committee in due course.

The Remuneration and Nomination Committee undertakes an evaluation of the Board on an annual basis. The performance of each Director is considered as part of a formal review by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may also meet without the Chairman of the Board present in order to review his performance.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Performance Evaluation

The performance of the Board and the Directors was reviewed by the Remuneration and Nomination Committee on 8 June 2020. The Committee discussed various areas, including the process and style of meetings, investment matters, strategy, governance and shareholder value. In addition, the Committee reviewed the performance of the Chairman in his role and evaluated his contributions. It was concluded that the Board have a good and complementary range of skills and competency and that Board meetings were effective and all relevant topics were fully discussed. The Directors confirm that they have devoted sufficient time, as considered necessary, to the matters of the Company. It was agreed that all Directors were independent and that all Directors felt well prepared and able to participate fully at Board meetings and had a good understanding of the investments and markets in which the Company operates.

Directors' Remuneration Report

The following report meets the relevant Listing Rules of the FCA and the AIC Code and describes how the Board has applied the principles relating to Directors' remuneration.

Annual Report on Remuneration

The Group paid the following fees to the Directors for the year ended 30 June 2020:

Director	Fees £
Peter Niven	70,000
Christopher Spencer	51,386
John Falla	53,614
Paul Meader	50,117
Jacqueline Redmond	26,079
Brett Miller	-
David Copperwaite	-
Total	**251,196**

Brett Miller is entitled to a fee of £45,000 per annum in respect of his appointment as a Director of the Company with effect from 16 September 2020. He also receives £20,000 per month, payable monthly in arrears, for an initial six-month period commencing 1 October 2020, for his additional duties assigned by the Board.

David Copperwaite is entitled to a fee of £45,000 per annum in respect of his appointment as a Director of the Company with effect from 31 December 2020. He is entitled to an additional £10,000 per annum as Chairman of the Audit and Risk Committee.

At a meeting of the Remuneration and Nomination Committee on 8 June 2020, consideration was given to the payment of an additional fee for each Director for the additional work undertaken during the strategic review and the appointment of the new AIFM and Portfolio Manager. It was agreed that the following one-off payments would be made on 30 June 2020:

Director	Fees £
Peter Niven	15,000
Paul Meader	15,000
Jacqueline Redmond	10,000
John Falla	5,000
Christopher Spencer	5,000
Total	**50,000**

The Company's Articles limit the aggregation of fees payable to the Directors to a total of £300,000 per annum. Extra services are not included in the definition of fees as per the Company's Articles.

Other than as shown above, no other remuneration or compensation was paid or payable by the Company during the year to any of the Directors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors' Appointment, Retirement and Policy on Payment of Loss of Office
The Articles of the Company require that all Directors submit themselves for election by shareholders at the first opportunity following their appointment. The Directors have elected to agencyfor re-election on a yearly basis, so will all retire at each AGM and be eligible for reappointment.

Any Director may resign in writing to the Board at any time. Directors are not entitled to payment for loss of office.

No Director has a service contract with the Company. Directors have agreed letters of appointment with the Company, copies of which are available for review by shareholders at the registered office and will be available at the AGM. The dates of their letters of appointment and where applicable the date of their resignation, are shown below:

Director	Date Appointed	Date Resigned
Peter Niven	28 May 2014	-
Christopher Spencer	28 May 2014	30 October 2020
John Falla[1]	28 May 2014	31 December 2020
Paul Meader[1]	18 August 2017	31 December 2020
Jacqueline Redmond[2]	23 January 2020	30 October 2020
Brett Miller	16 September 2020	-
David Copperwaite	31 December 2020	-

[1] Did not stand for re-election at the AGM held on 31 December 2020.
[2] Appointed 4 December 2019, however letter of appointment signed 23 January 2020.

Tenure of Non-Executive Directors
The Board has adopted a policy on tenure that is considered appropriate for an investment company.

The Board's tenure and succession policy seeks to ensure that the Board is well balanced and will be refreshed from time to time by the appointment of new Directors with the skills and experience necessary to replace those lost by Directors' retirements and meet future requirements. Directors must be able to demonstrate their commitment and fiduciary responsibility to the Company. The Board seeks to encompass relevant past and current experience of various areas relevant to the Company's business.

The Board believe that the appointments of Brett Miller and David Copperwaite is in the interest of all the Company stakeholders as it further enhances the skills at the Board's disposal. Consideration is being given to the appointment of a fourth director.

For the future, the composition of the Board will reflect the wind down nature of the business going forward and the skills that are needed to manage that ongoing process.

Conflict of Interests
The Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. Only Directors who have no material interest in the matter being considered will be able to participate in the Board approval process. Directors are required to disclose all actual and potential conflicts of interest to the Chairman in advance of any proposed external appointment.

In deciding whether to approve an individual Director's participation, the other Directors will act in a way they consider to be in good faith in assessing the materiality of the conflict in accordance with the Company's Articles of Incorporation.

The Board believes that its procedures regarding conflicts of interest have operated effectively. The Board also confirms that its procedure for the approval of conflicts of interest, if any, has been followed by the Directors. None of the Directors had a material interest in any contract which is significant to the Group's business. Directors' holdings in the Company's shares can be found within the Directors' Report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Induction/Information and Professional Development
Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and its internal controls. Regulatory and legislative changes affecting Directors' responsibilities are advised to the Board as they arise along with changes to best practice from, amongst others, the Company Secretary and Deloitte. Advisers to the Group also prepare reports for the Board from time to time on relevant topics and issues.

The Directors attend relevant seminars and events to allow them to continually refresh their skills and knowledge and keep up with changes within the investment management industry.

When a new Director is appointed to the Board, they are provided with all relevant information regarding the Group and their duties and responsibilities as a Director. In addition, a new Director will also spend time with representatives of the Portfolio Manager (previously the Investment Managers) in order to learn more about the portfolio, its management, processes and procedures.

Attendance at scheduled meetings of the Board and its committees for the year ended 30 June 2020

	Quarterly Board	**NAV & Dividend Meetings**	**Audit & Risk Committee**	**Remuneration & Nomination Committee**	**Management Engagement Committee**
Number of meetings during the year	**4**	**8**	**7**	**2**	**1**
Peter Niven	4/4	8/8	6/7	2/2	1/1
John Falla	4/4	7/8	7/7	2/2	1/1
Chris Spencer	4/4	6/8	6/7	2/2	1/1
Paul Meader	4/4	7/8	7/7	2/2	1/1
Jacqueline Redmond	2/2	6/6	3/4	1/1	1/1
Brett Miller	0/0	0/0	0/0	0/0	0/0
David Copperwaite	0/0	0/0	0/0	0/0	0/0

In addition to these meetings, 16 ad-hoc board meetings and 5 ad hoc committee meetings were held during the year covering various Group matters.

Relationship with the Portfolio Manager (previously the Investment Managers), Company Secretary and the Administrator
The Board has delegated various duties to external parties including the management of the investment portfolio, the custodial services (including the safeguarding of assets), the registration services and the day-to-day company secretarial, administration and accounting services. Each of these contracts were entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation in so far as they relate to the affairs of the Group.

The Board receives and considers reports regularly from the AIFM and the Portfolio Manager (previously the Investment Managers), with ad hoc reports and information supplied to the Board as required. The Portfolio Manager (formerly the Investment Managers) takes decisions as to the purchase and sale of individual investments, within the delegated authority established by the Board. The Board meets with the AIFM and the Portfolio Manager (formerly the Investment Managers) on an ad-hoc basis to discuss and approve investment decisions as necessary. The Portfolio Manager complies with the risk limits as determined by the Board and have systems in place to monitor cash flow and the liquidity risk of the Group.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Relationship with the Portfolio Manager (previously the Investment Managers), Company Secretary and the Administrator (Continued)

The Portfolio Manager (previously the Investment Managers) and the Administrator also ensure that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Portfolio Manager (previously the Investment Managers) and Administrator attend each Board meeting as required, enabling the Directors to probe further on matters of concern. The Directors have access to the advice and service of the Company Secretary who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board, the Portfolio Manager (previously the Investment Managers) and the Administrator operate in a supportive, co-operative and open environment.

AIFMD

The Company is classed as an externally managed Alternative Investment Fund under the Alternative Investment Fund Managers Directive ("AIFMD").

The US Investment Manager (from inception to 5 June 2020)

The US Investment Manager was the authorised Alternative Investment Fund Manager for the purposes of AIFMD, from inception to 5 June 2020. The US Investment Manager was responsible for managing the Company's investments and the risks it faced in accordance with AIFMD, subject to the overall scrutiny of the Board. The US Investment Manager was registered with the FCA as a "third country AIFM". The requirements of AIFMD were applied accordingly.

US Investment Manager Remuneration

The total fees paid to the Investment Managers during the year by the Company are disclosed in note 3.

IFM (from 6 June 2020)

Following the strategic review and the announcement in June 2020 of the appointment of the Portfolio Manager, IFM was appointed as the authorised AIFM for the Company from 6 June 2020. The AIFM is responsible for managing the Company's investments and the risks it faces in accordance with AIFMD, subject to the overall scrutiny of the Board. IFM is part of the PraxisIFM Group, which is listed on The International Stock Exchange. IFM has over US$6 billion of assets under management with experience across all major asset classes, including credit, and provides services to multiple investment trust and investment company clients listed on the main market of the London Stock Exchange. IFM as AIFM, is responsible to the Company for risk management and portfolio management and has delegate the provision of portfolio management services to the Portfolio Manager.

AIFM Remuneration

As announced to the market on 8 June 2020, the fees associated with the on-going appointment of IFM as AIFM for the Company will be met by the Portfolio Manager.

AUDIT AND RISK COMMITTEE REPORT

I set out the report of the Audit and Risk Committee after what has been a very busy and challenging year for the Company with the Committee heavily involved in obtaining greater clarity on the underlying portfolio, and matters relevant to the preparation of the Annual Report and Accounts. As at 30 June 2020, the Audit and Risk Committee comprised all of the Directors each of whom has recent and relevant financial experience. John Falla was appointed Chairman of the Audit and Risk Committee, on 21 November 2019, replacing Christopher Spencer (who had been the Chairman since the formation of the Company) and I was appointed on 31 December replacing John Falla. I would like to thank Mr Spencer and Mr Falla for their leadership of the Audit and Risk Committee.

In the year ended 30 June 2020, the Audit Committee convened formally on seven occasions, with additional formal and informal meetings subsequently dealing with the review of these financial statements, including matters arising therefrom. The members' attendance record can be found on page 77.

Before describing the more regular work of the Committee, I highlight the additional workstreams the Committee has undertaken since the start of the financial year under review which will be explained in more detail later in the report.

- The completion of a transparent audit tender process
- Review of income recognition
- Engagement of external valuers and consultants
- Considering the impact of Covid-19 on the Company's Portfolio and the impact on the financial statements
- The Expected Credit Losses provisioning exercise
- Review of the viability of the Company and the appropriate basis for preparing the accounts

Committee Meetings
The Audit and Risk Committee usually meets at least three times a year. Only members of the Audit and Risk Committee have the right to attend Audit and Risk Committee meetings. Representatives of the Portfolio Manager, AIFM and Administrator are invited to attend Audit and Risk Committee meetings on a regular basis and other non-members may be invited to attend all or part of the meeting as and when appropriate and necessary. The auditor is also invited whenever it is appropriate. The Audit and Risk Committee is also able to meet separately with the auditor without the Portfolio Manager (previously the Investment Managers), AIFM or Administrator being present.

Main Activities
The Audit and Risk Committee assists the Board in carrying out its overall responsibility in relation to financial reporting requirements, risk management and the assessment of internal financial and operating controls. It also manages the Group's relationship with the auditor. Meetings of the Committee generally take place prior to a Company Board meeting. The Audit and Risk Committee reports to the Board as part of a separate agenda item, on the activity of the Audit and Risk Committee and matters of particular relevance to the Board in the conduct of their work.

The Audit and Risk Committee reviews and monitors reports on the internal control and risk management systems on which the Company is reliant.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

Financial Reporting
The primary role of the Audit and Risk Committee in relation to financial reporting is to review in conjunction with the AIFM, Portfolio Manager and the Administrator, the appropriateness of the Annual Report and audited consolidated financial statements and the Interim Report and consolidated financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the auditor;
- in relation to the UK Corporate Governance Code and AIC Code, whether the Annual Report and audited consolidated financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- any correspondence from regulators in relation to the quality of the Group's financial reporting.

To aid its review, the Audit and Risk Committee seeks the appropriate input from the Portfolio Manager, AIFM, Administrator and also reports from the auditor.

As discussed in more detail in the Strategic Report, the Company has been put into managed wind-down. As a consequence, the accounts for the year ended 30 June 2020 are prepared on a basis other than a going concern. The Committee has reviewed the accounts taking this change into account, including its impact on the Viability Statement, and the modelling to support it and are satisfied that the Viability Statement has been properly prepared.

Significant Risks
For the year ended 30 June 2020, the following significant issues were considered by the Audit and Risk Committee:

(i) Revenue Recognition
The risk that revenue (classified as 'income' in the consolidated financial statements and primarily comprising interest income or finance charges receivable under loans, leases and hire purchase agreements) may be materially misstated.

The Committee has reviewed, with the assistance of the AIFM, the Portfolio Manager, and the Administrator, the income recognition undertaken by the Company, including that required under IFRS 9, which was implemented for the first time in the year ended 30 June 2019. Instances were identified where income had been suspended on the grounds of prudence and had then ceased to be recognised. However, the correct treatment for stage 3 assets is to accrue income on the net carrying amount after the deduction of the expected credit loss (the "ECL") and, if necessary, write the amount off. This adjustment does not have a material impact on the NAV, but income and provisions for ECL were both adjusted upwards in the Annual Report and consolidated financial statements. The Committee is now satisfied that a robust transaction reporting system is in place between the Portfolio Manager, AIFM and Administrator to ensure that transactions and the revenue received are reflected correctly.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

Significant Risks (Continued)

(ii) Investment Portfolio
The investment portfolio primarily comprises loans, hire purchase contracts and finance leases. Most investments/assets were held at amortised cost, but subject to an ECL review under IFRS 9. The carrying value of these assets is key to the financial performance of the Group and drives returns to shareholders.

In the second year of reporting under IFRS 9, the Committee has reviewed how IFRS 9 has been implemented and adjusted the stage at which some of the assets are held. In addition, the Committee has challenged the ECL methodology utilised in the first year and the ECLs adopted by the Company given the experience to date and the prevailing economic turmoil. The Committee has been vigilant as to the likelihood of any material adverse changes due to the impact of Covid-19 on the business models and the viability of investments within the portfolio that might lead to a material adverse change in value.

Where a valuation model is utilised, such a model relies upon on a number of inputs, such as underlying assumptions and estimates, including in some instances asset valuations provided by third party asset valuers, and inherent within any such matter of judgement is the risk that the eventual outcome will differ from that contained within these consolidated financial statements. At the start of 2020, the Investment Managers' aggregate range of values of six AD plants widened with the entire range being below the prior carrying value. Accordingly, it was agreed that an independent review and valuation of the plants should be undertaken by KPMG in Ireland. The Audit Committee appointed KPMG in Ireland to provide a further review and valuation as at 30 June 2020 for the year end accounts.

Following the appointment of the AIFM and the Portfolio Manager in June 2020, they have looked afresh at the assets within the portfolio. In several instances, they have asked for assistance in reviewing a number of those assets, and KPMG LLP was been engaged to assist. In some instances, third party valuation agents have also been engaged to value specific assets. Again, the Committee was involved in the engagement of KPMG LLP, and the relevant assets valuers.

The reviews by the AIFM, Portfolio Manager and KPMG LLP identified issues with a number of investments, as detailed elsewhere in the financial statements. In some situations, producing a precise point valuation at 30 June 2020 was very challenging given the wide range of possible outcomes for the borrowers and the exercise of security. The Committee was actively involved in reviewing and challenging each asset in detail, the judgments and estimates used and the recommendations received regarding impairment provisions, ECL or impairment of PPE.

Although these estimates and assumptions are based on best knowledge of current facts, circumstances and, to some extent, future events and actions, the actual results may ultimately differ from those estimates, possibly significantly. Material uncertainty over these provisions exist as at 30 June 2020 and also as at 30 June 2019 due to the broad range of possible valuations arising from the quality and accessibility of underlying collateral as well as its specialist nature, volatile market conditions, the binary nature of certain positions, the outcomes of ongoing negotiations and the assumptions used in determining the valuations.

The Audit and Risk Committee reviews and challenges the regular reports regarding the valuation of the investments from the AIFM, the Portfolio Manager (previously the Investment Managers), and the Administrator including, where relevant, the external reviews and/or valuations received and, with the Board, reviews the NAV of the Group, together with the value of investments on a regular basis.

(iii) Fraud Risk
The risk of fraud due to management override of controls.

The Audit and Risk Committee also reviews the reports from the Portfolio Manager (previously the Investment Managers) and Administrator on the system of checks in place to combat fraud.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

(iv) Related Parties and Consolidation
The Company has a number of subsidiaries and affiliated entities.

Consideration is given to financial reporting requirements – primarily around consolidation (and control), basis of preparation and classification and related party disclosure.

The Administrator, the AIFM and the Portfolio Manager (previously the Investment Managers) have a number of worksheets and documents to ensure that all subsidiaries and affiliated entities are correctly reflected in the monthly valuations and fed through to the consolidated financial statements. The related party disclosure is reviewed by all parties.

Risk Management and Internal Controls
The Board is responsible for ensuring that suitable systems of risk management and internal control are implemented by third-party service providers and have carried out a robust assessment as outlined below.

The Directors have reviewed BNP Paribas Securities Services' ISAE 3402 report (Report on the description of controls placed in operation, their design and operating effectiveness for the period from 1 October 2019 to 30 September 2020) on Fund Administration and are pleased to note that no significant issues were identified.

On 24 January 2020, the Board announced it would be carrying out a strategic review of the Company's operations, which would include the provision of investment management services. The robust assessment was concluded in April 2020, the Company announced the results of its strategic review and, following a detailed and transparent selection process, its intention to appoint the Portfolio Manager and the Company's AIFM, which was confirmed on the 8 June 2020.

At the Management Engagement Meeting on 8 June 2020, the Board noted that they would not need to visit the retiring Investment Managers and that a visit to the new Portfolio Manager should be carried out to assess their position in September 2020, however due to Covid-19 travel restrictions this has not been possible. The Boards intention is to carry out a robust assessment of the Portfolio Manager and the AIFM in 2021, once Covid-19 travel restrictions have been lifted.

Prior to termination, the US Investment Manager was also the AIFM and had, under AIFMD, certain specific responsibilities for risk management, subject to the oversight of the Board. The Board in turn delegates this to the Audit and Risk Committee. The Audit and Risk Committee reports its work and findings to the Board for approval. IFM was appointed as the new AIFM in June 2020.

The Company continues to review and develop a comprehensive risk management framework, with implementation outsourced to the AIFM and the Portfolio Manager (previously the Investment Managers) and the Administrator, with a risk register that is reviewed and updated as necessary by the Board and Audit and Risk Committee. The Audit and Risk Committee considers the risks facing the Group and the controls and other measures in place to mitigate the impact of those risks.

The work of the Audit Committee is primarily driven by the Company's assessment of the principal risks and uncertainties as set out in the Strategic Report and in note 17, the reports received from the AIFM, the Portfolio Manager (previously the Investment Managers) and the Company's risk evaluation process.

Risk Framework and Systems of Internal Control
The Board recognises the importance of identifying, actively monitoring and, where possible, mitigating the financial and non-financial risks facing the business. Whilst responsibility for risk management rests with the Board, the management of risk is embedded as part of the everyday business and culture of the Company and its principal advisers.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

Risk Framework and Systems of Internal Control (Continued)
The Board has considered the need for an internal audit function but because of the internal controls systems in place at the key service providers and the independent controls process performed it has decided instead to place reliance on those controls and assurance processes.

Risk Identification
The Board and Audit and Risk Committee identify risks with input from the Group's AIFM, the Portfolio Manager (previously the Investment Managers) and the Administrator. The Board also receives detailed quarterly asset management reports highlighting performance and potential risk issues on an investment-by-investment basis.

Risk Assessment
Each identified risk is assessed in terms of probability of occurrence, potential impact on financial performance and movements in the relative significance of each risk from period to period.

Action Plans to Mitigate Risk
Where new risks are identified or existing risks increase in terms of likelihood or impact, the Audit and Risk Committee assists the Group in developing, where possible, an action plan to mitigate the risk and put in place enhanced monitoring and reporting.

Re-assessment and Reporting of Risk
Such risk mitigation plans are reassessed by the Audit and Risk Committee with the relevant key service providers where applicable, and reported to the Board on a quarterly basis. The direct communication between the Group and its Portfolio Manager and the AIFM is regarded as a key element in the effective management of risk (and performance) at the underlying investment level.

Emerging Risks
Refer to the Emerging Risks section on page 22 for details on emerging risks.

External Audit
The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Audit and Risk Committee received a detailed audit plan from the auditor identifying its assessment of the significant audit risks. For the year ended 30 June 2020, the significant audit risks identified are shown on pages 80 and 81. The significant risks were tracked through the year and the Audit and Risk Committee challenged the work performed by the Auditor to test management override of controls and in addition the audit work undertaken in respect of valuations of unlisted investments.

The Audit and Risk Committee assesses the effectiveness of the audit process in addressing these matters through the reporting received from the Auditor in relation to the year end. In addition, the Audit and Risk Committee seeks feedback from the Portfolio Manager, the AIFM and the Administrator on the effectiveness of the audit process. For the year ended 30 June 2020, the Audit and Risk Committee was satisfied that there had been appropriate focus and challenge on the significant and other key areas of audit risk and assessed the quality of the audit process to be good.

Appointment and Independence
At the recommendation of the Audit and Risk Committee and with the agreement of the Board, the audit was put out for tender during the year. A request for proposal was sent to four audit firms, including the existing auditor, Baker Tilly. One firm declined to respond because of a perceived conflict. The remaining three firms provided written submissions to the committee and, on the basis of these submissions, all three firms were asked to present to the Audit and Risk Committee on 16 September 2019. The Committee considered the audit approach offered by each firm, its experience in auditing listed companies in the same sector and the resources it had to conduct the audit. Based upon their presentations within this competitive tender process, the Audit and Risk Committee recommended and the Board resolved that Deloitte be appointed as the Company's auditor.

Deloitte was appointed as the external Auditor of the Company at the AGM held on 21 November 2019, replacing Baker Tilly.

AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

Appointment and Independence
In its assessment of the independence of the auditor, the Audit and Risk Committee receives details of any relationships between the Group and the auditor that may have a bearing on their independence and receives confirmation that they are independent of the Group.

The Audit and Risk Committee considers the reappointment of the auditor, including the rotation of the audit engagement partner, and assesses their independence on an annual basis. The auditor is required to consider rotation of the engagement partner responsible for the audit every five years. This is the first year that the current audit engagement partner, David Becker, has overseen the audit of the Company.

Non-Audit Services
To safeguard the objectivity and independence of the auditor from becoming compromised, the Committee has a formal policy governing the engagement of the auditor to provide non-audit services. The auditor and the Directors have agreed that all non-audit services require the pre-approval of the Audit and Risk Committee prior to commencing any work. The auditor will only be appointed to provide non-audit services if it is in the best interests of the Company. Fees for non-audit services will be tabled annually so that the Audit and Risk Committee can consider the impact on the auditor's objectivity.

Deloitte is remunerated as follows for their services rendered during the year ended 30 June 2020:

	£
Audit of the Group's consolidated financial statements	60,000
Total audit fee	**60,000**
Interim review of the Group's consolidated financial statements	18,000
Total audit and non-audit related services fee	**78,000**

During the year ended 30 June 2020, the only non-audit service provided by Deloitte was the interim review, therefore the ratio of non-audit related services to audit-related and audit services for the year is 30%.

Conclusion
Whilst this has undoubtedly been a very demanding and difficult year for the Audit and Risk Committee, the sheer volume of work that the Audit and Risk Committee has completed to ensure that the Company completed these consolidated financial statements. The Group starts 2021, and the agreed wind down of its operations, with a clearer perspective on its assets, their issues and their values, we are sure will better enable the Board going forward to realise those assets in a timely and appropriate manner for the benefit of all shareholders.

My thanks to the Committee, the Portfolio Manager, the AIFM and all the other parties we assembled to complete this work, for their professionalism and diligence throughout.

David Copperwaite
Chairman of the Audit and Risk Committee
26 January 2021

Statement of Compliance with the AIC Code of Corporate Governance

The Directors place a large degree of importance on ensuring that high standards of corporate governance are maintained and have therefore chosen to comply with the provisions of the AIC Code.

The Board has considered the principles and provisions of the AIC Code. The AIC Code addresses all the principles and provisions set out in the UK Code, as well as setting out additional provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the principles and provisions of the AIC Code provides more relevant information to stakeholders. The AIC Code is available on the AIC website www.theaic.co.uk.

The Company has complied with all the principles and provisions of the AIC Code during the year ended 30 June 2020 except as set out below:

New companies (provision 21)
This provision relates to the appointment of the chair and the board of a new company. As the Company was incorporated during 2014, this provision is not applicable to the Company.

Set out below is where stakeholders can find further information within the Annual Report about how the Company has complied with the various principles and provisions of the AIC Code.

1. Board Leadership and Purpose	
Purpose as at 30 June 2020	On page 14
Strategy	On page 29
Culture of the Company	On page 28
Shareholder Engagement	Relations with shareholders on page 24
Stakeholder Engagement	Section 172 statement on page 25
2. Division of responsibilities	
Director Independence	Directors on page 71
Board meetings	Board and Committee Meetings with Director Attendance on page 77
Management Engagement Committee	On page 74
3. Composition, Succession and Evaluation	
Remuneration and Nomination Committee	On page 74
Director re-election	Board Composition on page 76
Board evaluation	Board Evaluation on page 75
4. Audit, Risk and Internal Control	
Audit and Risk Committee	On page 74
Principal and emerging risks	On page 20
Risk management and internal control systems	On page 82
Going concern statement	On pages 22 and 23
Viability statement	On page 23
5. Remuneration	
Directors' Remuneration Report on page 75	

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED)

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of KKV Secured Loan Fund Limited (the 'company') together with its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's affairs as at 30 June 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the consolidated financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

2. 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 consolidated financial statements section of our report.

We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed 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.

3. Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 2.1 (b) of the consolidated financial statements, which indicates that the consolidated financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED) (CONTINUED)

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Loan loss provisioning; and • Revenue recognition.
Materiality	The materiality that we used for the group consolidated financial statements in the current year was £4.47m which was determined on the basis of 2% of the net asset value.
Scoping	We performed a full scope audit of the group entities. Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

5. Conclusions relating to principal risks and viability statement

5.1 Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 20 - 22 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 82 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 23 as to how they have assessed the prospects of the group, 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 group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Aside from the impact of the matters disclosed in the emphasis of matter paragraph, we confirm that we have nothing material to report, add or draw attention to in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED) (CONTINUED)

6. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated 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 which 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 consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

6.1. Loan loss provisioning

Key audit matter description

The group's principal business is to make debt investments, directly or indirectly, in business-essential, revenue-producing (or cost saving) equipment and other physical assets. As at 30 June 2020, the aggregate value of the debt portfolio amounted to £212.07 million (2019: £426.84 million) representing 95% of total assets (2019: 89%). The expected credit loss ("ECL") provision increased from £7.8m as at 30 June 2019 to £238.3m.

The group's debt portfolio is the key value driver in the statement of financial position and the main economic resource for revenue generation. As a result, estimates to determine the level of loan loss provision recorded against the value of the positions held in the portfolio - including the application of the ECL model under IFRS 9, taking into account the current stressed market due to Covid-19, and recoverability of their returns - have been identified as a key audit matter. Uncertainty over these provisions exist due to the broad range of possible valuations arising from the quality and accessibility of underlying collateral as well as its specialist nature, volatile market conditions, the binary nature of certain positions, the outcomes of ongoing negotiations and the assumptions used in determining the valuations.

The Company engaged a third party expert, to independently value six Anaerobic Digestion ("AD") businesses to determine the loss severity on the related debt investments made by the group. Furthermore, the external expert has been asked to verify information on other investments and to gather additional information to assist management and the board in setting appropriate provisions. In total, the external expert's scope included an additional 12 investments over and above the six AD plants.

The key areas of judgement and estimation uncertainty include the determination of appropriate assumptions for calculating the loss allowance under IFRS 9 (including the probability of default ('PD'), the loss given default ('LGD'), exposure at default ('EAD') and the categorisation of loans into the various credit stages in light of qualitative and quantitative factors against management's definition of significant increase in credit risk ('SICR') and default), as well as considering the impact of loan-specific matters such as cash flow forecasts and covenant compliance. The key judgment on the AD plants valuation is the determination of the discount rates used in the directors' expert valuation models which is used in estimating the LGD.

This matter is explained further in the audit and risk committee report at page 81. Note 2.1 (f), note 2.3, note 2.4 set out the associated accounting policy and disclosure in respect of critical judgements and key sources of estimation uncertainty, notes 8 and 9 set out the composition of the debt portfolio, with note 17 setting out details of the associated risk factors, including credit risk.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED) (CONTINUED)

How the scope of our audit responded to the key audit matter

We have:

- Obtained an understanding of the relevant controls related to the loan loss provisioning review process;
- Tested the data inputs used in the ECL assessment for accuracy and completeness;
- Assessed compliance of the group's accounting policy and ECL methodology with IFRS 9 requirements;
- Challenged the judgements taken by management related to the categorisation of loans into the various credit stages required under IFRS 9. We considered this in the context of management's definition of significant increase in credit risk ('SICR') and definition of default;
- Evaluated the reasonableness of estimates applied to determine the probability of default (PD), loss given default (LGD) and exposure at default (EAD) for each stage within which loans are classified and their compliance with IFRS 9 requirements;
- For stage 1 assets under the IFRS 9 classification, we reviewed the performance of the underlying businesses through discussions with management to assess whether they are correctly classified under stage 1;
- For stage 2 and stage 3 assets under the IFRS 9 classification, we challenged the assumptions made by management in respect of the PD and LGD used, as well as the change in the ECL provision during the year. We challenged how the impact of Covid-19 had been reflected in these assumptions by considering the quality and valuation of the underlying security. We have also assessed whether the group has access to the underlying collateral by reviewing the collateral ownership documents.
- Assessed the competence, capabilities and objectivity of the directors' external expert;
- In respect of the determination of LGD for loans made to AD plant businesses, where the directors' expert has been involved, we have assessed the appropriateness of the valuation approach and the used discount rates with the assistance of our valuation specialists. We have also challenged the other key inputs and assumptions of these models by agreeing them to the related supporting documents, where appropriate;
- Tested the clerical accuracy of the expected credit loss model and the AD plants valuation models; and
- Evaluated the adequacy of disclosures made in the financial statements in light of the requirements of IFRS 7 and IFRS 9.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED) (CONTINUED)

Key observations

Whilst we have concluded that the assumptions made by management in arriving at the ECL provisions appear reasonable, as described in note 2.1 (f) to the consolidated financial statements, there is a broad range of possible outcomes particularly where recovery is reliant on realisation of underlying collateral.

In addition, we provided management with recommendations to improve the ECL model and the underlying process in order for the group to appropriately deal with ECL requirements as economic circumstances develop in the coming period.

6.2. Revenue recognition

Key audit matter description

Finance income from the debt portfolio totalled £35.7 million for the current year (2019: £37.4 million). Management applies the effective interest rate ('EIR') method to amortise any premium/discount over the debt asset life with further assumptions on these debt assets' future cash flows.

There is a risk that revenue may be recognised in the incorrect period due to differences in timing between cash receipts of interest and investment principal repayments and the application of the EIR method. Incorrect treatment of any upfront fees and exit fees and the impact of loan loss provisioning on the EIR calculation may significantly affect the level of income recorded in the period. In addition the existence of prepayments and exits arising from early repayments in the period will have an impact on the recorded income and may not be correctly recorded in accordance with the EIR requirements set out in IFRS 9.

The key accounting policies related to this key audit matter can be found in note 2.6 and this matter is also described on page 80 of the Audit and risk committee report.

How the scope of our audit responded to the key audit matter

We have:

- Obtained an understanding of and tested controls related directly to this key audit matter;
- Assessed management's judgements in respect of the inclusion of the upfront fees and exit fees in the EIR calculation;
- On a sample basis, recalculated the finance income which is accrued under the EIR method, taking into account any prepayments on the investments and the impact on income recognised;
- On the selected sample, evaluated the impact of any loan loss provisioning on the recognition and valuation of income recorded in the period;
- On the selected sample, evaluated the impact of any prepayments or exit fees from early repayments on the income recorded in the period; and
- Agreed a sample of cash receipts in the year to and from the bank statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED) (CONTINUED)

Key observations	Based on our audit work, we are satisfied that the key assumptions applied by management in calculating finance income from the debt portfolio are appropriate.

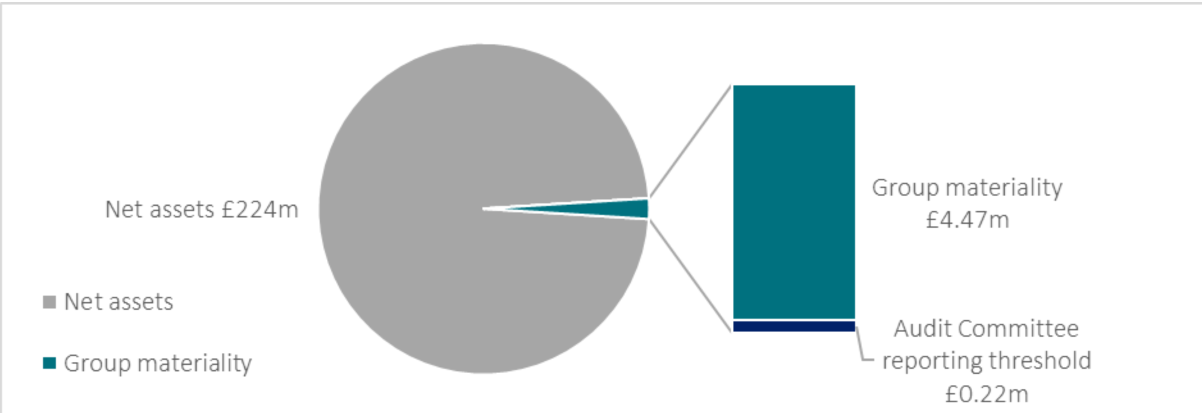
7. Our application of materiality

7.1. Materiality

We define materiality as the magnitude of misstatement in the consolidated financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the consolidated financial statements as a whole as follows:

Group Materiality	£4.47 million.
Basis for determining materiality	2% of net asset value.
Rationale for the benchmark applied	We believe net asset value is the most appropriate benchmark as it is considered to be a principal consideration for shareholders of the group in assessing financial performance.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED) (CONTINUED)

7.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the consolidated financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2020 audit. In determining performance materiality, we considered the following factors:

- Our first year audit on the group;
- Our risk assessment, including our assessment of the group's overall control environment and that we consider it appropriate to rely on controls on the revenue recognition process; and
- Our review of prior year uncorrected misstatements identified by the predecessor auditor.

7.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £223,500, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the consolidated financial statements.

8. An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the group and its environment, including internal control, and assessing the risks of material misstatement for the company and its subsidiaries. In assessing the control environment, we also considered the control environments of the key service providers, including the administrators and the Portfolio manager of the group, to whom the board have delegated certain functions for the company and its subsidiary entities. Audit work to respond to the risks of material misstatement was performed directly by the group audit team.

9. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED) (CONTINUED)

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors 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 group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or

- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

10. Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group'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 group or to cease operations, or have no realistic alternative but to do so.

11. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KKV SECURED LOAN FUND LIMITED (FORMERLY SQN ASSET FINANCE INCOME FUND LIMITED) (CONTINUED)

Report on other legal and regulatory requirements

12. Matters on which we are required to report by exception

12.1. Adequacy of explanations received and accounting records

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the company; or
- the consolidated financial statements are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

13. Use of our report

This report is made solely to the company's members, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

David Becker (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Recognised Auditor
Guernsey, Channel Islands
26 January 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 £	Year ended 30 June 2019 £
Income			
Finance income		35,749,983	37,377,741
Interest on cash and cash equivalents		47,091	116,646
Other income		1,182,963	2,207,135
Total income	2.6	**36,980,037**	**39,701,522**
Net unrealised loss on revaluation of investments	8.2	(8,559,304)	(1,045,607)
Net unrealised foreign exchange gain/(loss) on investments	8,9	4,121,207	(5,569,828)
Net unrealised foreign exchange gain on forward contracts		-	5,297,285
Net realised gain on investments	7,8,9	407,329	653,423
Net realised foreign exchange gain on investments	8,9	324,014	10,244,783
Net realised foreign exchange loss on forward contracts	17.4	(8,015,592)	(11,514,905)
Net realised and unrealised loss		**(11,722,346)**	**(1,934,849)**
Expenses			
Investment management fees	3(a)	(4,088,036)	(4,642,340)
Directors' fees		(301,197)	(254,375)
Other operating expenses	4	(2,382,442)	(2,877,025)
Depreciation	7	(2,256,921)	(1,734,573)
Impairment	7	(9,574,836)	-
Expected credit loss provision	8,9	(230,468,999)	(4,407,824)
Total operating expenses		**(249,072,431)**	**(13,916,137)**
(Loss)/profit before tax		**(223,814,740)**	**23,850,536**
Taxation	2.11	-	-
Profit after tax		**(223,814,740)**	**23,850,536**
Total comprehensive (loss)/income for the year analysed as follows:			
Attributable to Ordinary shareholders		(189,722,378)	14,479,333
Attributable to 2016 C shareholders		(34,092,362)	9,371,203
Total		**(223,814,740)**	**23,850,536**
Basic and diluted (loss)/earnings per Ordinary Share	5	(53.28)p	4.06p
Basic and diluted (loss)/earnings per 2016 C Share	5	(24.54)p	6.75p

The year ended 30 June 2020 has been presented on a basis other than going concern. No operations were acquired or discontinued during the year.

The Group has no items of other comprehensive income, and therefore the loss for the year is also the total comprehensive loss.
The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020	30 June 2019 Restated
		£	£
Non-current assets			
Residual value of finance lease investments	2.4,8.2	127,557	404,618
Property, plant and equipment	7	967,509	14,352,680
Loans and other investments[1]	8.1	81,845,596	324,960,467
Investments designated at fair value through profit or loss	8.2	-	2,790,263
Finance lease and hire-purchase investments[1]	9	51,720,665	101,884,354
Equity holdings	8.2	-	5,581,419
		134,661,327	449,973,801
Current assets			
Loans and other investments	8.1	58,831,596	-
Finance lease and hire-purchase investments	9	19,669,682	-
Cash and cash equivalents[2]	2.10	8,997,906	22,039,165
Due from broker[2]		-	2,630,000
Interest receivables[1]	10	1,073,111	1,371,182
Investment receivables[1]		-	146,955
Other receivables and prepayments[1]	10	745,557	1,627,373
		89,317,852	27,814,675
Total assets		**223,979,179**	**477,788,476**
Current liabilities			
Derivative financial liabilities	8.2,17	-	(2,477,541)
Other payables and accrued expenses[1]	11	(460,349)	(818,465)
		(460,349)	(3,296,006)
Net assets		**223,518,830**	**474,492,470**
Equity			
Share capital	13	488,655,945	488,893,790
Retained reserves		(265,137,115)	(14,401,320)
		223,518,830	**474,492,470**
NAV per Share			
- Ordinary Shares	6	36.19p	94.91p
- 2016 C Shares	6	68.17p	98.15p

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 January 2021, and signed on its behalf by:

Brett Miller	**David Copperwaite**
Director	**Director**

[1] The comparatives have been restated as other receivables, interest receivable, investment receivables and other payables have been reclassified to loans and other investments and finance lease and hire purchase investments. Refer to note 21 for further information.
[2]The comparatives have been restated to disclose due from broker (broker balances have a restricted nature) separately from cash and cash equivalents. Refer to note 21 for further information.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020

	Notes	Share Capital £	Retained Reserves £	Total £
As at 1 July 2019		**488,893,790**	**(14,401,320)**	**474,492,470**
Total comprehensive loss for the year		-	(223,814,740)	(223,814,740)
Transactions with shareholders				
Ordinary Shares repurchased	13	(237,845)	-	(237,845)
Dividends paid	14		(26,921,055)	(26,921,055)
Total transactions with shareholders		(237,845)	(26,921,055)	(27,158,900)
As at 30 June 2020		**488,655,945**	**(265,137,115)**	**223,518,830**

For the year ended 30 June 2019

	Notes	Share Capital £	Retained Reserves £	Total £
As at 1 July 2018		**489,189,319**	**(5,977,497)**	**483,211,822**
Total comprehensive income for the year		-	23,850,536	23,850,536
Transactions with shareholders				
Ordinary Shares repurchased	13	(295,529)	-	(295,529)
Dividends paid	14	-	(32,274,359)	(32,274,359)
Total transactions with shareholders		(295,529)	(32,274,359)	(32,569,888)
As at 30 June 2019		**488,893,790**	**(14,401,320)**	**474,492,470**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 £	Year ended 30 June 2019 Restated £
Cash flow from operating activities:			
Total comprehensive (loss)/income for the year		(223,814,740)	23,850,536
Adjustments for:			
Finance income		(35,749,983)	(37,377,741)
Net unrealised loss on revaluation of investments		8,559,304	1,045,607
Net unrealised foreign exchange (gain)/loss		(7,082,842)	272,543
Net realised foreign exchange gain on investments		(324,014)	(10,244,783)
Net realised gain on investments		(407,329)	(653,423)
Depreciation	7	2,256,921	1,734,573
Impairment	7	9,574,836	-
Decrease in investment receivables[1]		146,955	684,758
Decrease in other receivables and prepayments[1]		881,816	1,190,221
Decrease in due from broker[2]		2,630,000	2,300,000
Decrease in investment payables[1]		-	(154,312)
Decrease in other payables and accrued expenses[1]	11	(358,116)	(2,835,648)
Acquisition of investments	7,8,9	(33,401,522)	(92,537,796)
Amortisation of investment principal[3]	8.1,9	35,892,871	62,620,369
Additions of investments designated at fair value through profit or loss	8.2	-	(73,991)
Sale of investments designated at fair value through profit or loss[3]	8.2	667,763	1,089,737
Additions of PPE	7	-	(27,271)
Disposal of PPE	7	1,575,000	-
Expected credit loss provision	8,9	230,468,999	4,510,604
Collective interest income received		22,117,628	25,759,443
Net cash outflow provided by/(used in) operating activities		**13,633,547**	**(18,846,574)**
Cash flow from financing activities			
Ordinary Shares repurchased	13	(237,845)	(295,529)
Dividends paid	14	(26,921,055)	(32,274,359)
Net cash used in financing activities		**(27,158,900)**	**(32,569,888)**
Net decrease in cash and cash equivalents		**(13,525,353)**	**(51,416,462)**
Cash and cash equivalents at start of the year		22,039,165	71,865,524
Effect of exchange rate changes on cash and cash equivalents		484,094	1,590,103
Cash and cash equivalents at end of the year		**8,997,906**	**22,039,165**

[1] The comparatives have been restated as other receivables, interest receivable, investment receivable and other payables have been reclassified to loans and other investments and finance lease and hire purchase investments. Refer to note 21 for further information.
[2] The comparatives have been restated to disclose due from broker (broker balances have a restricted nature) separately from cash and cash equivalents. Refer to note 21 for further information.
[3] The comparatives have been restated to disclose the sale of investments designated at fair value through profit or loss separately from amortisation of investment principal. Refer to note 21 for further information.

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The Company was incorporated on 28 May 2014 and registered in Guernsey as a Closed-ended Collective Investment Scheme. The Company's registered office is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA. The Company's Ordinary Shares were admitted to the FCA's Official List and to trading on the Main Market of the London Stock Exchange on 14 July 2014.

The 2016 C Shares are listed separately on the Main Market of the London Stock Exchange and were admitted on 12 December 2016. The investments held by the 2016 C Shares are accounted for and managed as a separate pool of assets in accordance with the Company's investment policy. Expenses are split between Ordinary Shares and 2016 C Shares in proportion to their respective NAV.

During the year, 288,156 (30 June 2019: 321,316) Ordinary Shares were repurchased and are being held in treasury. In total 1,731,838 (30 June 2019: 1,443,682) Ordinary Shares are held in treasury.

On 17 July 2020 the name of the Company was changed from the SQN Asset Finance Income Fund Limited to the KKV Secured Loan Fund Limited.

The Company's subsidiaries, KKV (Guernsey) Limited, KKV (Amber) Limited, KKV (Bronze) Limited, KKV (Cobalt) Limited and KKV (Diamond) Limited (the "Subsidiaries") are wholly owned subsidiaries incorporated in Guernsey and established for the primary purpose of acting as investment holding companies (refer to note 2.1(e) for further details).

The names of the Subsidiaries were changed on 20 July 2020 and were previously called SQN Asset Finance (Guernsey) Limited, SQN AFIF (AMBER) Limited, SQN AFIF (BRONZE) Limited SQN AFIF (Cobalt) Limited and SQN AFIF (Diamond) Limited. The Subsidiaries' registered office is BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA.

2. Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

2.1 Basis of Preparation

(a) Statement of Compliance
The audited consolidated financial statements for the year ended 30 June 2020 have been prepared in accordance with IFRS as adopted by the European Union. They give a true and fair view of the Group's affairs and comply with the Company (Guernsey) Law 2008, as amended.

The Company applied, for the first time IFRS 16 – Leases ("IFRS 16"), and IFRIC 23 – Uncertainty over Income Tax Treatments ("IFRIC 23"), which became effective on 1 July 2019.

IFRS 16 superseded IAS 17 – Leases and specifies how to recognise, measure, present and disclose leases. As a lessor, the Group will continue to classify leases as operating leases or finance leases. IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17.

In regard to IFRIC 23, the Directors have determined that the Company has no uncertain tax positions as at 30 June 2020 and that this interpretation does not have an impact on the Company's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.1 Basis of Preparation (Continued)

(b) Going Concern
At the EGM of the Company held on 16 July 2020, shareholders voted for the continuation of the Ordinary Share Class and against the continuation of the 2016 C Share class, following which proposals were to be put forward for the managed wind-down of the 2016 C Share class only, with a further continuation vote to be held in respect of the Ordinary Share Class in 2021.

While Ordinary shareholders as a whole supported continuation of the Ordinary Share Class, a substantial proportion of the Ordinary shareholders voted against continuation. In addition, since the EGM held on 16 July 2020, the Portfolio Manager raised concerns over the valuation of certain assets held within the Company's portfolios. In light of this and continuing feedback from several major shareholders, both the Board and the Portfolio Manager were of the view that shareholder value was best maximised by placing the Ordinary Share Class into a managed wind-down alongside the 2016 C Share class.

On 13 November 2020, the Company published a circular containing recommended proposals, to be tabled at the EGM held on 4 December 2020. The proposals included changes, which would allow the Company to go into managed wind down, including updates to the articles, to the investment objective and investment policy, to allow a realisation strategy and to return capital to investors.

At the EGM held on 4 December 2020, the adoption of the new articles, the new investment objective and investment policy were passed with the requisite majority and subsequently the Company was placed into managed wind down.

As a consequence of the above, the Directors consider it is appropriate to adopt a basis other than going concern in preparing the consolidated financial statements given the fact they intend to wind down the Company.

With the consolidated financial statements being prepared on a basis other than going concern, IFRS 9 requires financial assets to be measured at fair value through profit or loss (“FVTPL”) with the change in measurement to be effective in the financial period following the wind down decision, which occurred post year end. As such, this change in fair value recognition will only be effective from the period beginning 1 January 2021. During the year ended 30 June 2020, Property, Plant and Equipment has been measured at net realisable value given that the consolidated financial statements are prepared on a basis other than going concern. The Board are not aware of any additional impact on the consolidated financial statements in regard to the Company going into a managed wind down. These consolidated financial statements do not include provisions for the wind down of the Company that have not been contractually committed. The Board expects the wind down of the Company to be over a two to three year period.

(c) Standards, amendments and interpretations issued but not yet effective

Detailed below are new standards, amendments and interpretations to existing standards that become effective in future accounting periods which have not been early adopted by the Group:

	Effective for periods beginning on or after
IFRS 17 – Insurance contracts	1 January 2023

The Board has undertaken an assessment of the impact of IFRS 17 on the Group’s consolidated financial statements and concluded that there will be no material impact as the Company does not have any insurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.1 Basis of Preparation (Continued)

(d) Functional and Presentation Currency
Items included in the consolidated financial statements are measured using Sterling as the currency of the primary economic environment in which the Group operates (the "Functional Currency"). The consolidated financial statements are presented in Sterling, which is the Group's presentation currency.

(e) Consolidation
The Subsidiaries are all entities (including special purpose entities) which the Company controls as it is exposed, or has rights, to variable returns from its involvement with the Subsidiaries and has the ability to affect those returns through its power over the Subsidiaries. The principal place of business of the Subsidiaries is Guernsey.

In accordance with IFRS 10 - Consolidated Financial Statements ("IFRS 10"), if the Company meets the definition of an investment entity ("IE") it qualifies for a consolidation exemption. The relevant provisions for an IE under IFRS 10 are set out below:

IFRS 10.27 – An IE is an entity that:

a. obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
b. commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
c. measures and evaluates the performance of substantially all of its investments on a fair value basis.

IFRS 10.28 – An entity shall consider whether it has the following characteristics of an IE:

a. it has more than one investment;
b. it has more than one investor;
c. it has investors that are not related parties of the entity; and
d. it has ownership interests in the form of equity or similar interests.

The Board considered all the above factors and noted that whilst the Company might meet many of the IE criteria, as it does not measure and evaluate the performance of substantially all of its investments on a fair value basis, the Board have concluded that the Company does not meet the definition of an IE and does not qualify for the IFRS 10 consolidation exemption. The Subsidiaries have therefore been consolidated into these consolidated financial statements. The Subsidiaries, which are listed in note 1, are incorporated in Guernsey and established for the primary purpose of acting as investment holding companies.

(f) Critical Accounting Judgements and Key Sources of Estimation Uncertainty
The preparation of the consolidated financial statements in accordance 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. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

The estimates and associated assumptions are based on various 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. Actual results may differ from these estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.1 Basis of Preparation (Continued)

(f) Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)
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.

Key Sources of Estimation Uncertainty
Fair value
For the fair value of all financial instruments held, the Company determines fair values using appropriate techniques.

Refer to note 2.3(c) and note 8.2 for further details on the significant estimates applied in the valuation of the Company's financial instruments measured at fair value. The inputs applied to these estimations are subject to significant material uncertainty, see note 17.1 Credit Risk for sensitivity analysis.

Expected credit losses provision
Key estimates and assumptions applied by the Board and Portfolio Manager when considering expected credit losses provision relate to the determination of the probability of default and the loss given default. As at 30 June 2020, the ECL was £230,468,999 (30 June 2019: £4,407,824).

Refer to note 2.3(d) for further details on the expected credit losses methodology applied when determining financial assets expected credit losses.

Although these estimates and assumptions are based on best knowledge of current facts, circumstances and, to some extent, future events and actions, the actual results may ultimately differ from those estimates, possibly significantly. Uncertainty over these provisions exist due to the broad range of possible valuations arising from the quality and accessibility of underlying collateral as well as its specialist nature, volatile market conditions, the binary nature of certain positions, the outcomes of ongoing negotiations and the assumptions used in determining the valuations.

The judgements which have the biggest impact on the level of provisioning in the current and prior year relate principally to the determination of the loss given default for loan positions in stage 3. In making these judgements, management have relied on independent valuations for assets held as collateral (gross loan positions of £44.0 million, or £18.1 million net of ECL provisions), discounted cash flow forecasts for positions where the Group's security is held over the borrower's business (gross loan positions of £141.3 million, or £47.9 million net of ECL provisions) or have made assumption on recoverability based on available information where security is more complex (gross loan positions of £45.1 million, or £20.9 million net of ECL provisions). The portfolio includes a number of positions with a gross value of £90.2 million where there are limited enforcement options, and hence recoverable value, and as a consequence these positions have been fully provided for. The Group is engaged in negotiations in respect of some of these facilities which if successful could lead to material recoveries to the Group. In addition, the Group's ability to recover the notes held with the DAC are dependent on the tax structuring of the DAC and the correct implementation of that structuring, which is outside the control of the Group. If the DAC was required to withhold Irish tax on interest payments it has made on the notes since inception this could lead to a further material impairment of those notes in the region of £6.7m as at the reporting date.

Refer to note 17.1 Credit Risk for sensitivity analysis. The fair value and expected credit losses provision is monitored by the Board to ensure that judgements, estimates and assumptions made and methodologies applied are appropriate and in accordance with IFRS 9 and 13 respectively.

Critical accounting judgements
Going concern
The Board, with the agreement of the Portfolio Manager, believed that following feedback from several major shareholders, that shareholder value was best maximised by placing the Company into managed wind down. At the EGM held on 4 December 2020, the adoption of the amended articles and the new investment objective and investment policy were passed with the requisite majority and the Company was placed into managed wind down.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.1 Basis of Preparation (Continued)

Critical accounting judgements (Continued0
Going concern (Continued)
(f) Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)
The Board believe that is appropriate to prepare these consolidated financial statements on a basis other than going concern as the Company is now in managed wind down and expected to be wound down within two to three years of the date of the approval of these consolidated financial statements. Preparation on a basis other than going concern requires management to make judgements and assumptions that have an impact on the presentation of the primary statements and the measurement of the assets and liabilities in the statement of financial position.

Refer to the Going Concern note 2.1(b) for further information.

SQN Asset Finance (Ireland) DAC
The Group holds bonds issued by SQN Asset Finance (Ireland) DAC ("SQN Ireland"), an unconsolidated structured entity in the Republic of Ireland. The Portfolio Manager acts as investment manager to SQN Ireland (previously the UK Asset Manager, the wholly owned subsidiary of the US Investment Manager, which was the authorised investment fund manager).

The Board has determined that the Group does not have all the elements of control as prescribed by IFRS 10 – 'Consolidated Financial Statements' over SQN Ireland and therefore is not required to consolidate SQN Ireland into these consolidated financial statements. This was determined as the Group is not able to exercise control over SQN Ireland as the latter is managed by independent directors.

2.2 Foreign Currency Translation

Transactions in currencies other than the Functional Currency are recorded using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and those from the translation at year end exchange rates of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

2.3 Financial Assets

a) Classification and Measurement
Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss and amortised cost.

Classification and measurement of financial assets depends on the results of the 'solely payments of principal and interest' and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.3 Financial Assets (Continued)

a) Classification and Measurement (Continued)
With the consolidated financial statements being prepared on a basis other than going concern, IFRS 9 requires financial assets to be measured at fair value through profit or loss ("FVTPL") with the change in measurement to be reflected on the reporting date following the wind down decision, which occurred post year end. As such this change in fair value recognition will only be effective from the period beginning 1 January 2021.

The classification of financial assets and financial liabilities between non-current and current is based on the contractual maturity or in reference to investments, the earlier of the contractual maturity or realisation of the financial asset. There is no guarantee that financial assets classified as current will be repaid within the 12 months period post the date of the statement of financial position.

Financial assets designated at fair value through profit or loss at inception
Financial assets designated at fair value, can be designated at FVTPL or through other comprehensive income. The Group's fair value financial assets are designated at FVTPL at inception.

The Group's policy requires the Portfolio Manager, AIFM and the Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information. Changes in fair value of financial assets at FVTPL are recorded in profit or loss in the Consolidated Statement of Comprehensive Income.

Amortised cost
Trade receivables, loans and other investments, finance lease and hire purchase investments, due from broker and other receivables that have fixed or determinable payments that are not quoted in an active market are classified at amortised cost using the effective interest method, less any expected credit losses.

Income is recognised on an effective interest basis for debt instruments, other than those financial assets classified at FVTPL. Gains and losses are recognised in profit or loss in the Consolidated Statement of Comprehensive Income when they are derecognised or impaired, as well as through the amortisation process.

b) Recognition and De-Recognition
Financial assets are initially recognised on the trade date, when the Company becomes a party to the arrangement.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all the risk and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.3 Financial Assets (Continued)

c) Fair Value Estimation
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability is conducted in either:

• the principal market for the asset or liability; or
• in the absence of a principal market, the most advantageous market for the asset or liability.

The fair value of an asset or liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use capacity or by selling it to another market participant that would use the asset in its highest and best use capacity.

d) ECL Requirements
The Group applies the ECL requirements in IFRS 9 and utilises the ECL model. The expected credit loss model applies to financial assets that are debt instruments (such as bank deposits, loans, debt securities and trade receivables) recorded at amortised cost, plus lease receivables under IFRS 16, contract assets and loan commitments and financial guarantee contracts that are not measured at FVTPL.

The ECL of financial assets is recognised in 3 stages (refer to note 17.1 for more information).

Stage 1 recognises 12 months expected credit losses.

Stage 2 recognises full lifetime expected credit losses. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Loans secured by realisable assets have an expected loss quantum based on the underwriting criteria for the respective collateral type. Loans that are more than 90 days in arrears will typically become stage 2 assets unless this is for exceptional circumstances along with loans that have unremedied covenant breaches or poor performance of the underlying business that is likely to impact the Group's facility.

Stage 3 recognises full lifetime expected credit losses and the financial asset is credit-impaired and in default.

The Group will assess the following events when deciding if a financial asset is credit impaired:

Loans are categorised as in default, and hence stage 3, based on several factors including when they are over 180 days in arrears and have no credible plan to catch up, if material covenants have been breached that will likely result in non-payment or the underlying business has deteriorated materially.

Where an external third party valuation is available this is used to create a bespoke LGD for that asset in priority to the highly specialised and subordinated debt categories.

The Board assesses at each reporting period whether a financial asset or group of financial assets is credit impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.3 Financial Assets (Continued)

d) ECL Requirements (continued)
If a financial asset is impaired or has ECL, the carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

If, in a subsequent period, the amount of the ECL decreases and the decrease can be related objectively to an event occurring after the expected loss was recognised, the previously recognised ECL is reversed. Any subsequent reversal of an ECL is recognised in profit or loss in the Consolidated Statement of Comprehensive Income to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

ECL Methodology
The calculation of ECL is a function of the Probability of Default ("PD"), Loss Given Default ("LGD") (i.e. the magnitude of the loss if there is a default) and credit exposure at default.

The Portfolio Manager PD, as detailed on page 139, is assessed by considering credit rating of large US bank issuers and historic corporate default rates alongside global credit rating agency data. The Portfolio Manager PD grade for each credit exposure is based on an internal rating system of 10 grades, ranging from grade 1 – virtually no risk – 0.01% PD, to grade 10 – loss – 100% PD. The PD grade is assigned by the Portfolio Manager based on embedded risks within the loan provided and therefore the probability of a default. The Portfolio Manager monitors incoming information on a monthly and quarterly basis adjusting the PD grade as appropriate, should credit risk change over time.

The LGD has been assessed by considering historic average corporate debt recovery rates and adjusted, where applicable, by forward-looking information. The individual asset LGD shall reference the following schedule unless a more appropriate asset specific approach is identified:

Category	LGD Approach
Easily Realisable	Asset value less 10% haircut discounted at 10% IRR for 12 months to recovery
Realisable	Asset value less 20% discounted at 20% IRR for 2 years to recovery
Highly Specialised	70% LGD (equivalent to unsecured)
Subordinated Debt	100% LGD

The discount rate of 10% is used for easily realisable assets. This rate is based on the target return of fund investments and reflects the relatively low risk to asset disposal. For assets that have a limited marketability, a 20% rate is used as appropriate as the upper bound of typical non-performing loan transaction IRRs observed in the market reflecting the higher risk of sale valuation. For highly specialised assets, the Portfolio Manager has approximated these to unsecured recovery rates where a 30% recovery is normal in the bank lending industry (or 70% LGD).

Where an external third party valuation is available this is used to create a bespoke LGD for that asset in priority to the highly specialised and subordinated debt categories.

Any loan which is subjectively down-graded will have an assigned expected loss equal to the revised PD multiplied by the position’s LGD. Where the LGD has become uncertain and therefore further work is required to ascertain the value a prudent increase in LGD appropriate for the loan will be taken until a revised LGD is available.

Refer to note 17.1 - page 139, for details of the Portfolio Manager Credit Score applied, which details the different risk categories and the associated PDs, LGDs and ECL provisions in relation to unsecured loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.4 Finance Lease and Hire-Purchase Investments

The Group, as lessor, categorises finance leases and hire purchase investments as lease arrangements where the terms of the lease transfer substantially all risks and rewards of ownership to the lessee (in accordance with the requirements of IFRS 16 - Leases). Hire-purchase investments include a purchase option exercisable by the lessee upon fulfilment of specified conditions. Under such arrangements, at the commencement of the lease term, the Group records finance lease and hire-purchase investments in the Statement of Financial Position as a receivable, at an amount equal to the net investment in the lease.

The net investment in the lease is equal to the gross investment in the lease (minimum lease payments receivable by the Group under finance lease and hire-purchase investments plus any unguaranteed residual value accruing to the Group) discounted by the interest rate implicit in the lease.

On subsequent measurement, the Group splits the minimum payments received under the lease between finance income and reduction of the lease receivable.

The Group applies the principles of IFRS 9 to lease receivables with respect to the derecognition and ECL provisions.

Residual Value on Finance Leases
The unguaranteed residual value on finance leases is calculated by estimating the fair market value of the leased assets less the lease payments from the lessee.

Estimates of market value are based on a number of assumptions including, but not limited to, the in-place value of the equipment or assets to the end-user, the secondary market value of similar assets and equipment, the replacement cost of the asset or equipment including the cost of de-installation and re-delivery, and the Portfolio Manager’s and AIFM’s own assumptions based on historical experience.

2.5 Property, Plant and Equipment

Property, Plant and Equipment comprises operating leases, which the Group categorises as a lease arrangement in which a significant portion of the risks and rewards of ownership are retained by the lessor (in accordance with the requirements of IFRS 16 - Leases).

Assets held for use under operating leases are measured at cost less depreciation and impairment and are depreciated on a straight line basis over the remaining useful life.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Estimates of the useful life of equipment are based on manufacturers’ recommendations, the age of similar products in the market, the intended use and utilisation of the equipment, and the Portfolio Manager’s and AIFM’s own assumptions based on historical experience.

As at 30 June 2020, Property, Plant and Equipment is measured at net realisable value given that the consolidated financial statements are now prepared on a basis other than going concern. Net realisable value represents the estimated selling price less all estimated costs of disposal. In these consolidated financial statements, measuring these assets at net realisable value has resulted in an impairment during the year.

The Board consider Property, Plant and Equipment to be part of the operating activities of the Group inline with the previous investment objective and investment policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.6 Income

Income is recognised to the extent that it is probable that economic benefits will flow to the Group and can be reliably measured.

Interest income is recognised using the effective interest rate method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the net carrying amount of the financial asset after deducting the related ECL provision. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

2.7 Expenses

Expenses are recognised in profit or loss in the Consolidated Statement of Comprehensive Income on an accruals basis.

2.8 Issue Costs

Costs directly incurred on share issues are netted off against the share issue proceeds.

2.9 Dividends Payable

The Group pays dividends to shareholders subject to the solvency test prescribed by Guernsey Law. The Company recognises a liability for dividends payable after a dividend has been approved by the Directors and there is an obligation on the Company to make the payment. Refer to note 14 for details of dividend activity during the year.

2.10 Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank, and deposits held at call with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

2.11 Taxation

Profits arising in the Company and the Subsidiaries are subject to tax in Guernsey at the standard rate of 0%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (Continued)

2.12 Derivative Financial Instruments

Derivative Financial Instruments are measured at fair value through profit or loss with the changes in fair value being recorded in the consolidated statement of comprehensive income. The Group may make use of derivative financial instruments to manage its exposure to foreign exchange rate risk including, but not restricted to the use of foreign exchange forward contracts. A derivative with a positive fair value is recognised as a financial asset and a derivative with a negative fair value is recognised as a financial liability. Further details on derivative financial instruments are disclosed in notes 8.2 and 17.4.

2.13 Equity Holdings

Equity holdings are measured at fair value which is the same as the net realisable value given that the consolidated financial statements are now prepared on a basis other than going concern.

For the year ended 30 June 2019, In accordance with IFRS 9, investment in the shares was measured initially at cost and subsequently at fair value through profit or loss, taking into account all information available including possible future cash flows, progress of the projects and any call options available to the developer.

Refer to note 8.2 for further information.

3. Material Agreements and Related Party Transactions

a) Investment Management Agreement
The Company's investments were managed by the Investment Managers from 1 July 2019 to 5 June 2020. Under the terms of the Investment Management Agreement dated 16 June 2014, the Company appointed the Investment Managers to provide discretionary investment management services to the Company.

The Company's investments are now managed by the Portfolio Manager, which was appointed on 6 June 2020. Under the terms of the Investment Management Agreement dated 6 June 2020, the Company appointed the Portfolio Manager to provide discretionary investment management services to the Company, subject to the oversight of the AIFM.

The Company did not incur any duplication of investment or portfolio management fees as a result of the transition to the Portfolio Manager. The previous Investment Managers agreed to waive fees due for the remainder of their notice period based on the Portfolio Manager assuming certain fee liabilities to the Investment Managers. Whilst the agreement with the Portfolio Manager is subject to a minimum notice period of 12 months, in the event that the Company terminated the agreement with the Portfolio Manager within the first 36 months of the date of the agreement, the Company would be required to reimburse, on a tapering basis over time, the Portfolio Manager for certain costs that the Company would otherwise have incurred in connection with the termination of the previous investment management contract.

For the period 1 July 2019 to 5 June 2020, the Investment Managers were entitled to a management fee which was calculated and accrued monthly and payable monthly in arrears at the following rate per annum of the Group's NAV:

On first £300 million of the NAV	1.00%
On £300 million - £500 million of the NAV	0.90%
Any amount greater than £500 million of the NAV	0.80%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Material Agreements and Related Party Transactions (Continued)

a) Investment Management Agreement (Continued)
Total investment management fees for the year amounted to £4,088,036, of which £234,575 due to the Portfolio Manager and £3,853,461 due to the Investment Managers (30 June 2019: £4,642,340 due to the Investment Managers). At 30 June 2020, £281,489 (30 June 2019: £378,308) of the management fees was payable, £234,575 to the Portfolio Manager and £46,914 to the Investment Managers.

In addition to the above fee, for the period 1 July 2019 to 5 June 2020, the Investment Managers were entitled to receive an additional fee where it or its affiliates provide structuring advice and/or services in connection with the acquisition (but not the disposal) of any investment. The fee was equal to 1% of the transaction amount. During the year, structuring fees of £188,845 (30 June 2019: £170,761) were received by the Investment Managers. The Portfolio Manager received no structuring fees during the year.

The Investment Managers also received commitment fees, that are paid by investees directly (these are not paid by the Group). During the year, commitment fees of £109,292 (30 June 2019: £594,726) were received by the Investment Managers. The Portfolio Manager received no commitment fees during the year.

The Portfolio Manager was entitled to the same management fee as the Investment Managers for the period 6 June 2020 to 30 June 2020. The Portfolio Manager fee changed post year-end due to both share classes going into managed wind down. Refer to note 18 for further details.

During the year, the Portfolio Manager and the Investment Managers were not entitled to any incentive or performance based fees.

b) Administration Agreement
The Company has engaged the services of the designated Administrator to provide administration and custodian services. The Administrator is entitled to receive:

- an annual administration fee based on the Group's gross issue proceeds on a tiered percentage basis;
- an annual fee of £36,000 for performing the function of Company Secretary plus fees for ad-hoc Board meetings;
- an annual fee of £10,000 for the provision of compliance services; and
- an annual fixed fee of £5,000 for each Guernsey Subsidiary (up to seven Guernsey subsidiaries).

c) Registrar Agreement
Link Market Services (Guernsey) Limited are registrar of the Company pursuant to the Registrar Agreement dated 14 December 2018. There is a fixed fee of £46,500 per annum, plus disbursements.

d) Broker Agreements
Winterflood Securities Limited are entitled to an annual brokerage and advisory fee of £45,000 and commission fees of 1% and 0.1% of the gross value of any share issues and repurchases respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Material Agreements and Related Party Transactions (Continued)

Share Interest
The table below details the Ordinary Shares and 2016 C Shares held by the Directors in the Company:

	30 June 2020		30 June 2019	
Director	**Number of Ordinary Shares**	**Number of 2016 C Shares**	**Number of Ordinary Shares**	**Number of 2016 C Shares**
Peter Niven	79,858	3,860	79,858	3,860
John Falla	19,637	3,829	19,637	3,829
Christopher Spencer	19,929	3,845	19,929	3,845
Paul Meader	47,000	-	47,000	-
Jacqueline Redmond	-	-	-	-

Paul Meader's shares are held in the name of his spouse Sarah Kingwell.

Brett Miller does not hold any Ordinary Shares or 2016 C Shares. As at 30 June 2020, David Copperwaite held 210,000 Ordinary Shares (30 June 2019: 100,000 Ordinary Shares). David Copperwaite held 310,000 Ordinary Shares at the date of approval of these consolidated financial statements.

Christopher Spencer and Jacqueline Redmond resigned from the Board on 30 October 2020. Paul Meader and John Falla did not stand for re-election at the AGM held on 31 December 2020.

The table below details the Ordinary Shares and 2016 C Shares held by a Director on the Board of the Portfolio Manager in the Company:

	30 June 2020		30 June 2019	
Director	**Number of Ordinary Shares**	**Number of 2016 C Shares**	**Number of Ordinary Shares**	**Number of 2016 C Shares**
Dawn Kendall	-	22,959	-	21,431

The table below details the Ordinary Shares and 2016 C Shares held in the Company by Tim Spring a Director of the UK Investment Manager and Neil Roberts the Chairman of the US Investment Manager:

	30 June 2020		30 June 2019	
Director	**Number of Ordinary Shares**	**Number of 2016 C Shares**	**Number of Ordinary Shares**	**Number of 2016 C Shares**
Neil Roberts	149,645	45,734	149,645	45,734
Tim Spring	62,816	103,145	162,816	61,802

Neil Roberts resigned as a Director of the UK Investment Manager on 24 February 2020.

Entities related to the Portfolio Manager/Investment Managers

Senior members of the Portfolio Manager (formerly the Investment Managers) are also sitting in the board of some of the Company's investments to preserve the Company's invested amount and work with the borrowers for the best interest of the Company.

SQN Helo, LLC
SQN Helo is a special purpose company owned by SQN Portfolio Acquisition Company, LLC and SQN AIF IV, L.P., both being investment funds managed by the US Investment Manager. SQN Helo was established to purchase and hold legal ownership of a portfolio of leases and related assets. The carrying value of the investment is £nil (30 June 2019: £2,790,263) and further details can be found in note 8.2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Material Agreements and Related Party Transactions (Continued)

SQN Ireland
Certain investments in the loans and construction finance investment categories as disclosed in note 8.1, have been invested through SQN Ireland. SQN Ireland purchases investments by issuing bonds to the Group. The Group has the following amounts invested through SQN Ireland:

Maturity date of Investment	Principal balance	ECL	30 June 2020 Carrying Value	Principal balance	ECL	30 June 2019 Carrying Value
	£	£	£	£	£	£
28/12/2020	6,895,020	(5,910,810)	984,210	6,637,786	(3,319)	6,634,467
31/12/2020	18,479,163	(194,031)	18,285,132	18,294,831	(9,699)	18,285,132
31/12/2020	8,644,788	(5,596,787)	3,048,001	8,329,114	(2,078,639)	6,250,475
31/12/2020	18,645,283	(11,370,978)	7,274,305	16,658,710	(8,329)	16,650,381
31/12/2020	3,988,949	(31,912)	3,957,037	3,985,000	(1,993)	3,983,007
31/12/2020	5,955,120	(441,950)	5,513,170	5,995,884	(2,998)	5,992,886
31/12/2020	1,826,497	(51,142)	1,775,355	3,014,053	(1,507)	3,012,546
23/02/2021	22,001,881	(616,053)	21,385,828	24,419,522	(11,079)	24,408,443
31/03/2021	8,434,569	(67,477)	8,367,092	8,416,900	(4,208)	8,412,692
17/04/2021	15,582,965	(8,975,915)	6,607,050	15,333,854	(7,667)	15,326,187
20/04/2021	5,961,978	(3,366,546)	2,595,432	5,748,849	(2,874)	5,745,975
20/04/2021	5,189,598	(2,930,382)	2,259,216	5,003,458	(2,502)	5,000,956
20/04/2021	6,049,640	(3,401,102)	2,648,538	5,821,705	(2,911)	5,818,794
31/12/2022	4,113,492	(115,178)	3,998,314	4,684,930	(2,342)	4,682,588
30/04/2029	5,220,590	(522,059)	4,698,531	5,298,464	(5,298)	5,293,166
	136,989,533	**(43,592,322)**	**93,397,211**	**137,643,060**	**(2,145,365)**	**135,497,695**

From the inception of SQN Ireland to 5 June 2020, the UK Asset Manager, the wholly owned subsidiary of the US Investment Manager was the authorised investment fund manager, and acted as investment manager to SQN Ireland.

From 6 June 2020, the Portfolio Manager has acted as investment manager to SQN Ireland.

4. Other Operating Expenses

	Year ended 30 June 2020	Year ended 30 June 2019
	£	£
Administration and secretarial fees (refer to note 3(b))	504,059	471,415
Audit fees	60,000	48,561
Non audit related services fee	18,000	9,657
Brokerage fees (refer to note 3(d))	50,934	47,654
Public relation fees	82,722	56,265
Registrar fees (refer to note 3(c))	55,997	74,689
Legal fees	854,449	1,808,634
Professional fees	499,821	128,662
Transaction fees	135,594	36,427
Other expenses	120,866	195,061
Total	**2,382,442**	**2,877,025**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Other Operating Expenses (continued)

Non-audit related services for the years ended 30 June 2020 and 30 June 2019 relate to the review of the Half-Yearly Report and unaudited condensed consolidated financial statements performed by Deloitte and Baker Tilly respectively.

Legal fees in the sum of £599,486 (30 June 2019: £1,522,948) relate to the Suniva investment.

5. Basic and Diluted (Loss)/Earnings per Share

30 June 2020	Ordinary Shares	2016 C Share
Total comprehensive loss for the year	£(189,722,378)	£(34,092,362)
Weighted average number of shares in issue during the year	356,100,007	138,924,222
Basic and diluted loss per share	(53.28)p	(24.54)p
30 June 2019	**Ordinary Shares**	**2016 C Share**
Total comprehensive income for the year	£14,479,333	£9,371,203
Weighted average number of shares in issue during the year	356,267,014	138,924,222
Basic and diluted earnings per share	4.06p	6.75p

6. NAV per Share

30 June 2020	Ordinary Shares	2016 C Shares
NAV	£128,812,045	£94,706,785
Number of shares in issue at year end	355,975,669	138,924,222
NAV per share	36.19p	68.17p
30 June 2019	**Ordinary Shares**	**2016 C Shares**
NAV	£338,138,895	£136,353,575
Number of shares in issue at year end	356,263,825	138,924,222
NAV per share	94.91p	98.15p

The number of Ordinary Shares in issue is presented after deduction of 1,731,838 (30 June 2019: 1,443,682) treasury shares

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Property, Plant and Equipment

Property, Plant and Equipment ("PPE") comprises plant and machinery originally subject to:

a) a hire purchase investment which was re-leased to an alternative third party under an operating lease. The asset has a remaining useful life of 9.5 years (30 June 2019: 10.5 years).
b) a finance lease which was re-leased to an alternative third party under an operating lease. The asset has a remaining useful life of 6 years (30 June 2019: 7 years).
c) a hire purchase investment which was re-leased to an alternative third party under an operating lease during the year ended 30 June 2019. The asset has a remaining useful life of 3 years (30 June 2019: 4 years).

A PPE investment was disposed of during the year. It was originally subject to a finance lease which was re-leased to an alternative third party under an operating lease.

The carrying amount is detailed in the table below:

	30 June 2020	30 June 2019
Cost	**£**	**£**
Opening balance	**17,748,326**	**15,422,228**
Additions during the year	-	27,271
Disposals during the year[1]	(1,973,054)	-
Reclassified investments[2]	-	2,298,827
Closing balance	**15,775,272**	**17,748,326**
Accumulated depreciation and impairment		
Opening balance	**(3,395,646)**	**(1,661,073)**
Disposals during the year	419,640	-
Depreciation during the year	(2,256,921)	(1,734,573)
Impairment during the year	(9,574,836)	-
Closing balance	**(14,807,763)**	**(3,395,646)**
Net realisable value (30 June 2019: net book value)	**967,509**	**14,352,680**

[1]£1,575,000 was received and accumulated depreciation was £419,640, which resulted in a realised gain on disposal of £21,586.

[2] This item relates to an investment that has been reclassified from the hire-purchase investment category (as detailed in note 7(c)). Refer to note 9 for additional information.

During the year, as a result of a variety of negative factors, the Group reviewed likely recoverable values on its property, plant and equipment based on valuations of similar equipment and assessment of the expected realisable value from leasing these assets. The review led to a recognition of an impairment loss of £9.6 million. The Group estimated likely costs of disposal and recovery when calculating the impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial Instruments

8.1 Loans and Other Investments

The Group holds construction finance investments, which comprise initial drawings or advances made under loan agreements, finance leases or hire-purchase agreements during a period of procurement or construction of underlying assets (the "Construction Period"). During the Construction Period, interest or similar service payments on the advances may be paid or (more usually) rolled-up and capitalised on expiry of the Construction Period, typically when the assets have been commissioned and (if applicable) commercial operations have commenced. Following the expiry of the Construction Period, construction finance investments are converted into either loans, finance leases or hire purchase and reclassified in the consolidated financial statements to the loans, finance lease and hire-purchase investment categories.

The following table summarises the changes in investments measured at amortised cost using the effective interest rate method:

30 June 2020	**Loans**	**Construction Finance**	**Total**
	£	**£**	**£**
Opening balance	**188,193,139**	**144,009,107**	**332,202,246**
Advances and purchases during the year	2,665,085	15,995,267	18,660,352
Principal amortisation during the year	(7,310,904)	(583,599)	(7,894,503)
Reclassified investments[1]	-	(9,372,536)	(9,372,536)
Reclassified investments[2]	(775,443)	-	(775,443)
Realised foreign exchange gain/(loss) on investments	505,416	(360,460)	144,956
Unrealised foreign exchange gain on revaluation	2,419,266	957,571	3,376,837
Capitalised interest[3]	8,213,193	3,141,090	11,354,283
Closing balance	**193,909,752**	**153,786,440**	**347,696,192**
ECL provision[4]			
Opening balance	**(2,676,787)**	**(4,564,992)**	**(7,241,779)**
Movement in ECL provision during the year	(85,243,265)	(114,533,956)	(199,777,221)
Closing balance	**(87,920,052)**	**(119,098,948)**	**(207,019,000)**
Closing balance	**105,989,700**	**34,687,492**	**140,677,192**

[1] This item relates to advances in the construction finance investment category that were converted to finance leases and hire purchase following the expiry of the Construction Period and have been reclassified as additions in the finance lease and hire-purchase investment categories in the sum of £8,681,411 and £691,125 respectively, as detailed in note 9.
[2] This item relates to an investment that has been reclassified to the finance lease investment category following a restructuring. Refer to note 9 for additional information.
[3] Capitalised interest represents interest on investments due to the Group which has not been received and is past due. Capitalised interest on investments has been included in the principal balance and has been fully provided for as part of the ECL.
[4] Refer to note 17.1 and the Portfolio Manager report for further details regarding the ECL provision.

In the above table, loans and construction finance investments with a carrying value of £93,397,211 (net of £43,592,322 ECL) have been invested through SQN Ireland. Refer to note 3 for further information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial Instruments (Continued)

8.1 Loans and Other Investments (Continued)

30 June 2019 Restated	Loans	Construction Finance	Receivables	Total
	£	£	£	£
Opening balance	**155,259,686**	**125,483,865**	**466,491**	**281,210,042**
Reallocation of other receivables[1]	13,611,545	-	-	13,611,545
Restated opening balance	**168,871,231**	**125,483,865**	**466,491**	**294,821,587**
Advances and purchases during the year	46,532,239	41,786,316	-	88,318,555
Principal amortisation during the year	(45,157,372)	(3,948,248)	(391,446)	(49,497,066)
Reclassified investments[2]	12,726,000	(21,011,527)	-	(8,285,527)
Reclassified investments[3]	(6,244,482)	-	-	(6,244,482)
Realised foreign exchange gain on investments	6,956,513	3,189,580	-	10,146,093
Realised loss on investments	(107,267)	-	(75,045)	(182,312)
Unrealised foreign exchange loss on revaluation	(3,870,970)	(1,925,992)	-	(5,796,962)
Capitalised interest[4]	8,487,247	435,113	-	8,922,360
Restated closing balance	**188,193,139**	**144,009,107**	**-**	**332,202,246**
ECL provision[5]				
Opening balance	**(2,561,961)**	**(531,045)**	**(233)**	**(3,093,239)**
Movement in ECL provision during the year	(114,826)	(4,033,947)	233	(4,148,540)
Closing balance	**(2,676,787)**	**(4,564,992)**	**-**	**(7,241,779)**
Restated Closing balance	**185,516,352**	**139,444,115**	**-**	**324,960,467**

[1] Interest and other receivables opening balance as at 1 July 2018 have been reclassified in these consolidated financial statements to the loans and construction finance investment categories. Refer to note 21 for further information.
[2] This item relates to advances in the construction finance investment category that were reclassified as additions in the loans, finance lease and hire-purchase investment categories in the sum of £12,726,000, 4,958,954 and £3,326,573 respectively, as detailed in the above table and note 9.
[3] This item relates to an investment that has been reclassified to the equity holding category following a restructuring. Refer to note 8.2 for additional information.
[4] Capitalised interest represents interest on investments due to the Group which has not been received and is past due. Capitalised interest on investments has been included in the principal balance and has been provided for as part of the ECL.
[5] Refer to note 17.1 and the Portfolio Manager report for further details on the ECL provision.

In the above table, loans and construction finance investments with a carrying value of £135,497,695 (after the deduction of an ECL in the sum of £2,145,365) have been invested through SQN Ireland. Refer to note 3 for further information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial Instruments (Continued)

8.1 Loans and Other Investments (Continued)

The amortisation period (in the case of a loan) or lease/hire term (in the case of a finance lease or hire-purchase) commences at the end of the Construction Period and the service payments or lease/hire payments rentals are calculated by reference to the total advances during the Construction Period plus interest accrued (if not paid). In the case of a finance lease, the advances (and accrued interest) are repayable in full if a default or insolvency event occurs or if the Construction Period has not ended by a specified long-stop date.

Receivables comprise the legal right to streams of contracted payments arising under lease, hire, licence or similar agreements made between an end-user, lessee or licensee and lessor, owner or licensor of goods or other assets, in respect of which the right to receive payment has been sold or assigned absolutely to the Group by a third party, but legal title to the goods or other assets lies with that third party.

The Group has provided debtor-in-possession financing for a US solar manufacturing company, in order to protect the Group's interest in the equipment that secures its loan. US$2.18 million remained outstanding as at 30 June 2020 (equivalent to £1.77 million) (30 June 2019: US$2.18 million (equivalent to £1.72 million)). This amount has been reclassified in these consolidated financial statements to the loan investment category from other receivables and a prudent 100% ECL provision applied given the material uncertain timing and quantum of outcomes possible.

8.2 Fair Value Investments

The Group's accounting policy on fair value measurements is discussed in note 2.3(c).

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Inputs that reflect unadjusted price quotes in active markets for identical assets or liabilities that the Group has the ability to access at the measurement date;

Level 2: Inputs that reflect price quotes of similar assets and liabilities in active markets, and price quotes of identical assets and liabilities in markets that are considered to be less than active as well as inputs other than price quotes that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs that are unobservable for the asset or liability and reflect the Portfolio Manager's (previously the Investment Managers) own assumptions based upon experience of similar assets and/or on third party appraised values. This category includes instruments that are valued based on price quotes for which the inputs are unobservable or price quotes for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

For financial assets not carried at amortised cost, the Portfolio Manager determines fair value using valuation techniques approved by the Directors.

An assessment is made at each reporting date for any events or changes in circumstances that caused a transfer. Transfers between levels are deemed to have occurred at the reporting date. There were no transfers of investments between the Levels during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial Instruments (Continued)

8.2 Fair Value Investments (Continued)

The following table details the Company's fair value hierarchy.

30 June 2020	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Financial assets				
Investments designated at fair value through profit or loss (Lease Participation)	-	-	-	-
Finance lease residual value	-	-	127,557	127,557
Equity holding	-	-	-	-
Total financial assets	**-**	**-**	**127,557**	**127,557**

30 June 2019	**Level 1 £**	**Level 2 £**	**Level 3 £**	**Total £**
Financial assets				
Investments designated at fair value through profit or loss (Lease Participation)	-	-	2,790,263	2,790,263
Finance lease residual value	-	-	404,618	404,618
Equity holding	-	-	5,581,419	5,581,419
Total financial assets	**-**	**-**	**8,776,300**	**8,776,300**
Financial liabilities				
Derivative liabilities	-	(2,477,541)	-	(2,477,541)
Total financial liabilities	**-**	**(2,477,541)**	**-**	**(2,477,541)**

Lease Participation
The participation agreement entitles the Group to receive interest on the principal balance at the rate of 10.5%. Payment amounts are not fixed and are dependent on the actual proceeds received on the Lease Portfolio each month. Any shortfall in interest payments is added to the principal balance and accrues interest at the same rate. The Group does not have any rights to any amounts received on the portfolio over and above the repayment of their principal plus any interest accrued at the rates stated above.

The Lease Participation investment represents a single participation investment in a portfolio of leases. The investment is held in a special purpose vehicle ("SPV") company that owns a number of aging helicopter assets. As at 30 June 2020, the priority debt exceeded the value of the underlying assets and the carrying amount of the investment held by the Group was reduced to zero.

For the year ended 30 June 2019, the carrying value was £2,790,263, which represented the value attributable to the 'principal' element of the participation interest, determined in accordance with the participation agreement. The Directors and the Investment Managers believed that this was a reasonable approximation of the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial Instruments (Continued)

8.2 Fair Value Investments (Continued)

Equity Holdings

Refer below for the Company's shareholding in each equity holding held as at 30 June 2020 and 30 June 2019:

Equity Holding	30 June 2020	30 June 2019
1	15%	15%
2	10.7%	10.7%
3	25.5%	25.5%
4	25.5%	25.5%
5	40%	-
6	45%	45%
7	45%	45%
8	51%	51%
9	100%	100%

The Board have reviewed each equity holding position and do not believe that any of the equity holding positons held by the Group qualify for equity method accounting under IAS 28 – Investments in Associates and Joint Ventures ("IAS 28"). The Board have judged that the Group does not have significant influence, being where the Company has the power to participate in the financial and operating policy decisions of the equity holdings, but not control them. Details of each equity holding are outlined below.

The Board are in ongoing communications with the Portfolio Manager (formerly the Investment Managers) and the AIFM in regard to the fair value of the equity holdings and discuss and review the relevant information available. As at 30 June 2020, the companies the Group holds equity in are not meeting expected operating or financial performance levels and the Board believe that the net realisable value of all the above detailed equity holdings throughout the period and as at 30 June 2020 is £nil (30 June 2019: fair value of £5,581,419).

Equity Holding 1
Following a review of the capital position in one of its investments held by the Group, it received an equity holding in the underlying company. The Group holds junior equity, based on the sale price of the underlying asset and after senior debt has been repaid, any remaining value will go to senior equity. The equity holding has therefore been written down to zero.

The Group has not accounted for this equity holding using IAS 28 as it holds less than 20% of the equity and does not have significant influence. The fair value of the equity as at 30 June 20 was £nil (30 June 2019: £5,581,419).

Equity Holding 2
The Group holds a minority shareholding in an investee company in consideration for a facility increase. The Group has not accounted for this equity holding using IAS 28 as it holds less than 20% of the equity and does not have significant influence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial Instruments (Continued)

8.2 Fair Value Investments (Continued)

Equity Holding 3, 4 and 8
The Group has provided (or committed to provide) asset finance facilities in the form of construction finance and hire purchase investments to three anaerobic digestion plants.

In addition to these finance arrangements, the Group acquired an equity holding in each investee company. The terms of the shareholder agreement included an option (the "Call Option"), exercisable by the developer upon or following full repayment of the asset finance/loan, to purchase the Group's shares at a price that will produce a maximum 12% per annum return on capital to the Group, taking account of both interest paid under the debt facilities and (if applicable) any dividends, assuming each project is fully delivered.

The equity holdings do not qualify for equity method accounting under IAS 28 as although the Group holds greater than 20% of the voting power in each of the investees, the Board judge that the Group does not have significant influence due to the following factors for each investment:

- The equity holdings can be bought back at the developer's discretion once conditions per the shareholder agreement are satisfied.
- The return is fixed at a maximum of 12% per annum across the entire investment (loan and shares). If the investment performs better than expected, the developer will exercise the option to purchase the shares at the agreed price and therefore the Group has no realistic chance of participating in residual value.

During the year, no Call Option was exercised by the developers (30 June 2019: one Call Option was exercised by the developers which resulted in a gain of £160,586).

Equity Holding 5
The Group holds an effective 40% shareholding in a holding company. The Group has not accounted for these equities using IAS 28 as the Board have judged the Group does not have significant influence.

Equity Holding 6 and 7
The Group holds an effective 45% shareholding in two holding companies. The Group has not accounted for these equities using IAS 28 as the Board have judged the Group does not have significant influence.

Equity Holding 9
The Group holds an effective 100% shareholding in a holding company. The Group has not accounted for these equities using IAS 28 as does not have beneficial ownership of the shares and they are held for security only. In addition, the Board have judged the Group does not have significant influence.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial Instruments (Continued)

8.2 Fair Value Investments (Continued)

The following table summarises the changes in the fair value of the Group's Level 3 investments:

	30 June 2020 £	30 June 2019 £
Opening balance	**8,776,300**	**3,920,248**
Additions during the year	-	73,991
Sales during the year	(667,763)	(1,089,737)
Reclassified investments[1]	-	6,244,482
Unrealised loss on revaluation	(8,559,304)	(1,045,607)
Unrealised foreign exchange gain on revaluation	214,649	227,134
Realised gain on investments	304,710	347,099
Realised foreign exchange gain on investments	58,965	98,690
Closing balance	**127,557**	**8,776,300**

[1] This item relates to an investment that has been reclassified from the Loans investments category following a restructuring. Please refer to note 8.1 for additional information.

The £8,559,304 unrealised loss on revaluation is due to a fair value adjustment on the lease participation and on an equity holding. The lease participation and equity holding have both been written down to zero and are discussed on page 118 and equity holding 1 on page 119 respectively.

Information about the Secondary Market for Level 3 Investments
The Portfolio Manager makes assumptions about the residual value of certain assets and equipment. As determined by the Portfolio Manager, the residual value is a function of the in-place value and/or the secondary market value of the equipment or assets.

The in-place value is an assessment of the value of the equipment or assets if the equipment or assets were to continue to operate and provide value to the end-user. This takes into account the marginal cost of keeping the asset in place as well as the cost to the end-user of decommissioning, redelivering, and replacing the equipment. In some cases, this amount (or a maximum value) is negotiated in advance with the end-user.

The secondary market value is determined utilising the Portfolio Manager's historical experience, quotes from dealers, third party appraisals and recent sales. The secondary market value also takes into account the geography of the equipment or assets, the timeframe required to conduct a sale, and the associated costs that are not passed on to the end-user.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Financial Instruments (Continued)

8.3 Valuation Process

The following table provides information about fair value measurements using significant unobservable inputs:

30 June 2020

Description	Fair Value £	Valuation Techniques	Unobservable Inputs
Lease participation	-	Discounted cash flow	Future cash flows
Finance lease residual value	127,557	Discounted cash flow	Future cash flows resulted from leases modifications and discount rate
Equity holdings	-	Discounted cash flow	Discount rate and EBITDA growth rate

30 June 2019

Description	Fair Value £	Valuation Techniques	Unobservable Inputs
Lease participation	2,790,263	Discounted cash flow	Future cash flows
Finance lease residual value	404,618	Discounted cash flow	Future cash flows resulted from leases modifications and discount rate
Equity holdings	5,581,419	Discounted cash flow	Discount rate and EBITDA growth rate
Equity holdings	-	Discounted cash flow	Discount rate and EBITDA growth rate

Sensitivity Analysis

Equity Holdings	30 June 2020		30 June 2019	
	£ Increase of 2%	£ Decrease of 2%	£ Increase of 2%	£ Decrease of 2%
Discount rate	-	-	(839,739)	919,730
EBITDA growth rate	-	-	212,880	(212,880)
Total	**-**	**-**	**(626,859)**	**706,850**

No sensitivity analysis is provided on the lease participation and the finance lease residual value as these amounts are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Finance Lease and Hire-Purchase Investments

The Group's investments include a portfolio of leases of plant and machinery leased under finance lease agreements that transfer substantially all the risks and rewards incidental to ownership to the lessee and in hire-purchase agreements that include a purchase option exercisable by the lessee upon fulfilment of specified conditions. Under these agreements, the lessee pays periodic rent for the use of the assets for a fixed or minimum initial term of typically 3 to 10 years. At the end of the fixed or minimum term, the lessee can typically elect to:

- return the asset to the Group;
- in the case of hire-purchase, exercise an option to purchase the assets, typically at a 'bargain' price;
- extend the lease for a further minimum term or from year to year on payment of a pre-agreed rent (which is typically substantially lower than the rent paid during the initial term); or
- arrange a sale of the asset to a third party and (typically) receive all or the majority of the proceeds of sale. Legal title to the leased assets remains with the Group at all times prior to such sale.

The following tables summarise the changes in finance lease and hire-purchase investments:

30 June 2020	**Finance Lease**	**Hire-Purchase**	**Total**
	£	**£**	**£**
Opening balance	**51,916,033**	**50,551,340**	**102,467,373**
Additions during the year	9,089,307	5,651,863	14,741,170
Reclassified Construction Finance investments[1]	8,681,411	691,125	9,372,536
Reclassified Lease investment[2]	775,443	-	775,443
Realised gain on investment	81,033	-	81,033
Principal amortisation during the year	(12,691,176)	(15,307,192)	(27,998,368)
Realised foreign exchange gain on investments	120,093	-	120,093
Unrealised foreign exchange gain on investments	529,721	-	529,721
Capitalised interest[3]	2,579,173	(3,030)	2,576,143
Closing balance	**61,081,038**	**41,584,106**	**102,665,144**
ECL provision[4]			
Opening balance	**(208,512)**	**(374,507)**	**(583,019)**
Movement in ECL provision during the year	(20,772,178)	(9,919,600)	(30,691,778)
Closing balance	**(20,980,690)**	**(10,294,107)**	**(31,274,797)**
Closing balance	**40,100,348**	**31,289,999**	**71,390,347**

[1] This item relates to advances that previously appeared in the Construction Finance investment category in note 8.1 and have been reclassified as Finance Lease or Hire-Purchase Investments. The item has been reclassified as construction was completed during the year.
[2] This item relates to an investment that has been reclassified from the Loans investments category. Please refer to note 8.1 for additional information.
[3] Capitalised interest represents interest on investments due to the Group which has not been received and is past due. Capitalised interest on investments has been included in the principal balance and has been fully provided for as part of the ECL.
[4] Refer to note 17.1 and the Portfolio Manager report for further details on the ECL provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Finance Lease and Hire-Purchase Investments (Continued)

30 June 2019 Restated[1]	**Finance Lease**	**Hire-Purchase**	**Total**
	£	**£**	**£**
Opening balance	48,306,606	53,708,822	102,015,428
Additions during the year	3,965,305	253,936	4,219,241
Reclassified Construction Finance investments[2]	4,958,954	3,326,573	8,285,527
Reclassified to Property, Plant and Equipment[3]	-	(2,298,827)	(2,298,827)
Realised gain/(loss) on investment	496,573	(7,937)	488,636
Principal amortisation during the year	(8,043,626)	(5,079,677)	(13,123,303)
Capitalised interest[4]	2,232,221	648,450	2,880,671
Restated closing balance	**51,916,033**	**50,551,340**	**102,467,373**
ECL provision[5]			
Opening balance	(188,860)	(32,095)	(220,955)
Movement in ECL provision during the year	(19,652)	(342,412)	(362,064)
Closing balance	**(208,512)**	**(374,507)**	**(583,019)**
Restated closing balance	**51,707,521**	**50,176,833**	**101,884,354**

[1] Refer to note 21 for further information.
[2] This item relates to advances that previously appeared in the construction finance investment category in note 8.1 and have been reclassified as finance lease or hire-purchase investments. The item has been reclassified as construction was completed during the year.
[3] This item relates to an investment that has been reclassified to the property, plant and equipment investment category. Please refer to note 7 for additional information.
[4] Capitalised interest represents interest on investments due to the Group which has not been received and is past due. Capitalised interest on investments has been included in the principal balance and has been provided for as part of the ECL.
[5] Refer to note 17.1 for further details on the ECL provision.

Residual Value

Assets leased to third parties under finance leases had an unguaranteed residual value at the end of the year of £127,557 (30 June 2019: £404,618).

During the year ended 30 June 2020, two residual investments were sold for £304,712. During the year ended 30 June 2019, seven residual investments were sold for £178,376.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Finance Lease and Hire-Purchase Investments (Continued)

The following table summarises the changes in finance lease investments:

	30 June 2020	30 June 2019 Restated
	£	£
Net receivables from finance leases		
No later than 1 year	6,004,861	6,885,215
Later than 1 year and no later than 5 years	19,697,508	16,303,029
Later than 5 years	29,452,930	26,187,350
Reallocation of capital receivables[3]	1,114,345	308,218
Capitalised accrued interest	4,811,394	2,232,221
ECL	(20,980,690)	(208,512)
Total net receivables from finance leases[1, 3]	**40,100,348**	**51,707,521**
Unearned future income on finance leases[2]	30,981,611	26,826,571
Total investment in finance leases including unearned future income[2, 3]	**71,081,959**	**78,534,092**
Non-current receivables		
Finance leases – net receivables	49,150,438	42,490,379
Unearned future finance income[2]	25,827,594	22,380,566
Reallocation of capital receivables[3]	1,114,345	308,218
Capitalised accrued interest	4,811,394	2,232,221
ECL	(20,980,690)	(208,512)
	59,923,081	**67,202,872**
Current receivables		
Finance leases – net receivables	6,004,861	6,885,215
Unearned future finance income[2]	5,154,017	4,446,005
	11,158,878	**11,331,220**
Total investment in finance leases including unearned future income[2, 3]	**71,081,959**	**78,534,092**
Reconciliation		
No later than 1 year	11,158,878	11,331,220
Later than 1 year and no later than 5 years	35,593,753	29,993,154
Later than 5 years	39,384,279	34,877,791
Reallocation of capital receivables[3]	1,114,345	308,218
Capitalised accrued interest	4,811,394	2,232,221
ECL	(20,980,690)	(208,512)
Total investment in finance leases including unearned future income[2, 3]	**71,081,959**	**78,534,092**

[1]The net receivables from finance leases are recognised in the consolidated statement of financial position.
[2]Unearned future income on finance leases is not recognised in the consolidated statement of financial position as it is a future asset.
[3]The comparatives have been restated for the prior year. Refer to note 21 for further information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Finance Lease and Hire-Purchase Investments (Continued)

The following table summarises the changes in hire purchase investments:

	30 June 2020 £	30 June 2019 Restated £
Net receivables from hire purchase		
No later than 1 year	4,134,530	6,345,805
Later than 1 year and no later than 5 years	16,794,015	21,162,392
Later than 5 years	19,433,877	21,704,485
Reallocation of capital receivables[3]	576,264	690,208
Capitalised accrued interest	645,420	648,450
ECL	(10,294,107)	(374,507)
Total net receivables from finance leases[1, 3]	**31,289,999**	**50,176,833**
Unearned future income on hire purchase[2]	19,701,929	22,761,264
Total investment in hire-purchase including unearned future income[2, 3]	**50,991,928**	**72,938,097**
Non-current receivables		
Hire purchase – net receivables	36,227,891	42,866,877
Unearned future income[2]	16,069,878	18,367,364
Reallocation of capital receivables[3]	576,264	690,208
Capitalised accrued interest	645,420	648,450
ECL	(10,294,107)	(374,507)
	43,225,346	**62,198,392**
Current receivables		
Hire purchase – net receivables	4,134,531	6,345,805
Unearned future income[2]	3,632,051	4,393,900
	7,766,582	**10,739,705**
Total investment in hire-purchase including unearned future income[2, 3]	**50,991,928**	**72,938,097**
Reconciliation		
No later than 1 year	7,766,582	10,739,705
Later than 1 year and no later than 5 years	27,552,107	33,314,362
Later than 5 years	24,745,662	27,919,879
Reallocation of capital receivables[3]	576,264	690,208
Capitalised accrued interest	645,420	648,450
ECL	(10,294,107)	(374,507)
Total investment in hire-purchase including unearned future income[2, 3]	**50,991,928**	**72,938,097**

[1]The net receivables from finance leases are recognised in the consolidated statement of financial position.
[2]Unearned future income on finance leases is not recognised in the consolidated statement of financial position as it is a future asset.
[3]The comparatives have been restated for the prior year. Refer to note 21 for further information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Receivables

Interest Receivables
Interest receivables represent accrued interest receivable on leases and loans.

The Group has financial risk management policies in place to monitor that all receivables are received within the credit time frame. The Directors considers that the carrying amount of all receivables approximates to their fair value.

Other Receivables and Prepayments

	30 June 2020	30 June 2019 Restated
	£	£
UK VAT	-	79,429
Prepaid transaction fees	745,557	784,564
Other receivables	-	763,380
	745,557	**1,627,373**

Refer to note 21 for further information.

11. Other Payables and Accrued Expenses

	30 June 2020	30 June 2019 Restated
	£	£
Investment management fees – due to Investment Manger	46,914	378,308
Investment management fees – due to Portfolio Manager	234,575	-
Administration and secretarial fees	74,500	74,499
Audit fees	30,000	50,000
Printing fees	17,438	20,000
Brokerage fees	7,980	7,755
Other payables	48,942	287,903
	460,349	**818,465**

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The Directors consider that the carrying amount of all payables approximates to their fair value.

Refer to note 21 for further information.

12. Commitments and Contingent Liabilities

As at 30 June 2020, the Group had committed to invest a further £925,500 (30 June 2019: £22,170,760). These commitments are classified as ‘hard commitments’ of £925,500 (30 June 2019: £15,836,289) which represent investments for which the documentation is finalised and ‘soft commitments’ of £nil (30 June 2019: £6,334,471) which represent investments at varying stages of documentation.

The £925,500 was advanced by the Group post year-end. The ECL provision for this investment has incorporated this amount as at 30 June 2020.

The Group did not have any contingent liabilities as at 30 June 2020 and 30 June 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Share Capital

The authorised share capital of the Company is represented by an unlimited number of shares of no par value which may be designated as Ordinary Shares, C Shares or otherwise as the Directors may from time to time determine. All shares hold equal rights with no restrictions and no shares carry special rights with regard to the control of the Company. There are no special rights attached to the shares in the event that the Company is wound up. In accordance with the Company's articles, the Company holds separate share class meetings, for both the Ordinary Shares and the 2016 C Shares, at which shareholders vote on resolutions specific to each share class.

The 2016 C Share investments are accounted for and managed as a separate pool of assets in accordance with the Company's investment policy. Shared expenses which relate to both classes are split between Ordinary Shares and 2016 C Shares based on their respective NAV.

The Company's share capital is denominated in Sterling.

	30 June 2020		30 June 2019	
	Number of Shares in Issue	**Stated Capital**	**Number of Shares in Issue**	**Stated Capital**
		£		**£**
Ordinary Shares	355,975,669	352,151,873	356,263,825	352,389,718
2016 C Shares	138,924,222	136,504,072	138,924,222	136,504,072
Total	**494,899,891**	**488,655,945**	**495,188,047**	**488,893,790**

The number of Ordinary Shares in issue is presented after deduction of 1,731,838 (30 June 2019: 1,443,682) treasury shares.

Share Buybacks
On 21 November 2019 the Directors were granted authority to repurchase 53,360,753 Ordinary Shares and 20,824,741 2016 C Shares (being equal to 14.99% of the number of Ordinary Shares and 2016 C Shares in issue) for cancellation or to be held as treasury shares. This authority will expire at the forthcoming AGM. The Directors intend to seek annual renewal of this authority from shareholders. Pursuant to this authority, and subject to Companies Law and the discretion of the Directors, the Company may purchase Ordinary Shares and 2016 C Shares in the market if they believe it to be in shareholders' interests.

During the year, 288,156 (30 June 2019: 321,316) Ordinary Shares were repurchased and are being held in treasury at a total cost of £237,845 (30 June 2019: £295,529). As at 30 June 2020, 1,731,838 (30 June 2019: 1,443,682) shares are held in treasury. No 2016 C Shares were repurchased during the year or the prior year.

Managed Wind Down of the Company
Refer to note 18 for further details on the managed wind down of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Share Capital (Continued)

Issued Share Movements

	30 June 2020		30 June 2019	
	Number	**Stated Capital**	**Number**	**Stated Capital**
		£		**£**
Balance at the start of the year	**495,188,047**	**488,893,790**	**495,509,363**	**489,189,319**
Ordinary Shares repurchased	(288,156)	(237,845)	(321,316)	(295,529)
Balance at the end of the year	**494,899,891**	**488,655,945**	**495,188,047**	**488,893,790**

14. Dividends

On 18 March 2020, dividend payments on both the Ordinary and 2016 C share classes were suspended, the last dividend paid was for January 2020. Up to 17 March 2020, the Company targeted a dividend of 7.25 pence per Ordinary Share and 2016 C Share. Dividend payments to shareholders were subject to the Company being able to satisfy the solvency test immediately after payment of such dividend.

The table below details the dividends declared and paid by the Company to its shareholders during the year:

Period	**Announcement Date**	**Payment Date**	**Amount per Share**	**Amount**
Ordinary Shares				**£**
1 to 31 May 2019	24 June 2019	26 July 2019	0.6042p	2,152,546
1 to 30 June 2019	23 July 2019	23 August 2019	0.6042p	2,152,546
1 to 31 July 2019	27 August 2019	27 September 2019	0.6042p	2,152,546
1 to 31 August 2019	30 September 2019	25 October 2019	0.6042p	2,152,546
1 to 30 September 2019	28 October 2019	29 November 2019	0.6042p	2,152,546
1 to 31 October 2019	22 November 2019	27 December 2019	0.6042p	2,151,490
1 to 30 November 2019	20 December 2019	24 January 2020	0.6042p	2,150,805
1 to 31 December 2019	24 January 2020	28 February 2020	0.6042p	2,150,805
1 to 31 January 2020	21 February 2020	27 March 2020	0.6042p	2,150,805
Total				19,366,635
2016 C Shares				**£**
1 to 31 May 2019	24 June 2019	26 July 2019	0.6042p	839,380
1 to 30 June 2019	23 July 2019	23 August 2019	0.6042p	839,380
1 to 31 July 2019	27 August 2019	27 September 2019	0.6042p	839,380
1 to 31 August 2019	30 September 2019	25 October 2019	0.6042p	839,380
1 to 30 September 2019	28 October 2019	29 November 2019	0.6042p	839,380
1 to 31 October 2019	22 November 2019	27 December 2019	0.6042p	839,380
1 to 30 November 2019	20 December 2019	24 January 2020	0.6042p	839,380
1 to 31 December 2019	24 January 2020	28 February 2020	0.6042p	839,380
1 to 31 January 2020	21 February 2020	27 March 2020	0.6042p	839,380
Total				7,554,420
Grand Total				**26,921,055**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Dividends (Continued)

The Company declared and paid the following dividends to its shareholders during the prior year:

Period	Announcement Date	Payment Date	Amount per Share	Amount
Ordinary Shares				**£**
1 to 30 June 2018	23 July 2018	16 August 2018	0.6042p	2,152,546
1 to 31 July 2018	21 August 2018	17 September 2018	0.6042p	2,152,546
1 to 31 August 2018	21 September 2018	17 October 2018	0.6042p	2,152,546
1 to 30 September 2018	19 October 2018	19 November 2018	0.6042p	2,152,546
1 to 31 October 2018	21 November 2018	17 December 2018	0.6042p	2,152,546
1 to 30 November 2018	21 December 2018	21 January 2019	0.6042p	2,152,546
1 to 31 December 2018	28 January 2019	1 March 2019	0.6042p	2,152,546
1 to 31 January 2019	25 February 2019	29 March 2019	0.6042p	2,152,546
1 to 28 February 2019	21 March 2019	26 April 2019	0.6042p	2,152,546
1 to 31 March 2019	23 April 2019	24 May 2019	0.6042p	2,152,546
1 to 30 April 2019	24 May 2019	28 June 2019	0.6042p	2,152,546
Total				**23,678,006**
2016 C Shares				**£**
1 to 30 June 2018	23 July 2018	16 August 2018	0.3333p	463,036
1 to 31 July 2018	21 August 2018	17 September 2018	0.4167p	578,897
1 to 31 August 2018	21 September 2018	17 October 2018	0.6042p	839,380
1 to 30 September 2018	19 October 2018	19 November 2018	0.6042p	839,380
1 to 31 October 2018	21 November 2018	17 December 2018	0.6042p	839,380
1 to 30 November 2018	21 December 2018	21 January 2019	0.6042p	839,380
1 to 31 December 2018	28 January 2019	1 March 2019	0.6042p	839,380
1 to 31 January 2019	25 February 2019	29 March 2019	0.6042p	839,380
1 to 28 February 2019	21 March 2019	26 April 2019	0.6042p	839,380
1 to 31 March 2019	23 April 2019	24 May 2019	0.6042p	839,380
1 to 30 April 2019	24 May 2019	28 June 2019	0.6042p	839,380
Total				**8,596,353**
Grand Total				**32,274,359**

15. Capital Management Policies and Procedures

The Board defines capital as financial resources available to the Group.

The Group's total capital at 30 June 2020 was £223,518,830 (30 June 2019: £474,492,470) and comprised equity share capital and reserves. The Group was ungeared at the year end.

The Group's capital management objective is to provide returns to shareholders.

In accordance with the Group's investment policy, the Group's principal use of cash has been to fund investments sourced by the Portfolio Manager (previously the Investment Managers), as well as initial expenses related to the issue, ongoing operational expenses, currency hedging and payment of dividends and other distributions to shareholders in accordance with the Group's dividend policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Capital Management Policies and Procedures (Continued)

The Board, with the assistance of the Portfolio Manager, monitors and reviews the broad structure of the Group's capital on an ongoing basis.

The Group has no externally imposed capital requirements.

16. Segmental Reporting

There are two reportable segments as at 30 June 2020: Ordinary Shares and 2016 C Shares. Each Share Class has its own portfolio, is listed separately on the Main Market of the London Stock Exchange and the Directors review internal management reports for each segment separately on a quarterly basis.

The Directors view the operations of the two reportable segments as one operating segment, being investment business and both segments have the same investment objectives as at 30 June 2020. All significant operating decisions are based upon analysis of the Group's investments as one segment. The financial results from this segment are equivalent to the financial results of the Group as a whole.

The Directors do not view the classification of investments held in the Company's portfolio (as detailed on the consolidated statement of financial position) to be reportable segments. Additional information is included in notes 7, 8 and 9, to assist users with their understanding of these consolidated financial statements.

The tables below provide a breakdown of the condensed consolidated statement of comprehensive income between the reportable segments:

For the year ended 30 June 2020	**Ordinary Shares**	**2016 C Shares**	**Total**
	£	**£**	**£**
Total income	24,691,338	12,288,699	36,980,037
Net realised and unrealised loss	(10,549,430)	(1,172,916)	(11,722,346)
Total operating expenses (excluding ECL)	(16,660,426)	(1,943,006)	(18,603,432)
ECL	(187,203,860)	(43,265,139)	(230,468,999)
Total comprehensive loss for the year	**(189,722,378)**	**(34,092,362)**	**(223,814,740)**

For the year ended 30 June 2019	**Ordinary Shares**	**2016 C Shares**	**Total**
	£	**£**	**£**
Total income	28,655,655	11,045,867	39,701,522
Net realised and unrealised (loss)/gain	(1,953,748)	18,899	(1,934,849)
Total operating expenses (excluding ECL)	(7,886,574)	(1,621,739)	(9,508,313)
ECL	(4,336,000)	(71,824)	(4,407,824)
Total comprehensive income for the year	**14,479,333**	**9,371,203**	**23,850,536**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Segmental Reporting (Continued)

The tables below provide a breakdown of the condensed consolidated statement of financial position between the reportable segments:

30 June 2020	Ordinary Share	2016 C Share	Total
	£	£	£
Non-current assets	66,290,597	68,370,730	**134,661,327**
Current assets	62,819,871	26,497,981	**89,317,852**
Total assets	**129,110,468**	**94,868,711**	**223,979,179**
Current liabilities	(298,423)	(161,926)	**(460,349)**
Net assets	**128,812,045**	**94,706,785**	**223,518,830**
Equity	**128,812,045**	**94,706,785**	**223,518,830**

30 June 2019	Ordinary Share	2016 C Share	Total
	£	£	£
Non-current assets	324,416,973	125,556,828	**449,973,801**
Current assets	16,795,759	11,018,916	**27,814,675**
Total assets	**341,212,732**	**136,575,744**	**477,788,476**
Current liabilities	(3,073,837)	(222,169)	**(3,296,006)**
Net assets	**338,138,895**	**136,353,575**	**474,492,470**
Equity	**338,138,895**	**136,353,575**	**474,492,470**

17. Financial Risk Management

The Group's financial assets mainly comprise investments and cash balances. Note 2 sets out the accounting policies, including criteria for recognition and the basis for measurement, applied to significant financial assets and liabilities. Note 2 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised.

The Group finances its investment activities through the Group's Ordinary Share and 2016 C Share capital and reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

Principal risks and uncertainties are detailed in the Strategic Report. The Directors, the AIFM and the Portfolio Manager work together to mitigate these risks by employing the following risk mitigation strategies:

(i) Credit Management – sound credit management is a prerequisite for an entity's stability and profitability. Prudent management of credit risk can minimise both operational and credit risks. The Board and the Portfolio Manager (previously the Investment Managers) pre-emptively begin to manage risk through the comprehensive underwriting process to ensure that there is not more than an acceptable amount of risk within the transaction. The risk is continually managed throughout the term of the lease (or other finance agreement) until the ultimate disposition of the asset(s). Stringent underwriting procedures are applied to mitigate risk.

(ii) Due Diligence – the Portfolio Manager perform comprehensive due diligence on all counter parties, individuals and businesses relevant to the investment strategy of the Group.

(iii) On-going Portfolio Management – ensures that if a problem starts to arise, it is identified giving the capability to address it and put into action whatever remediation steps are necessary to help mitigate a potentially larger risk down the line.

(iv) Legal Review – the Portfolio Manager engages legal professionals in order to ensure, on an on-going basis, that all rights, title and interests, held as security for the Company's investments are being protected and preserved.

(vi) Records Management – the Portfolio Manager's internal systems are utilised to ensure the Group is not exposed from a record maintenance standpoint. The Portfolio Manager has a comprehensive electronic documentation system that is subject to their internal/external backup procedure, maintaining information access and retrieval 24/7 with offsite redundant backup in case of a disaster when recovery would need to be deployed.

The AIFM, in close cooperation with the Directors and the Portfolio Manager, coordinate the Group's risk management.

Additional risks arising from the Group's activities listed in order of severity and likelihood and the policies for managing each of these risks are summarised in this note and have been applied throughout the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk

This is the risk of the failure of a lessee to make lease payments, the failure of the issuer of a security or borrower to pay interest or principal in a timely manner, or that the effect of negative perceptions of the issuer's ability to make such payments causing the value of the investment to decline. Counterparties with debt securities rated below investment-grade (or unrated) are especially susceptible to this risk. The Group looks to source investments that can provide various credit and structural enhancements to attempt to mitigate credit exposure to any single counterparty or asset class.

Credit concentration risk
Under the previous investment objective and policy, the Company had diversification policies in place to mitigate concentration risk. The Company's portfolio was subject to diversification policies limiting the maximum amount of capital that could be invested in a single asset, in a single asset class, in assets held by a corporation or group or held by companies in a specific industry, as a percentage of NAV of the portfolio, measured at the time of investment:

Maximum by asset: 15 per cent.
Maximum by asset class: 30 per cent.
Maximum by corporation or group: 15 per cent.
Maximum by industry: 30 per cent.

As the Company is in managed wind down, the Company will not be making any new investments. The Board will monitor concentration risk of the investment portfolio as the portfolio is liquidated as part of the new investment objective and policy approved by shareholders at the EGM held on 4 December 2020.

BNP Paribas Securities Services S.C.A., Guernsey Branch is the bank used by the Group to hold cash balances and there is a risk that it could fail or that there may be fraud or theft by employees and that the Group's assets may not be returned. BNP Paribas Securities Services S.C.A., Guernsey Branch, is a branch of BNP Paribas whose credit rating is A+ with Standard & Poor's.

Credit risk of cash and custodian is mitigated by the Company's policy to only undertake significant transactions with leading commercial counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk (Continued)

The IFRS 9 ECL requirements are based on the ECL model and financial assets are recognised in stages:

Stage 1 - as soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial assets, interest revenue is calculated on the gross carrying amount (i.e. without deduction for expected credit losses).

Stage 2 - if the credit risk increases significantly since initial recognition, lifetime expected credit losses are recognised in profit or loss. The calculation of interest revenue is the same as for Stage 1.

Stage 3 - if the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (i.e. the gross carrying amount less the loss allowance). Financial assets in this stage will generally be assessed individually. Lifetime expected credit losses are recognised on these financial assets.

The Directors after taking advice from and consulting with the Portfolio Manager have applied an ECL to each of the investments in the portfolio.

Exposure to Credit Risk
The following tables detail the Company's financial assets maximum exposure to credit risk:

30 June 2020	**Gross carrying amount**	**ECL**	**Net carrying amount**
	£	£	£
Residual value of finance lease investments	127,557	-	127,557
Loans and other investments	347,696,192	(207,019,000)	140,677,192
Finance Lease and Hire Purchase investments	102,665,144	(31,274,797)	71,390,347
Cash and cash equivalents	8,997,906	-	8,997,906
Other receivables (excludes prepayments)	1,073,111	-	1,073,111
Total assets	**460,559,910**	**(238,293,797)**	**222,266,113**

30 June 2019	**Gross carrying amount**	**ECL**	**Net carrying amount**
	£	£	£
Residual value of finance lease investments	404,618	-	404,618
Loans and other investments	332,202,246	(7,241,779)	324,960,467
Finance Lease and Hire Purchase investments	102,467,373	(583,019)	101,884,354
Cash and cash equivalents	22,039,165	-	22,039,165
Due from broker	2,630,000	-	2,630,000
Other receivables (excludes prepayments)	2,360,946	-	2,360,946
Total assets	**462,104,348**	**(7,824,798)**	**454,279,550**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk (Continued)

Gross exposure reconciliation

The following tables below detail the gross exposure of loans and other investments and finance lease and hire purchase investments:

30 June 2020	Stage 1 £	Stage 2 £	Stage 3 £	Total £
Gross balance at 1 July 2019	**245,045,796**	**159,655,750**	**29,968,073**	**434,669,619**
New loans advanced	29,451,904	3,949,619	-	33,401,523
Transfers between stages	(140,992,213)	(151,683,643)	292,675,856	-
Change in foreign exchange movement	901,315	91,588	2,913,662	3,906,565
Realised gain	127,660	(247)	218,665	346,078
Change in capitalised interest	429,347	(16,465)	13,517,538	13,930,420
Loans repayments	(15,791,887)	(1,482,555)	(18,618,427)	(35,892,869)
Gross balance at 30 June 2020	**119,171,922**	**10,514,047**	**320,675,367**	**450,361,336**

30 June 2019	Stage 1 £	Stage 2 £	Stage 3 £	Total £
Gross balance at 1 July 2018 – Restated[3]	**239,738,387**	**157,098,628**	**-**	**396,837,015**
New loans advanced	85,655,692	6,882,104	-	92,537,796
Transfers between stages	(33,663,627)	6,166,328	27,497,299	-
Change in foreign exchange movement	(4,771,859)	(1,025,103)	-	(5,796,962)
Reclassification of investments	(6,244,482)[1]	(2,298,827)[2]	-	(8,543,309)
Realised gain	8,098,995	2,353,422	-	10,452,417
Change in capitalised interest	1,977,457	7,354,801	2,470,774	11,803,032
Loans repayments	(45,744,767)	(16,875,603)	-	(62,620,370)
Gross balance at 30 June 2019	**245,045,796**	**159,655,750**	**29,968,073**	**434,669,619**

[1] This item relates to an investment that has been reclassified to the equity holding category following a restructuring. Please refer to note 8.2 for additional information.
[2] This item relates to an investment that has been reclassified to the property, plant and equipment investment category. Please refer to note 7 for additional information.
[3] Refer to note 21 for further information. Provision of £3,314,194 recognised as at 1 July 2018.

ECL Reconciliation

The following tables show the movement in expected credit losses recognised for the respective financial assets:

30 June 2020	Stage 1 £	Stage 2 £	Stage 3 £	Total £
ECL at 1 July 2019	**(147,684)**	**(3,586,776)**	**(4,090,338)**	**(7,824,798)**
Increase in loss allowance arising from new loans advanced	-	-	-	-
Transfers between stages	58,340	3,582,779	(3,641,119)	-
Loans repayments	4,336	-	-	4,336
Change in credit risk parameters	(3,561,008)	(843,740)	(226,068,587)	(230,473,335)
ECL at 30 June 2020	**(3,646,016)**	**(847,737)**	**(233,800,044)**	**(238,293,797)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk (Continued)

ECL Reconciliation (Continued)

Change in credit risk parameters
During the year, the Portfolio Manager, with the oversight of the Board and the AIFM, conducted a thorough review of the investments held in the Group's portfolio. This review resulted in an additional ECL of £230.5 million during the year. The changes in the ECL were caused predominantly by a reassessment of the valuation and risk profiling of debt held within the portfolio attributing appropriate PD and LGD expectations to the positions held. The Portfolio Manager, with the oversight of the Board and the AIFM, have impaired distressed and aged debtors and made some provision for Covid-19 related events that occurred in the final quarter of the year. Refer to the Portfolio Manager's Report for further details.

30 June 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	£	**£**	**£**	**£**
ECL at 1 July 2018	**(130,227)**	**(3,183,967)**	**-**	**(3,314,194)**
Increase in loss allowance arising from new loans advanced	(46,378)	(4,049)	-	(50,427)
Transfers between stages	15,925	144,598	(160,523)	-
Loans repayments	21,239	32,709	-	53,948
Change in credit risk parameters	(8,243)	(576,067)	(3,929,815)	(4,514,125)
ECL at 30 June 2019	**(147,684)**	**(3,586,776)**	**(4,090,338)**	**(7,824,798)**

Change in credit risk parameters
During the year, the Investment Managers, with the oversight of the Board, conducted an ECL review of all investments. Following the review, there was an ECL of £7.8 million, £6.6 million related to three investments, two stage 3 AD Plants and a Stage 2 investment in the manufacturing industry. In regard to the AD Plants, one suffered from high feedstock costs which has reduced its profitability and therefore its value and one had delays in reaching the manufacturer's warranted level, which required modifications to the plant and additional capital investment. The ECL for the investment in the manufacturing industry accounted for the risk adjusted time value of money and the minimum expected recovery under the lease, supported by amounts receivable under tariffs, amounts received under a guarantee or sale of the investee's equipment, taking account of the potential time required to realise the recovery.

ECL Sensitivity analysis
The key inputs of the in the ECL model are PD and LGD. The following are the sensitivity analysis of these key inputs.

PD Rates

	30 June 2020		**30 June 2019**	
	Increase in PD rates of 10%	**Decrease in PD rates of 10%**	**Increase in PD rates of 10%**	**Decrease in PD rates of 10%**
	£	**£**	**£**	**£**
Increase/(decrease) in ECL	8,277,713	(27,420,345)	1,347,935	(1,448,589)
Total	**8,227,713**	**(27,420,345)**	**1,347,935**	**(1,448,589)**

By reviewing their internal data and migration of PD, the Portfolio Manager reviewed the lifetime average migration in PD and assumed that these transitions occurred over a five year life of the Company. The Group has taken the average migrations in PD and divided by five to give an appropriate stress PD rounding to the nearest percentage point and have provided stress scenarios of +/- 10%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk (Continued)

Sensitivity analysis of ECL (Continued)

LGD Rates

	30 June 2020		30 June 2019	
	Increase in LGD rates of 10% £	Decrease in LGD rates of 10% £	Increase in LGD rates of 10% £	Decrease in LGD rates of 10% £
Increase/(decrease) in ECL	23,403,561	(33,018,897)	7,768,118	(6,300,949)
Total	**23,403,561**	**(33,018,897)**	**7,768,118**	**(6,300,949)**

The underlying collateral valuation volatility in a given year is typically range bound by +/- 10% given the nature of the assets. We have presented this as +/- 10% LGD stress scenarios.

Collateral held as security
The carrying value of assets that have defaulted as at 30 June 2020 is £86,875,317 (30 June 2019: £25,877,735). In line with the previous investment strategy, the Company has invested in assets that hold multiple levels of credit enhancements or collateral including guarantees to mitigate the credit risk associated to the Company assets held. The value of the underlying collateral held for stage 3 assets as at 30 June 2020 is £86,875,317 (30 June 2019: £25,877,735).

The table below details the net amount of loans and other investments and finance lease and hire purchase investments in each stage:

30 June 2020

	Stage 1	Stage 2	Stage 3	Total
Finance Lease and Hire Purchase investments	49,635,787	4,558,933	48,470,424	102,665,144
ECL	(1,894,976)	(405,787)	(28,974,034)	(31,274,797)
Total (net of the ECL)	**47,740,811**	**4,153,146**	**19,496,390**	**71,390,347**
Loans and other investment	69,536,135	5,955,120	272,204,937	347,696,192
ECL	(1,751,040)	(441,950)	(204,826,010)	(207,019,000)
Total (net of the ECL)	**67,785,095**	**5,513,170**	**67,378,927**	**140,677,192**
Total ECL	**(3,646,016)**	**(847,737)**	**(233,800,044)**	**(238,293,797)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk (Continued)

30 June 2019

	Stage 1	Stage 2	Stage 3	Total
Finance Lease and Hire Purchase	48,324,904	54,142,469	-	102,467,373
ECL	(35,098)	(547,921)	-	(583,019)
Total (net of the ECL)	**48,289,806**	**53,594,548**	**-**	**101,884,354**
Loans and other investment	196,720,892	105,513,281	29,968,073	332,202,246
ECL	(112,586)	(3,038,855)	(4,090,338)	(7,241,779)
Total (net of the ECL)	**196,608,306**	**102,474,426**	**25,877,735**	**324,960,467**
Total ECL	**(147,684)**	**(3,586,776)**	**(4,090,338)**	**(7,824,798)**

Financial assets credit quality summary
The Group uses a credit model which grades each asset into a common risk category (the "Portfolio Manager Credit Score") based on the PD, LGD" and loan exposure at default. This allows for all exposures to be placed on the same analytical basis with an expected loss model. The model also creates the framework for assigning ECL provisions. The purpose of the model is to establish a consistent framework for grading exposures risk and an input into the underwriting decision. Pre-determined loan characteristics will be used to generate the PD and the LGD. The Portfolio Manager Credit Score provides a basis for comparing across borrowers and collateral types. The table below shows the different risk categories and the associated PDs and ECL provisions in relation to unsecured loans:

Grade	Portfolio Manager PD	Nominal Rating Equivalent	Expected loss by rating
	%		%
1: Virtually no risk	0.01	AAA	0.007
2: Low risk	0.10	AA	0.07
3: Moderate risk	0.50	A	0.35
4: Average risk	1.50	BBB	1.05
5: Acceptable risk	4	BB	2.80
6: Borderline risk	10	B	7.00
7: High risk	20	CCC	14.0
8: Extremely high risk	40	CC	28.0
9: Doubtful	60	D	42.0
10: Loss	100	D	70.0

For LGD purposes if the assets supporting a loan are not easily realisable e.g. fixed plant, the Portfolio Manager assumes on default that the business has failed and therefore the recovery will be equivalent to an unsecured loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk (Continued)

Financial assets credit quality summary (Continued)

Portfolio Manager LGD Approach:

Category	LGD Approach	Example credits
Easily Realisable	Asset value less 10% haircut discounted at 10% IRR for 12 months to recovery	*e.g., helicopter, yellow metal or other vehicle*
Realisable	Asset value less 20% discounted at 20% IRR for 2 years to recovery	*e.g., manufacturing equipment, specialised but remarketable*
Highly Specialised	70% LGD (Equivalent to unsecured)	e.g., bespoke anaerobic digestion equipment
Subordinated Debt	100% LGD Where an external 3rd party valuation is available this is used to create a bespoke LGD for that asset in priority to the Highly Specialised and Subordinated Debt categories.	

The percentage provision under IFRS 9 for a facility is this LGD multiplied by the credit rating PD as allocated above.

Refer to note 2.3 for further detail on ECL methodology.

Broadly, the Portfolio Manager grades 1 to 6 correspond to stage 1, grades 7 to 9 correspond to stage 2 and grade 10 corresponds to stage 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk (Continued)

Financial assets credit quality summary (Continued)
The table below and on the following page details the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades for the years ended 30 June 2020 and 30 June 2019:

30 June 2020

Internal credit rating	Nominal Rating Equivalent	12-month or Lifetime ECL	Investment Category	Gross carrying amount	ECL	Net carrying amount
				£	£	£
N/A	A+[1]	N/A	Cash and cash equivalents	8,997,906	-	8,997,906
4	BBB	12 month ECL	Loans and other Investments	18,479,164	(194,031)	18,285,133
5	BB	12 month ECL	Loans and other Investments	45,836,358	(1,034,950)	44,801,408
5	BB	12 month ECL	Finance Lease and Hire-Purchase	37,664,292	(1,056,971)	36,607,321
5	BB	12 month ECL	Residual value of finance lease investments	84,627	-	84,627
5	BB	N/A	Interest receivables	1,073,111	-	1,073,111
6	B	12 month ECL	Loans and other Investments	5,220,590	(522,059)	4,698,531
6	B	12 month ECL	Finance Lease and Hire-Purchase	11,971,496	(838,005)	11,133,491
7	CCC	Life time ECL	Finance Lease and Hire-Purchase	4,558,933	(405,787)	4,153,146
7	CCC	Life time ECL	Residual value of finance lease investments	21,972	-	21,972
9	D	Life time ECL	Loans and other Investments	5,955,120	(441,950)	5,513,170
10	D	Life time ECL	Loans and other Investments	272,204,960	(204,826,010)	67,378,950
10	D	Life time ECL	Finance Lease and Hire-Purchase	48,470,423	(28,974,034)	19,496,389
10	D	Life time ECL	Residual value of finance lease investments	20,958	-	20,958
Total				**460,559,910**	**(238,293,797)**	**222,266,113**

[1] – Bloomberg – Standard and Poor's rating

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.1. Credit Risk (Continued)

Financial assets credit quality summary (Continued)

30 June 2019

Internal credit rating[1]	External credit rating[2]	12-month or Lifetime ECL	Investment Category	Gross carrying amount	ECL	Net carrying amount
				£	£	£
n/a	n/a	n/a	Residual value of finance lease investments	404,618	n/a	404,618
n/a	n/a	12 month ECL	Loans and other investments	196,720,890	(112,585)	196,608,305
n/a	n/a	Life time ECL	Loans and other investments	135,481,356	(7,129,194)	128,352,162
n/a	n/a	12 month ECL	Finance Lease and Hire Purchase	48,324,904	(35,098)	48,289,806
n/a	n/a	Life time ECL	Finance Lease and Hire Purchase	54,142,469	(547,921)	53,594,548
n/a	A1	n/a	Cash and cash equivalents	22,039,165	n/a	22,039,165
n/a	n/a	n/a	Due from broker	2,630,000	n/a	2,630,000
n/a	n/a	n/a	Interest receivables	1,371,182	n/a	1,371,182
n/a	n/a	n/a	Investment receivables	146,955	n/a	146,955
n/a	n/a	n/a	Other receivables (excludes prepayments)	842,809	n/a	842,809
				462,104,348	**(7,824,798)**	**454,279,550**

[1] – No internal credit ratings were applied by the Investment Managers for the year ended 30 June 2019
[2] – Bloomberg – Standard and Poor's rating

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.2. Liquidity Risk

This is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities or funding commitments.

The Group's investments (excluding cash deposits) are asset-backed loan or finance transactions with commercial entities. The investments are substantially less liquid than traded securities and will have a highly limited (if any) secondary market. Some transactions may incorporate provisions that restrict transfer or disposal of the investment.

The Group will be required to satisfy margin calls in respect of a foreign exchange forward if Sterling subsequently depreciates relative to the agreed contractual rate of the forward contract.

As at 30 June 2020, the Group did not have any foreign exchange forward contracts, refer to note 17.4 Market Risk for more information.

In accordance with the Group's policy, the Portfolio Manager manages the Group's liquidity risk, and the Directors monitor it.

The table below shows the residual contractual maturity of the Company's financial assets and liabilities as at 30 June 2020:

	Less than 1 year	1 to 5 years	More than 5 years	No maturity date	Total
	£	£	£	£	£
Financial assets					
Residual value of finance lease investments	-	127,557	-	-	127,557
Loans and other investments	58,831,596	81,845,596	-	-	140,677,192
Finance lease and hire-purchase investments	19,669,682	51,720,665	-	-	71,390,347
Cash and cash equivalents	8,997,906	-	-	-	8,997,906
Interest receivables	1,073,111	-	-	-	1,073,111
Total undiscounted financial assets	**88,572,295**	**133,693,818**	**-**	**-**	**222,266,113**
Financial liabilities					
Other payables and accrued expenses	(460,349)	-	-	-	(460,349)
Total undiscounted financial liabilities	**(460,349)**	**-**	**-**	**-**	**(460,349)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.2. Liquidity Risk (Continued)

The table below shows the residual contractual maturity of the Company's financial assets and liabilities as at 30 June 2019:

	Less than 1 year	1 to 5 years	More than 5 years	No maturity date	Total
	£	£	£	£	£
Financial assets					
Investments at FVTPL	-	-	-	2,790,263	2,790,263
Equity holdings	-	-	-	5,581,419	5,581,419
Residual value of finance lease investments	-	404,618	-	-	404,618
Loans and other investments	-	324,960,467	-	-	324,960,467
Finance lease and hire-purchase investments	-	101,884,354	-	-	101,884,354
Cash and cash equivalents	22,039,165	-	-	-	22,039,165
Due from broker	2,630,000	-	-	-	2,630,000
Interest receivables	1,371,182	-	-	-	1,371,182
Investment receivables	146,955	-	-	-	146,955
Other receivables (excluding prepayments)	842,809	-	-	-	842,809
Total undiscounted financial assets	**27,030,111**	**427,249,439**	**-**	**8,371,682**	**462,651,232**
Financial liabilities					
Derivative financial liabilities	(2,477,541)	-	-	-	(2,477,541)
Other payables and accrued expenses	(818,465)	-	-	-	(818,465)
Total undiscounted financial liabilities	**(3,296,006)**	**-**	**-**	**-**	**(3,296,006)**

17.3. Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Group's activities with financial instruments either internally within the Group or externally at the Group's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

The Group's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective. The Group manages this risk by having regular Board meetings to ensure oversight of the Portfolio Manager (formerly the Investment Managers) and the Administrator.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.4. Market Risk

The fair value of future cash flows of a financial instrument held by the Group may fluctuate. This market risk comprises currency risk, interest rate risk and price risk. The Board reviews and agrees policies for managing these risks.

Currency Risk
The functional and presentation currency of the Group is Sterling and, therefore, the Group's principal exposure to foreign currency risk comprises investments denominated in other currencies, principally US Dollars and Euros. The Portfolio Manager monitors the Group's exposure to foreign currencies and reports to the Board on a regular basis. The Portfolio Manager measures the risk to the Group of the foreign currency exposure by considering the effect on the NAV and income of a movement in the rates of exchange to which the Group's assets, liabilities, income and expenses are exposed. The Investment Managers were mandated to undertake a hedging strategy and to report its effectiveness and costs to the Board on an on-going basis, before the foreign exchange forward derivatives used to hedge non-Sterling exposures back to Sterling were closed out on 18 March 2020.

The table below details the carrying amounts of the Company's assets and liabilities that have foreign currency risk exposure:

30 June 2020	**GBP**	**USD**	**EUR**	**Total**
	£	**£**	**£**	**£**
Investments	146,784,363	27,187,972	38,222,761	212,195,096
Cash and cash equivalents	6,070,056	2,249,717	678,133	8,997,906
Interest receivables	1,073,111	-	-	1,073,111
Investment payables, other payables and accrued expenses	(460,349)	-	-	(460,349)
Total net foreign currency exposure	**153,467,181**	**29,437,689**	**38,900,894**	**221,805,764**
Percentage of total	**69.19%**	**13.27%**	**17.54%**	**100.00%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.4 Market Risk (Continued)

Currency Risk (Continued)

30 June 2019	GBP £	USD £	EUR £	Total £
Investments	260,268,426	119,419,407	55,933,288	435,621,121
Cash and cash equivalents	17,741,486	3,320,324	977,355	22,039,165
Due from broker	2,630,000	-	-	2,630,000
Interest receivables	1,371,182	-	-	1,371,182
Investment receivables	146,955	-	-	146,955
Other receivables	842,809	-	-	842,809
Other payables and accrued expenses	(818,465)	-	-	(818,465)
Derivative financial liabilities	(2,477,541)	-	-	(2,477,541)
Total net foreign currency exposure	**279,704,852**	**122,739,731**	**56,910,643**	**459,355,226**
Percentage of total	**60.89%**	**26.72%**	**12.39%**	**100.00%**

Currency sensitivity analysis
Should the value of Sterling against the Euro and the US Dollar increase or decrease by 5% with all other variables held constant and excluding the impact of currency hedging described below, the impact on the net assets of the Company would be as follows:

Currency	30 June 2020 £ Increase of 5%	30 June 2020 £ Decrease of 5%	30 June 2019 £ Increase of 5%	30 June 2019 £ Decrease of 5%
USD	(1,471,884)	1,471,884	(6,104,193)	6,104,193
EUR	(1,945,045)	1,945,045	(2,840,798)	2,840,798

The Board believe that a 500 basis point movement in the value of Sterling against the Euro and the US Dollar is reasonable given the historic volatility in these currency rates during the years ended 30 June 2020 and 2019.

During the period 1 July 2019 to 18 March 2020 (and for the comparative period), the foreign currency risk assumed by the Group in making and retaining investments denominated in foreign currencies was hedged by placing contracts for the sale of the future foreign currency payments anticipated to be received in connection with such investments ("FX Receivables"). Due to the limited availability, inflexibility and cost of placing a matched forward contract for each foreign currency investment (which may have a tenor of five years or longer), the FX Receivables in respect of two or more underlying investments were aggregated and a single forward contract placed with short-term maturity (typically between three and nine months). On maturity, the forward sale contract was part-settled from actual foreign currency receipts and a new forward contract was placed for the then applicable aggregate FX Receivables, adjusted for payments received, contract variations and new investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.4 Market Risk (Continued)

The Company was required to deposit initial cash collateral against fluctuations in the applicable exchange rates and/or to meet margin calls if the prevailing market rate varied from the contract rate. The Portfolio Manager (previously the Investment Managers) monitors the Group's currency risk, and the Directors review it.

On 18 March 2020, the foreign exchange forward derivatives used to hedge non Sterling exposures back to Sterling were closed out. This was to preserve liquidity and to avoid creating liquidity pressures for the Group as Sterling had notably weakened due to Covid-19.

As at 30 June 2020, the Group did not have any open forward foreign exchange contracts. Net realised foreign exchange loss on forward contracts for the year ended 30 June 2020 was £8,015,592.

As at 30 June 2019, the Group had the following open forward foreign exchange contracts:

	Notional			
Buy/Sell Currency	**Foreign Currency**	**GBP**	**Fair Value / GBP Equivalent**	**Settlement Date Month/Year**
GBP/EUR	9,940,000	8,581,435	(317,128)	July 2019
GBP/EUR	9,731,217	8,431,126	(285,374)	August 2019
GBP/USD	3,612,931	2,845,903	11,353	August 2019
GBP/USD	58,525,358	45,925,389	102,867	September 2019
GBP/USD	43,000,847	32,704,693	(948,055)	October 2019
GBP/EUR	40,644,401	35,318,582	(1,178,771)	October 2019
GBP/USD	49,712,762	38,941,229	137,567	December 2019
			(2,477,541)	

Net realised foreign exchange loss on forward contracts for the year ended 30 June 2019 was £11,514,905.

Interest Rate Risk

Most of the Group's investments receive a fixed rate of interest. The value of fixed income securities usually rise and fall in response to changes in market interest rates. Declining interest rates generally increase the fair value of existing instruments, and rising interest rates generally decrease the fair value of existing instruments. Changes in value usually will not affect the amount of interest income or final principal repayments, but could affect the market value of the investment prior to maturity. Interest rate risk is generally greater for investments with longer maturities.

Certain income generating securities pay interest at variable or floating rates. Variable rate securities reset at specified intervals, while floating rate securities reset whenever there is a change in a specified index rate. The market prices of these securities may fluctuate significantly when interest rates change.

As explained in note 2.3(a), most of the Group's investments are carried at amortised cost, not fair value, and changes in the theoretical market value (there is no liquid market for such investments) will not be reflected in the carrying value of the investments unless the investments are considered to be impaired. The amortised cost of the debt assets is approximate to the fair value.

The possible effects on fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The Board reviews on a regular basis the values of the financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.4 Market Risk (Continued)

Interest Rate Risk (Continued)

The following table details the Group's exposure to interest rate risks. It includes the financial assets designated at fair value through profit or loss and at amortised costs and financial liabilities at amortised cost as at 30 June 2020 and 30 June 2019.

	Interest bearing		Non-interest bearing	
	Variable	**Fixed interest**		**Total**
At 30 June 2020	**£**	**£**	**£**	**£**
Assets designated at fair value through profit or loss:				
Residual value of finance lease investments	-	-	127,557	127,557
Equity holding	-	-	-	-
Financial assets at amortised cost:				
Loans and other investments	-	140,677,192	-	140,677,192
Finance lease and hire-purchase investments	-	71,390,347	-	71,390,347
Cash and cash equivalents	8,997,906	-	-	8,997,906
Interest receivable	-	-	1,073,111	1,073,111
Total assets	**8,997,906**	**212,067,539**	**1,200,668**	**222,266,113**
Liabilities				
Financial liabilities at amortised cost:				
Other payables and accrued expenses	-	-	(460,349)	(460,349)
Total liabilities	**-**	**-**	**(460,349)**	**(460,349)**
Total interest sensitivity gap	**8,997,906**	**212,067,539**	**740,319**	**221,805,764**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.4 Market Risk (Continued)

Interest Rate Risk (continued)

	Interest bearing		Non-interest bearing	
	Variable	**Fixed interest**		**Total**
At 30 June 2019	**£**	**£**	**£**	**£**
Assets designated at fair value through profit or loss:				
Investments at FVTPL			2,790,263	2,790,263
Equity holdings			5,581,419	5,581,419
Residual value of finance lease investments	-	-	404,618	404,618
Financial assets at amortised cost:				
Loans and other investments	-	324,960,467	-	324,960,467
Finance lease and hire-purchase investments	-	101,884,354	-	101,884,354
Cash and cash equivalents	22,039,165	-	-	22,039,165
Due from broker	-	-	2,630,000	2,630,000
Interest receivables	-	-	1,371,182	1,371,182
Investment receivables	-	-	146,955	146,955
Other receivables	-	-	842,809	842,809
Total assets	**22,039,165**	**426,844,821**	**13,767,246**	**462,651,232**
Liabilities				
Designated at fair value through profit or loss:				
Derivative financial liabilities	-	-	(2,477,541)	(2,477,541)
Financial liabilities at amortised cost:				
Other payables and accrued expenses	-	-	(818,465)	(818,465)
Total liabilities	**-**	**-**	**(3,296,006)**	**(3,296,006)**
Total interest sensitivity gap	**22,039,165**	**426,844,821**	**10,471,240**	**459,355,226**

Interest rate sensitivity

An increase of 50 basis points in interest rates as at the reporting date would increase NAV by £1,105,327 (30 June 2019: £2,244,420). A decrease of 50 basis points would have had an equal but opposite effect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.4 Market Risk (Continued)

Interest rate sensitivity (Continued)
The Board believe that a 50 basis point movement in interest rates is reasonable given that the Bank of England base rate has decreased from 0.75% in August 2018 to 0.25% on the 11 March 2020 and 0.1% on 19 March 2020.

Price risk
Price risk is the risk that the Company's performance will be adversely affected by changes in the markets it invests (other than those arising from currency risk and interest rate risk) whether caused by factor specific to an individual investment or all factors affecting all investments traded in the market.

As at 30 June 2020, the Company is exposed to price risk on its residual value of finance lease investments (30 June 2019: lease participation investments, equity holdings and residual value of finance lease investments).

The Portfolio Manager makes assumptions about the residual value of certain assets and equipment. As determined by the Portfolio Manager, the residual value is a function of the in-place value and/or the secondary market value of the equipment or assets. Equity holdings are valued on a market approach, taking into consideration NAV information of the investee, call options exercisable on the holdings and external pricing of recent transactions (if available). Lease participation investments are valued based on the principal balance of the participation interest adjusted for information provided by third party appraisals.

The Company attempts to mitigate asset pricing risk by using comparable recent market transactions and other valuation/information sources, however, these investments may be extremely difficult to value accurately, and the valuations provided may differ, sometimes significantly. Third-party pricing information may not be available for certain positions held.

The estimated fair values of lease participation investments, equity holdings and residual value of finance lease investments are monitored and reassessed on an ongoing basis by the Board.

Refer below for sensitivity analysis on the impact on the Statement of Comprehensive Income and NAV of the Company, if the fair value the investments exposed to price risk increased or decreased by 15% (30 June 2019: 5%).

	30 June 2020	**Increase by 15%**	**Decrease by 15%**
Financial assets	£	£	£
Finance lease residual value	127,557	19,134	(19,134)
Total	**127,557**	**19,134**	**(19,134)**

No sensitivity analysis has been provided for lease participation and equity holdings as these investments have been written down to nil during the year ended 30 June 2020.

	30 June 2019	**Increase by 5%**	**Decrease by 5%**
Financial assets	£	£	£
Investments designated at fair value through profit or loss (Lease participation)	2,790,263	139,513	(139,513)
Finance lease residual value	404,618	20,231	(20,231)
Equity holdings	5,581,419	279,071	(279,071)
Total	**8,776,300**	**438,815**	**(438,815)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Financial Risk Management (Continued)

17.4 Market Risk (Continued)

Price risk (Continued)
The Board believe that a 15% (year ended 30 June 2019: 5%) movement is reasonable based on market movements of the investments held during the financial year.

18. Events after the Reporting Period

Adjusting events
Subsequent to the year end, the Group conducted a valuation review of certain assets in the portfolio which required a further ECL provision as at 30 June 2020.

Refer to note 19 - Reconciliation of NAV to Published NAV for further details on the additional ECL Provision amount and a reconciliation to the published NAVs.

Non adjusting events

Continuation Resolutions
On 16 July 2020, the Board announced the results of the EGM, for the Ordinary Share Class meeting and the 2016 C Share Class meeting.

At the Ordinary Share Class meeting, resolution 1 in connection with the continuation of the Ordinary Share Class passed with the requisite majority. The Ordinary Share Class will therefore continue for at least 12 months from the date of the EGM, with a further Ordinary Share Continuation Vote being held in 2021. The Company will make no new investments within the Ordinary Share Class prior to the 2021 Continuation Vote (save for further investment in existing assets that require additional capital or existing undrawn commitments), with any excess cash flow from the amortisation, repayment or realisation of assets during this period being returned to shareholders.

At the 2016 C Share Class meeting, resolution 1 in connection with the continuation of the C Share Class did not pass with the requisite majority. In accordance with the proposals set out in the circular published by the Company on 16 June 2020 (the “Circular”), the Board will formulate proposals to be put to 2016 C shareholders as soon as is reasonably practicable but, in any event, by no later than six months after the EGM, for the 2016 C Share Portfolio to be placed into managed wind-down with the aim of enabling 2016 C shareholders to realise their holdings in the Company.

The Portfolio Manager Fee
Subsequent to the Continuation Votes, the Portfolio Manager fee is unchanged for the Ordinary Share Class and will be calculated separately from the 2016 C Share class.

The Portfolio Manager fee for the 2016 C Share is calculated by segregating the relevant class portfolios into performing and non-performing assets.

The performing assets will be subject to a management fee of 1.0% of NAV per annum. The non-performing assets will be subject to a lower management fee of 0.75% of NAV per annum plus a performance fee calculated on the realised capital value of the non-performing assets. The performance fee will be calculated as 10% of any net gains on realisations during each financial year in excess of the carrying value of those assets as at 31 March 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Events after the Reporting Period (Continued)

Non adjusting events (Continued)

The Portfolio Manager Fee (Continued)
The total fees payable will be capped at 1.0% of the average NAV for the financial year of that class, with any excess performance fee being carried forward to the following years and which may be offset by the Company against any net negative realisations, with any final balance outstanding becoming payable on the conclusion of the wind-down for the relevant class.

Non-Executive Director Shareholding
On 28 July 2020, it was announced that John Falla had purchased an additional 60,363 Ordinary Shares for £14,538.

Appointment of New Director
On 16 September 2020, Brett Miller was appointed as a Non-Executive, Non-Independent Director.

Managed Wind-Down of the Company
On 24 September 2020, the Board announced its intention to put forward proposals for a managed wind-down of the Company, both the Ordinary Share Class and the 2016 C Share class.

At the EGM of the Company on 16 July 2020, shareholders voted for the continuation of the Ordinary Share Class and against the continuation of the 2016 C Share class, following which proposals were to be put forward for the managed wind-down of the C Share class only, with a further continuation vote to be held in respect of the Ordinary Share Class in 2021.

While ordinary shareholders as a whole supported continuation of the Ordinary Share Class, a substantial proportion of the ordinary shareholders voted against continuation. In addition, since the EGM the Portfolio Manager raised concerns over the valuation of certain assets held within the Company's portfolios. In light of this and continuing feedback from several major shareholders, both the Board and the Portfolio Manager were of the view that shareholder value is best maximised by placing the Ordinary Share Class into managed wind-down alongside the 2016 C Share class.

On 13 November 2020, the Board published a circular proposing a new investment objective and investment policy for a managed and orderly wind-down of both share classes and amendments to the articles. If approved by shareholders, the Board will then endeavour to realise all of the investments in a manner that achieves a balance between maximising the value received from investments and making timely returns of capital to shareholders.

At the EGM held on 4 December 2020, the adoption of the amended articles and the new investment objective and investment policy were passed with the requisite majority and subsequently the Company was placed into managed wind down.

The Board will continue to treat the Ordinary Share Class and the 2016 C Share class as separate pools of capital during the managed wind-down of the Company and there will not be a combination of the two share classes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Events after the Reporting Period (Continued)

Non adjusting events (Continued)

Board Changes
Christopher Spencer and Jacqueline Redmond resigned from the Board on 30 October 2020.

Paul Meader and John Falla did not stand for re-election at the AGM held on 31 December 2020.

On 31 December 2020, David Copperwaite was appointed as a Non-Executive, Independent Director.

2020 AGM
The AGM was held in Guernsey on 31 December 2020. All resolutions were passed with the exception of Resolution 1, ‘to receive and consider the Annual Report and audited consolidated financial statements for the year ended 30 June 2020’, which was adjourned until further notice following the delay of publication.

The Board notes the votes against Resolution 5 (appointment of the Company's auditors), which represented 20.94% of those shares voting and 9.94% of the issued share capital of the Company. The Board believes the level of votes against Resolution 5 was a consequence of a proxy advisor recommending voting against this resolution given the delay to the publication of the Annual Report and audited consolidated financial statements for the year ended 30 June 2020 and therefore being unable to fully analyse the auditors' fees. The Board believes that this will be resolved following the publication of the Annual Report and audited consolidated financial statements, however, the Company will consult with its shareholders to understand and seek to address any concerns they may have with regard to Resolution 5.

Temporary suspension
As the Company did not publish the 2020 Annual Report and Audited Consolidated Financial Statements before the 31 December 2020, the latest date permitted for publication of the 2020 results under the Financial Conduct Authority's (the "FCA") Disclosure Guidance and Transparency Rules (as modified by the temporary relief granted to all listed companies by the FCA on 26 March 2020), the Company has requested that the listing of the Company's Ordinary Shares and 2016 C Shares be temporarily suspended with effect from 7.30 a.m. on 4 January 2021 until the publication of the 2020 results.

The Company intends to request a restoration of its listing on publication of the 2020 results.

19. Reconciliation of NAV to Published NAV

The following table details the change in the NAVs to the ones announced via the Regulatory News Service on 24 July 2020:

30 June 2020	**Ordinary Shares £**	**Ordinary Shares per share**	**2016 C Shares £**	**2016 C Shares per share**
Published NAV	219,623,786	61.70p	128,336,297	92.38p
ECL	(90,527,865)	(25.43)p	(34,035,994)	(24.50)p
Impairment	(4,800,519)	(1.35)p	-	-
Fair value adjustment	(2,021,995)	(0.57)p	-	-
Accrued income adjustment	6,538,638	1.84p	406,482	0.29p
NAV attributable to shareholders	**128,812,045**	**36.19p**	**94,706,785**	**68.17p**

30 June 2019	**Ordinary Shares £**	**Ordinary Shares per share**	**2016 C Shares £**	**2016 C Shares per share**
Published NAV	341,350,966	95.81p	136,353,575	98.15p
ECL	(3,212,071)	(0.90)p	-	-
NAV attributable to shareholders	**338,138,895**	**94.91p**	**136,353,575**	**98.15p**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Ultimate Controlling Party

In the opinion of the Directors, there is no single ultimate controlling party.

21. Comparative Figures Reclassifications

The amounts outstanding as receivable in the prior year (year ended 30 June 2019) have been restated to re-allocate receivable and payable balances to the specific asset balance, where an appropriate ECL has been applied (see note 17.1 for further details).

Detailed below are the amounts that have been reallocated as at 30 June 2019 on the Consolidated Statement of Financial Position and the Consolidated Statement of Cash Flows:

1. The cash and cash equivalents balance included an amount in the sum of £2,630,000 relating to amounts that were due from broker. This has now been disclosed separately as due from broker as broker balances have a restricted nature and should therefore be disclosed separately to cash and cash equivalents. The decrease in due from broker during the year ended 30 June 2019 was £2,300,000 on the Consolidated Statement of Cash Flows, with £330,000 movement in due from broker being reflected in prior to 30 June 2019 period.

   Opening cash and cash equivalents balance of 2019 has been restated in the Statement of Cash Flows to exclude amount of £4,930,000 relating to amounts that were due from broker in line with above treatment.

2. Interest receivables of £5,215,378 have been reallocated to loans and other investments and finance lease and hire-purchase investments.

3. Investment receivables of £7,607,629 have been reallocated to loans and other investments and finance lease and hire-purchase investments.

4. Other receivables and prepayments of £2,106,941 have been reallocated to loans and other investments and finance lease and hire-purchase investments.

5. Other payables and accrued expenses of £131,885 have been reallocated to loans and other investments and finance lease and hire-purchase investments.

6. Investment payables of £39,055 have been reallocated to loans and other investments.

7. £1,089,737 sale of investments designated at fair value through profit or loss has been disclosed separately, previously included in ‘amortisation of investment principal’.

8. Per the Consolidated Statement of Cash Flows, £1,133,670 of interest receivables, investment receivables and other receivables has been reallocated between investment payables, other payables and accrued expenses, acquisition of investments, amortisation of investment principal, additions of investments designated at profit or loss, sale of investments designated at fair value through profit or loss, additions of PPE and collective invested received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Comparative Figures Reclassifications (Continued)

Consolidated Statement of Financial Position

As at 30 June 2019	As previously stated	Restatement adjustment	As restated	Ref
Non-current assets				
Residual value of finance lease investments	404,618	-	404,618	
Property, plant and equipment	14,352,680	-	14,352,680	
Loans and other investments	314,080,556	10,879,911	324,960,467	2-6
Investments designated at fair value through profit or loss	2,790,263	-	2,790,263	
Finance lease and hire-purchase investments	98,005,257	3,879,097	101,884,354	2-5
Equity holdings	5,581,419	-	5,581,419	
	435,214,793	14,759,008	449,973,801	
Current assets				
Cash and cash equivalents	24,669,165	(2,630,000)	22,039,165	1
Due from broker	-	2,630,000	2,630,000	1
Interest receivables	6,586,560	(5,215,378)	1,371,182	2
Investment receivables	7,754,584	(7,607,629)	146,955	3
Other receivables and prepayments	3,734,314	(2,106,941)	1,627,373	4
	42,744,623	(14,929,948)	27,814,675	
Total assets	**477,959,416**	**(170,940)**	**477,788,476**	
Current liabilities				
Derivative financial liabilities	(2,477,541)	-	(2,477,541)	
Other payables and accrued expenses	(950,350)	131,885	(818,465)	5
Investment payables	(39,055)	39,055	-	6
	(3,466,946)	**170,940**	(3,296,006)	
Net assets	**474,492,470**	**-**	**474,492,470**	
Equity				
Share capital	488,893,790	-	488,893,790	
Retained reserves	(14,401,320)	-	(14,401,320)	
	474,492,470	-	**474,492,470**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Comparative Figures Reclassifications (Continued)

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	As previously stated	Restatement adjustment	As restated	Ref
Cash flow from operating activities:				
Total comprehensive income for the year	23,850,536	-	23,850,536	
Adjustments for:				
Finance income	-	(37,377,741)	(37,377,741)	8
Net unrealised loss on revaluation of investments	1,045,607	-	1,045,607	
Net unrealised foreign exchange loss	272,543	-	272,543	
Net realised foreign exchange gain on investments	(10,244,783)	-	(10,244,783)	
Net realised gain on investments and PPE disposal	(653,423)	-	(653,423)	
Depreciation	1,734,573	-	1,734,573	
Decrease in interest receivable	(2,097,579)	2,097,579	-	8
(Increase)/decrease in investment receivables	(5,551,830)	6,236,588	684,758	8
Decrease in other receivables and prepayments	8,390,718	(7,200,497)	1,190,221	8
Decrease in due from broker	-	2,300,000	2,300,000	1
Decrease in investment payables	(115,257)	(39,055)	(154,312)	6/8
Decrease in other payables and accrued expenses	(2,703,763)	(131,885)	(2,835,648)	5/8
Acquisition of investments	(102,028,039)	9,490,243	(92,537,796)	8
Amortisation of investment principal	62,443,519	176,850	62,620,369	8
Additions of investments designated at fair value through profit or loss	-	(73,991)	(73,991)	8
Sale of investments designated at fair value through profit or loss	-	1,089,737	1,089,737	7/8
Additions of PPE	-	(27,271)	(27,271)	8
Expected credit loss provision	4,510,604	-	4,510,604	
Collected interest income received	-	25,759,443	25,759,443	8
Net cash outflow provided by/(used in) operating activities	**(21,146,574)**	**2,300,000**	**(18,846,574)**	
Cash flow from financing activities				
Ordinary Shares repurchased	(295,529)	-	(295,529)	
Dividends paid	(32,274,359)	-	(32,274,359)	
Net cash used in financing activities	**(32,569,888)**	-	**(32,569,888)**	
Net decrease in cash and cash equivalents	**(53,716,462)**	**2,300,000**	**(51,416,462)**	
Cash and cash equivalents at start of the year	76,795,524	(4,930,000)	71,865,524	1
Effect of exchange rate changes on cash and cash equivalents	1,590,103	-	1,590,103	
Cash and cash equivalents at end of the year	**24,669,165**	**(2,630,000)**	**22,039,165**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Comparative Figures Reclassifications (Continued)

Consolidated Statement of Financial Position

Detailed below are the amounts that have been reallocated as at 1 July 2018 (opening balances of 2019 financial year) on the Consolidated Statement of Financial Position:

9. The cash and cash equivalents balance included an amount in the sum of £4,930,000 relating to amounts that were due from broker. This has now been disclosed separately as due from broker as broker balances have a restricted nature and should therefore be disclosed separately to cash and cash equivalents.
10. Interest receivables of £2,933,066 have been reallocated to loans and other investments.
11. Investment receivables of £1,371,041 have been reallocated to loans and other investments.
12. Other receivables and prepayments of £9,307,438 have been reallocated to loans and other investments.

As at 1 July 2018	**As previously stated**	**Restatement adjustment**	**As restated**	**Ref**
Non-current assets				
Residual value of finance lease investments	517,558	-	517,558	
Property, plant and equipment	13,761,155	-	13,761,155	
Loans and other investments	278,116,803	13,611,545	291,728,348	
Investments designated at fair value through profit or loss	3,402,690	-	3,402,690	
Finance lease and hire-purchase investments	101,794,473	-	101,794,473	
	397,592,679	13,611,545	**411,204,224**	
Current assets				
Cash and cash equivalents	76,795,524	(4,930,000)	71,865,524	9
Due from broker	-	4,930,000	4,930,000	9
Interest receivables	4,488,981	(2,933,066)	1,555,915	10
Investment receivables	2,202,754	(1,371,041)	831,713	11
Other receivables and prepayments	12,125,032	(9,307,438)	2,817,594	12
	95,612,291	(13,611,545)	82,000,746	
Total assets	**493,204,970**	-	**493,204,970**	
Current liabilities				
Derivative financial liabilities	(6,184,723)	-	(6,184,723)	
Other payables and accrued expenses	(3,654,113)	-	(3,654,113)	
Investment payables	(154,312)	-	(154,312)	
	(9,993,148)	-	(9,993,148)	
Net assets	**483,211,822**	-	**483,211,822**	
Equity				
Share capital	489,189,319	-	489,189,319	
Retained reserves	(5,977,497)	-	(5,977,497)	
	483,211,822	-	**483,211,822**	

Alternative Performance Measures (Unaudited)

1. Share Price Discount

The share price discount to NAV has been calculated as the percentage difference between the NAV per share and the closing share price of the Ordinary Shares and 2016 C Shares on the same date (source: Bloomberg).

Reason for use

To provide transparency in the difference between the NAV and the Ordinary Share and 2016 C Share price and to help investors identify and monitor the performance of the Group.

	Ordinary Shares		2016 C Shares	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
NAV per share (A)	£0.3619	£0.9491	£0.6817	£0.9815
Closing share price per Bloomberg (B)	£0.3190	£0.9100	£0.5700	£0.9100
Discount to NAV per share ((B-A)/A)	(11.85)%	(4.12)%	(16.39)%	(7.28)%

2. NAV Total Return

NAV total return per share is calculated as the movement in the NAV per share plus the total dividends paid per share during the period, with such dividends paid being re-invested at the prevailing NAV on a monthly basis.

Total return since inception is for the period 31 July 2014 to 30 June 2020 for Ordinary Shares and 31 December 2016 to 30 June 2020 for 2016 C Shares.

Reason for use

To provide transparency in the Company's performance and to help investors identify and monitor the compounded total returns of the Company.

Annualised return

The 3 year annualised return is calculated as the geometric average amount of monthly total returns over the past 3 years.

Reason for use

To provide transparency of the Company's performance and to help investors identify and monitor their total return over a 3 year period if the annual return was compounded.

Alternative Performance Measures (Unaudited) (Continued)

2. NAV Total Return (Continued)

Ordinary Shares	**Year to 30 June 2020**	**3 year**	**Since Inception**
Opening NAV per share (A)	£0.9491	£0.9963	£1.0000
Closing NAV per share (B)	£0.3619	£0.3619	£0.3619
Dividends paid (C)	£0.0544	£0.1994	£0.3716
NAV total return per share (D=(B-A+C)/A)	(56.1)%	(43.7)%	(26.7)%

2016 C Shares	**Year to 30 June 2020**	**3 year**	**Since Inception**
Opening NAV per share (A)	£0.9815	£0.9806	£1.0000
Closing NAV per share (B)	£0.6817	£0.6817	£0.6817
Dividends paid r (C)	£0.0544	£0.1393	£0.1413
NAV total return per share (D=(B-A+C)/A)	(25.0)%	(16.3)%	(17.7)%

Alternative Performance Measures (Unaudited) (Continued)

3. Weighted Average Portfolio Yield
The weighted average portfolio yield on the Group's assets to maturity is based on the interest rate applicable to each asset, giving effect to all upfront or similar fees or original issue discount payable with respect to each asset.

Weighted average portfolio yield has been calculated using performing assets only and before any ECL or impairment provisions and cash adjustments for accrued income.

Reason for use
To illustrate the expected return on the Group's assets to maturity.

4. Weighted Average Remaining Term
The weighted average remaining term ("WART") is the money weighted average amount of time until the maturity of the Group's investments. The higher the WART, the longer it takes for all of the investments in a portfolio to be realised.

WART has been calculated using performing assets only.

Reason for use
To provide transparency of the Group's performance and to help investors identify whether the WART matches their investing time frame.

5. Ongoing charges
Ongoing charges reflect those expenses of a type which are likely to recur in the foreseeable future and which relate to the operation of the Company, excluding the costs of acquisition or disposal of investments, finance charges, gains or losses arising on investments and Ordinary Shares.

Ongoing charges is a measure, expressed as a percentage of NAV, based on actual costs incurred in the year as being the best estimate of future costs excluding any non-recurring fees divided by the average NAV of the Company during the year, in accordance with the AIC methodology.

The ongoing charges ratio for the year ended 30 June 2020 was 1.31% (30 June 2019: 1.21%). The AIC's methodology for calculating an ongoing charges figure is based on annualised ongoing charges, as calculated overleaf, of £5,358,519 (30 June 2020: £5,849,853) divided by average NAV in the period of £409,536,969 (30 June 2019: £482,081,817).

Reason for use
Ongoing Charges details the annual percentage reduction in shareholder returns as a result of recurring operational expenses assuming markets remain static and the portfolio is not traded.

The ongoing charges are based on actual costs incurred in the year excluding any non-recurring fees in accordance with the AIC methodology. Expense items have been excluded in the calculation of the ongoing charges figure when they are not deemed to meet the following AIC definition:

Alternative Performance Measures (Unaudited) (Continued)

5. Ongoing charges (Continued)

"Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs."

Please refer below for ongoing charges reconciliation for the years ended 30 June 2020 and 30 June 2019:

	30 June 2020 £	30 June 2019 £
Total operating expenses for the year:	(6,771,675)	(7,773,740)
Expenses included in the calculation of ongoing charges figures, in accordance with AIC's methodology:		
Professional and Administration fees	(969,286)	(953,138)
Management fees	(4,088,036)	(4,642,340)
Directors' fees	(301,197)	(254,375)
Total ongoing charges for the year	**(5,358,519)**	**(5,849,853)**

COMPANY INFORMATION

Non-Executive, Independent Directors

Peter Niven
(Chairman of the Board)

John Falla
(Chairman of Audit and Risk Committee to 31 December 2020)
(Did not stand for re-election at the AGM held on 31 December 2020)

Christopher Spencer
(Chairman of Management Engagement Committee)
(Resigned 30 October 2020)

Paul Meader
(Senior Independent Director and Chairman of Remuneration and Nomination Committee)
(Did not stand for re-election at the AGM held on 31 December 2020)

Dr Jacqueline Redmond
(Appointed 4 December 2019)
(Resigned 30 October 2020)

David Copperwaite
(Appointed 31 December 2020)
(Chairman of Audit and Risk Committee with effect from 31 December 2020)

Non-Executive, Non-Independent Director
Brett Miller
(Appointed 16 September 2020)

Registered Office
BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey, GY1 1WA

Portfolio Manager from 6 June 2020
KKV Investment Management Limited, 25 Upper Brook Street, Mayfair, London, W1K 7QD

Alternative Fund Investment Manager (AIFM) from 6 June 2020
International Fund Management Limited, Sarnia House, Le Truchot, St Peter Port, Guernsey, GY1 4NA

US Investment Manager and Alternative Investment Fund Manager to 5 June 2020
SQN Capital Management, LLC, 100 Wall Street, 11th Floor, New York, New York, 10005, USA

UK Investment Manager to 5 June 2020
SQN Capital Management (UK) Limited, Melita House, 124 Bridge Road, Chertsey, Surrey, KT16 8LA

Financial Adviser and Broker
Winterflood Securities Limited, The Atrium Building, Cannon Bridge House, 25 Dowgate, Hill, London, EC4R 2GA

Auditor from 21 November 2019
Deloitte LLP, PO Box 137, Regency Court, Glategny Esplanade, St Peter Port, Guernsey

Auditor to 20 November 2019
Baker Tilly CI Audit Limited, Mont Crevelt House, Bulwer Avenue, St Sampsons, Guernsey, GY2 4LH

Registrar
Link Market Services (Guernsey) Limited, Mont Crevelt House, Bulwer Avenue, St Sampson, Guernsey GY2 4LH

COMPANY INFORMATION (CONTINUED)

Principal Bankers
BNP Paribas Securities Services S.C.A., BNP Paribas House, St Julian’s Avenue, St Peter Port, Guernsey, GY1 1WA

Designated Administrator, Custodian and Secretary
BNP Paribas Securities Services S.C.A., Guernsey Branch, BNP Paribas House, St Julian’s Avenue, St. Peter Port, Guernsey, GY1 1WA

Receiving Agent
Link Market Services Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU

Legal Advisers to the Group (English Law)
CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF

Legal Advisers to the Group (Guernsey Law)
Mourant Ozannes, Royal Chambers, St Julian's Avenue, St Peter Port, Guernsey, GY1 4HP

Website www.kkvim.com/kkv-secured-loan-fund/

LIST OF ACRONYMS

Terms	Definition
AD	Anaerobic Digestion
AGM	Annual General Meeting
AIFM	Alternative Fund Investment Manager
AIFMD	Alternative Fund Investment Manager Directive
CLO	Collateralised Loan Obligation
CVA	Company Voluntary Arrangement
DIP	Debtor in Possession
EBITDA	Earnings Before Interest, Tax, Depreciation & Amortisation
EGM	Extraordinary General Meeting
ECL	Expected Credit Loss
FCA	Financial Conduct Authority
FX	Foreign Exchange
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
KKVIM	KKV Investment Management Limited
KKVL	Ordinary Shares
KKVLX or KKVX	2016 C Class Shares
KVIKA	Kvika Bank hf
LGD	Loss Given Default
LTV	Loan to Value
NAV	Net Asset Value
NCV	Net Carrying Value
RNS	Regulatory News Service
PD	Probability of Default
SME	Small & Medium Enterprise
SPV	Special Purpose Vehicle